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AMERICAN BANKER

VOL. CLV NO. 128 — Monday, July 2, 1990 — 155th year

Chopping Back, Banks Focus on Relationships

By BETH HOBOWITT

NEW YORK — It it's broke, fix it – or get rid of it.

That is the philosophy behind the onslaught of announcements about big banks' plans to slash expenses in their wholesale banking sectors. The cuts are aimed at units that offer loans, trading, and investment banking services to corporate customers, real estate developers, and newly humbled takeover artists.

At the same time, most of the banks say they are rediscovering an old concept – long-term relationships are more valuable than short-term deals.

"The '80s were transaction oriented, and the heroes were the product guys in M&A, leasing, and LBOs," said an investment banker at Chemical Bank. "Now that the business is down, they are beefing up relationships."

ANALYSIS: *Follow-up on the news*

In putting the emphasis again on the customer, the banks are announcing restructurings that they say will make them more flexible and responsive to customer needs.

A Push for Cross-Selling

They are breaking up product line fiefdoms – such as structured finance, private placements, and loan distribution – in an effort to prod senior managers to cross-sell services and products.

And they are setting up elite teams of "relationship managers" to call on the top brass of companies in an effort to drum up business for their conventional loan departments.

Clearly, many of the moves are in response to angry investors who are pressuring banks to show they are serious about rebuilding a reliable base of nonretail earnings.

Among the announcements in the past few weeks:

• Manufacturers Hanover Trust Co. united its investment, international, and corporate banking sectors into one "global banking unit" run by seven rather than 17 executives. It also said it will take a "material" one-time restructuring charge this quarter to cover severance pay and other restructuring costs.

• Chase Manhattan Corp. said it will slash more than $300 million of noninterest expenses, primarily in corporate finance, trading, and overseas activities and has not denied reports that it will eliminate more than 3,000 jobs. In an internal memoran-

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INSIDE NEWS

WASHINGTON



MARTHA R. SEGER of the Federal Reserve Board is skeptical of attempts to test banks in an effort to root out discrimination in mortgage lending. A Fed advisory board found no airtight evidence that such bias exists. *Page 8*

CONSUMER

SOFTWARE FIRMS are rushing to market with products and services to help bankers prepare Community Reinvestment Act reports and pinpoint areas where the reports are deficient. *Page 6*

INTERNATIONAL

PERESTROIKA in the Soviet Union is failing an important test of a modern economy – the creation and management of an effective banking system. *Page 10*

FINANCE

THE CREDIT CRUNCH in New England appears to be over, says the head of a trade group representing 3,000 manufacturing and industrial companies in Massachusetts. He had claimed regulators were ruining the region. *Page 14*

TECHNOLOGY

BANCO LATINO

International of Miami will begin using an image-processing system to handle inquiries about letters of credit and electronic funds transfers. *Page 3*

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Correction

A correction of Friday's page 1 article about Zale Corp.'s new lending facility appears on page 2.

Sumitomo Readies U.S. Debt Issue

By KELLEY HOLLAND

In what could well prove to be the first in a series of debt offerings by Japanese banks in the United States, a subsidiary of the Sumitomo Bank Ltd. is preparing to issue $500 million of 10-year fixed-rate guaranteed notes.

The issue, which is guaranteed at the subordinated level, is the first of its kind to be approved by the Ministry of Finance since it authorized subordinated loan issuance by Japanese banks in late June.

Sumitomo's issue, described in a June 28 preliminary prospectus, will revive the Yankee market for bank issues. But the new issuance may well siphon off what limited demand there is for U.S. banks' subordinated debt.

"If every Japanese bank decided to do this, God help the subordinated market in the United States," said one capital markets pro.

Goldman, Sachs & Co. will lead manage the Sumitomo issue, and Sumitomo Finance International will be lead manager for a $500 million floating-rate issue to be offered concurrently in the Euromarket.

Historically, Japanese banks

See **SUMITOMO** *back page*

Vulnerable FDIC Fund Stirs Fears on Premium

By BILL ATKINSON

WASHINGTON — The Federal Deposit Insurance Corp.'s bank insurance fund could decline as much as $2 billion by yearend if real estate problems persist and any large banks fail, a senior official at the agency said late last week.

Industry observers fear that such a decline in the fund, already at its lowest level in several years, would force the FDIC to raise its premium again this year, cutting into the banking industry's profits. The premium, currently 12 cents for each $100 of insured deposits, is already scheduled to rise to 15 cents next year. An FDIC loss could force it to go higher.

Burdens Could Mount

The FDIC's $13.2 billion bank insurance fund is under increasing pressure as the nation's real estate market slumps. The troubled Bank of New England Corp. also poses a potential burden to the fund, which insures 13,239 institutions. At yearend 1989, the fund had 70 cents for every $100 in deposits, down from 80 cents a year earlier and $1.10 in 1987.

"The bank insurance fund is declining, and risks in the banking system are mounting," John F. Bovenzi, deputy to FDIC Chairman L. William Seidman, said in a speech to savings and loan executives. "It is difficult to give rosy projections on the adequacy of the bank insurance fund, given that by 1991, the fund may decline from over $18 billion [in 1987] to below $13

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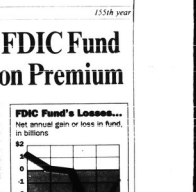

CoreStates, Mellon Race for First After Philadelphia Consolidation

By ELLEN MEMMELAAR

NEW YORK — A horse race is developing after a period of banking consolidation in Philadelphia, with CoreStates Financial Corp. and Mellon Bank Corp. neck and neck for the lead in retail market share.

Neither banking company has even 20% of the highly fragmented market. But both are digesting new units and making other efforts to gain an edge.

Many eyes are watching the companies' progress for pointers on how to complete in-state banking mergers successfully.

A 'Happening' Place

"Everything in the banking business today that happens happens in Philadelphia first," said Nancy Bush, first vice president and regional banking analyst at Dean Witter Reynolds Inc. "Intramarket mergers are the way to go. Banks are realizing that it is hard to do an interstate bank merger and actually get money back."

Who will be the winner? Analysts are betting on Philadelphia-based CoreStates.



"They have a very effective strategy for attacking the retail marketplace," said Richard Lawrence, assistant vice president of research at Janney Montgomery Scott Inc., a Philadelphia-based research firm and subsidiary of Penn Mutual Life Insurance Co. "CoreStates will do a very effective job."

The unknown factor in the

See **CORESTATES** *page 6*

Regulation CC: Time Runs Short For Amendment

By KAREN GULLO

NEW YORK — Banking lobbyists are racing against the clock to persuade Congress to ease the limits on holds they can place on deposited checks.

The American Bankers Association, the Consumer Bankers Association, and other trade groups have been lobbying since March to amend the rule, known as Federal Reserve Regulation CC, which took effect in 1988.

An Falls in September

The regulation gets tighter on Sept. 1. Bankers will then have to make funds available on local checks within two business days, instead of the current three, and on out-of-town checks within five days instead of seven.

The bankers want Congress to let them make funds available more slowly on checks deposited in automated teller machines. Saying they would be exposed to fraud and other bad-check losses, some bankers are threat-

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PEOPLE *in the news*

William Davis in Same Boat As the Thrifts He Regulates

By TERESA CARSON

LOS ANGELES — William D. Davis, California's new savings and loan commissioner, faces much the same job as many of the institutions he regulates. He must shrink and restructure his department to meet the new demands of the thrift business.

For the past five years, Mr. Davis, 53, has been the chief deputy commissioner. During that time, the number of institutions his department regulates fell from 156 to 88. And since the Financial Institutions Reform, Recovery, and Enforcement Act wiped out any advantages to having a California charter, 74 of the remaining 88 have decided to seek other charters.

Mr. Davis has experience in crisis management. "He is a great guy for the job," says Joseph L. Borda, chairman and chief executive of Westside Savings and Loan Association, Los Angeles. Westside bought a thrift that was under state conservatorship. "He was able to calm the waters there," soothing the badly shaken mortle of the employees, says Mr. Borda.


William D. Davis

Mr. Davis is using those skills as the savings and loan department. This year the department had 147 positions authorized by the state, and next year's budget allows for just 63. But there won't be any layoffs yet because not all of those jobs are filled. Mr. Davis admits that a lot of his employees are looking for work in other government offices with brighter futures.

Worked for Thrifts that Were Taken Over

Mr. Davis also brings broad experience in the thrift industry. He started with Belmont Savings and Loan Association, Long Beach, in 1962. Then he worked for Great Western Bank after it acquired Belmont in 1970. In 1973 he joined Mariners Savings and Loan Association in Newport Beach and worked in a variety of positions until that thrift was acquired by Fidelity Federal Savings and Loan Association, Glendale. He continued to work for the merged company until joining the state savings and loan department.

His experience ranges from marketing to operations, with sojourns in personnel, property management, and several other areas.

Mr. Davis tries to relax by reading, but he admits that he rarely has time for anything but work-related materials. He also likes to garden and get out in his powerboat now and then.

Praise from a Defector

Despite Mr. Borda's praise for the regulator, he is one of Mr. Davis' defectors. Westside has received approval to become a state-chartered commercial bank. The biggest thrift to quit the department was $11.2 billion-asset Coast Savings and Loan Association, Los Angeles, which will become federally chartered.

The defections mean less money coming into 'the department from assessments on the savings and loans. The department's budget will fall from $8.8 million this year to $5.5 million next year. A bill in the California legislature that would have created a single regulator for all types of financial institutions lacked support and died last Wednesday. Industry experts say that is not the end of the issue, however.

Mr. Davis is already transforming the department. He declines to give details but says, "We will not be able to do the full-blown exam process of before." Sounding like many savings and loan executives, he remarks, "We are rethinking the way we do business. We cannot do our job in the same way." □

Corrections

An article on Friday incorrectly described the regulatory status and size of a new lending facility for Zale Corp. The loan, which is for working capital, is not considered by regulators to be a highly leveraged transaction, accordingto Zale. The $300 million facility includes $200 million of commitments that were not due to expire, under an existing agreement, until April 1992. Officials of NCNB Corp., the company's lending agent, also said that the banking group did not "pressure" Zale's co-owners to inject $100 million of new equity. The new facility, they said, was undertaken on the assumption that a previously existing understanding to provide the new equity would be acted upon. The new equity was not a "return" of equity Zale's owners had taken out of the company, as reported. The $140 million that had been upstreamed from Zale to its owners went to pay down debt related to the acquisition of Zale.

■

The ratio of bad real estate loans at Bank of Tokyo Trust Co. was overstated in a table on June 19 (page 22). The table, based on yearend regulatory filings, noted that the bank had reported a ratio of 8.11%. However, the bank sent revised data to regulators on April 17 that changed the ratio to 2.81%.

Bank of New England Plans To Eliminate 95 Branches

By TOM LEANDER

NEW YORK — Bank of New England Corp. said Friday it plans to sell or close more than 95 branch offices by the end of the year.

The sales and consolidations will leave the Bank of New England with approximately 300 branches in Massachusetts and Connecticut at yearend, assuming the company completes its previously reported plans to sell its Maine and Rhode Island subsidiaries by that time.

Bank of New England said it plans to consolidate 39 branch offices in Massachusetts into existing locations and sell 13.

In Connecticut, the plan calls for consolidation of 19 branches and the sale of six.

The company also said it plans to open branches in areas where it has not previously operated, moving some existing branches to better locations.

Bank of New England, one of the nation's most troubled institutions, lost $1.1 billion last year and $46 million in the first quarter.

In April, the bank announced a number of measures aimed at turning around the ailing institution.

They include shrinking the company to around $20 billion in assets at yearend from its current $25 billion, the elimination of 5,600 jobs, and a possible exchange or tender offer for all or a portion of its outstanding long-term debt. □

Fed May Speed Regionals' Entry Into Securities

By ROBERT TRIGAUX

WASHINGTON — In a move that could speed the entry of regional banks into securities underwriting, the Federal Reserve Board on Friday relaxing several of the firewalls that prevent a bank and its securities affiliates from sharing management and marketing resources.

One proposal, on which the Fed will seek public comment for 30 days, would modify the prohibition against management interlocks between banking companies and their Section 20 securities affiliates. Some board members of a Section 20 subsidiary – but not a majority – could also work for the parent bank or bank holding company.

Petitions Received

In a report to the Federal Reserve Board, the Fed staff cited petitions for relaxation of such restrictions from two banking trade groups – the Bank Capital Markets Association and the Association of Bank Holding Companies. They argued that the costs of separate management are particularly burdensome to regional banks.

A number of money-center banks, foreign banks, and large regional banking companies have won Fed approval since 1987 to operate such securities units. These subsidiaries, known as Section 20 units after a section of the Glass-Steagall Act, can underwrite and deal in bank-ineligible securities, including corporate debt and equity, and mortgage-backed and other asset-backed securities.

The Fed also proposed relaxing a prohibition against a bank or thrift's acting as agent for, or engaging in marketing activities on behalf of, its Section 20 affiliate. Earlier this year, the Fed denied a petition by Barclays Bank PLC, London, to use U.S. branch personnel in marketing activities on behalf of its Section 20 subsidiary. □

Regulators Converge on Boston Without Disclosing Their Target

About 170 officials of the Federal Deposit Insurance Corp. were in Boston Friday amid rumors they were preparing a series of bank seizures.

The *Boston Herald* reported that it was likely regulators would seize several smaller institutions, including Elliot Savings Bank, a small thrift.

Rebecca Lane, a spokeswoman for Elliot Savings, said that bank officials expected their institution to be seized. At mid-afternoon Friday, there was still no sign of the FDIC.

Analysts said that 170 regulators was too large a contingent for a series of small thrift seizures. That revived rumors that Bank of New England would be seized.

Spokesman James Dorsey confirmed that 50 FDIC auditors had been poring over the bank's books for more than two weeks. But he termed the examination a "routine checkup" of the bank's asset quality.

"We have been told by high officials at the FDIC that they have no interest or intention of taking our bank," he said.

Seventy of the FDIC regulators were staying at the Meridian Hotel in downtown Boston. They checked in as representatives of "The Who Co. Inc." — **Tom Leander**

First Chicago Lures Jurgensen from Norwest

CHICAGO — First Chicago Corp. said it named William Jurgensen chief financial officer, effective July 16. He will succeed J. Mikesell Thomas, who was named executive vice president of Norwest Bank Minnesota, a unit of Minneapolis-based Norwest Corp. □

COMPANY *index*

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TECHNOLOGY NEWS

Time Runs Short for Amendment

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cining to stop accepting deposits in ATMs.

But with the congressional summer recess about a month away, fears are growing that the law guiding Regulation CC – the Expedited Funds Availability Act of 1987 – will not be changed by Sept. 1. Lobbyists are trying to get the amendment attached to a number of banking bills, none of which have passed both the House and the Senate.

The measure was attached to a Senate housing bill that was passed last week. But a House version of the bill has not been put to a vote.

"The new availability schedule would give banks insufficient time to verify deposits at ATMs not under their control," said Ian Macey, the ABA's federal representative. "It is clearly going to be more risky."

Interbank Deposits at Issue

Banks want to be allowed to delay payments on checks that their customers deposit in ATMs other than their own. Bankers want time to make sure that these interbank deposits are backed by sufficient funds.

Not all banks allow customers to make deposits at other institutions' ATMs. Interbank deposits make up a small percentage of the 63 million ATM deposits made by consumers every month, according to Payment Systems Inc., Tampa, Fla.

But such deposits are common at some large regional networks such as the Chicago-based Cash Station Inc. and Core-States Financial Corp.'s Magnum system. The practice is also widespread in Colorado, where state law prohibits conventional branch banking, and in a few other states that allow only limited branching.

Banks may now treat shared-ATM deposits as nonlocal checks and can hold them for up to seven business days. But if Reg CC is not changed by Sept. 1, banks would have to treat shared deposits as local check deposits and make funds available no later than the second business day after deposit.

Risk of Losses

Banking trade groups say that ATM-owning institutions do not know whether a deposit contains nonlocal checks. Shortening the hold period, they say, will increase the possibility that banks will make funds available on items and later learn they are not backed by sufficient funds.

"Availability legislation has cost us real money," said Richard Hartnack, senior vice president of First Chicago Corp., which is part owner of Cash Station. "If we don't get some relief, we're considering not taking shared deposits."

The Mac network takes about 575,000 to 600,000 shared ATM deposits a month. CoreStates expects close to 7 million shared ATM deposits in its network this year.

"Foreign ATM deposits are an important element to the Mac network," said Richard J. Weiss, vice president for government affairs at CoreStates. "We don't want to get caught in a situation of having to take away this great convenience from customers."

Even if no amendment is passed by Sept. 1, Mr. Welsh said, he is hopeful that one will be passed within a few months of the deadline. CoreStates is recommending that banks in the Mac network continue to take shared deposits in the interim.

Reg CC checks make up three-tenths of 1% of all deposits in Mac," said Christine Will, vice president at CoreStates. "We think it's a fairly reasonable risk to assume compared to what it costs to offer the service."

Colorado banks are threatening to discontinue or put restrictions on all ATM deposits, including those made at their own off-premise ATMs.

"We only open up our ATMs once a day," said Malcolm Jones, president Minibank Switch Network, which is owned by First Interstate Bancorp.'s First Interstate Bank of Denver and United Banks of Colorado Inc.'s United Bank of Denver.

"While we are mostly concerned with our own ATM deposits, there's also a concern of even taking proprietary ATM deposits," said Mr. Jones.

'Not for Sale,' Fiserv Chairman Says As Merger Discussions Fizzle Out

By JEANNE IIDA

NEW YORK — Fiserv Inc., a supplier of data-processing services for financial institutions, said Friday that talks about a potential merger had been terminated.

"This was a mutually agreed-upon decision," said Leslie M. Muma, president of Milwaukee-based Fiserv. Mr. Muma declined to name the other company involved in the discussions.

Under pressure from the National Association of Securities Dealers after its stock jumped one and a half points, Fiserv announced a week ago that it had been approached by another company about a possible merger.

Before that announcement, Fiserv stock was trading at about $26 a share. Amid rumors of a possible sale, the stock jumped to $30 a share.

In a conversation with the *American Banker* late last week, George D. Dalton, chairman of Fiserv, said, "This company is not for sale."! □

Miami Bank to Use Images In Answering Client Queries

By KIM ANN ZIMMERMANN

NEW YORK — To improve customer service, Banco Latino International of Miami will begin using an image-processing system this week to handle inquiries about letters of credit and electronic funds transfers.

"Right now, it takes three people to search for the paper when a customer has a question about a transfer or other transaction," said senior vice president Oscar Marti, "and we can't answer their questions immediately.

"We deal almost exclusively with international customers, so the phone calls back and forth can be expensive on both ends, not to mention the waiting."

One Does Work of Three

Using the new system, one person can handle inquiries from start to finish.

The $200 million-asset bank will use the imaging system to keep all its documents on wire transfers and letters of credit that are now stored on paper. The bank expects to save $40,000 to $50,000 a year in storage and retrieval costs from improving its staff's productivity and averting the need to file paper. The system cost about $130,000.

The personal computer-based system, designed by the Coral Gables, Fla., office of the Laventhol & Horwath accounting firm, is based on image-processing software from Metafile Information Systems Inc., Rochester, N.Y. The software, called Metaview, provides a shell for developing image-processing applications.

Few document-imaging products on the market deal specifically with electronic funds transfers. Banco Latino didn't want to buy a comprehensive imaging system, such as those offered by Wang Laboratories Inc. and FileNet Corp., because cost.

In addition, none of the document-imaging packages on the market would have been compatible with the bank's International Business Machines Corp. AS/400 applications.

"We wanted something very flexible when building this application, and we looked at four or five vendors," said Oscar Vazquez, information systems consultant for Laventhol & Horwath, "but there were no software programs out there that would serve as a shell to let us build a customized image-processing system."

The bank used Laventhol &

"Right now, it takes three people to search for the paper."

Oscar Marti
Banco Latino International

Horwath because it was able to create the system and be running in about six weeks from time of purchase, compared with the six months it would have taken in-house staff, Mr. Marti said.

Banco Latino does not expect to lay off any of its 20 employees who handle customer inquiries.

Paper to Be Destroyed

Mr. Marti said the bank invested in new hardware because its PCs were not powerful enough and lacked enough display areas. The system's $130,000 cost included software, 20 PCs, and an optical storage library from Signet Corp.

For the first six months that the system is in use, the bank will retain its paper documents.

When that question remains on whether documents stored on optical media qualify as legal documents, Mr. Marti said, the bank's counsel has approved destroying the paper. □



COMMENT/ *By Paul Nadler*

Making 'No Doc' Loans: Lenders Repeat Past Errors



"What should we do?" the newly married son of a friend asked me recently. "We can get a fixed-rate mortgage loan for 10% and three points with no need for documentation of earning power or a fixed-rate loan of 10% with no points with documentation."

"Grab the loan with documentation," I replied. "For with the amount you want to borrow, getting a 'no doc' loan would cost you $5,000 up front – that's a lot of money."

"But we don't earn enough for a documented loan to be approved," he said.

"Then why borrow so much, if you can't pay it back?" I asked.

"We hope we will earn more as time goes by, and maybe my mother will help if we don't."

I gave my conclusion: "Try to get your mother to guarantee the loan, if she will, to save the $5,000."

A Familiar Story

But I was thinking, Here we go again. For $5,000 a thrift was willing to make a loan that the individual possibly could not carry, so it was relying on the value of the collateral and on its ability to foreclose and take over the property to make the loan whole. Haven't we heard all this before?

This thrift, and lots of other banks, have missed the lessons of the $500 billion S&L bailout.

First, what are they doing making a fixed-rate loan in the first place?

Didn't the entire mess start when thrifts tried to protect borrowing short and lending long by getting legislation passed that tried to keep savings rates low using interest rate ceilings?

They failed to recognize that when interest rates rise, savings flow to institutions that offer the going rates. So the answer to rising rates is to have a portfolio that can rise in yield as rates rise in the overall economy. Had the thrifts pushed for the powers to become flexible in asset yields instead of trying to fight the tide and keep everyone's savings rates low, the S&L crisis could have been avoided.

Rate Bets Are Bad Policy

If thrift and bank executives feel that today's yields are so great that they should lock in the yields in long-term fixed-rate loans, they have forgotten that a lot of institutions were killed in the past by just such optimistic rate forecasts. Unless the thrift that offered the 10% fixed-rate loan was planning to sell it immediately in the secondary market, it was taking quite a risk, with or without documentation.

I know many readers will say, "This proves that Nadler is an impractical college prof instead of a person in the real world. Certainly we would like to make only adjustable-rate loans, but the public only wants fixed-rate loans. So what can we do if we want to lend?"

My answer is: "If you can't make a loan that doesn't involve possibly getting into trouble, then don't make the loan at all."

As for growth, some institutions have decided that in today's troubled times, they are better off lowering savings rates and remaining static or even shrinking. They think this is preferable to making loans that might be under water if rates rise as the nation pays for the thrift bailout, rebuilds its infrastructure, and meets the developing loan demand in Eastern Europe.

What about "no doc" loans? Obviously, the only reason anyone would want a more expensive loan without documentation would be if he or she couldn't pass the necessary tests.

Does a financial institution really need this poorly based loan?

Haven't we learned that earning power is the only real backing of a loan – that it becomes harder and harder for banks and thrifts to foreclose on property under today's debtor-favoring laws and regulations?

I think of my friend who owns a piece of property that houses a tenant who has not paid rent for three years. When the case finally reached a judge, he said to my friend: "I know you are right. But if I grant you the right to evict, I will make this tenant homeless, and I will not do that. I am turning you down. Go to the appeals court. Let them do the job."

With pressures for rent control, restraints on eviction, and other ways in which the renter or borrower is given preference over the individual who provided capital for the residence, one can understand why fewer people are willing to build rental housing, why rental housing in rent-controlled cities like New York is allowed to crumble, and why lenders should judge the borrower and not just the collateral before making mortgages and home equity loans.

Don't we learn from the past? Don't lenders know that the person who is willing to pay extra for a "no doc" loan is usually a person who wouldn't pass the test if he had to meet regular standards? □

Mr. Nadler is professor of finance at Rutgers University's Graduate School of Management.

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Managing Editor: Thomas J. Ferris
Asst. Managing Editor: Jeffrey Kutler
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ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

PHOTOS
Suzanne Christy, Joseph L. McCarthy (assistant editors)

STATISTICS
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Contributing Editor: Paul S. Nadler
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"SOUND OFF"

"As a result of technology, the privacy of American citizens is imperiled more than at any time in our history," Rep. Charles E. Schumer, D-N.Y., said at a recent hearing of the House Banking Committee's consumer affairs subcommittee. He was speaking on proposals to tighten the 20-year-old Fair Credit Reporting Act. Much of the public shares his concern, according to a recent survey by Louis Harris & Associates. American Banker's Linda Corman asked:

How worried should banks be about safeguarding the privacy of their customers' credit records?



■ **Allen L. Lastinger Jr.**
Vice chairman
Barnett Banks Inc.
Jacksonville, Fla.

The confidentiality of the credit and noncredit records of our customers is extremely important. It goes to the foundation of trust that the public has in the banking industry.

How available should credit bureau information be? That's a sword with two sides. It can afford people without easy access to credit, easier access. On the other hand, if we're not careful, the availability of information may work to an individual's disadvantage.

But banks do share information about individuals' credit in an attempt to improve safety and soundness of loans.



■ **Peggy Miller**
Legislative representative
Consumer Federation of America
Washington

- Banks should be quite concerned about protecting consumers' privacy. Clients used to be whom banks addressed, whom banks were concerned about. We're not seeing that kind of sensitivity to clients' privacy anymore. Banks are now geared toward where short-term profits are.

Without more sensitivity to privacy, there could be a backlash. There could be legislation or some means to try to reduce abuses. People are concerned about everything from prescreening to having their names used constantly and sold.

I'm surprised that the smaller banks don't support more privacy laws because they can't take advantage of credit information by selling mailing lists that big institutions can.



■ **Bill Tillman**
Senior vice president
Friendly Bank
Oklahoma City

In recent years, there has been a growing concern, and there have been lawsuits, over improper use of credit information by financial institutions.

We exchange credit information with a lot of different institutions, and it is a growing concern that we're not giving out private information. There is some information we won't divulge unless there is an authorization from a customer, like checking account information.



■ **Craig Ulrich**
General counsel
Consumer Bankers Association
Washington

Banks should be greatly concerned – their clients certainly have expectations that their privacy is going to be maintained. Information is provided to institutions for a specific transaction and not for dissemination far and wide for other purposes.

At the same time, with adequate disclosure, customers authorize that information to be passed on for certain purposes. Again, triggered by their authorization, consumers expect banks to give them a reference, for example, when they are applying to another kind of credit grantor.

But short of an authorization, banks have an obligation to protect information. It's one of the frustrations about the war on drugs. The Justice Department would like to get its hands on financial information that some customers would consider private, and banks are being increasingly caught in the middle.



■ **Alex G. MacFadyen Jr.**
Group vice president
First Citizens Bank
Raleigh, N.C.

Privacy is a real concern. With the computer and its proliferation, once access is gained, information can be shared. That sharing has proliferated. So it's very important that customers' records and account relationships be safeguarded and properly protected and only released with proper authorization.

We are very conscious of the problem and reiterate with regularity the importance of the protection of customers' account histories. The quickest way to lose a job in our bank, outside of stealing, is to be found violating the confidentiality of customers' affairs. □

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COMMUNITY RELATIONS

Software Firms Rush to Fill The Need for CRA Reports

By ED LYNCH

A number of companies are rushing to market with products and services to help bankers prepare Community Reinvestment Act reports and pinpoint areas where the reports are deficient.

Interest in the law, which was enacted in 1977, has been reignited because all banks will have to make their CRA ratings public from this day forward. Charles Rice, president of Professional Knowledge Systems Inc., said that CRA is no longer just a compliance issue – it's also a public relations issue.

Banks are naturally paying a lot more attention to their community investment record, Mr. Rice said. "Safe tools that give productive, profitable CRA results are hot."

"We've received a couple of rush orders because auditors were coming in next week to a couple of institutions," said John Drahan, assistant vice president of Fiserv Inc., which is marketing a software package nationwide.

"CRA is no longer just a compliance issue – it's also a public relations issue."

Charles Rice
Professional Knowledge Systems

Mr. Rice's company is at the forefront of the product market. In March, Professional Knowledge Systems introduced a software packge that helps banks locate both federal and private-sector assistance programs.

In the past month, a number of other offerings have also hit the market. The systems promise to assemble bank records and correlate them with census tract information in preparation for regulatory exams. They also highlight low- and moderate-income areas that the bank may have neglected.

Most of the companies said they are focusing on small- to medium-sized banks that may lack the resources or manpower to do the CRA reporting.

Outside Services

Unlike the software vendors, the Financial Institutions Marketing Association has teamed with American Data Resources, a California direct marketing firm, to perform the service outside the bank.

Customers send ADR their magnetic tape records on deposit and loan customers and on loan denials. Using census tract data, ADR analyzes the information, and provides two reports to help the bank monitor performance, prepare CRA documents for examiners, and identify target markets.

The CRA National Performance Assessment and Documentation Program costs $175 for the association's 1,500 members and $250 for nonmembers. Processing costs $8 to $10 for every 1,000 magnetic tape records.

Tom Drogos, executive vice president of the Chicago-based association, said the program allows the time-intensive work to be done quickly without taking time away from the bankers' duties.

Mr. Drogos said the association is targeting 2,000 commercial banks, with assets of $100 million to $2 billion, for the service.

CRA Software Packages

Executives of two financial information companies – Claritas Corp. and Fiserv – said they decided to offer their own programs in response to clients' requests for help in dealing with CRA reports.

In New Haven, Conn., the Fiserv Data Processing Center developed a personal computer-based software package that helps banks collect and report information as required under CRA and the Home Mortgage Disclosure Act. Originally developed for the center's Connecticut clients, the system is now being marketed nationally through Fiserv's 25 regional centers, Mr. Drahan said.

The CRA Market Planner from Claritas Corp. was designed as an application for its Compass desktop marketing system. Compass users will receive the program at no additional charge, said Howard Lax, director of marketing for financial services. The CRA Market Planner will also be sold separately to banks.

First American National Bank in Nashville, Tenn., used the prototype for the Claritas product. Gordon Green, assistant vice president of corporate research and development, said the software allowed the company to identify and map low- and moderate- income areas, break down census tracts, and develop a written report on the bank's CRA performance.

The Fiserv system costs $1,495, but only $995 for banks that already have the company's Datacase software. Claritas' CRA Market Planner sells for $3,995 when it includes census data for one state, $7,500 for two states, and $10,000 for three states or more.

William Murray, senior vice president of client services for Sheshunoff Informations Services Inc., said his company is about to market two CRA-related products geared for banks of all sizes.

The first of Sheshunoff's offerings, due out later this month, will take a bank's CRA-related material and develop reports, maps, and demographics about the market area. The service will cost $695 to $1,295, depending on the size of the institution. □

CoreStates Has Edge, Analysts Say

Continued from *page 1*

race is the possibility of further mergers. During this apparent calm in the storm of consolidation, out-of-state banks are sizing up the market, and small players are looking at combinations to achieve critical mass, analysts said.

Rivals Each Claim 15%

CoreStates and Pittsburgh-based Mellon each claim 15% of the area's retail market. The Fidelity Bank unit of Newark, N.J.-based First Fidelity Bancorp. comes in third with 10%, and PNC Financial Corp.'s Provident National Bank has 8%. Continental Bancorp, which is owned by Midlantic Corp., Edison, N.J., has 5%, and Meridian Bancorp, Reading, Pa., has about 3.5%.

Philadelphia Saving Fund Society makes the top five overall, though the thrift was forced to sell some of its crown jewels to Mellon, reducing its deposit market share to 8%. The thrift has strengthened its capital base but is not expected to take the offensive in the current thrift environment.

Mellon had just a 4% share of the market before surging to the front of the pack with the 54 branches acquired from Philadelphia Saving Fund, a unit of Meritor Financial Group.

Merger Boosts CoreStates, Too

Similarly, CoreStates' merger with First Pennsylvania Corp. in March gave it a big boost, from just 5% of the overall retail market, according to Lacy Shockley, analyst at Smith Barney, Harris Upham & Co.

"Combining with CoreStates put [First Pennsylvania] in the more desirable position," said George Salem, analyst at Prudential-Bache Securities, a subsidiary of the Prudential Insurance Co. of America.

CoreStates expects to realize $89 million in cost savings and increased revenue because of the merger, and its stock has continued to perform well, said Ms. Shockley.

Robert Palmer, chief executive officer of CoreStates, said he will spend the remainder of this year "digesting" First Pennsylvania. That includes closing 29 branches in areas where overlap exists, reducing the company's total to 116.

He stressed, however, that CoreStates remains committed to its retail delivery system. He said the company will open five branches a year for the next several years until it returns to its peak of 145.

The Name Game

A key plus for CoreStates is the decision to place all retail activities under the First Pennsylvania name, said Mr. Salem. In contrast, Mellon Bank quickly dropped the Girard name in favor of Mellon when it acquired Girard Bank in 1983.

"Combining with CoreStates put [First Pennsylvania] in the more desirable position."

George Salem
Prudential-Bache Securities

"It tells you something about who is the dominant player in that market," he said. "Mellon made the mistake of doing away with the Girard name. CoreStates is not about to repeat the mistake that their competitor made." .

Perhaps because of that earlier experience, Mellon announced last week that it plans to retain the Mellon PSFS name in a bid to leverage the value of branches acquired from Philadelphia Saving Fund, even as it changes the names of its other units simply to Mellon Bank.

Like CoreStates, Mellon is focusing on consolidating its acquisition of the past year, said Paul Beideman, senior vice president and head of retail banking. Its goal is to assimilate Meritor's offices into a 120-branch network with limited interruptions by yearend, he said.

Mellon Lags in Loan Quality

By comparison, CoreStates plans to finish combining internal operations by Oct. 1.

CoreStates also has the advantage of a solid loan portfolio, analysts said. At the end of 1989, nonperforming assets equaled just 0.42% of all loans.

Mellon, however, is not out of the woods with its loan problems, observers said. In 1989, its nonperformers declined to 2.21%, from 3.09% a year earlier. Thomas Hanley, an analyst with Salomon Brothers Inc., said he expects the trend to reverse as Mellon's nonperformers rise to 2.39% this year before falling back to 2.22% in 1991.

"In another three to five years, the institution will begin to look like its peers in terms of asset quality," Ms. Shockley said. "In the meantime, it's entirely possible that they will continue to lose market share."

Another obstacle, as Betty Sue Peabody, president and chief operating officer of Mellon Bank (East), told a recent press conference, will be cross-selling loan products to the savings customers that Mellon acquired with the PSFS branches.

Other Players Lack Size

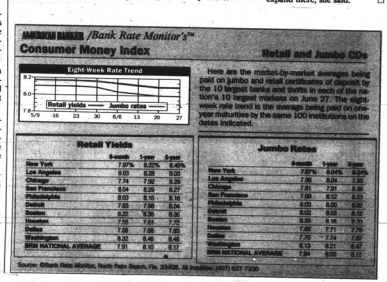
Most other institutions in the Philadelphia market suffer from a classic problem – lack of critical mass, said Ms. Shockley.

First Fidelity will benefit from its new management, said Ms. Bush of Dean Witter. How that will translate into market share remains to be seen, she said.

Ms. Bush said she sees smaller players in the five-county area, like Independence Bancorp., as likely to be swallowed up. Meridian is sure to be snapped up in coming months, she said.

Pittsburgh-based PNC "doesn't have a big enough market share to be as competitive as they might be," said Ms. Shockley. But that may spur the institution to restart the intrastate merger wave, she said.

Several out-of-state banking companies are sizing up the market, too, Ms. Shockley said. National Westminster Bancorp. has long said it is interested in the market, and Banc One Corp., Columbus, Ohio, and Bank of New York Co. and Chemical Banking Corp. in New York City are all looking to expand there, she said. □



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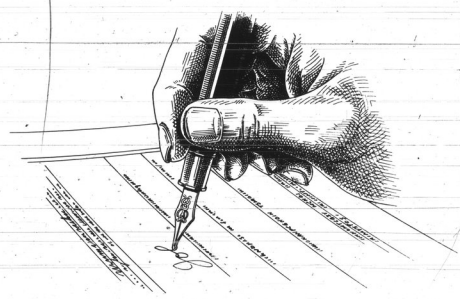

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JUL 2 1990

2 Fed Governors Look Askance at Testing for Mortgage Bias

By LINDA CORMAN

WASHINGTON — None of the techniques federal regulators are now using to ferret out mortgage-lending discrimination produce foolproof evidence of its existence, an advisory committee to the Federal Reserve Board has concluded.

Although the Fed's consumer advisory council was not unanimous in its recommendation, several members of the group told the Fed on Thursday they consider "testing" the surest method of nailing down the presence or absence of discrimination. The council reports on its work to the Fed several times a year.

Testing is a technique used for years by the Department of Housing and Urban Development and the Federal Trade Commission, with the Supreme Court's blessing, to track down discrimination by real estate brokers and landlords.

"Maybe minorities are going to alternative lending sources."
George C. Galster
College of Wooster, Ohio

Experiences Compared

To test for lending discrimination, two "applicants" would be given identical personas – including credit, employment, and other characteristics relevant to applying for a mortgage. The only difference between them would be that one applicant would be a member of a minority group, a woman, or from another "protected class."

The two testers would then approach the same lender and their experiences would be compared.

Testing received a cool reception from the two governors of the Federal Reserve Board who sat in on the committee's report. John P. LaWare and Martha R. Seger expressed skepticism because of the technique's high cost.

"I'm not sure of the cost-benefit. It would be just prohibitively expensive," Mr. LaWare said.

"Unless it's proved to be foolproof, it's hard to justify the cost," Mrs. Seger agreed. "No one really believes there's a massive problem out there."

Controls Lacking

Committee member George C. Galster, professor of economics and urban studies at the College of Wooster, Ohio, presented the committee's conclusions last week."Existing statistical studies are not definitive (including those done under the Home Mortgage Disclosure Act) because there is always an alternative explanation for results," Mr. Galster said.

The studies "need to control for all the sound business reasons for denying an application. None do."



"No one really believes there's a massive [discrimination] problem out there."
Martha R. Seger



"I'm not sure of the cost benefit. It would be just prohibitively expensive."
John P. LaWare

The mortgage disclosure act studies "compare the number of loans in white neighborhoods versus the number of loans in black neighborhoods," he said. "They don't control the demand from those neighborhoods.

"Maybe there are fewer homes for sale, maybe minorities are going to alternative lending sources."

Disclosure Requirements

The 1975 Home Mortgage Disclosure Act requires lenders to disclose annually the location of their mortgage and home improvement lending by census tract or county in metropolitan areas.

The studies that are now being done under the 1989 revisions to the act will be an improvement, Mr. Galster said, "but they are not a panacea. There will still be no information on an individual's credit history. And, they won't [identify] prescreening because there is no paper trail."

Lenders who prescreen may decline to consider an application before it is even submitted for such reasons as the location of a property or its low price tag.

The revised Home Mortgage Disclosure Act regulations require lenders to report not only the geographical distribution of their loans but also the income level, racial characteristics, and gender of the borrowers in each area.

Costly Procedures

Investigations done by bank examiners are inadequate because they focus on determining the causes of rejected applications, the committee concluded.

"This is not definitive because nonprotected groups may be getting loans under similar circumstances nevertheless," Mr. Galster said. He also said examiners had reported they were unable to complete adequate exams for possible discrimination for lack of time – and their time constraints are increasing.

According to Mr. Galster, a HUD study last summer – involving 5,000 tests for discrimination in housing sales and rentals in 25 metropolitan areas – cost about $2 million.

Despite the high cost, Mr. LaWare noted, Federal Reserve examiners are authorized to use testing. He said it could be potentially useful as a follow-up to refine other studies that raised red flags as to possible discrimination in specific areas.

Mr. Galster said the members of the advisory group who advocate the testing method hope to persuade the Reserve Board governors to adopt more widespread use of testers. They have no plans to seek legislation. □

THE WEEK *ahead*

MONDAY, JULY 2

The Federal Open Market Committee meets today and Tuesday to decide whether to recommend that the Federal Reserve Board change its conduct of monetary policy. Despite the slow growth in the economy and recent signs of additional weakness in some sectors, the committee is not likely to move to ease short-term interest rates, according to most Fed watchers.

A consensus of economic opinion suggests the Fed may move to ease rates by late summer or fall if the economy continues to slow. That is likely to mean a 25-basis-point drop in the federal funds rate, from 8.25% to 8.0%. For now, the Fed's attention remains focused on trying to reduce the inflation rate below 4%.

Congress has adjourned for the Independence Day recess and is out of session for the week. On its return, the Senate and House banking committees have scheduled hearings on U.S. bank competitiveness, the FHA mortgage insurance fund, and affordable housing, among other subjects.

Construction spending figures for May are announced by the Commerce Department.

TUESDAY, JULY 3

No significant events scheduled.

WEDNESDAY, JULY 4

Independence Day: All financial markets and government offices are closed for the national holiday.

THURSDAY, JULY 5

Initial jobless claims for the week ending June 23 are reported by the Labor Department.

FRIDAY, JULY 6

Unemployment figures for June are announced by the Labor Department.

The minutes of the Federal Open Market Committee's May 15 meeting are released. □

INSIDE *the agencies*

FDIC May Owe Failed Thrifts' Borrowers

It isn't often the government doles out rebates, but the Federal Deposit Insurance Corp. recently found it may have to cough up several million dollars to homebuyers with mortgages from failed savings institutions that miscalculated the buyers' interest payments.

Steven Seelig, the FDIC's director of the division of liquidation, said the agency hopes to clear up the mess this year.

"We will have to contact the borrowers and inform them that this is what their new balance is and what their payments ought to be and here is what they are owed for past mistakes," Mr. Seelig said.

The portfolio of adjustable-rate mortgages totals from $300 million to $400 million, Mr. Seelig said. "So far as we know, this is the only portfolio that has this problem," he said.

The FDIC acquired the loans last fall through the Federal Savings and Loan Insurance Corp., which was dissolved after passage of the Financial Institutions Reform, Recovery, and Enforcement Act. As result, the FDIC became manager of the assets, most of which were generated in the Midwest.

The matter was recently brought to Mr. Seelig's attention when an angry thrift customer wrote a congressman who, in turn, contacted the FDIC.

The agency will hire an outside company to work through the loans held in the agency's Chicago office.

"We don't have the staff," Mr. Seelig said, "You are going to have to go back, loan by loan, and work it through day by day. I can't imagine it [the loss to the FDIC] will be more than a few million on the portfolio."

Growth-Report Rule Trimmed. Acknowledging the excessive breadth of a proposed rule requiring banks to report "planned rapid growth" from brokered deposits, secured borrowings, or out-of-territory deposits, the FDIC has adopted a final rule with a narrower focus.

The final regulation requires banks to give the FDIC 30 days' notice only when planning to increase their assets by 7.5% or more during any three months through solicitation, in any combination, of fully insured brokered deposits, fully insured out-of-territory deposits, or secured borrowings.

As originally proposed, banks would have been required to report planned growth by any means that was expected to exceed 9% in any three months.

The agency wants to keep a close watch on bank growth because it has seen a number of banks grow rapidly – fueled by brokered funds – then fail.

The FDIC received 81 comment letters on the proposal, about two-thirds of which were from community banks.

Some institutions agreed on a need to control growth, but slightly more opposed the rule.

24 Enforcement Actions. The FDIC dished out 24 administrative enforcement actions against banks and individuals in May.

Cease-and-desist orders were imposed on eight banks, including Tucson-based Arizona Commerce Bank; First American Bank for Savings, Boston; and Crossroads Bank, Victoria, Tex. Twenty-five enforcement actions were issued in April, including 10 cease-and-desist orders. — **Bill Atkinson**



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Hanover Cuts $744 Million From Argentine Exposure

By JED HOROWITZ

NEW YORK — Manufacturers Hanover Corp. said it expects to reduce its $744 million of Argentine debt to a "de minimis" amount as a result of a debt-for-equity swap arranged last week.

The bank is part of a group that won the bidding to buy a portion of Argentina's state-owned telephone company, **Empresa Nacional de Telecomunicaciones**.

The bank, along with **Bell Atlantic** International and a group of six Argentine companies, will pay $100 million in cash and swap public-sector debt and interest with a face value of about $2.3 billion for a 60% stake in the telephone company.

Manufacturers Hanover said it would arrange a syndicate of financial institutions to provide the cash and debt that will be swapped for the phone company. It did not say how much of the $2.3 billion of debt will be its own, but noted that it expects to own about 16% of the regional phone company after syndication.

As part of Argentina's privatization of several state-owned industries, the nation has restructured Entel into two separate regional companies. The company that Hanover expects to purchase will serve the northern part of Argentina and part of Buenos Aires.

The bank is swapping debt for an equity position in the state telephone company.

"For Manufacturers Hanover, the transaction will allow us to reposition our Argentine portfolio by transforming credits into a tangible investment with the potential for future increases in value," John F. McGillicuddy, chairman, said in a prepared statement.

At the end of the first quarter of 1990, the nation's eighth-largest bank company had $790 million of short-, medium-, and long-term debt outstanding to Argentina. During the first quarter it exchanged about $126 million of loans – valued at about $75 million – for a $51 million equity investment in an Argentine paper company.

Sources said they believed that a rival group of bidders for Entel included **Citicorp** and GTE Corp., which was being advised by **Chase Manhattan** Corp. Both Chase and Citicorp are involved in separate bids to purchase Aerolineas Argentinas, the Argentine national airline. Chase earlier this year bought a 33% interest in a Mexican holding company that owns a 50.1% interest in Corporacio Mexican de Aviacion, a Mexican airline.

J.P. Morgan Negotiating to Sell Netherlands Securities Business

LONDON – **J.P. Morgan** & Co. announced last week it has started discussions to sell its Dutch securities activities and give up its license to operate as a bank in the Netherlands.

Negotiations for the disposal are being conducted between J.P. Morgan Nederland NV, the New York bank's Dutch unit, and the proposed buyer, Van Haften & Co. NV, a subsidiary of **Aegon** NV, the Dutch insurance company.

"J.P. Morgan Nederland, with assets of about $750 million, lost $1.07 million in 1989, according to its president, Tom van Dort.

As part of the disposal, the unit will cease to be a licensed bank, and the company will focus on corporate finance advisory services to Dutch clients, the New York bank said.

The decision to sell the Dutch securities business "is based on the lack of volume in its local trading and securities activities to achieve the necessary economies of scale," it said.

Van Haften will apply for a full banking license.

A Morgan spokesman declined to give the price for the planned disposal, which is expected to be concluded before the end of this year. Regulatory approvals are being awaited, the spokesmag said.

— **John Evans**

Mexico Pushes Privatization

MEXICO CITY — President Carlos Salinas de Gortari sent a bill to the nation's lawmakers that would privatize the banking sector nationalized in 1982 and permit up to 30% foreign investment.

The bill, which is to go to vote in the Chamber of Deputies before July 15, would establish three types of banks with a minimum of 70% held exclusively by Mexicans and foreigners legally resident in the country. Foreign investors would have access to "C" shares, which can account for up to 30% of a bank's shares, according to the bill's provisions.

The bill also cuts barriers to setting up overseas banking branches in Mexico, which are at present prohibitively restricted.

The privatization of many of the nation's 18 banks assures "that Mexicans retain control of the banks and that there is a diverse participation ... that impedes undesirable concentration of decision-making," said a presidential statement with the bill. — **Reuters**

Another Soviet Shortage: Bankers

New Banks Are Springing Up, but Expertise Is Scarce

By JOHN EVANS

LONDON – In Mikhail Gorbachev's beleaguered Soviet Union, perestroika is failing another important test of a modern economy – the creation and management of an effective banking system.

More than 250 banks have sprung up in the Soviet Union over the past two years in a flowering of financial services, a revolution for a nation where checking accounts or loans for individuals have been virtually unknown.

But this expansion conceals deep divisions within the Soviet Union over the future of its banking system.

A Bid for Efficiency

The explosion in bank formations marks a response by the nation's businesses to the inadequacies of the dominating handful of large centralized state banks, despite reforms two years ago to try to make them more efficient, Soviet bankers and economists say.

In turn, these new banks could experience failures because there is simply not enough expertise to run them, many Western's banking reforms and related regulatory and legislative systems are not equal to their task.

William Newman, chief economist of Moscow Narodny Bank Ltd., a Soviet-owned bank in Britain, says bluntly that Moscow's banking reforms have not been successful.

Imposition from Outside

"There has been a strong element of imposition of change by those with little if any understanding of banking," he declares.

Much of the thrust of attempts to modernize Soviet banking, under the reforms introduced in January 1988, has been based on the needs of industry, commerce, and agriculture to become more efficient under perestroika.

The changes initially centered on reconstituting the previous four large state banks into six specialist institutions, including banks for agricultural, housing, development, industry, and savings. But this restructuring just did not go far enough, Soviet bankers now say.

These six banks have often been operated by the staff of the former institutions, limiting the scope for competition, the bankers say. Moscow's banking also remains centralized in old habits, illustrated by its failure to match industry when the latter switched to cost accounting two years ago to try to match the efficiency of capitalist business, they add.

Victor Gerashchenko, the chairman of the State Bank of the U.S.S.R., carried through that reforms were based on conclusions drawn without sufficient consultation with the different echelons of banking.

The result, he says, is that a "top-heavy banking managerial

Observers say Soviet legislation and regulation may not be able to handle the surge in banking effectively.

pyramid is weighing down heavily on grass-roots personnel who have to deal with customers."

Competition Lacking

Another senior State Bank official, Boris Fedorov, charges that "the banks are monopolists in their branches of the economy, and there are no traces of inter-bank competition."

He adds: "The computerization of the banking system progresses slowly, the number of bank branches, considering the size of the country, is insignificant, and wages are lower than the national average."

Soviet business and industry, cramped by the bureaucracy of these six centralized banks, started in mid-1988 to establish its own banks.

Total Has Mushroomed

Since then, the total has rapidly built to the current figure of more than 250, with Soviet cooperatives, enterprises, regions, and institutions rushing pell-mell into banking.

Soviet bankers indicate that since these new banks sprang up, a form of power struggle has ensued in Moscow over how the banking system should develop. The big state banks have put shackles on the newcomers' operations, and their earnings are being jaxed at a punitive 60%.

But Moscow's Ministry of Finance has warmly welcomed them as a way to "liven up banking activity." Spokesman Ilya Kizalgorodski says the big six banks, like their predecessors, "are prisoners of outdated and inefficient banking techniques."

A Source of Vigor

While Moscow Narodny's Mr. Newman concedes that the newcomers may well invigorate Soviet banking, he contends that the potential consequences of this "unfettered competition" have not been understood in Moscow. Even worse, he is doubtful whether there is "sufficient Soviet banking expertise" to run an economy by wire.

Some Soviet economists believe that such mushroom-like growth is to be encouraged as those banks that are efficient will flourish and others "will fail and disappear," he notes.

Danger Is Seen

"Tell that to the enterprise that has risked its funds on deposit with a failed bank," Mr. Newman observes, saying such a survival-of-the-fittest policy is "extremely dangerous."

Meantime, Western banks may unwittingly become embroiled in Soviet banking problems. Some of these newer banks are trying to flex their muscles overseas, including ventures with Western banks, Mr. Newman says.

Price Waterhouse & Co., the international accounting firm that now maintains an Moscow office, believes the Soviets urgently need training in how to set up, run and manage a bank, including greater knowledge about basic credit analysis and liquidity controls.

Mr. Newman goes further, stating that the Soviets badly need pragmatic legislation that would encourage the traditional banking system to be innovative and competitive while at the same time closely supervising the new banks." □

Key International Rates

	Day-to-day money		Jobs interbank		Swap deposits		Discount rate	
	Bid	Offer	Bid	Offer	Bid	Offer	Bid	Offer
United States	8.31	8.37	8.25	8.31	8.37	8.37	6.50	6.50
Japan	7.56	7.56	7.37	7.69	7.69	7.46	7.81	7.69
Canada	13.25	13.37	13.25	13.50	13.50	13.62	13.00	13.00
France	15.12	15.25	15.00	15.06	15.00	15.00	15.00	15.00
West Germany	8.12	8.18	8.12	7.88	8.25	8.25	8.56	8.56
Switzerland	9.25	9.12	9.12	9.00	9.00	9.00	8.81	8.81
Holland	10.12	10.18	10.12	10.18	10.12	10.18	10.25	10.18
Italy	11.12	10.62	12.12	11.25	11.12	11.25	11.37	11.37

Forward Rate Agreements

	US dollar		Sterling	West German mark		Swiss franc	
	Bid	Offer	Bid	Bid	Offer	Bid	Offer
3 to 6 months	8.31	8.00	14.44	8.51	8.50	7.94	7.90
6 to 12 months	8.30	8.25	13.94	8.44	8.38	7.88	7.84
12 to 24 months	8.00	12.61	9.00	8.25	8.00	7.75	7.67

* Midday quotes in the New York market

Source: Reuters, Bank of England, Bank for International Settlements

House Pushes Debt Cuts for Poland

By LINDA CORMAN

WASHINGTON — Commercial banks would have to reduce their Polish debt before the United States would contribute to the Eastern European Development Bank, according to conditions included in a House appropriation for the bank.

The provision seeks to avoid having U.S. taxpayers' funds flow back to commercial banks in the form of debt repayments. It is expected mostly to affect German banks, which hold the largest portion of Poland's commercial obligations. They have several billion dollars in loans, while U.S. lenders probably have at most $300 million, a House Appropriations Committee staff member said.

"I don't think this will wildly excite the American banking community," the staff member said. But he noted, "A banker doesn't want to tell you what he holds in his pocket is worthless."

House Approved Funds

The House last week appropriated $233 million for the bank, including $163 million in callable capital, as part of its 1991 foreign aid bill. The measure now goes to the Senate Appropriations Committee, which may not take it up until September.

The House bill makes the appropriation contingent on "final debt adjustment agreements [that] provide comparable treatment of both public and private external creditors." That means commercial lenders would have to reduce the value of their debt at the same rate as governments.

"We're not going to give [to the development bank] to fund German or U.S. commercial banks," said the House Appropriations staffer.

Amount Not Specified

Although it does not specify by how much Poland's $40 billion in commercial and official debt would need to be reduced, the bill draws a comparison with debt forgiveness extended to Germany after World War II.

The measure notes that German reunification has the better financial shape than Poland is now. German debt was reduced by 43% after the war, the committee staff member said.

Fear Stirred On Premiums Of the FDIC

Continued from *page 1*

billion in three years."

In an interview Friday, Mr. Bovenzi said the fund could lose as much as $2 billion this year in a "worst-case scenario." That would drop the FDIC fund to about $11.2 billion at yearend 1990.

"My expectations would be that the fund would lose money, but it depends on what happens in the real estate market and if there are some big bank failures," he said. "It is the same kind of thing we've been saying. We don't expect there will be a dramatic change."

Previously, Mr. Seidman and other FDIC officials said they expect the FDIC to break even or make money in 1990, assuming the agency does not have to deal with any large banks.

Prepared for a Loss

"The yearend 1990 loss may not be that large, but we should not be surprised if it is," said Robert H. Dugger, chief economist at the American Bankers Association, citing industry figures from Ferguson & Co., Mr. Dugger said 479 oil-patch banks with $42 billion in assets have been losing money since 1986. He said many of them may become insolvent in 1990 and next, requiring FDIC intervention.

William C. Ferguson, chairman and chief executive of Ferguson, a consulting company based in Irving, Texas, said Mr. Bovenzi's estimate "shows a [refreshing] amount of realism at the FDIC. But I don't think we have a crisis in the banking industry."

Mr. Bovenzi said it was too early to tell whether banks will have to pay higher insurance premiums.

Looking at the Options

"We are just starting to review the issue and look at our options would be," he said. "The premium rates are set this year and they are scheduled to go up next year. We are doing nothing more than reviewing and making sure we have the best possible feel for which way the fund is going."

"If the fund loses $2 billion, the FDIC would be under strong pressure to raise the premiums," said Robert Litan, a senior fellow at the Brookings Institution in Washington.

Mr. Dugger said that banks can expect to receive a rebate from their higher premiums to the FDIC in the mid-1990s, when the fund was expecting to have $1.25 backing every $100 of insured deposits.

A $2 billion loss to the FDIC would mean the agency could access premiums to banks would probably be pushed back by one to two years, because it could take that long for the fund to return to the $1.25-per-$100 level, Mr. Dugger said.

Mr. Litan is convinced the insurance fund was overstated by $5 billion at the end of 1989 because there were insolvent banks still operating that are not accounted for in the FDIC's yearend figures. □

Bank of Boston Adopts Poison-Pill Plan

By TOM LEANDER

NEW YORK — Bank of Boston Corp.'s board has adopted a poison pill stockholder-rights plan Friday, but insisted that the move was not a response to any known plan to acquire the company.

Under the plan, shareholders will receive a dividend distribution of one right for each common share. The rights would be exercisable only if a person or group acquires 15% or more of Bank of Boston's common stock.

In that event, all holders of common stock, other than the 15% acquirer, could exercise their rights to purchase common shares at a substantial discount.

Analysts dismissed the idea that the antitakeover measure was prompted by a hostile takeover bid to buy out the company. "I

"I don't think anyone is champing at the bit to take over Bank of Boston."

Carole Berger
C.J. Lawrence Inc.

don't think anyone is champing at the bit to take over Bank of Boston.

"All they're trying to say is: We want control of our own destiny," said Carole Berger, an analyst for C.J. Lawrence Inc. in New York.

Meanwhile, the company's directors also voted to exercise their right to opt out of provisions of the Massachusetts controlling-share-acquisitions statute. The statute, adopted last year, provides that any purchase of more than 23% of a company's stock by a single acquirer must be approved by shareholders at a special meeting. □

BankEast Halts Payout Under Its Capital Plan

MANCHESTER, N.H. — BankEast Corp. said that under an agreement with the bank commissioner of New Hampshire and the Federal Deposit Insurance Corp., its BankEast bank will continue a previously adopted capital plan and will not pay cash dividends without notifying regulators.

BankEast will also continue its plan to reduce adversely classified credit and will require extensions of $50,000 of credit to borrowers with adversely classified loans to be approved by the board of director's loan committee.

It said it will also maintain loan-loss reserves at adequate levels. — **Reuters**

Leaner Times Prompt Big Banks to Build Relationships

Continued from *page 1*

dum, it told employees to grit for a radical cultural change that will emphasize "one Chase" in facing the public. The company expects to take most of its restructuring charges this year.

● Bankers Trust New York Corp. fired 10% of its domestic corporate finance professional staff – 75 employees – and installed a 25-person corporate finance group to develop transactions for its leaders and investment bankers. It will be run in New York by one of the bank's leading mergers and acquisitions specialists. Bankers Trust will take a charge for the restructuring this quarter, but it will not be material, a bank spokesman said.

● Chemical Banking Corp. eliminated about 900 positions in the first quarter, more than half in wholesale banking and related support areas, according to a well-placed source. It also combined its investment banking and structured finance units into one sector.

● Bank of Boston Corp. closed its Section 20 securities subsidiary, which was set up primarily to underwrite municipal revenue bonds.

● Citicorp closed the doors on its municipal sales and trading unit, firing 35 people.

In addition, sources expect major surgery in Citicorp's investment banking and corporate lending operations – predicting a new management structure and elimination of many jobs. "I am now deeply enmeshed in corporate banking," Citicorp chairman John S. Reed told the magazine *Manhattan Inc.* in May.

A Citicorp spokesman had no comment on the company's plans.

Citicorp is also believed to have restructured its loan syndications and structured finance areas, which were primarily responsible for originating leveraged buyout loans and selling them to other investors.

It has set up a workout group to restructure leveraged buyout loans made by Citibank and others. And it is slimming its ranks.

"There is a new executive bank that does not have syndication groups set up to push production into the bank system that can now sit there and suggest that they are not in dann need of cuts," said a Citicorp investment banker.

At Continental Bank Corp., which caters exclusively to corporate and institutional customers, a key goal is to help employees – things of its work force – and take a $50 million pretax restructuring charge.

● First Chicago Corp., which some insiders believe is due for a new round of layoffs in its global corporate bank, has launched a new ad campaign titled "First Relationships Last." It depicts chairman Barry F. Sullivan introducing the ad with the words:

"We've always believed in relationships . . . It's a philosophy which few banks adhere to these days, simply because they favor short-term profits over long-term growth."

Jobs Lost in Moribund Areas

"Nobody's phones are ringing, so you've got to do something," said Frank DeSantis, a bank analyst at PaineWebber Inc. "Clearly the wholesale side is No. 1 for restructuring."

Although the banks will take special charges for severance pay and other restructuring costs, they claim they are positioning themselves for long-term earnings.

"In the line groups, we are going to be lean and mean and aligned correctly, concentrating only two things – serving our customers and beating the competition," Manufacturers Hanover president Thomas S. Johnson told bank officers in late May. "We can't afford to staff up for peak periods in any product, industry, or market. If we did, we'd soon spend ourselves into oblivion."

The renewed emphasis on customers at all the banks, of course, is part bluster, part scrambling, and part a recognition of the reality that deal flow has died.

"I'm not sure what all this talk about relationship means," said Christopher L. Snyder, president of Loan Pricing Corp. "If you're going to build business, the most important thing in the world is to make and keep a customer."

Many banks have been "a bit brusque" with their customers, he added, and need to go back and refocus. But he cautioned against falling into the old-time trap of credit leniency, where bankers make iffy loans for customers who increase their interest-free balances with the bank.

Borrowers May Wonder

Borrowers themselves may be suspicious of the new wooing. Citicorp, for example, prided itself in the go-go years off leveraged buyout lending on its ability to be a "common source" capable of representing competing bidders and even, on occasion, the target. It had the money and the staff to set up independent groups, the bank claimed. "That will be a problem in today's environment," conceded one banker.

Some banks, like Morgan Guaranty Trust Co. and Chemical Bank, created special 'customer groups as long as two years ago. □

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- Great American FS&LA, Oak Park, IL (Assets: $1,013,000; Deposits: $732,000)
- Homeowners Savings Bank, FSB, Boston, MA (Assets: $3,625,000; Deposits: $2,822,000)
- Yorkridge-Calvert FSB, Baltimore, MD (Assets: $540,000; Deposits: $348,000)
- North Carolina FS&LA, Charlotte, NC (Assets: $628,000; Deposits: $455,000)
- Midwest FSB of Minot, Minot, ND (Assets: $960,000; Deposits: $578,000)
- City Savings Bank, FSB Bedminster, NJ (Assets: $8,500,000; Deposits: $6,300,000)
- Empire of America FSB, Buffalo, NY (Assets: $8,174,000; Deposits: $8,024,000)
- Sooner FSA, Tulsa, OK (Assets: $1,430,000; Deposits: $1,102,000)
- The Benjamin Franklin FS&LA, Portland, OR (Assets: $4,968,000; Deposits: $3,214,000)
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Scotsman. U.S. citizen, public accounting and internal experience: have set up two internal auditing departments: solid background in lending, training and appraising auditors, also analyzing and formulating procedures to define strengths and weaknesses. Good communication skills negotiating with and reporting to executive management, audit committee and external auditors.
Paul MacKay (203) 655-3749

OUTSIDE DIRECTOR
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Call John at (201) 854-8558.

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(212) 255-8004 for Particulars.

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Please call 212-315-3896

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FINANCE

DEALS

A Critic of Federal Policy Sees Signs of Easier Credit in New England

By WILLIAM GOODWIN

The debate about whether overzealous bank examiners helped induce a credit crunch in New England is still raging. But now, one of the fiercest critics of the regulators contends that the crunch is almost over.

"I think it is rapidly becoming history," said John Gould, president of Associated Industries of Massachusetts, which represents some 3,000 manufacturing and industrial firms.

In a meeting at the Federal Reserve Bank of Boston in early April, Mr. Gould complained that the Comptroller of the Currency was "driving us right into a recession."

And as recently as a month ago, Mr. Gould was inundated with phone calls from the mainly small firms his organization represents, complaining that their banks were suspending credit lines, calling loans, and jacking up fees.

But since then, the situation has changed dramatically, Mr. Gould said. "We are not now receiving calls from people having credit problems."

State Banks Pick Up Slack

He attributed the turnaround mainly to state-chartered banks taking on borrowers that had been spurned by federally chartered banks subject to rigorous OCC examinations.

The state banks were encouraged by Massachusetts Governor Michael Dukakis to lend to local businesses, and a hot line was established, referring borrowers to some 270 state-chartered banks.

"It seems to have worked," Mr. Gould said.

"We've probably booked some business as a result of calls" stemming from the hot line, said the president of one state-chartered bank in Boston, who asked not to be named.

While the more established companies that Mr. Gould's organization represents may be seeing the light at the end of the credit-availability tunnel, startup companies "are in for heavy sledding for quite a while," said Gordon Baty, a partner at Zero State Capital, Boston.

In the Eye of the Beholder

"I think there's a credit crunch, all right," Mr. Baty said. "It sure feels like one."

The contrasting views of Mr. Baty and Mr. Gould point up what many bankers and experts in the region believe: that the credit crunch – that it is in the eye of the beholder.

"A credit crunch is when banks plainly cannot lend," and "that's not the case," said Allyn Woodward, executive vice president of the Wellesley, Mass., branch of Silicon Valley Bank, a unit of Silicon Valley Bancshares of San Jose, Calif.

At the same time, though, Mr. Woodward said New England banks, plagued by bad real estate loans, are shunning the high-technology sector, creating an opportunity for Silicon Valley, which just opened the Wellesley office two months ago.

Mr. Woodward formerly headed the Bank of New England's technology-lending group. He and two associates joined Silicon Valley in April.

"They certainly are not anywhere near as aggressive today as when we were there," he said of Bank of New England.

Indeed, Silicon Valley is the "only bank around here that seem to be viewing this as an opportunity," said Mr. Baty of Zero Stage, referring to the pullback by New England banks.

One of the high-tech companies the bank may be calling on soon is Laser Science of Cambridge, Mass. Last August, the startup company obtained a $300,000 credit line from First Mutual of Boston, but now the bank is pulling back.

"They basically tore up the credit line and said you don't have one anymore," said John Morrison, chief financial officer of Laser Science.

Gerald Mulligan, president of First Mutual, declined to comment specifically about Laser Science, but acknowledged that the bank is "curtailing credit to customers who we think would be better off with other lenders."

Mr. Morrison said he was told by the bank that it is calling loans it made to a lot of customers because First Mutual was forced by regulators to take additional writeoffs, and now needs to shrink its balance sheet.

"First Mutual took a chance with us a year ago. I don't know of another bank now that would even let me in the door," Mr. Morrison said. □

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Partnership Notices

Substance of Certificate of Limited Partnership filed in New York County Clerk's office on 6/11/90 of ORANDEN ASSOCIATES, principal office c/o Lemle & Wolff, Inc., 175 Sherman Ave., NY, NY. Business: acquire and develop certain real property in Bronx, NY and related activities. Term: until Dec. 31, 2040 or earlier per Partnership Agreement (PA). General partner(GP): HAF Development Corporation, c/o Lemle & Wolff, Inc., 175 Sherman Ave., NY, NY; Bernard L. Lemle, 63 Pelham Pkwy, Brnkly, NY. Original Limited Partner (LP): HAF Development Corporation c/o Lemle & Wolff, Inc., 175 Sherman Ave., NY, NY; cash contribution $100.00, share of profits 10%. Original LP's contribution returned per PA. LP may not assign interest as proposed under PA. Additional LPs may be admitted per PA. No priority among LPs as to contributions or compensation by way of income. Right to continue business upon death, retirement or insanity of a GP or sole remaining GP provided for in PA. No LP may demand and receive property other than cash in return for his contribution.

Substance of Certificate of Limited Partnership filed in New York County Clerk's office 6/27/90 of M and N DUFFY ASSOCIATES, principal office 353 E. 32nd St., NY, NY. Business: purchase and lease memberships on nationally-licensed stock and option exchanges. Term: to Dec. 31, 1991 or earlier per Partnership Agreement, year to year thereafter. General Partner (GP): Nee Duffy, 353 E. 32 St., NY, NY. Limited Partner (LP): The Metropolitan Bank & Trust Company as Trustee for the Mark M. Duffy IRA Rollover, 59 Wall St., Norwalk, CT., cash contribution $112,000., share of net profits 99%. LP has not agreed to make additional contributions. LP's contribution returned per PA. LP may not assign interest without consent of GP except per PA. No provision for additional LPs. No priority among LPs as to contributions or compensation by way of income. No right given to continue business upon death, retirement or insanity of GP. LP may not demand and receive property other than cash in return for contribution.

Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX Joseph Nathanson and Shoreham Associates Inc., Pension Trust, Plaintiff against Ark Realty Development Corp. et al Defendant(s) Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, NY, in Room 118, Mezzanine, on the 23rd day of July, 1990, at 10:00 A.M. premises briefly described as: Lots 1, 80, 91, 92, 174, 175, 88 and 23 In Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint. Approximate amount of lien $920,347.82 plus interest and costs. Premises will be sold subject to provisions of filed judgment and index #20000/89. Dated: June 13, July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, NY. 10007.

SUPREME COURT - COUNTY OF BRONX Joseph Nathanson and Shoreham Associates Inc., Pension Trust, Plaintiff against Ark Realty Development Corp. et al Defendant(s). Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, NY, in Room 118, Mezzanine, on the 23rd day of July, 1990, at 10:00 A.M. premises briefly described as: Lots 1, 80, 91, 92, 174, 175, 88 and 23 In Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint. Approximate amount of lien $920,347.82 plus interest and costs. Premises will be sold subject to provisions of filed judgment and index #20000/89. Dated: June 13, July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, NY. 10007.

Auction Notice

R. A. Felder Llc Auctr #793917 sells on 7/18/90 10 AM at 12-14 31st Ave, Qns, NY. Post #1G2AM6897BY219321 Re: W. Cooper. '81 Audi #WAUGB043BBN063699 Re: S. Diaz, '85 Buick #1G4CW69320J1469245 Re: D. Carpenter; 10:30 AM at 191 Fairfax Ave, Hawthorne, '85 Ford #1FABP463AFH233117 Re: J. Hernandez, '87 Datsun #JN1FB0556C0209228 Re: J. Soto; 12 PM at 668 W. Kingsbridge St, Syr, '83 Ford #2FABP0425DX105467 Re: H. Howland. Published 7/2 & 7/9/90.

Auction Notices

E.F. Fazio Auct'r Llc #798972 Sells 07/17/90 9 AM at Rtes 59 & 17 Hillers '78 Ford #1FTCF10S8WNA04178 Re: D. R. Mcintosh &/or D. Tone; 9:30 AM at 1 Passage Ave Suffn. '84 Chevy #1GCDM19Z3EB203676 Re: F. Frost, '83 Olds #1G3AZ7E2DD354293 Re: K. Sides-Hinds; 10:30 AM at 3000 Provost Ave Bx; '83 Chevy #1G1AD2779DD7118 Re: M. Ellenzi, 11 AM at 1828 Webster Ave Bx; '79 Datsun #JN1CP01S0U0000 Re: P. E. Caffey, '83 Buick #1G4AM6945DH935461 Re: P. A. Golovchenko, 89 Ford # 1FABP2537KW246587 Re: A. E. Cabble, '82 Chevy #1G1AP8718CN130136 Re: L. Mcgrath; Thomas #PS1108D0107 Re: R. L. Arcesa, '86 Plymouth #3P37P5B2JG2244462 Re: G. C. Cannon, Inds: Number 16590/88 Dated: July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, NY. 10007.

R. A. Felder Llc Auctr #793917 sells on 7/11/90 10 AM at 1195 Union Ave, Nwbrg, NJ. Cash Only. Post #1G1AL5547E7 W. Melrose & D. Maselli; 10:30 AM at 15 No. Riverside Ave, Croton on Hudson Sc. Salem, MA 01970, telephone 508/ 744-3330 you have permission to photocopy any article covered by Copyright Clearance Center Inc. for a fee of $5.00 per copy of each article. Send payment directly to CCC.

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BANK and THRIFT STOCKS

Highlights for Friday, June 29

TOP 10 GAINERS %

National Penn Bancshares, Inc.	7.5
Multibank Financial Corp.	6.0
Northeast Bancorp, Inc.	5.3
First Citizens Bancshares Inc.	5.2
Boulevard Bancorp, Inc.	4.6
First Community Bancorp, Inc.	4.6
National Commerce Bancorp.	4.4
UST Corp.	4.4
Independence Bancorp	4.4
Bank of New England Corp.	4.2

TOP 10 LOSERS %

BankAmerica Corporation	-8.5
First City Bancorporation	-7.1
Southern National Corporation	-6.3
MNC Financial, Inc.	-5.6
Evergreen Bancorps, Inc.	-5.2
First National Bancorp	-5.0
Cal Fed Bancorp	-5.0
Cal Fed, Inc.	-4.8
National Bancorp of Alaska	-4.9
Suburban Bancorp, Inc.	-4.0

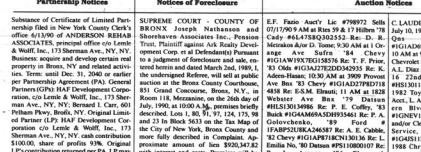
MOST SHARES TRADED

Citicorp	1140500
Manufacturers Hanover Corp.	1127200
BankAmerica Corporation	389600
SunTrust Banks, Inc.	331500
Wells Fargo & Company	330000
First Chicago Corporation	327800
J.P. Morgan & Co. Incorporated	318900
Chase Manhattan Corporation	312700
Bank of New England Corp.	303800
MNC Financial, Inc.	237400

VOLUME as % of AVERAGE

Santa Monica Bank	2060.1
Manufacturers Hanover Corp.	794.3
National Community Banks, Inc.	611.5
Southern National Corporation	599.3
Bankworth Group, Inc.	441.2
KeyCorp	401.0
Iowa National Bankshares Corp	385.5
United Missouri Bancshares Inc	384.1
Cal Ray Bancorp	373.3
Deposit Guaranty Corp.	364.3

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

TOP 225 BANKS (4 PM PRICES)

52 Wk. Hi	52 Wk. Lo	Name	PE	Mkt. Bid	Chg.	Chg.
28¾	11⅝	FirstAmerCorp TN	NM	26.0	25⅝	-⅛
24¼	20¾	FirstBancorp NC	8.5	23.0	22⅞	+⅛
29¾	12¾	FirstBankSystInc MN	NM	13.2	14⅝	-⅛
27¾	19	FirstChicago	5.6	26.0	25⅞	+⅛
29½	24	FirstCitizens AC	8.6	29.0	25¾	-⅛
38½	26¾	FirstCityBanc TX	7.1	27.0	26⅞	+⅛
19¾	11½	FirstColonial IL	10.1	13.5	13¾	+⅛
24¾	19¾	FirstCommerceAK	10.0	21.0	20¾	+⅛
21¾	21¼	FirstCommerceGA	9.5	21.0	20¾	+⅛
21¾	16¾	FirstCommerceMS	10.0	21.0	20¾	+⅛
19¾	14¼	FirstCommunityIL	12.0	12.1	17¾	+⅛
19¾	14¼	FirstCommunityMI	10.0	18.0	17¾	+⅛
72	60½	FirstEmpire NY	8.7	102.0	62¾	-⅛
11	7¾	FirstFederalMI	10.0	10.0	9¾	+⅛
50	40	FirstFidBcshMD	14.5	204.3	44¾	-1¼
19¾	14¾	FirstFinancial IN	9.3	19.0	18¾	+⅛
35¾	29¼	FirstHawaiian HI	11.2	29.0	25	
11	7¾	FirstHorizon TN	10.0	138.5	10¾	+⅛
69¾	32	FirstInterstate CA	NM	108.6	40¼	+¼
19¾	14¾	FirstInterstate WY	9.3	19.0	18¾	+⅛
19¾	14¾	FirstMidAmerIL	8.2	18.4	15	
19¾	14¾	FirstMidAmerIL	10.0	18.5	18¾	+⅛
20¾	19	FirstNiagaraNY	9.0	123.5	19	-½
19¾	14¾	FirstNorthern CA	9.3	19.0	18¾	+⅛
19¾	14¾	FirstSecurity KY	7.4	102.2	13¾	-⅛
19¾	14¾	FirstSecurity UT	13.5	180.0	17¾	+⅛
33¾	27¾	FirstSecurity UT	8.7	91.0	29¾	-⅛
19¾	14¾	FirstSecurity UT	17.8	91.4	17¾	+⅛
33¾	27¾	FirstUnionCorp NC	7.9	95.5	18¾	+⅛
19¾	14¾	FirstVirginia VA	8.2	118.5	17¾	+⅛
19¾	14¾	FirstWachovia NC	10.5	158.1	40¾	+¼
19¾	14¾	FirstWisconsin WI	7.5	118.4	17¾	+⅛
17	7¾	FirstbankIL	8.7	108.0	18	NA
19¾	14¾	FirstbankIL	8.3	108.0	18¾	+⅛
28	19¾	FleetNorstar RI	12.4	105.0	19¾	NA
19¾	14¾	FloridaBkshsFL	10.0	18.5	18¾	+⅛
28	19¾	FourthFinGrp KS	12.4	158.3	34¾	-⅛
19¾	14¾	FourthFinGrp KS	7.8	126.4	18¾	+⅛
19¾	14¾	GBC Bancorp CA	8.8	218.8	18¾	NA
19¾	14¾	GeorgiaBkgCorp GA	9.4	19.0	18¾	+⅛
19¾	14¾	HawkeyeBancorp IA	3.9	113.1	6¾	
19¾	14¾	HeritageBcshs MO	8.2	118.5	18¾	+⅛
19¾	14¾	HiberniaCorp LA	10.1	158.0	14¾	+⅛
19¾	14¾	HomeFedBk SA CA	7.8	147.7	18¾	+⅛
32¾	23¾	IBERIABCorp LA	6.9	98.6	24	
19¾	14¾	IndependenceBcsh	11.9	101.2	18	+⅛
19¾	14¾	IndianaFedCorp	10.0	18.5	18¾	+⅛
48	37¾	InterNatlBkshs IL	9.8	142.2	39	
19¾	14¾	InterNorth NE	10.0	18.5	18¾	+⅛
28¾	18¾	JeffersonBkshs VA	8.0	96.2	19	-⅛
19¾	14¾	KeyCorp IN	8.3	117.1	18¾	+⅛
29¾	23¾	KeyCorp KY	8.3	117.1	27¾	+⅛
19¾	14¾	KeystoneHoldgs PA	10.1	156.1	29	-⅛
19¾	14¾	LaSalleBancorp IL	8.7	108.0	18¾	+⅛
22	16¾	LakeShore IL	10.8	207.1	22¾	
19¾	14¾	LandmarkBancs MO	7.2	18.0	18¾	+⅛
19¾	14¾	LibertyNatlEnt KY	8.7	116.3	26	-⅛
19¾	14¾	MBLife MO	7.2	98.0	18¾	+⅛
19¾	12¾	MNC Financial MD	4.7	73.5	13¾	
19¾	14¾	MagnaGroup IL	10.4	18.5	18¾	+⅛
60¼	41¾	MarshallBcshs WI	6.4	99.8	43¾	+⅛
60¼	41¾	MarshallBcshs WI	NM	62.6	54¼	
19¾	14¾	MarshallBcshs WI	10.8	120.3	18¾	+⅛
19¾	14¾	MarshallBcshs WI	8.8	120.3	18¾	+⅛
19¾	14¾	MercantileBcsh MD	10.1	158.1	18¾	+⅛

52 Wk. Hi	52 Wk. Lo	Name	PE	Mkt. Bid	Chg.	Chg.
23¾	19¾	MercantileBcsh MO	9.1	141.4	22	
90¾	53	MerchantsBank NY	12.5	199.7	53	
32	21¼	MerchantsNat IN	10.9	98.4	24¾	+¼
29¾	19¼	MetroBankCorp PA	7.2	88.7	19¾	-⅛
57¾	32	MichiganNatCorp MI	2.7	65.0	32	-¼
19¾	14¾	MidAmerica KY	8.7	97.0	15	
23¾	19¾	MidlinInc OH	9.7	145.7	19	+⅛
47¾	33¾	MidwestCorp IN	3.9	37.7	14¾	+⅛
25¼	10	MultibankInc	5.8	53.2	11	+¼
35¾	28¾	NBD BancorpMI	9.1	134.4	31¾	+⅛
54¾	35¾	NCNB Corp NC	7.7	134.9	37¼	+⅛
19¾	16	NCalCmBancorp CA	14.4	154.7	19	
41¾	33¾	NationalCity OH	8.2	141.7	36	+⅛
19¾	14¾	NationalCity OH	12.8	229.5	43	+⅛
30¾	24¾	NatlBancorpMI AK	8.5	114.2	29	-1⅛
19¾	14¾	NatlCommerce TN	10.4	185.6	19¾	+⅛
44¾	19	NatlCommun NJ	5.1	87.4	19	+⅛
19¾	11¼	NorthFldBancs WI	5.8	75.9	12¾	-⅛
72	19	NortheastBancCT	NM	56.8	20	
19¾	14¾	NorthernTrust IL	9.9	182.2	30¾	+⅛
23¾	17¾	NorwestCorp MN	6.5	154.2	21¾	
19¾	14¾	OakParkTrCo MD	24.1	108.7	19¾	+⅛
29¾	24	OldKentFncCorp MI	8.3	115.1	24¾	+¼
29¾	19¾	OneNorthern IN	13.0	158.0	29¾	+⅛
19¾	14¾	OneWestBank FSB	7.0	82.1	19¾	+⅛
19¾	14¾	PNC Financial PA	11.4	158.0	25	
29¾	24	PacificBancCA	10.1	176.7	12	+⅛
19¾	14¾	PeoplesBancorp MI	9.3	138.2	19¾	+⅛
27	26	PleasNetNetNY	10.0	139.0	27	
19¾	14¾	PremierBancorp LA	9.3	177.5	19¾	+⅛
6¾	3	PremierServicsCA	NM	50.2	3	
19¾	14¾	ProvidentBancorp	9.0	127.7	22	
14	9¾	ProvidentBshs MD	25.0	49.2	9¾	+⅛
19¾	14¾	ProvidentBshs MD	12.7	123.0	19¾	+⅛
52¼	42¾	RepublicNY Corp NY	3.67	135.6	49	
19¾	14¾	RepublicBcshs TX	6.5	61.3	15¾	
32¾	20	RiverForest IL	12.8	291.6	27¾	+⅛
29¾	25¾	RockvilleFncl CT	11.9	227.4	25¾	+⅛
23¾	17¾	SecurityBancorp AR	8.4	146.4	18¾	+⅛
19¾	14¾	SecurityPacific CA	5.9	101.9	17¾	+⅛
32¾	24	SeiwaNatlCorp MO	NM	64.3	12¼	
19¾	12¾	SeiwaNatlCorp MO	5.2	80.0	23	
38¾	28¾	SocietyCorp OH	7.0	113.8	32¾	
19¾	14¾	SouthTrustBancGrp	6.8	93.0	20¾	+⅛
29	9¾	SouthwestBCorp FL	NM	43.7	9¾	+¼
19¾	14¾	SouthwestBcshs TX	9.3	128.8	31¼	+⅛
25¾	18¾	SouthWestCorp AL	6.9	93.3	17¾	+⅛
47¾	37¾	SovranFncCorp VA	8.6	102.0	38¾	+⅛
26¾	18¾	Star Banc Corp OH	10.0	134.4	22	
30¾	24¾	StateStBcshsCorp MI	14.3	348.9	40¾	+¼
20¾	7	StatewideBancsCA	NM	49.6	7¼	+¼
11.6	8.4	SterlingBancsCA	11.6	84.6	10¾	+⅛
25	6¾	SunbeltBancCorp CA	6.5	98.8	28¾	
25¾	19¾	SunwestBk AZ	8.1	92.7	19¾	+⅛
21¾	14¾	SunwestBancsAZ	7.0	107.0	14¾	
20	14¾	SunwestFncSvcs CA	7.6	119.9	20¾	+⅛
30¾	14¾	SunwestTrcBcs NM	7.9	65.3	15	+¼
19¾	14¾	SusquehannaBcshs PA	7.9	103.1	18¾	+⅛
19¾	14¾	SynovusFncCorp GA	17.4	288.0	17¾	
19¾	14¾	SynovusFncCorp GA	10.0	138.5	18¾	+⅛
33¾	25¾	TrustCoBancGrp KY	9.1	181.3	29¾	-⅛
19¾	14¾	TrustCoBancGrp KY	8.3	149.0	35	+⅛
24	18¾	TrustmarkCorp MS	6.6	78.2	18¾	
19¾	14¾	UJB Financial NJ	7.7	127.7	18¾	+⅛
43	33¼	U.S.TrustCorp NY	12.4	192.4	37	
19¾	14¾	UnionBancorp IN	8.7	116.3	18¾	+⅛
19¾	14¾	UST Corp MA	5.5	93.0	11¾	+⅛
19¾	14¾	UnitedBancorp MI	8.3	118.5	18¾	+⅛
19¾	7¾	UnionPlanters TN	NM	67.5	8¼	+⅛

TOP 25 THRIFTS (4 PM PRICES)

52 Wk. Hi	52 Wk. Lo	Name	PE	Mkt. Bid	Chg.	Chg.
24¾	16¼	AmsouthCA	9.4	96.8	23¾	
19¾	14¾	BayviewFncCorp NY	8.2	18.5	18¾	+⅛
28¾	15	CenFedFncl CA	12.3	79.2	28¾	
19¾	14¾	CoastSavBcp CA	13.3	75.3	18¾	+⅛
19¾	14¾	CrestFedBcp CA	8.1	18.5	18¾	+⅛
17¾	6¾	DonaldsonBk NY	NM	22.0	6¾	
19¾	14¾	FedNatMtgAssn DC	49.7	18.5	18¾	+⅛
37¾	23¾	FirstFedAmerica MI	10.7	126.1	37¼	
19¾	14¾	FirstFedFncCorp CA	8.1	18.5	18¾	+⅛
21¾	12	FirstFedMichigan MI	7.0	38.9	14¾	
19¾	14¾	FirstMDFncl CA	8.1	18.5	18¾	+⅛
34¾	22¾	GoldenWestFn CA	11.3	175.0	30¾	-⅛
19¾	14¾	GoldenWestFn CA	19.8	175.0	18¾	+⅛
14¾	11¾	GtAmericanBcshs CA	NM	20.1	13¾	+¼
19¾	14¾	HomeFedBcp CA	8.1	18.5	18¾	+⅛
21¾	13¾	HomeSvgBcshs KY	13.6	96.5	19¾	+⅛
19¾	14¾	HomeSvgBcshs KY	8.1	18.5	18¾	+⅛
10¼	6	People's BankCT	8.5	41.5	6¼	
19¾	14¾	PeoplesHomeSvgMI	9.9	18.5	18¾	+⅛
23	9¼	SocietyForSvgsCT	2.7	42.2	9¼	
19¾	14¾	SoFedBancorp IL	7.2	80.0	23	
12¾	7¼	StandardFedBk MI	6.3	59.9	8¾	
19¾	14¾	StandardFedBcp MD	8.1	18.5	18¾	+⅛
31¾	23¾	WashingtonFedSA MI	10.3	206.5	28¾	
19¾	14¾	WestcornCA	15.5	105.8	19¾	+⅛

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding. (As of March 30, 1990, the market value cutoff point for banks was $60.6 mil. and for thrifts $121.45 mil.) 52 Wk Hi: Lo the moving high and low prices for the stock. PE: the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share. Mkt. Bid: the latest quoted price bid for the stock; the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Both values are adjusted for announced earnings and dividends. Chg.: The price at which the stock closed on the previous day. Chg.: The change in the Mkt. Bid and Thrift Indices: A weighted average of the top 250 banks and 50 thrifts, respectively, in terms of market capitalization. Indexed to 1/3/89=100. NA: not available. NM: not meaningful. ... and indicators most shares traded and today's volume as a percentage of average daily volume for the past 65 days.

Data source: **SNL SECURITIES**, Charlottesville, VA 804/977-1600; produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

New Bank and Thrift Securities

Most recent offerings

Issuer	Offer Amount	Offer Date	Offer Price	Other Terms	Maturity
Midatlantic National Bank Current Ratings A Aaa	6/22/90	$250.0	ABC	100.00	Floats 6/15/20
World Savings & Loan Merrill Lynch Capital Markets	6/25/90	$100.0	SN	99-44	9.99 7/01/00
Bank Amerindo Salomon Brother	6/26/90	$100.0	SN	99-28	9.87 7/01/00
Republic New York Goldman, Sachs	6/27/90	$100.0	SN	99-68	9.55 7/01/00

Most recent SEC Filings

Issuer	Filing Date	Amount Sec.	Sec. Type	Stock Market
Pioneer Federal Bancorp	5/04/90	22.0	COM	Sheerson Lehman Hutton
Evergreen Bancorp	4/03/90	10.0	SD	Ryan - Beck
Financial Bancshares	6/27/90	2.0	COM	Keefe, Bruyette & Woods
IPED Financial	3/19/90	14.0	COM	Blunt, Ellis & Loewi

Type: Filings, type of security issued. COM: common stock; and CNV: convertible debentures and preferred shares. Comment: current prices or yields are shown in parentheses. Current source: yield is provided by the manager. Data source: Standard and Poor's CreditWeek, Inc. — SM - subordinated debt. Data Source: *Securities Data Company, Newark, N.J. (201) 622-3103*

Key Rates

	6/29	6/28	(June 29,1990)
Federal Funds-domestic range:	8¼-⅜%	8¼-⅜%	8¼-⅜%
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Prime Rate - Others	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Deposit	7.70	7.70	7.70
6 Month Posted	7.95	8.00	8.00
1 Year Posted	8.00	8.10	8.15
Eurodollar deposits*			
3 Month	8¼	8⅛	8⅛
6 Month	8⅛	8¼	8¼
1 Year	8⅛	8⅛	8⅛
LIBOR*			
3 Month	8¼	8⅜	8⅜
6 Month	8⅜	8⅜	8⅜
1 Year	8¼	8⅛	8¼

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (†)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

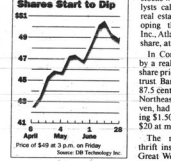
Program's End Saps Strength at First of America

By GORDON MATTHEWS

NEW YORK — The end of a large share repurchase program has taken the steam out of First of America Bank Corp., a mid-western superregional banking company whose stock had been outperforming those of many other banks.

The situation demonstrates how thin the stock market support currently is for even well-regarded bank stocks. "There are no buyers in general right now and no mercy if there's bad news," said Anthony J. Polini, banking industry analyst for A.G. Edwards & Sons Inc., St. Louis.

Bye-Bye Buyback: First of America Shares Start to Dip



Price of $49 at 3 p.m. on Friday
Source: DB Technology Inc.

The Kalamazoo, Mich.-based banking company bought back 1 million of its shares from mid-April through early May. Its stock was further helped by the May rally in bank equities.

Relatively Strong Showing

Two weeks ago, its stock was 10% ahead of its yearend level. It has since lost considerable altitude but still can boast one of the strongest performances of the year within the industry.

Friday, First of America shares traded at $49, or 4.25% above their price of $47 last Dec. 29. By comparison, most major bank and thrift stocks are currently at least 10% below their yearend levels.

"With the repurchase program over, the stock now looks overbought versus the group," said Mr. Polini of A.G. Edwards.

First of America is a $10 billion-asset banking company that has built a statewide franchise in Michigan and also expanded into Indiana and Illinois. It has the largest banking presence in Illinois outside Chicago.

Covering a Share Redemption

The company approved the buyback plan to cover its redemption of preferred stock that converted into 800,000 shares of common stock. The repurchase will increase earnings per share by 10 cents in 1990.

First of America has been attractive to investors because of its good asset quality and community banking orientation, but its target of 11% annual growth in earnings per share has been discounted by the market as unreachable, said Henry C. Dickson, a bank analyst for McDonald & Co. Securities Inc., Cleveland. "Based on our 1990 estimate, the five-year compound growth rate will be 7.1% on originally reported earnings per share," he said.

Recently, First of America has reported earnings on the low side of analysts' forecasts.

* * *

FRIDAY'S MARKET

Major bank stocks mostly slipped in modest trading as investors awaited second-quarter earnings reports. An exception was Wells Fargo & Co., which gained sharply in heavy trading.

Shares of the San Francisco banking company shot up $3, to $79.25, during the afternoon on unconfirmed rumors that corporate raider Warren Buffet had bought a large stake.

Most southeastern bank stocks were weaker on what analysts called investor fears that real estate problems are developing there. SunTrust Banks Inc., Atlanta, was off 62.5 cents a share, at $20.25.

In Connecticut, already hurt by a real estate recession, bank share prices eroded Friday. Citytrust Bancorp., Bridgeport, fell 87.5 cents a share, to $4.75, and Northeast Bancorp, New Haven, had a volatile day, first falling $1.50 and then rising $1, to $20 at midafternoon.

The nation's three largest thrift institutions posted gains. Great Western Financial Corp., Beverly Hills, Calif., gained 25 cents a share, to $18.375, and H.F. Ahmanson & Co., Los Angeles, gained 25 cents, to $20.375. Analysts said the moves were probably related to a front page feature in the *Wall Street Journal* on the penurious management of Golden West Financial Corp., Oakland, Calif., whose shares rose $7.5 cents, to $30.375. □

CAPITAL

Sumitomo Set to Tap Yankee Debt Market

Continued from *page 1*

have had to resort to equity issuance, either through common stock offerings or sales of warrants attached to bonds, to raise capital. That system worked fine until the Japanese stock market showed weakness earlier this year.

Since then, Japanese banks have found investors unreceptive to new equity issues. The banks have also suffered a loss in value of their equity- and real-estate-based hidden reserves. At the end of March, Japanese bank capital ratios were below those of many large American banks.

Recognizing the problem, the Ministry of Finance ruled in June that Japanese banks could raise regulatory capital by issuing subordinated loans. It did not authorize issuance of public subordinated bonds, but it did reserve the right to rule on specific proposals for subordinated debt issuance and left open the possibility that public bond issues would be allowed.

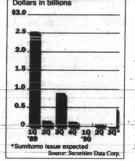
Others May Follow

The upcoming issue by Sumitomo is the result of one such specific ruling, sources said, suggesting that other Japanese banks could receive similar authorization and follow Sumitomo into the subordinated debt market.

In an announcement, Sumitomo said it aimed to strengthen its capital-to-assets ratio to 8.84%, compared with 8.44% at the end of the 1989 fiscal year. This takes it well over the 8% minimum imposed under the guidelines established by the Bank for International Settlements.

Sumitomo is already more strongly capitalized than several of its counterparts, according to data from Thomson Bank-Watch. Sumitomo's equity-to-assets ratio of 5.1% at the end of March is well ahead of the average of about 2.7% for Japan's largest banks.

Is Yankee Issuance On the Rebound?
Dollars in billions



Source: Securities Data Corp.

"The question is, how much will these banks be using up the capacity for U.S. bank debt?" said Matthew J. Grayson, a vice president at Salomon Brothers Inc.

Supply of Yankee Bonds Is Low

The Ministry of Finance ruling comes at a time when the supply of Yankee bonds is low. Commercial banks have been staying away from the Yankee market this year after issuing billions of dollars of notes and bonds in 1989.

"In the past, Yankees offered the best spread over Libor," said Andrew J. Cooley, a managing director at Merrill Lynch Capital Markets, speaking earlier this month. But in 1990, American investors have become so wary of bank securities that issuance in the United States is no longer as desirable.

In addition, swap rates have been low, so banks hoping to swap fixed-rate interest payments for floating-rate payments have been faced with the prospect of floating rates at high spreads over the London interbank offered rate.

As a result, no banks came to market in the first quarter of this year, according to information provided by Securities Data Corp. And so far in the second quarter, issuance has remained under $100 million. The Sumitomo issue is widely believed to be equal in size to the largest subordinated issue ever in the Yankee market.

Price talk on the offering is for a yield of 95 to 100 basis points over 10-year Treasuries. But capital markets specialists said a more appropriate yield would be 110 to 115 basis points over. The most recent comparable deal for a U.S. banking company was an offering by Republic New York Corp. priced at 105 basis points over Treasuries.

With swap rates as low as they are, Sumitomo would only be able to swap into floating-rate payments at about 45 basis points over Libor if it were to swap the fixed-rate payments it will make on the upcoming issue.

That is expensive financing for a bank with double-A ratings. But it is probably less expensive than issuing subordinated loans to Japanese insurance companies, currently the only other way Japanese banks can obtain subordinated capital.

Because the issue is being marketed in the United States, Sumitomo has to provide some disclosure. But the securities are being issued at the bank level, so Sumitomo is able to take advantage of a loophole in American securities law and provide little more information than it would for a deposit note issue.

John Evans in London contributed to this report.

* * *

MARKET MONITOR

American Savings Bank in White Plains, N.Y., has omitted the quarterly dividend on its convertible preferred stock, citing a difficult regulatory environment and uncertainties in the real estate market. □

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SEMINAR 1

INNOVATIVE CUSTOMER SERVICE AND SALES TECHNIQUES FOR THE NINETIES

July 16, 1990 • The Vista Hotel • New York City
September 10, 1990 • The Vista Hotel • New York City
September 17, 1990 • Century Plaza Hotel • Los Angeles

As the banking environment becomes more competetive, industry leaders view improved customer service as a sollution to retaining market share. But how can your bank achieve such improved service? And as importantly, can quality service be translated into sales? The seminar will address the pressing need for improved customer service and how to implement a service program in your bank. It will also focus on the next step... profiting from quality service through innovative sales techniques, state-of-the-art technology and sales incentives. The industry leaders will address the issue of the nineties...achieving competitive advantage by making your company customer and sales-oriented.

9:00 KEYNOTE SPEECH: EFFECTIVE CUSTOMER SERVICE...THE KEY TO PROFITIBILITY IN THE 90'S
- Profiting from customer service in an age of transition...
- A banker's perspective on past successes and failures... and innovations for the future
- A case study in improving service and sales

Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Joan Miszak, *Senior Vice President,* California Federal Bank (LA)

9:45 TURNING SERVICE INTO SALES...ACHIEVING BOTTOM LINE RESULTS FROM QUALITY SERVICE AND SALES TECHNIQUES
- Creating a competitive advantage through customer service
- Improving service...and controlling costs

John A. Goodman, *President,* Techn. Assistance Research Program (NY)
John A. Goodman, *President,* TARP (NY)
Marty Wikoff, *President,* Management Performance Systems (LA)
- The need for effective salesmanship
- Sales techniques for the 90's

Dr. Nancy O'brien, *Marketing Consultant.* Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Shirly Ward, *Vice President,* Bank of America (LA)

10:45 CREATING A SALES CULTURE...A STEP BY STEP APPROACH
- How to implement your new strategy through out the corporation
- How to build a corporate culture based on customer service
- Defining and targeting your customer

Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (LA)

11:30 COFFEE BREAK

11:45 ACHIEVING A TECHNOLOGICAL ADVANTAGE...THE ROLE OF TECHNOLOGY IN IMPROVING CUSTOMER SERVICE AND SALES
- Using innovative technology to cross-sell
- How to implement state-of-the art systems to improve service and increase sales

Dr. Michael Harden, *Sales Manager,* Citicorp Information Resources (NY)
Frank Martire, *Chairman,* Citicorp Information Resources (NY)
Charles J. Buchta, *Executive Vice President,* First Interstate Bank (LA)

12:30 HOW TO REMOVE MIDDLE-MEN FROM THE BANKING TRANSACTION...FROM THE BOARDROOM TO THE MAILROOM
- Skills to implement to reduce costs while improving quality of service
- Removing obstacles to the sale

Nicholas Papanikolaw, *Vice President,* Manufacturers Hanover (NY, NY, LA)
John J. Campi, *Managing Director,* Chatham Consulting Group (NY, NY, LA)

1:00 LUNCH WORKSHOP OPPORTUNITIES FOR THE 90'S IN RETAIL AND WHOLESALE BANKING...HOW TO IMPROVE PROFITIBILITY THROUGH SALES AND SERVICE
- Innovative techniques and training methods... a roundtable discussion

Chairperson:
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Pamela O'Shea, *Vice President,* City National Bank (LA)

2:45 THE AMERICAN EXPRESS EXAMPLE...A CUSTOMER SERVICE SUCCESS
- A case study in implementing quality service
- Lessons for banks and thrifts

Laura Gross, *Director,* American Express (NY)
Laura Grieve, *Vice President,* American Express (NY)
Dennis Stevens, *Vice President,* American Express (LA)

3:30 A CASE STUDY IN IMPROVING SALES...THE CHASE TRAINING PROGRAM
- Teaching selling skills
- How to implement a training program

Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (LA)

4:15 THE KEY TO IMPROVING SALES...MEASURING YOUR CUSTOMER SERVICE
- Judging the quality of service at your bank
- Learning from the leaders...what techniques do the leading bank use to measure service
- How to determine your bank's effectiveness

Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Douglas Smith, *Managing Director,* BEI Golembe (LA)

5:00 THE ROLE OF SALES INCENTIVES...WHAT WORKS AND WHAT DOESN'T
- How to use worker compensation to increase sales
- Improving service without increasing costs

William Casey, *Principal,* Paris, Casey Inc. (NY)
William Casey, *Principal,* Paris, Casey Inc. (NY)
Matt Walgon, *Senior Consultant,* Sibson and Co. (LA)

6:00 END OF SEMINAR

SEMINAR 2

THE NUTS & BOLTS OF COMMERCIAL LENDING & LOAN PRICING

July 17, 1990 • The Vista Hotel • New York City
September 11, 1990 • The Vista Hotel • New York City
September 18, 1990 • Century Plaza Hotel • Los Angeles

The battle for commercial loan profitability promises trying times for large corporate and middle market lenders. Over the past two decades, the risk in banks lending portfolios has steadily increased. This is not a function of uncontrolled risk-taking, but rather of the banks' necessary response to the need to find assets which will provide acceptable levels of risk-adjusted return. The events of the past few years have shown that many banks have, however, been unable to effectively control the level of risk that they have taken. Unacceptably high levels of loss have taken place in many banks due to a combioation of poor pricing, excessive concentration and the failure to understand the level of risk in a specific loan. Furthermore, new competitors are entering the marketplace scrambling for territory and sparking intense new battles for turf. This seminar reviews how leading-edge banks are beginning to develop new sets of techniques that will give them a competitive edge in the marketplace for controlling their level of loss, and achieving low-risk diversified portfolios.

8:45 CHAIRMAN'S OPENING REMARKS
William T. Gregor, *Partner,* The MAC Group (NY,LA)

RE-ENGINEERING FROM A CUSTOMER POINT OF VIEW

9:00 KEYNOTE ADDRESS: WHAT RECIPE SHOULD YOU USE TO TURN AROUND YOUR COMMERCIAL LENDING BUSINESS?...A CONSULTANT'S & A BANKER'S VIEWPOINT
William T. Gregor, *Partner,* The MAC Group (NY,LA)
Peter Offermann, *Managing Director,* Bankers Trust (NY)

9:45 CUSTOMER PROFITABILITY & OPPORTUNITIES FOR REFOCUSING ON THE PROFITABLE BUSINESS...NATIONAL WESTMINISTER'S & SECURITY PACIFIC'S MIDDLE MARKET STRATEGY
Vijay C. Pegat, *Principle,* Booz Allen & Hamilton (NY,LA)
Edward A. McNally, *Senior V.P.,* National Westminister, USA (NY,LA)
Frank Abraham, *Chief Credit Officer,* Security Pacific National Bank (LA)

11:00 COFFEE BREAK

11:15 PRESTO CHANGO...CONVERTING UNPROFITABLE CUSTOMERS INTO PROFITBLE ONES...USING THE EMERGING SECONDARY MARKET TO YOUR ADVANTAGE
- Where Will The Secondary Market Work & For What Kind Of Loans?
- How Will The Secondary Market Affect Your Ability To Price?
- Secondary Markets & Loan Sales...What Are The Elements Necessary For Success?

David E. Fisher, *Vice President,* Loan Pricing Corp. (NY,LA)

12:15 LUNCH BREAK

RE-ENGINEERING THE PRICING PROCESS

1:30 ARE YOU GETTING THE BANG FOR YOUR BUCK?...DEVELOPING A TARGETED PRICING STRATEGY TO ADEQUATELY PRICE FOR RISK
- What Are The Key Components Of Pricing?
- What Prices Are Banks Actually Getting On Commercial Loans?
- How To Set Strategic Pricing Goals For Your Portfolio
- Do Banks Price Adequately For Risk?

Christopher L. Snyder, *President,* Loan Pricing Corp. (NY,LA)

2:15 A CREDIT BASED APPROACH TO ALIGNING RISK & RETURN IN A C&I LOAN PORTFOLIO
- How To Analyze The Relationship Between Credit Risk & Pricing
- Testing The Adequacy Of The Existing Credit Risk Assessment System
- Refining The Existing Credit Risk System To Serve As A Basis For Commercial Loan Pricing Scenarios

Constance Kenneally, *Partner,* Zeta Services Inc. (NY,LA)

3:00 COFFEE BREAK

RE-ENGINEERING THE CREDIT PROCESS

3:15 EMERGING NEW TECHNIQUES FOR CONTROLING LOSSES & MANAGING THE PORTFOLIO
- Buttoned-up Credit Procedures...Ensuring Repayment After The Loan Is Made
- Pricing To Recapture Expected Losses
- Diversification As A Tool In Portfolio Management
- Giving You Room...Loans A Workout...Security Pacific's Workout & Recovery Strategy

Jonathan P. Moynihan, *Managing VP,* First Manhattan Consulting Group (NY,LA)
Gary J. Coelho, *First VP,* Security Pacific National Bank (LA)

4:00 ARE BANKS LENDING TO LBO's TO CHEAPLY?...THE FUTURE OF HIGHLY LEVERAGED TRANSACTIONS
Mark G. Sobel, *Managing Director,* Manufacturers Hanover Trust (NY)
Hugh T. Kemper, *Managing Director,* Morgan Guaranty (NY)
Leland S. Prussia, *Vice Chairman,* Capitalcorp., Inc. (LA)

4:45 COMMERCIAL LOAN SECURITIZATION...A STEP BY STEP APPROACH TO SECURITIZING PERFORMING LOANS
Marshall V. Davidson, *Managing Director,* Kidder Peabody (NY,LA)
Robert M. Okabe, *Vice President,* Kidder Peabody (NY,LA)
Clifford Griep, *Managing Director,* Standard & Poors (NY,LA)

5:30 END OF SEMINAR

SEMINAR 3

EFFECTIVE COST MANAGEMENT

July 18, 1990 • The Vista Hotel • New York City
September 12, 1990 • The Vista Hotel • New York City
September 19, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Patrick J. Leenputte, *Partner,* Price Waterhouse (NY; LA)

9:15 ACHIEVING COMPETITIVE ADVANTAGE THROUGH COST LEADERSHIP
The 1990's showed that cost leadership is a critical success element in all restructured industries. As the pace of restructuring in banking accelerates, winners will emerge based on competitive cost position and related strategic focus. Global finance will come to be dominated by firms obsessed with the twin pursuits of profitability and productivity.
This session concentrates on managing the key noninterest cost drivers of bank performance: 1) business scope and geographic reach, 2) size of workforce and compensation practices, 3) technology spending and investment, and 4) corporate real estate portfolio management.
Charles H. Hobbs, *Senior VP,* Bankers Trust Company (NY)
Charles H. Hobbs, *Senior VP,* Bankers Trust Company (NY)
Eleni Istavridis, *Senior VP,* Bankers Trust Company (LA)

10:00 KEYS TO WINNING THE PRODUCTIVITY RACE
If superior expense control is essential to surviving the merger decade, then how is it accomplished?
This session addresses three key issues for banks concerned about expense control: 1) How good is the bank now and where is the potential for greater frustration? Analysis based on business mix can identify bloated budgets and problem areas; 2) What kind of programs work to bring expenses under control? Experience shows what are the do's and dont's of crafting a program to reduce staff areas, lines of business, branches, operations and systems; 3) What does it take to stay on top? A "coherent organization" and quantitative performance measures can be keys to sustaining a cost effective culture.
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (LA)

11:00 STORIES FROM THE FRONT: HOW MELLON BANK'S COST CONTROLS HAVE LED TO NEW BUSINESS OPPORTUNITIES AND LOWER EXPENSES
Mellon Bank has experienced a great deal of cost cutting in the past decade. Mellon's expertise in this area has shown that you can actually turn a cost center into a profit with the appropriate resources and strategy.
In this session, you will learn how Mellon effectively downsized into a better performing bank. This dedication to cost leadership has helped Mellon develop it's technologies and data processing to the point where these strengths have led to new business opportunities.
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (LA)

12:00 LUNCH BREAK

1:15 *HOW TECHNOLOGY CAN HELP YOUR BANK CUT COSTS WHILE IMPROVING PERFORMANCE*
Commercial banks and financial institutions are wholeheartedly embracing information technology (IT) as a way to achieve competitive advantage. But, while bank IT costs have skyrocketed, banks are cautious to crow about their success. Instead, they suffer from exponential growth in computer spending with almost no impact on their bottom line or market share.
In this session, you will learn how to begin to think about, structure and approach the IT problem in your organization. Learn what technology can do to help control costs and what it cannot do. Analyze how to cut the rising costs of your own IT infrastructure. Most important, begin to understand how you can approach IT complexity without being overwhelmed.
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)

2:15 ELIMINATING EXPENSE THROUGH ACQUISITIONS
If banks merge to achieve economies of scale then why do most mergers fail to meet their expectations? As bank mergers continue to increase, minimizing costs during the integration process has become essential.
While banks of different sizes and market niches will have different merger goals, there is a proper rationale to mergers that will minimize the consolidation process. This session will look at past mergers to critique successful mergers as well as failures. In particular, where can the economies be achieved?... in back office operations/overhead, retail or wholesale operations; data processing and technology or duplication of staff responsibilities. This session provides a framework to minimize the costs of the merger.
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
James Bemowski, *Principal,* McKinsey & Co. (LA)

3:15 MONITORING THE DOWNSIZING EFFORT THROUGH EFFECTIVE HUMAN RESOURCES MANAGEMENT
- How to retain top performers and employee commitment
- What to cut?...What to keep?...How to do it?

Peter J. Doris, *Senior VP, Right Associates (NY)*
Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (LA)

4:15 MEASURING THE IMPACT OF COST ON PROFIT PERFORMANCE AND SHAREHOLDER VALUE...THE ANALYST'S PERSPECTIVE
How does a bank's cost performance effect stock price? In this session, learn how analysts objectively view cost cutting practices and how profit performance is related to effective expense practices and how it effects stock price. What banks have made the right moves and what strategies were responsible for improved profit performance.
Gary Gordon, *Vice President,* PaineWebber (NY)
Gary Gordon, *Vice President,* PaineWebber (NY)
Michael Conover, *President,* Ryan Beck & Co. Pacific (LA)

5:00 END OF SEMINAR

SEMINAR 4

BANK AND CROSS-INDUSTRY ACQUISITIONS OF THRIFT INSTITUTIONS & SHOULD THRIFTS BE CONVERTING TO BANKS?

July 19, 1990 • The Vista Hotel • New York City
September 13, 1990 • The Vista Hotel • New York City
September 20, 1990 • The Century Plaza Hotel • Los Angeles
September 25, 1990 • The Ritz Carlton • Atlanta
October 9, 1990 • The Ritz Carlton • Chicago

FIRREA has opened the doors to bank acquisitions of thrift institutions and thrift institution conversions to banks. However, it is not altogether clear what this new regulatory flexibility means and whether banks and thrifts should take advantage of these new options. This one day intensive program for bank, thrift, and other business executives, attorneys and consultants focuses on the mechanics and regulatory procedures involved in bank and non-bank acquisitions of thrifts, as well as how and whether thrifts should convert to banks.

9:15 CHAIRMAN'S OPENING REMARKS
Eric Luse, *Partner,* Brownstein Zeidman and Schomer

9:30 SHOULD A THRIFT CONVERT TO A BANK?
- What Are The Advantages And Disadvantages
- A Review Of The Bank And Thrift Charters

Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,LA,CH)
Trent Feldman, *Partner,* Kaplan Smith & Associates (AT,LA)
Edward T. Lutz, *Principal,* Lyons Zombeck & Ostrowski (NY,CH)

10:00 REGULATORY HURDLES AND CONSIDERATIONS INVOLVED IN CONVERTING A THRIFT TO A BANK...HOW CAN IT BE DONE & WHAT IS PERMISSIBLE?
V. Gerard Comizio, *Director, Corporate and Securities Division,* Office of Thrift Supervision (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Vernon E. Fasbender, *Director for Analysis,* Comptroller of the Currency (Southeastern District) (AT)
Roy Stovall, *Director for Analysis,* Comptroller of the Currency (Northeastern District) (NY)
Donelle Ward, *Director for Analysis,* Comptroller of the Currency (Central District) (CH)
Daniel Pearson, *Director for Bank Supervision & Analysis,* Comptroller of the Currency (Western District) (LA)

10:45 COFFEE BREAK

11:00 CONVERTING A SAVINGS ASSOCIATION TO A BANK...A CASE STUDY
Samuel J. Malizia, *Partner,* Brownstein Zeidman & Schomer (NY,CH)
James S. Fleischer, *Partner,* Silver Freedman & Taff (LA)
Richard Friedman, *Partner,* Silver Freedman & Taff (AT)

11:30 WHY SHOULD A BANK OR NON-BANK ACQUIRE A THRIFT...A STEP BY STEP REVIEW
- What Are The Economic Advantages And Disadvantages?
- Market/Geographic Expansion And Pricing Considerations

Christopher Guskenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
T. Stephen Johnson, *President,* T. Stephen Johnson & Associates (AT)
John Mingo, *Principal,* BEI Golembe Inc. (NY,CH)
Richard Reibman, *Managing Director,* Dean Witter Reynolds, Inc. (NY,LA)

12:00 EVALUATING A THRIFT ACQUISITION...AN ACQUIRER'S PERSPECTIVE
- Regulatory, Operational & Financial Differences With Banks

Christopher Guskenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
Addison Levi, *Senior Vice President,* Dean Witter Reynolds, Inc. (LA,CH)
Kenneth Reibman, *Managing Director,* PaineWebber, Inc. (NY,AT)

12:30 LUNCH BREAK

2:00 A REVIEW OF THE REGULATORY PARAMETERS & ROADBLOCKS TO BANK ACQUISITIONS OF THRIFTS
- Interstate/Intrastate Banking Issues
- Obstacles Or State Branching Laws & How To Circumvent Them
- Healthy Thrift vs. Failing Thrift Acquisitions

V. Gerard Comizio, *Director Corporate & Securities Division,* OTS (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
John Shockey, *Partner,* Milbank Tweed Hadley & McCoy (NY,AT)
John Buchman, *Assistant Deputy Director,* OTS (NY,AT,LA,CH)

3:00 COFFEE BREAK

3:15 WHAT ARE THE STRUCTURAL OPTIONS AND CONSIDERATIONS WHEN ACQUIRING A THRIFT?
- How Should The Resulting Or Target Institution Be Chartered And Insured?
- Holding Company vs. Direct Acquisitions

Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Peter Bochner, *Partner,* Arnold & Porter (AT,LA)
William J.~Sweet, *Partner,* Skadden Arps Slate Meagher & Flom (NY,LA)

4:15 A BANK ACQUISITION OF A THRIFT...A CASE STUDY
Donald Kaplan, *Managing Director,* Kaplan Smith & Associates (NY,LA,CH)
William Moore, *President,* Trident Financial Corporation (NY,AT)

4:45 TAX AND ACCOUNTING CONSIDERATIONS
- Recapture Of Bad Debt Reserve
- Pooling vs. Purchase
- Use Of Net Operating Loss Carryovers

Roger Teurls, *Partner,* KPMG Peat Marwick (NY)
James L. Spreng, *Partner,* KPMG Peat Marwick (NY)
Douglas McEachern, *Partner,* Deloitte & Touche (LA)
Vincent Lanuza, *Partner,* KPMG Peat Marwick (CH)
Gerald F. Hunter, *Partner,* KPMG Peat Marwick (AT)

5:30 END OF SEMINAR

SEMINAR 5

ASSET/LIABILITY MANAGEMENT

July 20, 1990 • The Vista Hotel • New York City
September 14, 1990 • The Vista Hotel • New York City
September 21, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker

9:15 INTEREST RATE RISK MANAGEMENT
The management of interest rate risk is fundamental to sound banking practice. Banks can experience earnings, liquidity, and capital adequacy problems, if management is poorly run.
This session will deal with a number of fundamental rules in managing interest rate risk as well as develop an integrated risk management project. You will understand how risk is measured, as well as, what tools are used to measure risk. Learn how to incorporate these tools to increase bank profitability.
Ronald D. Reading, *Vice President,* First Manhattan Consulting Group

10:30 COFFEE BREAK FOR SPEAKERS AND GUESTS

10:45 LIQUIDITY
This session learn to understand what liquidity is. Where you can get it. How much it costs, and how much it is worth. Finally, learn to understand how to measure and manage liquidity.
Peter G. Mantilla, *Vice President,* Bank of New York (NY)
Richard Laiderman, *Vice President,* Bank of America (LA)

11:45 THE USES OF DURATION IN ASSET LIABILITY MANAGEMENT
Technological and analytical developments in the 1990's will significantly enhance the ability to deal with risk. The methodology, tools, and implementation approach provide a more rigorous assessment of market risk.
The specific focus will be to contrast the duration approach with a new approach called risk measurement unit approach. The risk measurement unit approach captures both volatility and non-parallel shifts in the yield curve.
Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker
Robert M. Mark, *Managing Director,* Manufacturers Hanover Trust

12:30 LUNCH BREAK FOR SPEAKERS AND GUESTS

1:30 OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE NEW EXAMINATION GUIDELINES
"The OCC has alerted all bankers that they must prudently manage, measure and limit risk, and that enough capital be available to support exposure to such risk."
This session will discuss the OCC's policy on interest rate risk and how active the Office of Thrift Supervision is. The different topics which will be discussed include: risk matrix, gap reports, simulation, and duration.
Jennifer Johnson, *Developer and Administrator,* OCC

2:30 SECURITIZATION...WHEN AND HOW TO USE IT.
- Being able to securitize your own product
- Opening a secondary market
- The 144 Rule with regards to Private Placement

To Be Announced

3:30 LOWER COST OF MARKET AND THE INVESTMENT PORTFOLIO
1990 will be a year when your accounting department must be able to deal effectively with the new AICPA requirements on accounting for debt securities held as assets. A new standard expected to be issued by the AICPA with the support of the SEC and the FASB will require market value determination. The new standard will require allocating security investments among investment portfolio, held for sale, and trading account.
This session will help you understand the new requirements and the techniques required to successfully implement them.
Raymond Perry, *Partner,* Deloitte & Touche

4:30 ASSET LIABILITY MANAGEMENT INTO THE 1990'S.
This session will outline recent advances in the 1) measuring of embedded option risks, 2) measuring volatility risk exposure, 3) measureing index and credit spread risks, 4) integrating value decisions into the management process, 5) integrating risk-based capital guidelines into the risk management process.
Alden Toevs, *Principal,* Morgan Stanley & Co.

5:30 END OF SEMINAR

BANK PROFITABILITY REGISTRATION FORM

Please indicate which seminar(s) you would like to attend — (Please mail back entire form)

	SUMMER SESSION New York City The Vista Hotel Monday, July 16, 1990 — Friday, July 20, 1990	FALL SESSION I New York City The Vista Hotel Monday, Sept. 10, 1990 — Friday, Sept. 14, 1990	FALL SESSION II Los Angeles The Century Plaza Hotel Monday, Sept. 17, 1990 — Friday, Sept. 21, 1990
Day 1 **Innovative Customer Service and Sales Techniques for the Nineties**	☐ Monday, July 16	☐ Monday, Sept. 10	☐ Monday, Sept. 17
Day 2 **The Nuts and Bolts of Commercial Lending and Loan Pricing**	☐ Tuesday, July 17	☐ Tuesday, Sept. 11	☐ Tuesday, Sept. 18
Day 3 **Effective Strategies for Cost Management and Expense Control**	☐ Wednesday, July 18	☐ Wednesday, Sept. 12	☐ Wednesday, Sept. 19
Day 4 **Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks ***	☐ Thursday, July 19	☐ Thursday, Sept. 13	☐ Thursday, Sept. 20
Day 5 **Asset/Liability Management**	☐ Friday, July 20	☐ Friday, Sept. 14	☐ Friday, Sept. 21

* The day 4 conference "Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks," will also be offered in:

☐ **Atlanta**, The Ritz Carlton, Tuesday, Sept. 25
☐ **Chicago**, The Ritz Carlton, Tuesday, Oct. 9

GENERAL INFORMATION

TO REGISTER: Simply phone the registrar at (212) 943-2221 or complete the registration form and mail it with the fee to: **Director of Conferences, American Banker • Bond Buyer, One State Street Plaza, 31st Floor, New York, NY 10004**

EARLY REGISTRATION IS RECOMMENDED: Please make checks payable to American Banker Conferences. Visa, Mastercard and American Express are acceptable.

TWO LOCATIONS:
NEW YORK, NY: ***Summer Session*** — Monday, July 16, 1990 - Friday, July 20, 1990 & ***Fall Session*** — Monday, September 10, 1990 - Friday, September 14, 1990, The Vista International Hotel, 3 World Trade Center, New York, NY 10048. Telephone (212) 938-9100.

LOS ANGELES, CA: ***Fall Session*** — Monday, September 17, 1990 - Friday, September 21, 1990, Century Plaza Hotel, 2025 Avenue of the Stars, Century City, Los Angeles, CA 90067. Telephone: (213) 277-2000.

HOTEL ACCOMMODATIONS: Attendees are responsible for their own hotel arrangements, but we have discounted blocks of rooms put aside at all hotels for these attendees requiring overnight sleeping accomodations. Please call the hotel and identify yourself as an American Banker Conference Attendee.

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DISCLAIMER: Speakers are subject to change and replacement without notice. There are no airline refunds if seminar is cancelled.

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BANK PROFITABILITY

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OUR DISTINGUISHED PANEL OF SPEAKERS

Day One:

Innovative Customer Service And Sales Techniques for the Nineties

Charles Buchta
Executive Vice President
First Interstate Bank

John Campi
Managing Director
Chatam Consulting Group

Michael Harden
Sales Manager
Citicorp Information Systems

John Goodman
President
TARP

Bruce Grieve
Vice President
American Express

Laura Gross
Director
American Express

Thomas Jacob
Senior Vice President
Chemical Bank

Dr. A. Lorri Manasse
President
The Cortland Group

Frank Martire
Chairman
Citicorp Information Res.

Joan Miszak
Senior Vice President
California Federal Bank

Dr. Nancy O'Brien
Marketing Consultant
Sales Devel.Assoc.

Pamela O'Shea
Vice President
City National Bank

Nicholas Papanikolaw
Vice President
Manufacturers Hanover

Charlotte Pollard
Vice President
Chase Manhattan Bank

Claire Schopler
Vice President
Chemical Bank

Dennis Stevens
Vice President
American Express

Day Two:

The Nuts and Bolts of Commercial Lending & Loan Pricing

Frank Abraham
Chelf Credit Officer
Security Pacific National Bank

Gary Coelho
First Vice President
Security Pacific National Bank

Marshall Davidson
Managing Director
Kidder Peabody

David Fisher
Vice President
Loan Pricing Corp.

William Gregor
Partner
The MAC Group

Clifford Griep
Managing Director
Standard and Poor's

Hugh T. Kemprer
Managing Director
Morgan Guaranty

Constance Kennealy
Partner
Zeta Services Inc.

Edward McNally
Senior V.P.
National Westminster USA

Jonathan Moynihan
Managing Vice President
First Manhattan Consulting Group

Peter Offermann
Managing Director
Bankers Trust

Robert Okabe
Vice President
Kidder Peabody

Vjay C. Popot
Principal
Booz, Allen, & Hamilton, Inc.

Leland Prussia
Vice Chairman
Capitalcorp

Christopher Snyder
President
Loan Pricing Corp

Mark Solow
Senior Managing Director
Manufactureres Hanover Trust

Day Three:

Effective Strategies For Cost Management and Expense Control

James Bemowski
Principal
McKinsey & Co.

Michael Conover
President
Ryan Beck & Co. Pacific

Peter J. Doris
Senior Vice Pres.
Right Associates

Gary Gordon
Vice President
Paine Webber

Jane Hartung
Senior Vice President
Mellon Bank

Eleni Istavridis
Senior Vice President
Bankers Trust Company

Charles F. Kalmbach, Jr.
Senior Manager
Price Waterhouse

Patrick J. Leemputte
Partner
Price Waterhouse

James M. McCormick
President
First Manhattan Consulting Group

Charles H. Nobs
Senior Vice President
Bankers Trust Company

Harry H. Tatonis
Princial
Booz, Allen, & Hamilton, Inc.

Day Four:

Bank and Cross-Industry Acquisitions of Thrift Institutions
& Should Thrifts Be Converted to Banks

Peter Barnett
Partner
Arnold & Porter

John Buchman
Assistant Deputy Director
OTS

V. Gerard Comizio
Director Corporate & Securities Division
OTS

Vernon E. Fasbender
Director for Analysis
Comptroller of the Currency

Donald Kaplan
Managing Director
Kaplan Smith & Associates

Eric Luse
Partner
Brownstein Zeidman and Schomer

Edward T. Lutz
Principal
Lyons Zomback & Ostrowski

Samuel J. Malizia
Partner
Brownstein Zeidman & Schomer

John Mingo
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BEI Golembe Inc.

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Comptroller of the Currency

Richard Reibman
Managing Director
Dean Witter Reynolds, Inc.

Kenneth Rellander
Managing Director
PaineWebber, Inc.

John Shockey
Partner
Milbank Tweed Hadley & McCoy

Roy Stovsl
Director for Analysis
Comptroller of the Currency

William DJ. Sweet
Partner
Skadden Arps Slate Meagher & Flom

Donelle Ward
Director of Analysis
Comptroller of the Currency

Day Five:

Asset/Liability Management

Jennifer Johnson
Developer & Administrator
O.C.C.

Richard Laiderman
Vice President
Corporate Treasury
Bank of America

Peter G. Mantilla
Vice President
Bank of New York

Robert M. Mark
Managing Director
Manufacturers Hanover Trust Co.

Raymond Perry
Partner
Deloitte & Touche

Ronald D. Reading
Vice President
First Manhattan Consulting Group

Sanford Rose
Editor, Journal of Retail Banking
Senior Columnist, American Banker • Bond Buyer

Alden Toevs
Principal
Morgan Stanley & Co.

AMERICAN BANKER

VOL. CLV NO. 129 — *Tuesday, July 3, 1990* — *155th year*

California Looks Unbeatable in Consumer Arena

By YVETTE D. KANTROW

A booming economy and the ailing thrift industry are fueling a surge in consumer lending in California that is unmatched in any other region of the country.

The consumer portfolios of three of the state's four largest banks grew more than 25% last year, compared with an industry average of 10%. And the surge appears to be continuing this year.

In many ways, the California boom is an exaggeration of a national trend. As the profitability of lending to big corporations declines, commercial banks are restructuring their balance sheets to emphasize consumer rather than business loans.

ANALYSIS: *Follow-up on the news*

But several factors are working together to make the California consumer banking market more dynamic than most. These include:

• A burgeoning population. California's reputation as the land of unlimited opportunity continues to lure young, ambitious, upwardly mobile consumers to its sunny cities.

• A strong economy. Heavy migration to the state has led to rapid job creation, which has enabled personal income to continue to grow. The state represents 12% of the country's economy and ranks eighth in per capita income.

• A tradition for being on the leading edge of consumer products. The same state that gave the country Hula-Hoops, Jam shorts, and Apple computers also spawned bank cards, packaged bank accounts, and Saturday banking hours.

• The state's sick thrifts. The shrinking thrift industry is creating new opportunities for all banks in residential lending. The trend is especially notable in California, which has a disproportionate number of ailing thrifts.

28% Growth

Last year, Bank of America's consumer loans grew 28% to $27.7 billion, catapulting the San Francisco-based institution past Citibank as the nation's largest consumer lender. Citibank's portfolio grew 8%, although loans on the books of some affiliates grew faster.

Consumer loans at San Francisco-based Wells Fargo Bank, the third-largest lender, increased 26.2% to $14.9 billion, while Los Angeles-based Security Pacific National Bank boosted its portfolio 26.4% to $13.9

See **CALIFORNIA** *page* **6**

INSIDE NEWS

REAL ESTATE

THE CALIFORNIA market, which has been the hottest in the nation, is showing signs of weakness. Tighter credit demands are putting a crimp in construction. *Page 8*

FINANCE

DESPITE A DRASTIC drop in the prices of Charter Medical Corp.'s high-yield bonds, the company's bank creditors have not begun to clamp down on the company. *Page 14*

TECHNOLOGY

SECURITY PACIFIC has made a big commitment to a technology called neural networking, a branch of artificial intelligence that attempts to recreate how the mind learns. *Page 3*

AS WEST GERMAN banks moved into East Germany, they grappled with an antiquated telecommunications system. *Page 3*

CONSUMER

ELIZABETH BURKHART, a strong supporter of the credit union movement, is retiring to Hawaii after eight years with the NCUA. *Page 6*

INTERNATIONAL



THE BANK OF ENGLAND has unveiled a five-pound bank note that it says can foil a new generation of high-tech counterfeiters. *Page 10*

COMMENT

BRANCH SURVIVAL depends on close attention to scale of operations, staffing patterns, and product-pricing, and product-mix management, writes Sanford Rose. *Page 4*

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To Our Readers:

The *American Banker* will not be published on Wednesday, July 4.

Bank Stocks: Another Bad Quarter

Percent change in indexes from March 30 to June 29



Source: SNL Securities

Bank Shares Declined by 1.73% In Quarter as Stock Market Rose

By GORDON MATTHEWS

NEW YORK — Despite a merry month of May, major bank stocks again fell woefully behind the performance of the rest of the market in the second quarter. The *American Banker* index of 225 publicly traded banks fell 1.73% in the period, while the market, as measured by the Standard & Poor's 500 stock index, rose 5.3%.

"Bank stock price performance is just plain dogey, and it probably will continue that way for at least the rest of the year," said Nancy A. Bush, a regional bank analyst in New York for Dean Witter Reynolds Inc.

Credit Quality Problems

Banks with credit-quality problems, or those expected by investors to soon announce such problems, significantly dragged down the group in the period just ended.

Miami's Southeast Banking Corp. surrendered 34.5% of its market value in the March-June stanza. Most of the evaporation happened after the bank said it would cut its dividend and sell some assets. It still expects a loss for the quarter and the year because of asset-quality problems.

Another big loser was MNC Financial Inc., Baltimore, which plunged 31% in the quarter after issuing a statement that it expected credit-quality problems to have an impact on second-quarter earnings. The company did not provide any details.

A Star that Fizzled

PNC Financial Corp., Pittsburgh, once a darling among investors in supercharged banks

See **BANK** *back page*

Bank Victory On Cashing Checks May Be Reversed

By ROBERT M. GARSSON

WASHINGTON — The banking industry's victory over Sen. Howard Metzenbaum's government check-cashing legislation could be reversed next week; two key senators are said to be ready to offer an amendment that incorporates most of the Ohio Democrat's objectives.

Sen. Alan Dixon, D-Ill., chairman of the Senate Banking subcommittee on consumer affairs, and Sen. Christopher S. Bond, R-Ill., the panel's ranking Republican, are expected to offer the legislation as an amendment to the truth-in-savings bill, said industry and congressional sources. That measure is scheduled for committee consideration July 12.

A Mainstream Route

If they cosponsor the amendment, it may prove unstoppable. Sen. Dixon is a member of the Senate leadership, and Sen. Bond was the banking industry's major ally in the floor fight last week that defeated the Metzenbaum legislation. An amendment backed by two would be viewed as mainstream legislation.

Moreover, Sen. Metzenbaum's bill lost on a 55-43 vote, in part because he tried to attach his amendment to a housing bill

See **CONGRESS** *page* **11**

Healthy Thrifts Pressured to Sell Realty Ventures

By ANDREW REINBACH

The clock started ticking Sunday on the 60 days that solvent thrifts have been given to sell off as much as $10 billion of assets held in real estate ventures and subsidiaries or submit an acceptable plan of action.

Thrifts choosing to retain those assets will have to deduct them from capital over several years – and come up with the cash to prevent insolvency.

Impermissible Activities

The pressure to sell real estate at a time when many markets are depressed stems from regulations enacted late last year by the Office of Thrift Supervision. In effect, they require thrifts to operate under national bank standards regarding "permissible" holdings.

Among the impermissible activities are real estate develop-

See **HEALTHY** *page* **8**

Great Western Is Moving Swiftly To Win New Customers in Florida

By TERESA CARSON

LOS ANGELES — Having become Florida's largest thrift virtually overnight, Great Western Bank on Monday mounted an aggressive marketing campaign for new customers.

Floridians were greeted Monday morning with a folksy radio spot by the actor Dennis Weaver touting Great Western as "good folks to know" and "we'll always be there."

Plenty of Brochures

The thrift's newly acquired branches were sporting its royal-blue GW logo and were chockfull of sales materials. A major television and newspaper advertising campaign is scheduled to be launched later this week.

We want "to become an important player in Florida," said executive vice president Clifford A. Miller.

Late Friday, Beverly Hills, Calif.-based Great Western announced that it acquired 71 branches and $2.1 billion in re-

Great Western's Florida Empire

Effect of recent acquisitions

	Before	After
Rank among thrifts	5th	1st
Rank among banks and thrifts	16th	6th
Branches	52	154
Deposits	$2 billion	$6 billion
Location	West Palm Beach	Miami, Orlando, Tampa

Source: Great Western

tail deposits of the failed Century Trust Savings Bank of Miami and 18 branches and $700 million in deposits of the failed Gibraltar Savings Bank of Florida. Both thrifts were under the control of the Resolution Trust Corp.

A week earlier, the $40 bil-

See **GREAT** *page* **11**

PEOPLE *in the news*

Ex-Marine Aims to Foster Creativity in CalFed Post

By TERESA CARSON

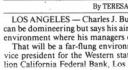
LOS ANGELES — Charles J. Buchta, a former Marine, admits he can be domineering but says his aim as a manager is to encourage an environment where his managers can function creatively.

That will be a far-flung environment in his new job as executive vice president for the Western states consumer unit at the $25 billion California Federal Bank, Los Angeles.

'He Does Not Tolerate Mediocrity'

Mr. Buchta, 48, will be in charge of CalFed's 148-branch consumer banking operations in California, Nevada, and Arizona. He will also head investment services, marketing, and operations – but not the mortgage operation. He will manage about 2,500 employees.

"He is efficient, straightforward, and intelligent," says Lawrence W. Stirling, a vice president at Chase Manhattan Bank, New York, where Mr. Buchta worked in the mid 1980s. "He does not tolerate mediocrity."



Charles. J. Buchta

Before coming to CalFed, Mr. Buchta was an executive vice president at First Interstate Bank of California. He was in charge of the 53 branches in the Los Angeles North area and the personal trust division.

In six years at First Interstate he held a variety of positions in areas including operations, business marketing, and auto leasing.

He also worked for Chase, for Philadelphia-based Girard Bank, and for Citibank, New York.

Mr. Buchta's Interstate colleagues call him "The Marine." He's "a very solid operations guy," one executive says.

Chase colleagues remember him as a regular at the company fitness center. A semifinalist in tryouts for the 1964 Olympics track team, he still runs several miles every day.

Concern For the Homeless

He throws himself with equal enthusiasm into his civic responsibilities.

"Mr. Buchta found us," says Maxene Johnston, president of the Weingart Center Association, which runs a 600-bed hotel and service facility for the poor and homeless in Los Angeles. "He came to us at the end of last year, because he was concerned about the issues [of homelessness]."

He is now on the Weingart board.

Ms. Johnston recalls hours of brainstorming in which Mr. Buchta came up with ways he and First Interstate could help the homeless center. "Twelve cups of coffee later, we had a lot of ideas," she says.

Active Help

First Interstate donated two computers and a used van to Weingart. And the company's program to train Weingart clients for bank jobs is beginning to yield results: Several now work at First Interstate. Other projects are in the works.

Mr. Buchta is also a director of the Alliance of Business for Childcare Development and chairman of the Los Angeles County Childcare Advisory Board.

Mr. Buchta is moving to CalFed in the middle of a major restructuring. The company is shedding business, such as insurance, that no longer fit its strategic plan to become a real estate-oriented consumer bank.

Mr. Buchta hopes to sharpen CalFed's edge in the market. "Our competition doesn't see us as a threat," he says. "In two or three years, we want them to be worried as hell about ['al'fed." □

NEWS *briefs*

NCNB Unit Gets President

DALLAS — Robert B. Lane was named president Monday of NCNB Texas National Bank. He succeeds Kenneth Lewis, named president last week of NCNB Corp.'s General Bank. Mr. Lane, 52, will oversee a network of 230 branches.

TCF to Revamp After Loss

MINNEAPOLIS — After a Federal Deposit Insurance Corp. examination, TCF Financial Corp. announced a restructuring and said it will post a second-quarter loss of about $32 million. It earned $5.5 million in the 1989 period.

The parent of TCF Bank Savings, Minneapolis, said its second-quarter provision for loan and lease losses will be $25 million. Its Texas subsidiary, TCF Banc Savings, will be closed with a writeoff of $13.1 million. — **Reuters**

OTS Eases Thrift Loan Rule

WASHINGTON — The Office of Thrift Supervision on Monday approved a much-awaited rule intended to relax the tough loans-to-one-borrower rule for healthy thrifts.

Thrifts fully meeting their capital requirements will have until Dec. 31, 1991, to limit loans to one borrower to 15% of unimpaired capital. □

OCC Bans 13 from Banking Over $250 Million in Scams

By BILL ATKINSON

WASHINGTON — After an 18-month investigation, the Office of the Comptroller of the Currency, alleging an attempt to defraud several banks of more than $250 million, has banned 13 people from banking.

The action, involving 20 financial institutions in several states and abroad, is the largest single banishment of bankers in any case investigated by the Comptroller, according to an agency spokesman.

Bank and thrift regulators are being encouraged by the Bush administration to crack down on wayward executives and their customers. In response, the regulatory agencies are pushing for longer prison sentences and large restitution awards.

13 Consent to Ban

The Comptroller's office filed no formal charges against the 13 bankers because they consented to their banning. Unlike the Federal Deposit Insurance Corp., the Comptroller lacks litigation authority. His agency can only seek administrative remedies, including civil money penalties and removal orders.

Ralph Sharpe, director of the Comptroller's enforcement and compliance division, said a U.S. attorney's office in Texas is considering a criminal investigation.

If formal charges had been filed, the Comptroller would have alleged that the individuals plotted to take more than $250 million from several of the institutions with schemes resulted in actual losses of more than $2 million.

One plot allegedly involved James C. Barrus, who was said to have posed as head of an inactive thrift holding company, Fidelity Trust & Guaranty Co. of Temple, Tex. He allegedly had no affiliation with Fidelity Trust, but in 1986 and 1987, he signed $64 million in worthless certificates of deposit drawn on the trust company, the Comptroller charged. No deposits had been made to back the CDs.

Another scheme allegedly involved James A. Trodden, who posed as a licensed attorney and signed a letter to Fred L. Harwood, who was said to have posed as head of Mid-America Trust Co. of Dallas.

The letter indicated that the trust company – which was inactive and had only $1,800 in assets – could issue checks that would be "paid" through accounting entries. More than $16 million of worthless checks were issued against the company in 1987, and at least one check was signed by Mr. Barrus, the OCC said.

The schemes resulted in actual losses of more than $2 million.

Mr. Barrus also offered to buy Trust Bank, Hialeah, Fla., with a worthless $30 million check drawn against Mid-America Trust Co.

Another scheme the OCC uncovered involved the use of worthless checks issued by a bank in the West Indies with no known assets, First London Bank, Plymouth, Montserrat. The offshore bank was owned by Owen Yeates.

83 Million Check Rebuffed

In one instance, a supposed $3 million check from the bank was presented in February 1988 by Jedd P. Jones, Bradley J. Jorgenson, and S. Chad Godfrey for deposit in First National Bank of Dayton, Texas, according to the OCC. The Dayton bank lost no money because it didn't accept the check.

A final scheme involved the purchase of existing financial institutions that were then sold worthless or grossly overvalued corporate debentures, the Comptroller stated. □

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First City Of Texas Cuts Jobs

By STEVE KLINKERMAN

DALLAS — Following disclosures that its second-quarter earnings would be soft, First City Bancorporation of Texas Inc. said this weekend that it would cut its work force by more than 10% over 12 months.

First City said it would eliminate 700 of its 6,600 jobs by midyear, in a move that will result in annual savings of $20 million to $30 million.

100 to 150 Layoffs

Most of the job cuts will be achieved through attrition, a company spokesman said, but between 100 and 150 layoffs ultimately may be required to meet the target for cuts.

Most of the cuts will occur in First City's back-office operations, which are being consolidated into three computerized hubs to service the company's statewide network of 76 offices.

Much of the payroll saving will initially be offset by the expense of establishing the three servicing hubs.

The Houston-based company said Friday that it would earn between $18.2 million and $23 million during the second quarter, down significantly from the $28.1 million it earned during the same period in 1989.

Problem Assets Rising

The earnings estimate came amid a rapid growth of problem assets at First City, which this spring has seen a number of speculative loans jeopardized as several out-of-state borrowers entered bankruptcy proceedings. Nonperforming assets totalled $200 million at midyear, First City estimated, up from $140 million at the end of 1989.

On Monday, Moody's Investors Service Inc. said it had placed $641 million of First City debt under review for possible downgrade "in response to First City's announcement of an increase in non-performing loans." □

Security to Try Neural Networking

Bank Planning Risk Analysis in Three Departments

By RICHARD LAYNE

NEW YORK — Security Pacific Corp. has made a big commitment to a pet technology of the Department of Defense called neural networking, a branch of artificial intelligence that attempts to recreate how the mind learns.

Having kept its efforts quiet for more than a year, Security Pacific National Bank disclosed plans last week to use neural-networking systems by the end of the year to analyze risks in three departments, No other bank has announced such a large-scale effort for the technology, which holds promise as a decision-making tool.

Security Pacific said it signed a contract a year ago with HNC Inc., San Diego, a leading developer of such systems. The contract calls for the companies to develop neural networks to analyze risks in commercial loans, automobile loans, and bank card portfolios.

A Need for Secrecy

The bank, which would not divulge the contract's value, said it kept the agreement under wraps because it did not want to let competitors know its plans for the technology, which could give it an edge, particularly in risk analysis and scoring.

Banking technologists say the neural network and the expert systems, a technology branch of artificial intelligence, can solve problems that traditional number-crunching computer systems cannot.

Expert systems solve problems by using the knowledge of experts in the form of what-if statements.

Patterns Detected

A neural network solves problems without relying on the programmed knowledge of experts. The software can discern patterns, changing the weights it places on variables automatically. That ability to change is akin to the human ability to learn.

Neural networks are patterned on the neural connections in the brain. The ability to learn makes neural networks appropriate for problems in behavioral scoring and risk analysis, where experts may not provide sufficient knowledge.

Even at the biggest banks, which tend to be technology pioneers, less than half are using expert systems. Banks and other corporations have been experimenting with those systems since the mid-1980s.

Chase Using a System

Chase Manhattan Corp., the first banking company to discuss publicly its use of neural networking, has had success in applying the technology to credit card fraud detection. Other technology leaders, including Manufacturers Hanover Trust Co. and Citicorp, are reportedly examining the technology, with an eye toward finding the right application.

"Every other big bank is looking at it," said Neena Buck, an analyst with New Sciences Corp., Southport, Conn., which follows the artificial intelligence market. "But they won't talk about it. If they let it out, they will lose the competitive edge." That edge comes from being able to perform a task or offer a service the competition can not.

"The technology is too valuable to overlook," said Richard Clements, vice president of Security Pacific Automation Co., the banking company's technology arm.

"Neural nets are where expert systems were in 1984 or 1985," said Craig S. Atkinson, vice president of Manufacturers Hanover. "This is the time to explore applications to gain advantages – you aren't going to wait until the industry matures."

Only in the past couple of years have neural networks come to the attention of corporations. Neural-networking companies primarily sold their systems to the Defense Department and NASA, which funded research and development. Applications for the technology, which can sift through tremendous amounts of data, include radar and signal processing.

> **"Every other big bank is looking at it. But they won't talk about it."**
>
> **Neena Buck**
> *First Sciences Corp.*

Government Role Was Key

Mr. Clements of Security Pacific said the government has helped work the bugs out of neural networks.

Unlike expert systems, neural networks appear to learn from each task. But they learn what they are told to learn. If a neural network is set up to analyze consumer mortgage applications, it will examine each variable in the application and compare it with those in past applications.

The computer already knows whether the bank approved those applications and has determined which variables were weighted more heavily than others. A new application is compared with an old application and a decision made.

"Once the networks are in place and we have a chance to determine the benefits, the use of them should spread," said Mr. Clements. □

East German Telephones Hobble Bank Expansion

By JEANNE IIDA

NEW YORK — As West German banks extended their operations to East Germany in preparation for economic unification last weekend, they had to grapple with an antiquated telecommunications network that inhibited computer communications.

The banks – Deutsche Bank, Dresdner Bank, and Berliner Sparkasse – set up about 500 mobile units in East Germany last week to act as teller stations until more-permanent facilities could be erected.

The banks invested the equivalent of $1 million in a communications technology to link the mobile teller units to home offices through antiquated telephone lines.

The temporary branches communicate with host computers in the banks' home offices through modems, which convert data to signals that can be sent over even outdated phone lines.

This technology often is replaced in the United States and other countries by digital telephone lines. Data does not need to be converted if it is sent over digital lines.

Dresdner Bank used 600 modems to link trailers containing automated teller machines and personal computers to its computer operations center in Frankfurt. The modems, supplied by Racal-Milgo, of Sunrise, Fla., have network management software that lets Dresdner monitor and test the equipment installed in East Germany from the Frankfurt data center.

By law, any equipment that is attached to telephone lines must be approved by the East German government. The West German banks were able to use equipment manufactured in the U.S. because Racal sought approval from the East German authorities late last year.

Joseph Robertson, general manager of Racal-Milgo, said the equipment being used in the mobile branches can be transferred to permanent branches. □

Systematics Signs Pact with Vboss

By KAREN GULLO

NEW YORK — Systematics Processing Corp., a unit of Systematics Inc. that serves Illinois and Wisconsin, has reached an agreement with Vboss Development Corp. to offer its customers Vboss branch automation systems. Vboss is a unit of Valley Bancorp, Appleton, Wis.

The agreement fills a gap for Systematics, which does back-office transaction processing for banks but does not offer the branch automation systems.

The agreement allows banks to contract with Systematics for both back-office transaction processing and branch automation.

Vboss' branch automation system supports document preparation, teller transaction processing, and platform sales. It operates on personal computers or controller-based terminals.

Vboss will build an interface between the system and Systematics' banking applications software. Little Rock, Ark.-based Systematics will market the system as part of its outsourcing contracts. The system costs $595 for each terminal. □

ANOTHER

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COMMENT / *By Sanford Rose*

A Survival Kit For Branch Networks

The three key determinants of bank-branch profitability are scale of operations,' staffing patterns, and product-pricing and product-mix management.

As it is now well known, it is becoming increasingly difficult to operate a branch network profitably unless the average branch deposit size is sufficiently large, perhaps as large as $25 million.

Branch operations are highly scale sensitive: Every doubling in branch size reduces the unit costs of branch operations by some 25%. Scale is also critical in back-office operations: Every doubling of volume will reduce the unit costs of check processing, programming, and data processing by 20% to 40%.

Before the elimination of Regulation Q, it was possible to operate profitably with smaller branches and back-office operations. That's because the ratio of high-profit transactions balances to total deposit balances was much higher than it is today.

Demise of the DDA

Since the mid-1970s, customers have been switching out of demand deposits and savings into increasingly price-sensitive time deposits and money market deposit accounts. From the mid-'70s to the mid-'80s the compound annual growth rate of time deposits amounted to nearly 10%.

From their inception in the early 1980s to the mid-1980s, MMDAs grew at an annual compound growth of more than 90%. By contrast, the growth rate of DDAs and savings accounts has been exceedingly slow; in fact, since the mid-1970s, there has been practically no growth at all in the total of savings balances.



"A good-earning banks, part-timers account for 60% of hours worked."

Allen has analyzed branch workloads, it has found evidence of considerable underutilization of staff.

Twiddling Thumbs

For example, at one representative institution, Booz-Allen found that branch platform personnel spent about 75% to 80% of their time performing reasonably productive tasks and the remaining 20% to 25% of their time doing nothing. That platform personnel haven't enough to do is perhaps understandable. When branches made a lot of small-business and personal loans, they needed a great many platform people.

But most loans have since been pulled out of the branches and administered centrally. Unfortunately, however, platform staffing at many banks is still geared to those bygone requirements. As a result, platform personnel end up either doing nothing or providing excess service.

Need for Part-Timers

Although managed somewhat more carefully than platform personnel, tellers are also underutilized. McMahon finds evidence of 15% to 20% excess capacity among tellers at major banks.

The principal reason is that, despite lip service to the idea of variable staffing – bringing in part-timers to meet peak demands – banks have not yet fully implemented this notion. Utilization of part-time help is still sporadic, depending to a large degree on the whims and predilections of individual branch managers.

A 20% Earnings Gain

McMahon argues that potential savings of 15% of direct branch-network expense (equal to perhaps 20% of branch after-tax profits) are possible if banks make more concerted efforts to pursue full-time staffs by more judicious employment of part-timers, both at teller windows and on platforms. The difference between good- and poor-earning banks, he says, is that at poor-earning ones, part-timers account for only about 10% of total hours worked, whereas at the good-earning banks, the proportion of hours worked by part-timers amounts to as much as 60%.

In order to achieve the level of

See **COMMENT** *next page*

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San Francisco: Sam Zuckerman (bureau chief), 415-986-8700
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ART
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CRIME BLOTTER / *By Tom Leander*

St Germain Linked To Target of Probe

Former Rhode Island Congressman Fernand St Germain sought out investments in troubled thrifts for a businessman targeted by a federal probe into a multimillion-dollar alleged fraud, according to a report in the *Boston Globe*.

The Democrat, then chairman of the House Banking Committee, was defeated for reelection in 1988, ending his long tenure as congressional point man for the savings and loan industry.

Mr. St Germain continued his interest in the industry, however, working as a consultant to find S&L investments for Michael Lolicata, a Lincoln, R.I., businessman. Mr. Lolicata is accused in civil lawsuits of cheating investors and banks of as much as $20 million, the *Globe* reported, citing documents filed in U.S. Bankruptcy Court in Boston.

In return, Mr. St Germain received $100,000 to cover the costs of starting up his Washington law office.

Mr. St Germain's involvement with Mr. Lolicata emerged from court papers filed in connection with the bankruptcy of two equipment-leasing companies controlled by Mr. Lolicata, Commercial Management Services Inc. and Financial Equity Services Inc.

Mr. Lolicata is under investigation in an alleged fraud blamed for the failure of Jefferson Loan & Investment Bank of Providence, R.I. The tiny thrift was seized this year.



Fernand St Germain
Former Congressman

The former congressman's efforts apparently led to no transactions, but Mr. St Germain talked with officials of struggling thrifts in Connecticut, Georgia, Florida, Louisiana, and California, according to the bankruptcy court papers.

"I'm just the goat, the sacrificial lamb," Mr. St Germain told the *Globe*. He said the work he did for Mr. Lolicata was minimal.

The FBI is investigating Mr. Lolicata in connection with the collapse of his two companies, including one in which Jefferson Loan & Investment had invested heavily. A federal grand jury in Providence has heard testimony in the case.

Mr. Lolicata could not be reached for comment, and his lawyer did not return phone calls, the newspaper said.

* * *

Guilty Pleas in Scam At Car Dealership

Four former employees of Grand Wilshire Group of Companies, based in Glendora, Calif., pleaded guilty last week to fraud charges in a scam that bilked $50 million from Imperial Savings Association, Heller Financial Inc., General Electric Capital Corp., and several small California banks, federal prosecutors said.

Bruce Li, 31, a GWG executive vice president; Ramon Relosa Jr., 44, the company's general manager; Emelita Carino, 39, of West Covina, Calif., who worked for president and chief executive officer Eminiano Reodica Jr. to solicit investors for GWG; and Francisco Villasenor, 53, an accounting manager, admitted their roles in the fraud.

GWG was the third-largest car dealership in the country, with 700 employees and 25 branches in California.

In his guilty plea, Mr. Li admitted telling GWG employees how to use the computer system to gain access to genuine TRW credit reports and then to delete negative credit information about people who had bought cars from GWG.

The falsified TRW reports were submitted by GWG to financial institutions that had extended credit lines secured by car sales contracts.

Mr. Villasenior admitted participating in the alteration of credit reports. They allowed GWG to obtain extended credit lines of up to $300 million, said Assistant U.S. Attorney Ronni B. MacLaren, who is prosecuting the case. The four employees are to be sentenced Aug. 28.

The investigation into fraud at GWG is continuing.

* * *

Women Mined Gold From Banks' Trash

Two Seattle-area women have been convicted of check forgery scheme that involved documents and information they picked out of bank trash.

Jane Lunbeck and Julienne Myers each pleaded guilty in a King County court to nine counts of forgery. The King County prosecutor's office said the two collected checks, deposit slips, and other documents from bags of trash taken at night from dumpsters outside bank offices.

Then, using stolen checks and blank deposit slips, the women would deposit forged checks, asking for several hundred dollars in cash on the spot. Usually, they made the phony deposits at bank drive-up windows.

The two reportedly carried out the scam more than 100 times, about half of them at branches of Seafirst National Bank, a subsidiary of BankAmerica Corp. The prosecutor's office said the women were caught after a suspicious teller noted their license number.

In the stolen trash bags, Ms. Lunbeck and Ms. Myers reportedly found items as sensitive as completed signature cards listing Social Security numbers and mothers' maiden names.

"I can't believe the things banks throw out," Ms. Lunbeck reportedly said.

— **Sam Zuckerman**

COMMENT

Continued from *page 4*

personnel savings possible, banks need to take the following steps: (1) senior management must make the necessary commitment to reducing costs; (2) banks must build models that predict required staffing at each branch at given times of the day and given days of the week; (3) human resources departments must develop the capability to find suitable part-timers; (4) involves identifying potential minority-group hires – a step that will not only reduce costs but also help satisfy the bank's affirmative-action requirements); and (4) branch managers must be incented to employ part-time help.

Cross-Subsidized Customers

Another critical element in improving branch profitability is product pricing. Many banks undervalue what there is considerable cross-subsidization among customers.

"Success depends on scale, market focus, and discipline."

It is sometimes argued that the high-balance depositor subsidizes the low-balance depositor, but this is not precisely true. Banks generally charge the very-low-balance customer (deposit under $1,000) a high enough fee to cover at least the direct costs of servicing his account. Where the cross-subsidization occurs is between those with very large balances and those with medium-size balances.

At one typical bank, customers who hold balances of between $1,000 and $7,500 (40% of all accounts) did not generate enough profits to cover even the direct costs of account service. All the profits on this deposit product were generated by the 24% of customers who held balances in excess of $7,500.

Jettisoning Average Pricing

Booz-Allen recommends a differential- as opposed to an average-pricing strategy. The bank needs to raise prices to those customers with balances of between $1,000 and $7,500. Market research and repricing experience suggest that there is a significant opportunity (resulting in a likely increase of as much as 15% in after-tax profits) to lift prices to these medium-balance customers without losing many accounts.

At the same time, it is advisable to reduce prices to the high-balance customers because it is prophylactic: removing the threat that other banks and financial intermediaries will lower their prices on these unsustainably-profitable accounts, thereby luring away customers and leaving the bank with only low-value accounts.

Asymmetric Rewards

McMahon ascribes the failure of banks to implement a differential-pricing strategy at least in part to an asymmetric reward pattern. Those who make pricing decisions are criticized when these decisions lead to a deposit runoff. But they are not often rewarded for initiatives that increase profits. That's because deposit runoffs are highly visible, whereas it is often very difficult to determine where the bank is actually making its money.

The solution to this problem is obvious: Banks must build a management information system that provides data on retail product profitability. Many banks say they have such a system, but often as not the system is seriously flawed.

A final area for profit enhancement is product-mix management. Here the prescriptions are more negative than positive. Banks must resist the tendency to grow unprofitably by transforming high-margin deposit accounts into low- or no-margin ones. When banks try to grow more rapidly than their peers in the same market, they generally must do so by acquiring highly price sensitive CDs and money market accounts. The result is almost always a deterioration in the net interest margin.

McMahon cites the typical case of a bank that launched a CD promotion program that netted over $200 million. Since only 35% of this money was cannibalized from existing accounts, the bank raised 65% in new money. I think we thought that the promotion was a huge success.

"Platform workers spend as much as a quarter of their time doing nothing."

Costs of Cannibalization

In point of fact, it was a dismal failure because the cannibalized accounts – e.g., statement savings and demand deposits – earned much higher margins than did the new CDs. When the noninterest costs of raising the CDs were added to the margin losses, the bank ended up losing a million dollars. And since the margin losses would continue in subsequent years, the loss in shareholder value was considerably greater.

Booz-Allen is convinced that branch networks can be made profitable, but only for those banks with adequate scale, market focus, and management discipline. Banks that would raise earnings on deposits to the breakeven level, identified in our last column as 12 to 15 basis points, or an 8% to 9% return on equity, must at a minimum take the following steps:

- Focus on in-market acquisitions and consolidations.
- Develop models and management information systems that will reveal individual-branch staffing needs and individual-product profitability.
- Make increased decisions about the tradeoff between growth and profits.
- Improve product pricing to minimize or eliminate customer cross-subsidization. □

Citibank Merger Talks End

WASHINGTON — Merger talks have ended without agreement between Citibank, Washington, and United Savings Bank, Tysons Corner, Va., according to the Virginia thrift.

The halt in talks makes unlikely any move soon by the Citicorp unit into the northern Virginia market; it also thwarts United Savings' attempt to recapitalize. □

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CREDIT UNIONS

With Burkhart Retiring, NCUA Losing Strong Voice

By BILL ATKINSON

For the eight years she has been a member of the National Credit Union Administration's three-person board, Elizabeth F. Burkhart has upheld the traditional values of the credit union movement.

She has pushed for credit unions in low-income neighborhoods, on college campuses, and most recently, in Poland. She has also stressed the importance of retaining volunteers to run the institutions.

On Aug. 17, Mrs. Burkhart will retire and join her husband in Hawaii. She takes a pragmatic view, saying that retirement won't be traumatic. "I generally close the door on what I have done," she said. "It's just another chapter." No one has yet been named to replace her.

But Mrs. Burkhart, 54, will be sorely missed, said Harry Blaisdell, who was once her executive assistant and now works as part-time executive director for the National College Student Credit Union Council.



Elizabeth Burkhart

"She has always stuck up for the little guy – be it a credit union or a credit union member. She is a very strong believer in fair play," said Mr. Blaisdell.

Clifford N. Rosenthal, executive director of the National Federation of Community Development Credit Unions, said: "She didn't always agree with us, and we didn't always agree with her, but I believed she shared our view that serving poor people was the original mission of the credit union movement." The New York-based association represents 100 institutions serving low-income customers.

"She visited many low-income credit unions, from the ghettos of the Northeast to the Navajo reservations," Mr. Rosenthal said.

From Migrant Labor to Marine Corps

Mrs. Burkhart grew up in Donna, Tex., the eldest of 13 children in a family of Hispanic migrant laborers who picked cotton.

"While I was still young we never went outside Texas – we just followed the cotton crops," she said. "The interesting thing about working in the fields is that you quickly learn that you are the master of your fate."

At 13 she began to mold her future, knowing she did not want to spend the rest of her life picking cotton or peeling tomatoes in a factory. She persuaded her parents to let her stay home alone and attend school. In 1954 she graduated from high school and began a two-year stint in the Marine Corps.

She later attended Pan American University in Edinburg, Tex., where she majored in music. She was married in her junior year and then moved to Wichita Falls, Kan., where she graduated with an English degree from Midwestern University in 1968.

For a time, Mrs. Burkhart taught grade school in a ghetto, but the job wore her down and her doctor advised her to retire. She then joined Texas Commerce Bank as a secretary and worked her way into commercial lending. She also earned a master's degree in business administration from Houston Baptist University.

Worked for Bush in 1980 Campaign

Mrs. Burkhart took a leave of absence from the bank to work on the Bush presidential campaign in 1980. Two years later, the Reagan administration appointed her to the NCUA's board.

In charge of expanding the membership of credit unions, Mrs. Burkhart pushed for credit unions on university campuses. But some NCUA district officials resisted the idea, arguing that college students are transient.

"Mrs. Burkhart put their toes to the fire," said Teresa Castro, Mrs. Burkhart's executive assistant for six years. "She said, 'Let's put together a pilot program to see how credit unions would do.' " Today, there are 24 student-run credit unions on college and university campuses.

Earlier this year, Mrs. Burkhart met with an envoy of Polish representatives. She spent two days explaining the checks and balances of the U.S. government, the inner working of the NCUA, and how the regulatory system works.

One of Mrs. Burkhart's goals has been to promote professionalism among examiners by ensuring that they have the right tool for the job, said Mr. Blaisdell.

"I feel we can thank her for the examiners' having laptop computers, training, and computerized examinations," he said. "She was probably the first person to give it the green light, because she understands computers."

Mrs. Burkhart expresses some concern about the future of credit unions. She worries that volunteer staffs are being replaced by professional, salaried employees. She also worries that staffs and directors may become too complacent and not ask enough questions.

"The great value of the credit union in the original sense was that the average worker could learn the skill to direct the credit union," she said. "With a nonprofit you have to constantly be asking questions . . . and hold the CEO accountable." □

California Ahead in Consumer Lending

Continued from *page 1*

billion.

Consumer loans now account for 42.6% of the loans on the books of Bank of America, up from 36.5% at yearend 1989. At Wells they make up 37.8%, up from 33%, and at Security Pacific 36.5%, up from 33.5%.

The other large California bank, First Interstate Bank, had an increase of only 5.4% in its consumer portfolio, to $5.9 billion.

No End in Sight

The surge in consumer lending in California is expected to continue, even if it begins to wane in other areas of the country.

"The attitude of people in the East is that everything is going to hell and you should pull in your horns," said Michael Abrahams, a vice president at Bateman Eichman, Los Angeles. "Maybe some people should, but not out here in California."

The three large California banks are fighting each other tooth and nail for increased market share. Although most bankers say they are not engaging in rate wars, they do spend heavily on advertising and other marketing ploys.

"Customers' expenses in home equity loans and lines of credit are almost always being picked up by the institution," said Gerry Gunn, senior vice president in charge of consumer lending at Bank of America. "Obviously, anytime you do that you have to make sure the product is a longer-term, profitable one."

Dealing in Commodities

Because most consumer loans – credit cards, installment loans, mortgages, and home equity loans – are basically commodity products, there is little differentiation among the banks' offerings.

One exception is the hybrid of a fixed-rate mortgage and an adjustable-rate loan that Wells has used to gain prominence and that banks across the country have imitated. The loan carries a fixed rate for either five or 10 years, whichever the borrower chooses. The rate is then adjusted every six months to an index of rates on certificates of deposit.

Indeed, much of the push in California has been in the mortgage and home equity market. In 1989 mortgage loans grew 49% at Security Pacific, 45% at Wells, and 30% at Bank of America. The industry average was 14.6%.

Meanwhile, home equity loans increased 69% at Security Pacific, 56% at Bank of America, and 11% at Wells, compared with the industry average of 27%.

"Housing has been strong; it's softening some but it's still strong," said Robert Skinkle, regional economist at Wells. About 750,000 people moved to California in 1989, helping the mortgage market burgeon. According to Mr. Skinkle, many of the people who come to the state are young, successful, and ripe for homebuying.

Opportunities from S&L Crisis

Much of the growth in mortgage lending is also attributable to the changing texture of the California banking scene. The thrift crisis has taken its toll in the state, enabling banks to make big splashes in the home lending market. As the cleanup of the thrift industry continues, California's banks could become even larger players in the mortgage game.

Security Pacific, for example, picked up $2.7 billion worth of mortgages last week when it won the bidding for Gibraltar Savings, the largest California thrift under government control. Other California banks could make similar gains when Imperial Savings Association, a $9.6 billion San Diego thrift that is in conservatorship now, and Columbia Savings and Loan Association, an insolvent Beverly Hills institution expected to be seized by the federal government soon, are put on the auction block. Great American Bank, a $15.4 billion-asset California thrift must raise $350 million in new capital or restructure. □

Low-Yield Investments to Fund Low-Cost Housing

By ELLEN MEMMELAAR

NEW YORK — The Dime Savings Bank of New York announced last week that it will channel money to low-cost housing by offering savings products with reduced rates.

The difference between normal rates and the interest paid on these investments will lower the cost of loans made through Dime's community lending program.

CDs and Savings Accounts

Depositors in the Community Partnership Accounts can invest in either a savings account or a 12-month certificate of deposit. The savings account, which normally yields 5.47% interest, will yield 5.25%. Certificates of deposit, which normally yield 7.96%, will yield 7.66%. Minimum deposits are $50 for the savings account, $500 for the CD.

"There are a lot of people in this town who would like to give a little back," said Richard Parsons, Dime president. "This is a way ordinary people can begin to help."

Mr. Parsons said he hopes to attract $50 million to the institution during the next 12 to 18 months from individuals, institutional investors, and community and religious organizations.

The Community Partnership accounts were announced in local newspapers, will be promoted through statement stuffers and branch materials. The accounts are available through the 50 New York branches of the $11.7 billion-asset thrift.

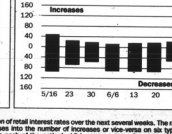
Vermont Bank Was Inspiration

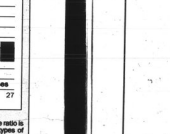
Chairman Harry Albright adopted the idea from Vermont National Bank, a subsidiary of Vermont Financial Services Corp., Brattleboro.

The Dime has a history of involvement in community housing issues, Mr. Parsons said. Two projects helped church groups fund low-cost housing in Brooklyn and in Harlem. □

AMERICAN BANKER /*Bank Rate Monitor's*™

Consumer Money Index — **Latest rate trend: Ratio becoming flat**

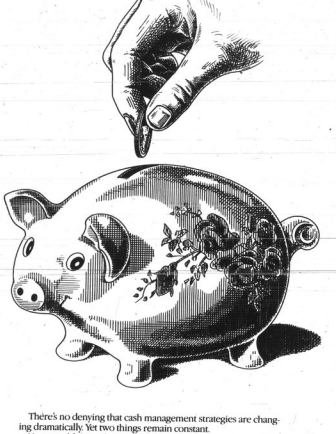




Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it usually signals the beginning or the end of a cycle. The graph shows how the ratio has moved over the past 9 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

Cash management just isn't as simple as it used to be.



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Tuesday, July 3, 1990

Tighter Credit Starting to Pinch Construction in Golden State

By ANDREW REINBACH

The California construction market is beginning to cool as lenders stiffen their underwriting criteria, partly in response to calls for credit restraint from the federal government and partly in response to their own fears of overbuilding.

"It's fairly clear that lending criteria seem to have tightened in the past few months," said Carolyn Sherwood-Call, an economist at the San Francisco Federal Reserve Bank. "It certainly seems that real estate is cooling in California."

In the past 60 days, lenders who had been content to make deals with California developers who could put up equity contributions of 10% or less and preleasing of 20% or less have been insisting on as much as 20% in cash – and on having 30% to 50% of a proposed office building preleased. This virtual doubling of loan requirements, said developers, will cut new construction in half.

Housing Permits Down

Ms. Sherwood-Call said that the most recent data indicate that on a seasonally adjusted three-month moving average, housing permits in California are down 14% from a year earlier. The value of nonresidential construction fell 4%.

Until recently, California was the nation's last hot real estate development market. The state's fast-growing economy and population supported rising property prices that contrasted sharply with the real estate economies in most of the rest of the country, which have taken a beating.

But California's real estate market is at "an inflection point," Ms. Sherwood-Call says. And if it eventually shares the problems of the rest of the country, the second-tier commercial banks are the ones that are likely to be hurt most, according to Donald K. Crowley, executive vice president of Keefe, Bruyette & Woods, San Francisco.

"The smaller banks have multiples of exposure to the real estate market that the big banks don't," he said.

Likely Victims

Among the banks facing possible problems, he said, are City National Bank, Beverly Hills, which has 16% of its $4.5 billion in assets in construction loans and 18% in permanent mortgages, and Pacific Western Bank, San Jose, which has 24% of its $1.03 billion in assets in construction loans and 18% in permanent mortgages. These statistics are about average for the second tier of California banks, Mr. Crowley said.

City National's executive vice president for real estate, Jeffrey A. Cove, disagreed. "I think the big banks will have the problems, because they're lending to much more ambitious projects than we do," he said.

The cooling of real estate credit markets is very evident in bank lending to the types of businesses that constitute bread-and-butter real estate deals – a strip center with five stores and grocery, a 10-unit apartment house, or a small office center.

"Three months ago we would have considered a speculative office building with no preleasing," said Adele Kellman, a vice president of the Plaza Bank of Commerce, a San Jose-based bank with $478 million in assets. "But today, while it may still be a maybe, it's much less of a maybe."

Ms. Kellman said her bank's underwriting criteria have become considerably stricter in the past month, particularly in the past quarter. Debt coverage requirements, for example, used to be $1.10 in cash flow for every dollar lent; now it is $1.15 to $1.20. Required equity contributions went from as little as zero to 20% of total costs. The interest rate rose from 10% to 10.5% or even 11%. In general, the bank has reduced its limit on loan-to-value ratio to 60% from 70%.

Small banks like Ms. Kellman's tend to be more aggressive than bigger ones. But the big banks, while insisting that their underwriting has always been exemplary, have not all tightened their lending criteria.

Pacific Western Bank has not changed its underwriting criteria recently, according to Shari Fernandez, senior vice president for real estate construction. She reports that a typical construction loan she makes requires 15% to 20% cash and 1.1 debt coverage, with preleasing requirements decided on a case-by-case basis.

"We tightened our lending criteria five years ago," Ms. Fernandez said. "We didn't think the market would stay as hot as it was."

This does not square with other bankers' experiences, though. Mr. Cove of City National Bank reports that loan volume has dropped 20% to 25% in the past six months.

"We're going into another cycle now," said Mr. Cove. "It's a marketplace where you've got to keep on your toes." He said his bank expects debt coverage of 1.2 or higher, 50% preleasing, and 20% cash – with a coupon floating at 100 to 150 basis points over his bank's prime rate.

Norm for Developers

This is more in line with what developers have been experiencing in the state. "There's much less of an appetite to lend without substantial preleasing or equity, especially the latter," said Michael D. Barker, a principal of Barker-Parrinely Interests, commercial developers based in San Francisco. "And when a developer has to double his equity contributions, he cuts his production in half." Big moneycenter banks such as Wells Fargo, Security Pacific and Bank-America did not respond to requests for interviews.

The lending slowdown may turn out to be the best thing for the California real estate market, which seems to have been booming forever. A construction slowdown will mean less supply, which would tend to support prices and allow the state to avoid a Texas-type price plunge.

But some real estate experts doubt that tighter real estate credit will help. "It may be too little, too late," said Susan Hudson-Wilson, a vice president of research at Aldrich, Eastman & Waltch, a Boston-based pension advisory firm. "All of us are hoping it may not be true, but people are watching those markets very carefully."

Office Vacancies Rise

Office building vacancies are rising in California, and the rate of construction is outpacing employment growth in most of the major California office markets.

This is a clear indication that the office market, at least, has peaked and is heading for tough times; fewer employees means less demand for office space.

In downtown Los Angeles, for example, 1989 office starts were up 3.6%, and completions rose 2.5%. Employment growth, in contrast, grew only 1.6%, according to F. W. Dodge, a construction information firm. And 22% of the city's total office space inventory – six million square feet – is currently under construction.

Los Angeles historically absorbs 900,000 square feet per year.

While California economic growth continues to put the rest of the country to shame, it may not continue at the same high rates of the past decade.

"California is not immune [to economic problems]; it's resilient, but it's not immune," said Gary Luboff, a Los Angeles-based senior vice president at Sonnenblick-Goldman Corp., a real estate services firm. "We're definitely seeing more conservatism, a growing demand for cash – regardless of quality – and a paranoia about office buildings."

All this may mean that the California real estate market is about to join the rest of the nation.

"We may be at the end of a historic [real estate business] cycle, and the pent-up demand may be over," said Michael Beyard, director of commercial development research at the Urban Land Institute, a Washington-based industry group. "California is part of it. I don't see it as distinct from the rest of the country. It will share the problems of the Northeast. And given the sheer size of the market, it would have a real impact on the rest of the markets [in the United States]."

Attractive Place to Live

Of course, not all industry observers agree with those sentiments.

"The real strength of California has been that people want to be there," said Richard Kateley, president of Chicago-based Real Estate Research Corp. "People want to own property and develop and lend in that state. It's an intangible, but that's important in this business, and that will cushion any drop in that market."

In any event, said Mr. Kately, the cooling of the California market means different things to different people. "It's not good if you're a developer or a bank lending officer, but it's good for the industry," he said. □

Ominous Trends in California Office Markets
Construction and vacancies rose in 1989; office employment was weak

	% growth starts	% growth completions	Office vacancy rate	Change in vacancy rate	Office employment growth
San Diego	3.6%	2.5%	18.4%	2.0%	1.6%
Los Angeles	4.5%	6.8%	12.2%	2.0%	4.2%
Sacramento	2.3%	1.3%	14.1%	-1.1%	2.1%
San Francisco	2.3%	2.0%	7.7%	3.6%	2.6%
San Jose					

Source: F.W. Dodge

Healthy Thrifts Pushed to Sell Realty Assets

Continued from *page 1*

ment projects in various stages of completion in the Southwest. Since those projects will be difficult to unload quickly, it is expected that the thrifts may be forced to dispose of good assets to meet additional capital requirements.

Under the new regulations, the impermissible assets may be kept but must be 100% capitalized by June 1994. They would have to be capitalized to 16.4%, from the current 6.4%, as of July 1; or the thrifts must tell the OTS what they plan to do within 60 days.

Among the assets now on the block are properties valued at $1.9 billion and owned by Landmark Land Co., parent of New Orleans-based Oak Tree Savings Bank. But the company doesn't expect to see that much.

"We're conducting a fire sale with a gun to our heads, so I expect someone is going to get a real deal," said Gerald G. Barton, president and chairman of Landmark.

Bad Effect Seen

"The regulations will clearly force some folks to sell good assets because we're in a bad market," said John Robinson, deputy director of supervisory analysis at the Office of Thrift Supervision.

> **"I expect someone is going to get a real deal."**
>
> **Gerald G. Barton**
> *Landmark Land Co.*

The practical effect for the thrifts will be an accounting wash, since any profits from sale of the good assets will wind up as capital contributions against the bad ones.

The thrifts that hold onto bad assets also "may face classification actions and be forced to write down their values," he added.

No Definitive List

Other assets besides real estate are included in the impermissible-assets category. But what they are is unclear, since, according to Mr. Robinson, neither the OTS nor the Office of the Comptroller of the Currency has a full list of permissible activities.

Mr. Robinson said that at least 10% of the nation's healthy thrifts are affected by the deadline, but that no hard numbers are available. Thrifts seized by the Resolution Trust Corp. are unaffected.

Ivan Faggen, national real estate partner for Arthur Andersen & Co., values the affected real estate at $2.5 billion to $10 billion.

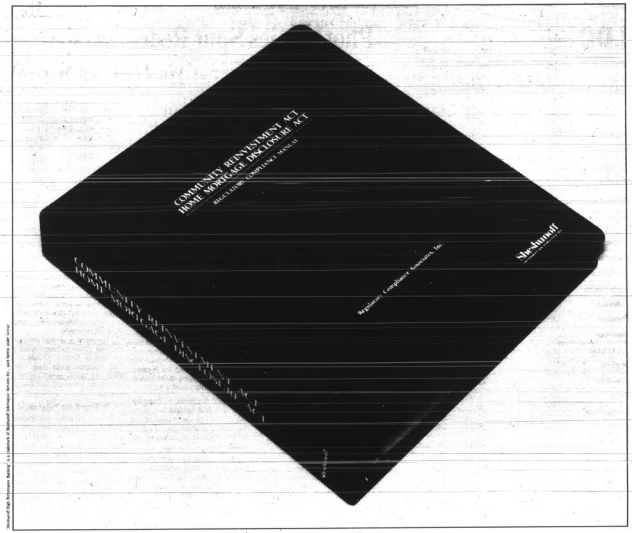
Developers Involved

Many of the assets are joint ventures with developers that are still under development. The thrifts' developer partners will probably not be able to buy out the thrifts, said Mr. Faggen.

"The partners only had [the thrifts] because they needed the money in the first place; the thrift was the financial partner. The problem is they're risk-oriented deals, and there's no market for risky deals today. And it's a tremendous amount of money [to finance]; I don't know where they're going to get it."

Thrifts are unlikely to lend the developer enough to buy them out because that might violate another OTS rule that no one debtor account for more than 100% of a thrift's equity.

Pointing out the financial squeeze on thrifts that the new regulations will cause, OTS' Mr. Robinson said that "Congress understood very well what they were doing. It's the start of a big change in the way the thrift industry does business." □



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LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Merrill Lynch Capital Markets Inc.

	6/27 Bid	6/27 Offer	6/136/13 Bid	Offer
Algeria	80.00	82.00	80.00	82.00
Argentina	14.38	14.63	13.63	14.00
Bolivia	11.00	12.00	11.00	12.00
Brazil	23.50	24.00	23.50	24.00
Chile	66.25	67.00	65.00	65.50
Colombia	63.25	66.00	63.25	66.00
Costa Rica series B	31.50	32.00	27.00	28.00
Dominican Republic	17.00	18.00	17.00	18.00
Ecuador	16.50	17.00	16.50	17.00
Honduras	18.00	20.00	20.00	20.00
Ivory Coast	6.00	8.00	6.00	8.00
Jamaica	40.00	42.00	40.00	42.00
Mexico	43.50	44.00	44.63	45.00
Morocco	45.25	45.75	45.75	46.25
Nicaragua	4.00	6.00	4.00	6.00
Nigeria	28.25	28.75	28.00	28.50
Panama	14.25	15.25	14.25	15.00
Peru	4.75	6.00	5.00	6.00
Philippines	51.25	52.00	50.50	51.00
Poland	14.25	15.25	16.50	17.00
Senegal	36.00	38.00	36.00	38.00
South Africa	69.00	71.00	69.00	71.00
Sudan	4.00	6.00	4.00	6.00
Uruguay	49.50	50.25	50.50	51.00
Venezuela	45.50	46.00	47.00	47.50
Yugoslavia	62.50	63.00	63.50	64.00
Zaire	19.00	21.00	19.00	21.00

Source: *LDC Debt Report*

Bulgaria Halts Interest Payment

Bulgaria's Foreign Trade Bank, which holds roughly 95% of Bulgaria's debt, has asked commercial bank creditors to roll over principal and interest due for the period June 30 to Sept. 29.

This is the first time Bulgaria has failed to make interest payments. Further, all forms of Bulgaria's debt – long-term, short-term trade financing, and interbank lines – will be affected.

By suspending interest payments, which total $400 million for the rest of the year, Bulgaria has signaled that its problems are deeper than envisioned.

Meanwhile, there is doubt on the precise definition of short-term debt. Bulgaria considers debt maturing in three to four years as short-term, banking sources said. Banks are working to secure accurate data from Bulgaria. — **Paul Kelash,** *LDC Debt Report*

Key International Rates*

	Day-to-day money		3-mo. interbank		6-mo. interbank		Discount rate		Prime equivalent	
	7/02	6/29	7/02	6/29	7/02	6/29	7/02	6/29	7/02	6/29
United States	8.31	8.31	8.31	8.31	8.37	8.37	8.37	8.43	7.00	7.00
Japan	7.50	7.56	7.43	7.68	7.68	7.50	7.75	7.81	7.56	5.25
Canada	13.37	13.25	13.25	13.50	13.50	13.62	13.50	13.50	13.62	13.83
U.K.	15.00	15.12	15.00	15.00	15.00	15.00	14.93	15.00	14.93	14.31
West Germany	8.06	8.12	7.87	8.31	8.25	8.25	8.56	8.56	8.43	6.00
Switzerland	9.37	9.25	9.12	9.12	9.06	9.00	8.93	8.93	8.75	6.00
France	10.00	10.12	9.87	10.06	10.12	10.06	10.18	10.18	10.18	9.50
Italy	12.06	11.12	10.93	11.37	11.25	11.25	11.42	11.37	11.37	12.50

	7/02	6/29	7/02	6/29	7/02	6/29
	13.00	13.00	13.00	13.00	10.00	10.00
	7.13	7.13	7.13	7.13	7.13	7.13
	14.75	14.75	14.75	14.75	14.75	14.75
	15.00	15.00	15.00	15.00	15.00	15.00
	10.50	10.50	10.50	10.50	10.50	10.50
	6.00	6.00	10.88	10.88	11.13	
	9.50	9.50	10.50	10.50	10.50	10.50
	12.50	12.50	13.00	13.00	13.00	13.00

*Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.22	14.63	8.49	8.62	7.60
6 to 12 months	8.36	13.51	8.61	8.00	7.58
12 to 24 months	8.87	12.64	8.99	7.17	7.32

Source: Noonan, Astley & Pearce Inc., New York

Photocopies Spur Redesign of Notes

Britain Hopes New 'Fiver' Will Foil Color Machines

By JOHN EVANS



HARD TO COPY: New British notes have engraved concentric circles that are designed to make counterfeiting difficult.

LONDON — The Bank of England, guardian of Britain's currency, is confident that it has met the biggest challenge to the integrity of the nation's paper money since a wartime Nazi plot to forge some $800 million worth of pounds sterling.

In a race with a new generation of high-tech forgers, the central bank has just unveiled a new five-pound banknote. It marks the culmination of an intensive program to combat "touch-of-a-button" banknote counterfeiting based on the latest high-quality color laser photocopiers.

The British reckon their new bill, known popularly as the "fiver," is among the most difficult in the world to forge.

Timely Innovation

A metallic strip was introduced in Britain in 1940. It proved a useful anticipation of the production by the Nazi SS in 1942 and otherwise near-perfect forgeries of British notes, using engravers imprisoned in the Third Reich's concentration camps.

In the post-war period, the need to redesign Britain's banknotes was recognized as long ago as the early 1970s, when color photocopiers started to emerge. This followed the patenting in Japan of the world's first color copier 10 years earlier.

Concern mounted at the beginning of the 1980s, when advanced laser color scanners were introduced. But, at a cost of up to $450,000 apiece, the new equipment was largely restricted to commercial printers.

The Price Was Right

Then, in 1987, color photocopying took a "quantum leap" with the introduction of machines such as the Japanese Canon CLC laser copier, costing less than $40,000 and removing the special skills needed for counterfeiting, says a Bank of England spokesman.

The new technology gave the central bank's currency experts "nightmares," he confesses, after officials saw how the new copiers effortlessly produced high-quality reproductions of British bills of all denominations.

Those concerns were justified by 1988, when the first color photocopier forgeries of bills were seized by Scotland Yard.

Hanging Eliminated

The British could no longer depend on one of their old defenses against forgery — the Capital punishment for that offense was ended in 1832 but not before more than 300 individuals were strung up for forging the coins and notes of the realm during a century and a half.

Instead, the Bank of England went out and bought a Canon copier and, in the words of its specialists, started to "fiddle" around with it to discover its weaknesses.

The vulnerability was hard to find, with the ultra-sensitive machine producing 255 tonal ranges to create an almost infinite variety of color mixes.

After two years of experiments, the main answer of the Bank of England investigators has been to produce a bill with intricate concentric engraved patterns – a design that the photocopier blurs and distorts.

In addition, the new "fiver" note is based on 23 pastel shades, a design that was produced with the help of a computer program devised by Britain's main nuclear energy research establishment. These tones, based on an underlying turquoise color, help confuse the copier's built-in computer.

Meantime, a central feature of the bill remains the traditional portrait of Queen Elizabeth II. Her portrait is in gray rather than the sickly green color the designers preferred but decided against.

Defenses Are Vulnerable

British officials acknowledge that with enough time and investment, skilled forgers can partly overcome the new defenses and produce a reasonable facsimile. But they calculate that it would cost the crooks up to $2.50 to forge each $8.50 note, probably an uneconomic proposition considering the steep discounts from face value at which such bills are usually laundered by crime syndicates.

The Bank of England has one final ace in the hole. Built into the new note is an unseen device, one that remains a closely guarded secret. □

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OCC Makes Thrift Slash Merger Price

By STEPHEN KLEEGE

NEW YORK — Mid-State Federal Savings Bank was forced over the weekend – after bank regulators took a look at its assets – to reduce sharply the selling price in its merger agreement with First Florida Bank.

In the first such examination in Florida, the Office of the Comptroller of the Currency took a harsher line on reserve requirements for Ocala, Fla.-based Mid-State than the regulators had taken last fall. Mid-State chairman Charles E. Harris said it was a harder line than the OCC takes with national banks.

Required Growth in Reserves

The OCC examiners said First Florida, Tampa, would have to increase reserves by $7.6 million against possible losses on Mid-State assets if it folded the thrift into a national bank subsidiary.

"The OCC is saying, 'We want to make sure you don't track any of that mud in here,'" said analyst Samuel Beebe of Williams Securities Group, Tampa.

Thomas Bascom, OCC manager of internal communications, said it is routine to examine assets of financial institutions being acquired by national banks.

Mr. Baucom denied that Mid-State had been held to a higher standard than national banks.

The examination of Mid-State, by the same team that recently prompted an outcry among Florida banks for requiring that some current loans be classified as nonperforming, led to a hurried series of meetings last weekend. The thrift was able to preserve its sale but only by cutting the price by $11.7 million, or $5 a share, to $22.43.

Mid-State's stock was down $4.25 a share, to $19, at midafternoon Monday. First Florida was at $22, up $.75 cents. These was little trading in either stock. □

American Banker Buys Data Service

NEW YORK — American Banker-Bond Buyer, publisher of the *American Banker*, has acquired Trepp Information Services Inc. and its subsidiary Trepp Pricing Services Inc., which collect and analyze information on asset-backed securities.

"Acquiring Trepp enhances our position as the leading supplier of data and information on publicly traded asset-backed securities and collateralized mortgage obligations," said George W. Landgrebe, president and chief executive officer of American Banker-Bond Buyer.

Richard C. Trepp will continue as president and CEO of Trepp Information Services, which will be part of the Securities Group of American Banker-Bond Buyer, reporting to Executive Vice President Joseph V. Riccobono. □

Congress May Reverse Bank Victory on Check Cashing

Continued from *page 1*

that Democrats were reluctant to jeopardize. Lawmakers will have no such qualms about tying the measure to Truth-in-Savings.

Finally, Sen. Metzenbaum compromised repeatedly to satisfy concerns raised by his colleagues, including Senate Republican leader Robert Dole, who spoke favorably about the amendment. By contrast, bank lobbyists refused to discuss compromise, a stance that was said to have irritated some supporters, including Sen. Bond.

Reevaluation Urged

"The vote was much closer than the industry expected," said Kim Shafer, counsel to Sen. Dixon's subcommittee on consumer and regulatory affairs. "Everyone has to reevaluate their position based on that vote and on Sen. Metzenbaum's willingness to compromise."

Ms. Shafer would not discuss

> **"If Dixon and Bond offer the amendment, I would definitely be nervous."**
>
> **Kenneth Guenther**
> *Independent Bankers Association*

the possibility of a new amendment, except to say she has not been directed by Sen. Dixon to begin work on legislation. Sen. Bond's banking aide declined to comment. The Senate is in recess for the Independence Day holiday.

"If Dixon and Bond offer the amendment, I would definitely be nervous," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America. "Bankers need to get to work on this."

A Final Compromise

Industry sources familiar with the Dixon-Bond proposal that seems to be emerging described it as a milder version of Sen. Metzenbaum's final compromise. That measure exempted banks and thrifts with less than $25 million in assets, as well as those institutions already cashing government checks for noncustomers.

The measure also will permit banks to charge for cashing checks to recover costs, as determined by the Fed, and generate a profit. Sen. Metzenbaum has suggested a 10% profit margin, and a Dixon-Bond amendment may give depository institutions even more flexibility.

The bill is also likely to include a provision mandating a study of whether the U.S. Postal Service's network of offices could be used to cash government checks.

However, the Dixon-Bond amendment would likely go farther in satisfying concerns raised by bankers. First, it would permit banks to require the use of direct deposit for at least some users. Moreover, one knowledgeable source said it would give banks greater latitude to refuse to cash some checks and would not include harsh penalties for failing to comply. □

Great Western Starts Drive to Win New Florida Customers

Continued from *page 1*

lion-asset company bought 13 Florida branches with $700 million in deposits from Carteret Savings Bank of Morristown, N.J.

The acquisitions more than doubled Great Western's Florida deposit base to $6 billion and tripled the number of offices.

Great Western entered the Florida market in 1983.

"We think the acquisitions give us sufficient size to increase our deposit share substantially and improve our home mortgage origination capability," Mr. Miller said.

"It is a good deal for them," said Henry Peltz, thrift analyst at Keefe, Bruyette & Woods Inc., New York. "Great Western is a well-run organization and they are paying a low price for entry."

Great Western paid the RTC $86 million for the CenTrust operations and $3.75 million or a premium of one-half of 1% for the Gibraltar deposits.

The acquisitions "should provide a strong growth opportunity for Great Western once it steps up its marketing and sells a much more trustworthy image to customers" than the prior ownerships, said W. Coleman Bitting, thrift analyst at Kidder, Peabody & Co. Mr. Bitting predicts' Great Western can generate $3.3 billion more in retail deposits by yearend 1991.

Mr. Bitting said Great Western's non-Florida offices hold $90 million in deposits per branch and currently the 154 Florida offices hold only $40 million per branch.

Great Western had tried to buy 63 CenTrust branches for $150 million before the thrift was seized by the government and was willing to pay $100 million.

Great Western will certainly close some of the 154 branches, but chairman and chief executive officer James F. Montgomery said it has not yet been decided how many or which ones will be shuttered. □

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DEFAULT In Security Agreement Made By P & S Food Corp. to Sea Crest Trading of Connecticut, Inc. I Will Sell On 7/5/90 At 11 AM At 301 E. Kingsbrige Road, Bx., N.Y. All Right, Title & Interest In & To Machinery & Equipment Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

Auction Notices

E. F. Fazio Auct'r Lic #798972 Sells on 07/11/90 9 AM At 8645 Dyre Ave Bx. '83 Plymouth #1P3BP46C1DF115920 Re: P. J. Clemente, '84 Mitsubishi #JA3BT34D1E7425256 Re: M. A. Pottinger, '87 Chevy #1G1PF9179H7184496 Re: H. Greig, '79 Buick #4K4739H199246 Re: L. Concepcion, '84 Plymouth #1P3BM46C4ED220024 Re: A. Richards, '84 Chevy #1G1AE27P1E7245923 Re: C. E. Colon, Jr., '84 Olds #1G3AC69C7ER337713 Re: S. Hooper, '82 Datsun #JN1HJ01S8CT033535 Re: P. Apea, '83 Ford #1FABP28F3DG219358 Re: K. W. Kim, '89 Nissan #1N6HB21S4KC505482 Re: C. Wilson, '87 Nissan #JN1HJ01P1HT220166 Re: Y. M. Ramkissoon, '82 Subaru #JF2AM52B8CG224637 Re: J. G. Trippeti; 10 AM at 3083 Webster Ave Bx '79 Dodge #BD21BR363738 Re: R. Sanchez &/or A. Martinez; 10:30 AM at 1828 Wheaton Ave Bx '88 Pontiac #1G2FS8575GL205810 Re: N. E. Romanchuk, '76 Lady #4U8GP2533HT07 Re: A. K. Burrell, '82 Pontiac #1G2AG11YXCC527677 Re: A. M. Pimentel; 11:30 AM at 403 E. 176th St Bx '79 Honda #5ME110973J Re: S. Casanovas; 12 PM at 1000 Brook Ave Bx '83 Olds #1G3NF27U7FM201484 Re: A. Mitchel, '83 Nissan #JN1PB14S7DU006423 Re: D. K. Parker; 12:30 PM at 670 Southern Blvd Bx '75 Jeep #J8CL5J4S6FL104500816 Re: F. Irizarry; 1 PM at 223 125th St NYC '85 Mazda #JM1BF3136F0115004 Re: A. Cruz; 1:30 PM at 131-41 Sanford Ave Qns '76 Chevy #CCD1461118752 Re: B. J. Price; '79 Olds #1G3AM47H4F6230376 Re: Hernandez; 2 PM at 20-08 119th St Qns '70 Plymouth #RM23J0B200183 Re: Broadwater '89 #JHWB1863M73A/NY201103 Re: C. A. Pratt, '67 Chris Craft 32' # NY3705DF Re: J. M. Impastato; 2:30 PM at 1653 Utica Ave Bklyn '74 Jaguar #EUJR5189BW Re: L. Gellis; 3 PM at 259 58th St Bklyn '85 Nissan #1N4AB01D2FC198223 Re: C. Bonilla; 3:30 PM at 1 Bay Ridge Ave Bklyn '83 Benz #WDBDA26D3DA003079 Re: Bonta. '82 Olds #3G3AR69A2CZ381488 Re: C. Stampone; 10:45 AM at 2117 3rd Ave Bklyn '84 Buick #1G4AA47A6EH545851 Re: J. E. Acevedo; 11 AM at 2794 Bedford Ave Bklyn '87 Olds #2G3AM51N3H1213296 Re: C. Ll Ming; '87 BMW #WBAAE6403H1709298 Re: E. Cheng; 4:30 PM at 532 W. 24th St NYC '83 Chrysler #1C3BC55G4DG158104 Re: D. F. Walsh, '84 Cady #1GBAM69S8ES005604 Re: O. Burger; 1 PM at 508 W. 39th St NYC '89 Kawasaki #JKAEXVE19KA000141 Re: A. Rodriguez, '81 Datsun #JN6MD01C4XJ009117 Re: D. Hipp Vazquez, '89 Yamaha #JYA2WEE01KA004287 Re: Carmen/ Mrs. Published 06/26 & 07/03/90.

M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 884137 Sell July 18, 1990 at 9 AM at 1159-2262 Bedford Ave Bklyn 1977 Cadillac 4 Dr VIN 6D47S6Q511744 Re: Capers; 10 AM at 1159-2262 Bedford Ave Bklyn 1977 Cadillac 4 Dr Sedan VIN 6D47S6Q511744 Re: Capers; 10:45 A.M. 1991 Pacific St Bklyn #1981 Chevrolet Van #1GBDM19K3BB318393 Re: L. Williamson; 11:15 A.M. 12 Clover Pl Bklyn 1988 Honda #JHMBB8722JC031048 Re: Byrd/#928371 Re: A. Adams, Jr.; 11:45 A.M. 1926-30 Atlantic Ave Bklyn 1988 Suzuki Utility Vehicle #JS3TC51C4H4115481 Re: M. Capers; 12:15 P.M. 1967 Atlantic Ave Bklyn 1984 Ford Van 1FTEW14Y4EHA31604 Re: J. Rosado; 1:00 P.M. Bklyn 1988 Honda #JHMBB8722JC031048 Acct., G.M. Bklyn 1984 Chevrolet 2 Dr Sdn #1G1AP8778EL109139 Re: Gonzalez/ Mrs. Monjivar; 2:00 P.M. 168 Liberty Ave Bklyn 1985 Toyota 4 Dr Sdn #JT2NV27UJFC726605 Re: R. Henry; 2:30 P.M. 790 Rennsen Ave Bklyn 1986 Mazda 4 Dr Sdn JM1BF2226G0116497 Re: V. Collins; 3:00 P.M. 995 Rennsen Ave Bklyn 1984 Toyota Subru #JT3MX62W2E0087501 Re: S. Koo; 3:30 P.M. 783 E. 92nd St Bklyn 1978 Buick 4 Dr Sdn #4Y3HE457H864 Re: A. Schwartzbart; 4:00 P.M. 2056 Utica Ave Bklyn 1983 Cadillac 4 Dr Sdn #1G4AG69H3D9247862 Re: D. Greenwell/Bruce Motor Co. Metropolitan Auctioneers, Inc. Published June 25, 1990 & July 3, 1990.

M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 884137 Sell July 19, 1990 at 9 AM at 1159-2262 Bedford Ave Bklyn 1977 Cadillac 4 Dr VIN 6D47S6Q511744 Re: Capers; 10 AM at 1159-2262 Bedford Ave Bklyn 1977 Cadillac 4 Dr Sedan VIN 6D47S6Q511744 Re: Capers; 10:45 A.M. 1991 Pacific St Bklyn #1981 Chevrolet Van #1GBDM19K3BB318393 Re: L. Williamson; 11:15 A.M. 12 Clover Pl Bklyn 1988 Honda #JHMBB8722JC031048 Re: Byrd/#928371 Re: A. Adams, Jr.; 11:45 A.M. 1926-30 Atlantic Ave Bklyn 1988 Suzuki Utility Vehicle #JS3TC51C4H4115481 Re: M. Capers; 12:15 P.M. 1967 Atlantic Ave Bklyn 1984 Ford Van 1FTEW14Y4EHA31604 Re: J. Rosado; 1:00 P.M. Bklyn 1988 Honda #JHMBB8722JC031048 Acct., G.M. Bklyn 1984 Chevrolet 2 Dr Sdn #1G1AP8778EL109139 Re: Gonzalez/ Mrs. Monjivar; 2:00 P.M. 168 Liberty Ave Bklyn 1985 Toyota 4 Dr Sdn #JT2NV27UJFC726605 Re: R. Henry; 2:30 P.M. 790 Rennsen Ave Bklyn 1986 Mazda 4 Dr Sdn JM1BF2226G0116497 Re: V. Collins; 3:00 P.M. 995 Rennsen Ave Bklyn 1984 Toyota Subru #JT3MX62W2E0087501 Re: S. Koo; 3:30 P.M. 783 E. 92nd St Bklyn 1978 Buick 4 Dr Sdn #4Y3HE457H864 Re: A. Schwartzbart; 4:00 P.M. 2056 Utica Ave Bklyn 1983 Cadillac 4 Dr Sdn #1G4AG69H3D9247862 Re: D. Greenwell/Bruce Motor Co. Metropolitan Auctioneers, Inc. Published June 25, 1990 & July 3, 1990.

M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 884137 Sell July 17, 1990 at 9 AM at 1159-2262 Bedford Ave Bklyn 1977 Cadillac 4 Dr VIN 6D47S6Q511744 Re: Capers; 10 AM at 1159-2262 Bedford Ave Bklyn 1977 Cadillac 4 Dr Sedan VIN 6D47S6Q511744 Re: Capers; 10:45 A.M. 1991 Pacific St Bklyn #1981 Chevrolet Van #1GBDM19K3BB318393 Re: L. Williamson; 11:15 A.M. 12 Clover Pl Bklyn 1988 Honda #JHMBB8722JC031048 Re: Byrd/#928371 Re: A. Adams, Jr.; 11:45 A.M. 1926-30 Atlantic Ave Bklyn 1988 Suzuki Utility Vehicle #JS3TC51C4H4115481 Re: M. Capers; 12:15 P.M. 1967 Atlantic Ave Bklyn 1984 Ford Van 1FTEW14Y4EHA31604 Re: J. Rosado; 1:00 P.M. Bklyn 1988 Honda #JHMBB8722JC031048 Acct., G.M. Bklyn 1984 Chevrolet 2 Dr Sdn #1G1AP8778EL109139 Re: Gonzalez/ Mrs. Monjivar; 2:00 P.M. 168 Liberty Ave Bklyn 1985 Toyota 4 Dr Sdn #JT2NV27UJFC726605 Re: R. Henry; 2:30 P.M. 790 Rennsen Ave Bklyn 1986 Mazda 4 Dr Sdn JM1BF2226G0116497 Re: V. Collins; 3:00 P.M. 995 Rennsen Ave Bklyn 1984 Toyota Subru #JT3MX62W2E0087501 Re: S. Koo; 3:30 P.M. 783 E. 92nd St Bklyn 1978 Buick 4 Dr Sdn #4Y3HE457H864 Re: A. Schwartzbart; 4:00 P.M. 2056 Utica Ave Bklyn 1983 Cadillac 4 Dr Sdn #1G4AG69H3D9247862 Re: D. Greenwell/Bruce Motor Co. Metropolitan Auctioneers, Inc. Published June 25, 1990 & July 3, 1990.

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C. LAUDISI & ASSOCS., INC., auct'rs sell July 18, 1990 at 9 AM at 119-24 Jamaica Ave., 1989 Honda #JHMBB8722JC031048 Acct., E.O. Jacob; 9:30 AM at 56-17 58th St., Qns 1986 Ford #1FDEE1G71EKGHAB01 Acct., Lic. General Provisions Corp., 10 AM at 22-62 45th St., Qns 1979 Jeep #J8BT5533BB183839 Acct., N. McCafferty; 11 AM at 70-11 50th St., Qns '86 Ford #1FABP28U3GG178894 Acct., Lic. Gen.

DEALS

Charter's Banks Bide Their Time, Despite Crash of Its Junk Bonds

By STEVEN LIPIN

Despite a drastic drop in the prices of Charter Medical Corp.'s high-yield bonds, the company's bank creditors, remaining cautious, have not begun to clamp down on the company – at least not yet – lenders and analysts said.

Charter Medical, a leading operator of psychiatric hospitals, was taken private in 1988 in a $1.5 billion leveraged buyout. It faces huge liabilities in the next few years, including an increasing amortization schedule for the roughly $700 million that will remain by September of an $880 million bank financing package.

Down the road, experts said, the company may have to restructure its highly leveraged balance sheet, which includes about $1.5 billion in debt, or at least renegotiate its bank lines of credit.

Capital Insufficiency Foreseen

"In our view, the availability of capital may suffice for a year or less," said Roger Gordon, an analyst at Donaldson, Lufkin & Jenrette Securities Corp. "I believe some kind of restructuring of the company's long-term debt is going to have to take place."

Tax increased risk "facing highly leveraged companies with refinancing needs" was a major factor cited Friday by Moody's Investors Service when it downgraded the company's $1 billion in high-yield bonds.

"Meeting future years' bank debt amortization obligations is likely to require external sourcing of funds, which Moody's believes represents higher risk for the company in the present financial environment," the rating service said.

"There's not sufficient cash to make all the bank payments down the road," Sandra Swirl, an assistant vice president at Moody's, said in an interview. "If they can't raise capital, they won't meet bank payments without asset sale."

The Charter buyout, unlike many LBOs, did not envision asset sales. In fact, the company has expanded rapidly since the buyout.

But so far, bank lenders appear to be giving the company breathing room to manage its way out of the problems. "We've been aware of what's been going on," said one Charter lender. "But we have confidence that management's on the right track and will make adjustments."

Banks led by units of Bank of New York Co., BankAmerica Corp., and Wells Fargo & Co. helped finance the buyout; junk bonds financed the rest. Officials of the agent banks declined to discuss the situation.

When the company went private, it arranged a $100 million working-capital facility, a $275 million employee stock ownership plan, and a revolving credit facility that started at $305 million, Ms. Swirl said.

Bank Credits Shrink

The revolving credit is reduced by $60 million to $80 million annually; it is to drop to $398 million in September. In addition, the company must make $50 million in annual sinking fund payments. Ms. Swirl said, reducing that obligation to about $230 million by September. The bulk of the working-capital facility remains outstanding.

Aug. 15, $58.4 million of interest comes due on some of Charter's $1 billion in junk bonds. Also due then is a $28 million principal payment on bank loans.

While all analysts believe the company will make its principal and interest payments in coming months, they are concerned about the need for financing in coming years.

"The market seems jittery about financing," said Ms. Swirl of Moody's, referring to the steep price decline in the company's junk bonds. Added one of the company's bank lenders, "We're not in the position to lend more. We need to see management turn around the situation."

'Financing Plan' Sought

The current bank agreements allow for additional financing, most likely through a sale-leaseback of properties to a real estate investment trust.

The company was said to be considering a $150 million sale to a health-care REIT, but a company spokesman would only confirm that executives were working on a "financing plan," adding "No arrangement has been concluded."

Why the need for additional financing, when most LBO companies try to reduce their debt? Unlike most leveraged buyouts, Charter deal was structured so that additional financing would be needed to fund aggressive growth.

"It was an unusual LBO. At the time, they contemplated to expand hospitals and needed the incremental borrowing," said Ms. Swirl of Moody's. In fact, the company has added 11 hospitals since the buyout.

Additional borrowing by leveraged companies, though, is becoming increasingly difficult in the current skittish financing environment. For its expansion, the company has been investing $150 million to $200 million a year, analysts said.

The good news is that such expenditures should drop next year by as much as 50% as Charter reduces hospital construction, said Ms. Swirl. That will relieve cash-flow pressures.

But the relief is likely to be short-lived. "There should be a cash-flow recovery in 1991," she said, "but the problem is: Free cash flow in 1992 is not sufficient to make scheduled bank payments."

The downgrading was the company's latest setback. The rating service had been placing possible fraud at Charter; the Department of Labor is looking into its ESOP; it had to take a $35 million charge against earnings because of accounting errors, and chronic cash flow to fall 30% this year.

Loss Widens in Quarter

For the second quarter, ended March 31, the company recorded a $67 million loss, compared to an $11.2 million loss in the year-earlier period.

> **"There's not sufficient cash to make all the bank payments down the road."**
>
> **Sandra Swirl**
> *Moody's Investors Service*

After 10% annual growth through most of the 1980s, the demand for medical beds began falling precipitously. Demand for psychiatric hospital rooms "has come to a standstill," an analyst said.

"There's no getting around the fact that it was a disastrous second quarter," said the bank lender. "They may have problems for the whole year."

The company spokesman disputed the negative cash-flow figure, calling it "an inappropriate to discuss cash levels" and beyond saying, "We think the cash flow is adequate."

Restructuring Not Considered

He did say, though, that Charter was not anticipating problems with the bank and was not considering restructuring its debt. He also disagreed with the view that demand for psychiatric care has faltered, saying that "business is fine."

The company's junk bonds, however, seem to be finding little solace. They are trading in the high 30s, against a par value of 100, and Charter's payment-in-kind debentures are quoted at about $10 per $100 of face value. These levels are commonly associated with exchange offers, suspension of interest payments, or bankruptcy, experts agreed.□

NEW ISSUES July 3, 1990

FannieMae

$700,000,000
8.65% Debentures
Dated July 10, 1990 Due July 11, 1994
Interest payable on January 11, 1991 and semiannually thereafter.
Series SM-1994-J Cusip No. 313586 Q 51
Callable on or after July 11, 1992
Price 100%

$600,000,000
9.15% Debentures
Dated July 10, 1990 Due July 10, 2000
Interest payable on January 10, 1991 and semiannually thereafter.
Series SM-2000-F Cusip No. 313586 Q 69
Callable on or after July 10, 1993
Price 100%

The debentures of July 11, 1994 and the debentures of July 10, 2000 are redeemable on or after July 11, 1992 and July 10, 1993, respectively, in whole or in part at the option of the Corporation at any time (and from time to time) upon giving notice as provided in the Indenture. The redemption price of the debentures of July 11, 1994 will be 100% of the principal amount redeemed plus accrued interest thereon to the date of redemption. The redemption price of the debentures of July 10, 2000 initially will be a percentage of the principal amount redeemed equal to 100% plus one-half the coupon rate of the debentures, plus accrued interest on the amount redeemed. The redemption price for debentures of July 10, 2000 will decrease on each succeeding interest payment date thereafter to 100% of the principal amount. See Note to Debt Securities information statement dated June 26, 1990 relating to these debentures. The amount payable at maturity will be equal to 100% of the then outstanding principal balance, plus accrued interest

The debentures are the obligations of the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States, and are issued under the authority contained in Section 304(b) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.)

The debentures, together with any interest therein, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.

This offering is made by the Federal National Mortgage Association through its Senior Vice President-Finance and Treasurer with the assistance of a nationwide Selling Group of recognized dealers in securities. Debentures will be available in Book-Entry form only. There will be no definitive securities offered

Gary L. Perlin
Senior Vice President-Finance and Treasurer

Linda K. Knight
Vice President and Assistant Treasurer

3900 Wisconsin Avenue, N.W. Washington, D.C. 20016

This announcement appears as a matter of record only.

Highlights for Monday, July 2

TOP 10 GAINERS %

Southern National Corporation	11.1
Evergreen Bancorp, Inc.	5.5
First Union Corporation	5.3
Sumitomo Bank of California	3.5
First Financial Bancorp	3.4
Wesbanco, Inc.	3.3
First National Bancorp	3.3
Trustcompany Bancorporation	2.9
CPB Inc.	2.8
First Bank System, Inc.	2.6

TOP 10 LOSERS %

Signet Banking Corporation	-16.3
Northeast Bancorp, Inc.	-7.5
Dominion Bankshares Corp.	-6.9
Union Planters Corporation	-5.9
GBC Bancorp	-5.3
First Florida Banks, Inc.	-4.7
Heritage Financial Services	-4.7
Hancock Holding Company	-4.7
Iowa National Bankshares Corp.	-4.5
Suburban Bancorp, Inc.	-4.5

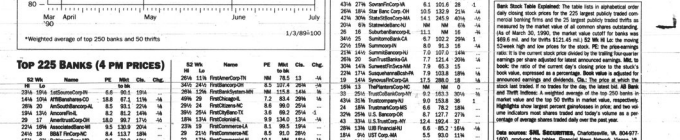
MOST SHARES TRADED

Citicorp	840300
BankAmerica Corporation	491500
Chase Manhattan Corporation	406000
MNC Financial, Inc.	402200
Signet Banking Corporation	299100
Dominion Bankshares Corp.	272200
Banc One Corp.	233000
INB Financial Corp.	228900
J.P. Morgan & Co. Incorporated	218600
Bank of New England Corp.	207400

VOLUME AS % OF AVERAGE

Santa Monica Bank	2419.1
Bancorp of Mississippi, Inc.	1108.2
Valley National Bancorp	770.8
INB Financial Corp.	664.1
Southern National Corporation	580.8
Southtrust Corporation	576.6
First Commercial Bancshares	549.2
National Community Banks, Inc.	489.1
Central Fidelity Banks, Inc.	439.8
Signet Banking Corporation	420.6

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Top 225 Banks (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to Bk	Mkt Cap.	Chg.
33¾	19¼	1stBancorp/Cp-Pr	6.6	90.0	18¾	—
41¾	30¼	1stBkPuerRico/Cp	5.9	87.1	41¾	-½
28¾	20	1stSouthBancorp/A	8.5	93.1	22¾	¼
19	13¼	1stTennessee/Cp-Pr	8.3	97.2	17¾	—
17	12	AmericusSavBnk/Cp	6.8	91.7	16¾	—
23¾	16	AmericusSavBnk/Cp	6.8	91.7	16¾	—
24½	18	BB&T Fin/Cl'A'	8.4	113.7	24¼	¼
15¾	9¾	BaltimoreBncp/MD	9.6	70.2	13¾	—
49¾	27¼	BancPonce/Pr	5.6	102.7	49½	-½
33½	26	BancOne/Corp-Dbl	11.2	187.4	29¾	¼
28	18¾	BancPuerto/Pr	6.4	97.4	18¾	—
56¾	42	BancorpHawaii/Pr	9.9	186.3	50¾	—
23¾	18	BancorpMiss/MS	6.9	87.5	18	—
36¼	23¾	BankAmerica/Cp-Pr	5.9	120.9	29¾	-¼
34	17¼	BankAmerica/Corp/C	13.5	341.6	21¼	—
23¾	2¾	BankNewEngland/Mk	NM	54.8	3	-¼
18	12¾	BankSouthCorp/GA	6.1	91.6	15¾	—
57¾	35¼	BankersTrust/NY	NM	150.2	41¾	-¼
21¼	13¾	BankersWest/Cp/NT	5.5	69.4	13¾	—
30¾	11¾	BanknorthBncp/MA	151.6	45.5	12¼	—
18	9¾	BanksOfIowa/Cp	128.5	91.7	9¾	—
12	9	BarnstableAmer/OK	225.0	53.4	9	—
82	69	BarnettBanks/Pr	11.7	112.6	70	-½
39¾	28¾	BarnettBanks/cl'L	9.6	118.3	32	—
39¾	28¾	BarnettBanks/wt	9.0	45.0	33¾	—
39¼	29	BnattnerI&Dstrs/MD	8.8	104.4	33¾	-¼
26	18	BayBanks/Inc	16.0	103.6	19¾	—
16¾	12¾	BrentonBnks/IA	7.5	NM	14	—
24¾	16¾	CBT Corp/Cl'A'	12.6	135.8	24¼	—
22¾	17¼	CCNB Corp/Pr	7.3	101.5	17¼	-¼
23¾	19¾	CNB Bancshares/IN	10.4	127.2	22¾	—
27	20¼	CPB Inc./Af	11.3	157.1	22¾	¼
21¾	17¾	CVB Fin'l Corp/CA	11.9	278.3	18	—
33¾	22¼	CalFed/Rights/Cv	8.9	NM	23	—
15¾	12¾	CalFed/Bnds/Cv-A	7.5	100.0	14¾	—
34¼	26¾	CentralTrust/Ky/Wt	8.1	118.5	29¼	-½
17¾	13¾	CentralTrust/Ky/Cl	7.3	87.6	14¼	—
44¾	23¾	ChaseManhattan/NY	NM	67.9	23¾	—
41¾	23¾	ChemicalBanking/NY	NM	74.3	39¾	—
35	30¾	ChemicalFin/Corp-Mt	9.0	100.0	31	—
12¾	10¾	CitizensBnk/MI	123.6	87.4	12¾	—
25¾	17¾	CitizensBancorp/MD	8.0	102.5	17¾	-¼
25¾	21¾	CitizensFinancial/Af	7.7	73.8	22	—
15½	10	CitizensFirst/Af	6.6	106.5	10	—
34¾	23	CitizensTrust/GA	6.7	104.0	23	—
27½	19	CityNatCorp/CA	10.2	206.6	19	—
22½	12¾	CoastalBanc/SouthTX	65.2	86.6	15¾	—
58¾	39¼	ComericaInc/MI	9.9	114.5	48¾	¼
29¾	22¾	CommercialBncp/MO	7.5	105.5	24	—
20¾	15¾	CommonwealthBk/A	7.4	92.2	15¾	—
37½	13¾	CommunBancA/I	5.5	47.5	13¾	—
26¾	13¾	ContinentalL	8.6	59.9	14¾	—
26¾	18¾	CoreStates/Fin/Cp	8.2	152.5	26¾	—
34	21¾	CrossarFed/Cp-Wt	6.8	94.1	21¾	-¼
18¼	7¾	DeltaFed/Inc/Cl'A'	39.7	95.2	15¾	—
37¼	29¼	DauphinDeposit/Pa	9.1	135.4	31½	—
32¾	23¾	DepositGuaranty/MS	6.6	75.6	24¾	—
25¾	13¾	DominionBnshs/VA	9.4	86.2	13¾	-½
18	5¾	EquimarkCorp/Pr	NM	38.9	5¾	—
21¼	12	EvergreenBnc/WI	6.8	NM	14½	—
15¾	12¼	F & M NatCorp/A	10.5	186.9	13	—
14¾	12¼	FNB Corp/Pr	8.7	107.3	12¼	—
25	18¼	FNN Bancorp/Af	10.6	176.6	22¼	—
29	28	FarmersCapital/KY	12.1	120.5	29¼	—
16¾	13¾	FedFin/Bnc/Cl'A'	11.3	174.9	16¾	—
38¾	33	FinancialTrust/IN	9.3	140.0	33	—
51¾	36¼	FirstAmBncp/DC	9.6	102.0	38¼	—
19¼	15¾	FirstAlabama/AL	9.5	118.6	17¾	—

52 Wk Hi	Lo	Name	PE	Mkt to Bk	Mkt Cap.	Chg.
24½	21½	FirstBancorp/Pr	8.5	107.4	23¾	-¼
17¾	12¾	FirstBancorp/Cp-Wt	11.4	85.4	14¾	—
29	21¾	FirstBancorp/Cp-Pr	7.2	83.4	23¾	—
19¾	14¾	FirstBancorp/Cp-Wt	8.5	91.9	15¾	—
38½	25¼	FirstCityBncTx/Cl	3.6	69.2	25¼	—
19¾	13¾	FirstCommerce/LA	9.9	134.0	19¼	-¼
23¾	19	FirstCommerce/LA	8.1	99.5	19¼	—
22¾	17¾	FirstCommerce/MS	8.5	91.9	18¾	—
22	17¾	FirstCommerce/AL	10.1	NM	18¼	—
19¾	14¾	FirstCommerce/TN	8.2	118.8	18¾	—
18¼	14¼	FirstCommunity/IL	12.0	121.1	17¼	—
35¼	21¼	FirstEssex/Cp	8.0	106.2	23	—
72	60¼	FirstEmpire/Pr	8.8	103.6	63	¾
33¾	17¾	FirstFed/Mi/Cl A	10.4	181.0	17¾	—
50	40	FirstFinBncs/OH	15.0	211.2	45¾	1¾
24¾	20¾	FirstFinBncs/IL	8.7	78.2	20¾	—
28¾	19¾	FirstHawaiian/HI	10.9	225.8	24½	-½
24¾	18¾	FirstInterstate/L	9.6	148.5	19¾	—
20½	19	FirstNatBancorp/GA	8.1	127.6	19¾	—
19¾	14¾	FirstNatBncp/Cl'A'	7.5	104.0	14	—
19¾	13¾	FirstSecurity/KY	7.5	104.0	14	¼
15¾	13¾	FirstSecurity/Pr	13.3	179.0	14¾	—
33¾	27¾	FirstSecurity/UT	8.7	91.0	29¼	—
19¾	14¾	FirstSouthBncp/NC	17.9	82.0	15¾	—
26¾	16¾	FirstUnionCorp/NC	8.3	100.5	19¾	1
25¾	20¾	FirstVirginia/A -r	8.3	115.1	23¾	—
45¾	37¼	FirstWisc/wts-NC	10.6	159.5	41	¾
24¾	17	FirstWisc/NC	7.5	118.4	20	—
20¼	17	FirstbankW/L	8.7	108.0	18	—
24¾	18¾	FirstfedFin/Af	8.3	106.6	20¾	—
28¾	18¾	FleetNorstar/Pr	12.1	102.3	18¾	-½
25	20¾	FortWayneBancp/IN	8.5	105.1	20¾	—
28	19¾	FourthFin/Corp-KS	12.4	158.3	24¾	—
21¾	16¾	FultonFin/Pa/A	8.4	98.1	16¾	—
24¾	13¾	GBC Bancorp/CA	8.3	207.1	17¾	-1
19¾	14¾	GreenvilleFirst/SC	14.9	75.5	15¾	—
9¾	4¾	HawkeyeBancorp/IA	3.9	NM	6¾	—
19¾	15¾	HeritageFin/Sec/L	8.8	NM	15¾	—
26	14½	HiberniaCorp/LA	18.1	108.6	14¾	—
24¾	19¾	HuntingtonBancsh/Af	8.2	121.4	17¾	¼
32¾	23¾	INBFin/Corp-IN	6.8	97.8	23¾	—
18¾	15¾	IndianaFed/Cp/Af	8.8	102.9	16¾	—
18	15	IndependentBk/IN	11.8	98.4	17½	+½
18¾	13¾	IntegraCorp/IN	7.3	90.6	15¾	—
48	37¼	InvestNtBnshs/A	9.3	135.9	37¾	-1¼
18	14¾	JP Morgan/NY	8.6	152.9	20¾	—
26¼	18¾	JeffersonBnshs/VA	8.0	96.2	19	—
24¾	19¾	KeyCorp/Cl'A'	8.5	115.5	24¾	—
29¾	23¾	KeyCorp/Pr-B	8.2	115.5	27¾	-¼
35¾	29	KeystoneFin/Pa	9.1	126.3	33¾	—
29¾	22¾	KeystoneFin/Pr	10.1	NM	29	—
24¾	20¾	LaSalleBancp/IL	8.3	153.7	24¾	—
29½	22	LakeShore/IL	16.5	198.2	22½	1
18	13¾	LandmarkBancs/MO	7.1	67.1	13¾	—
30¼	24¾	LibertyNatBanc/KY	8.7	116.3	26	—
27	23	LouisvFedCorp/Pr	7.3	90.6	23	—
29¾	12¾	MNC Financial/MD	4.5	70.7	12¾	-½
18	14¾	MagnetBncp/IL	6.3	107.0	14¾	—
20¼	14¾	ManufacturersNat/MI	6.5	101.6	14¾	—
20¾	14¾	ManufacturersNat/Cl	6.3	98.5	14¾	—
23¾	15	MarshallBncs/WI	8.2	100.3	15¾	—
15¾	11¾	MarshallBnshs/WI	8.8	135.3	15¾	—
28¾	24¾	MellonBancCorp/PA	7.6	93.5	26¾	—
28¾	23¾	MercantileBancp/MO	10.2	98.0	25	¾

52 Wk Hi	Lo	Name	PE	Mkt to Bk	Mkt Cap.	Chg.
23¾	18¾	MercantileBnksh/MD	8.9	139.8	21¾	—
30¾	23	MerchantsBank/Af	12.5	190.7	23	—
32	21¼	MerchantsNat/In	10.8	97.4	24½	—
26¼	18¾	MeridianBancorp/Pa	7.2	89.4	18	—
9¾	32	MichiganNatCorp/Af	2.7	65.5	32¼	—
23¾	14¾	MidAmerica/KY	9.7	97.0	15	—
23¾	16¾	MidlmCo./IN	9.7	145.7	19	—
47¾	33¾	MidlantCo/Cp-NJ	3.8	37.1	34¼	-¼
9	5¾	MultibankInk	5.8	52.2	11	—
35¾	28¼	NBD Bancorp/Af	8.9	137.1	32¼	¾
54¾	35¾	NCNB Corp/NC	7.6	133.5	37¼	—
24	18¼	NCNB/ComBncp/CA	14.2	NM	18¼	—
41¾	33¾	NationalCity/Cp-Dbl	8.1	138.7	35¼	-½
14	10	NationalPenn/Pr	12.2	218.8	41	—
30¼	24¾	NatlBancorp/MI-AK	9.5	114.2	29	—
25¼	20¼	NatlCommerce/TN	10.4	180.6	20¼	—
44¾	19	NatlCommunity/Af	5.2	89.1	19¾	¾
15¾	11¾	NorthFulton/In-WI	5.6	72.8	11¾	—
72	18¾	NortheastBanc/CT	NM	52.5	18¼	-¼
36¼	28¼	NorthernTrust/IL	9.0	126.0	29	—
23¾	17¾	NorwestCorp/-MN	8.3	150.8	21¾	-¼
24¾	18¾	OldKentFin/MI	7.9	108.7	23¾	—
29¾	24	OneBancorp/OH-Af	11.4	218.5	24¾	—
24¾	18¾	OneNorthern/Pr	9.7	173.1	19¾	—
24¾	19¾	OneWestBancorp/AZ	9.2	127.2	19¾	—
10	10	OrbanCo/Inc/Cl'A'	9.4	180.3	10	—
6¾	3	PremierBancp/LA	NM	50.2	3	—
12	9	PremierBanc/OH	9.0	127.7	12	—
14	9¾	ProvidentBnshs/MD	24.3	NM	9¾	—
27¾	19¾	PugetSoundBanc/WA	12.4	120.8	22	—
52¾	43¾	RepublicNY/Corp.-NY	324.2	134.6	48¾	—
20¾	15	RidgefldNatCp/CT	6.4	60.5	15	—
32¾	20	RiverFin/Cp-IL	12.6	287.7	27¼	-¾
43¾	24¾	SanMarinoBancorp/CA	11.4	218.5	24¾	—
23¾	17¾	SecurityBancorp/MI	8.3	144.4	18¼	—
54¼	34¾	SecurityPac/CA	5.9	101.9	37	—
28¼	2	SharemanNatCorp/MI	NM	63.7	12	—
42¾	19¾	SignetBanking/Cp	4.4	67.0	19¼	-3¼
38¾	28¼	SocietyCorp/OH	7.0	113.3	32¼	—
37¼	17¾	SouthCarolinaNat/SC	6.8	93.9	18¾	—
29	9¾	SoutheastBncp/FL	NM	43.1	9¾	-¼
19¾	15¾	SouthernNat/NC	10.3	144.2	17¾	—
25¼	16¼	SouthtrustCorp/AL	6.8	91.9	17¾	—
43¾	27¾	SovereignCorp/A	6.1	101.6	28	-1
26¾	18¼	Star Banc Corp./OH	10.5	132.9	21¾	—
42¾	30¾	StateStBost/Corp-MA	9.1	345.9	40¼	—
20¾	9¾	StatewideBanc/HI	NM	NM	6¾	—
16	11¾	SunbankBancorp/IL	11.1	NM	16	—
34½	25	SuntrustBnks/GA-E	6.7	102.2	29¾	1
15¾	10¾	SunwestCorp/Pr	8.0	91.3	15	—
21¾	14¾	SunwstBancs/AZ	7.0	107.0	14¾	—
30¾	17¾	SuntrustBancorp/GA	7.7	121.4	29¾	—
30¾	14¾	SunwestTr/Secs-NM	7.9	65.3	15	—
17¾	12¾	SusquehannaBncsh/PA	7.9	103.8	16¾	—
19	14¾	SynovusTr/Corp-GA	17.5	288.0	18	—
13	11¾	TheFarmersCp/-MD	NM	NM	12	—
33	25¾	TrustCo/BankCorp-NY	9.7	183.3	30¼	¾
19¾	14¾	TrustmarkCorp/MS	9.0	153.8	16	—
24	18¾	TrustmarkCorp/-MS	6.6	78.2	18¾	—
25¾	19¾	U.S. Bancorp/OR	8.7	127.7	19¾	—
43¾	33¾	U.S.TrustCorp./NY	12.4	192.4	37	—
13¾	10¾	UJB Financial/NJ	6.6	85.2	10¾	—
18¼	9½	UST Corp./MA	5.5	93.0	11¾	—
6¾	2¼	UnionBanCal	5.3	58.0	6¾	—
15¾	7¾	UnionPlanters/-TN	NM	63.5	8	-¼

Top 25 Thrifts (4 PM prices)

52 Wk Hi	Lo	Name	PE	Mkt to Bk	Mkt Cap.	Chg.
23¾	18¼	AmericanCoSt/CO	8.9	139.8	21¾	-¼
14	10	UnitedBanksAm/MI	12.5	190.7	13	—
17¾	13	UnitedCarolina/NC	7.8	105.7	13¾	-¼
62	52	UnitedCounties/Af	7.1	101.5	52¼	—
32¼	28	UnitedMissouri/MO	9.4	111.2	28¾	—
27¼	22	WaterEnergy/Af	9.1	113.6	22¾	—
36	22½	WaterCap/Cp-NY	7.8	146.3	24¼	—
28¼	19¾	WaterfedBank/CA	8.3	159.8	23¾	-¼
30¾	11¾	WaterfedCorp/-AZ	NM	70.3	15¾	—
24¾	18¾	WellsFargo/CA	8.1	157.1	19¾	-¼
33	25¾	WesbancoWV	8.8	103.9	31	1
40¾	30¾	WestCoastBancorp/O	8.2	102.2	32¾	—
25¼	17¾	WestamericaBanCA	14.7	166.7	23¾	-¼
40¾	30¾	WestcoastBancp/OR	8.2	102.2	32¾	—
13¾	9¼	WorthenBanking/AR	10.9	134.7	13	—
32¾	24¾	ZionsBancorp/UT	7.7	99.9	28¼	-¾

52 Wk Hi	Lo	Name	PE	Mkt to Bk	Mkt Cap.	Chg.
24¾	18¼	Armancon/CA	9.5	0.0	20¾	¼
18¾	13¾	AshlandSav/MO	8.4	0.0	15¾	—
28¼	15	CalFed/Inc-CA	5.3	0.0	18¾	-¼
55¾	36¾	CharterOne/Sp/OH	12.3	0.0	46¾	—
20¼	8¾	CoastSavings/Cm-CA	NM	0.0	8¾	—
14	10¾	CoastalBncp/TX	NM	0.0	10¾	—
14¾	10¾	CrossCountry/Af	9.3	0.0	13¾	—
37½	23¾	FirstFedAm/Cp-MA	6.2	0.0	27¾	—
19¾	12¾	FirstFedCommerce/CA	8.8	0.0	18¾	—
21¾	12	FirstFedMich/Cm-MI	6.5	0.0	20¾	—
43¾	27¾	FirstFedSav/Cp-MI	6.1	0.0	28	-1
34¾	22¾	GoldenWestFn-CA	11.4	0.0	32¾	¾
27¾	19¾	HarborFederal/Cm-FL	13.8	0.0	25¾	—
14¾	13	HomeCapital/Sav-CA	NM	0.0	14	—
21¾	13¾	HomeSvgBank/Af-NY	13.6	0.0	19¾	—
19¾	11	HomeSvgs/Am-MO	8.1	0.0	15¾	—
10¼	6	People's Bank/Ct	8.3	0.0	8	—
11	7¾	RochesterCmty/Sb-NY	7.7	0.0	10¾	—
23	9¼	SocietyForSav-CT	2.7	0.0	9¼	—
19¾	11	SoNewEngBncp/Af	4.4	0.0	19¼	—
12¾	7¼	StandardFd/Bk-MI	6.6	0.0	9¼	—
17¾	12¼	StandardFd/Cp-MI	6.8	93.9	16¾	—
31¾	23¾	WashingtonFed/Sb	10.1	0.0	28	-¼
13¾	8¾	WestsideCp/CA	15.7	0.0	8¾	—

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding. (As of March 30, 1990, the market value of bank stocks as a group was $68.6 mil. and for thrifts $121.45 mil.) 52 Wk Hi: the closing 52-week high and low prices for the stock. PE: the price/earnings ratio: It is the current stock price divided by the trailing five-year fiscal earnings per share adjusted for latest announced earnings. Mkt. to Book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Chg.: The price at which the stock last traded. If no trades for the latest day, the most recent. Bank and Thrift Indexes: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. **Highlights show largest percent gainers/losers in price; and two volume leaders.** Volume as a percentage of today's volume as a percentage of average shares traded daily over the past year.

Data Sources: IDD, Securities, Charlottesville, Va. 804/977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended June 30

LARGEST PRICE GAINERS*	% change	6/23/90	6/30/90
National Penn Bancshares	10.16%	18.00	843.00
Cullen Frost Bankers	11.91

STOCKS

Second Quarter Winners ... and Losers

Winners	% change in stock price	Losers	% change in stock price
Valley National	+17.25%	MNC Financial	-31.00%
Bankers Trust	+12.40%	Dominion Bankshares	-24.20%
Norwest Corp.	+10.12%	Bank of Boston	-14.65%
Hanover	+6.56%	Citizens & Southern	-13.90%
BankAmerica	+5.33%	First Fidelity	-10.40%

Source: American Banker

Bank Shares Declined by 1.73% In Second Quarter as Market Rose

Continued from *page 1*

for investors, plummeted 24.3%, and Dominion Bankshares Corp., Roanoke, Va., which operates in an area previously considered not to have major problems, fell 24.2%.

"I think there are some unpleasant surprises yet to come and the market is bracing for them," said Felice M. Gelman, an analyst in New York for Dillon, Read & Co. "What you're seeing is people beginning to believe that things will continue to deteriorate, with nonperforming assets going up.

"More specifically, it's the dual demons of credit-quality problems and lack of revenue growth," she said. "It's a tough operating environment all around for banks."

Better Environment Awaited

"Before we get relief, we are going to have to get completely through the OCC [Office of the Comptroller of the Currency] examinations of banks, and see a better interest rate environment, which I am not convinced will happen very near-term," said Ms. Bush.

Some banking companies did manage to beat the odds and post strong price performances in the second quarter, but there were often special reasons for the upward movements.

First Interstate Bancorp., Los Angeles, led the way among the top 25 bank stocks, rising 18.4%. But its stock had been deeply depressed and the rally, while partly a response to good first-quarter results, was attributed by most analysts to takeover rumors after a management change.

Takeover Talk a Factor

Valley National Corp., Phoenix, also registered a major gain – 17.25% – off a depressed base as investors speculated on the likelihood that the real estate recession in Arizona has abated and about the takeover possibilities for the state's last major independent bank.

Only a few banks managed gains on the basis of strong earnings and future prospects of increased profitability.

Among them, KeyCorp, Albany, N.Y., which is now reaping benefits from its decision, several years ago to diversify out of the Northeast by acquiring banks in the Pacific Northwest, gained 14.6% during the three months.

Others in this category are Wells Fargo & Co., San Francisco, which gained 13.25%; Bankers Trust New York Corp., which rose 12.4%; and Norwest Corp., Minneapolis, which appreciated by 10.1%.

But indexes tracking price performance of various sectors of the banking industry show that banks at all levels are being buffeted in the equity markets.

New England Issues Weak

New England banks again registered the weakest peformance of the industry, falling 11.5% in the quarter.

Even Midwest bank, which have been among the least devalued in the industry's price slide, declined 0.57%.

Superregional banks, formerly high flyers as a group, managed a 0.52% gain, but money-center banks fell below the line, dropping about 1% in the quarter.

* * *

MONDAY'S MARKET

Bank stocks did not start the first trading session of the third quarter on Monday any better than they finished the second on Friday. They mostly edged down while the overall market rose.

Shares of Citicorp., which fell 1.6% in the second quarter, declined 25 cents, to $22.375. Chase Manhattan Corp., which fell 14.4% in the previous quarter, opened the third quarter down 12.5 cents, to $23.75.

BankAmerica Slips

BankAmerica Corp., which gained 5.3% in the just-ended quarter, was off 25 cents, to $29.375.

A big drop was posted by Citytrust Bancorp, Bridgeport, Conn., which has suffered from heavy real estate-related loan problems. The stock was off 62.5 cents, to $4.25, at midafternoon, or 73% below its 52-week high.□

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CAPITAL

Jamaica Savings Makes Most of Conversion

By KELLEY HOLLAND

A weak market for financial stocks has created an opportunity for Jamaica Savings Bank, which last week completed its conversion from a mutually chartered to a public thrift.

The stock market has not been kind to bank equities in recent months, but the current environment suited Jamaica Savings just fine, said Park T. Adikes, chairman and chief executive officer.

"We didn't want to [convert] in one of those markets where you get three times the capital you need."

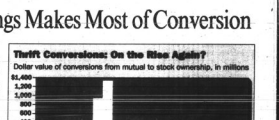
If a thrift gets too high a price for its stock when it converts, it raises too much equity and finds it hard to sustain an acceptable return on equity.

Capital Ratio Raised

As it was, Jamaica Savings Bank, which had $1.46 in assets at the end of 1989, boosted its capital ratios. Before the conversion, the thrift had no worth to assets of 13%. But after going public, Jamaica Savings had about 16% equity capital.

Thrift conversions were commonplace in the mid- to late 1980s after the government first authorized them. A total of 117 thrifts converted between April 1986 and October 1987, according to statistics compiled by Securities Data Corp. The rate of conversions has slowed since then.

But with the current low prices on financial stocks, "you could say this is the ideal time to go public for a company that doesn't need the capital," said Bruce W. Harting, a vice president at Salomon Brothers Inc.



War Chest for Buyouts

Jamaica Savings' unusually high capital ratio does not disturb Mr. Harting. Although it could constrain return on equity over the near term, a strong capital base also makes acquisitions possible – a plus, given the low prices on many financial institutions these days. "What to an outside observer may be too much capital may just be a war chest," he said.

Thrift regulators are eager for thrifts to convert these days, Mr. Adikes said. They want an added layer of insulation between depositors and the thrift insurance fund. But Jamaica Savings has applied to the regulators for authorization to reduce its outstanding equity with a stock buyback program.

Investors apparently welcomed the opportunity to buy into Jamaica Savings Bank. The stock was trading Monday at $13, up $3 from the initial offering price of $10 per share.

* * *

MARKET MONITOR

In a continuing push to improve its equity-to-assets ratio, Midlantic Corp. has sold $250 million of securities backed by home equity loans. The floating-rate securities were priced at 29 basis points over the Federal Reserve AA 30-day commercial paper rate, and interest will be paid and reset monthly.

The bank announced it has also completed the sale of about $256 million in credit card receivables to Manufacturers Hanover Corp. at a premium of about $60 million.

* * *

Manufacturers Hanover's preferred stock issue was priced Monday with a dividend of 10.96%. □

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Economist Says 'Insolvent' FDIC Is Covering Up

By ROBERT TRIGAUX

WASHINGTON — An economist who was among the first to predict the collapse of the thrift industry now says the Federal Deposit Insurance Corp. is effectively insolvent and commercial banks are in big trouble.

"It's deja vu all over again," said R. Dan Brumbaugh, senior research scholar at Stanford University's Center for Economic Policy Research. He contends that federal bank regulators are masking the industry's ills in much the same way thrift regulators hid S&L problems in the 1980s.

Mr. Brumbaugh, Robert Litan of the Brookings Institution, and James Barth of Auburn University have been hired by a House Banking subcommittee to analyze the health of the FDIC's bank insurance fund.

ANALYSIS: *Follow-up on the news*

After studying public data, the researchers concluded that the fund is insolvent — or on the verge of it. The proof, Mr. Brumbaugh believes, is in confidential FDIC data. However, he charged, the agency is stonewalling the researchers' requests for data.

FDIC Rejects Conclusion

The FDIC flatly rejects the researchers' conclusion. "We simply don't agree that the FDIC fund is insolvent," said agency spokesman Alan Whitney.

"Our supervisory people categorically disagree with the notion that insolvent institutions are left open. Our financial statements are audited annually by the U.S. General Accounting Office and each year we get a statement that says we have accurately represented the condition of the fund."

The FDIC has acknowledged it is refusing to hand over data. But the agency said it is concerned about maintaining control of confidential information.

Mr. Brumbaugh rejected that argument, asserting that the agency is trying to hide the numbers. "Once we have thoroughly analyzed the public data, plus information on the FDIC's problem bank list, the data on money-center banks and selected problem banks, I think it will reveal to the House committee that there is a massive problem among commercial banks," he said in an interview.

Credibility Sought

Mr. Brumbaugh, a former Federal Home Loan Bank Board economist, acknowledged that the researchers' conclusions are

See **ECONOMIST** *page* **5**

INSIDE NEWS

MANAGEMENT



RICHARD W. DALRYMPLE, head of the banking service division at Bank of Boston, has borrowed the Japanese concept of "just in time" to help promote efficiency at a futuristic new office. *Page 8*

TECHNOLOGY

SOVRAN FINANCIAL and Citizens and Southern are each consolidating data center operations to cut technology costs in advance of their merger. *Page 3*

FINANCE

MANUFACTURERS Hanover expressed confidence about its ability to syndicate $1.17 billion in bank loans to back Freedman Little's bid for General Instruments. Hanover and coagent Continental Bank are underwriting almost all the bank financing. *Page 16*

INTERNATIONAL

JAPAN'S AGREEMENT to open its economy will provide new opportunities for U.S. banks, according to Charles Dallara, the U.S. Treasury's assistant secretary for international affairs. *Page 10*

CONSUMER

MORGAN GUARANTY is forming within its private bank a global asset management group that will offer clients many products developed for institutional and corporate customers of parent J.P. Morgan. *Page 6*

COMMENT

DEPOSIT INSURANCE reform still faces many hurdles, writes William M. Isaac. *Page 4*

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Talman's Profit Projections Cause Investors to Kill Deal

By NANINE ALEXANDER

CHICAGO — Talman Home Federal Savings and Loan Association announced Tuesday that an investor group headed by Chicago banker Harrison I. Steans had terminated its agreement to acquire the thrift because of lower-than-expected profit projections.

The canceled deal means the company will have difficulty raising the capital necessary to comply with the thrift-bailout law. However, analysts said it is unlikely the thrift would be seized because it is still profitable.

The disclosure sent Talman's stock into a tailspin. In late-afternoon trading, Talman's shares were off $2.875 to $4.75 in active trading. A spokesman for Chicago-based Talman said the thrift would continue to "vigorously pursue sources of capitalization."

Higher Funds Cost Blamed

Talman, the nation's 29th-largest thrift, said the lower earnings projections were discovered while Mr. Steans's group was conducting its due-diligence review. The thrift did not give an earnings projection, but said second-quarter profits would be lower than the $4.5 million earned in the first quarter. It attributed the decline to increased cost of funds.



Reached at his home, Mr. Steans said a confidentiality

See **TALMAN** *page* **2**

Citicorp Tells Fed that Law Allows It to Sell Insurance

By LINDA CORMAN

WASHINGTON — Counter-attacking against the insurance industry, Citicorp has told the Federal Reserve Board no legal ground exists to prevent banks' entry into the insurance business under a recently enacted Delaware law.

Citicorp argued that, while the Fed can restrict the insurance activities of a bank holding company's subsidiary, the regulator cannot block such activities by a bank's subsidiary.

Citicorp Acts on New Law

After Delaware enacted a law last month giving state-chartered banks insurance powers, Citicorp began taking steps to underwrite and sell insurance through its unit in the state, Citibank Delaware. Citicorp is the largest of several money-center holding companies able to take advantage of the new authority — and the one most feared by insurance interests.

Several groups led by the In-

See **CITICORP** *page* **2**

Virginia Banks Drop in Market On Realty Fears

By FRED VOGELSTEIN

NEW YORK – The specter of problem real estate loans haunted the bank stocks of yet another state early this week as investors in the four largest banks in Virginia ran for shelter.

Touching off the rout, which clipped upward of 10% or more from the values of the Crestar Financial Corp., Sovran Bank, Dominion Bancshares and Signet Banking Corp. were rumors in the market on Monday that Virginia banks would report lower second-quarter earnings because of problem real estate.

Short Sellers Suspected

There was some speculation that short sellers were spreading the rumors to make a killing by buying back borrowed shares at lower prices.

After the close of trading on Monday, Signet, the hardest hit of the group, confirmed that its second quarter earnings would be "minimal." On Tuesday Signet gained back 75 cents of the $3.75 lost Monday to close at $20. However, other Virginia banks continued to fall.

Richmond-based Sovran.

See **STOCKS** *back page*

Pacific Western's Phillip Boyce: $918,000 a Year and Worth It(?)

By SAM ZUCKERMAN

SAN FRANCISCO — His bank does not even rank in the top 300, yet Phillip R. Boyce is among the industry's money-making elite.

The founder and chief executive of San Jose-based Pacific Western Banshares was paid $918,106 in salary and bonus last year, more than Citicorp president Richard S. Braddock and almost as much as Chase Manhattan president Thomas G. Labrecque.

But it is Mr. Boyce's role as investment banker for the $1.1 billion-asset bank that has raised some eyebrows.

The bank's board last year gave Mr. Boyce, 46, a contract to act as advisor and bargaining agent in cases of unsolicited takeover bids. If Mr. Boyce can fetch a price that exceeds 2.5 times the bank's book value, he will be paid a commission that could run as high as $3 million. And he could pocket an additional $15 million to $20 million in stock, golden parachute, and other benefits.

"You have got to pay the race-

See **PACIFIC** *page* **11**

Major-League Bucks

Phillip Boyce runs a relatively small bank, but he is paid like a money-center banker (1989 compensation)



PEOPLE in the news

Entrepreneurial CEO Gets New Boss in Equifax Deal

By JEANNE IIDA

After making his mark as the entrepreneurial chief executive officer at Telecredit Inc., Lee A. Ault 3d is getting a new boss.

Late last month, the Los Angeles-based payment services company agreed to be acquired by Equifax Inc., a large Atlanta-based credit bureau. But Mr. Ault, who built Telecredit into a leading processor of MasterCard and Visa accounts, said he does not see the change curbing his independence.

"That's going to be worked out in time," said Mr. Ault, Telecredit's CEO since 1968. "And I think the opportunities for the two companies working together are very significant."

"I believe Lee is pragmatic enough to see it can be a advantageous to have a larger partner," said Joseph Stevens, an analyst with the Stiefel Nicolaus & Co. brokerage firm in St. Louis.

While Telecredit had not been looking for a suitor, the merger made sense, Mr. Ault said.

Equifax can help Telecredit broaden its offerings to include credit screening and turnkey credit card services, Mr. Ault said, which would allow smaller financial institutions to manage their own card programs.

> **"The fun of running a business is building it with your employees."**
>
> **Lee A. Ault 3d**
> *Telecredit Inc.*

Telecredit still gets about 80% of its $167 million in annual revenue from its original business, a guaranteeing checks for retailers. Profits from that activity funded expansion into credit card processing, mostly for small banks, thrifts, and credit unions. Equifax sells many of its credit reports to small and medium-sized banks.

Mr. Ault, 33, said he sort of fell into a career. He graduated from Yale University with a liberal arts degree, and after four years as a Marine Corps fighter pilot, he spent nearly five years in Peru and Colombia as general manager of W.R. Grace & Co.'s food business.

"I had no interest in computers or in data processing," Mr. Ault recalled. But a disappointing job in investment banking and a fortuitous meeting with the founder of Telecredit changed all that.

When Mr. Ault became CEO, Telecredit was a $600,000 company. Now, the company has grown to $167 million in revenues and 1,200 employees, and he regrets that he can no longer spend as much time with employees. "The fun of running a business is building it with your employees. Nobody builds anything by themselves."

After its formation in 1961, Telecredit lost money every year for a decade. But it became a technological pioneer. It was among the first to put on-line card-reading terminals in grocery stores, patented a technology to read and write information on plastic cards' magnetic stripes, and recently developed a lottery system.

Telecredit hit rough waters in 1988, when it was forced to take a writeoff of a $25.2 million investment in a subsidiary, Light Signatures Inc., which was unable to succeed in anticounterfeiting technology for financial documents and credit cards.

Mr. Ault closed Light Signatures and refocused on highly profitable payment services. But in early 1989, the board of one of its card-processing customers, a Florida-based credit union association, decided to move its business to First Data Resources Inc., a subsidiary of American Express Co. After months of wrangling, at least 60% of the association's credit unions kept their business with Telecredit.

Through it all, Mr. Ault kept his cool. "I've never seen Lee overreact to anything," said Fred L. Smith, general manager of the Y-12 Federal Credit Union, Oak Ridge, Tenn. Mr. Smith led the group that opted to stay with Telecredit. □

NEWS *briefs*

BankAtlantic Cutting Its Staff and Offices

FORT LAUDERDALE, Fla. — BankAtlantic announced a plan to cut 10% of noninterest expenses through staff reductions and the sale of its six banking offices in Dade County, which includes Miami.

BankAtlantic Chairman Alan B. Levan also said BankAtlantic's earnings for the quarter ended June 30 would be substantially improved from the first-quarter loss of $985,000.

About 46 employees in backoffice and support positions were dropped immediately, leaving 800 on the $1.8 billion-asset thrift's payroll.

Seidman, Recovering from Accident, Due Back on Job

WASHINGTON — Federal Deposit Insurance Corp. chairman L. William Seidman is expected to return to part-time work here Thursday following a horseback-riding accident June 20 in New Mexico.

The 69-year-old official, who suffered a separated pelvis and has been undergoing physical therapy, is walking with crutches, an FDIC spokesman said.

Shareholders Sue Fleet

PROVIDENCE, R.I. — Five shareholders of Fleet/Norstar Financial Group sued the company for allegedly failing to monitor its loan quality or to disclose the extent of problem loans, the *Providence Journal-Bulletin* reported. □

Riegle Cites Bank Perils at Hearing

By LOUIS GERHARDSTEIN
Special to the American Banker

WASHINGTON — Sen. Donald W. Riegle, D-Mich., does not want the savings and loan disaster to spread into the banking industry.

"I don't want history repeating itself," the Senate Banking Committee chairman declared during a congressional hearing last Friday on Andrew C. Hove, President Bush nominated Mr. Hove, a Nebraska banker, to fill the fifth slot on the board of directors of the Federal Deposit Insurance Corp.

The problems that will demand Mr. Hove's close attention are the recent decline in the FDIC's Bank Insurance Fund and the lack of scrutiny given to state-chartered thrifts during the last half decade, Sen. Riegle said.

Sen. Riegle noted that the deposits insured by the FDIC, estimated at $1.7 trillion, are resting on an insurance fund of $12 billion to $13 billion. When Sen. Riegle asked Mr. Hove if this concerned him, Mr. Hove responded, "Yes, it makes me uneasy."

Meanwhile, John F. Bovenzi, a senior FDIC official, said the fund could fall by $2 billion in 1990 as banks continue to suffer losses from commercial real estate loans.

Mr. Hove, who is expected to win confirmation, said later in an interview that he would "look very seriously at increasing deposit insurance premiums," but that the decision would depend on the size of the fund. "We can't go through the same problems in the bank insurance fund that we did in the savings fund, where we did diminish to nothing," Mr. Hove said.

If the bank fund continues to decline, Mr. Hove said, "we're going to have to put some money back into it, and the only way to put money back in without going to the taxpayers is with additional premiums."

To emphasize what he sees as the importance of examining the powers of state-chartered financial institutions, Sen. Riegle cited the high rate of failure among state-chartered S&Ls in the late 1980s.

Mr. Gerhardstein writes for the Medill News Service.

Talman Deal Killed by Profit Projections

Continued from *page 1*

agreement would not allow him to elaborate on the announcement. He referred calls to Talman's chairman and chief executive officer, Peter C. Roberts, who was not immediately available for comment.

A source close to the investor group said the announcement from Talman was "reasonably accurate."

The offer from Mr. Steans would have injected $300 million into Talman, bringing it into compliance with the capital standards of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The agreement also called for paying Talman shareholders $5 in cash and $5 the unsecured subordinated debt for a total of about $96 million.

OTS Accepted Plan

Its capital plan was accepted in March by the Office of Thrift Supervision, giving Talman until the end of 1993 to comply with the federal bailout law. It was required to suspend its common-stock dividend as part of the agreement.

With $6 billion in assets, Talman had negative tangible capital of about $200 million at yearend, mainly because of goodwill taken on during four government-assisted acquisitions in the early '80s.

But unlike many thrifts being forced to eliminate goodwill, Talman remains profitable, earning $20.2 million last year. It has remained narrowly focused on the basic business of taking deposits and originating home mortgages, and it reports few problem loans.

Analysts had hailed the OTS decision as a sign that regulators were willing to grant some leniency to thrifts that were otherwise healthy.

Henry S. Peltz, an analyst at Keefe, Bruyette & Woods Inc. in New York, speculated that Talman might ask the OTS for additional time to meet the capital requirement.

While he said the acquisition would have solved Talman's problems, he pointed out that an infusion of capital in the current environment will be difficult to find again. □

Corrections

Because of a production error, several paragraphs were cut of order in an article on June 29 ("Bankers Brace for Life in Fishbowl as Era of CRA Disclosure Begins," page 1). For a corrected reprint of the article, write to Matt Barthel, editor, American Banker, One State Street Plaza, New York, N.Y. 10004.

An article on July 3 ("Systematics Signs Pact with Vboss," page 3) misstated Systematics' product offering and terms of an agreement with Vboss Development Corp. Systematics offers its own branch automation system and will not market Vboss' system directly to customers. Under the pact, Vboss will support the full automation system to Systematics' customers in Wisconsin and Illinois.

Citicorp Responds to Insurance Groups' Attack at Fed

Continued from *page 1*

dependent Insurance Agents of America have asked the Federal Reserve Board to consider whether the Delaware statute authorizes banks to circumvent laws such as the Bank Holding Company Act, which the Fed enforces.

"Citibank Delaware is authorized to engage in the insurance activities specified under the new Delaware law and may do so without prior approval from the Board's prior approval," Citicorp's lawyers, from the Washington firm of Sullivan & Cromwell, wrote in a letter to Chairman Alan Greenspan.

"In addition, the Board's Regulation Y specifically authorizes Citibank Delaware to engage through an operating subsidiary in insurance activities authorized under state law for the bank itself, without approval from the Board," the memorandum said.

Regulation Y governs the activities of holding companies.

The Fed is currently reviewing the insurance groups' petition. The insurers want the agencies to prevent Citicorp and other bank holding companies from selling and underwriting insurance nationwide through Delaware subsidiaries.

Citicorp has already placed the assets of an insurance company, Family Guardian Life Insurance, and 22 separately incorporated insurance agencies within Citibank Delaware. The unit plans to continue to sell life insurance and annuities underwritten by Family Guardian and to begin selling and underwriting other insurance products.

Chase Manhattan Corp., New York, also received approval from state authorities to engage in insurance activities through its Delaware subsidiary, said Delaware Banking Commissioner Keith Ellis. He said no other applications are pending under the state's insurance law.

The insurance groups said the act expressly prohibited the subsidiaries of bank holding companies from engaging in insurance activities. None of the exceptions to the prohibition applied in the Citicorp case, the insurance industry petition said.

Meanwhile, the House Banking subcommittee on financial institutions submitted its own request to the Fed to review Citicorp's anticipated entry into insurance activities in Delaware. The Federal Deposit Insurance Corp. also is studying the potential impact of the state law on all banks' safety and soundness.

In a case involving the insurance business of Merchants National Corp., an Indiana holding company, federal courts ruled that the Fed does not have authority to regulate activities of state-chartered banks. The Delaware issue focuses on the Fed's possible jurisdiction over subsidiaries of those state-chartered banks. □

Greasing the Wheels for Avantor

Sovran, C&S Aim for 2 Data Centers After Merger

By KAREN GULLO

NEW YORK — To cut technology costs and prepare for their merger, Sovran Financial Corp. and Citizens and Southern Corp. are each consolidating data-center operations.

These moves are the first step toward forming two large computer centers — in Richmond and Atlanta — to support the merged banking company, which is to be called Avantor Financial Corp.

The combined entity would be the product of the largest bank merger to date, with operations in 11 states and $47 billion in assets. The merger, which is awaiting Federal Reserve Board approval, is expected to be completed in the third quarter.

The data-center consolidations will be completed by the end of next year, according to technology executives at both banks. In the meantime, the banks are working together to decide which equipment they will use in the merged company.

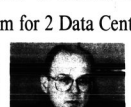
The consolidations are essential to achieving cost efficiencies in supporting the 400-plus branch network and back-office operations of Avantor.

Shared Systems

Sovran and C&S are making headway in two other key technology programs for use when the mergers are complete. A single bank card system that will be shared by both units, and a project to merge automated teller networks.

Sovran, based in Norfolk, Va., is merging four data centers into a single center in Villa Park, Va., outside Richmond. The consolidation will affect an estimated 130 positions, about 60 of which are expected to be relocated to Villa Park.

Computers, disk drives, tape drives, and switches in data centers in Nashville, Norfolk, and Hyattsville, Md., will be sold or moved to the new center.


Larry Hoagland

SQUEEZER: Sovran Financial's John J. Sponski is combining four data centers to prepare for the creation of Avantor Financial Corp.

John J. Sponski, executive vice president for corporate operations and technology, declined to say how many mainframe computers will be phased out or how much the bank will save from the consolidation.

First Fidelity's Example

Other large banking companies that consolidated their data centers have cut technology expenses by millions. For example, First Fidelity Bancorp., Newark, N.J., saved $10 million when it consolidated eight data centers into two.

Mr. Sponski said that 1990 expenses for Sovran's corporate operations and technology unit will total $250 million. The unit includes information management, corporate telecommunications, operations, and general services and facilities.

"The consolidation is a continuing effort to seek out opportunities to improve our level of service and to reduce costs," Mr. Sponski said.

Atlanta-based C&S is continuing a series of consolidations that began last year at its South Carolina and Florida offices. In Columbia, S.C., applications on two mainframes have been merged to a single computer. Mainframe systems are now being merged in Atlanta. The company plans to do the same in Florida next year.

Migration to Mainframes

George A. Budd, manager of operations and technology at C&S, said the data centers in South Carolina and Florida will remain open as service centers, but transaction processing will be handled on mainframes in Atlanta.

"We will continue to have significant operations in Fort Myers [Fla.] and Columbia, but for reasons of strategy and simple economies we are going to operate those off a single data-processing operation in Atlanta," Mr. Budd said.

Technology expenses are slightly less at C&S than at Sovran, Mr. Budd said.

Sovran and C&S have plans to develop a "common set of software for retail and commercial banking. Sovran has established seven study groups to investigate hardware, operating systems, and communications issues that must be dealt with to merge technology for Avantor. Mr. Sponski and Mr. Budd stay in almost daily contact.

But Mr. Budd said that the banks are limited in their ability to put plans into action until the merger is complete.

"There's a limit to how much real cash you can throw around for development," Mr. Budd said. □

Jack Henry Calls Off Talks On Merger with Peerless

By RICHARD LAYNE

NEW YORK — In an unexpected move, software company Jack Henry & Associates has called off merger talks with Peerless Systems Inc.

Jack Henry said Monday it had mutually agreed with Allied Capital Corp. II, to terminate the four-week-old talks, which had no conclusion in sight. Allied owns 25% of Peerless.

Software for IBM Machines

A merger between Jack Henry and Peerless, both of which sell banking software that runs on International Business Machines Corp. computers, would have created a $20 million company with 850 customers, making it one of the biggest providers of complete systems for small banks.

Rodney L. Armstrong Jr., chairman of Richardson, Tex.-based Peerless, said, "Jack Henry was comfortable with the possibility that the definitive agreement might not be reached in the near future." □

One possible sticking point is a lawsuit that Jack Henry has lodged against Unisys Corp. Unisys is suing Peerless over Mr. Armstrong nor Mr. Henry would comment on the suit or divulge any difficulties in the talks.

Jack Henry, which is based in Monett, Mo., originally sold software for IBM computers. But the company switched its allegiance to Unisys and signed a development agreement with the company. When the Unisys alliance fell apart, Jack Henry returned to IBM. Because Unisys defaulted on payments, Jack Henry wrote off $1.2 million in 1989.

Jack Henry had approved the merger in principle, in which Allied stock or cash would have been paid for Jack Henry stock.

In a statement, Jack Henry said the company has no intentions of seeking a sale, merger, or other financial arrangement.

Peerless will continue to look for a potential merger partner as part of its strategy to grow, Mr. Armstrong said. □

Bank South Plans Smart Card Test

By JEANNE IIDA

NEW YORK — This summer, the flagship subsidiary of Bank South Corp. will become one of the first in the United States to test smart cards.

The Atlanta-based bank will use the cards to keep track of hours and days worked by some employees. Smart cards are magnetic-stripe cards with a tiny computer chip that can record data about the cardholder.

The smart card demonstration will involve 250 employees, five bank departments, and a branch office inside a Kroger's supermarket.

Advanced Card Technologies, Atlanta, is supplying the smart cards and computer terminals.

Eventually, the project may be expanded to allow Kroger's customers to use smart cards for point-of-sale purchases, Bank South has 40 Kroger branches.

The employee test will give Bank South and its employees up-to-date information about hours worked and vacation and sick days. The bank's payroll department now works weeks behind using paper-based information.

Employees will insert their cards into reader-writers attached to personal computers at the beginning and end of each day. Paychecks will be generated from the information stored in personal computers. □

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COMMENT/ *By William M. Isaac*

Deposit Insurance Reform Still Faces Impediments

Foreign deposits are not insured under current law and, therefore, no deposit insurance premiums are assessed on them. While that seems fair enough at first blush, small banks correctly note that whenever a large bank has gotten into difficulty, all depositors, foreign and domestic, have been protected.

On its face, this creates an inequity between large and small banks. Two-thirds of Citibank's deposits, for example, are foreign, which means that Citibank — whose parent is Citicorp — pays premiums on only one-third of its deposit base, while a smaller bank with no foreign deposits pays premiums on its entire deposit base.

The large banks counter with two arguments, one not-so-persuasive and one that has merit. The argument that does not impress me is that assessing foreign deposits will make it difficult for U.S. banks to compete internationally.

Premiums Similar to Tax

Deposit insurance premiums should be viewed as a form of tax on U.S. banks. It makes all banks, not just large ones, less competitive against intermediaries that do not pay the tax. At the very least, the tax should be distributed fairly among all banks that derive a benefit from deposit insurance.

This leads me to the large bank argument that has merit. The large banks generally opposed the deposit insurance plan when it was proposed in the 1930s. They argued that a better way to resolve the banking crisis was to implement nationwide banking, rather than to subsidize marginal competitors through adoption of a deposit insurance system.

When the S&L bailout legislation was being debated last year, consideration was given to assessing foreign deposits in addition to the near doubling of the basic premium.

If both measures had been enacted, Morgan Guaranty would have seen its deposit insurance costs increase seven-fold. Morgan could argue persuasively that it would rather see the deposit insurance system, from which it derives only marginal benefit, abolished rather than absorb a tax increase of that magnitude.



Objectively, abolition of deposit insurance would have a far greater negative impact on small banks than on large banks. The large banks are willing to tolerate a depositor protection plan so long as the cost of the plan does not become excessive in relation to the benefit they derive from it.

Assessment Issue Clouded

In the final analysis, the fairness issue on assessment of foreign deposits is not nearly as clear as it seems on the surface. It is a dollars and cents political issue that needs a thoughtful political solution.

The American Bankers Association task force that studied deposit insurance reform and endorsed the "haircut" plan for gan could argue persuasively that it would rather see the deposit insurance system, from which it derives only marginal benefit, abolished rather than absorb a tax increase of that magnitude.

than 11% on small bank failures and much lower on large banks.

An 11% haircut would thus benefit smaller bank depositors at the expense of larger bank depositors. The quid pro quo for this additional small bank subsidy would be continued exclusion of foreign deposits from the FDIC's assessment base. It's not a bad approach, unless someone can come up with a brighter idea.

Too Big to Fail

Some bankers, most notably the leadership of the Independent Bankers Association, are skeptical that a large bank will ever be allowed to fail and, therefore, greet the haircut plan for large deposits with less than total enthusiasm.

One answer would be to make the haircut absolutely mandatory whenever FDIC funds are utilized to assist a bank, no matter how the transaction is structured (i.e., a capital infusion, merger, or liquidation).

That will not be sufficient to relieve the skeptics of all their doubts. They fear that the regulators might circumvent the haircut mandate by having the Federal Reserve provide funding to a troubled large bank ad infinitum in order to avoid the necessity of FDIC assistance and the resulting mandatory haircut.

Prohibit Secured Lending

There is a solution to this problem as well. Legislation could be enacted to prohibit the

See **COMMENT** *next page*

Mr. Isaac was chairman of the Federal Deposit Insurance Corp. from 1981 to 1985. He now heads the Secura Group, a Washington-based consulting firm.

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One State Street Plaza, New York, N.Y. 10004
212-943-6700

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San Francisco: Sam Zuckerman (bureau chief). 415-986-8700
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ART
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THE LOBBYISTS

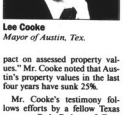
Texas Mayor Says Cities Deserve Break On RTC Properties

Yet another Texas mayor has urged reforms of the way the Resolution Trust Corp. liquidates thrifts. Lee Cooke, mayor of Austin, Tex., told House Banking Committee Chairman Henry B. Gonzalez, D-Tex., at a recent field hearing that local governments want to become more active bidders on selected RTC properties.

Mr. Cooke, representing the National League of Cities's finance, administration, and intergovernmental relations committee, told the panel that in January the league had recommended the RTC take the following steps to make city governments stronger players in the sales arena. It received no response from the agency.

First, the league proposed that the federal government provide discounts of up to 50% on properties of interest to cities and towns. Second, the group sought a federal exemption of municipal bonds for single and multi-family housing from the state-by-state volume caps.

"Over the next year, I believe you will see a flood of concerns and anger by folks like me," Mr. Cooke told the House Banking Committee. "All across the nation, not just in the Southwest, there is a growing fear that the implementation of Firrea will have a far greater impact on cities than at any other level of government, because of the im-



Lee Cooke
Mayor of Austin, Tex.

pact on assessed property values." Mr. Cooke noted that Austin's property values in the last four years have sunk 25%.

Mr. Cooke's testimony follows efforts by a fellow Texas mayor, Bob Bolen of Fort Worth, to seek better ties to the RTC (see The Lobbyists, May 31). Mr. Cooke also suggested that rather than have the RTC implement what he called a "graduated discount dumping policy," the agency should schedule sales of properties for properties that could have a benefit-impact on local economies.

* * *

Rural Folk Ignored By Fed, CEO Claims

A.J. Jack King, chairman and chief executive officer of the $60 million-asset Valley Bank of Kalispell, Kalispell, Mont., vented some anger from the heartland as he relinquished his post on the Federal Reserve Board's consumer advisory council last week.

Mr. King, who will not be back in Washington before his three-year term ends this fall, called for an overhaul of the composition of the committee. He said that representatives of urban interests – whether from banks or community groups – dominated the committee.

Mr. King said there ought to be two advisory committees, one composed of representatives from communities of less than 200,000 people and another representing larger communities.

Mr. King's call for changes in the composition of the consumer advisory council was prompted by his discontent with the committee's support for tightening the Community Reinvestment Act. Rural banks are generally in compliance with the CRA and should not be saddled with new regulatory requirements, he said.

Mr. King further called for the elimination of representatives of interests that compete with banks, including those from credit unions, finance companies, and brokerage firms. Discounting the six members representing these industries, eight pushing the interests of the urban underprivileged, academics, and representatives of money-center banks, he concluded that only three of the 28 members spoke for the interests of rural consumers.

* * *

Appraisers Uneasy With Fed Proposals

The Federal Reserve last week became the first federal banking agency to issue proposed guidelines on real estate appraisals, and so far the agency is not winning much support from the appraisal industry.

One element of the Fed's plan, which would require only a license appraiser for appraisals on property valued at less than $1 million, runs contrary to the intent of the recent law requiring certification of real estate appraisers, industry lobbyists contend. "The Fed guidelines could be devastating for the mandated reforms for professional appraisers," says a lobbyist for the appraisal industry.

Few of the reforms of the appraisal industry seem to be occurring without major concerns. For example, provisions of the thrift law that allow states to set up their own agencies to license appraisers are confusing and must be clarified, lobbyists say.

Earl Espeseth, chairman of the appraisal committee for the National Association of Realtors, took his case before a House Government Operations subcommittee in the spring. The law says a state may establish an agency but is silent on how to do it. The deadline for states to comply with the act, and to prevent state appraisers from being disqualified from performing federally related appraisals, is July 1991.

— Robert Trigaux and Linda Corman

Economist Charges 'Insolvent' FDIC Covers Up Bank Crisis

Continued from *page 1*

not being well-received by the industry.

"All bankers, when they see this assessment of their industry, get mad as hell and conclude people like me are bank-bashers," Mr. Brumbaugh said. But "when the government realizes taxpayer dollars will be needed to close all the insolvent banks, they will try to tax solvent banks as much as they can," he said.

"We are the allies of the profitable banks, though we are perceived as their enemies," Mr. Brumbaugh said.

Data Quest Stymied

The researchers' quest for confidential FDIC data is stalled, Mr. Brumbaugh said the issue is back with the House Banking panel, which ultimately could issue a subpoena for the records. But sources said the financial institutions subcommittee, chaired by Rep. Frank Annunzio, D-Ill., thus far is keeping quiet on the delicate subject of confidential records.

At the FDIC, congressional liaison Beth Climo said the agency will make the data available as long as the researchers are subject to the same stringent rules of confidentiality that government officials must agree to.

Mr. Brumbaugh said that the following points, when considered together, indicate that the fund is insolvent:

• At yearend 1989, 253 banks with $142 billion in assets reported net worths under 3% of capital, well below the 5.5% minimum requirement.

• Some 480 banks with $42 billion in assets have had operating losses every year since 1986. They would have their equity capital eroded by the end of 1990 if they continue to lose capital at the same rates as in past years.

• Another 240 banks had operating losses in 1988 and 1989 and had their equity capital ratio fall from 8.2% in 1986 to 5.2% in 1989.

Given those trends, and accounting techniques that obscure market values, said Mr. Brumbaugh, "it is hard to believe that many of those banks in a market-value sense are not solvent or near insolvency." For the FDIC to exhaust its $13.2 billion bank insurance fund, he said, it would take a loss ratio of only 9% of the $142 billion assets at the 253 poorly capitalized banks.

The "wild card" is the money-center banks, said Mr. Brumbaugh. Given high nonperforming loans and low capital levels, a widespread recession could trigger serious problems that the FDIC could not handle, he said.

President Bush's recent call for higher taxes, Mr. Brumbaugh argued, could precipitate such an economic downturn.

"We are clearly at a point at which, in relatively short order, the taxpayer may have to make a contribution to the closure of insolvent banks," Mr. Brumbaugh said.

"We also are entering uncharted waters. Given the demonstrably weakened money-center banks, only a relatively meager downturn in economic activity can put the bank insurance fund in a situation of no longer being able to observe a money-center problem. And regulators will have to close money center banks." □

Add to that scenario other sectors of weakness that Mr. Brumbaugh said have yet to show up, notably 450 FDIC-insured mutual savings banks in economically depressed New England with $250 billion in assets.

Given that the FDIC expects a maximum loss of $2 billion this year, he said, "it is totally unreasonable for the bank insurance fund to lead us to believe it is closing anywhere near the insolvent banks in 1990 it should."

He concluded: "The only issue is: how much are they covering up – not whether they are covering up.

"We have in place for the first time in 10 years all the factors to make everything worse." □

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COMMENT

Continued from *page 4*

Federal Reserve from lending money to banks and thrifts on a secured basis.

I first suggested this idea when I was chairman of the FDIC. I felt the Federal Reserve's function was to meet the temporary liquidity needs of banks that were capital solvent, not to prolong the lives of insolvent institutions.

The issue came to a head for me when the Federal Reserve indicated it would continue funding a grossly mismanaged and insolvent bank, Penn Square Bank, unless I agreed to protect the uninsured depositors.

If this had occurred, the uninsured depositors would have withdrawn their funds, the Fed advances would have been fully collateralized, and the FDIC would have been left holding the bag.

Fed Can Undermine FDIC

While this did not come to pass at Penn Square, the Federal Reserve has effectively usurped the provision of collateralized funding, to undermine discipline in the banking system and escalate the FDIC's losses.

The banking problems for large deposits endorsed by the ABA is entirely feasible and would represent a vast improvement in the deposit insurance system. It would restore some much needed discipline to the financial system without creating unacceptable instability.

The plan raises issues, to be sure, but none that can't be resolved by intelligent, fair-minded people. The question is not whether we can devise the means to reform the system, but whether we have the will to do so. □

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MARKETING/ADVERTISING

Focus Shifts to Advertising Aimed at the Newly Wealthy

By ELLEN MEMMELAAR

Back in the days when private banking was entirely synonymous with "old money," institutions landed new clients through referrals. Now that brash entrepreneurs and self-made corporate executives have captured the bankers' attention, advertising is the name of the game.

In the United States, 1.2 million households have more than $1 million in assets, and 80% of these represent "new money," said Jack Avrett, chairman and chief executive of Avrett, Free & Ginsberg, an advertising agency. The private banking market, he said, includes entrepreneurs who recently sold their companies for millions and corporate executives who landed softly with comfortable retirement packages.

"Banks are going to be forced to change their image to some extent, so they don't put off the newly wealthy," said Sandra Oursuoff, publisher of *Manhattan inc.*, a New York business publication that announced in June it would merge with *M* magazine for men. "They have to change their modus operandi from catering to the carriage trade."

United States Trust Co. just signed Avrett Free to develop an advertising campaign with the newly rich in mind.

Similarly, Bankers Trust Co. recently launched an ad campaign with an updated air. Gone are the days of overstuffed leather chairs and graying men talking about exclusivity, said Ann Warburton-Ballek, director of communications for the private bank at Bankers Trust. The bank's ads contain "straightforward prose that reflects the audience and market that we are trying to reach," she said.

> **"You can run ads aimed at millionaires, and the phones will start ringing."**
>
> **John Fisher**
> *Backer Spielvogel*

Even old-line Morgan Guaranty Co. is shelving its three-year-old ads. The private bank group recently signed Backer, Spielvogel, Bates Inc., New York, to create a campaign that will begin this fall and target the nouveau riche, a spokeswoman said.

Taking Off the Elitist Edge

For U.S. Trust, Mr. Avrett is charged with creating ads that make "private banking accessible, less intimidating, less elitist." The challenge, however, does not end there. Private banks must retain a solid image even while openly marketing themselves, Mr. Avrett warned. They have to guard against the "I don't ever want to be a member of a club that I could join" syndrome, he said.

"Customers will come to the bank for emotional reasons," he said. "We try to forge emotional relationships with packaged goods. We have to try to do the same thing for banking services."

Millionaires Are Responsive to Ads

Persuading people with new fortunes to respond may prove less difficult than it appears. John Fisher, senior vice president Backer Spielvogel, said, "You can run ads aimed at millionaires, and the phones will start ringing."

In a study of 600 millionaires, 34.8% reported that they had purchased financial products through the mail, Mr. Fisher said. This percentage is relatively high, he said, and an encouraging sign for financial marketers like private bankers, who are seeking to reach a geographically diverse population.

New-Money Demographics Dictates Choice of Agency

As private bankers shift their sights, their advertising purchases will change as well, observers say. Executives and entrepreneurs are often in big cities and surrounding areas, while old-money clients are spread throughout the country.

National advertising was necessary to reach the old-money segment, but other approaches are more appealing now, Ms. Oursuoff said. "There will be a shift away from national advertising to a more regionalized approach" as the market evolves, she said.

Ms. Warburton-Ballek said target markets for Bankers Trust are Chicago, Los Angeles, New York, and Palm Beach, Fla. Entrepreneurial activity is strongest in the first three cities, and new-money retirees are moving to Florida.

Along with national ads, Bankers Trust is placing regional ads where possible in publications including *The New York Times, The Wall Street Journal, Forbes, Fortune, Business Week, and The Economist.*

Advertising through regional editions is the wave of the future, said Mr. Fisher. But he urges marketers to be aware of regional readership habits.

"These [newly rich] people get exposed to more media than anyone else, including those people in the advertising business," he said. *Fortune* and *Forbes* are read mainly on the East Coast, he said, while *Business Week* is read equally on both seaboards. □

Morgan Guaranty Expands Services

Private Clients Offered Products Used by Institutions

By MAUREEN NEVIN DUFFY
Special to the American Banker

NEW YORK — Morgan Guaranty Trust Co. is forming a global asset management group within its private banking unit.

Through the group, Morgan will offer private bank clients many of the products developed for institutional or corporate clients of J.P. Morgan & Co., its parent. These include junk bonds and private placements.

In some cases, Morgan may "retail or package" such products to meet the needs of the individual investor, said Arthur B. Sculley, who will assume responsibility for the new group. He will also retain his post as managing director of private banking in New York, reporting to David L. Hopkins Jr., head of the private bank.

Focus on Investment Services

The formation of the group signals a "greater emphasis on investment services and the development of new products," Mr. Sculley said. The group will draw together Morgan's investment-related business worldwide, including investment management services, mutual funds, and the three-year-old self-directed investor services.

The private bank concentrates on the highly affluent, limiting its investment management clients to those with accounts of at least $5 million. J.P. Morgan has $85 billion in assets under discretionary management.

Among the products to be offered private investors are private placements (limited partnerships or managed equity pools) for qualified investors, custody products, international real estate investments, and high-yield bonds.

Junk Bond Research

Ten months ago, J.P. Morgan Securities started a research group for junk bonds, and Mr. Sculley said the research has attracted investors from other firms. The high-risk instruments are offered only to carefully screened clients.

Mr. Sculley said the bank also spends "a great deal of time screening the investment itself, from tax and regulatory angles."

"We have strict guidelines as to whom [the higher-risk] products can be shown, with strict follow-up to be sure investors have done their own analysis," he added.

Management Changes

Separately, the private bank will make some changes in management this fall. Harry Barbee, managing director and head of trust and investment management in the private bank, will retire on Oct. 1. He will be succeeded by Jean L.P. Brunel, who has been managing director of J.P. Morgan Investment Management Australia Ltd. since 1986.

Mr. Brunel, who will report to Mr. Sculley, will divide his time between Melbourne and New York until he relocates in January.

As a member of the private bank senior management, Mr. Brunel will be responsible for the group's investment policy worldwide. A graduate of Ecole des Hautes Etudes Commerciales in France, Mr. Brunel earned his MBA from Northwestern University and served for two years as commercial attache at the French Consulate in Chicago.

Since 1976, he has held investment-related positions in Morgan's offices in New York, Tokyo, Hong Kong, and Singapore.

Reflecting on his 35 years with Morgan, Mr. Barbee expressed "mixed feelings" about leaving behind associates. "The potential for growth in the private bank is phenomenal, and Morgan has the best resources in world to do that business – globally."

Asked if the Swiss banks should be threatened, he said, "I think they already are."

Ms. Duffy is a freelance banking reporter based in New York.

Chase Campaign to Integrate Products

By ELLEN MEMMELAAR

NEW YORK — Chase Manhattan Corp. plans to launch a nationwide identity campaign this fall to integrate all its consumer products.

The campaign represents a first for Chase, said Aubrey Hawes, vice president and corporate director of advertising and promotion. It will incorporate mortgages, credit cards, home equity lines, savings accounts, and other products, he said.

"It sounds like they are trying to create an overall retail positioning at the bank;" said Les Dinkin, a Westport, Conn., consultant. "This campaign, in concert with their product-based and retail market-based initiatives, should help them solidify their customer franchise and provide a platform for profitable growth."

Mr. Dinkin said the effort may have another purpose. It "might as much be a rallying cry inside the institution," he said.

In late June, top officers announced a restructuring and plans to cut operating expenses by $300 million a year. In a memo, Chase said it is dissolving its three-bank structure to become "leaner, better integrated, and more market-focused." Management's stated commitment to "one Chase" is apparently the springboard for the campaign.

Citibank, whose parent is Citicorp, is also reported to be planning a multimillion-dollar nationwide campaign for autumn. N.W. Ayer, the bank's ad agency, is said to be working on the multimedia effort. Citibank officials did not return calls for comment late Tuesday.

Chase has already developed a positioning strategy and a slogan for the campaign. □

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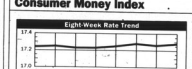
Consumer Money Index

Personal loan rates and fees



Here are the personal loan rates and fees charged by selected large banks and thrifts nationwide on July 3. The rates are for a $3,000 unsecured personal loan with a fixed rate and a 24-mo. term. The 8-week trend is based on rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.

Thrifts

THRIFT	RATE	FEES
Boston Five Cents Svgs Bk, Dallas	15.00%	none
Chevy Chase Svgs Bank, Maryland	16.00	none
Great Lakes Bancorp, Ann Arbor, Mi.	18.00	$50
Perpetual Svgs Bank, McLean, Va.	19.00	none
San Jacinto Svgs, Houston	14.25	none

Banks

BANK	RATE	FEES
Bank of Boston, Boston	18.00%	None
Bank of New England, Boston	17.50	none
First Interstate Bk of CA, Los Angeles	21.00	$25
Texas Commerce Bank, Houston	15.50	none
Union Bank, San Francisco	18.50	$60

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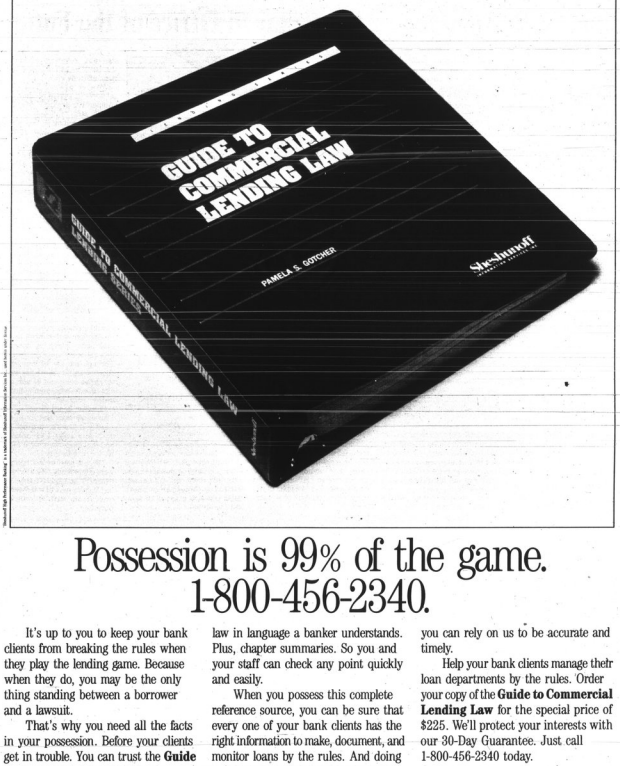

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A weekly feature

AMERICAN BANKER
Thursday, July 5, 1990

Bank of Boston Hoping for a Star in Office of the Future

By JACQUELINE EMIGH

BOSTON – At first glance, the interior of the building that houses Bank of Boston's new banking services division looks something like a set from "Star Wars."

Computer cable runs along the ceiling, partly enclosed by a bright yellow cover. The desks have no drawers, some work areas are illuminated with natural light, and see-through wastebaskets are made of wire. There are no private offices — although some work areas are segmented into cubicles – and a robot delivering mail moves about the 250,000-square-foot facility.

Spending in Time of Cutbacks

While a majority of the industry has been pursuing cost-control with near-religious fervor, Bank of Boston has splurged on this office of the future, which handles corporate securities processing and a range of trust functions.

But the bank is betting that there will be a return on its investment: With a little help from the layout — and a Japanese marketing concept called "just in time," it is expecting to recoup some of its outlay through marketing synergies, increased quality control, and cost containment.

"The banking business is a tougher business today," said Richard W. Dalrymple, head of the Banking Service Division, a combination of back and front-offices. "Cost control at Bank of Boston will not be a one-year project."

Emphasis on Fee-Based Income

This strategy – epitomized by the Canton, Mass.-based facility – has solid backing from the bank's senior management. The unit, Mr. Dalrymple said, also represents the commitment of Bank of Boston chairman Ira Stepanian to a greater emphasis on fee-based income.

"We'll always be a heavy lender," Mr. Dalrymple said. "But lending is a risky business. "We need to balance out the lending with more income from other sources."

In Canton, the bank has merged seven securities operations into four so-called product lines: shareholder services, worldwide custody, corporate trust, and institutional and master trust. Helping to make the operation more efficient is the just-in-time approach, a strategy devised by auto makers in Japan to streamline production.

Expediting Transactions

In manufacturing, just-in-time means that suppliers deliver items immediately before the production process, thus avoiding significant inventory build-ups and helping to speed the completion of a product. But in the securities business, Mr. Dalrymple said, just-in-time helps to speed the completion of a transaction.

Instead of working with tangible items. "our employees do things to stock certificates, bonds and other pieces of paper," he said.

In line with the just-in-time approach, employees with similar functions are seated together, Mr. Dalrymple said. Thus, when one step in a process is completed, a person responsible for the next step can immediately grab the baton.

For example, before just-in-time was adopted in the transfers department, employees called "preparers" were in one area, input operators in another, and examiners in a third, Mr. Dalrymple said. If one area worked faster than another, the process would back up.



STATE OF THE ART: Harry Robertson working in Bank of Boston's new large and naturally lighted office space in Canton, Mass.

> **"We'll always be a heavy lender. But lending is a risky business. We need to balance out the lending with more income from other sources."**

Now, however, the department seats workers together under two seating arrangements. One, the "standard line," is shaped like an "H" and uses six employees: two preparers, two input operators and two examiners.

The new arrangement has proved extremely flexible. If a massive work order comes in, or a "crunch" comes up, new seating configurations can be formed almost instantly, Mr. Dalrymple said.

To make this possible, all furniture and computer equipment in the unit are portable. Personal computers and terminals can be shuttled about the office and hooked up through an overhead cable tray that extends throughout the office.

Partly because of the new design and enhanced efficiency, the bank is gaining new business, officials said.

"We've always had good salespeople, a good product, and competitive pricing," Mr. Dalrymple said. "But now our customers are telling us that we are further along than other banks."

Employee Adjustment

Are employees happy with their new surroundings? At first, there was culture shock, said Gail King, a Bank of Boston staffer who helped to plan the move.

Some workers asked: "Where's my drawer?" Ms. King said. Managers complained about having to move from private offices to open-air cubicles. And then there was Mr. Dalrymple's run-in with the robot.

"When I came out of my office one day, the thing almost cornered me," the division chief said.

Nonetheless, officials said, Canton is proving to be a comfortable, efficient place to work. Production staffers work by natural light, which is generally thought to be easier on the eyes. Through the use of wire waste baskets, employees in the transfer department can be sure crucial documents aren't thrown away.

"Canton is not nirvana," Mr. Dalrymple said. But he emphasized that turnover is much lower than studies had projected and that employees seem to prefer the new facility.

"People used to feel that they were either 'back office' or 'front office,' " he said. "Today, they feel they're part of a full-service operation with a common purpose." □

COST CONTROL

Seeking Unexchanged Shares After a Merger

By JOHN SALAK
Special to the American Banker

Mergers have become a way of life in the banking industry. But some shareholders may be a bit behind the times, and institutions are finding that there is often an ocean of small shareholders who never trade in their old shares for new ones.

Unexchanged shares are a record-keeping nightmare that costs banks thousands of dollars annually – a situation that likely will increase as the industry continues to consolidate.

But Chemical Bank has found a way to address the situation. The bank enlisted Shareholder Communications Corp., creator of a program called Postmerger Cleanup Services.

Convincing Shareholders

Under the service, the company helps banks to consolidate their records and reduce expenses by contacting shareholders and persuading them to complete transactions.

Chemical called on Shareholder Communications soon after its merger with Texas Commerce Bank several years ago.

"We were very pleased with the cleanup service. The main point is that they set targets and met them," said John P. Mallon, a Chemical vice president.

Mr. Mallon declined to specify the cost savings or the number of shareholders contacted. However, he said, more than half of the stockholders with unexchanged shares were eventually persuaded to exchange or close out their accounts.

Saved on Hiring Costs

"We could have tried to do it ourselves," Mr. Mallon said. "But it would have meant hiring people. The additional cost would have offset the benefit. Plus, we might not be very good at it."

The cleanup process takes three to four months to complete and costs $30 per account, said Shareholder Communications president Alexander B. Miller. In most cases, he said, the success rate is greater than 60%.

Mr. Miller maintains that the service is well worth the price. The costs of servicing an account of any size runs about $15 a year, he said, adding that under that estimate, the program would pay for itself within two years.

Three Packages Offered

Shareholder Communications offers three cleanup packages. Under one, shareholders are encouraged to complete basic share swaps. Another gives them an option to exchange old shares for cash without paying a broker's fee or dealing with stock certificates.

Under a third plan, Shareholder Communications seeks holders of odd lots (parcels of less than 100 shares) and attempts to buy back their shares. □

HEADHUNTING

Recruiters Say They Can Help Out Even when CEOs Hire Ex-Colleagues

By JEFFREY MARSHALL

In the recruiting arena, interpersonal contacts often carry significant pull.

Bank of New England Corp. chairman Lawrence K. Fish recently phoned an old colleague, D. Bruce Wheeler, and persuaded him to sign on as the new president of its flagship bank.

A similar approach also worked for Anthony P. Terracciano, chief executive of First Fidelity Bancorp, and Thomas Theobald, chairman of Continental Bank Corp. Both men brought several former colleagues into the fold when they took over their respective banks.

Personal Loyalties

Executive recruiters concede that not much in their bag of tricks can match a boss' personal pitch: Chemistry and personal loyalties are key ingredients in forming new management teams. But they say there can be a role for headhunters even when a new chief executive is thumbing through his Rolodex in a quest for candidates.

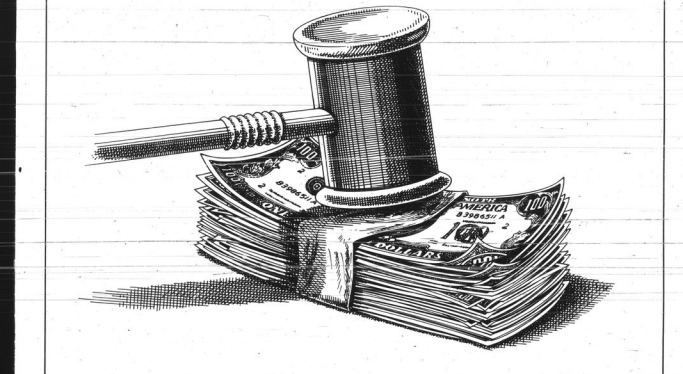
"Especially in turnarounds, you tend to take people with you," said Durant A. Hunter, a partner in Gardner Stone Hunter International in Boston. "You need people you can really trust."

Recruiter as Middle Man

A recruiter might play middle man "if the president wanted to be protected in some sense and not be turned down," Mr. Hunter said. In such instances, an executive might use a recruiter to feel out a prospective employee.

In addition, headhunters can act as advisers in a search for fresh talent, instead of prowling the front lines. Recruiters also work with a chief executive officer in cases where a large institution is seeking to fill an opening near the top of the management hierarchy and a search committee has been formed. □

Some opinions have greater impact than others.



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GLOBAL *dispatches...*

East Germans Swapping Marks At a Slower Rate than Expected

Reuters

EAST BERLIN — East Germans had withdrawn 4.2 billion marks from savings accounts by noon today, a savings bank association director said.

Horst Oberlaender, director of East Germany's savings bank association, said that around 95% of the applications to swap East marks into West marks in the first phase of monetary union were processed.

"The first conversion operation is practically complete," Mr. Oberlaender said. The central bank said Sunday that East Germans had applied to withdraw 4.5 billion marks, less than the six billion originally predicted.

Mr. Oberlaender said East Germans had shown caution in withdrawing only small amounts. An average of about 840 marks ($50) per person was taken out.

"They withdrew enough to cover their daily needs for the next 10 to 12 days," he said.

Mr. Oberlaender noted that queues at the savings banks were now shorter but he expected another rush next week when savings passbooks were converted into West German marks.

On Sunday, East Germans were entitled to an initial 2,000 marks (about $120), converted at a one-for-one rate.

... by country

JAPAN

Peru's President-elect, Alberto Fujimori, said he had asked Japan to contribute to a $1.8 billion loan that would allow Lima to make a start on paying off its huge foreign debt.

The loan would also open the way for more cash injections to help rebuild Peru's economy, Mr. Fujimori said.

"I hope Japan will enter into a consortium to provide the $1.8 billion loan to help us repay part of our debt to the International Monetary Fund, the World Bank and the Inter-American Development Bank," Mr. Fujimori said.

The framework of the loan was worked out with the IMF by President Alan Garcia, who steps down on July 27. Mr. Fujimori said the Japanese response was "'neither too hot nor too cold' in two days of talks with government and business leaders.

"This was natural given the fact that Peru has been isolated from the international financial community and has taken a confrontational attitude toward international organizations."

In 1985, Mr. Garcia imposed strict limits on how much of Peru's foreign debt the country would repay. Both the IMF and the World Bank subsequently cut off fresh loans to Peru.

"If talks with the IMF are a prerequisite for bilateral financial support from Tokyo, I believe such assistance is just around the corner," Mr. Fujimori said.

Mr. Fujimori said he asked Japanese Prime Minister Toshiki Kaifu to raise the possibility of extending the Brady plan, a U.S. initiative, to Peru when Mr. Kaifu meets leaders of the G-7 nations in Houston.

— Reuters

WEST GERMANY

The economic summit in Houston July 9 to 11 will underscore the commitment of industrial nations to continue their "cooperation" on financial markets, a senior West German government official said Tuesday in Bonn.

The official, speaking to reporters on the condition that he not be identified, was using the usual G-7 language to indicate preparedness to intervene in financial markets.

However, the official also said the currency markets were now relatively stable.

At a meeting of Group of Seven finance ministers in Paris in April, officials had expressed concern about the decline of the yen, which they believed was hampering efforts to reduce international trade imbalances.

The official added the G-7 stance on foreign exchange markets had to be backed up by the economic policies of the G-7 nations – the United States, Japan, West Germany, France, Britain, Italy, and Canada.

The official referred specifically to the need to cut the budget deficit in the United States. This high deficit, he said, was one of the reasons why a gap had arisen between the level of savings and investment funds needed, especially for eastern Europe.

He said West Germany was progressing in its attempts to reduce its current account deficit and noted that West German growth was now being powered increasingly by domestic demand.

Reuters

JAPAN

The flight of investors from the declining Tokyo stock market since April has benefited Japan's big banks. Large-denomination term deposits at the city banks alone grew by about $117 million in April and May.

However, general restrictions on lending growth, especially in real estate lending, have meant that spreads have been smaller than expected. The result is that the city banks are shrinking the portion of their funds raised through the more-expensive three-month certificates of deposit.

TFW

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Comline International Corp., Cupertino, Calif.

U.S.-Japan Accord Opens Doors

New Opportunities Foreseen in Financial Services

By JOHN EVANS

LONDON — Japan's agreement to open its economy will provide new opportunities for U.S. banks, according to Charles Dallara, the U.S. Treasury's assistant secretary for international affairs.

In a telephone interview from Washington, Mr. Dallara said the agreement did not specifically address the issue of access to Japan's markets for U.S. and other Western financial-services suppliers.

"But, indirectly, we feel that the agreement will be positive for foreign banks seeking to operate in Japan," he said.

For example, U.S. corporations seeking to export and make investments in Japan will create opportunities for American banks to provide ancillary services, such as trade finance and advice, Mr. Dallara said.

Widening Access

The United States and Japan signed an unusual accord last week that would allow foreign companies greater access to the Asian country for investment and exports, he said. The pact was struck as the conclusion of the Structural Impediments Initiative between the two countries, negotiations which started last fall with a central aim of cutting Japan's $50 billion trade surplus with the United States.

In a wide range of measures, Japan will review and improve state trade agencies, such as the Fair Trade Commission. It pledged to reinforce penalties for breaches of antitrust laws, to ensure fair trade and business practices.

At the same time, Japan will invest $2,500 billion over the next decade to improve its infrastructure, particularly in housing, ports and utilities, as part of an overall program to step up domestic consumption.

'Keiretsu' to Lose Power

Mr. Dallara stressed that the agreement also aims to erode the power of the "keiretsu," the system by which Japanese companies, their associates, and bankers have built up closely knit corporate relationships. Western nations claim this system unfairly discriminates against their suppliers trying to gain a foothold in Japan.

"We've taken steps to address this issue, including more disclosure and even the requirement for divestment of stockholdings" in certain keiretsu situations, he said.

The United States will continue to press the issue of fairer practices in Japan in the sphere of financial services under the so-called yen/dollar negotiations between the two nations, Mr. Dallara said.

U.S. Team Bargained Hard

A tough-talking U.S. government delegation visiting Tokyo in late May demanded that Japan should abandon its regulation of consumer interest rates, a system which the American side believes helps unfairly subsidize the Japanese banking system.

Japan has deregulated interest rates on deposits of more than 10 million yen – about $65,000 – action akin to the abolition of interest rate ceilings in the United States a decade ago. But it continues to cap banking interest rates on smaller deposits.

The United States asked Japan to remove such controls within one year. The Japanese side protested that it needed at least three years before such deregulation, warning that action before then could cause failures among Japanese banks highly dependent on cheap deposits for their funding.

In Washington, a Treasury spokeswoman said she expects the next round of yen-dollar talks to take place later this year. □

Midland, Hongkong, Marine Link ATMs

By JOHN EVANS

LONDON — Midland Bank PLC, the Hongkong and Shanghai Banking Corp., and Marine Midland Bank have established an international network of about 3,000 automated teller machines spanning three continents.

The network includes 270 ATMs operated in the United States by Marine Midland, a wholly owned unit of Hongkong Bank. Midland has 2,000 machines in Britain, and Honkong Bank has 701 units in Asia. The Asian bank holds a 14.9% stake in the British bank.

"Customers of all three banks can withdraw cash and make balance inquiries from cash machines in the U.K., Hong Kong, China, and the U.S.," Midland said in a statement.

The network will be extended later this year to include the Middle Eastern states of Oman, Qatar, the United Arab Emirates, and Bahrain as well as the Philippines, Brunei, and Thailand.

The network will be extended later this year.

On-line authorization is provided through existing equipment and a satellite connection between London and Hong Kong. A typical transaction using the satellite will take 10 seconds, Midland said.

"This initiative is a further example of the growing business cooperation between Midland Group and Hongkong Bank group," a Midland spokesman said.

Better Branch Links

The Asian bank and Midland have extensively restructured their international branch networks in recent months to foster closer links.

Tony Mattera, a spokesman for Marine Midland in New York, said the international link was a commonsense competitive move "comparable to what other large banks, like Citibank, are offering." Citibank recently signed an agreement to give its customers access to about 20,000 ATMs operated by Japan's largest banks.

Ed Lynch in New York contributed to this report.

Key International Rates *

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/03	7/02	6/29	7/03	7/02	6/29	7/03	7/02	6/29	7/03	7/02	6/29	7/03	7/02	6/29
United States	8.31	8.31	8.31	8.31	8.31	8.37	8.37	8.37	8.43	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.50	7.50	7.43	7.65	7.68	7.50	7.68	7.75	7.56	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.37	13.37	13.25	13.50	13.50	13.50	13.25	13.50	13.56	13.80	13.80	13.80	14.75	14.75	14.75
U.K.	15.00	15.00	15.00	14.93	15.00	15.00	14.87	14.93	14.93	14.32	14.31	14.31	15.00	15.00	15.00
West Germany	8.12	8.25	8.00	8.25	8.31	8.18	8.50	8.56	8.43	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.31	9.37	9.06	9.06	9.12	9.00	8.93	8.93	8.68	6.00	6.00	6.00	10.68	10.68	11.13
France	10.06	10.00	9.87	10.12	10.06	10.06	10.25	10.18	10.18	9.50	9.50	9.50	10.50	10.50	10.50
Italy	12.00	12.06	10.75	11.37	11.37	11.18	11.50	11.42	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.22	14.38	8.48	8.56	7.62
6 to 12 months	8.30	13.50	8.75	7.88	7.57
12 to 24 months	8.83	12.60	8.92	7.08	7.30

* Midday quotes in the New York market

Source: Mosnan, Ashley & Pearce Inc., New York

Pacific Western's Boyce: $918,000 a Year and Worth It(?)

Continued from page 1

horses," says Mr. Boyce, unabashed.

Pacific Western is one of two remaining billion-dollar independent banks in Northern California. With 26 branches in the affluent Silicon Valley-Monterey corridor, it is one of the hottest takeover candidates in the state.

Although Mr. Boyce officially denies Pacific Western is for sale, his actions seem to indicate that he is willing to talk turkey.

Early this year, sources say, he met twice with Security Pacific Corp. to talk about a sale. But the Los Angeles giant failed to offer enough money, according to the sources. Security Pacific has declined to comment.

Profits Have Soared

Analysts said selling the bank at 2.5 times book is within the realm of possibility.

And for good reason. After several mediocre years in the mid 1980s when return on equity consistently came in under 11%, Pacific Western's profits soared 81% in 1989 to $13.4 million, a healthy 1.33% return on assets and 19% on equity.

Shareholders have fared well under Mr. Boyce's leadership. The stock's 119% rise last year made it the 14th-best performer on the American Stock Exchange. A startup investment in the bank's stock in 1975 has since multiplied more than 16 times. The stock was trading at $11.375, down 37.5 cents, early Tuesday afternoon.

Pact Termed 'Larcenous'

Mr. Boyce's lavish pay and perks combined with his flair for promoting himself and his bank have earned him a measure of notoriety in California banking circles.

"He's been accused of being a real greedy guy," said a former employee, who asked not to be identified.

Investment bankers and others in the securities industry are incensed by his advisory agreement with Pacific Western's board, which makes their services unnecessary. Michael Abrahams, an analyst with Bateman Eichler, Hill Richards, Los Angeles, called it "just larcenous."

Staunch Defenders

But Mr. Boyce also has a legion of staunch defenders, especially among stockholders. They say he should be lauded not as a banker who inherited a going concern, but as an entrepreneur who started the bank.

"He's done quite a good job," said Calvin E. Wong, a partner in Alpha Capital Co., Pacific Western's largest stockholder, with a 5.1% stake. "His compensation arrangement is a matter between him and the board."

Gerry Findley, a bank analyst in Brea, Calif., said, " If you do [what Mr. Boyce has done], you should be rewarded."

Dr. Sidney R. Sogolow, a Pacific Western board member since 1975, conceded that "there may be a question about appearances" regarding Mr. Boyce's salary. "But look where his compensation comes from," the Los Gatos doctor said. "If the bank makes money, he makes money."

Mr. Boyce's base pay is only $230,000; the rest comes from performance incentives, Dr. Soglow noted.

Local Boy Makes Good

Mr. Boyce, who owns 3.6% of Pacific Western's outstanding stock, is the classic local boy who made good. He was raised next to a prune orchard in the San Jose suburbs and went to college at San Jose State University. His father was the postmaster of a Silicon Valley town when agriculture was king and computer chips didn't exist.

Mr. Boyce said his longtime ambition was to become a banker.

"When I was in college, I decided that I wanted to be the president of a bank by the time I was 30," Mr. Boyce recalled. "I made it at 31."

Mr. Boyce loves to tell the story of how he raised seed money for Pacific Western by taking 20 friends to lunch at a suburban San Jose restaurant. "Seventeen people invested," he recalls with a chuckle, and the restaurant tab came to $68.

With a casual manner, an open collar, an enormous bellypink cheeks, and glasses, Mr. Boyce has the air of a genial small-town businessman. But those who have seen him in action say he is a hard-nosed manager who keeps careful track of how different business lines and employees are performing. He has instituted a rigorous incentive program in which compensation is tied directly to an officer's contribution to profit increases.

"He doesn't do banking the way bankers do. He's much more of a practical businessman," said Hoyt E. Wilkinson of First Manhattan Consulting Group.

Pacific Western's chief said that the process of building an organization is more important to him than money. "I love the chase," he said.

The size of his paycheck is "a measurement of success," Mr. Boyce said. "It's far better to have a compensation package that does not make the chief executive bored or take away incentive."

Pay Comparisons

Compensation specialists said Pacific Western's size and performance should be the most important criteria for judging whether Mr. Boyce's pay is appropriate.

"One ought to be looking at

See PACIFIC page 13

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Pacific Western's Boyce: $918,000 a Year and Worth It(?)

Continued from page 1.

what other CEOs of similar size high-performing banks are getting," said Robert W. Miller of the Wyatt Co., a San Francisco compensation consulting firm.

Normally, a chief executive of a high performing bank would be paid about 20% to 30% more than the CEO of an average-performing institution in the same size range, Mr. Miller said.

Others Get Much Less

Chief executives of two other top-performing banks in the San Jose area are paid considerably less than Mr. Boyce:

● Roger Smith of $456 million-asset Silicon Valley Bancshares, which recorded a return on equity over 28% in 1989, collected approximately $440,000 in cash compensation for the year.

● Jack Conner of $468 million Plaza Commerce Bancorp. San Jose, which had a return on equity of more than 23%, was paid about $500,000.

Although their institutions had less than half the assets of Pacific Western, compensation specialists consider the comparisons valid.

Up to 1% of Sale Price

Mr. Boyce's investment banking agreement with Pacific Western's directors has added fuel to the compensation fire. Under the arrangement, Mr. Boyce is to get 0.5% to 1% of the sale price on a sliding scale if the company is sold for 2.5 times book value or more.

Experts say the agreement goes to the nub of the question of a chief executive's responsibilities in a takeover.

Critics of the arrangement maintain that negotiating with a potential acquirers is a normal CEO responsibility.

The board "was most comfortable having Phil represent them," said Victor J. Bacigalupi, a San Francisco lawyer who advised the company. "They wanted to pay him for that work."

"Investment banking is a specialized, highly intensive function. It is not a responsibility inherent in being a chief executive."

Phillip R. Boyce
Pacific Western

Mr. Boyce said his fee is less than outside advisors would get. "Investment banking is a specialized, highly intensive function," he said. "It is not a responsibility inherent in being a chief executive."

Sources familiar with the advisory agreement note that, in addition to giving Mr. Boyce incentive to get a high price for the company, it accomplishes several other goals.

In addition to reinforcing signals that Pacific Western is for sale, they said, the pact channels all bids through Mr. Boyce and indicates that a potential buyer should not come in with a bid of less than 2.5 times book. □

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M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 841437 Sell July 12, 1990 9:45 A.M. 3362 Shore Parkway Bklyn 1986 Chevrolet Suba 1G1BN33Y3G9131838 Re: T. Samson: 10:15 A.M. 99 Newman Street 1987 Chevrolet 2 Dr Sdn 1G1AZ37X9EB117245 Re: Mitchell Enterprises Inc.: 10:45 A.M. 587 Kings Highway Bklyn 1982 Renault 2 Dr Sdn VF1BD38B6C0010672 Re: M. Conway: 11:15 A.M. 517 63rd St Bklyn 1982 Buick 2 Dr Sdn 1G4AM47A6CH192377 Re: C. Anderson: 11:45 A.M. 5702 3rd Ave Bklyn 1990 Dodge 2 Dr H/B 1B3XG64K5LG045252 Re: R. Owens: 12:45 P.M. 220 Morningstar Rd S.I. 1982 Yamaha MJC 7 S.I.N. JYA1002700 Re: J. Kozinsky Jr.: 1:15 P.M. 1762 Richmond Rd S.I. 1987 Ford Escort 2 Dr Sdn 3FJBA21E5CS319920 Re: Subjonanovic: 1:45 P.M. 144 Getz Ave S.I. 1984 Honda 2 Dr Sdn JHMAD4612RC 1000 Re: J. Blessington. Metropolitan Auctioneers, Inc. Published June 27, 1990 & July 5, 1990.

NOTICE OF FORECLOSURE AND SALE. BY VIRTUE OF A Default In A Mortgage Agreement Made By ALFONSE RIMPEL, Debtor, To LEAGUE OF MUTUAL HOMEOWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That Pursuant To Said Mortgage Agreement, Will Sell At Public Auction The Following Collateral: 1985 Mercury. 1D4HMERP95F125631283, Together With Vinal Top w/ Rear Defroster & Air Cond #296. Said Public Auction Sale Will Be Held On Friday, July 13, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Town Owners Federal Credit Union #1532, 577 Main Street, Bklyn, New York 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale: 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

Joel Pope auct'r Lic #794209 sells 7/12/90 9 AM at 39 Walton St, North Brentwood, '83 Dodge Van #2B4HB21T3DK312607 Re: G. Martial, Key Bk of L.I.; 10 AM at 1000 L.I. Ave., Deer Pk NY '85 Nissan #JN1CB16SXFT067135 Re: P. Steudal; 11 AM at 1025 Old Country Rd., Westbury, NY '88 Nissan #1N4PB21S0JC816832 Re: B. Mitchell And Mid Am Car Corp.; 12 PM at 213-19A 99th Ave, Qns NY '87 Chev #1Y1SK5141JZ048332 Re: E. Parker; NY Nissan #JN1HT211ATT071194 Re: R. Lee, Empire of America., 1 PM at 148-20 Hillside Ave, Qns NY, '83 Renault #1AMDC631DK232031 Re: S. Carl, European American Bk & Trst Co.; 2 PM at 6491 Amboy Rd, S.I. NY '84 Chev #1G1AY0786E5132708 Re: Abayhan Beyhan, GMAC; on 7/13/90 10 AM at 1383 Spofford Ave, Bx NY '82 Olds #1G3CC69J5HC413733 Re: P. Lee, GMAC; 11 AM at 56-57 58th St, Qns NY '85 Olds #1G3GR47A5FP341274 Re: H. Greenberg. Published 6/27 & 7/5/90.

Joel Pope auct'r Lic #794209 sells 7/20/90 10 AM at 1000 Long Island Ave Deer Park New York '89 Toyota P/UP #JT2JMX8EXK0018231 Re: Michaelson's Foreign Car Parts &/Or J. Michaelson; 11 AM at 232 Glen Cove Ave Sea Cove NY '86 Toyota P/UP #JT4RN70D7G0207359 Re: Alliance Auto Parts Inc.; 12 PM at 72-17 Qns Blvd NY '88 Dodge #1B3BE46K4JC242057 Re: Gelardi; 1 PM at 113 Kent Ave Bklyn NY '87 Chevette 2Dr Sdn #JHCKB9359H0 Re: R. Haines, Citibank NA. Published 7/5 & 7/12/90.

C. LAUDISI & ASSOCS., INC., auct'rs sell July 20, 1990 at 9 AM at 100-35 Atlantic Within 24 Hours. Michael J. Gilhooly. Ave., Qns 1984 Nissan #1G3AM19E4FG362717 Auct., G. Schwartz. 10 AM at 15-15 120th St., Qns 1986 Isuzu #JACCM55L3G4468942 Auct., Fonotek Lighting Inc., 11 AM at 85-02 Northern Blvd., Qns 1984 Lincoln #1MEBP97F3EY678866 Auct., Charles Auto Sales; 1 PM at 29 Lincoln Ave., Bklyn 1978 Chevrolet #1N6PUB1102981 Auct., J.W. Valdemara. Published July 5 & 12, 1990.

DEFAULT In Security Agreement Made By Zing, Inc. to Koch's Gourmet Food Market, Inc., 1 Will Sell On 7/6/90 At 12:30PM At 34 Middle Neck Rd., Great Neck, N.Y. All Right, Title & Interest In And To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732224 of F.E.S. AUCTIONS INC, As Agents.

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Auction Notices

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DEFAULT In Security Agreement Made By Zing, Inc. d/b/a/ Sandi & Collet to Helmut Kunck 1 Will Sell On 7/6/90 At 12 Noon At 34 Middle Neck Rd. Great Neck, N.Y. All Right, Title & Interest In And To Machinery & Equipment Subject To Any And All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732224 of F.E.S. AUCTIONS INC, As Agents.

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NOTICE OF FORECLOSURE AND SALE. BY VIRTUE OF a Default In A Mortgage Agreement Made By LUIS RODRIGUEZ, JR., Debtor, To LEAGUE OF MUTUAL HOMEOWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln. 1LNBM96F6FY891212, Together With Apple Two Way Radio Right In Car #296. Said Public Auction Sale Will Be Held On Friday, July 13, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Town Owners Federal Credit Union #1532, 577 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale: 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

DEFAULT In Security Agreement Made By PD Restaurant Corp. d/b/a Dona Dona Enterprises, Inc. to John P Contracting Corp. I Will Sell On 7/6/90 At 11 AM At 222 Lexington Ave., N.Y.C. All Right, Title & Interest In And To Machinery & Equipment Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732224 of F.E.S. AUCTIONS INC, As Agents.

FINANCE

MERGERS

Auction of Mutual Thrifts Could Raise Bailout Funds

By REID NAGLE and KEVIN STIRONE

When Congress begins to tour the landscape for additional funds to pay for the thrift bailout, it may decide to tap the value of the remaining mutual thrift franchises as one source.

Under this scenario, the government would effectively put healthy mutuals up for sale, perhaps setting aside a portion of the proceeds to compensate displaced management.

This potential revenue-raising measure could spell the demise of mutual thrift institutions. In the first round of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Congress raised deposit insurance fees for both banks and thrifts and seized the surplus capital of the Federal Home Loan banks.

Politically Palatable

In the second round of the reform act, Congress will look for other sources of funds to pay for the mounting cost of the bailout. One option that would be relatively painless politically includes auctioning off remaining healthy mutual thrift institutions, a process that would generate present-value proceeds of $10 billion.

While mutual thrifts technically belong to their depositors, federal and state regulators adopted in the mid-'70s effectively stripped depositors of their ownership rights.

When mutuals elect to convert to stock form, depositors do not receive the accumulated surplus. Instead, if they're lucky, they get to purchase stock at the same price as the public.

Who Owns the Mutuals?

To whom, then, do the retained earnings of mutuals belong? To everyone, it seems, except the depositors. Entrenched managements frequently operate the institutions for their own benefit, insulated from the pressures of disenfranchised owners.

Periodically, an acquirer will be able to tempt the management of a mutual thrift into a merger conversion that enables the acquirer to snare the target by paying management a fraction of surplus it otherwise receives for free.

That was the case recently when Republic New York Corp., a $ 28 billion bank holding company, was able to corral Manhattan Savings Bank by providing management with contracts and benefits valued at around $10 million.

Retained earnings of mutuals belong to everyone, it seems, except the depositors.

Republic walked away with Manhattan's $270 million in equity, leaving Manhattan's depositors with only the right to buy Republic shares at the prevailing market value.

Shrinking Number of Mutuals

At present, there are 2,000 mutual thrifts in the country, including both savings institutions insured by the Savings Association Insurance Fund and savings banks insured by the Bank Insurance Fund. That number is down from 3,500 mutual institutions that existed in the late '70s.

If the government chose to auction off these remaining mutuals, it would most likely find that slightly less than half, or 900 institutions, would have value to well-capitalized bank and thrift acquirers. The remainder most likely will need federal assistance to make them attractive.

If sold at 75% of tangible book value, a conservative estimate even by today's depressed standards, the government would generate $10 billion, a partial down payment toward the escalating bailout costs.

Silencing Managers' Protests

Depositors would lose very little, since they were stripped of ownership rights many years ago. Mutual managers would surely raise a protest, one that might be addressed by setting aside a portion of the sales proceeds to compensate displaced managers.

Even by reserving $1 million for each mutual successfully auctioned, the net proceeds would still top $9 billion.

In the end, the absence of true ownership in the mutual institutions limits the pain of seizure. The government defrays a meaningful portion of the bailout cost, depositors remain insured (although forgoing the opportunity to invest in a mutual's stock conversion), displaced managers are compensated for their trouble, and acquirers obtain healthy institutions at a discount. □

Mr. Nagle is president of SNL Securities, a publishing and data-base firm specializing in the banking and thrift industries. Mr. Stironi is an analyst with the firm.

Government-Assisted Acquisitions June 23-30

Received Institution	City/State	RTC/ FDIC	Deposits (in millions)	Acquirer	Premium *
					Equity/ Deposits
Gibraltar Savings, FA	Simi Valley, Calif	RTC	$5,300	Security Pacific Corporation	143,000
Contract Federal Savings Bank	Miami, Fla.	RTC	5,200	Great Western Financial Corp.	86,350
Gibraltar Savings, FSB	Seattle, Wash.	RTC	1,200	Multiple Acquirers	4,500
Gibraltar Sgs Bk-Fla.Branches	Seattle, Wash	RTC	702	Great Western Financial Corp.	3,800
Gibraltar Svgs Bk-Wash.Branches	Seattle, Wash	RTC	537	Security Pacific Corp.	705
Valley Federal Svgs Assn.	McAllen, Tex	RTC	530	International Bancshares Corp.	3,000
Eliot Svgs Bank	Boston, Mass	FDIC	420	Boston Bancorp	250
First Fed S&LA of Colorado Springs	Colorado Springs	RTC	280	Western Banking Corp.	246
Elysian Federal Svgs Bank	Hoboken, NJ	RTC	117	Pamrapo Bancorp, Inc.	1,200
Montgomery National Bank	Rocky Hill, NJ	FDIC	92	Amboy Madison Bancorporation	45
Republic Bank for Savings	Jackson, Miss	RTC	84	Bank South Corporation	56
St. Louis County Svgs Assn.	Ferguson, Miss	RTC	80	Southside Corp.	3,200
Black Hawk S&LA	Rock Island,Ill	RTC	56	American Bank of Rock Island	1,829
Marshall S&LA	Marshall, Tex	RTC	55	Kilgore Federal S&LA	60
Capital Federal S&LA	Little Rock, Ariz	RTC	44	Multiple Acquirers	▲ 30
Sandy Spring S&LA	Henderson, Tex	RTC	40	Citizens National Bank of Henderson	52
Southwest National Bank	Austin, Tex	FDIC	34	Texas Bank	NA
Rusk Federal S&LA	Rusk, Tex	RTC	33	Citizens Bank	5
Brookwood National Bank	Oklahoma City	FDIC	27	Banks of Mid-America, Inc.	NA
Capital Federal-Little Rock Branch	Little Rock, Ariz	RTC	27	Heritage Federal S&LA	10
San Federal Svgs Assn.	Fort Dodge, Idaho	RTC	19	Ida County State Bank	316
Capital Federal-Helena Branch	Little Rock, Ariz	RTC	17	First National Bank of Phillips County	20
American National Bank	Elk City, Okla	FDIC	15	First Community Bank	NA
Valley View National Bank	Valley View, Tex	FDIC	13	Gainesville National Bank	NA
Delta Federal S&LA	Dove, Miss	RTC	11	Bankplus Corporation	35
Colorado Savings Bank, FSB	Sterling, Colo	RTC	11	Silver Queen Financial Services	127
Bankliff Bank, NA	Bankliff, Tex	FDIC	8	Citizens State Bank of Dickinson	NA

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source:SNL Securities



Proceeds that Could Be Generated by Conversion of Healthy Mutuals

By auctioning off the 903 healthy mutual thrifts, the government could raise $9.9 billion to help defray the cost of the savings and loan crisis

Region	Number institutions	Aggregate assets (dollars in billions)	Aggregate equity/ assets	Pro forma deposit premium (dollars in billions)
Mid-Atlantic	224	$67.8	7.81%	$3.388
Midwest	316	44.8	7.37	2.477
New England	170	30.2	9.07	2.056
Southeast	114	16.8	7.03	886
Southwest	18	2.3	6.77	119
West	61	15.7	8.37	985
United States	**903**	**$167.6**	**7.88%**	**$9.911**

Source: SNL Securities

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Hanover Expects High Demand for Forstmann Loan

Continued from page 16

later this month.

Hanover and Continental committed $700 million and $300 million, respectively.

On Monday, Forstmann Little said it agreed to pay $44.50 a share in cash for General Instrument, a maker of cable television equipment, and associated companies in New York City.

The purchase price, including assumption of debt, was placed at $1.6 billion.

Buyout Fund Tapped

Forstmann Little will draw $800 million from its buyout fund for the deal. Of that amount, $200 million will be equity financing, with subordinated debt comprising the remainder. The $600 million loans will be over the rest of the purchase price and provide additional funds for working capital.

The loan package will consist of an eight-year $565 million term loan, a $250 million eight-year revolver, a $200 million two-year term loan, and a $150 million two-year revolver.

Hanover's Mr. Baione said he expects to have the complete underwriting group in place by next week and hold a general bank meeting possibly as early as the third week in July.

3-Tier Structure

The syndication probably will be structured in three tiers of commitments, with fees based accordingly, Mr. Baione said.

Manufacturers Hanover has a close relationship with Forstmann Little, recently serving as lead bank for its $625 million buyout of Chrysler Corp.'s Gulfstream Aerospace unit.

Continental Bank was a cogent in the Gulfstream deal, which required $650 million of bank financing. Syndication of the Gulfstream bank loan was substantially oversubscribed.

Speculation on Higher Bid

General Instrument's share price closed Monday slightly above Forstmann Little's $44.50 bid, and continued to trade above the bid on Tuesday, based on speculation that a higher offer might emerge.

One market source noted, however, that General Instrument had been the subject of takeover rumors for several years, and no bidder ever surfaced until Forstmann Little.

If the company accepts a higher offer, General Instrument would pay Forstmann Little a $33 million commitment fee. □

Home Savings of NY Cuts Dividend Rate

NEW YORK — Home Savings Bank, Bayside, N.Y., said it has reduced its quarterly dividend payout to 18.75 cents from 37.5 cents because of persistent weakness in the local and regional real estate markets.

The company said its board will continue to review its dividend policy on a quarterly basis.

Home Savings said its decision is not related to its previously announced agreement to merge with the Bowery Savings Bank, a New York subsidiary of California-based H.F. Ahmanson & Co., and should not adversely affect the proposed transaction.

— Reuters

BANK AND THRIFT STOCKS

Highlights for Tuesday, July 3

TOP 10 GAINERS %

Banks of Mid-America, Inc.	8.3
Suburban Bancorp, Inc.	6.3
Financial Trust Corp	6.1
Bank South Corporation	5.6
GBC Bancorp	5.6
National Bancorp of Alaska	4.3
Premier Bancorp, Inc.	4.2
Central Bancshares South, Inc.	3.4
First Security National Corp.	3.4
Iowa National Bankshares Corp	3.4

TOP 10 LOSERS %

Huntington Bancshares Inc.	-11.4
Multibank Financial Corp.	-6.8
Shawmut National Corporation	-5.2
Central Fidelity Banks, Inc.	-5.0
BayBanks, Inc.	-4.8
Star Banc Corp.	-4.6
Synovus Financial Corp.	-4.2
Equimark Corporation	-4.4
Sumitomo Bank of California	-4.2
Southeast Banking Corp.	-4.0

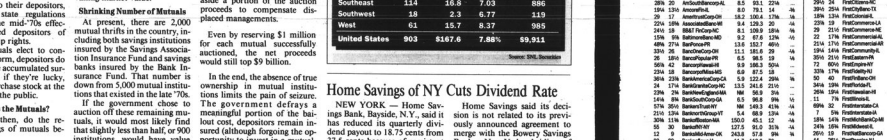
MOST SHARES TRADED

Citicorp	849900
MNC Financial, Inc.	812400
Norwest Corporation	408900
First City Bancorporation	408000
BayBanks, Inc.	406100
Manufacturers Hanover Corp.	400500
Crestar Financial Corporation	371000
Southwest Banking Corp.	359100
BankAmerica Corporation	336900
Bancorp Hawaii, Inc.	333500

VOLUME AS % OF AVERAGE

Chemical Financial Corporation	1550.9
Santa Monica Bank	1159.1
Marine Corporation	915.4
Synovus Financial Corp.	912.1
Hancock Holding Co.	748.9
Comerica Incorporated	740.7
Merchants National Corporation	726.9
First City Bancorporation	610.7
TrustCo Bank Corp NY	501.3
MNC Financial, Inc.	483.1

Stock Index Trends ■ AB Bank Index* ■ AB Thrift Index* ○ DJIA



*Weighted average of top 250 banks and 50 thrifts 1/3/89=100

TOP 225 BANKS (4 PM PRICES)

52 Wk High	52 Wk Low	Name	PE Ratio	Mkt. Cap. to bk.	Chg.	Chg. %Yr
29¼	19¼	1stSourceCorp:IN	6.6	90.1	19¼	--
14¾	10¼	ATBBanksheres:GO	18.8	97.1	11¾	--
39¾	20	AmeraCorp:CA	7.5	93.1	37½	--
19¼	13¾	AmoreNtnl.	8.0	79.1	14	--
29	17	AmericanExpCorp:DE	18.2	108.4	17¾	--
22¼	16¾	AssociatedBanc-W	9.4	129.3	20	--
24¼	18	B&T Financial:PA	13.5	109.9	19	--
15¾	9¾	BaltimoreBancWD	9.2	67.6	13¾	--
48¾	27¾	BankNewYork	13.6	162.7	48¾	--
33¾	26	BancOneCorp:OH	11.1	181.6	29	--
26	18¾	BancalSanFrancisco	6.5	98.5	19	--
56¾	42	BancorpHawaii:HI	9.9	166.3	50¼	--
23¼	18	BancorpSouth:MS	6.9	87.5	21	--
36¾	23¾	BankAmericaCorp:CA	5.9	122.4	29¾	--
17¾	12¾	BankBostonCorp:MA	7.5	94.8	21½	--
23¾	2¾	BankNewEnglandMA	NM	56.9	3¾	--
14¾	8¾	BankSouthCorp:GA	6.9	95.8	9¾	--
57¾	36¼	BarnettsTrustNY	NM	149.3	41¾	--
21¾	13¾	BayBanksInc:MA	7.5	104.4	21¾	--
30¾	11¾	BankofBostonMA	150.0	45.1	12	--
55	30	BankofNewYorkNY	12.5	91.0	31¾	--
12	9	BankofMid-AmerOK	243.8	57.8	9¾	--
82	69	BayTrustMA	11.7	112.8	70	--
39¾	28¾	BarnettBanksInc:FL	9.4	116.8	31¾	--
42¾	33¾	BayBanksInc:MA	8.6	42.9	15	--
39¾	29	BoatmenBancshares:MO	8.8	104.3	33¾	--
26	16	BostonBancorp:MA	13.5	161.6	18½	--
18¾	12½	BrentonBankshr:VA	7.5	102.6	14	--
22¾	16¾	CCB Financial:NC	8.7	102.6	19¾	--
22¾	17¼	CCNB Corp:PA	7.5	104.4	18	--
22½	19¾	CBT Corp:Connecticut	10.4	126.5	22¾	--
27	20¼	CPB Inc:-III	11.1	154.5	22¾	--
28	22¼	CNB Financial:PA	11.5	169.3	24¾	--
33¾	22½	CalFederal:CA	11.5	176.4	23¾	--
16¾	12¾	CapitalBancorp:KY	11.7	163.4	15¾	--
34½	26¾	CentralFidelity:VA	7.7	110.8	27¾	--
13¾	9¾	CentralBancshr:KY	7.5	100.3	14¾	--
44¾	23¾	ChaseManhattanNY	NM	67.5	23¾	--
41¾	22¾	ChemicalNewYork	NM	73.9	25¾	--
30¾	20¾	ChemicalFinCorp:MI	9.2	102.7	31¼	--
35¾	27¾	CitizensBkg:MI	9.3	101.1	31¾	--
23¾	17¾	CitizensFirstCorp:IN	8.6	105.2	22¾	--
29¼	21¼	CitizensBanking:MI	7.8	75.5	22½	--
16¾	10	CitizensUtil:DE	8.5	65.5	10	--
34¾	22¾	CitizensSouthern:GA	8.6	105.2	23¾	--
19¾	14¾	CitizensFirstCorp:IN	8.0	83.0	13	--
22¼	12¾	ColonialBankGroup:GA	44.5	85.2	15¾	--
58¾	39¼	CommerceBancshr:MO	8.7	114.5	49¾	--
29¼	22¾	CommercialBcshrs:MO	7.6	106.1	24¾	--
20¾	15¾	CommunityBkSys:NY	8.0	83.0	13	--
37¾	13¾	ConstellationAz	5.3	45.8	13¾	--
24¾	16¾	CoreStatesFin:PA	8.8	107.7	16¾	--
46¾	36¾	CoreStatesFinCp:PA	8.4	137.3	41¼	--
21¾	15¾	CorestatesFinCp:PA	8.4	107.7	15¾	--
18¾	7¾	CulbreoFirst:TX	39.2	54.6	11¾	--
37¾	29¾	DauphinDeposit:PA	8.3	102.7	31	--
32¾	23¾	DeposiGuaranty:MS	8.6	76.4	25	--
25½	13	DimeBancorp:NY	8.0	83.0	13	--
16	5¼	EquimarkCorp:PA	NM	37.2	5¼	--
21¼	12	EvergreenBan:WI	8.8	102.7	14½	--
15¾	12¾	F & M NatlCorp:VA	10.2	182.1	12¾	--
14½	12¾	FNB Corp:PA	8.7	107.3	12¾	--
26	18¾	FNN Bancorp:IL	10.8	176.6	22¾	--
29	28	FarmersCapital:KY	12.1	130.5	28¾	--
39¾	30¾	FifthThirdBcp:OH	10.9	189.4	31	--
32¾	23¾	FirstAmericanTN	9.3	144.5	31	--
51¼	38¼	FirstTennNB	8.6	102.7	38¼	--
19¾	15¼	FirstAlabamaAl	9.3	117.0	17¾	--
24¾	21¼	FirstBancorpPR	9.6	102.4	21¾	--
29¾	21¾	FirstBancorpNC	8.6	115.2	29¼	--
27	21	FirstCmrcFnlCp:FL	7.3	99.7	21¼	--
29¾	12¾	FirstCmrcCorp:AR	8.1	114.1	29¾	--
18	14¾	FirstCmrcBcp:IL	6.5	100.1	14½	--
44¾	29¾	FirstCmrcBcshr:NC	10.0	156.1	42¾	--
21	16¾	FirstCmrcCorp:TN	8.8	96.6	20¾	--
26	21¼	FirstCmrcFnlCp:OK	8.3	99.9	19¾	--
29¾	25¾	FirstCmrcBcshr:LA	8.3	119.6	29¾	--
45¾	37¾	FirstFidelityBcp:NJ	10.6	159.1	40¾	--
19¾	14¾	FirstFedCorp:FL	7.4	117.8	19¾	--
20¾	17	FirstBankNW:IL	8.7	108.0	18	--
15¾	11¾	FirstFinancial:IN	7.5	102.2	15¾	--
29¾	18¾	FirstHawaiian:HI	12.3	168.7	18¾	--
29¾	19¾	FirstInterstate:CA	3.2	100.0	19¾	--
21¾	15¾	FirstMidAmerIN	7.6	109.3	16¾	--
21¾	15¾	FulsonFinCp:PA	7.9	128.4	18¾	--
28¼	18¼	GBC Bancorp:CA	6.8	72.8	18¼	--
19¾	9¾	GreatAmBcshrs:MS	15.3	77.4	10¾	--
41¾	31¾	HamiltonBancorp:FL	8.1	114.1	31¾	--
31¾	25¾	HeritageFedCorp:IL	8.9	119.6	15¼	--
18¾	14¾	HiberniaCorp:LA	8.8	104.6	14¾	--
22¾	15¼	HuntingtonBcshs:OH	7.3	107.6	15¾	--
15¾	10	IBANCorp:MI	6.8	96.6	15¾	--
27¾	19	ImperialBancorp:CA	8.7	129.7	20	--
39¾	16	IntegraFinCorp:PA	8.8	115.2	39¾	--
31¾	21¾	IntegraFinCp:PA	15.3	101.1	22	--
29¾	12¾	InterFirstCorp:MI	4.5	70.7	12¾	--
48	33	J.P. Morgan:NY	NM	150.5	35¼	--
29¾	18¾	JeffersonBkshrs:SC	7.8	93.8	18¾	--
15¾	12	KeyCentralcn:WV	10.2	106.3	12¾	--
19¾	14¾	KeyCorp:NY	8.1	114.1	19¾	--
26	21¼	KeystoneFin:PA	9.1	131.8	23¾	--
19¾	14¾	KeystoneFinancial:PA	8.3	196.1	19	--
14¾	8¼	LaSalleBancorp:CA	18.9	251.4	13¾	--
29¾	22	LakeShore:IL	10.4	202.6	23	--
18	11¾	LandmarkBcshrs:MO	7.0	66.7	11¾	--
24¾	20¾	LibertyNatBnc:KY	8.6	115.2	20¾	--
27	21	LincolnFinCorp:IN	7.3	99.7	21¼	--
29¾	12¾	MNC Financial:MD	4.5	70.7	12¾	--
18	14¾	MagnaGroup:IL	9.3	104.1	14½	--
40	41¾	ManufacturersNtl:MI	6.5	100.1	40¾	--
44¾	29¾	Manufacturers:NY	NM	82.9	34¾	--
21	16¾	MarineCorp:IL	12.5	132.7	19¾	--
20¾	15	MarshNewEtBshrs:MO	8.2	106.3	15¾	--
19¾	14¾	MarshallBkshrs:VA	8.2	102.2	14¾	--
37¾	24¾	MattoonBancorp:PA	7.4	90.8	25¾	--
28¾	23¾	MercantileBkshr:MD	10.1	97.4	24¾	--

52 Wk High	52 Wk Low	Name	PE Ratio	Mkt. Cap. to bk.	Chg.	Chg. %Yr
23¾	19¾	MercantileBancCoMO	17.6	89.9	19¾	--
14	12	UnitedBancorp:MI	8.5	101.5	12¾	--
17¾	13	UnitedCarolina:NC	7.8	106.7	13½	--
14	10¾	UnitedCommBk:GA	7.4	101.5	10¾	--
32	28	UnitedMissouri:MO	7.9	111.3	29	--
27¼	22	ValleyNationalNJ	9.2	111.5	23	--
38	22¾	VirginiaCapCo:VA	8.3	146.3	24¾	--
28¼	19¾	WaterMarkBanc:MI	8.1	155.2	21¼	NA
30¾	24¾	WaterMarkBanc:MI	5.4	68.6	24¾	NA
87¾	64¾	WellsFargo:CA	6.7	153.7	78¼	--
34¾	30¾	NORE Corp:NC	7.5	116.3	30¾	--
27¾	21¾	WestOneBancorp:ID	8.5	105.8	23¾	--
29¾	15	WesternBancorp:CA	14.8	167.9	20¾	--
46	35¾	WilmingtonTrust:DE	11.8	269.8	40¾	--
19¾	13¾	WilmingtonTrust:NC	8.3	134.7	13¾	--
32¼	24¾	ZionsBancorp:UT	7.9	102.6	29	--

TOP 25 THRIFTS (4 PM PRICES)

52 Wk High	52 Wk Low	Name	PE Ratio	Mkt. Cap. to bk.	Chg.	Chg. %Yr
46¾	30¼	AmeranconCA	9.6	101.8	21	--
45¾	30¾	AppleAncorp:NY	8.3	76.3	42¾	--
39¼	15	CalFedInc:CA	3.2	87.9	20¾	--
55¾	38¼	CitadelHldgCp:CA	12.3	75.1	46¼	--
20¼	6¾	CoastSavingsFnc:CA	20¼	6¾	CoastSavingsFnc:CA	--
17¾	8¼	DimeSegBk:NY	NM	21.6	8¼	--
24	14¾	DreamWorksInc:CA	49.3	123.9	17¾	--
37½	23¾	FirstFederalAm:MI	10.6	134.8	37¼	--
27	19¼	FirstFinCorp:IN	8.4	131.5	23¾	--
21¼	12	FirstNtlMichCp:MI	6.9	36.3	14¼	--
25¾	11¼	GLENFED,Inc.	3.5	30.5	11¼	--
34¾	22¾	GoldentreeSvCo:CA	11.5	179.1	31	--
31¼	15¾	GreatWesternFin:CA	20.3	120.2	18¾	--
14¾	1¾	GXAmericanBank:CA	NM	21.7	3¾	--
20¾	12¾	HomeFedCorp:CA	4.1	42.5	20¾	--
21¾	13¼	HomeSvgBanAm:NY	13.7	97.1	19¼	--
11	7¾	NBB Bancorp:MA	10.1	68.5	10¼	--
10¼	6	People's BankCT	8.5	41.5	6¼	--
18¾	11	PeoplesBancSBNY	7.2	48.1	11¾	--
23	9¼	SoconyStorage:CT	2.8	43.9	9¼	--
19¾	11¾	SouthSvgsBk:CT	12.5	59.6	11¾	--
12¾	7¼	StandardFedBk:MI	6.8	62.4	9¼	--
28¾	15¼	WashingtonFedInc	10.2	68.0	15¼	--
31¾	23¾	WashingtonFedSL:WA	10.2	204.7	29¼	--
16¾	6¾	WorldSavings:CA	15.5	105.7	6¾	--

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banks and the 50 largest thrifts. All ages publicly traded and not headed by a $ symbol have at least 10 million shares outstanding. PE is price/earnings ratio. Mkt. Cap. to bk. is market capitalization to book, and for thrifts, 12/31/89 data. 52 Wk Hi is the stock's 52-week high and low prices for the stock. PE: the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends for the quarter in which the stock last traded. If no trades for the day, the latest bid. AB Bank and Thrift Indexes: A weighted average of the top 250 banks as market value and the top 50 thrifts in market value, respectively. Weightings are base-period percentages in price and value and assume indicators most shares traded and today's volume as a percentage of average volume traded during base period.

Data source: SNL Securities, Charlottesville, VA. 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides DJIA, with the daily prices.

Key Loan Registrations June 25-June 29

Dollars in millions	
Working Cap./Gen'l Corp. Purposes	
Bayerische Motoren Werke AG	$1,400.0
Carter Hawley Hale Stores	127.5
Bahrain Middle East Bank (EC)	125.0
InterTan Inc.	100.0
CJ Credit Corp.	51.0
Micropolis Corp.	33.0
Qume Corp.	19.2
Photo Corp. of America	16.0
Business Environmental Service	12.5
Altos Computer Systems	10.0
Takeover	
Hancock Holding Company	$7.0

Debt Repayment	
Hancock Holding Co.	$987.0
Monarch Capital Corp.	235.0
Genesco Inc.	45.0
Bradmar Petroleum Corp.	7.0
Antech Corp.	2.0
Debtor-In-Possession Financing	
Ames Department Stores	$250.0
Placement	
Crescent Jewelers	$5.0

Description: This table tracks key corporate financial filings made weekly with the SEC. (*) Deal older Than 1yr.
Data Source: Loan Pricing Corp., New York (212) 489-3455

Key Rates (July 3,1990)

	7/03	7/02	6/26
Federal Funds-domestic range:	8¼-8⅜	8¼-8⅜	8¼-8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.80	7.90	7.75
6 Month Posted	7.85	8.00	8.00
1 Year Posted	7.95	8.05	8.20
Eurodollar deposits*			
3 Month	8⅜	8⅜	8⅜
6 Month	8⅜	8⅜	8⅜
1 Year	8⅜	8⅜	8⅜
LIBOR*			
3 Month	8⅜	8⅜	8⅜
6 Month	8⅜	8⅜	8⅜
1 Year	8⅜	8⅜	8⅜

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks
(*)— Late London bid (*)— Annualized money market & secondary issues: Manufacturers Hanover Tr.

CAPITAL

Republic's Focus on Deposits

By KELLY HOLLAND

The best way for a bank to tap the capital markets may be for it to avoid operating like a bank, if Republic New York Corp.'s recent experience is any indication.

Republic issued $100 million in subordinated debt last week after several other banks had already come to market in June. But even as the last in a series of issues, the Republic bonds fared well, trading at a premium after the offering was completed.

Investors may have been reacting to Republic's unusual approach to the business of banking.

Republic makes strategic decisions based on whether implementing them would make deposits more or less secure, not on whether or not they further lending activities, the way most banks do, according to Thomas F. Robards, executive vice president and treasurer of Republic.

"At Republic, the focus has not been to lend," he said. "It's been to borrow."

Low Loan-to-Deposit Ratio

The emphasis on building safety to attract deposits has led Republic to amass a deposit base representing a larger proportion of its assets than many of its peers, and to emphasize asset-building activities other than lending.

Republic's loan-to-deposit ratio was just 30% at yearend, compared with ratios averaging more than 75% for banks with comparable ratings. But it is active in foreign exchange trading and other nontraditional banking businesses.

Building safety also makes it easier for Republic to access the capital markets, considering the performance of its most recent issue.

The $100 million offering was priced with a coupon of 9.5% and sold at a yield 105 basis points over comparable Treasuries. That is a yield spread well below the rates being paid by banks with similar ratings.

Take Bankers Trust New York Corp. That bank issued $200 million of 10-year subordinated debentures several weeks before Republic came to market. The offering was priced to yield 115 basis points over Treasuries, higher than the Republic offering, and market sources have said the bonds have traded in the secondary market at yields as much as 135 basis points over Treasuries.

Lower Funding Costs

Proceeds of Republic's debt issue will be used to further reduce the bank's funding costs, Mr. Robards said. Republic will use part of the proceeds to repurchase some outstanding floating-rate debt now trading at a discount.

Republic tries to match the maturities of its liabilities and assets. In order to keep that match, the bank has swapped the proceeds of its recent debt issue into floating-rate payments.

Swap rates are low right now, making it difficult for a bank to reduce its funding costs significantly using that market. But even so, the all-in cost of the fixed-rate issue was below the cost of keeping the floating-rate notes outstanding, Mr. Robards said.

"Our approach has always been to take capital when it's available," Mr. Robards said.

The conservative funding mix is a hit with analysts. "Based on safety alone, no bank can touch Republic New York," said Charles N. Cranmer, an analyst at Shearson Lehman Hutton Inc., in a recent report.

* * *

Republic tries to match the maturities of its liabilities and assets.

Deposits Come First At Republic

Loan-deposit ratios at banks with senior debt ratings of AA and higher, as of 12/31/89

Republic National Corp.	30%
J.P. Morgan & Co.	66.5%
Bankers Trust New York Corp.	70.3%
NBD Bancorp	76.3%
First Wachovia Corp.	86.9%
PNC Financial Corp.	93.3%

Source: American Banker

MARKET MONITOR

Bancorp Hawaii has issued 1.5 million shares of common stock at $50.25 a hare. The proceeds of the issue are going to finance the company's acquisition of FirstFed America.

* * *

Moody's Investors Service has revised its review for Baltimore Bancorp and subsidiaries to direction uncertain from direction positive, citing the bank's rejection of a buyout offer from First Maryland Bancorp. and the softening of the company's local real estate market. □

For Bankers Who Mean Business
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Every Tuesday in
AMERICAN BANKER

STOCKS

Shares of Virginia Banks Fall on Loan Fears

Continued from *page 1*

which lost $1 Monday, lost another $1.125 Tuesday to close at $26.875. Dominion Bancshares, in Roanoke, closed at $13 Tuesday, down 50 cents. It was off $1 Monday. Crestar was down 25 cents to close at $21.625.

Similar to New England

"The potential exists for a not-too-dissimilar set of events from New England," said Carole Berger, an analyst at C.J. Lawrence, Morgan Grenfell. "For the first time I think you're having validations that the [real estate market in the area] is slipping away," she added.

"I've got to admit that the market down here has weakened since the end of the first quarter," said Anthony Davis, an analyst at Wheat First Securities. "Liquidity is drying up and buyers of properties are not getting financing. Further, the overabundance of office space is not getting any better."

He said his clients are starting to ask him if the situation is going to get as bad as it did in New England.

Crestar Posts Lower Earnings

Adding fuel to the real estate fears was the announcement on Tuesday by Richmond-based Crestar that it too expected lower second quarter earnings. It said it was planning to increase its nonperforming assets from $97.2 million to $125 million. It said it expected lower second quarter earnings but would say how much lower they would be.

In its announcement Monday, which was prompted by the sharp decline in its stock, Signet said nonperforming assets are expected to rise to approximately $150 million, an increase of $45 million over the March 31 level. The $150 million figure is 2 percent of the bank's loans. It said most of the increase was because of souring real estate loans.

Reflects Market Deterioration

It said the increase was decided upon to reflect not only the results of its recently completed Office of the Comptroller of the Currency exam but also overall deterioration in the market during the second quarter. It said its formal earnings report was due in mid-July.

MNC Financial Corp. in Baltimore, which said recently that its second quarter results would be worse than expected, fell 50 cents Tuesday to $11.75.

Not all analysts were downbeat.

Lacy Shockley, an analyst at Smith Barney, Harris Upham & Co., said the Signet and Crestar announcements did not indicate extraordinary problems given the state of the banking industry.

She said both banks' increased nonperforming assets still left them below many banks in the industry.

Bank Issues Continue Fall

While the overall stock market was up, shares of most banking issues continued their fall Tuesday with Wells Fargo & Co. and stocks in Virginia leading the pack.

Wells fell $1.625 to $76.875 as rumors dissipated that investor Warren Buffet had accumulated a large stake in the company.

Corestates Financial Corp. bucked the trend in the bank market, rising $1.25 to $41.25.

The Dow Jones Industrial average was up 12.37 to 2809.08. □

Real Estate Fears Hit Virginia Bank Stocks

Signet	$33	Friday close	Monday close	Tuesday close	52-week high	52-week low	Book
Dominion Bankshares	$14.50	$13.50	$13	$26.125	$15.67		
Crestar	$23	$22.375	$21.625	$34.25	$23.00		
Sovran	$29	$28	$26.875	$43.25	$27.56		

DEALS

Smaller Lenders Bar MorningStar Restructuring

By STEVEN LIPIN

MorningStar Foods Inc. and its bank group led by Continental Bank have been unable to persuade smaller lenders to go along with a restructuring package that would allow the company to make a June 30 interest payment on its $150 million in subordinated bonds, according to a statement issued by the company.

The company, a dairy spun off from Southland Corp. in a 1988 leveraged buyout, has less than 30 days to persuade recalcitrant banks to extend principal payments on its $135 million in bank loans. The company had a $30 million loan payment due June 25.

That would allow the company to make its bond payment, according to Kenneth Drucker, an analyst at Standard & Poor's Corp. S&P downgraded the company's bonds Tuesday to single-D from triple-C plus.

"The rating reflects Morning-Star's failure to make the July 2 interest payment on its rifted debt, due to its inability to reach a unanimous agreement among its banks for a payment extension on its senior bank debt," S&P said.

If the company does not make its bond payment, holders will put the company into bankruptcy and likely trigger a bankruptcy, analysts said.

Just as smaller participants in the Trump bank syndicate held out for better terms or a buyout by agents, smaller lenders are holding up an interest payment and balking on suspension of bank loan payments. And banks are resisting the company's plans to pay subordinated holders instead of senior creditors.

"A minority of lenders are putting the squeeze on the company," Mr. Drucker said.

MorningStar said Tuesday that a majority of banks have agreed not to accelerate payments as a result of the delayed principal payments, effective through July 30. But changing terms of loans needs approval of 100% of the banks.

Falling profit margins hurt MorningStar when milk prices skyrocketed last year. Cash flow coverage of interest for the year ending Dec. 31 was 0.89%.

Because of weak operations, the company decided to sell assets, although asset sales were not part of the original LBO plans. But the Justice Department has held up sale of its Texas dairy operations. □

Hanover Sees High Demand in Syndication of Forstmann Loan

By WILLIAM GOODWIN

As investors continued to speculate Tuesday about a higher offer for General Instrument Corp., Manufacturers Hanover Corp. — agent bank for Forstmann Little & Co.'s bid — expressed confidence about its ability to syndicate $1.17 billion in bank loans for the buyout group.

"It should play very well," said Thomas Baione, a managing director in Manufacturers Hanover's acquisition-finance department.

The bank loans for Forstmann Little will be priced at 150 basis points over the prime rate, and carry typical fees for loans to highly leveraged transactions, Mr. Baione said.

Hanover and cogent Continental Bank agreed to underwrite almost all of the bank financing, although two or three additional underwriting banks are expected to be added before the loans are brought to market

See **HANOVER** *page 14*

SPECIAL ADVERTISING SUPPLEMENT

AMERICAN BANKER Conferences Presents

The New Shape of Retail And Consumer Banking

IMPLEMENTING A WINNING STRATEGY IN A CHANGING ENVIRONMENT

Marketing Tax-Advantaged Annuity Investments in Your Bank

By Alan H. Blank

The United States is witnessing a dramatic change in the way banks approach marketing insurance and investment products to improve the bottom line.

Several factors have created this change. Legal and regulatory restrictions have eased and commercial banks are currently experiencing a new level of competitive pressure. Opportunities are now being explored to capture the burgeoning market in annuities and investment products.

Half of all U.S. financial institutions with deposits greater than $750 million now offer annuities. Another 60 are likely to introduce annuity programs in the coming year. That is one of the conclusions of a recent survey conducted by Kenneth Kehrer Associates, an independent financial consulting firm based in Princeton, N.J.

The survey examined whether large financial institutions were offering various insurance and securities products and whether the institutions intended to introduce new lines of insurance. The survey, published in the March-April issue of the *Newsletter of the Bank Insurance Industry*, included 90% of all banks and thrifts with deposits of at least $750 million.

Existing Programs

Almost three-fourths of the large banks and thrifts indicated that they offer some kind of annuity, investment product, or securities brokerage program.

Almost two-thirds of the 442 institutions surveyed offer some type of retail securities brokerage service. About half of these institutions with securities brokerage programs also sell annuities.

About one-fourth of the institutions that reported some kind of alternative investment programs sold annuities only; 12% sold both annuities and packaged securities products, without offering securities brokerage; 1% sold only mutual funds and unit investment trusts (UITs), without annuities or securities brokerage programs.

Two-thirds of the large institutions with alternative investment programs sell annuities. Thus, about half of all large institutions already have some kind of annuity marketing program.

Annuity Intentions

Table 2 examines the 272 large institutions that report not yet having an annuity program. Two-thirds of these institutions express no interest in annuity marketing at this time.

TABLE 1: Product Offerings in Existing Annuity and Investment Product Programs in Large Financial Institutions

	Number	% of Large Programs	% with Programs
Annuities only	106	17	24
Mutual funds only	5	1	1
Annuities and mutual funds	60	9	13
Mutual Funds, Securities Brokerage with annuities	146	24	33
Securities Brokerage without Annuities	127	20	3
Total	442	74	100

TABLE 2: Intentions of Large Large Financial Institutions About Starting an Annuity Program

	Number	% of Large Institutions	% without Annuities
No interest	180	30	66
Being Studied by Middle Management	27	4	10
Trying to Convince Senior Management	7	1	3
Seriously Evaluating	61	7	15
Total	272	46	100

In 10% of the institutions without annuity programs, the survey found someone in middle management was currently studying annuity marketing. In approximately 7% of institutions without annuity programs, someone in middle management was championing annuities, trying to convince senior management that the institution should offer the product.

In the other 15% of institutions not currently selling annuities, senior management was seriously evaluating starting an annuity program. These institutions had taken such steps as establishing a task force, issuing a request for proposals, initiating a strategic business review or putting an annuity program in next year's budget.

Of the 60 financial institutions surveyed that are seriously evaluating annuities, or where someone is trying to convince senior management to introduce annuities, 39 (65%) are commercial banks.

Twenty-seven of these 60 institutions that are likely to introduce annuities during the next year could do so by licensing their own employees. The other 33 would have to use an outside, unaffiliated third-party concern to employ and manage an annuities sales force in their branches, given state restrictions on licensing financial institutions or their employees.

The 41 institutions most likely to introduce annuities this year (i.e., those classified as "seriously evaluating") will add $3.5 billion to $4 billion in annual annuity sales to the national total once their programs are fully launched. Banks and thrifts sold more than $7 billion in annuities last year, up from $6 billion in 1988.

Why Market Annuities?

The emergence of annuities as an important retail banking product has its roots in the financial services revolution that has been taking place for over a decade. First, spiraling interest rates had a dramatic effect on traditional savings behavior. Then, deregulation of the financial services industry resulted in unprecedented competitive pressures.

Deregulation of deposit products resulted in fair competition for funds among financial institutions. The distinction between banks, thrift institutions, brokerage firms, and insurance companies became blurred.

Large financial services conglomerates began seeking ways to establish as many service/product relations with the consumer as possible. Suddenly, banks and thrift institutions found themselves in direct competition with companies like Sears Financial Network and Shearson-American Express. Banks and thrift institutions found their spread margins shrinking and began to seek fee income to supplement their traditional lines of business.

These radical changes in the marketplace, coupled with the public's increasing skepticism over the long-term dependability and value of Social Security, fueled consumer interest in alternative strategies for managing and building their retirement savings. Traditionally, most Americans had placed the bulk of their savings in savings accounts or cash-value life insurance.

But the turbulent economy of the '60s and '70s (and the "bracket creep" built into the tax rates), left most savers skeptical, if not pessimistic, about these traditional vehicles as a means of providing for their later years.

Consequently, a strong demand developed for new savings and investment products, especially those that were tax-advantaged — that permitted the tax-deferred buildup of an individual's retirement assets or that avoided taxation altogether. More and more, unsophisticated investors now understand and seek the advantage of compounding earnings on a tax-deferred basis.

The 41 institutions most likely to introduce annuities this year (i.e., those classified as "seriously evaluating") will add $3.5 billion to $4 billion in annual annuity sales to the national total once their programs are fully launched. Banks and thrifts sold more than $7 billion in annuities last year, up from $6 billion in 1988.

TO THE READER

Deregulation has changed almost all the rules and formulas for success in retail banking. The growing wave of consolidations in the financial services industry has also radically changed all the consumer aspects of banking.

The articles in this special supplement on the new shape of retail and consumer banking represent the best information on this rapidly changing field that were available to the authors at the time the articles were written. Readers are urged to contact the authors or their own advisers to seek timely updates.

To order additional copies of this supplement, or reprints of individual articles, call Martha Hernandez at 800-367-3989 outside New York or 212-943-4845 in New York State. Fax orders will be accepted at 212-480-0165.

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Annuity

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tageд insurance investments.

10 Reasons to Market Annuities at Your Bank

• Other financial services companies – securities firms, insurance companies, even retail stores – are trying to sell your customers products like annuities that compete with your liability products. Many banks are fighting back by offering annuities and other investments to their customers.

• The annuity market is growing dramatically. Last year annuity sales were more than $100 billion, up 23% from the previous year. One insurer estimates that today one out of ever five American adults owns an annuity.

• Studies indicate that consumers want to buy annuities where they bank. In the past three years, more than one million people invested in annuities through banks or thrifts.

• Customers who buy annuities where they bank tend to be between the ages of 45 and 65 with large deposit balances at several banks and thrifts. They are putting some of these deposits into conservative investments with tax advantages.

• Many of your banking competitors are also trying to sell your own "mutual" customers annuities. A typical banking customer has relationships with at least three banks and thrifts. And, these competitors try to talk your customers into buying the annuity with deposits at your institution, not theirs.

• Annuities can provide substantial fee income to your bank. A typical bank makes about $50,000 to $100,000 in annual pretax profits from an annuity program for every $100 million in deposits. That works out to about $10 in annual profits for every household your bank has as a customer.

• Consumer surveys have repeatedly shown that people want to consolidate their financial affairs with one or very few providers. And, they prefer to consolidate where they bank.

• Annuities help build stronger customer relationships by increasing the number of account relationships you have with your customer. Studies have demonstrated that the customer with multiple banking relationships is less likely to close an account or leave the institution altogether.

• Annuities and other tax-advantaged investments fill customer needs that are not met by deposit products. The investment needs of most people can be summarized by the following chart:

Bank deposit products only fulfill one aspect of a customer's needs – an investment with a fixed return without risk to principal. For a bank to meet the other investment needs of its customers, it must offer annuities, mutual funds, and tax-free unit investment trusts.

• To compete with other banking institutions and financial services firms, your institution needs to become oriented to selling as well as providing service.

Banks that have delayed starting an annuity marketing program usually have hesitated for two reasons – regulatory prohibitions or concern over whether annuities would disintermediate their deposits.

Regulatory Constraints

The Bank Holding Company Act and national bank regulations prohibit many commercial banks and their holding companies from being licensed to sell insurance or from owning insurance agencies. And laws in most states prohibit banks from being in the insurance agency business.

But deregulation is proceeding rapidly. The Comptrolier of the Currency has ruled that national banks can sell and receive commissions from both fixed and variable annuities. Various court cases – most notably the Merchants National case – have upheld the right of bank holding companies to own state banks that engage in insurance activities in states where such activities are permitted.

And more and more states do permit all banks – state and national – to sell annuities. Altogether, all banks in 17 states can be licensed to sell annuities, as well as selected banks in another five states. And legislation granting banks insurance or annuity powers is currently under consideration in several other states.

But even if your bank is prohibited from directly marketing annuities, you can still participate in this proven way of enhancing your retail banking business. Almost a decade ago, PAMCO pioneered the development of a program that passes regulatory muster in even the most restrictive states.

PAMCO places its own investment executives in your bank, and the bank controls the marketing. We do the licensed selling of annuities.

Bank income and service fees are substantial, often in excess of what the bank would net if it were allowed to be licensed to sell annuities directly. The company used this approach to launch the very first annuity programs in commercial banks, in institutions as large as Michigan National and as small as La Jolla Bank and Trust.

Because this approach relieves the bank of any financial investment in annuity marketing and minimizes its program-management burden, some banks, and even thrifts, who could legally hire licensed agents directly have asked PAMCO and other similar

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Tax-Advantaged Insurance Investments

Tax-advantaged insurance products have become increasingly important, as the public learns of the substantial benefits these products offer in their personal investment programs.

• Tax-Deferred Fixed Annuities. Fixed annuities are tax-deferred savings and retirement income vehicles for individuals. Unique among investment products, the fixed annuity provides customers with the direct benefits of interest rate guarantees without market risk to the principal deposited.

The primary benefit for the customer is that the interest earned from this investment accrues with no current federal, state, or city income taxes. In addition, the insurance company guarantees the principal and interest payments so that, unlike a mutual fund, the customer is not bearing the risk of fluctuations in the bond or stock markets.

The customer pays no fees or commissions to purchase a fixed annuity. Unlike several mutual funds, all of the customer's investment earns interest without a sales fee (load) to decrease the principal amount invested. The insurance company makes its profit from the spread between the rate of return it earns on the invested capital and the rate of interest paid out to the customer.

Annuities provide several payout options, including guaranteed monthly income for life.

• Tax-Deferred Variable Annuities. Unlike a fixed annuity, a variable annuity fluctuates in value and in its rate of return, depending on the performance of the annuity's investments.

In effect, the insurance company fulfills the function of a money manager. Instead of paying the customer a fixed rate of interest, the insurance company manages the customer's money by investing in portfolios that are just like mutual funds.

The insurance company earns a profit by charging its customers an asset-management fee. Most competitive variable annuities offer a choice of different investment options.

Thus, variable annuities afford customers the opportunity to invest in bond or equity funds on a tax-deferred basis.

TAX ADVANTAGES

Risk to Principal	NO	YES
NO	Bank Deposits	Fixed Annuities
YES	Mutual Funds	Variable Annuities & Tax Free Unit Investment Trusts

ALAN H. BLANK
Chairman
PAMCO Securities and Insurance Services

Alan Blank is chairman and co-founder of PAMCO Securities and Insurance Services, a leading provider of turnkey investment product delivery systems for financial institutions throughout the United States. PAMCO is a registered broker-dealer and licensed agency for tax-advantaged life insurance products.

Mr. Blank has a wide range of experience covering 18 years in the marketing of financial products and direct sales. He pioneered the broker-dealer turnkey concept of investment product delivery systems.

Featured in Fortune magazine as an industry leader to watch, Mr. Blank is a recognized industry expert. He frequently serves as a keynote and panel speaker at national financial services conferences and seminars. He has been the subject of interviews by Money magazine, the American Banker, and National Thrift News, and was featured on BPN's "Nation's Business Today."

Mr. Blank's articles on investment marketing have been published by the Banks in Insurance Report, the Financial Institutions Marketing Association (FIMA), and the Bankers Magazine. He is the author of "Investment Product Marketing: Retail Marketing Through Financial Institutions."

Known for his energetic management style, Mr. Blank maintains a personal involvement in all PAMCO programs. He regularly reviews implementation progress, sales performance, and the quality of service offered by his staff at each institution.

Prior to forming PAMCO in 1982, Mr. Blank headed A.M. Blank & Co., which marketed investment annuity programs nationally. Previous positions included experience as a stockbroker for E.F. Hutton and a regional manager with Great Western Savings and Loan Insurance Agency.

A graduate of the University of Bridgeport, Mr. Blank holds a bachelor of science degree in economics and marketing. He is a registered principal with the National Association of Securities Dealers.

Mr. Blank has also joined with Touche Ross (now Deloitte & Touche), Cigna Securities, and other financial services companies to found the National Society of Compliance Professionals. This nonprofit trade association focuses on compliance and regulations issues.

Profitability and Your Branch System: Issues for the 1990s

By Seamus McMahon

Deregulation has certainly taken its toll on branch banking profitability.

The removal of price ceilings (Reg Q) revealed predictable excess capacity and led to increased competition among traditional and nontraditional players. Against this backdrop it's not surprising to witness falling margins and many unprofitable branches (30% nationwide by our estimate).

Nevertheless, we are fundamentally bullish on the branch banking business. Firstly, convenience (ie. physical proximity) clearly retains much of its value with the bulk of consumers – witness plans by direct-mail fund companies to open limited networks.

Secondly, branch banking offers both proprietary channels and a proprietary data base of customer information unavailable to most competitors. Thirdly, branch banking, unlike many competing channels, has traditionally been perceived by consumers as a relationship, multiproduct supplier.

But there's a catch to this scenario. We believe that only well-positioned players who manage capacity and product/customer mix extremely carefully will live to tell a profitable tale.

By well-positioned, we mean branch businesses with the competitive advantages of scale and network density. The impact of scale in lowering unit costs in the branch is well understood.

Larger branches staff more efficiently; every doubling in size reduces unit costs by 25%. It's very difficult to run a sub-$25 million deposit branch without significant slack capacity.

But scale is equally critical in the back office: check processing, programming, data center operations, and customer service all show 20% to 40% reductions in unit costs with each doubling in volume. Retail businesses with both large branches and back offices have significant entrenched cost advantages over their smaller competitors. By our reckoning at most 15 to 20 banks in the U.S. are 'at scale' in their back offices today.

'Branch network density is less well understood but also important in determining branch performance. Experience shows that a bank which – in a defined market – has less than 60% or 75% of its lead competitor's branches is unlikely to get its "fair share" of new deposits.

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Annuity

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competitive firms to manage their annuity programs.

Disintermediation

Some bankers fear that marketing annuities is "shooting oneself in the foot." They believe that annuities would cannibalize existing deposits. But PAMCO has developed a program that results in virtually no disintermediation.

Bank and thrift clients have consistently reported almost no disintermediation from annuities because the compensation marketing program has been designed to protect and enhance deposits, not to harvest expiring CDs.

Low disintermediation is achieved because of the way we compensate the investment executives, how we cross-sell deposits, and how we save money that was leaving the bank anyway.

The company's investment executives are paid substantially higher commissions if the sale is funded out of money or deposits at other institutions, not yours. PAMCO's investment executives are trained and compensated to cross-sell deposits and other bank products.

We also train branch contact staff on how to identify customers who are withdrawing substantial deposits in order to make the kind of investment that PAMCO could sell them.

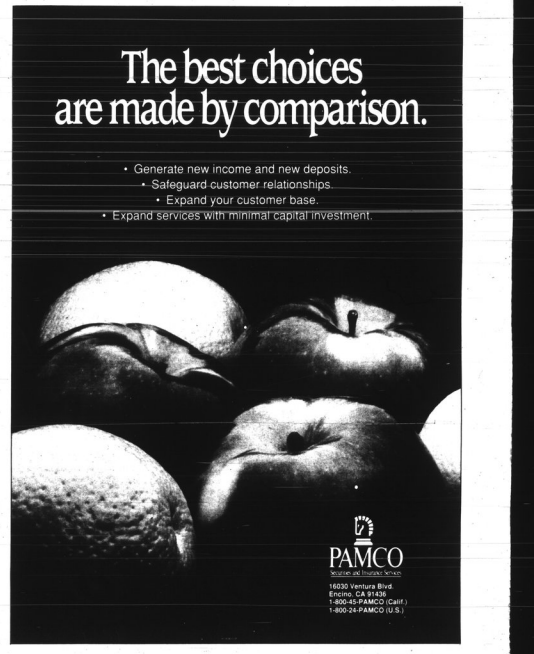
The company's sales process allows investment executives to determine which of a bank's products meet the customer's needs or are competitive with products the customer now uses at other institutions.

Consumers are actively shopping for investment alternatives, and banks are developing investment marketing programs to maintain their market share. Programs such as PAMCO's will enable institutions to broaden their investment product offerings, expand current customer activity, generate new fee income and deposits, and increase profitability. □

Studies indicate that consumers want to buy annuities where they bank. In the past three years, more than one million people invested in annuities through banks or thrifts.

The best choices are made by comparison.

• Generate new income and new deposits.
• Safeguard customer relationships.
• Expand your customer base.
• Expand services with minimal capital investment.



PAMCO
Securities and Insurance Services
16030 Ventura Blvd.
Encino, CA 91436
1-800-45-PAMCO (Calif.)
1-800-24-PAMCO (U.S.)

Branch

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For example, if your bank has 40% as many branches as your lead competitor in a given market, you are unlikely to get 40% of the deposits in that market. Consumer research indicates a "share of mind" phenomenon: The more prevalent brands tend to crowd out the stragglers.

From an industry respective these two competitive edges, scale and density, will accelerate in-market combinations. Given current excess capacity, consolidation across networks is the only economically attractive way to achieve scale for most banks. And most consolidation benefits are only feasible in-region.

Obviously, branch networks must overlap to allow for significant branch operations consolidation. But even overhead and systems consolidation proves difficult across regions as the demands of responding to different market places grow. And, of course, in-market consolidation of branches allows for increases in network density. The stock market apparently understands these underlying economics. The shares of both seller and acquirer have fared better, on average, in in-market combinations.

Managing Capacity: Variable Staffing Is Critical

The key capacity-management issue in branch banking today is staff utilization. Personnel costs represent 70% of network costs and 40% to 50% of operations expenses.

We have measured up to 40% idle personnel capacity in branch networks. Ironically, equipment and hardware costs are typically managed much more carefully because of the size of the incremental investments.

Personnel costs, by comparison, are more insidious and are typically managed through blanket headcount goals. Careful capacity management of personnel depends on an understanding of the peaks and valleys of demand, particularly in the branches. In fact, although many banks profess to using peak-time staffing, there is very little evidence of effective load-leveling in most networks.

The implementation problems typically fall into five categories.

- Few branch networks have effective MIS to help them model branch or back-office staffing needs by time of day, day of week, day of month, etc.
- Branch and regional managers are not incented sufficiently to overcome their natural reluctance in managing a more complex staffing arrangement.
- Job and skill requirement definitions are typically too narrow to give human resources departments a creative chance to staff to peaks.
- Human resources departments have typically not been given the budgets to research and attract these part-time staff (e.g., housewives, teachers, students, retired people) in sufficient numbers.
- Finally, and most tellingly, senior management in most banks have not yet made staffing to demand a "must succeed" priority, unlike other commodity distribution systems (eg. fast food, gasoline, restaurants).

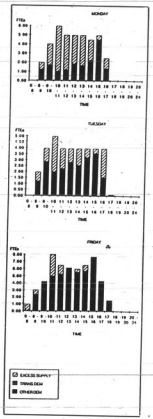
The last point is critical. Some banks across the country have made this peak-time staffing a priority with up to 60% of all hours worked in the branch being generated by part-time employees.

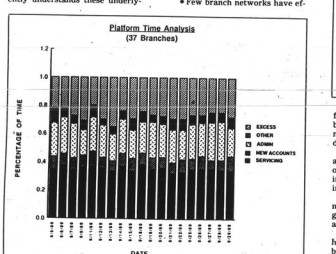
The benefits are enormous: Staffing to demand can increase fully loaded branch profits by up to 20%.

The key steps banks must – and will – take are relatively straightforward:

- Determine true current capacity utilization by time period, using transaction arrival rates, timing, diaries, standard times, etc.
- Develop simple MIS to predict staffing requirements by branch and back-office functional area.
- Focus human resources on finding the most creative sources of part-time staffing: they can do it, given support and leadership from top management.
- Make successful implementation of peak-time scheduling a key performance criterion for branch and network management.

Despite protests to the contrary, staffing to demand is a realistic goal for reducing costs and even increasing service levels, as banks as diverse as First Chicago and Wells Fargo demonstrate. This program is the first critical element in achieving outstanding performance in a well-positioned bank.





Product and Customer Mix: The Dark Continent

The second critical element is product and customer management. Although bankers emphasize the critical nature of customer and product segmentation, they will also generally confess to understanding very little about the nature of the problem or what to do about it.

It is clear for example, that product-mix management is truly pivotal in determining overall branch performance.

For a group of southeastern banks, there is a distinct tradeoff between growth of deposits and the quality of a bank's product mix as measured by weighted net interest margin. The reason, of course, is that rapid growth rates are generally only achievable by "pushing" certificates of deposit, money-market deposit accounts, and other price-sensitive products.

We see two basic challenges in the arena of product and customer management: anticipating customer product usage and minimizing average pricing. Anticipating customer product usage has two key objectives: focused cross-selling/relationship development and minimization of avoidable cannibalization.

Cross-selling programs today are generally passive in nature. Banks train their staff to respond to specific customer interactions with suggestions of incremental product purchases.

An active program relies on highly focused information about that customer's current product ownership, balances, transaction levels, and demographics to predict the next product to be purchased.

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SEAMUS McMAHON
Principal
Booz, Allen & Hamilton Inc.

Mr. McMahon is a principal with Booz, Allen & Hamilton Inc. He has broad banking-industry experience covering the wholesale, retail, and capital markets.

Mr. McMahon has worked in strategy, systems, and operations and developed specific expertise in strategic assignments where successful management of technology is critical.

In the credit card industry, Mr. McMahon has helped senior management define an overall business strategy. This strategic plan included the development of key market segmentations and competitor analyses, resulting in the identification of key operations and systems support requirements. Implementation assistance focused on the development of an executive information system to monitor business performance.

For a diversified financial services organization, Mr. McMahon developed a capital markets analysis that identified, sized, and explained the key opportunities for the provision of information services to trading segments. Additional work for this client consisted of an analysis of existing and emerging competitors and the development of a product implementation approach.

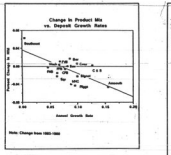
Mr. McMahon has recently helped senior management for large regional banks develop individual strategies for their retail and commercial businesses. Retail strategies have focused on improving branch and product profitability through branch restructuring, product repositioning, and back-office cost reduction.

For the commercial businesses, key elements of the strategies have included determination of relationship and product profitability. Implementation assistance has included development of management tools to optimize the allocation of account-officer time to target customer segments.

Mr. McMahon's information technology management experience at Booz Allen has covered the areas of functional and technical system evaluation, large-scale project management and data-processing strategy development.

Prior to joining the firm, Mr. McMahon was a systems review officer for Chase Manhattan Bank. Earlier Mr. McMahon was a senior consultant in the management consulting division of Arthur Andersen & Co. in Europe. In this capacity he participated in and led systems planning and implementation projects for clients.

Mr. McMahon holds an honors BA degree in economics from Trinity College Dublin and is fluent in German.



Branch

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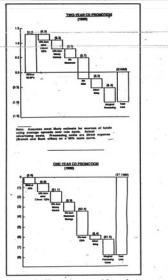
chased and the likely usage of that product. At least three large financial institutions in the U.S. are currently building data bases of this type. These databases are combined with tailored-distribution programs (branch, mail, telemarketing) to maximize household penetration while minimizing marketing expenses.

These predictive approaches also help minimize avoidable cannibalization of core, high-margin balances. Looking one more time at the diagram showing change of product mix versus deposit growth, it is clear that some banks have achieved respectable growth rates with relatively little deterioration in net interest margin.



The challenge is to avoid marketing CDs, MMDAs, etc., to customers who were not [illegible] likely to purchase them. This point is illustrated by two recent CD programs at a regional bank.

When the sources of new funds were evaluated, the two programs had destroyed significant shareholder value. As illustrated, a relatively small percentage of the funds came from internal accounts. However these accounts all had significantly higher spreads than the CDs.

Reducing average pricing is the other key challenge in product-/customer management.

In most products today there is a significant cross-subsidization of customers. In this example, over 40% of the accounts (i.e., those with balances between $1000 and $7500) failed to cover even their direct costs. The entire profitability of this product was generated by the minority of accounts (24%) who generated 76% of the balances and revenues.

BALANCE RANGE	PERCENT OF ACCOUNTS	PERCENT OF BALANCES
0–$1M	34%	1%
$1M–$5M	32%	13%
$5M–$7.5M	10%	10%
Over $7.5M	24%	76%



Banks have two huge incentives to eliminate this inequality. First, the threat that other banks and financial intermediaries will continue to reduce prices to the unsustainably profitable large-balance accounts, stealing the better customers and leaving the average-pricing banker with the low-value accounts.

The second incentive is opportunity. Market research and repricing experience suggest that there is a significant opportunity (as much as 15% of aftertax profits) to raise prices to these smaller-balance customers without losing many accounts.

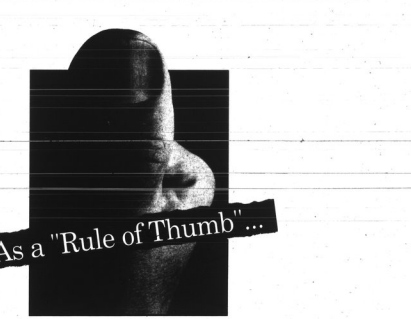
In short, the challenge in product- and customer-mix management is to develop much more insight about which customers are likely to use which products and to estimate their current/prospective profitability and price sensitivity.

We believe branch banking will remain a profitable business for banks with scale, market focus, disciplined capacity, and customer/product management programs. But the need to move on these challenges is urgent.

The performance gap between the lead banks and the "pack" is already significant. In summary, we believe each bank must take action on the five following steps:

- Focus on in-market acquisitions and consolidations.
- Develop real personnel capacity-management programs and MIS.
- Make strategic decisions about the growth/product mix.
- Optimize this tradeoff by beginning to develop predictive customer/product use models.
- Minimize the cross-subsidization inherent in today's pricing structures.

The best banks won't wait; the rest dare not. □



You're better off with the facts.

Ask other marketing companies how annuities products and mutual funds will perform at your institution and you'll probably be given a rule of thumb. Ask Marketing One and we'll prepare our exclusive *Market and Profitability Analyses* for you.

We'll build a database from facts and figures on your own institution. We'll use it to analyze your market base, pinpoint appropriate target segments, factor in disintermediation and identify the financial impact of an annuities program in your institution. Then we'll show you the results – so you can make a decision based on your reality, not on an idealized, hypothetical rule of thumb.

If you'd like to explore possibilities for expanding services and gaining a significant share of the annuities and mutual funds markets, start with a Marketing One *Market Analysis*. Find out in detail – from the company who's put more than 300 institutions into the business – what to expect from sales of annuities or mutual funds and what it will take to achieve them. Not guesses. Not promises. Just facts, and straightforward data analysis.

For full details, call 1-800-632-5678, ext. 146.

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MARKETING ONE INCORPORATED
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Cost-Effective Retailing: The Approach Used by Chemical Bank

By Alan M. Silberstein

Cost-effective retailing is more than just a phrase dreamed up by consultants to justify paying their fees while laying off tellers.

It is a way of doing business that has proved effective in dealing with the whirlwind of change that has been sweeping through our industry.

Banking is an industry in distress. We face increasing deregulation, governmental oversight – in fact, some might say – economic stagnation, and competition from every sector of the economy and every corner of the world.

As a result, our traditional consumer franchise has been eroding. Cities have many more banks than they can comfortably support, profit margins have shrunk, and investors are increasingly unwilling to provide capital to any but the strongest banks.

Chemical Bank has not been immune to these problems during the past few years. But rather than blindly cutting costs and threatening the inherent strengths of our business, we have approached these challenges by continuing to focus on our basic strategy.

We have been committed for many years to a vision of retail banking as retailing – that is, the marketing and selling of financial services to consumers and small businesses. We believe that we have to be retailers before we can be bankers. So we have chosen to deal with the challenges facing our industry by becoming excellent cost-effective retailers, not just "cheap bankers."

We have accomplished this by focusing on three basic strategies of cost-effective retailing:

- Know your customer.
- Make every square foot count.
- Make every person contribute to the bottom line.

Know Your Customer

"Know your customer" is probably the best-known lesson in retailing, but it's one that most bankers don't fully comprehend. We've all been told that market segmentation is a key component of cost-effective retailing, but too many bankers think of their market as a static mixture of average customers. That's a mistake.

To be successful in meeting the needs and demands of our consumers, we need to recognize that there is no "average" customer, only individuals with defined needs.

And these customers don't have to be static. As retailers, we have the opportunity to tailor our services, pricing, and delivery systems to attract and retain the customers we want.

Thus, one of the keys to cost-effective retailing is to learn what different individual customers want – and are willing to pay for – and use that information to choose our customer base and design products and delivery mechanisms tailored to their needs.

For example, every time a customer completes a Chemical application, we obtain a wealth of information about who he or she is, his or her current financial needs, and past banking history. Over time, the customer's transaction patterns provide us with even more information.

We also regularly survey customers, former customers, and noncustomers to determine their banking preferences. That information, combined with broad demographic data, has been the source of some of our most valuable ideas for targeted marketing and product design.

That same information has also helped us determine which customers we want to attract and retain. By tracking the transaction patterns of our customers, and the associated costs of serving them, we have been able to determine which customers are actually our most profitable.

By matching our business to the most profitable customers and concentrating our resources to meet their needs, we have increased our market penetration among those customers, increased their satisfaction with Chemical, and lowered our account attrition.

Another source of information used by Chemical, like many other consumer-driven companies, is our telephone-service line. Customer questions – and, yes, complaints, are often an invaluable way to monitor important trends in the marketplace.

Not only do we have the opportunity to help our customers, but we learn more about what is of immediate concern to them, how we can alter our operations to become more competitive, and what new

> Sometimes we learn that our customers have changed right before our eyes. What was right for a particular customer segment yesterday may not fill its needs tomorrow – or even this afternoon.

products or features might be valuable.

Sometimes we learn that our customers have changed right before our eyes. What was right for a particular customer segment yesterday may not fill its needs tomorrow – or even this afternoon. One key to cost-effective retailing is to recognize when changes have occurred and respond in a timely fashion.

Traditionally in banking, it could take two years or more to implement a new product and, by the time it was introduced, it wasn't new anymore. But, at Chemical, we've invested in technology to reduce the development time for new products and made it cost-effective to serve niche markets.

Our customer-account system is a central data base with a service-plan facility that has been the key to our introduction of new relationship products for consumers and businesses in New York, New Jersey, and Texas. This dynamic system, which links up our deposit accounting, installment lending, and revolving credit systems, has provided both high levels of flexibility in product design and operational support for the new products. It has allowed us, as banking retailers, to respond to opportunities more quickly, and more cheaply, than ever before.

Make Every Square Foot Count

The second basic strategy of cost-effective retailing is to make every square foot count. At Chemical, we've copied other successful retailers and set out to make every square foot that we have a productive contributor to our bottom line.

By evaluating how much each service and activity contributes to the success of our business, and allocating available space based on the relative values of these activities, we are increasing the cost-effectiveness of our entire branch network.

For example, we used to think of every branch as its own miniature bank. As a result, we provided the same (primarily transaction-based) services in every location.

The success of Chemical's pioneering work in self-service taught us that we didn't need tellers and expensive floor space to profitably service customers. Instead, we could use machines to handle simple transactions, freeing staff to concentrate on customer problem solving and cross-selling, and releasing floor space for more profitable activities. And our phone-based services could handle the majority of our noteteller, non-ATM contacts with customers.

By successfully moving customers to alternative delivery systems and moving many operational and nonessential activities out of our prime retail locations, we have significantly altered our use of space.

As a result, we have reevaluated our space requirements, in some cases releasing space, in others reconfiguring or even acquiring additional space where appropriate to support our sales focus.

Chemical has learned to use its branches to sell assets and well-priced liability products, instead of processing transactions – and we've achieved significantly better returns. By repositioning our branches as sales centers, with dedicated salespeople and furnishings appropriate to the consultative selling process, we are maximizing our profit per square foot and improving the cost effectiveness of our branches.

We've been taking this repositioning a step further by tailoring the layouts, furnishings, and even the products offered, to each branch's population and our target market segments. Thus, we have commercial branches that have specialists in small-business loans. Select branches that provide increased privacy and comfort to high-net-worth customers, and Chexpress centers that offload payroll check cashing from branch sales centers to nonprime locations.

We have also created full-service branches that have no tellers but boast a full complement of sales and service specialists. These branches incorporate the latest in self-service technology, including Chemical's proprietary Customer Information Centers.

Since these locations require less space and less staff than traditional branches, we've been able to re-

Continued on next page.

ALAN M. SILBERSTEIN
Senior Vice President
Chemical Bank

Alan M. Silberstein, senior vice president, is in charge of Chemical's New York consumer banking area, encompassing the nine-county New York metropolitan area.

His responsibilities include administration of sales and service in 200 branches with $15 billion in deposits and over 3,000 employees.

Mr. Silberstein joined Chemical in 1974 and has worked in several divisions of the bank. He was named vice president in January 1976 and director of profit planning in May 1978.

In May 1982 he was named senior vice president in charge of retail operations. In January 1986, he assumed responsibility for the bank's national consumer division, comprising credit card and consumer-finance activities nationwide.

Before joining Chemical, he worked with the New York City Bureau of the Budget and was a design engineer for Ford Motor Co.

Mr. Silberstein was appointed to the Federal Reserve Board's Consumer Advisory Council for a three-year term beginning in 1989. The council advises the board on the exercise of its duties under the Consumer Protection Act and on other consumer-related matters.

Mr. Silberstein serves on the bank's public policy and credit policy committee. He supervises Chemical's Join-A-School programs in New York City. He also serves as a director of the bank's consumer-finance subsidiary, Chemical Financial Services Corp.

He is a member of the branch administration executive committee of the American Bankers Association. Recently, he was elected to the board of directors of the Sy Syms School of Business of Yeshiva University and also the board of the New York City Street Tree Consortium.

He has served on the Master-Card international operations committee and the New York Clearing House Bank operations committee.

His community activities include service as a trustee of the Tenafly, N.J., Board of Education from 1983 to 1986. He has been active in the Harvard Business School Club since 1973 and served as director in 1982-1983 and 1985-1988.

Mr. Silberstein has a bachelor of science degree from the Columbia University School of Engineering, and a master's degree in business administration from the Harvard University Graduate School of Business. He lives in Tenafly, N.J., with his wife, Carol, an attorney in private practice, and their three children.

Chemical

Continued from preceding page

duce our costs without missing a beat in terms of sales and service. But these aren't necessarily our "branches of the future." They are just one of the many branch configurations in our network that we have developed to meet the needs of different locations and customer segments.

Perhaps the extreme case of making every square foot count is our Bank-at-Work program. We've created a portable branch that we call Banking a-la-Carte, which is transported to a workplace to provide full banking services to Chemical customers.

It is a veritable bank without walls, staffed with two tellers and equipped with on-line terminals and a cash dispenser. Because it offloads transactions from the branches to the place of work, it's not only more cost-effective for us but provides better service to our customers as well.

The point to remember is that good retailers don't waste space. With current technologies, almost any location can be used for banking, but the key to cost-effectiveness is to make every square foot count.

Make Every Person Contribute to the Bottom Line

The last key to cost-effectiveness deals with people. In any bank, staff is the biggest category of expense. Therefore, whenever expense cuts are called for, the temptation is simply to squeeze staffing in order to decrease costs.

But one of the great truths that we sometimes forget is that retailing is a people business. Back-office systems, television advertising, and advanced ATMs don't buy banking products – people do. Therein lies a number of important lessons.

When we surveyed our customers a few years back and asked them why they banked with Chemical, we learned that they thought of us as convenient, innovative, safe, and responsive – all of those things that every good retailer wants to be.

But we were also reminded of something that, frankly, a lot of us had taken for granted: Customers banked with us because they liked the people they dealt with.

Our people do more than just sell merchandise or perform services. To customers who deal with us, they *are* Chemical Bank. So we have invested in training and empowering our people so that they are more effective at their jobs.

We have instituted reporting and tracking systems that speed up problem resolution by insuring that customer problems receive the priority they deserve and aren't lost in the crush of day-to-day transactions. By spending time and money to track accurately the patterns and types of customer contacts at our branches, we have been able to schedule both our tellers and our platform staff more effectively than ever before, providing our customers with improved levels of service at lower cost.

On the subject of platform staff, it has been my experience that how those professionals actually spend their day is a great mystery at most banks. Well, at Chemical we've worked very hard to demystify the platform – by measuring what they do, setting individual performance goals, and asserting our will to manage.

As a result, we have reduced and refocused our platform staff and achieved higher levels of sales, both in absolute numbers and cross-sell ratios. And we have improved overall satisfaction.

One of the biggest reasons that we have people in the branches is because banking products don't sell themselves. At Chemical, we have become unabashed salespeople. By spending money on sales training, sales management, and technology, we have been able to increase our effectiveness and improve our profitability.

By now, of course, most bankers are familiar with direct marketing, which increasingly includes telemarketing. Direct marketing is one area where banks have been at the cutting edge of cost-effective retailing – using behavioral modeling and other sophisticated analytical techniques to identify potential customers and develop targeted marketing approaches.

But technology can enhance face-to-face selling as well. At Chemical, we have developed platform computer systems that are powerful sales tools.

Our sales representatives can now access information about every account owned by a prospect and interactively look for cross-selling opportunities. The features of each of our products are easily described and compared with each other, as well as with competitors' products.

"What if" calculations and various options are handled automatically by the system. And much of the drudgery of account opening is eliminated.

Continued on next page

> By repositioning our branches as sales centers, with dedicated salespeople and furnishings appropriate to the consultative selling process, we are maximizing our profit per square foot and improving the cost-effectiveness of our branches.



LET'S GET TO WORK.

You know more about your business than we do.
You know your needs better than we do.
You care a lot more about the work on your desk than about the technology on your desk.
And, your needs should drive that technology, not vice versa. Make sense?

Good, because that's the revolution that's going on at the new Wang.
We're radically rebuilding our entire company, top to bottom.
We're fundamentally revolutionizing the way every one of our 20,000 people works with you.
Our job is to listen. To watch. To ask questions. To learn.

And then, and only then, to respond to your needs with the best solution possible, as soon as possible.
The new Wang. The first technology company ever organized entirely around your needs. Not our technology.
Got a job to do? Then let's roll up our sleeves.

LET'S GET TO WORK. WANG

Key to Quality Improvement Is Treating Employees as Customers

By Linda Cooper

The key to quality improvement isn't throwing money at a problem.

You need to invest in whatever technology enables fast, easy-to-understand data. Once you know what's happening, you can manage your way out.

That's the premise behind First Chicago Corp.'s consumer affairs/quality department. The department choreographs the bank's quality process.

This process includes conducting primary customer research to identify service expectations versus needs and primary employee research to pinpoint obstacles to quality service. Also included are service measurement, reward and recognition, communication, consulting, and rollout to acquisitions.

Each employee, regardless of rank or function, is expected to "sell" the prospective customer that the First National Bank of Chicago is a good place to bank. Management believes that when employees are given all the essential tools to provide good service – such as accessible, reliable equipment; easy-to-understand products and procedures; and training and support – they can be asked to sell the bank in a consistent manner.

Treating employees as customers gives management 14,000 opportunities to hear about our service and then to improve it.

An analysis of customer satisfaction data reveals that "employee willing to help" is the best predictor of high customer satisfaction. Willingness cannot be mandated. It occurs when employees feel good about their work.

Creating a work environment that fosters this initiative is a constant objective. But how much improvement was needed was not clear initially. Throughout the evolution of the bank's quality approach, the areas with the greatest improvement potential often have been discovered by accident. This was especially true of insights gained from bank employees.

Employee Focus Groups

An interesting project emerged from research on our bank-by-phone product. The product manager wanted to do focus groups, but had no budget. The consumer affairs manager, who was a focus-group moderator, agreed to conduct groups in-house. Corporate employees were used because they were also customers (and "free").

Employees were negative about many aspects of the retail bank, from prices to service perceptions. This was long suspected but not documented. It was likely that these employees were not steering friends to the bank.

Negative word-of-mouth advertising is always disastrous, especially when coming from employees. Without employee commitment, it is unlikely that external customers will receive quality service.

Additional focus groups on employee banking revealed that few employees knew their options. Immediately, solutions to employee-service expectations became a top priority. Employees would have to experience excellent service first-hand before becoming believers.

Another conflict arose between line management and human resources over budget responsibility for employee banking. Line departments had been absorbing the cost of free checking and no-points home mortgage loans, and wanted a change. Human Resources wanted to continue supporting these employee perquisites, but had no budget.

Possible solutions were discussed during employee interviews. In these sessions, employees warned that without incentives, they would not feel compelled to use bank services.

It was ultimately decided to provide a no-minimum-balance checking account with direct deposit and free Skyline checks, and to grandfather home mortgage loan benefits until yearend, then reduce them by 50%. While employees were not completely satisfied, they thought it was a fair compromise.

Selling Bank Services To Employee Customers

To overcome employees' perception of poor service, employee banking ("We put you First, too!") was reintroduced at a bankwide meeting. The presentation and supporting materials were similar to those used with customers.

Rick Hartnack, executive vice president and group head, acknowledged that employee-customers had not always been treated with the same concern as external customers. He asked employees for another chance and explained new service standards.

Part of the collateral material listed common questions about consumer banking and where to find answers. The telephone numbers of the senior managers' direct lines also were published to offer employees additional assistance.

A highlight was a videotape dispelling the myths of customer service (e.g., "we don't want 'little' customers, we don't want to sell loans, ATMs are not reliable, phones are not answered"), featuring senior management playing the roles of customers. One vignette about long waits in teller lines was set to the tune of the "Volga Boatmen."

Customers were jostled, and dropped from exhaustion. At the beginning, a woman had just started reading "War and Peace." By the time she reached the teller, she was on the last page. The group head appeared, wearing a tutu and wings over his suit, portraying an angel repairing ATMs.

Ongoing Employee Listening

The most lasting improvement from early employee discussions was the creation of "2-TALK," a consumer affairs hotline. All Chicago-based employees were asked to call the hotline when they received or heard about poor service.

The 2-TALK calls have helped solve myriad service problems and have provided an outlet for improvement ideas such as getting the rate recording shortened and slowed down, correcting postage-due packages from telemarketing, and providing a service number for debit cards.

If employees leave their name and number, they are informed within 24 hours of the action taken. Similar to the "Let Me Know" surveys with external customers, 2-TALK provides an opportunity to correct perceptions about service.

Eventually, this concept will be extended to include external customers. We also created the rapid action guide, which provided direction for different types of problems. An officer of the day, who wears a beeper, was established to ensure accessibility for nonroutine questions and transactions.

In spring 1990, we sent a service "report card" survey to all Chica-

Continued on next page

LINDA COOPER
Vice President
First Chicago Corp.

Linda Cooper is vice president and manager of the consumer affairs/quality department for First Chicago's community banking group.

She has been intensely involved in the design, implementation, management, and measurement of the bank's quality process. The process, developed in the parent bank, is now being rolled out to acquisitions.

Ms. Cooper has published numerous articles on quality, and speaks frequently at quality-industry conferences. In addition to the quality process, she is responsible for two other functions: the action center, which manages escalated complaints, and quality advocacy with senior management on behalf of customers and employees.

In areas where the quality process has been fully integrated, customer-satisfaction percentile ratings have risen from the mid-80s to the high 90s.

In 1988, the First Chicago community banking group won the Tom Peters award for quality programs and the International Customers award for excellence.



Ms. Cooper joined First Chicago to organize its market research department and managed major primary research studies on image, new products, and their delivery.

A graduate of Vassar College with graduate work in psychology, Ms. Cooper began her career in New York on Wall Street and later worked at Executive Search, specializing in the identification of women candidates for high-level management positions. Five years as a marketing consultant followed.

Chemical

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When we talk about making every person contribute to the bottom line, we should not forget our customers. In the same way that we've transformed our branch people from order-takers into sellers, we are also enabling consumers to sell themselves.

Our Customer Information Centers allow customers to make balance inquiries and do account transfers; and they allow both customers and noncustomers to review product descriptions, prequalify for loans, and request further information. These units have been so popular that the lines at these information centers are often longer than those at the ATMs.

Recapitulation

Chemical's approach to cost-effective retailing focuses on our vision of banking as a retail business. We have allocated our resources to improve the cost-effectiveness of our branch network. To do this, we have followed three basic strategies of cost-effective retailing:

- We know our customers.
- We've made every square foot count.
- We've made every person contribute to the bottom line.

Knowing our customers means that we have identified who we want our customers to be and determined their needs. We have listened to our customers and refined product features. And, we have anticipated market trends and improved our product-development capabilities.

To make every square foot count, we have provided access to banking services where customers want them, using a wide variety of distribution vehicles. We have positioned our branches to efficiently sell our most profitable products and redesigned our branches to meet the specific needs of our target segments.

To make sure that every person contributes to our overall profitability, we have made the sales process more efficient and effective. We have invested in training and empowering our people to provide superior service, identified our customers' specific service needs, and allocated our tellers and platform staff accordingly.

Cost effective retailing is a creed, not a reaction. It is a way of thinking about where banking is and where it is going.

At Chemical, our commitment to being banking retailers and providing superior service to our customers has led us to expand our sales staff by 35%, while decreasing our total staff by 22% in the past four years. Yet, during the same period, we achieved a 50% increase in accounts and a 200% increase in earnings.

In our eyes, those results have proven the effectiveness of our retailing strategy. □

Key to Quality

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go-based employees. Now, employees, our toughest critics, give us satisfaction scores just below those of external customers. A letter went back to these employees with the findings and answers to specific questions and concerns raised, along with a request to continue to alert us to improvement opportunities.

Ongoing Employee Teams

Employee focus groups are used continually to help understand and solve quality problems. Roundtables are held monthly, usually about a specific topic, with representatives from involved areas.

If no conclusion is reached, a second meeting or decision from senior management resolves most issues. Minutes are taken and published and individuals are assigned action steps.

Ongoing Employee Surveys

Every quarter of 1988, all community banking group employees received a dozen questions, along with a letter from the group head, that detailed the previous quarter's results and actions taken. Surveys were coded by work group, exempt and nonexempt employee levels, amount of time spent with customers, and length of bank service.

First-quarter survey questions included: Do you have what you need to do your job? Does the equipment work? Do you have access to it?

Two years ago, messy bathrooms and unreliable elevators were big visible, support the group, etc.).

Three crucial questions are repeated each year:

- Would you refer a friend to work here?
- Would you bank here if you weren't an employee?
- If you were president of the bank, what changes would you make to improve service quality and morale?

These ratings improve each year. The current version of the questionnaire – sent out yearly – contains two parts. The top sheet, which covers the work environment, is sent to consumer affairs upon completion. We ask for identification so we can take instant corrective action.

The second part, which concerns managers and morale, is sent to an external research house for analysis. These sections are color-coded and contain some broad demographics to identify the work group, but not the respondent. (operations and systems units survey their clients separately.)

Name Tags

Good service companies usually have employees wear name tags. After some initial resistance, name tags have become a way of life. As service levels have improved, employees take more pride in their affiliation with the community banking group, and wearing tags is less of an issue.

Since the department's inception, consumer affairs employees

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concerns. Comments on telephones have diminished greatly. Last year, the copier machines were a major problem.

One solution was to install five new copy machines and rotate existing machines for better coverage. We also produced a cribsheet of all the copier machine functions and how to clear paper jams.

The second-quarter survey addressed employees' views of products, pricing, and relevant communications. Many employees, including some officers, didn't understand our pricing rationale, so we sent an explanation to each community banking group employee.

The third-quarter survey was split between employees serving external customers and those serving internal customers (e.g., systems and operations support, marketing, etc.). Internal support areas were asked what grades the front line would give them, and the front line was asked to grade the service received from these internal suppliers.

These questions were not very well received because many employees did not know which category applied to them; and many were in both groups. However, the survey did reveal a significant gap between how internal support areas thought they would be graded versus how they actually were graded. One solution was to have an internal group consult consumer affairs on how to provide better service to its internal customers.

The fourth-quarter survey addressed employees' satisfaction with their immediate supervisor and senior management. Employees graded managers on their ability to communicate business strategy and their performance on key management practices (e.g., whether they discuss work priorities, appreciate extra effort, are

• Deposits for less than 25 basis points.
• Loans at 9% response rates or better.
Year-End Marketing Results.

Management believes that when employees are given all the essential tools to provide good service – such as accessible, reliable equipment; easy-to-understand products and procedures; and training and support – they can be asked to sell the bank in a consistent manner.

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Seeking New Opportunities in Tomorrow's Payment Systems World

By Roger L. Peirce

"Success breeds success" is a statement we often accept without a second thought.

But futurist Alvin Toffler sees matters a little differently. "The first rule of survival is clear," he writes. "Nothing is more dangerous than yesterday's success."

His point is that, in today's fast-changing business climate, the very strategies, practices, behaviors, and even values that once helped an organization succeed can – and often do – hamper future success.

And his solution is an ongoing process of review, refinement, and renewal – a process based on the belief that success depends not on timeless answers but timely ones.

Today, we are seeing this fact of business life demonstrated quite dramatically in the bankcard industry.

During the '80s, we enjoyed a time of tremendous progress and profitability. But now the '80s are behind us.

As they have passed, so – it seems – have some of the attractive opportunities we've associated with them. Now, we hear a lot more about saturated markets, growing competition, lower margins, and leaner times ahead.

Joel Freidman of Andersen Consulting was inspired to title a recent presentation: "All My Low-hanging Fruit Is Gone and My Pigs are Hungry."

Are Leaner Years Ahead?

Will the '90s be leaner? If we had kept to the traditional success formulas, I would probably have to say yes.

But the good news is that we haven't. We've seen the business realities change, and we've adapted ourselves accordingly. Rather than just trying to squeeze more out of existing veins of market gold, we've identified and are mining new veins. These, we believe, will result in a wealth of new opportunities we didn't even conceive of a decade ago.

The '90s will be decidedly different from the '80s. But, in their decidedly different way, they will also be quite exciting and rewarding.

To set the stage for a look at the new realities and opportunities ahead for our industry, let's begin with a look back at the '80s.

What were the '80s like for the bankcard industry? First, after the first two years of the decade, our members had an excellent environ-

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Highest level of outstandings.

Highest sales volume.

Highest number of cardholders.

Highest consumer preference.

Before you issue a gold c ard, come up and see us.

Payment Systems

Continued from preceding page

ment to work in.

Their total income grew significantly. Operating expenses and overhead were reduced and the cost of funds came down and stayed low.

The decade also saw tremendous growth in card sales volume. Gross charge volume for bankcards grew at very robust rates.

Between 1980 and 1989, for example, Visa's U.S. card sales and cash advances grew to $129 billion from $27 billion – nearly a fivefold increase.

As always in our industry, this growth was based on three factors: member issuance, merchant acceptance, and consumer usage. For any bankcard transaction to take place, all three of our constituencies need to buy into the process. And, during the '80s, we saw this happen in a big way.

The number of U.S. bankcards held nearly doubled. In 1981, for example, there were 64 million Visa cards in use. By 1989, there were 120 million. Signing up new cardholders was the primary emphasis of banks in the decade.

During the '80s, the number of U.S. merchant outlets grew significantly. In Visa's case, it went to 2.6 million from 1.8 million – an increase of nearly 50%.

These figures reflect the continued erosion of resistance in many markets – the growing perception that bankcards are an irresistible force, a "historical inevitability."

An excellent example of this erosion of resistance is retail stores. When we first tracked the figures in 1986, 58 out of the top 100 department store chains in the U.S. accepted Visa. Now 82 do. Some of the chains that have come over in the last four years are Macy's, Saks, and Bloomingdales.

Among the top 100 specialty chains, our current figures are even more impressive. Today, 97 of them accept Visa.

During the '80s, the amount people charged on their bankcards each year also increased. In 1980, for example, the average amount transacted on a Visa card was $422 a year; by 1989, it was $1,077. When we factor in inflation, this comes to a 68% increase over the decade.

All of this progress, of course, didn't happen spontaneously. There has been a lot of hard work along the way. Visa's contribution, for example, was enacting significant changes and improvements to all three of its major functions: its organizational structure for setting rules and priorities, its marks, and its systems.

Thinking Globally

With respect to organizational structure, as Visa entered the '80s we restructured to better address the needs of the international marketplace and distribute the financial burden of the corporation

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Highest standard of service.

Highest growth rate.

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Payment Systems

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more equitably.

The idea was to establish separate banker boards in each of five regions of the world and give each the power to run its division. The strategy was to think globally while also tailoring our organization to be more responsive to local and regional needs.

We think it greatly helped speed our growth. Indeed, international growth has been so substantial that now U.S. markets now account for over 50% of total sales volume.

During the 1980s, Visa greatly enhanced its marks through consistent advertising. Today, our mark is one of the best known in the world. And today, largely by focusing on our strength of merchant acceptance and positioning ourselves as providing broader coverage than American Express, we're perceived by most people than ever as the best overall card.

The third key component of success is delivery systems. We believe Visa has made dramatic progress here, progress that also had important implications for all our constituencies.

One area where the numbers are quite impressive is authorization control. In 1981, for example, only 16% of all Visa transactions were authorized. By 1989, it was 87%.

One result was that fraud-loss rates were cut in half. But a subtler and more profound result was that it allowed issuers to feel more comfortable granting cards to a broader base of consumers. Bankcards became no longer the instrument of the privileged class.

Increased risk control was enabled through the extensive deployment of electronic terminals, first for authorizations only, then for both authorization and electronic data capture.

As a result, it now takes an average of only five days to post an account after a transaction has occurred. This speedy awareness of transactions not only reduces risk, but reduces float costs. And the accuracy of the process greatly reduces chargebacks, requests for copies, and other operating costs.

As important as reduced risks and operating costs are, another benefit is even more important. Both merchants and cardholders have come to perceive and take advantage of a higher level of service.

Because card transactions are now much easier and more reliable, they are also much more desirable. And, the industry is well positioned to see card usage continue to grow significantly in the '90s.

The bankcard industry has many reasons to be happy about its performance during the '80s. Ironically, though, some of our greatest successes have led to new and growing concerns.

One is issuance. With 120 million Visa cards currently in use and about 150 million adults in the U.S., this translates to many as "market saturation." For years, our members' main focus was growth through issuance. What happens now?

Another concern is merchant acceptance. When 97 of the top 100 specialty stores in the United States already accept Visa, there doesn't seem to be great growth potential here.

There does, however, seem to be plenty of opportunity to increase individual card usage. As mentioned earlier, the average Visa cardholder only transacts about $1,100 a year on his card.

Another issue is the intensifying competition between cards. Right now, for example, we're seeing American Express digging into the mainstream retail markets where we've always dominated.

And cash availability, where banks have always held a unique advantage, is being given to American Express and Discover, as banks open their ATMs to these competitors.

No Reason to Go Hungry

Yes, some of the low-hanging fruit is gone. But there is no reason for any of us go hungry. The low-hanging fruit only represents a very small percent of all the fruit on the tree. And the challenge now is to find the best ways to get at all the rest.

At Visa, we have responded to this challenge by "reconceptualizing," as the business books like to put it. We've chosen to pursue a much broader vision that we think will lead to tremendous new opportunities.

We used to think of ourselves as a credit card organization and our competitors as the other card organizations. Now, we are a "payment systems" organization.

Credit-related products are still a critical part of our business. But now the goal is much more all-encompassing. It's not just to offer a better credit card or to woo consumers away from American Express. It's to become the preeminent payment vehicle in the world – the preferred alternative, not only to other cards, but also to cash and checks.

The possibilities are enormous. Cards today account for only about 15% of all consumer spending in the United States. Cash and checks make up the other 85%.

To understand a market in its entirety, we have to see its components more clearly. To do this, we've developed consumer and merchant segmentation strategies. We find out more about the parts and then mix and match to provide a better solution for the whole.

Consumer Segmentation

Our consumer-segmentation strategy is designed to create broader product offerings and, ultimately, product lines. An evolution beyond the traditional one-card-fits-all mentality, it's one way we are stimulating both card issuance and card usage.

Our Visa Gold and Business cards, for example, have proven to be excellent vehicles in the travel and entertainment market. They offer additional benefits that many of those who hold our Classic card don't necessarily need. And they've helped to make us more competitive with American Express on several fronts.

In the future, we may introduce a card that handles small, fast transactions like parking fees or bridge tolls. It's dependent, of course, on more automation in spe-

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ROGER L. PEIRCE
Executive Vice President
Visa International



Roger Peirce joined Visa in 1981 after working 17 years with IBM. While with IBM, he managed contracts to develop several of Visa's major systems.

Mr. Peirce began his career with Visa in the systems development division, taking over responsibility for that division in 1983. In 1985, he assumed responsibility for Visa's risk-management and security division and Visa U.S.A.'s member relations division.

In 1988 Mr. Peirce became Visa U.S.A.'s chief operating officer and assumed responsibility for all U.S. card and travelers check product development and marketing activities.

Currently, Mr. Peirce holds the dual title of executive vice president for both Visa International and Visa U.S.A. He has global responsibility for VisaNet and all related delivery-systems functions.

Mr. Peirce holds a degree in mathematics from San Jose State University.

Key to Quality

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have been asked to initiate new-business-development conversations with employees at corporate bank levels in other functions. Consumer affairs is an internal resource and no one is forced to use its consulting group, which constantly markets quality.

The staff offers suggestions positioned as "What's in it for the client?" When resistance occurs, the staff tries different tactics.

This approach is paying off slowly, but consistently. In late 1989, consumer affairs was approached for advice by a product manager who had been among the most resistant for more than three years.

Our clients often call us to test our quality-improvement ideas or to brainstorm tactics. Since all consumer affairs employees are in constant contact with other units of First National Bank of Chicago, the quality approach is spread through word of mouth.

Consumer affairs acts as an internal quality advocate for customers and employees (with the exception of human resources issues). Customers are represented in matters involving charges, new products, and major communications.

While every employee is challenged to think like a customer, it's our central focus. We also screen major customer communications for understandability and tone.

Quality issues stemming from employee questionnaires and 2-TALK are either solved or explanation or alternative is provided. We try to eliminate bank jargon and explain the rationale behind changes.

Learning Opportunities

Unlike many organizations involved in quality, the bank did not start comprehensive quality training. Kaset Inc. Customer Service Training, which translates principles into actions, is now part of new-employee orientation. The pilot for the Tom Peters group's "Creating Value for the Customer" is now underway.

"Creating Value for the Customer" helps employees learn how to understand their customers and develop small "wins" for improvement. A problem-solving course was designed and taught by consumer affairs staff. A lot of what other organizations call training, we call education, good manners, creating the right work environment and quick, good communication.

Employees have access to our fairly extensive lending library of videotapes, books, and articles. Consumer affairs also provides a constant stream of ideas and highlights of what other companies are doing, gleaned from research and continual external networking.

We publish "Quality Clips" for book and article abstracts and our own research findings. We publish "Quality Facts" quarterly to each community banking group employee. This lists 10 of the most important facts about our service performance gleaned from our measurement process. We believe these easy-to-remember statistics help employees in "selling" the bank to potential customers.

Cost of Quality

Some of the quality literature says the cost of poor quality is around 25% of revenues. We did not want to position quality as a cost-reduction program. Periodically, we do an analysis. The largest loss – interrupting service to other customers while we fix the problem – can't be measured.

How do you know when you're there? You're never there. Customers' expectations continually rise from service experiences across all industries.

As soon as we back off, we start to see our scores go down. However, the measurement process provides the evidence to all constituencies, senior management, employees, and customers that changes have taken place. □

Payment Systems

Continued from preceding page

cific transaction environments.

And then there's our check-replacement or debit card. A major step in our quest to become a full-service consumer payments system, debit offers excellent new possibilities to everyone in the financial services loop.

Members leverage a natural advantage they have over the non-bank cards. Merchants receive greater security over cash and check. And consumers receive greater utility and convenience. Everyone wins.

To help move us in this direction, we've created the Visa Debit service. In partnerships with lending institutions, we're adding the Visa marks to the face of ATM cards, automatically making them Visa Debit cards.

More than 1.300 financial organizations around the world have already added the Visa logo to more than 20 million ATM cards. In the next few years, we expect this number to grow dramatically. Unlike most checks and other debit cards, the Visa Debit card produces bank income.

Merchant Markets

In addition to consumers, we're also targeting merchant markets. We're focusing on several where we're already a major factor but, where we believe we can improve our standing by addressing unique needs and adding value.

These include direct marketing, department stores, general merchandisers, and T&E. In addition, we're courting huge markets where, until now, we've virtually been nonexistent. Among these are fast food, supermarkets, health care, and telephones.

In the fast food arena, we have traditionally been next to no presence for one reason – speed. In a business where fast is beautiful, the cost for authorization and purchase process has been too slow to make cards attractive.

One solution is an inventive use of technology. We've tested it at selected McDonald's, Wendy's, and Arby's restaurants.

At the point of sale, the card is passed through a stripe reader and immediately checked against a hot-card file. If the card is good, the amount of the purchase is automatically credited to it. Then the authorization is flashed on a video screen in front of the checker.

The entire process is instantaneous: no phone calls, no imprint and signature procedures. Consumers get more convenience and flexibility. And speed-minded merchants get a payment system that's even faster than cash.

A second area we're beginning to concentrate on in a big way is supermarkets. The supermarket and convenience food industry represents an annual opportunity of more than $300 billion in the United States. But Visa currently holds less than 1% of the market.

The barrier we hear most about is the supermarket industry's low aftertax profit margin, typically about 2%. Another barrier is speed of checkout.

Low margins are always a concern. But we've penetrated other areas where low margins are the norm. We don't think this is the main problem.

The solution here could simply be time. Already we can see resistance to bankcards crumbling in many areas. For example, 30% of all supermarkets accept Visa in specialty areas such as pharmacies and bakeries.

The Kroger chain is trying bankcards on a test basis at grocery checkout and more chains accept cards in vacation areas. Safeway at Lake Tahoe is a good example.

Speed of checkout is another very real concern. We're exploring the integration of a solution into the electronic checkout scanners used by 90% of the top chains. This would increase speed and would involve a relatively small technology investment by the merchant.

The Health-Care Industry

A third area of increasing focus is the health care industry, a $160 billion business in the United States in 1988.

Common problems here for consumers have been numerous. They would like to find:

- A more convenient way to pay for services not covered by insurance.
- A better way to pay for services when in a foreign country.
- Any way to speed and simplify insurance payments.

This Visa service would involve a large-scale effort to better integrate the payment function into the entire process. The benefits for consumers, health personnel, insurance companies, and government agencies would be immense. A cumbersome and stress-inducing system would be replaced by a much simpler, smoother one.

We continue to commit to technological development. We are investing about $5 million to link our core transaction processing sys-

Continued on next page

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Some of the low-hanging fruit is gone. But there is no reason for any of us go hungry. The low-hanging fruit only represents a very small percent of all the fruit on the tree. The challenge now is to find the best ways to get at all the rest.

Some of the quality literature says the cost of poor quality is around 25% of revenues.

The New Branch Bank Office: More Than Just A Pretty Face

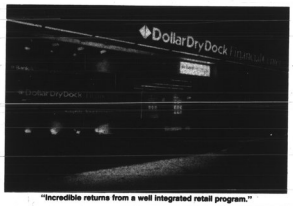
By Andrew J. Atkin

The combined influence of designers experienced in retail-store design and bank executives bent on creating a proactive business culture are changing the face of banking, at least as far as the customer sees it.

Bank customers may not be aware of the internal decisions leading to the alteration of the branch from a mainly transaction-oriented environment to a retail-selling space. They cannot miss, however, the fact that fresh ways of using lobby space, combined with eye-catching visual merchandising, are adding up to a livelier, more informative environment than banking has ever offered.

But the public is far more astute and educated about financial service than ever before. It is fully capable of knowing that cosmetic improvements alone do not alter the true nature of a bank. Customers' difficulties with banks, their reasons for "spreading their financial business around" numerous institutions, and their reasons for leaving a bank are seldom (if ever) related to the way the lobby looks.

So it will take more than changes in the appearance of the branch if the bank intends to develop the kind of customer loyalty that endures over a customer's life passages and impels that retail customer to develop a multifaceted financial relationship with the institution.



"Incredible returns from a well integrated retail program."

A Tool for Communication

In fact, branch design – like sales training or platform automation – is only one of the tools that encourages improved communication between the staff and the customers. Hanging posters and creating a stimulating, comfortable decor may help invite product inquiries from customers. And it may encourage staff to move around and make contact with branch visitors.

Unless, however, the branch's "pretty face" can follow through with the systems and human resources to serve customers effectively and capture their loyalty, the investment in branch alterations can be a disappointment for both the bank and its customers.

In extending our 20-year retail-design business into the banking industry, we have had the opportunity to work with a number of aggressive and innovative retail banks. These institutions recognized that branch design was an important part of their communication and product delivery strategy. In most cases, they brought to us, the designers, a relatively mature understanding of their markets and their own identity.

Nevertheless, we have found that branch design is such an important element of the entire retailing picture that every bank has seen the opportunity to upgrade its staff development and supporting systems to take advantage of the new branch environment.

Five years ago, our challenge was to prove the benefits of retail design. Today that challenge has evolved into fitting the design investment into an integrated retail strategy.

Design alone is not enough. We now are committed to assisting banks to balance their investments in employee development, corporate identity, market analysis, technological support, and the added-value programs that identify them as true business partners to their customers.

In addition to pure design issues, we look for five elements in a high-performing retail banking initiative. Each one is important. Together, however, they add up to more than the sum of their parts, creating an environment of consumer focus and peak bank performance.

The Sustainable Advantage

It is no news that banking services are commodity products. When pricing is competitive within the bounds of profitability, the difference between bank and another's products largely comes down to packaging.

To package effectively, a bank must know two things: What the customer wants and how packaging will affect profitability.

Historically, in banking, packaging has often meant bundling products to serve specialized markets. At times, this has also included "add-ons" such as relationship discounts, added services, club programs, tie-ins of discounts unrelated to banking, and inexpensive benefits such as travel insurance. In many markets, especially with senior citizens, these package programs have been highly successful in attracting deposits and fostering loyalty.

The same concept of promoting the "privileges of membership" has been an extraordinarily successful retail strategy for American Express, which has extended the idea into the upscale middle market. There is no reason why banks cannot seek ways of introducing membership advantages to a number of different customer segments. The results may not only be a point of differentiation, but provide a tangible reason for customers to consolidate accounts.

Membership programs are an extension of the same target-marketing philosophy that should underlie all retail efforts. A segment identity, such as Barnett Banks' Senior Partners concept in Florida, can assist in lifestyle marketing.

Branch staff training should reflect the bank's knowledge of the product-acquisition patterns of key segments. Even merchandising can be segmented within a single branch, with information kiosks branded to reflect the values and needs of each group.

The membership concept can go much beyond these base-line marketing tactics. For example, American Savings and Loan Association of Florida has created a popular video program that it brings (along with bank promotional material) to retirees' clubs and organizations.

A bank serving a college market can improve the prospects of its current customers and cement future loyalties by creating a data base of entry-level jobs among its own commercial customers. A bank serving small business could sponsor a "small-businesses lunch" to foster networking and new business development.

When it comes to traditional

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Payment Systems

Continued from preceding page

tems. This will greatly simplify the way banks process consumer card payments, whether these payments are credit, debit, ATM, or ACH.

Complementing both segmentation strategies and technological development is an intensified industrywide quality-assurance effort. This, we believe, will significantly help to erode resistance to us among both merchants and cardholders.

Visa is focusing on the establishment of specific standards to help improve quality. We're requesting, for example, a clarification of SIC codes for merchant categories and better management of authorization approval and referral rates.

To help facilitate this process, we've committed to:

- Evaluating members on a monthly basis, rating them against our standards and their peer-group average.
- Providing members with more quality-assurance information, such as performance monitoring statistics and quality service measurements.
- Sharing new technological capabilities with members to help them improve services.
- Setting up shared-cost pools of money so merchants are freed from unfair chargebacks and other unpleasant experiences.

No one disputes that the bank-card industry has its work cut out for it during the '90s. The tree is full of fruit, but none of the rest will be quite as easy to pick as the low-hanging kind has been.

One large question remains: How will we look back at the bankcard industry of the '90s?

Cash Is the Competition

I believe that we'll see it as another decade of progress and profitability. Competition between the U.S. bankcards and organizations like American Express, Discover, and JCB will grow.

But, increasingly, we will all define our major competition as cash and checks, not as one another.

To compete more effectively against these traditional forms of exchange as well as each other, we'll continue to better address specific member, merchant and customer needs through more focused segmentation strategies, more capable technology, and higher-quality service.

As we do, more and more people will come to see bankcards as much more than a convenient way to charge meals, clothes, theater tickets, or hotel rooms. They'll see their bankcards as vehicles to pay for phone calls, groceries, health care, bridge tolls, and perform all kinds of transactions they don't usually associate with cards today.

Increasingly, they'll see their bankcards as check-replacement – or debit – vehicles that automatically access accounts to make recurring paymefhs such as the mortgage or the cable TV service.

With all this progress will come continued growth and profitability. Much of this will result from much greater merchant acceptance and consumer usage in the United States.

International growth will be even stronger. Visa's European sales volume is currently growing by 40% to 60%, compounded annually. At this rate, European sales volume will exceed U.S. volume in just two to three years.

As we in the bankcard industry look ahead, it's awesome and inundating. A time of easy opportunity – of all that low-hanging fruit – is quickly receding into memory. A time of tremendous new challenges is before us.

Rather than being intimidated, we in the bankcard industry have become invigorated by these new challenges. They have helped us to see the '80s not merely as a time of easy opportunity but also a time of great development and refinement – a time when we laid down an excellent foundation upon which to build.

They have helped us to see the '90s not merely as an extension of the old, but as a time to explore exciting new payment systems frontiers: debit cards, new merchant segments, the prospect of tens of millions of new cardholders around the world, and much more.

They have helped us pave the way for a much more responsive, responsible industry – one that moves more surely and swiftly to bring members greater profit opportunities, merchants greater security and sales opportunities, and consumers greater convenience, control, and choice. □

New Branch

Continued from preceding page

packaging efforts, that is, adding bells and whistles to commodity services, investments should be made in the most profitable products and segments. Both product design and customer communication should emphasize that loyalty is rewarded.

Just as airlines and hotels reward additional business, banks offer discounted or free services through "premium membership" programs. Value-based program could encourage use of the most profitable products and offer some compensation for referrals of new customers. Costs can be controlled through the use of tie-ins with other retailers or service providers who want access to bank customers.

Obsession with Sales, Service

Enough has been written about managing for quality performance that it seems unlikely that anyone has not gotten the message. But it cannot be said too often. No organization will change unless the change begins at the the top, and the executive management are living role models of the corporate ethic.

Management of high-performing retail operations begins with clearly defined corporate goals and performance evaluation at every level of staffing. A visually effective branch without the supporting management structure is a pretty face without a brain.

Strategy in support of corporate sales and service goals should be developed at the highest levels, and tactics for fulfilling those goals created and revisited regularly throughout the organization.

Sales management is discipline of both quantitative tracking of results and qualitative activities – such as coaching and team-building – that should be understood at the executive level as well as by branch managers. The problems of the salespeople in the branch are the problems of the organization whose profitability depends on retail growth.

The more the organization is committed to the sales process, the more it will learn not only about how to develop its customer-contact people, but how to learn and use information about its customers.

In addition to management support, training is a requirement, not only to provide specific sales-related skills, but to change the expectations and behavior of bank staff. In a retail branch, the staff will increasingly be measured and evaluated on its performance with customers.

As a sales culture is put in place, new values – such as initiative and problem-solving ability – will be prized. These ideas must be introduced in tandem with training on product knowledge and sales technique.

Systems and Technology

The future of retail banking will depend increasingly on technology, especially systems that hold customer information. The point where sales and service come together is when the bank staff can access enough information to anticipate a customer's financial service needs and the tools are available to communicate those options to the customer.

Soon, even self-service technology, such as ATMs may become smart enough to analyze a customer-information file and offer an appropriate sales message with every ATM use. In the meantime, both platform and teller-line automation provide potential for cueing staff on sales opportunities.

Platform automation, particularly has virtually unlimited potential to support the sales process. Various programs now show product information in terms that customers can understand, to cue customer service representatives on lifestyle information about the customers, and to graphically illustrate what-if scenarios to assist in selling.

Any bank that intends to compete on the basis of sales and service should anticipate future investments in technology to support those goals. Both the visible hardware on desks and counters and the hidden infrastructure of power and data lines will impact branch design. Space design that does not consider the inclusion of future technology will quickly become inefficient or obsolete.

Self-Service Terminals

The other major area of branch technology is self-service terminals. There is no question that automated banking will grow in importance as younger bank customers mature.

But any investment today in self-service must be weighed in relationship to the bank's current target markets, and the adeptness and comfort of those segments with computerized hardware. There are certain segments, such as high-end customers, who will

Continued on next page

Customers' difficulties with banks, their reasons for "spreading their financial business around" numerous institutions, and their reasons for leaving a bank are seldom (if ever) related to the way the lobby looks.

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Identify Branch Underachievers and Make Them More Profitable

By James P. Schultz

Narrowing profit margins are forcing the banking industry to take a long hard look at its branch networks and find ways to improve their profitability.

The branch delivery system is more important than ever because consumer acceptance of alternatives such as home banking, telephone banking, and ATM banking has fallen below expectations.

A major challenge facing the banking industry is to identify weak-performing branches, improve them wherever possible, close down those branches that cannot be raised to desired levels, and restructure the distribution and delivery system to maximize return on investment.

Our first move was to decide how the branches were to be measured and compared. Deposit levels, market share (DAP), market potential, and cross-sell are the criteria Urban Science Applications Inc. utilizes for ranking branches.

In the case of branch deposit levels, median deposits are the basis of comparison since a median is less sensitive to extremes than a network that included some very large or small branches.

But the complex, knotty problem of deposit allocation has to be faced first. Often customers open accounts at one branch and then conduct transactions at another branch.

Moreover, when customers change their address, they usually do not reopen their accounts at the bank branch near their new home. However, one would expect any new accounts that were opened would be found at this location.

One possible allocation method is to process transactions from tellers and ATM machines and summarize them by individual household.

> The rising population represented a pool of potential new customers. Past experience has shown that it is far easier to capture an unattached customer than one who must be pried loose from a competitor.

An alternative approach for assigning the deposits of a household considered DDA accounts, the location of the last account opened, and the location of the branch nearest to a given household.

Based on this combination of all the accounts possessed by a household, a primary branch for a household was determined and all the accounts and their related deposits were allocated accordingly. As for market share, branches whose trade-area household penetration do not exceed the average for the bank in the study area are considered as underperforming.

Another way of measuring household market share is performed by using a distance attraction profile (DAP) curve. Here, bank household penetration as a function of distance is measured from each branch. The shape and height of the curves are then compared with the average branch curve.

Market potential can be described in many ways: deposits, households, revenue, to name a few. Perhaps the easiest to describe is households. Simply put, more new households are better.

Using this approach, areas of new construction are typically

Continued on next page

New Branch

Continued from preceding page

probably never want much self-service.

Other areas, such as retiree communities, will not want it until the baby boomers age. So, cost-effective investments in technology should be closely tied with the service demands of the clientele.

Nontechnological systems in support of sales and service are also critical. In one bank where we were contracted for a branch redesign project, we discovered that customers could spend 20 minutes staring across an empty desk, while the customer service representative searched for forms or approvals.

When a customer is ready to sit down and discuss a product, the systems should be in place to expedite the sale. A sitting-down customer offers a priceless opportunity to acquire personal information or cross-sell another product. By wasting that customer's patience, a bank is literally throwing away its investment in the advertising, merchandising, and other attractions that brought the customer into that chair.

To a certain extent, these sales-supporting systems are design issues. Arranging a computer screen so the customer can monitor the data-collection process can be helpful, as is locating printers so the service rep can immediately reach for forms as they are produced. Every CSR should also have information about all bank products, including those that may require referral to another area, within arm's length.

It is equally important, however, to design branch procedures so that each customer contact person can personally provide as many solutions as possible. Automated credit-approval programs can eliminate the need for extended waits on loan applications.

If customer representatives or other service staff are empowered to correct minor problems, customers have the opportunity to develop confidence in their "personal bankers." And if it is not feasible to push the decision-making authority down to the customer contact level, procedures should be streamlined as much as possible.

Product communications can go well beyond in-store merchandising. The principle of merchandising is to provide information in a form that will assist customers through the mental decision to purchase.

Retailers have found that product information associated with lifestyle images is received most effectively by consumers. The link between products and lifestyle can be developed in a variety of methods.

At their best, branch communications have intrinsic value, and become products in themselves. At Dollar Dry Dock savings banks, the huge electronic data walls in each branch not only provide information about bank products, but also financial information from world markets.

The underlying message offered to consumers by these data walls is that Dollar Dry Dock recognizes that their financial services needs extend beyond traditional bank products, and that the "financial centers" have the resources to provide a complete array of financial services.

The challenge of creating a "shopping environment" in the branch may go beyond product-related sales efforts. It may also involve supporting the lifestyle occurrences that trigger the need for bank products.

For example, a bank that seeks college loan customers may also want to provide information about the half-dozen colleges that local high school graduates are likely to attend. A "university specialist" might have information about admission requirements and availability of financial aid.

In the same fashion, a bank seeking to develop its car-loan business may set up an area with information about new cars, used cars, and trade-in values. Or a bank can work with major real estate brokerages to provide information about moving, as well as a newcomer's package with material on loans and depository accounts. Such information services create opportunities to develop new customers or deepen relationships with existing ones.

The most beautifully designed branch is only the environment in which people sell products and services to people. No matter how much visual interest and information the space provides, the message is ultimately carried to the customer by bank staff. And if the staff is not functioning to support corporate goals, the branch is not functioning.

For most of our lifetimes, branch staff have been hired and trained to be reactive order takers. To change them into proactive sales and service representatives requires training, coaching, and incentives. If a bank is going to invest money in the real estate, it has to invest money in the people as well.

Conclusion

Retail operations in bank branches require a comprehensive program of retail strategy, branch design, staff training, merchandising, and a long-term commitment to refining the customer focus.

In the hierarchy of importance to a bank just beginning to recreate itself as a customer-driven retail organization, the first step is to develop a positioning strategy based on evaluations of the consumer markets, the competition, and the bank's own strengths. That strategy will serve as a road map to define the schedule of implementation of all the aspects of the sales-and-service culture.

A beautiful and functional branch designed for retail activity is unquestionably a tremendous asset. Not only will it effectively communicate the bank's product menu and service orientation to customers, but it will enhance the staff's ability to contribute to corporate goals.

It must be remembered, however, that the branch is a profit center. The success of any branch design project is measured by return on investment, and the best return is found when the branch environment is not only pretty but smart.□

ANDREW W. ATKIN
Vice President
Director of Financial Retailing
Walker Group/CNI

As director of financial retailing services for the Walker Group/CNI, Andrew W. Atkin is responsible for developing strategies for banks and insuring that design concepts for the distribution network support these strategies.

After obtaining master's degrees in business administration and architecture from Washington University, St. Louis, Mr. Atkin began his career at Hellmuth, Obata & Kassabaum in St. Louis, where he was director of strategic planning services.

For the past two and a half years at WalkerGroup/CNI he has helped develop retail strategies for a variety of financial services retailers and department and specialty store retailers in the United States, Europe, and the Pacific Rim.

Mr. Atkin is a professor at the School of Bank Marketing of the Bank Marketing Association. He has been a speaker for the Bank Marketing Association and the American Bankers Association.

He is a service member of the ABA, Bank Marketing Association, World Store Advisory Board, National Retail Merchants Association, and the Retail Marketing Society.

Mr. Atkin's project experience includes new retail strategies for First Banks, Minneapolis; HFC Bank/UK, London; Deutsche Bank, Frankfurt; American Savings and Loan of Florida; National Australia Bank and Video Central, San Antonio, and Equity Properties and Development, Chicago. He also developed a national retail prototye for Citicorp Savings and a new department store for Rustan's, Manila.

Walker Group/CNI's financial-institution clients include Citibank, Dollar Dry Dock Savings Bank, Dreyfus Financial Services, Household Financial Corp., American Savings and Loan of Florida, Deutsche Bank, First Bank Systems, and National Australia Bank.

Underachievers

Continued from preceding page

identified as places to be. The issue gets more complicated if one tries to understand the savings habits of household by age of the head of household and household income.

The last criteria for measuring branch performance is the cross-sell ratio. Typically, this ratio is calculated by dividing the number of total accounts by total households. The assumption is that the more account relationships that exist, the stronger the customer tie and higher household balance levels.

When making this calculation, however, one should eliminate all closed/inactive accounts (zero balance). One improvement to this calculation would be to determine the number of product categories a household uses instead. For example, many households have separate DDA accounts for husband and wife, although the household is using only the DDA product category.

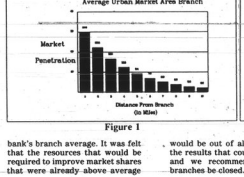

Figure 1

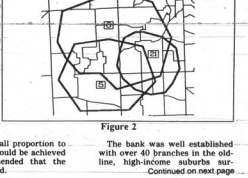

Figure 2

bank's branch average. It was felt that the resources that would be required to improve market shares that were already above average would be out of all proportion to the results that could be achieved and we recommended that the branches be closed.

The bank was well established with over 40 branches in the old-line, high-income suburbs sur-

Continued on next page

Overview

USAI undertook such a study for a bank holding company with nearly 175 branches located in a large metropolitan area that included the core city, older inner suburbs adjoining the core city, and new communities in the outer suburbs. Conditions in each of these three areas reflected different stages of development and we had to develop different criteria for appraising branch performance and prospects for each area.

New Outer Suburbs

The bank had 75 branches opened over the last 15 years in the new outer suburban areas. Special criteria were required for new branches located in these high-growth areas. Despite growth for newly opened branches was to be measured against the bank's three-year cycle for previously successful new branches.

The rule of thumb for a successful new branch set the goal at $10 million of deposits within three years. If a branch didn't meet that goal, bank management would consider closure, unless the overall market potential indicated the likelihood of future success.

In this study, the bank had agreed only five new branches in the last three years. Of these, three branches filed to meet the $10 million goal. However, since all three branches were located in areas of high growth, we calculated that the three branches would meet their deposit goal in the fourth or fifth year of operation.

Market potential in these areas would be heavily influenced by the rising population which represented a pool of potential new customers. Past experience has shown that it is far easier to capture an unattached customer than one who must be pried loose from a competitor.

Two other branches showed problems associated with low trade-area potential, that was the result of a combination of too few households, low savings balances, low savings rates, and low median income.

The branches' total deposits were below the bank's branch average, yet the market share of the branch in question was above the

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Survival Is the Biggest Challenge of Retail Banking in the '90s

By Thomas J. Falciglia

If we, as consumer bankers, had known 10 years ago the effects that technology, regulators, and the market would have on our industry, could we have been better prepared?

I think so. And consequently, I think that we can use that hindsight to prepare for changes yet to come in the '90s.

Perhaps the biggest single challenge facing retail banks in the '90s is a fairly simple one: To survive. That is not as pessimistic as it sounds.

We must be realistic as we look at the carnage of our industry from the '80s, and we can learn from those mistakes by facing our problems clearly.

There are five broad steps to preparing for our future and anticipating some of the changes to come:

- Manage growth while controlling expenses.
- Increase the need for self-service processing.
- Monitor and change our technology infrastructure.
- Rethink our traditional ownership of products and services.
- Adopt a policy of creating levels of service for levels of need.

The first step to survive is to manage growth while controlling expenses. With careful planning and creative thinking this can be accomplished, despite how daunting the task sounds.

Rising Costs of Personnel

We must evaluate where our growth will come from and where we can control our costs. Banks, like other major corporations, have found their major expenses over the past few years have come increasingly from the rising costs of personnel, particularly benefits.

Therefore, in rethinking compensation plans for the future, the concepts of both salary and benefits should be reconsidered. Salary is no longer the only form of compensation that employees weigh or value when looking at a job. Benefits, especially as the work force ages, will become more and more important.

Benefits will be important to the full-time worker as well as to the new breed of part-time employee. The working mother, the semi-retired, and the temporary worker, all consider benefits differently.

Each of these employees gives us as management greater flexibility in structuring our staffing mixes and compensation packages. If we take advantage of the new diversity of the work force, we can save ourselves millions of dollars each year. The success of cafeteria benefit plans must continue during this new decade and be adapted to a changing workforce.

Compensation as it applies to the branch banking system can be re-evaluated. Quality service delivery increasingly relies on back-office staff as well as branch employees.

In structuring awards, we can add an incentive that is truly tied to profitability and includes not only the branch but also the support staff. This way, both branch and support feel they contribute to

Continued on next page

Summary

The results of this distribution analysis for the network was conducted in 90 to 120 days. It was easy to implement because it was directly related to the actual customer usage and behavior patterns of the organization.

Through the use of geographic spatial analysis and statistical modeling routines available in USAI's PC-Gain software package, the data could be quantified and presented to management and directors in clear, concise maps, graphs, and summary analysis. □

THOMAS J. FALCIGLIA
Senior Vice President
Manufacturers Hanover Trust Co.

Thomas J. Falciglia's career spans 28 years with Manufacturers Hanover Trust Co. About one-third of that time was spent in branches and another third in staff areas such as operations research, strategic implementation, and systems. For the past eight years he has worked in several branch administration posts.

Mr. Falciglia is currently responsible for one of Manufacturers Hanover's strategic business units, the consumer banking group. That group encompasses all branches throughout New York State, central customer-service departments, and consumer finance (excluding cards and residential).

The group's 3,000 employees service their own customer base of individuals and businesses with total deposits exceeding $12 billion.

Outside the bank, Mr. Falciglia serves on the consumer banking executive committee of the New York State Bankers Association.

JAMES P. SCHULTZ
Director, Client Services
Financial Services Division
Urban Science Applications Inc.

James P. Schultz is director of client services, financial services division, of Urban Science Applications Inc.

Mr. Schultz is responsible for computer modeling, decision support software, and market-analysis studies for financial institutions. He has conducted detailed network evaluations for some of the nation's largest financial institutions, with as many as 150 branches in a study area.

Mr. Schultz joined USAI in 1978 and served in a series of management positions. From 1971 to 1978, he was coordinator of transportation systems, then coordinator of long-range planning for the Southeast Michigan Council of Governments, Detroit.

Previously, he served with New York State Department of Transportation, Buffalo.

Mr. Schultz is a member of the Bank Marketing Association, International Council of Shopping Centers, and Chi Epsilon national honorary civil engineering society. He is a registered professional engineer in Michigan.

Mr. Schultz received a bachelor's degree in civil engineering from the University of Detroit in 1971 and an MS degree in civil engineering from Wayne State University in 1974.

Underachievers

Continued from preceding page

rounding the city. This area was completely built up with no new construction, but total aggregate income was increasing dramatically.

Our studies showed that these customers might be interested in other bank products. We found that it was particularly important to offer these products aggressively, if only to maintain customer's ties to the bank. Loyalty to a particular bank often weakens as household income rises and the number of alternative investment opportunities increases.

We recommended that the bank vigorously pursue a program to improve the cross-sell rate. Cross-sell can be measured by the number of accounts, on average, held by households credited to a particular branch.

An opportunity exists when a branch has many customers but very few products per customer, as was the case in this suburban area. The branches, for the most part, had captured only a small share of the customer's total potential business. In addition, through effective cross-sell, the branch may be able to wean customers away from other banks.

Although some of the branches in the inner suburbs were not performing adequately, we felt that the area's potential was such that every effort should be made to improve their operations. Some of the buildings were inadequate by present-day standards.

We felt that redesigning these facilities would alone be sufficient to upgrade the performance. Six branches were lacking drive-in facilities or off-street parking and they were redesigned to rectify these shortcomings.

A number of the branches that had large deposits were also considered underperformers. They had poor market share and were poor performers when measured against their potential. These branches were candidates for intensive marketing campaigns.

Most branch bank marketing is rudimentary. A typical example of branch merchandising consists of a rate board in the lobby listing daily product interest rates. No advertising or promotions are ever found in the drive-in or ATM vestibules.

To remedy this situation, banks are considering redesigning branches to emphasize the products they offer and how these products help a customer meet the demands of his or her lifestyle. Routine transactions are being handled in the vestibule with ATMs, but tellers are situated at the rear of the branch, which forces customers to walk through the branch and be reminded of the services being offered by the bank.

Core City

The bank had 40 branches within the city. Some of the neighborhoods were being gentrified and presented the bank with many of the same types of growth opportunities as the new outer suburbs.

However, in some of the neighborhoods, growth in new households had ceased and the aggregate income was stagnating. The potential for new business in these areas was limited to seizing business from competitors, a hard undertaking at best.

To make matters worse, many of the branch buildings were old and operating costs were high. Maintenance was expensive and some buildings required new heating or air-conditioning systems.

We advised the bank to close five of the facilities whose performance could not be readily improved and which were located within two miles of other branches. We felt that the closings would not be particularly painful for the customers and CRA compliance would not be questioned, since there were other branches nearby.

Our study allowed the client to compare convenience with the branches in place or closed to determine the effect on depositors. When the branch closings actually did occur, the bank managed to retain 80% of the accounts and associated deposits by replacing them with two downsized transaction centers.

Survival

Continued from preceding page

the bottom line and are rewarded for that contribution.

Creating True Incentives

But the biggest benefit of creating true, profit-driven bonus plans is the return to the meaning of the word incentive. It seems many bonuses that are supposed to be incentives are now taken for granted by staff.

By remodeling the salary/incentive structure, we will have a stronger, more unified work force. There is nothing more productive than a team that works together toward one goal.

If that goal profits the employee as well as the institution, so much the better. And, we will award incentives only where and when the participants have contributed extra value to the corporation.

Since we're talking about controlling costs, another way to manage the cost of personnel is to move our institutions toward self-service banking. How do we do that?

Consider the revolutionary impact of the ATM. In 1980, there were 18,500 automatic teller machines in use in the United States. By the end of the decade, that number had risen to nearly 76,000.

Annual volume for electronic funds transfer went from 2 billion transactions in 1982 to 5.2 billion just seven years later. What does this revolution mean?

For retail bankers, this new acceptance of technology gives us an opportunity to let consumers have even greater control over their banking decisions. If, for example, we expand the capabilities of the ATM, home banking succeeds, our personnel needs will be greatly reduced, and our costs cut. In this way we can grow the business without increasing costs drastically.

Education Is Vital

However, before we rush into huge self-service banking promotions, we should remember that such an effort will depend upon educating the customer from the beginning. We've learned a lot about how to present time-saving features since the introduction of the first ATM.

Do you remember when you wouldn't deposit a check in an ATM because you didn't "know where it was going?" Now, with the benefit of time and education, we not only use ATMs regularly, we are addicted to them.

Education and demonstrations are going to be the keys to increasing acceptance and usage of self-service banking. We should use that knowledge as we introduce more technology or other complex financial innovations to consumers.

Remember, the consumer is smarter now, too. The work force emerging in the '90s first used PCs in grade school, not graduate school. They are more willing to try and more honest in their evaluations of new products.

By the end of the decade, this may result in a total restructuring of the concept of the traditional branch. Our networks are likely to evolve with less full-service branches and more transaction-only centers, and all with self-service devices.

Although we've helped to educate the consumer about new technology in banking, we face another problem. Namely, who will educate us? The choices of what technology to invest in and how to afford it lie before us.

A Winning Strategy

Effective technology management will be a key component of a winning strategy in this decade. A thorough assessment of retail systems should be conducted in view of the business needs of the '90s. Establishing a systems architecture will facilitate implementation.

Businesses have long invested enormous effort in developing structures for managing the people and financial elements of their enterprises. Architecture is the structure for managing the data processing element. It organizes three dimensions of data processing: applications, data, and communications.

At Manufacturers Hanover, we are implementing a new retail architecture that involves:

- Installing new computers.
- Replacing core applications.
- Installing new applications and systems functionality.
- Upgrading service delivery.

This is a very significant investment, but one we are willing to make despite the mandate for cost reduction, because it will provide us with a competitive advantage. It will help us not only to continue to improve our service levels, but it will enable us to integrate new technologies, such as image processing, more easily.

Effective utilization of technology will certainly separate the winners and losers in retail banking in the '90s.

A Break with Tradition

With products and services, as with equipment, we must move away from the traditional, "all

Continued on page 22

Effective utilization of technology will certainly separate the winners and losers in retail banking in the '90s.

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Open, Cooperative Computing: Strategy for Managing Change

By Raymond L. Miolla

Unprecedented challenges lie ahead for the banking industry, brought on by fierce internal competition and an increasingly sophisticated customer pool. In a society that promotes financial awareness and complex money management, every link in the delivery chain must rise to what will be an awesome technological challenge.

Banks, as the direct customer interface, must increase their quality of delivery while simultaneously decreasing unit cost. Integration, it is NCR's belief, will be the hub around which cost-efficient delivery is possible.

Using retail banking as an example, service, sales, and office automation must be integrated into a single system that can accommodate the inevitable changes of technology.

NCR has evolved a long-term strategy to enable its customers to take full advantage of these changes, not fall victim to them. It is called "Open, Cooperative Computing: The Strategy for Managing Change." It means providing customers with a vendor-neutral computing environment based on open industry standards, allowing information resources to interoperate enterprisewide as one integrated system, in a way that is easy to use.

Simply put, NCR's delivery systems will seamlessly integrate customers' systems, networks, and software from multiple vendors into a single, flexible solution. Freedom of choice, ease of expansion, and preservation of investment represent only the immediate advantages.

Open, cooperative computing represents NCR's strategy for the future, yet it is a concept that has shaped NCR's product development since 1981. At that time, NCR made an early commitment to an open-systems direction.

In 1982, the Tower was released, one bf the most successful Unix processors in the world. This commitment has since evolved with every ensuing NCR product, service offering, and method of doing business. NCR is now a company with the products, global presence, and financial clout to deliver its advantages to the end user.

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NCR TOWER is a registered trademark of NCR Corp. Unix is a registered trademark of AT&T Bell Laboratories.

Open Computing

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Few functions will enable customers to manage change more effectively in the future than the development of integrated retail delivery systems. New opportunities to do business, new ways of delivering products, and the ability to manage the flow of new technology through a stable retail-delivery system are all possible with open-architecture systems.

Today's NCR systems share a standard platform, wherein financial and office services are integrated to provide total automation in delivering retail services to customers. Such standardization and

Continued on next page

RAYMOND L. MIOLLA
Vice President
NCR Corp.

Raymond L. Miolla is vice president of the financial system division for NCR Corp.'s United States Group.

Mr. Miolla joined NCR in 1958 as a marketing representative in Hartford, Conn. In 1965 he was assigned to the company's Dayton, Ohio, headquarters as a commercial banking specialist.

He subsequently held a number of field sales management positions, including New York region director. In this position, Mr. Miolla guided NCR's marketing efforts to major New York financial institutions such as Manufacturers Hanover Trust Co., Citibank, Chase Manhattan Bank, and Chemical Bank.

He became assistant vice president, financial systems, for NCR's Pacific group in 1981. This expanded responsibility included managing NCR's marketing to financial institutions in Canada, Australia, Japan, Malaysia, Singapore, and Hong Kong. Prior to being named to his present position he lived and worked in Tokyo for four years as managing director, marketing for NCR Japan Ltd.



Mr. Miolla holds a bachelor of science degree in marketing from the University of Connecticut.

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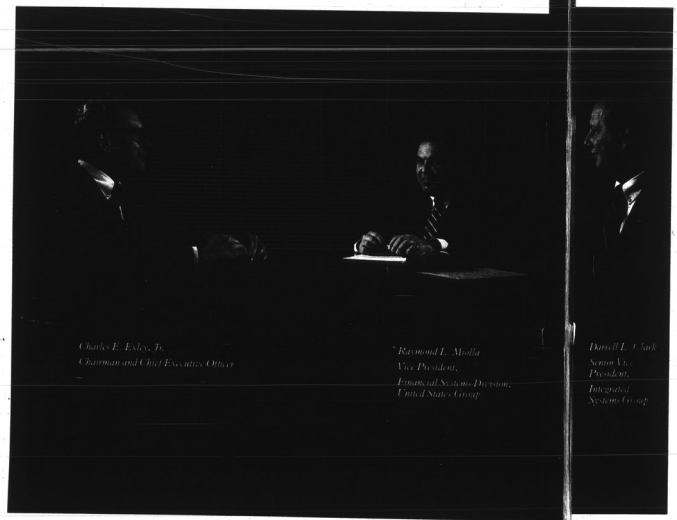

Charles E. Exley, Jr.
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Raymond L. Miolla
Vice President,
Financial Systems Division,
United States Group

Darrell L. Clark
Senior Vice President,
Integrated Systems Group

Here's What That Means And Why It Matters.

We measure value by our ability to help you achieve success with your customers. To accomplish this end, we need to provide you with complete, innovative solutions that increase customer service while improving your operational productivity.

These solutions have been developed under an NCR strategy called Open, Cooperative Computing. The cornerstone of this strategy is an open architecture, based on industry standards, that allows you to integrate the NCR products you need for success today...while assuring an open, multi-vendor environment that protects your investment for the future.

For example, our open Financial Tower System has revolutionized teller and platform productivity. Our Integrated Retail Delivery Systems will bring a new perspective to customer service...and branch performance. NCR Self-Service Systems will give your customers more depth in the services they can perform themselves. In addition, NCR Imaging Systems for Item and Document Management will provide you with powerful productivity weapons to use in the competitive decade of the '90s.

Open, Cooperative Computing is a strategy that will reshape the future of financial technology. The full benefits of this strategy can give you and your people transparent access to the enterprise-wide resources needed to effectively manage your growth into the next century. If you would like to learn more about the company that can create value for you and your customers, phone 1-800-CALL NCR and ask for the "Open, Cooperative Computing" brochure.

NCR

Open, Cooperative Computing.
The Strategy For Managing Change.

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To Know Where You're Going, You Must Find Out Where You Are

By George R. Frerichs

As a consultant in the financial industry, I am constantly approached by bankers wanting to know: "Where am I going?" My response is always: "Where are you now?" Unfortunately, the answer I most frequently encounter is, "I don't know."

This is probably the biggest problem facing the financial industry today. The majority of bankers have no idea where they are now in terms of profits, automation, and comprehensive market-driven sales and merchandising programs.

Bankers don't know where they are and surely don't have strong feelings as to where they are going.

In order to better understand where they're going, bankers must first take action to eliminate the reported 40% of branches that are unprofitable. This streamlining should be accomplished wherever possible through consolidation. If this alternative is not available, relocation or closure is a necessary alternative. In addition:

- They must develop comprehensive automation programs to deliver transactions, account information, product sales support, and other product sales activities.
- They must create – not just talk about – proactive service-/sales programs supported by a well-trained staff that is incented to perform effectively.
- They must reconfigure existing branches or build new branches based on market-driven needs, not home-office dictates.
- They must recognize critical personnel issues that exist in relationship to overstaffed transaction staffing at the expense of more sales and service personnel. They must also recognize those critical personnel issues on the horizon in terms of personnel shortages and the actions that must be taken to ward off this impending disaster.

Obviously, we can always learn from the past. But at this critical juncture, it is more important to focus on the present, to prepare for the future.

Bankers are going to have to zero in on what they do best and what is most profitable. That means focusing on market assessment, not only to cure today's ills, but to supply a base for future growth and profitability.

Market Assessment

The first step in finding out where you are is the comprehensive assessment of your market, on a branch-by-branch basis. Customer draw studies indicating origin, destination, and domicile will provide the necessary information to determine area of influence. At the same time the draw studies are done, customer demographic, psychographic, and product-usage profiles can be derived to further define the character of your customers in that market area.

Studies have proven that increasing relationships with existing customers can double or even triple branch profitability.

Market Classification

Once the market area has been defined, each branch should be classified by environment (i.e., core, subcore, office, rural, etc.). Environmental factors affect customer draw, hours of operation, and level of product and service offering.

Coupling the environmental classification with other factors such as competition, trade-area density, trade-area quality, etc., can help determine future profit potential of the individual branch and its contribution to the distribution system as a whole.

This determination is accomplished through the use of a multiple regression model. The subsequent point score that is generated from the model is used for both existing and potential markets and facilities.

Dollars/Square Feet

This point-score table translates to deposit volume on a dollars-per-square-foot basis. Bankers are now competing with retailers, not only on a financial level, but on a real estate level.

The size and location of existing branches as well as future facilities will be directly affected by the amount of business generated in the space allocated. Each tile on the floor, be it marble or linoleum, will have to justify itself in sales volumes generated. Facilities that are below par can no longer be tolerated. On the other hand, facilities that are functioning well above par are at risk of losing market share if they don't continue to support these facilities through strong service, sales, and automation programs.

The dollars/square-foot measurement also takes into consideration a branch's total profitability picture prior to identifying all recurring costs of operation. In the broad sense, these costs may be developed within three major groups:

- Occupancy
- Improvements
- Operations.

Determining Sales Potential

Once operating costs are determined, further study can enable a banker to find both the market share and household penetration level necessary to determine both breakeven and optimum sales levels for any new or existing facility. In addition, complete asset, liability, and fee-income projections can

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Open Computing

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interoperability are the foundation for delivering the adaptability, flexibility, and dependability of service that an increasingly sophisticated customer base will come to expect in this decade.

Self-Service Automation

Banks must reduce their cost of delivery to remain competitive, and self-service devices will become the vehicle to accomplish this. By the year 2000, as much as 85% of all transactions will be self-served, freeing up branch personnel for sales efforts.

In light of the projected trend, NCR self-service machines will become increasingly user-friendly. Machines will be designed as intelligent, virtually recognizing customers by offering the "usual" transaction and giving customers a logical sequence of options based on the first selection.

Ease of operation will prompt customer acceptance of expanded transactions, including stop payments, address changes, check reorders, and loan applications.

NCR's self-service devices will continue to share a common architecture with branch PC workstations and be fully integrated into the local area network.

NCR will continue its development of image-system solutions based on open-systems architecture and industry standards in three product areas: document management, item processing, and office information systems. This approach will give customers the freedom to choose the best vendor for their individual need, enabling them to manage change in their own environment. □

Survival

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things to all people" banking idea if we want to succeed. We no longer have to provide every consumer with every product and sell every service ourselves.

As we become more knowledgeable about our customers, we realize that they like the idea of one-stop shopping and the convenience of centralized banking. They are not so concerned about who actually designs and services a financial product as they are concerned about where they can get it.

For years, we avoided saying "this is not available in our bank." Today, we don't have to. We sell each other's products and services and thereby create economies of scale.

In this new marketplace, the value-added becomes your own employee. His or her level of knowledge will sell the product. As long as we have employees who understand their target consumer and understand their product, we will have satisfied customers.

My bank sells a number of products that became too expensive for us to continue to produce ourselves. We sell them in our branches, under our name, although we no longer design or service those products. And our competitors across the street are doing the same thing for their customers with our products.

Segmentation of Products

This segmentation of products must continue in order to realize strong profits in the next decade. We all can't economically create, package, promote, and service each type of financial product. We all can trade products and services.

This may sound like we're expanding, rather than contracting. Instead, it is merely a redefinition of the term "financial supermarket."

For example, the A&P sells A&P brand paper towels. They also sell Scott, Viva, and Bounty. And they make money from every sale.

So a banker who sells a product tailored to the international traveler need not necessarily own that product. But the banker's knowledge of the features and services of that product make it more valuable for a consumer to buy it from the most-knowledgeable marketer. If we're going to be third-party vendors, we had better be informed and add value or, as they say, bring something to the table. This will be another of our necessary lessons to learn in the '90s.

Segmentation of products and services will be the most successful when we understand our consumers better. One of our biggest challenges will be tailoring jobs and services toward targeted customers only.

Providing services like Priority Banking is the first step, but the process must be refined considerably. Only those customers who truly need personal attention will be offered it. And only those personnel who need to be trained to handle specific products will receive that training.

Pockets of Expertise

This segmentation of the marketplace and segmentation of the work force will not only eliminate redundancy among our employees, but will create specialized pockets of expertise within the bank. Not every consumer needs to be bombarded with the full range of loan products or savings options.

Not every employee needs to know the specific features of each CD or money-market product. But, when a customer walks in and wants advice on IRAs, there better be an employee available who knows the IRA product line thoroughly.

Consumers, then, receive the information they need and the attention they want – in half the time. One of the ways to achieve this is prescreening.

By collecting information from consumers through a survey at the outset of their relationship with the bank, we avoid unnecessary repetition of information, both financial and demographic. This also gives the bank a profile of the consumers that can be used as their needs change.

We can adjust the customers' profiles as they age, marry, have children, retire, or buy or sell a home. When consumers change, their needs change and the range of products and services that are offered to them should change as well. The key to this will be knowing our customers and giving them only those things they truly need.

By creating categories that are too large or too segmented, we will not provide the best service, nor will we create the most efficient work force.

We are being challenged by our competitors, both foreign and domestic, to use all our creativity and all our knowledge of the marketplace to plan for the future. By managing growth, controlling expenses, monitoring technological change, redefining ownership, and creating a system of customer-driven service, we will create the framework to succeed. □

GEORGE R. FRERICHS
President
George R. Frerichs Inc.

Prior to founding George R. Frerichs Inc., Mr. Frerichs served as executive vice president of RVI Corp. (formerly Robert Vogele Inc.), where he developed that firm's financial and marketing consulting services.

Previous experience included marketing positions with Earle Ludgin Advertising; Batten, Barton, Durstine and Osborne; Leo Burnett Advertising; Abbott Laboratories; Pure Union Oil Co.; and publisher of Chicago magazine.

Mr. Frerichs is a doctoral candidate at California University, Santa Ana. He holds a master's degree in business administration from Northwestern University and a bachelor of science degree in economics from Western Michigan University.

Some of his representative projects include site selection and real estate consulting, target-market, trade-area, and site-evaluation studies for companies in the following industries:

- *Financial, including banks, savings and loans, and credit unions.*
- *Restaurants from coffee shops to fine dining.*
- *Airlines, automotive, food-/drug stores, mass merchandisers, dry goods, hotel/motel, and gas/petroleum outlets.*

Mr. Frerichs has developed and evaluated mathematical models for forecasting sales, profits, and return on investment for old and/or new facilities of the following companies:

Shawmut Bank, Commerce Union Bank, Citibank, Canadian Security Bank, First Bank of South Bend, Talman Federal Savings and Loan Association, Nationwide Financial Services Corp., Western Auto, United Airlines, Bee Discount, Pop Shoppe International Inc., Fieldcrest Mills, Red Lobster Inns of America, Whataburger, Mr. Steak, Samurai, Arby's Inc., Wendy's, and Kentucky Fried Chicken.

His product-development market research and consulting work for a wide variety of clients includes the following types of projects:

- *New-product idea generation.*
- *Concept screening and evaluation.*
- *Product positioning and perception studies.*
- *Prototype in-use studies.*
- *Alternative pricing tests.*
- *Corporate and brand-name development and testing.*
- *Package and logo design.*
- *Development of marketing strategies and plans.*
- *Advertising evaluation.*
- *Test-marketing material.*
- *Regional product introduction.*

Mr. Frerichs' financial marketing services experience includes facility and project feasibility, financial feasibility, comprehensive plan development and evaluation, physical-impact analysis, economic and financial program evaluation, and consultation on long-range strategic planning.

Where You Are

Continued from preceding page

be developed.

From this data, a projected portfolio can be simulated for both existing and new facilities. These projections form the basis for a detailed summary of both deposit and liability potential. In this manner, both existing and potential sites can be compared based on net gross revenue versus operating expenses.

Distribution Prioritization

The results of the evaluation of market potential gives the financial institution the ability to prioritize capital expenditures in terms of profitability for both the individual branch and the system as a whole. The grouping together of branches into market areas will reveal both void areas and areas of overlap.

Future acquisitions or de novo expansion should occur where there are void areas, while consolidation of overlap areas should bring additional capital to the bottom line.

A Decision Matrix

In addition, once the individual facilities have been evaluated, their present performance can be judged in relation to their potential as profit centers. By plotting both point score and existing deposits in a matrix configuration, a complete view of the existing system can be formed. It is the best way to know where you are.

Quadrant I appears to be the quadrant with optimum performance. In truth, this area has a 20% downside risk factor due to its vulnerability to competition. This quadrant demands investment to maintain market share through reconfiguration, merchandising, and service-training to protect existing share.

Quadrant II has the greatest potential for growth, for it signifies a strong market and an underperforming facility. In this category lies the opportunity for revisiting size of the facility, staffing, hours of operation, merchandising, etc.

Optimum dollar return can be re-

Continued on next page

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Lessons to Be Learned from Airline's Flight Through Deregulation

By Mark Coleman

During the late 1970s and early 1980s, a concept became popular that would literally change the face of the air transportation and financial industries in the United States.

The concept was deregulation. Its effects have been felt by virtually every American. While comparisons between the two industries are numerous, I will focus my attention on the airlines and let you draw your own conclusions.

To understand the airline industry today, it is important to understand the industry before deregulation.

During regulation, the federal government exercised complete and total control over the U.S. airline industry. On the operational side, the Federal Aviation Administration overlooked the airlines' safety and operational practices. This part of the regulatory environment has remained unchanged.

Another body, however, the Civil Aeronautics Board, also exercised complete control over airlines' business practices. Fares, routes, and procedures were carefully scrutinized.

In particular, each new route was subjected to an analysis that lasted on average between six and nine years. Prior to 1978, there was a 25-year period when not a single new interstate airline began service, due largely to the inability to raise the necessary capital to begin service.

If someone wishing to borrow $20 million told you that it would be six to nine years before they even knew where they could fly, your willingness to lend would be greatly diminished.

In addition, no incentive for efficiency existed at airlines because all cost increases were allowed to be passed directly on to the consumer through a "standard industry fare level." Price competition was not only discouraged, it was simply not allowed.

In 1978, Congress overwhelmingly passed the Airline Deregulation Act. For the first time, airlines were free to form, free to choose equipment, free to fly anywhere they wanted and – what you've probably noticed most – free to charge anything they wanted. Over night, this single act transformed the airline industry from a quasi-public utility to a full-fledged marketing industry.

Since deregulation, well over a hundred new airlines have been certified and failed in this new environment. In fact, only two carriers of either national or major size remain from the group that began operations in the post-deregulation period: Midway Airlines, based in Chicago, and America West Airlines, based in Phoenix.

Continued on next page

MARK J. COLEMAN
Senior Vice President, Sales and Product Development
America West Airlines Inc.

Mark J. Coleman, senior vice president for sales and product development, joined America West in December 1981.

He has played a key role in the design of the company's marketing strategy. Mr. Coleman is responsible for development of the company's sales and advertising programs.

With more than 20 years of airline marketing experience, Mr. Coleman began his aviation career in 1968 with Western Airlines. He joined Frontier Airlines in 1971 and, by 1981, was director of strategic marketing.

He has a bachelor of science degree in economics and political science from Westminster College, Salt Lake City.

Where You Are

Continued from preceding page

alized through an investment in market and customer positioning opportunities. Unfortunately, the errors of the past have come to haunt bankers who have historically placed the majority of time and money in areas where potential was at its lowest. To make matters worse, this investment was usually made at the expense of those more profitable facilities with higher overall potential.

The branches in Quadrant III are overachieving. This is usually because of a lack of competition. The best thing to do with facilities in this quadrant is to give good service, price fairly, and pray.

Those branches in Quadrant IV with both low potential and low deposits should be considered for closure, consolidation, or relocation. Effective action in this category is strongly recommended.

This category represents branches that are taking management time as well as money. A major pathway to profitability is dependent on management's ability to rid themselves of branches in this category.

Reconfiguration Is Essential

Those areas of the distribution system that warrant capital expenditures should be the first to be converted to a retail sales environment. This includes a reconfiguration of staff functions to provide superior customer service while facilitating the sales function.

Even before entering the facility, customers should know they are dealing with a financial retailer. This means open exteriors with windows for display, excellent signage, and night-time lighting to showcase the branch.

The interior of the branch should also serve to inform, educate, and entertain the customer with open, exciting environments and a "boutique" atmosphere. Retail merchandising concepts, including corporate identity, backlit lifecycle/lifestyle transparencies, posters, and three-dimensional displays will serve to lead the customer through the branch, and serve as sales tools.

Bankers must now concede that transaction servicing will no longer be the primary function of the branch. This philosophical commitment carries with it the responsibility to conduct expanded testing of product and service delivery through automation.

This includes convenient self-service banking in the form of ATMs, 1-800 phone centers, and interactive information terminals for the customer. For the staff it includes platform and teller automation, and a PC-driven customer information file to establish relationships and profitability of households.

A commitment to training and incentives in the areas of sales and service is an integral part of a proactive sales environment.

Segment Customer Base

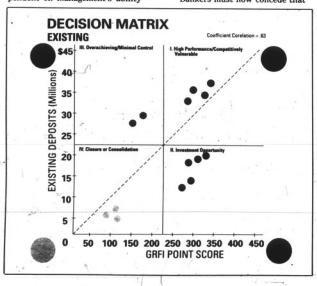
To know where you're going. You have to find your best customers and constantly reward their loyalty. Bankers have to give everyone good service, but they have to show the special customer special consideration. This means developing a series of products and services that have greater perceived value as the banking relationship increases.

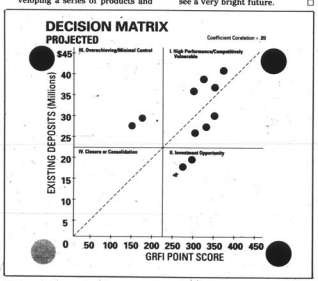
This can be accomplished by setting aside a special area of the bank with special tellers to service the high-balance/high-value customer, and developing a "club" atmosphere. This high-balance/high-value segment probably accounts for 15% of your account base, while making up to 85% of your profits. Treat them nice – this is the reason you're still in business.

Lifecycle/lifestyle product packaging takes existing products and packages them according to the needs of certain groups, while encouraging ever-increasing relationships. A basic "new accounts" package contains six or seven products and services. Imagine being able to cross-sell six or seven products at one time.

The new shape of retail and consumer banking is fit, trim, and ready for the 21st century.

What is on the horizon for the banking industry? For those bankers who invest the time and effort to find out where they are now, I see a very bright future. □





Airlines

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A careful look at America West's formation, development, and success, can provide interesting insight for marketeers in the service industry.

The design and development of America West was approached on the basis of a new-product introduction. A strategic model was used to identify the situation, develop conclusions, set objectives, and implement strategies and plans to attack those objectives.

Our analysis indicated that three basic areas should provide the foundation for the successful development of a new airline. First was our decision to concentrate on the Southwest Sun Belt.

This area of the country was experiencing rapid growth and was underserved from an air-transportation standpoint, particularly when compared with major markets on the East Coast. Secondly, an enormous amount of time and attention was spent on analyzing the ingredients of a low unit-cost structure.

Selection of Aircraft

We determined that the selection of the proper aircraft, along with innovative personnel practices, offered the greatest opportunity for gain. Finally, having witnessed the failure of other new airlines, we decided to place a real premium on a high-quality product designed to appeal to the frequent business traveler. This target customer not only flies more often, but is by far the most discriminating customer.

Phoenix was selected as the focal point of the route system, for a variety of reasons. At the time, Republic Airlines, the largest airline in Phoenix, enjoyed only a 20% market share and the top five airlines together had less than two-thirds of the market.

Phoenix had enjoyed a rapidly growing population, which had reached 1.6 million in 1981, now it has a population of over 2 million. It also provided an uncongested, all-weather airport where we believed adequate facilities could be obtained in order to develop a full-blown hub and spoke operation.

In addition, Phoenix was treated primarily as a destination by most of the current airlines; therefore, service patterns generally flowed from their major hub and spoke operations into Phoenix. No attention was given to the local Phoenix resident in terms of their business and pleasure needs.

However, the most important reason for selecting Phoenix was its geographic proximity to California. California had a population of over 27 million people and one out every three air trips west of the Mississippi was to or from California.

Inroads into California

Using Phoenix as an all-weather, uncongested gateway, we believed we could make substantial inroads into the California markets and stimulate local traffic at the same time. Phoenix already ranked 17th

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Financial Centers Pay Big Dividends for Dollar Dry Dock Bank

By Linda Lockhart

Once upon a time there was a girl named Alice.

Upon entering a looking glass, Alice became lost in Wonderland. At one point during her journey, she came to a large meadow with many different paths to take.

Not knowing which way to turn, she looked up into a nearby tree and asked a Cheshire cat, "Excuse me, but which way do I go from here?" With a broad grin, the cat looked down on Alice and replied, "It all depends on where you want to get to."

In today's retail banking environment, the decision to operate in a traditional bank setting, a fully self-serviced facility, or an integrated financial center all "depends on where you want to get to." At Dollar Dry Dock, we knew where we wanted to get to: we wanted to redefine the business of banking by offering the broadest range of services available in New York and providing our customers with the ultimate in choice and convenience.

In 1984, Dollar Dry Dock established a future strategy group to review and recommend changes in our retail strategy. The goal was to create a strong, differentiated identity in the competitive New York marketplace while enhancing cross-sell acceptance.

Key Elements

The group recommended that the bank dramatically change the strategic direction of its retail operations. The answer was to be a network of financial centers incorporating four key elements:

- They would be designed to look and function more as sophisticated retail stores than as traditional bank branches.
- They would offer one-stop shopping for a broad range of traditional and nontraditional bank products.
- They would be staffed by carefully trained and supervised sales and service-oriented personnel.
- They would incorporate the best available technology for giving our customers maximum flexibility in conducting their financial business and helping our employees to assist customers.

Converting traditional bank branches to state-of-the-art financial centers is more than a cosmetic change. It requires the careful inte-

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Airlines

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nationally in terms of passengers destined to or originating from the city (it is now the 10th-largest market).

Schedules were designed to allow passengers on one side of the Phoenix hub to make direct and easy connections to cities on the other side. For example, prior to America West development, passengers in Wichita, Kan., had only a single nonstop flight to Los Angeles International Airport.

Once there, they would rent a car. Travel time to areas more conveniently served by satellite airports could exceed two and half hours.

When America West began, Wichita was offered three nonstop flights per day to Phoenix, where quick connections could be made, allowing access to almost every major market in California. All this at about a third less in price.

This market niche proved to be a powerful stimulant. The level of connecting traffic at Phoenix increased sufficiently so that more and more flights could be added in the local Phoenix markets.

The initial route system consisted of only five cities, but even in our first month of operation, August 1983, we carried 32,500 passengers. Currently the system encompasses over 60 cities and monthly passenger boardings exceed 1.2 million.

Cost Considerations

Turning to cost, the first decision to be made was the type aircraft to operate. At that time most of our competitors were operating the three-engine, three-pilot 727-200. With that in mind, we opted for the twin engine, two-pilot 737-200.

These aircraft were widely available on the world market and even after extensive refurbishment, operated at dramatically lower unit-cost levels than most of our competition. In addition, the 737 is a well-engineered aircraft and can achieve high hours of utilization while remaining safe and reliable.

Also, new versions of the 737 were under development, allowing more passengers to travel greater distances at even lower rates of fuel consumption. Therefore, we knew we could continue to grow without having to move into different types of aircraft with the inherent increases in maintenance cost.

Using that twin-engine, two-pilot philosophy, we have since grown into the use of other aircraft such as the Boeing 757-200 and the Boeing deHavilland Dash 8. Each is technologically state of the art and keeps us a step ahead of our competition.

To understand the importance of this initial decision one has only to consider that fuel is one of the major cost elements for an airline. Since no airline controls either the supply or price of fuel, the only hedge against the future is the selection of aircraft that are more efficient than the competition.

It should be noted that we recently acquired four-engine 747-200 aircraft in order to begin development of service to the Pacific Rim. While you may think this violates the twin-engine concept, the size and range of the 747 dictates its use in the Pacific Rim and Hawaii markets.

Because of its size and range, the aircraft's cost per seat per mile compares favorably with twin-engine airplanes. With the price of an aircraft ranging between $25 million and $125 million, it is not only important that they obtain excellent fuel economy, but that they be highly utilized, maximizing revenue.

With that in mind, we developed a Las Vegas "Nite Flite" pattern that now connects 34 markets coast-to-coast into Las Vegas between 11 p.m. and 1 a.m. This has boosted our fleet utilization to over 12 hours per day per aircraft, compared with an industry average of less than eight. Obviously, the results in greatly diminished unit cost and provides us another competitive edge.

Other than fuel, the greatest single element of expense is in the area of personnel. As we looked at other airlines, we found tremendous opportunities for improvement in this area.

We believed good service would best be provided by owners. Therefore, as a mandatory requirement to work for America West, an employee must purchase 20% of his or her first year's annual base pay in common stock.

The company will finance that amount over a five-year period. We found that ownership changes attitudes in a hurry.

We found that most airlines schedule their people in very tight specialty groups, causing their scheduling to be relatively inefficient. To combat this, we designed a program of cross-utilization.

Each of our customer-service representatives goes through a 16-week training program. They are trained as qualified flight attendants, reservationists, and can perform any customer-serving job at the airport. Given the inherent scheduling flexibility this creates, we believe we have achieved between a 5% and 15% productivity advantage over most traditional airlines.

We also observed that most airlines got into trouble with their employees not in bad times but in good times. During tough periods, employees are normally willing to make tremendous sacrifices in order to "save the company."

When the company is profitable, however, and they don't feel they've shared in that success, they are likely to rebel. America West has implemented a major profit-sharing program, giving 15% of the company's annual pretax profits directly back to the employees in cash on a quarterly basis. While the amount is not large for individual employees, the idea of sharing in the success is a tremendous morale booster.

Successful Innovations

Many other innovative approaches were tried and the results speak for themselves. *Air Transport World*, a magazine of the industry, honored America West with its labor relations award for 1989. Three attempts have been made to unionize America West employees and all have gone down to resounding defeat.

The bottom line of these cost-control strategies can be summarized in three areas. America West's modern, fuel-efficient fleet produces more available seat miles per gallon of fuel burned than any other airline in the world. Our employees are among the four most productive airlines in the world in terms of generating available seat miles per dollar of wages. Finally, America West enjoys the lowest cost per seat mile of any full-service airline in the U.S. airline industry.

The company's service is designed with the frequent business traveler in mind. Most new airlines obtained used aircraft, added seat covers, painted the exterior, and away they went.

America West invested between $400,000 and $700,000 per aircraft on the interior. This included new ceilings, side walls, overhead bins, carpets, galleys, and – yes – new seats.

These seats, a new design that provided extra legroom, cost $1000 per seat. It was an investment that we believed well worth while, since the interior of the aircraft is the place where business travelers form their opinion.

Even the color scheme, developed after extensive consultations with interior designers, was intended to provide a businesslike atmosphere in the aircraft.

More subtle areas were attacked. The drinking glasses are larger, *The Wall Street Journal* and *USA Today* are complimentary, and the amenities are all recognizable brand names.

However, you will not find hot food on short flights on America West; high-quality cold snacks, appropriate for the time of day, are served. America West makes all beverages, including cocktails, available on a complimentary basis.

Combined with an effective frequent-flyer program, an excellent reservations systems, and a close affiliation with the travel agent distribution system, these elements produce value above the business traveler's expectations.

The bottom line is our customers. *Conde Nast Traveler* magazine recently named America West one of the top 20 airlines in the world from a service standpoint. And America West Airlines finished as the No. 1 on-time airline during each of the past two years. Keep in mind that this airline is not yet seven years old.

Four critical elements provide fundamental strength for America West, now and in the future:

- A big, modern fleet of aircraft ranging from the 381-passenger Boeing 747 to the 37-passenger Boeing deHaviland Dash 8. Our equipment is among the newest in the world, with an average age of approximately six years.
- A critical mass at both of our key hubs, Phoenix and Las Vegas. In Phoenix, more that 45% of all traffic is on America West; at Las Vegas, more than 35%. We believe this dominance will insulate us from a predatory attack by envious competitors.
- A high-quality product that is available at affordable prices. This has allowed the markets we serve to grow substantially and to obtain repeat business from the frequent traveler.
- America West employees are unique in the industry. We believe they are not only better trained, but have the personal incentives to match their goals with the objectives of America West.

While it is too soon to tell what the future holds in this fast-changing industry, we believe the fundamentals are in place to allow America West to continue to successfully grow and develop. We look forward to the future. □

Financial Centers

Continued from preceding page

gration of product, merchandising, technology and people.

We began the conversion of the first of our 23 centers in 1985 and completed the conversion of our 23d center in September 1988. On Sept. 12, 1988, we formally launched our marketing program to present Dollar Dry Dock as the first bank in the United States to convert its entire banking system to the financial-center concept.

Product

Our main focus was, and continues to be, on how to develop more business with each customer. If we offered a combination of products and services that built additional relationships with existing customers, then not only would we keep these customers, but the same combination of products and services would attract new customers as well.

By taking advantage of the New York State Savings Bank law, our financial centers are able to offer a broad range of financial products and services, from traditional banking to securities and real estate brokerage, mutual funds, insurance, consumer money lending, travel, and foreign currency exchange.

The development of standards is critical in designing a franchise of retail stores not only because of the economies of scale, but also because it is critical to establish a consistent visual identity.

We also understood the importance of being perceived as our customers' primary bank. Customers may have mutual funds with us, book their travel through our travel agency, and hold $50,000 in a passbook account, but when asked to name their bank, their answer will always be the bank that holds their checking account. A critical piece in product development for a financial center is to offer checking accounts that meet the needs of key market segments and comprise benefits that differentiate them from the competition.

We have adopted a life-cycle approach to our assortment of relationship accounts. We have programs for children on through the mature market. Our focus is always on education and helping individuals learn about the many different ways they can do more with their money.

Our school savings program instills in grade school students the importance of saving money. This program is a U.S. Department of Education national model for economic literacy.

We are in the second full year of our program here at Dollar Dry Dock and are having great success with it. Public and private school students from kindergarten through eighth grade bank weekly via their schools' Apple or IBM computers.

This program is more than just a marketing effort. It has become the basis for long-term relationships, shows we are making a community investment in our neighborhoods, and establishes our intent to be part of a team that will promote a savings culture in America. By supporting education in this manner, we have been successful in cross-selling parents, teachers, and educational administrators.

Relationship Program

Dollar Dry Dock offers a mass-market relationship program that links together checking and savings accounts and offers many value-added benefits such as free checking, higher interest, and a combined statement. The product is similar in design to Citi-One and ChemPlus, but we have been able to increase our market share by requiring a lower minimum balance and by enhancing our distribution methods.

We learned about the needs and characteristics of the over-50 market through extensive research. In June 1989, we introduced a product for this lucrative market, 50 Plus – a checking account that is packaged to feel more like a club.

Through a joint venture with FISI Madison, Nashville, we designed this product to offer customers such benefits as:

- Discounts on pharmacy products and eyewear.
- Discounts on entertainment and travel.
- Free credit card protection.
- Emergency cash advances.

With respect to traffic generation, 50 Plus is a retailer's dream. Through affiliations with various senior citizen organizations in the communities, we sponsor a variety of educational programs in the centers. We also leverage the ability to cross-sell the friends of our members by offering programs that include nonmembers.

Merchandising

Once the right assortment of products are in place, the space must be designed to look like an exciting retail store rather than a traditional bank. The physical transformation of a retail space can either strengthen or kill a business.

It is a delicate situation that affects both employees and customers. It was critical that we conduct a thorough analysis of the current situation, and recognize the resistance and obstacles that we would face if we were not careful and

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Financial Centers

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thoughtful in our approach.

We held one-on-one interviews with customers, and simultaneously began to train managers on traditional retail concepts. From the input we received from our customers, we learned that it was important that the space be friendly, not intimidating, that it be comfortable, and exude an overall feeling of efficiency and good service.

Before the conversion, our branches were dark, gloomy, somewhat intimidating, and uninviting. Instead of conveying streamlined efficiency, we conveyed confusion and sloppy service. Because perception is 90% visual, we had to convince our managers that the most effective way to change our image was through our appearance.

We selected standard colors and finishes for everything from the walls to the telephones. The development of standards is critical in designing a franchise of retail stores not only because of the economies of scale, but also because it is critical to establish a consistent visual identity. If we were to be considered a retail store for financial services, then we were going to follow the lead of some of the industry leaders in visual identity – the Gap, the Limited, Laura Ashley, Channel, and Gucci.

A Feeling of Openness

The design of a sales desk responded to the customer's need for an environment that was personal. As opposed to the traditional desks, which placed the customer on the outside, we designed workstations that could function as miniconference tables, creating a feeling of openness between the customer and salesperson.

Once we understood the parameters we had to work with, we began developing layouts for each location. Our criterion was to move customers through the financial center, allowing them to see all of the products and services we had to offer.

Since most customers head for the teller area, we located the tellers' unit in the back of the financial center. The names of the major products and services, such as brokerage, pension services, foreign currency exchange, and travel, are written boldly over the appropriate workstations in an effort to guide the customer, emphasize the variety of products and services offered, and give a tangible quality to what are otherwise intangible goods.

At Dollar Dry Dock, it is the merchandising that sets us apart from the competition. Using merchandising in concert with other promotional elements creates theater and excitement in our centers.

We have a more difficult merchandising challenge than a Bloomingdale's or Macy's in that we don't sell tangible goods such as shirts, towels, and shoes. Instead, we have to merchandise CDs, mortgages, checking accounts, and mutual funds.

We looked outside of our industry and examined ways in which other manufacturers bring their products to life. What would a pinball machine be without the bells and lights? Would consumers be as attracted to a slot machine if it were silent? Can you even envision the Wurlitzer without the flashing neon lights?

In those financial centers that have large picture windows, we have built permanent stepdown partitions that hold posters. We have designed lifesize banners that call out to the public the different services we offer. We have standardized all of our promotional posters to work together in a grid system to announce one big message, because we recognize that the most you can do with a sign is create awareness.

We standardized our brochures to one consistent format and used beautiful, bright colors to differentiate the various services being offered. In a service industry, the brochure is the product, and it is important that it reflect the image you wish to project.

We designated a color for each product, then we agreed on a layout that would be applicable to any financial service no matter how simple or complex the service. Now our brochure system has become an integral part of our appearance.

When they are merchandised together in a check desk or a permanent queue station, they carry not only visual impact, but are also easily accessible. More important, the content is concise and to the point.

We were lacking another dimension in merchandising. We needed the theater that brings a script to life. Thus came the electronic data wall, Window on the Financial World. Because of its size alone, it commands attention from all who see it.

We added reasons for the customer to stop and look at it. Five electronic pages provide continually updated information on the rates of all major Dollar Dry Dock investment and credit products, plus a broad range of information from world financial markets, including U.S. Treasury rates, exchange rates for seven currencies against the dollar, the price of gold and silver, and the consumer price index. An electronic jet carrying the Dow Jones News Service Corporate Report travels across the top of the data wall, providing up-to-the-second financial information.

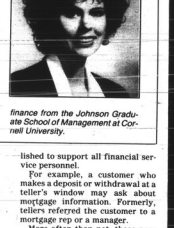
The purpose of the data wall is to attract, excite, and – above all – to emphasize Dollar Dry Dock's commitment to supplying valuable financial information and to provide an immediate sense of the diversity of the center's product line. We have customers and noncustomers who stop by our data wall daily and quickly pick up on the news they did not have a chance to get from *The New York Times* or *The Wall Street Journal*.

Our latest enhancement to providing information in a dynamic way is the use of video technology in the centers. Each center is equipped with at least two monitors that centrally run off of one laser disc player in each center.

Although we have programs on Dollar Dry Dock services, we are careful to mix them with general information such as coverage abroad, we have to merchandise CDs, mortgages, checking accounts, and mutual funds.

We looked outside of our industry and examined ways in which other manufacturers bring their products to life. What would a pinball machine be without the bells and lights? Would consumers be as attracted to a slot machine if it were silent? Can you even envision the Wurlitzer without the flashing

LINDA LOCKHART
First Vice President and Director of Marketing
Dollar Dry Dock Bank



As director of marketing, Linda Lockhart has overall responsibility for marketing, product management, merchandising, advertising, public relations, and corporate communications.

She joined Dollar Dry Dock in August of 1987 as director of merchandising. Ms. Lockhart was instrumental in the interior layout and design of the bank's 23 financial centers.

Prior to joining Dollar Dry Dock, Ms. Lockhart was a senior product manager at Chemical Bank. Earlier in her professional career, she was a buyer and merchandising manager at Bloomingdale's.

Ms. Lockhart holds a bachelor of science degree in design from Drexel University and an MBA in finance from the Johnson Graduate School of Management at Cornell University.

tion every four to six weeks. We have found that most financial products are cyclical, and we capitalize on the cycle through promotional blitzes.

A typical promotion would consist of a print campaign, possibly radio, direct mail, telemarketing, in-center merchandising, a video, and an incentive program. These multimedia campaigns have led to increases in profits and cross-sell ratios. We no longer think of the branches in our network as cost centers; we look at them as profit centers, by department and by square foot.

Dollar Dry Dock's ability to deliver the latest financial data and customer account information is based on advanced IBM technology. Through teller and platform automation, the center is able to deliver fast and accurate answers to customer questions and to significantly reduce the time required to open accounts.

To provide the speed and convenience our customers demand, we installed some of the most advanced automation equipment now available. Our ATMs are IBM System 4730 machines that have some unique features: They can cash checks or provide cash withdrawals for our customers in any exact amount, to the penny. They can accept and read checks for deposit without using deposit slips or envelopes. These ATMs, originally designed only for in-branch use by IBM, were "hardened" for 24-hour use by IBM at Dollar Dry Dock's request.

In the area of platform automation, we installed the IBM System 4700 series, which dramatically simplifies and speeds the account-opening process.

One of the most appealing features of this system is that it enables us to issue ATM cards on the spot. (They are activated the next day, as long as there is a balance).

This unique feature enables our financial consultants to demonstrate to new customers the use of the ATM at account opening. The result has been an 88% increase in ATM validation and almost a 100% increase in usage over the prior year.

We have also upgraded the teller automation system to enable faster and more accurate handling of customer transactions. Now, each of our financial centers is able to communicate with our teleservicing center. A quasi-artificial-intelligence environment is being established to support all financial service personnel.

For example, a customer who makes a deposit or withdrawal at a teller's window may ask about mortgage information. Formerly, tellers referred the customer to a mortgage rep or a manager.

More often than not, these people were busy with other customers. The customer who wants information would have walked away, intending to come back some other time – possibly losing a potential sale.

With the new system, tellers are able to enter the customer's name and address into the system. In turn, the system sends out appropriate information, along with a personalized letter.

The whole process is even simpler if the customer has an ATM bank card. The teller simply passes the customer's ATM card through the machine to enter the individual's name and address.

The bank also supports the financial centers through a state-of-the-art teleservicing center from which 30 professional service representatives respond to incoming customer calls and initiate outgoing marketing calls. The teleservicing staff utilizes the bank's central information systems and menu-driven teleprompter screens to provide account information, answer product questions, renew CDs, send out account opening kits, and cross-sell products and services.

People

In New York City, there are hundreds of delicatessens and dry cleaners to choose from. But the one who gets the business is the one who treats its customers well.

It is nice to walk into a deli and have the counterman look up at you and say: "Ham and cheese on rye with lettuce, tomato, and a pickle to go – right?" The same fundamental concept holds true for banking.

Recognize your customer as a guest. Seize the opportunity to get to know him or her better, thus strengthening the relationship.

A retailer views every customer as an opportunity to form a long-term relationship or strengthen an existing one. We had created an environment that was exciting and full of energy. We had to ensure that the customers were not disappointed once they entered the center.

Continued on next page

Developing Best-Practices Programs in Branch Banking

By Robert J. Zizka

Today's regional and superregional banks are the product of several years of mergers and acquisitions among smaller entities with different retail concepts and operating procedures.

Managing these diverse branch networks creates a wide range of challenges for consumer bankers. At the same time, however, the very diversity of the operating environment provides a powerful tool for strengthening profitability and spurring growth: best-practices benchmarking.

Best-practices benchmarking is, in its simplest sense, a sophisticated means of cross-fertilization, whereby the most successful branch strategies and programs are identified and then implemented throughout the entire network.

The first step in benchmarking is to define the key measures of success, covering such areas as profitability, cost efficiency, customer service, throughput, and revenue. The performance of individual branches or regions is then measured on each variable and compared with that of the bank as a whole as well as to local competition in order to pinpoint the practices that lead to outstanding performance.

Since the primary objective of the benchmarking process is to increase profitability, a useful initial diagnostic is branch profitability, i.e., the contribution of the individual branch to corporate return-on-equity targets. This measure identifies both the underperformers in need of further scrutiny or "fixes" and the top performers, which often present the successful strategies for emulation throughout the network.

However, a broad profitability measure does not answer the question of *why* a branch does or does not perform well. To answer this question, the consumer banker must "peel the onion" and use more detailed measures. Such in-depth benchmarks not only reveal specific tactical and strategic practices, but also quantify their impact on the bottom line.

Benchmarking can be applied across all of the cost and revenue components of the branch income statement. This article will focus on a portion of these areas, including deposit pricing, fee-income generation, branch throughput, and staff productivity.

As with many retailing business, the thinner margins of retail banking products, such as CDs, make it

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Financial Centers

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We knew about their preconceived perceptions on banks and we wanted to change them. Normally, when customers walk into a bank, they expect the bank's representatives to be rude and abrupt. We wanted to make every customer who walked through our doors feel welcome.

The bank utilized a combination of formal training courses and an extensive top-down mentoring program to build a strong sales and service culture. Special emphasis is placed on increasing product knowledge and encouraging employees to work as a team in maximizing sales and providing superior service.

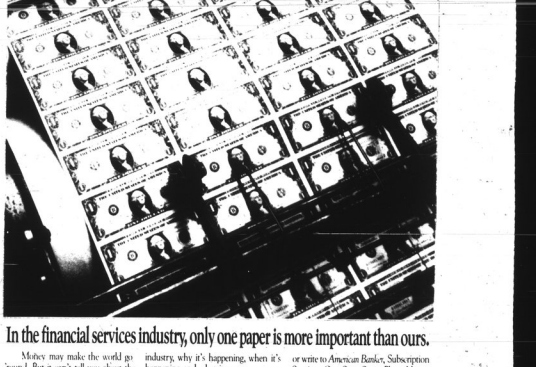
Results

Since our launch in September 1988, the results have more than met our expectations.

- The reaction of both customers and employees to the centers as places to conduct business and to work is overwhelmingly favorable.
- Deposit growth increased by 134% in 1989 over 1988.
- 1989 fees from major nontraditional products, including securities and insurance, increased by 68% over 1988.
- The bank attracted 18,720 new customers in 1989 against 13,160 new customers in 1988.
- Annualized staff turnover declined to 49.6% as of Dec. 31, 1989, from 74.9% as of January 1988.
- The centers are attracting intense industrywide attention. We have had bankers from all over the United States and from at least 25 countries visit us to date. Our own officers have been invited to discuss the centers at numerous conferences. The centers have been the subject of numerous newspaper and magazine articles, as well as local and national television reports.

In response to this interest, Dollar Dry Dock has recently formed a joint venture with Creative Dimensions in Management to provide consulting services to banking organizations wishing to implement the financial center concept in their own markets.

To remain a leader in the delivery of financial services, we are always looking for ways to enhance customer service and sales. Our challenge at Dollar Dry Dock will be to continue to package and market our products and services so that the benefits are clearly defined and, more important, matched to the customers' needs.□



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Best Practices

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imperative to understand the competitive price elasticities that exist at a market level. Banks with presence in multiple markets can quantify these elasticities and manage them to reduce overall interest expense.

Quantification of these price/volume tradeoffs requires historical competitive price benchmarking and collection of related deposit volume information. When these data are overlaid with the economics of specific products, the bank can minimize funding costs by optimizing pricing strategies across all markets, products, and maturities.

Funding optimization requires a significant level of analysis and data collection, but the payoff can be as large as 10 to 30 basis points across the time deposit base, depending on the number of markets served and local competitive pricing practices.

The information required to optimize deposit pricing is also useful in identifying immediate opportunities for enhancing product design and positioning. Internal and competitive benchmarks comparing relative levels of transaction and time deposits can identify branches with less desirable product mixes, relative to the demographics of the marketplace being served. The bank can then implement creative programs such as volume-tiered pricing, focused promotion programs, and refined branch-officer incentives to improve product-mix dynamics.

Fee income can also be increased through internal and competitive benchmarking. Fee schedules should, for example, be regularly compared with the competition to identify untapped income sources while guarding against overly aggressive policies that may increase customer attrition.

In addition, the typical bank will find that a significant opportunity for fee income improvement exists through fee-waiver management at the branch level. Simply quantifying waiver rates by product at an individual officer level and incorporating them into incentive structures can increase fee collection by more than 20%.

Another major determinant of branch revenue levels, deposit throughput, can be measured and enhanced through several powerful benchmarking tools. Initially, each branch can be compared with competitors on the basis of total deposit throughput and growth, using publicly available and shared information. This quick diagnostic identifies the weak and strong performers, but additional measures are required to explain the differences in performance.

The differences in throughput can often be traced to a branch's penetration and relative outlet share. In banking, as in many other retail businesses, a phenomenon exists called "network scale."

Network Scale

Simply put, network scale describes the effect that occurs when having dominant outlet share in a given geographical market leads to a more than proportionate market share. When a bank has a dominant share of the banking outlets in a market, it dramatically increases the likelihood of having outlets close to a prospective customer's home and work. The increased visibility and convenience translates directly into increased deposits.

There are several ways to take advantage of this phenomenon. For example, in 1982, Barnett Banks found itself in many high-growth markets in Florida. By building a significant number of new branches over the next five years, Barnett increased its average deposits per branch.

By increasing its share of outlets by 3%, it generated a 6% gain in market share. In "overbanked" markets, a bank may achieve network scale benefits through the acquisition and rationalization of overlapping networks. Wells Fargo used this method of leveraging network scale with its acquisition of Crocker in 1986. A net gain of 3% in outlet share generated an 8% gain in market share.

In markets where a bank's existing network scale position is weak, it has several strategic options. If the market is economically attractive, an expansion or acquisition strategy like those of Barnett and Wells Fargo may be pursued.

If the market is economically unattractive, divestiture may be the best answer, especially if a dominant player is willing to pay a premium to strengthen its own network scale position. Alternatively, a bank may choose to become a niche player by focusing on businesses, other than transaction deposits, which do not require an extensive branch network.

When implementing a branch growth strategy, internal benchmarks can also play a key role in site evaluation. In practice, approximately 10 to 20 key variables drive the success or failure of a new branch, including parking availability, site visibility and access, and the number of trade-area traffic generators. Site selection models which utilize performance data from existing branches can be instrumental in quantifying the impact of alternate locations and designs on new branch performance as well as to prioritize upgrades of existing facilities.

Additional revenue opportunities can be identified by benchmarking individual platform staff sales productivity against market potential. This measure has both an internal component – new accounts generated per FTE – and an external component – account growth rate relative to market levels.

Where poor performance is identified, improvements can be made by redeploying staff from overstaffed to understaffed branches and by instituting appropriate micromarketing programs that use branch officer training and incentives to target attractive customer segments.

Staff productivity measures can also be effective in managing branch expense levels. For example, teller staffing targets can be set using a target transaction-per-FTE measurement.

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ROBERT J. ZIZKA
Principal
Strategic Planning Associates

Robert J. Zizka is a principal in the Washington office of Strategic Planning Associates and a leader of the firm's banking practice.

Strategic Planning Associates is one of the leading international strategy and management consulting firms, with over 250 professionals in Washington, New York, London, Paris, Geneva, Singapore, and San Francisco. A Marsh & McLennan company, Strategic Planning Associates is known for its analytical, fact-based approach and its focus on bottom-line profit improvement and value creation.

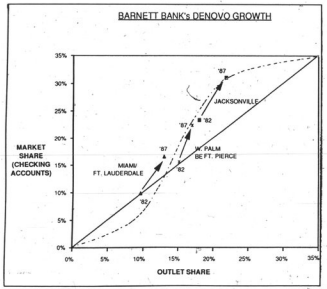
Following engagements in over a dozen industries as a member of Strategic Planning's general strategy practice, Mr. Zizka has consulted exclusively to banking and financial services clients since 1986. He has worked extensively with regional, superregional, and money-center banks in the United States and has also consulted to European banks, mortgage companies and other financial services firms.

In addition to corporate strategy issues, he has led banking studies in:

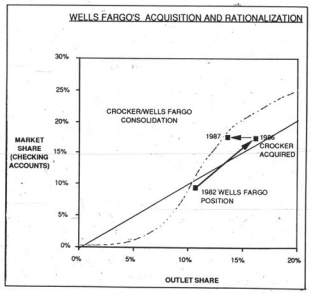


- *Bank-wide restructuring.*
- *Retail branch distribution.*
- *Profitability analysis/MIS.*
- *Credit card strategy.*
- *Product pricing/repricing.*
- *Mortgage business strategy development.*
- *Indirect/dealer lending strategy.*
- *Capital planning/prioritization.*
- *Mortgage-servicing portfolio valuation.*
- *Organizational studies.*
- *Cost-reduction and quality-enhancement programs.*

BARNETT BANK'S DENOVO GROWTH



WELLS FARGO'S ACQUISITION AND RATIONALIZATION



Best Practices

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In analyzing teller efficiency, however, several adjustments to the raw transaction-per-teller data must be made. Adjustments must be made for the overall transaction scale of the branch (since large branches should achieve higher teller productivity levels), the transaction mix (since all transactions are not the same), the level of automation or the teller line, and the services required or desired by customers in different marketplaces.

Once efficiency measures have been adjusted to compensate for these factors, management can identify and implement those staffing practices that lead to the greatest cost efficiency. Typically, these practices revolve around flexible staffing configurations, including peak and part-time staffing, overlapping shifts, and floating staff.

Interestingly, by matching capacity to demand on the teller line, the bank not only reduces expenses, but improves its customer service levels by reducing the time customers have to wait in line. Such improvements have become more critical as banks increasingly compete based on customer service levels.

Through mystery-shopper programs, customer surveys, and customer-attrition measures, it is possible to quantify the relationship between service levels and revenue performance, as well as to identify specific areas to focus on for service improvement.

The key to successful best-practices programs is the process itself. This process must identify the linkages between superior operating practices and corporate profitability in a manner that leads to the active participation of many different organizations within the bank, including retail management, branch administration, product management, marketing, operations, human resources, finance and treasury, strategic planning, and technology.

It is very important for the manager of the retail system to set overall goals and assume leadership for the effort. On a day-to-day basis, project management responsibility should be assigned to an overall coordinator as well as to line managers within geographic regions.

These individuals must manage the interpersonal issues that arise in such a process and actively communicate corporate objectives while incorporating the concerns of the many process participants. Finally, due to the data-driven nature of the process, a dedicated pool of analytical resources is required.

In many instances, best-practices benchmarking leads not just to continual profit improvements, but to significant and beneficial changes in culture. The process establishes a set of practical targets for management throughout the bank.

At the same time it empowers line managers to contribute to ongoing performance improvement by providing them with the information they need to develop new business approaches and motivate their people. The net result is a more powerful and focused organization. □

Andrew Cohen assisted in the preparation of this article.

Restoring Retail Profitability: Automate, Integrate, or Eliminate?

By Patric J. Jerge

Technology investments and increased profitability have not traditionally gone hand in hand in the retail financial services industry.

While the dollars invested in automation and technology continue to grow at an average rate of 12% a year, most bank executives are not sure these investments are paying off. Unfortunately, most tell us their technology is either a disappointment or that it is only doing an adequate job.

Bankers, like most business executives, have assumed too much about their technology. With each new system and each new level of automation, they thought they were at last getting the state-of-the-art technology they needed to better manage their business.

And while these new technologies improved their operations in incremental steps, time after time they were disappointed. Today bank executives still are searching for the technology that will do its job – in other words, help them significantly improve operations and increase profitability.

The trend toward increased spending on information technology proves our belief that better systems can increase operational efficiency and help banks stay competitive. But our level of satisfaction with these systems is not keeping pace.

Banks now spend two and a half times what they spent on computer systems a decade ago. But are bankers two and a half times happier with their technology?

Not only is the return on technol-

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Restoring

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ogy investments unclear to bank executives, their expectations are becoming greater.

Current market pressures intensify the need for systems that will increase efficiency and maintain costs. In an era of reregulation, increased reporting requirements call for increased productivity and tighter cost controls.

Redefining the Market

What's more, the market itself is constantly being redefined. The growth of bank mergers and acquisitions increases competitive pressures. Maintaining stock prices – to guard against takeovers, ensure a good price if an institution is acquired, or provide the currency with which to make acquisitions – is a critical concern.

In short, the time is over for experiments in new technology, without concern for increased profitability. Banks need solutions, now.

Has technology failed to meet these challenges? It certainly has fallen short of expectations. And cost-effective solutions must be found quickly, as market conditions present new challenges and promote change.

The gap between our hopes for what technology will do and the actual results has a great deal to do with the investment decision itself. The way most banks approach their investment in technology is a recipe for failure.

The following scenario is typical. Senior bank executives, usually unfamiliar with the language of technology, abdicate all technology acquisition-decisions to the information technology (IT) staff.

The IT staff chooses new systems based on capabilities and features, and sells these capabilities to senior management. Then the new systems are implemented, often without input from middle or senior management. This sets the stage for internal conflict and underutilization of the new systems, because the new technology doesn't conform with current operations.

Up to this point, the focus has been on technical benefits, features, and functions, not, on the needs of the institution or the long term impact on operations, internal management, products, and services – the very key areas of concern at the management level.

Measurements Lacking

Once the new systems, recommended and purchased by the technical staff, are implemented, procedures are rarely established to measure the return on technology investments. The systems may remain misunderstood by the majority of the organization. Even worse, no one can give senior management an accurate picture of how well the technology is performing.

What's wrong with this picture? If senior management had been involved in the decision to invest in new technology from the beginning, the focus on using technology to provide specific business solutions would not have been lost.

As banking executives become aware that technology decisions should be part of the business strategy, including the marketing goals, their future IT investments will be driven by management objectives. When the final decision rests at the management level, technology will be designed to fit the business needs. And technology investments will begin to pay big dividends.

Before shopping for new systems, senior managers and the technical staff should determine what the goals are – what they want the technology to do. The proposed investment in new systems can then be evaluated just as any other investment: how it will meet business objectives and increase profitability.

In addition, by generating support and involvement from middle management, the new systems can be implemented to achieve maximum performance, wholly changing current operations if necessary for the technology to function as it should.

> The time is over for experiments in new technology, without concern for increased profitability. Banks need solutions, now.

Finally, responsibility for measuring results should be assigned to middle management.

The major benefits of involving management in technology decisions and system implementation are clear. However, a simple summary of the decision-making process is not sufficient.

How do you evaluate technology's effect on shareholder value, for instance? And how do you measure its performance? The following model provides some of the answers to these complex questions.

Model: A Better Approach To Technology Investment

What are the reasons for investing in new technology?

• Some technologies are essential to helping run your business. Transaction processing or statement rendering are examples.

• Other technologies are not critical to your operations but provide a competitive advantage or additional products and services. ATMs, home banking services, and executive information systems are examples.

• Technologies such as integrated CIF, multibranch banking, and cash-management systems are both critical to operations and can provide a basis for competitive advantage as well.

Once you know what you want the technology to accomplish, an extensive examination of your current operations should be made. What are your strengths and weaknesses in the market, and how will technology impact your strengths?

• Many institutions will call in an outside consultant to do the job – an investment in itself, but worth it in the long run.

• Specific needs addressed by the proposed system should be identified. Examples are asset/liability management system; flexible interest calculations; flexible deposit interest rate setting capabilities; flexible and timely management reports on pricing and rates, by customer type, geographic market, etc.; customer and product profitability systems.

• The study can determine how technology can affect the four key income drivers that determine your near-term profitability: net interest income, noninterest income, operating expenses, and credit quality.

How does the new system meet the specific needs you have identified?

• It will have some affect on the four income drivers:

1. Net interest income. Can't do a lot. Net interest margins are largely market driven.

2. Noninterest income. Can be influenced significantly. Consider the products and services you offer – ATM, plastic cards, payment systems. In what ways will new technology improve your current offerings and lend added value to your customers and higher income institutions?

3. Operating expenses. Also a significant opportunity for improvement by automating manual functions, reducing paper flow and handling transactions in real time, only once.

4. Credit quality. A system can influence credit quality by helping you track creditworthiness, performance, and profitability of the customer segments you do business with.

• How can your vendor help you make the right decision?

1. Your vendor should be able to sell a product to your IT staff.

2. Your vendor should be able to sell to senior management in terms of benefits.

3. Your vendor should help you match technology to the needs of your institution.

Involve your middle managers in your operations evaluation and in your investment decision.

• Any major investment involves a wholesale change in operations if the system is to perform effectively. Middle managers will be responsible for motivating this change.

• Middle managers' support and cooperation will reduce conflict and avert fear of change and resentment of technology, the technical staff and senior management.

How will you measure the performance of your new technology?

• There should be a win/win relationship between you and your vendor. Too often, the technical personnel constrain a vendor on price, giving him no incentive to help the customer after the sale.

• The vendor can help you measure the performance of the system and its ability to meet the business objectives.

• Use the technology to measure the performance of the institution as well.

1. Use it to measure technology's effect on the income drivers.

2. Use it to explore opportunities for improved profitability in other areas, such as an earnings analysis system.

Following this model, a bank can begin to move from the old way of acquiring new technology, in which decisions were based on the recommendations of technical people, to the more successful method of letting market conditions and business objectives drive future technology investments.

This fundamental change in the decision making process may not be easy. It requires not only strong leaders who are committed to technology and innovation, but also a consistent strategy for acquiring new technology.

In addition, an open dialogue with your vendors is critical. Most vendors already know that they will have to sell you more than just newer and better capabilities. You are responsible for making sure they also sell you systems that will help you meet management objectives.

Both you and the vendor have the responsibility for measuring technology's performance. Without a clear picture of what your systems are doing for you, it may be difficult to determine just what your future investments should be. □

PATRIC J. JERGE
Executive Vice President
Hogan Systems Inc.

Patric J. Jerge is executive vice president of the integrated banking applications group at Hogan Systems Inc. He is responsible for sales, marketing, product development, account management, and customer support.

Mr. Jerge joined Hogan in November 1978. He was appointed senior vice president of the field operations group in June 1987 and executive vice president in May 1988.

Prior to his field operations group appointment, Mr. Jerge served as a vice president of product development. He has also served as a vice president of western regional sales, sales support, and customer support. He was one of the company's first 10 employees.

Identifying the Profitability of Individual Accounts and Products

By Richard M. Hannafin

The health of the financial industry, and your institution in particular, depends upon your ability to implement a relationship-pricing capability designed to grow individual and household account profitability.

Having specialized in quantifiable, bottom-line earnings improvement programs over the past several years, RMH Associates has helped major bank corporations to identify earnings opportunities and increase profits by millions of dollars through implementation of product repricing and a renewed sales culture based on bottom-line results.

As we enter the new decade, financial institutions realize they must meet an increasing array of strategic business challenges, including narrowing interest margins, increased competition and rising operational costs. In today's banking environment, management must address these and other industry forces through adoption of classical marketing protocols and the utilization of new technological tools.

Recognizing the growing need to assist national and regional financial institutions in accessing internal data and gaining a wide spectrum of relationship and profitability measurements, RMH Associates initiated a new support program to aid bank management in achieving greater stability and profitability.

In developing our fully automated PC-based account and product-profitability software package, we focused on designing a program that would both meet the institution's strategic business planning needs and function as an in-house resource.

> As we enter the new decade, financial institutions realize they must meet an increasing array of strategic business challenges, including narrowing interest margins, increased competition and rising operational costs.

Profitability Analysis

In building a customer profitability analysis designed to meet strategic business-planning needs, the first priority fell to conducting quantitative research among bank marketing management to identify the essential attributes of a software system that would support their short-term and long-term financial-planning needs. The design capabilities and flexibility they desired included:

• Calculate individual account profitability through transaction, income, and expense tracking.

• Combine multiple products into one relationship account to determine breakeven balances, product combinations, and perform hypothetical product-pricing scenarios.

• Provide the ability to change interest rates, earning credit, cost of funds, individual expenses, and recalculate account, product, and relationship profitability.

• Implement variable sorts on any combination of factors: product, profit, relationship/household, balance, descending order of profit and branch.

• Project balances or loan volume for existing and new products, recalculate projected profitability by product, and project growth-/loss of accounts by product.

• Develop new products by forecasting internal conversion from selected products by balance ranges. Merge the new product along with the new source of funds to project profitability.

• Recalculate the profitability of an existing product based on projected customer migration to a new product offering.

• Estimate customer transaction swings based on potential pricing decisions by group or product (i.e., over 10 checks per month at 50 cents a check).

• Produce product, branch, and relationship reports for each selection or sort. Reports displayed on screen or in hard copy.

• Measure and compensate the sales staff for profitability of monthly new accounts and overgoal performance.

• Track return on investment relative to marketing campaigns and their impact on profitability due to new accounts generated.

• Export or link selected data, annual profit of account or household to external source for direct marketing or CIF usage.

Looking at Costs

Actually, most of this wish list covering a wide spectrum of planning supports came as no surprise to us, having developed similar programs for client banks. The benefit of this research, however, illustrated a consensus among the

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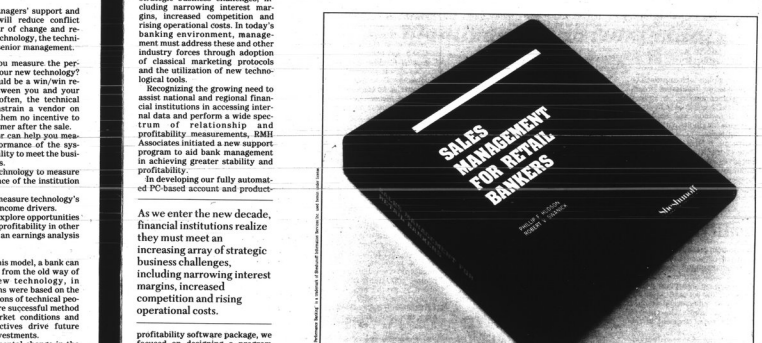

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Private-Banking Workstation Attracts Profitable Customers

By Mark Rodrigues

It is remarkable how few private bankers use the power of desktop computers to attract and retain profitable customers.

Perhaps many bankers believe that technology is a fad to be avoided, like junk bonds and derivative investments. Or perhaps some believe technology is a custodial function, that what really matters is maintaining close personal relationship with clients.

In fact, wealth management is a subset of the information business. Such a perspective can dramatically change work habits.

Private bankers can take control of their information systems using a personal computer (or workstation, a form of souped-up PC) that can connect to the back office. Today, many bankers are using easy-to-understand technology to build critical products and reports without programmer intervention. It is possible to create a single access point to a client's various accounts that are scattered across departments in credit, trust, and investment.

Further, a high-tech approach to private-banking facilitates proactive customer service. A banker whose desktop is linked to Reuters, Lloyds of London, and Sotheby's can provide his clients with timely, important news.

Delivering information services outside of traditional banking domains gives customers reasons to continue doing business with you – a competitive advantage for the creative banker.

In a report on private banking, consultant William Heppner notes: "Private bankers have selected a market that requires a customized and tailored approach, yet they support this business with mass-market retail systems that are both inflexible and time-consuming to change."

Private banks do not have systems designed for their needs. Instead, they use traditional retail and commercial banks that process and file information by product lines – mortgages, checking accounts, trust, and so on.

For example Chase Manhattan Bank has over 50 separate DDA programs in its back office. Robert Bradley of Boston Private Bank and Trust calls this situation "departmentalitis," the condition in which "the control of information resides in each bank department, few of which share information geared to building a total client relationship, but rather constrained by systems".

Millions of dollars have been invested in these back-office systems, so it would be pure folly to attempt to replace them. Data flow between them, and reports are available for each, but pulling reports together is still a chore. Using data from one system in conjunction with another is usually a manual process.

Workstation Benefits

The solution is a personal computer equipped with communication software that permits a banker to sign on to multiple computer systems simultaneously; using windows to see information on a client's various accounts. The procedures to log into one or many systems can be preceded so that a single keystroke does it all.

Using a technique called scripting, the PC can be "taught" to access mortgage, trust, and money markets every time the customer's name is typed into the system. Accounts can be added and deleted to a client's name as needed.

With today's powerful workstations and software, there is no

Continued on next page

MARK RODRIGUES
Managing Partner
Harrison Bauer & Co.



Mark Rodrigues is managing partner of Harrison Bauer & Co., Wayne, Pa., a systems-integration company providing solutions to private banks.

Staffed with former private bankers, Harrison Bauer is a general contractor integrating desktop and mainframe systems to make technology part of a strategic advantage to private-banking groups. The Harrison Bauer approach is characterized by rapid development cycles and guarantees of service.

Before beginning his business career, Mr. Rodrigues was a professional hockey goalie in the "New York Rangers" farm system. He joined IBM national accounts division as a sales representative in 1982 and later joined Wang Laboratories as banking branch manager in New York.

As a graduate student he was in investment banker with Merrill Lynch Capital Markets. His experience in technology and banking continued most recently as marketing vice president with a private integrated banking-systems software company. Mr. Rodrigues has been a frequent speaker and writer for trade organizations and publications.

A native of Boston, Mr. Rodrigues has a BA in American History from Yale and an MBA from Harvard Business School. He is married and has two children.

Identifying

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majority of respondents that they and their banks must finally look at transactions and costs rather than balance only to build profitability in a new context. After all, banks know commercial-account profitability…now's the time to look at the retail segment in the same light.

The resulting PC-based Individual Account and Product Profitability Analysis software package affords a unique planning tool for management and staff. The system enables the user to perform profitability audits across all product and account categories while allowing the implementation of a variety of planning measurements.

For purposes of simplicity, the system utilizes the individual bank's data base comprising the customer file and transactions. RMH Associates writes the conversion program, formulates, and then records the new operating data within the software package. The user-friendly "point and shoot" system is then ready to go.

Windows of Opportunity

Operationally, the program is divided into three analytical categories. We call them windows of opportunity, each of which affords a diverse list of protocol functions:

- Profitability by relationship and household. This window of opportunity allows you to determine what combination of products actually make up a profitable household relationship based on each account net profit within the household. This baseline report is the starting point in your quest for a more profitable P/I.

(Note: This method of analysis immediately challenges the historic CIF method of identifying high-balance customers as the most lucrative segment of the market. In reality, this program will show that many are not.

The new protocol not only looks at each customer's total bank relationship but identifies how that relationship adds or subtracts from your bottom line.)

- Profitability by product and balance/loan amount. In building data to define what constitutes a profitable relationship, each product offering is analyzed by balance or loan amount in classifications from $100 to $100,000. Each classification is further broken out into profitable accounts, those that lose money, and the net difference between the two.

This window of opportunity enables you to develop strategies in planning monthly service charges based on actual costs. It also provides the breakeven range as a guide in setting profitable minimum deposit balances or loan requirements.

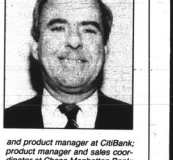
- Hypothetical product pricing. We call it the what-if analysis, an outstanding planning tool. This program element allows products to be priced for profitability. Based on household relationship and product profitability analyses, you now have the opportunity to test and evaluate a mountain of revised pricing scenarios, identify interest rates that can be tiered by balance range, service and transaction charges based on your customers' actual activity and expenses.

The software will automatically recalculate product profitability based on your input. Now you can reprice products, determine the impact on your bottom line, and project potential loss of accounts offset by profits produced by the new pricing strategy.

The PC software is programmed on a three-step format to ensure flexibility in meeting strategic planning needs while providing ease of operation.

Our approach represents only one scenario in generating higher profitability through relationship pricing. Now matter the source in obtaining the necessary software supports, the single most important objective in today's business environment is attaining and implementing this new technological tool. □

RICHARD M. HANNAFIN
President
RMH Associates Inc.



Richard M. Hannafin is founder and president of RMH Associates, New York.

RMH is a national, full-service financial marketing firm specializing in relationship and individual-account product development, market research, sales training, and tracking.

RMH Associates is responsible for the development of a new PC-based customer-profitability-analysis software system and Sales-Line, the totally automated software sales tracking and goal system that audits new-account profitability and sales achievement.

Mr. Hannafin has over 20 years in the financial services industry. Before starting his own firm, he was senior vice president of the retail banking division of East New York Savings Bank, responsible for branch operations and administration, marketing, life insurance and customer credit; advertising and direct marketing; and corporate communications.

He is a graduate of Boston College and has an MBA from Fordham University. He is married and has two children.

Workstation

Continued from preceding page

technical reason for the service-minded private banker to be held hostage to unfriendly back-office systems. There are numerous software packages called presentation managers that allow even the most casual user to be productive within minutes.

Touch screens, easy-to-understand graphics, and other features have eliminated the blank screen with "C:>" that used to greet early users of personal computers. The same icons and mouse pointers pioneered by Apple can also be used on the IBM PC with products like Microsoft Windows.

McKinsey estimates that over 60% of a private banker's time is spent on administrative issues. Automating these processes allows the banker to spend more time selling services to clients.

Faster Customer Service

A second factor benefiting the nontechnical banker is the computer industry's move toward open standards. Among other things, open standard allow the banker's desktop computer to accept feeds from the elephantine systems in the back office and then massage and customize this data at the desktop.

Private banks do not have systems designed for their needs. Instead, they use traditional retail and commercial banks that process and file information by product lines – mortgages, checking accounts, trust, and so on.

The advantage is control over the information used to service the customer. Currently, the back office has grappled with providing flexible customer information files for years with little support when complex households and multi-tiered relationships are requested by private bankers.

Mainframe systems will always have difficulties accommodating the endless variety of household situations. Why not empower each banker to customize his or her CIF for each client?

Give that banker fingertip access to market demographics and snapshots of customer relationships. If global custody is done by an outside correspondent bank, the private banker workstation could easily monitor clearing information on a real-time basis.

Most private bankers are hostages of a the parent bank's operations group, which does not share the same commitment to customer service. Terminals are connected to Orwellian environments that are inflexible, difficult to use, and administered by technicians whose success is based on "keeping the network up" regardless of whether customers are leaving the bank in droves.

Worse, the backlog for special product and report requests runs an average 18 months in many money-center banks. In contrast, banks that have cultivated technological innovation create a significant competitive advantage.

Consider that a major money-center bank in New York requires 45 days to process a jumbo mortgage for a private banking client (minimum deposit of $500,000), Citibank – long a leader in workstation technology – guarantees 15- minute mortgage approval notification to the mass market using imaging systems from Wang Laboratories.

Cost of Back-Office Computing

Economics is the third reason to pursue a private-banker workstation strategy. The measure of computing power is mips, or millions of instructions per second. The cost of computing power on a mainframe is $200,000/mip versus $500/mip on a workstation.

After purchase, mainframes require massive staff and special facilities. Metropolitan Life, the insurance giant, estimates that mainframe computing costs $1 million a minute. Metropolitan Life is in the process of rolling out workstations to over 2,000 branch offices.

Trying to keep up with technological innovation on the desktop is like driving on the autobahn; just when you think you are moving very fast someone is suddenly blinking their lights from behind. Open systems allow the banker to connect relevant technology as it becomes available.

Equity and Bond traders at Salomon Brothers and Bankers Trust are the latest converts to Unix-based workstations that allow simultaneous sessions to multiple host systems.

When the banker is empowered with information technology, a creative spirit is nurtured. Harris Trust and Savings Bank has used personal computers to improve delivery of products and services.

Arthur E. Greenbank, vice president for private banking, recalls: "When we first put personal computers on the bankers' desks, we did not have the advantage of today's easy-to-use presentation managers.

"We found the best way to train people was to put one of our operations people on-site. My colleague, Cheryl Reich, felt that instant access to technical help – not classroom training – was the best way to get bankers up on the learning curve. Within weeks, productivity

Continued on next page

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Create Distinctive Value to Attract Upscale, Affluent Consumers

By Donald R. Stephens

How do you attract the upscale consumer? By creating a distinctive value.

Banking is a commodity product. All banks deliver money, loans and investments at about the same price. And, with federal deposit insurance, we all have the same level of security. Whenever you have a commodity product, you have two choices:

- Operate with very low margins (e.g., the grain trader).
- Develop something unique that gives you a competitive edge and enjoy margins that are a little higher or margins that are a little less used in paying direct costs.

This choice determines the amount of your margin that you can dedicate to enhancing your image and servicing your customer.

Examples of low-margin commodity businesses in the financial services industry are:

- Discount Brokerage (e.g., Charles Schwab & Co.)
- The retail end of the commercial banking business (e.g., Wells Fargo).

In these businesses the firms earn their income on a large number of small transactions, on each of which they have a small markup and out of which they must pay overhead, advertising, taxes, and make a profit for their shareholders. Because of the high volume of small transactions, most of their margin is used in absorbing direct costs.

Schwab cannot afford to have account representatives hold long, detailed discussions with clients regarding securities services. Wells Fargo cannot afford to have long discussions with its clients about the appropriate amount of reduction of a $3,000 MasterCard bill.

If a customer wants to call a retail bank with a question on a $90,000 home mortgage, he is directed to an 800 number in Long Beach, where he talks to a clerk with a computer. The customer might have to wait on the line a little longer than he would like and there may not be a lot of handholding, but he is not paying for hand holding with the profit margin on a $90,000 loan. This is not to shortchange either of these two excellent mass-market producers and the excellent quality of service they deliver to their target market, at a reasonable price.

A good chain bank is able to deliver the information, competitively priced, to the middle-income market it serves with a degree of quickness and still maintain a profit margin to allow it to be an extremely high-performing institution.

Founded on Personal Service

The Bank of San Francisco is an example of a high-margin commodity business. We still distribute the same basic product as a chain bank – money – but we deliver it in a kinder, gentler fashion as demanded by our market. Our market demands that extra service; and the same percentage margin, when applied to larger-dollar transactions, allows us to provide it.

These concepts of high-margin and low-margin commodity businesses are great to consider in the abstract. But a high level of service just cannot be done if your average transaction is a $15,000 revolving loan or a $90,000 mortgage. There is not enough profit margin in those transactions, if they are priced competitively, to pay a reasonable profit for shareholders and the high cost of delivering the

Continued on page 38

DONALD R. STEPHENS
Chairman and Chief Executive Officer
Bank of San Francisco



Donald R. Stephens has served as Bank of San Francisco's chairman and chief executive officer since founding the bank in 1979.

A successful lawyer, real estate investor, and banker, Mr. Stephens also serves as managing partner of D.R. Stephens & Co., a wholly owned real estate investment company.

From 1972 to 1976, Mr. Stephens was in investment banking and residential real estate development, having pioneered condominium conversion in San Francisco. Concurrently, he had a law practice until 1976.

Mr. Stephens is a graduate of Hastings Law School and holds a bachelor's degree in finance from the University of Southern California. He serves on the board of directors of the Bank of San Francisco, Lincoln NC Realty Fund, AUFS Inc., Skouras Pictures, and the Charles Schwab Family of Funds.

Workstation

Continued from preceding page

soared."

Mr. Greenbank notes that lending is more art than science. The bank is investigating a PC-based loan-preparation package that prompts the banker with loan-calculation formulas and regulatory notices, ensuring that proper documents are being used. The final product will be output to a laser printer, eliminating multipart forms and carbons.

The bank is also in the midst of a marketing program called Target 25, in which 25% of a banker's existing clients are to be sold a new product. Management tracks the effectiveness of the year-long program on a workstation.

A cross-selling application sends prompts and recommendations to each banker's workstation. Harris plans on continuing to improve customer service by leveraging inexpensive and flexible desktop technology.

Integration During Mergers

Exchange Bank recently merged with LaSalle Bank, which is owned by Dutch giant ABN. Wayne Yeselsky, first vice president for private banking at Exchange, expects his investment in personal computers to facilitate the integration and synergies of the merger.

For example, LaSalle brings a personal-trust business that Exchange did not previously emphasize. "We expect to integrate our PCs with our new affiliate banks in the next nine months," Mr. Yeselsky says.

"The first phase will involve tying in the system. Phase 2 will provide easy-to-understand menus to guide our bankers through the various systems and products we can now offer."

The synergies resulting from the merger are quickly becoming evident.

"We already have done two jumbo mortgages in Los Angeles for ABN London," Mr. Yeselsky says. Such a transaction was never foreseen when application software was purchased years ago, yet the flexibility and rapid-development capabilities of the personal computers allowed Mr. Yeselsky to turn the deal around in 48 hours.

Fee-Based Income Strategy

Successful private banks are characterized by fluid, matrical organizational structures that flow resources to opportunities. In this respect, they more closely resemble investment banks than commercial banks, which tend to be hierarchical with customer interaction controlled by a product specialist like the lending officer.

A private bank has a relationship manager who presents a single contact point for the client. Fee-income-generating specialists in trust, credit, or investments may be brought in to respond to customer needs. This organizational structure must be supported by flexible, highly networked infrastructure if a client is to be properly serviced.

The bank must establish a network of workstations that make it easy for bankers to update call reports and share client information across the firm. With today's focus on fee-based income, the customer is exposed to a variety of specialists such as estate planners and loan officers.

Morgan Guaranty Trust Co. now offers corporate-finance and property skills with its private-banking offerings. Without effective sharing of information, fee income will diminish as the customer comes to identify with the firm instead of the banker.

With today's powerful workstations and software, there is no technical reason for the service-minded private banker to be held hostage to unfriendly back-office systems.

The Learning Organization

As Alvin Shoemaker of First Boston Credit Suisse once put it: "As you have more and more specialist sales forces, you sometimes meet yourself coming around the barn." But he held out hope of someday having one person responsible for the overall relationshi:

"My great fantasy is to have a person who contacts the customer and who can pull up every transaction on a computer screen and measure the tradeoff."

The technology for doing this is easy. The difficulty is in assigning one person the overall responsibility for making the tradeoff decisions and enforcing them.

In an age of specialists, total relationship management will involve more than one person. The private banker workstation, properly networked and configured, acts a road map to coordinate the complex, ever-changing business of relationship management.

It allows access to the specialists so the manager can avoid saying: "I'll get back to you." Shared information results in faster and higher-quality customer service.

Banks wishing to build a private-banking workstation should keep the first project simple. Start by beginning a half-week hunt for critical success factors for the business.

Build an economic case. For about $12,000, a fully equipped workstation can be prototyped using existing desktop application and communication packages.

Involve a cross-discipline team of bankers to design the screens and menus. Hire a consultant or enlist the bank's operations people to construct the workstation screens and interface.

Remember that technology requires a series of incremental improvements. It is part of a continuum that requires daily attention and cultivation.

Closing Thoughts

The private-banker-workstation concept is being used by successful bankers around the world. The future of banking is on the desktop.

The history of innovative banking parallels that of great newsgathering systems, for quality banking – like quality journalism – is based on prompt delivery of information.

During the Australian financial crisis and gold rush of 1892, Baron Reuter set up a money-by-cable remittance system that could transfer funds less expensively than did commercial banks at the time.

The Rothschilds at the time of Napoleon built a legend and a fortune on the ability of their agents to obtain and transmit news by the fastest method available – homing pigeons.

Get involved with the workstation and begin to tap the creative potential of the computer age. □

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Upscale

Continued from page 36

kind of personal service that we set out to provide at the Bank of San Francisco.

Intentional Style

Our style of operation is not an accident.

When we started the Bank of San Francisco, 11 years ago, we decided that we were going to build an institution on the foundation that its business was to deliver a highly sophisticated, extremely personal, confidential level of service to the wealthy client. That is all we do, period.

We found a different segment of the market and that is the reason I think we have been successful.

The way we did it was fairly easy. We just said that we were not going to handle any of the dollar-amount transactions that I described above:

- Our minimum loan would be $100,000 (our average loan is $250,000).
- Our minimum deposit is $25,000 and our average per relationship is probably $50,000.
- We really would not look at a relationship unless we expected that in the long run, after the relationship matured or the client progressed in his business, deposits would be in the $25,000 area, and loans at the $250,000 level.

We would not attempt to be the low-cost producer. Rather, we would differentiate ourselves by the level of service that we would provide and we would attract the customer who wants convenience, confidentiality, and a high level of service.

Our clients do not want to talk to a computer in Long Beach about their mortgage balances and they do not want to have their account numbers be the first thing they say when they call the bank. They want to talk to somebody who is personally familiar with their account, knows their name, and realizes the degree of credibility they deserve in the financial field. They are willing to pay for it.

The additional service does not really cost our customer any more than it would at a chain bank. If your mortgage at a chain bank is $700,000, you still talk to the computer in Long Beach without getting credit for the fact that the standard bank margin of profit, when applied to the size of your relationship would justify more than a computer response.

Service Strategies

- Delineate the market. To deliver the additional service sought by high-net-worth individuals, we began by setting the minimums described above. They have increased over the years.

We delineated our market as being one that had a sufficient number of dollars involved in each transaction that, using approximately the same margins that the chain banks use in their lending transactions, we would be able to provide, within the dollars generated by that margin, an extremely high level of service as well as pay our shareholders an adequate return.

- The nonchanging banker. In their past banking relationships, clients complained that the people they dealt with at the bank changed continuously. The person who had been a client's "banker" when he started the relationship with the chain bank was soon transferred to the auto-lending division in Milpitas. The client had to deal with a new face and to convince that banker that his net worth was really what he said it was.

I eliminated this early on in the organization of the Bank by setting up two separate paths for advancement. A young management trainee who comes to us with the long-term desire to be the chief financial officer or chief executive officer starts out working in the administrative side of the bank – and stays there.

From the time such individuals start with us to the time their careers are completed, they do not have customers or people who look to them as their banker – although they may be involved in a number of "bankerly" functions such as serving on the credit committee, investment committee, or the asset and liability committee.

If somebody comes to us with the idea that he wants to be a banker, he starts on the private banking side of the business as an assistant on one of the teams and works his way through credit analysis to become a team leader and eventually a senior vice president (the highest level one can obtain as a customer-service person).

The Team Concept

Clients of other banks also complained that when their banker was gone or working on something else, there was nobody to take their calls who was familiar with their accounts. We countered this by organizing the bank into client teams ranging from three to 12 people (depending on the size of the asset base that they manage).

Continued on next page

Our business is to deliver a highly sophisticated, extremely personal, confidential level of service to the wealthy client. That is all we do, period.

Clients feel most comfortable with people who are like themselves – financially successful.

There are two parts to getting the most from your people: a lot of money and a lot of authority.

Productive and successful organizations typically have fewer people, but they pay them better than the competition. It reduces turnover, builds pride and professionalism, and motivates management to keep a lean staff.

For a bank with a high-net-worth target market, there is an added benefit to compensation structures that routinely result in packages that exceed $100,000 per year. Clients feel most comfortable with people who are like themselves – financially successful.

A lot of authority doesn't necessarily accompany a lot of money, but it should. If you are willing to pay for the best people, they shouldn't need a lot of oversight and control to get the job done.

By keeping the hierarchy flat, the distance between client need and corporate response is as short as possible. Flexibility and responsiveness are thus built into the system.

Compensation for officers based on team or subteam profitability on both the asset and liability side, combined with a component that penalizes them for any loans deemed substandard or loss, are key to a good compensation package.

Retaining Relationships

Your bank is dealing with customers one on one, even if it is by mail. You should do whatever you can to maintain familiarity between your customers and their officer. You should have the same people handling the same customers and encourage them to have customers think of them as "their person."

While this is a key to success, it is also a danger in business because the customers will move with "their person." You have to be sure that your salespeople like your company, are well paid, and stay with you. At the Bank of San Francisco we lower our level of exposure to this by making our bank the best working environment with the best employment package in our area.

There are several benefits to consistency of officers:

- It saves customer time by cutting bureaucracy, making the distance between the customer request and the decision very close.
- It creates prompt response time, whether it's returning phone calls or writing notes in response to inquiries.
- It creates a direct complaint line, and the same officer follows up diligently (the complaint is not bounced around the institution).

Line Expansion

Give the customer what he wants, not what you assume he wants. Put yourself in your customer's shoes. What do they want? If you were the client, what would you want personally in a banking relationship? Once you are operating profitably, you can increase revenues and profits by making line expansions of your products that service other similar areas of need of your existing customers.

New products that we have added over the years include leasing, large single-family mortgages, trust, and money-management services, and liquid-asset investment advisory service. All those products directly service the high-net-worth individual who is our prime customer.

Responsiveness

Responsiveness is great, but too often stories of exceptional responsiveness start from an operational error or service lapse. Responsiveness is no substitute for reliability. The trick is to match your services with your clients' needs and offer only those that you

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Upscale

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with larger teams covering about $50,000,000 in assets.

As a client of the Bank of San Francisco, your relationship would probably be with the senior team member. But several other people on the team will be familiar with your account, your credit limits, and the nature of your relationship with the bank.

Accordingly, if the team leader is gone, any of these other people can facilitate your transactions. Generally, the customers and the bank agree that if their question concerns a misplaced item on a MasterCard account or a canceled check in the wrong statement, they can deal with somebody other than the team leader and get the same degree of service.

As the assistant vice presidents and vice presidents on the team gain confidence, ability, and a clientele of their own, over the years, they are separated to start new teams.

Quality People

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can do well enough to deserve a premium.

Personalized Treatment

Give customers special treatment for their loyal patronage. We host free educational seminars, Christmas parties and private company receptions to show gratitude to our clients, and use our executive dining room for individual luncheons.

We send personal letters regarding new services and products. Our customers receive annual Christmas gifts that are not only practical but reflect our appreciation.

We maintain top service through motivated, long-term employees. We continually send messages to our employees regarding quality service.

We produce an employee newsletter and have quarterly employee meetings during which we present service awards and bring our employees up to date on the latest things that have happened in the bank during the prior quarter.

At these meetings we stress that the most important part of our business is the delivery of service to our customers and the fact that our customers are pleased by any increased level of service they receive.

As the overwhelming majority of new clients are from referral or word-of mouth, we have come to appreciate the power of the client introduction.

Account officers maximize existing relationships by taking advantage of client referrals. A private lunch among an account officer, client, and potential client is a common scenario in the bank's executive dining rooms.

Officers also produce seminars not only as a client service but to mix existing clients with prospective clients of similar backgrounds and interests. Another marketing program is to cosponsor an event with a client in a complementary business (e.g., the bank joins with a client tax law firm to reach a narrow segment of the CPA field.)

Specific affluent markets are targeted by limiting attention to midsize businesses or to individuals above a minimum net worth and professions in a well-defined geographical area. We don't waste valuable marketing dollars on general image advertising in newspapers or publications. Rather, we concentrate on placing articles in our markets' trade and business publications, and having key bank officers speak at professional organization meetings.

In sum, Bank of San Francisco attracts affluent customers by delineating the market, and offering products they need in a fashion they want them delivered. □



THE SECRETARY OF THE TREASURY
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A MESSAGE TO BANKERS

A half century of helping America save -- that is the result of the decision made by Treasury Secretary Henry Morgenthau, in 1941, to make U.S. Savings Bonds easily available to all Americans by offering them for sale at banks. Equally responsible is the banking community's decision then -- and its commitment in the years since -- that the best interests of America lie in making the Bonds of Uncle Sam universally available.

The results are astounding. Tens -- perhaps hundreds -- of millions of Americans have bought Savings Bonds since then. Bonds helped a whole generation of children learn the importance of saving. Bonds have helped Americans play an active role in one of the greatest economies the world has ever known. Today, the total value of Savings Bonds outstanding has reached $120 billion, the highest in the 49-year history of the program.

In peace and in war, Savings Bonds have performed an invaluable service to the government and to the taxpayers. They have helped spread the Federal debt among Americans, reducing debt costs to the Treasury. Now those same Bonds are playing an important role in helping President Bush pursue his goal of increasing the Nation's savings rate. And, through the Education Bond Program, they are providing for the ever-increasing cost of higher education.

None of this would be possible without your active support and participation. It is an understatement to say that the Treasury is grateful for your efforts. For over half of a century, our partnership has been a dynamic and vital one. We will continue to do our part to help that partnership -- and the Savings Bond Program -- flourish.

Nicholas F. Brady

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9:00 KEYNOTE SPEECH: EFFECTIVE CUSTOMER SERVICE...THE KEY TO PROFITIBILITY IN THE 90'S

- Profiting from customer service in an age of transition
- A banker's perspective on past successes and failures... and innovations for the future
- A case study in improving service and sales

Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Joan Miszak, *Senior Vice President,* California Federal Bank (LA)

9:45 TURNING SERVICE INTO SALES...ACHIEVING BOTTOM LINE RESULTS FROM QUALITY SERVICE AND SALES TECHNIQUES

- Creating a competitive advantage through customer service
- Improving service...and controlling costs

John A. Goodman, *President,* Techn. Assistance Research Program (NY)
John A. Goodman, *President,* TARP (NY)
Marty Wikoff, *President,* Management Performance Systems (LA)

- The need for effective salesmanship
- Sales techniques for the 90's

Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Shirly Ward, *Vice President,* Bank of America (LA)

10:45 CREATING A SALES CULTURE...A STEP BY STEP APPROACH

- How to implement your new strategy through out the corporation
- How to build a corporate culture based on customer service
- Defining and targeting your customer

Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (LA)

11:30 COFFEE BREAK

11:45 ACHIEVING A TECHNOLOGICAL ADVANTAGE...THE ROLE OF TECHNOLOGY IN IMPROVING CUSTOMER SERVICE AND SALES

- Using innovative technology to cross-sell
- How to implement state-of the art systems to improve service and increase sales

Dr. Michael Harden, *Sales Manager,* Citicorp Information Resources (NY)
Frank Martire, *Chairman,* Citicorp Information Resources (NY)
Charles J. Buchta, *Executive Vice President,* First Interstate Bank (LA)

12:30 HOW TO REMOVE MIDDLE-MEN FROM THE BANKING TRANSACTION...FROM THE BOARDROOM TO THE MAILROOM

- Skills to implement to reduce costs while improving quality of service
- Removing obstacles to the sale

Nicholas Papandokas, *Vice President,* Manufacturers Hanover (NY, NY, LA)
John J. Campi, *Managing Director,* Chatham Consulting Group (NY, NY, LA)

1:00 LUNCH WORKSHOP OPPORTUNITIES FOR THE 90'S IN RETAIL AND WHOLESALE BANKING...HOW TO IMPROVE PROFITIBILITY THROUGH SALES AND SERVICE

- Innovative techniques and training methods... a roundtable discussion

Chairperson:
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Pamela O'Shea, *Vice President,* City National Bank (LA)

2:45 THE AMERICAN EXPRESS EXAMPLE...A CUSTOMER SERVICE SUCCESS

- A case study in implementing quality service
- Lessons for banks and thrifts

Laura Gross, *Director,* American Express (NY)
Bruce Greve, *Vice President,* American Express (NY)
Dannis Stevens, *Vice President,* American Express (LA)

3:30 A CASE STUDY IN IMPROVING SALES...THE CHASE TRAINING PROGRAM

- Teaching selling skills
- How to implement a training program

Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (LA)

4:15 THE KEY TO IMPROVING SALES...MEASURING YOUR CUSTOMER SERVICE

- Judging the quality of service at your bank
- Learning from the leaders...what techniques do the leading bank use to measure service
- How to determine your bank's effectiveness

Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Douglas Smith, *Managing Director,* BEI Golembe (LA)

5:00 THE ROLE OF SALES INCENTIVES...WHAT WORKS AND WHAT DOESN'T

- How to use worker compensation to increase sales
- Improving service without increasing costs

William Casey, *Principal,* Paris, Casey Inc. (NY)
William Casey, *Principal,* Paris, Casey Inc. (NY)
Matt Walgon, *Senior Consultant,* Sibson and Co. (LA)

6:00 END OF SEMINAR

SEMINAR 2

THE NUTS & BOLTS OF COMMERCIAL LENDING & LOAN PRICING

July 17, 1990 • The Vista Hotel • New York City
September 11, 1990 • The Vista Hotel • New York City
September 18, 1990 • Century Plaza Hotel • Los Angeles

The battle for commercial loan profitability promises trying times for large corporate and middle market lenders. Over the past two decades, the risk in banks lending portfolios has steadily increased. This is not a function of uncontrolled risk-taking, but rather of the past two banks' necessary response to the need to find assets which will provide acceptable levels of risk-adjusted return. The events of the past few years have shown that many banks, however, have been unable to effectively controlthe level of risk that they have taken. Unacceptably high levels of loss have taken place in many banks due to a combination of poor pricing, excessive concentration and the failure to understand the level of risk in a specific loan. Furthermore, new competitors are entering the marketplace scrambling for territory and sparking intense new battles for turf. This seminar reviews how leading-edge banks are beginning to develop new sets of techniques that will gave them a competitive edge in the marketplace for controlling their level of loss, and achieving low-risk diversified portfolios.

8:45 CHAIRMAN'S OPENING REMARKS
William T. Gregor, *Partner,* The MAC Group (NY,LA)

RE-ENGINEERING FROM A CUSTOMER POINT OF VIEW

9:00 KEYNOTE ADDRESS: WHAT RECIPE SHOULD YOU USE TO TURN AROUND YOUR COMMERCIAL LENDING BUSINESS?...A CONSULTANT'S & A BANKER'S VIEWPOINT
William T. Gregor, *Partner,* The MAC Group (NY,LA)
Peter Offermann, *Managing Director,* Bankers Trust (NY)

9:45 CUSTOMER PROFITABILITY & OPPORTUNITIES FOR REFOCUSING ON THE PROFITABLE BUSINESS...NATIONAL WESTMINISTER'S & SECURITY PACIFIC'S MIDDLE MARKET STRATEGY
Vjay C. Poppat, *Principle,* Booz Allen & Hamilton (NY,LA)
Edward A. McNally, *Senior V.P.,* National Westminister, USA (NY,LA)
Frank Abraham, *Chief Credit Officer,* Security Pacific National Bank (LA)

11:00 COFFEE BREAK

11:15 PRESTO CHANGO...CONVERTING UNPROFITABLE CUSTOMERS INTO PROFITBLE ONES...USING THE EMERGING SECONDARY MARKET TO YOUR ADVANTAGE

- Where Will The Secondary Market Work & For What Kind Of Loans?
- How Will The Secondary Market Affect Your Ability To Price?
- Secondary Markets & Loan Sales...What Are The Elements Necessary For Success?

David E. Fisher, *Vice Président,* Loan Pricing Corp. (NY,LA)

12:15 LUNCH BREAK

RE-ENGINEERING THE PRICING PROCESS

1:30 ARE YOU GETTING THE BANG FOR YOUR BUCK?...DEVELOPING A TARGETED PRICING STRATEGY TO ADEQUATELY PRICE FOR RISK

- What Are The Key Components Of Pricing?
- What Prices Are Banks Actually Getting On Commercial Loans?
- How To Set Strategic Pricing Goals For Your Portfolio
- Do Banks Price Adequately For Risk?

Christopher L. Snyder, *President,* Loan Pricing Corp. (NY,LA)

2:15 A CREDIT BASED APPROACH TO ALIGNING RISK & RETURN IN A C&I LOAN PORTFOLIO

- How To Analyze The Relationship Between Credit Risk & Pricing
- Testing The Adequacy Of The Existing Credit Risk Assessment System
- Refining The Existing Credit Risk System To Serve As A Basis For Commercial Loan Pricing Scenarios

Constance Kenneally, *Partner,* Zeta Services Inc. (NY,LA)

3:00 COFFEE BREAK

RE-ENGINEERING THE CREDIT PROCESS

3:15 EMERGING NEW TECHNIQUES FOR CONTROLING LOSSES & MANAGING THE PORTFOLIO

- Buttoned-up Credit Procedures...Ensuring Repayment After The Loan is Made
- Pricing To Recapture Expected Losses
- Diversification As A Tool In Portfolio Management
- Giving Your Problem Loans A Workout...Security Pacific's Workout & Recovery Strategy

Jonathan P. Moynihan, *Managing VP,* First Manhattan Consulting Group (NY,LA)
Gary J. Corbin, *First V.P.,* Security Pacific National Bank (LA)

4:00 ARE BANKS LENDING TO LBO's TO CHEAPLY?...THE FUTURE OF HIGHLY LEVERAGED TRANSACTIONS
Mark G. Sobey, *Managing Director,* Manufacturers Hanover Trust (NY)
Hugh T. Kemper, *Managing Director,* Morgan Guaranty (NY)
Leland S. Prussia, *Vice Chairman,* Capitalcorp., Inc. (LA)

4:45 COMMERCIAL LOAN SECURITIZATION...A STEP BY STEP APPROACH TO SECURITIZING PERFORMING LOANS
Marshall V. Davidson, *Managing Director,* Kidder Peabody (NY,LA)
Robert M. Okabe, *Vice President,* Kidder Peabody (NY,LA)
Clifford Griep, *Managing Director,* Standard & Poors (NY,LA)

5:30 END OF SEMINAR

SEMINAR 3

EFFECTIVE COST MANAGEMENT

July 18, 1990 • The Vista Hotel • New York City
September 12, 1990 • The Vista Hotel • New York City
September 19, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Patrick J. Leemputte, Partner, Price Waterhouse (NY, LA)

9:15 ACHIEVING COMPETITIVE ADVANTAGE THROUGH COST LEADERSHIP
The 1980's showed that cost leadership is a critical success element in all restructured industries. As the pace of restructuring in banking accelerates, winners will emerge based on competitive cost position and related strategic focus. Global finance will come to be dominated by firms obsessed with the twin pursuits of profitability and productivity.
This session concentrates on managing the key noninterest cost drivers of bank performance: 1) business scope and geographic reach, 2) size of workforce and compensation practices, 3) technology spending and investment, and 4) corporate real estate portfolio management.
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Elwil Istavridis, *Senior VP,* Bankers Trust Company (LA)

10:00 KEYS TO WINNING THE PRODUCTIVITY RACE
If superior expense control is essential to surviving the merger decade, then how is it accomplished?
This session addresses three key issues for banks concerned about expense control: 1) how good is the bank now and where is the potential for greater frustration? Analysis based on business mix can identify bloated budgets and problem areas; 2) experience shows what are the do's and dont's of crafting a program to reduce staff areas, lines of business, branches, operations and systems; 3) What does it take to stay on top? A "coherent organization" and quantitative performance measures can be keys to sustaining a cost effective culture.
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (LA)

11:00 STORIES FROM THE FRONT: HOW MELLON BANK'S COST CONTROLS HAVE LED TO NEW BUSINESS OPPORTUNITIES AND LOWER EXPENSES
Mellon Bank experienced a great deal of cost cutting in the past decade. Mellon's expertise in this area has shown that you can actually turn a cost center into a profit with the appropriate resources and strategy.
In this session, you will learn how Mellon effectively downsized into a better performing bank. This dedication to cost leadership has helped Mellon develop it's technologies and data processing to the point where these strengths have led to new business opportunities.
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (LA)

12:00 LUNCH BREAK

1:15 HOW TECHNOLOGY CAN HELP YOUR BANK CUT COSTS WHILE IMPROVING PERFORMANCE
Commercial banks and financial institutions are wholeheartedly embracing information technology (IT) as a way to achieve competitive advantage. But, while bank IT costs have skyrocketed, banks are cautious to crow about their success. Instead, they suffer from exponential growth in computer spending with almost no impact on their bottom line or market share.
In this session, you will learn how to begin to think about, structure and approach the IT problem in your organization. Learn what technology can do to help control costs and what it cannot do. Analyze how to cut the rising costs of your own IT infrastructure. Most important, begin to understand how you can approach IT complexity without being overwhelmed.
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)

2:15 ELIMINATING EXPENSE THROUGH ACQUISITIONS
If banks merge to achieve economies of scale then why do most mergers fail to meet their expectations? As bank mergers continue to increase, minimizing costs during the integration process has become essential.
While banks of different sizes and market niches will have different merger goals, there is a proper rationale to mergers that will minimize the consolidation process. This session will look at past mergers to critique successful mergers as well as failures. In particular, where can the economies be achieved?... in back office operations/overhead, retail or wholesale operations, data processing and technology or duplication of staff responsibilities. This session provides a framework to minimize the costs of the merger.
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
James Benowski, *Principal,* McKinsey & Co. (LA)

3:15 MONITORING THE DOWNSIZING EFFORT THROUGH EFFECTIVE HUMAN RESOURCE MANAGEMENT
- How to retain top performers and employee commitment
- What to cut?...What to keep?...How to do it?

Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (LA)

4:15 MEASURING THE IMPACT OF COST ON PROFIT PERFORMANCE AND SHAREHOLDER VALUE...THE ANALYST'S PERSPECTIVE
How does a bank's cost performance effect stock price? In this session, learn how analysts objectively view cost cutting practices and how profit performance is related to effective expense practices and how it effects stock price. What banks have made the right moves and what strategies were responsible for improved profit performance.
Gary Gordon, *Vice President,* PaineWebber (NY)
Gary Gordon, *Vice President,* PaineWebber (NY)
Michael Conover, *President,* Ryan Beck & Co. Pacific (LA)

5:00 END OF SEMINAR

SEMINAR 4

BANK AND CROSS-INDUSTRY ACQUISITIONS OF THRIFT INSTITUTIONS & SHOULD THRIFTS BE CONVERTING TO BANKS?

July 19, 1990 • The Vista Hotel • New York City
September 13, 1990 • The Vista Hotel • New York City
September 20, 1990 • The Century Plaza Hotel • Los Angeles
September 25, 1990 • The Ritz Carlton • Atlanta
October 9, 1990 • The Ritz Carlton • Chicago

FIRREA has opened the doors to bank acquisitions of thrift institutions and thrift institution conversions to banks. However, it is not altogether clear what this new regulatory flexibility means and whether banks and thrifts should take advantage of these new options. This one day intensive program for bank, thrift, and other business executives, attorneys and consultants focuses on the mechanics and regulatory procedures involved in bank and non-bank acquisitions of thrifts, as well as how and whether thrifts should convert to banks.

9:15 CHAIRMAN'S OPENING REMARKS
Eric Luse, *Partner,* Brownstein Zeidman and Schomer

9:30 SHOULD A THRIFT CONVERT TO A BANK?
- What Are The Advantages And Disadvantages
- A Review Of The Bank And Thrift Charters

Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Trent Feldman, *Partner,* Kaplan Smith &Associates (AT,LA)
Edward T. Lutz, *Principal,* Lyons Zomback & Ostrowski (NY,CH)

10:00 REGULATORY HURDLES AND CONSIDERATIONS INVOLVED IN CONVERTING A THRIFT TO A BANK...HOW CAN IT BE DONE & WHAT IS PERMISSIBLE?
V. Gerard Comizio, *Director, Corporate and Securities Division,* Office of the Comptroller of the Currency (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Vernon E. Fasbender, *Director for Analysis,* Comptroller of the Currency (Southwestern District) (AT)
Roy Stovall, *Director for Analysis,* Comptroller of the Currency (Northeastern District) (NY)
Donelle Ward, *Director for Analysis,* Comptroller of the Currency (Central District) (CH)
Daniel Pearson, *Director for Bank Supervision & Analysis,* Comptroller of the Currency (Western District) (LA)

10:45 COFFEE BREAK

11:00 CONVERTING A SAVINGS ASSOCIATION TO A BANK... A CASE STUDY
Samuel J. Malizia, *Partner,* Brownstein Zeidman & Schomer (NY,CH)
James S. Fleischer, *Partner,* Silver Freedman & Taff (LA)
Robert Hall, *Partner,* Silver Freedman & Taff (AT)

11:30 WHY SHOULD A BANK OR NON-BANK ACQUIRE A THRIFT... A STEP BY STEP REVIEW
- What Are The Economic Advantages And Disadvantages?
- Market/Geographic Expansion And Pricing Considerations

Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
T. Stephen Johnson, *President,* Stephen Johnson & Associates (AT)
John Mingo, *Principal,* BEI Goldmbo Inc. (NY,CH)
Richard Reibman, *Managing Director,* Dean Witter Reynolds, Inc. (NY,LA)

12:00 EVALUATING A THRIFT ACQUISITION...AN ACQUIRER'S PERSPECTIVE
- Regulatory, Operational & Financial Differences With Banks

Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil Partners (LA,CH)
Addison Levi, *Senior Vice President,* Dean Witter Reynolds, Inc. (LA,CH)
Kenneth Rellander, *Managing Director,* PaineWebber, Inc. (NY,AT)

12:30 LUNCH BREAK

2:00 A REVIEW OF THE REGULATORY PARAMETERS & ROADBLOCKS TO BANK ACQUISITIONS OF THRIFTS ..
- Interstate/Interstate Banking Issues
- Obstacles Of State Branching Laws & How To Circumvent Them
- Healthy Thrift vs. Failing Thrift Acquisitions

V. Gerard Comizio, *Director Corpoate & Securities Division,* OTS (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
John Buchman, *Partner,* Milbank Tweed Hadley & McCoy (NY,AT)
John Buchman, *Assistant Deputy Director,* OTS (NY,AT,LA,CH)

3:00 COFFEE BREAK

3:15 WHAT ARE THE STRUCTURAL OPTIONS AND CONSIDERATIONS WHEN ACQUIRING A THRIFT?
- How Should The Resulting Or Target Institution Be Chartered And Insured?
- Holding Company vs. Direct Acquisitions

Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Peter Schmidt, *Partner,* Arnold & Porter (AT,LA)
William J. Sweet, *Partner,* Skadden Arps Slate Meagher & Flom (NY,CH)

4:15 A BANK ACQUISITION OF A THRIFT...A CASE STUDY
Donald Kaplan, *Managing Director,* Kaplan Smith & Associates (NY,LA)
William Moore, *President,* Trident Financial Corporation (NY,AT)

4:45 TAX AND ACCOUNTING CONSIDERATIONS
- Recapture Of Bad Debt Reserve
- Pooling vs. Purchase
- Use Of Net Operating Loss Carryovers

Roger Teurfs, *Partner,* KPMG Peat Marwick (NY)
James L. Spreng, *Partner,* KPMG Peat Marwick (NY)
Douglas McEachern, *Partner,* Deloitte & Touche (LA)
Vincent Lenuzza, *Partner,* KPMG Peat Marwick (CH)
Gerald F. Hunter, *Partner,* KPMG Peat Marwick (AT)

5:30 END OF SEMINAR

SEMINAR 5

ASSET/LIABILITY MANAGEMENT

July 20, 1990 • The Vista Hotel • New York City
September 14, 1990 • The Vista Hotel • New York City
September 21, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Sanford Rose, *Editor, Journal of Retail Banking*
Senior Columnist, American Banker

9:15 INTEREST RATE RISK MANAGEMENT
The management of interest rate risk is fundamental to sound banking practice. Banks can experience earnings, liquidity, and capital adequacy problems, if management is poorly run.
This session will deal with a number of fundamental rules in managing interest rate risk as well as develop an integrated risk management project. You will understand how risk is measured, as well as, what tools are used to measure risk. Learn how to incorporate these tools to increase bank profitability.
Ronald D. Reading, *Vice President,* First Manhattan Consulting Group

10:30 COFFEE BREAK FOR SPEAKERS AND GUESTS

10:45 LIQUIDITY
This session learn to understand what liquidity is. Where you can get it. How much it costs, and how much it is worth. Finally, learn to understand how to measure and manage liquidity.
Peter G. Mantilla, *Vice President,* Bank of New York (NY)
Richard Laiderman, *Vice President,* Bank of America (LA)

11:45 THE USES OF DURATION IN ASSET LIABILITY MANAGEMENT
Technological and analytical developments in the 1990's will significantly enhance the ability to deal with risk. The methodology, tools, and implementation approach provide a more rigorous assessment of market risk.
The specific focus will be to contrast the duration approach with a new approach called risk measurement unit approach. The risk measurement unit approach captures both volatility and non-parallel shifts in the yield curve.
Sanford Rose, *Editor, Journal of Retail Banking*
Senior Columnist, American Banker
Robert M. Mark, *Managing Director,* Manufacturers Hanover Trust

12:30 LUNCH BREAK FOR SPEAKERS AND GUESTS

1:30 OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE NEW EXAMINATION GUIDELINES
The OCC has alerted all bankers that they must prudently manage, measure and limit risk, and that enough capital be available to support exposure to such risk.
This session will discuss the OCC's policy on interest rate risk and how active the Office of Thrift Supervision is. The different topics which will be discussed include: risk matrix, gap reports, simulation, and duration.
Jennifer Johnson, *Developer and Administrator,* OCC

2:30 SECURITIZATION...WHEN AND HOW TO USE IT.
- Being able to securitize your own product
- Opening a secondary market
- The 144 Rule with regards to Private Placement

To Be Announced

3:30 LOWER COST OF MARKET AND THE INVESTMENT PORTFOLIO
1990 will be a year when your accounting department must be able to deal effectively with the new AICPA requirements on accounting for debt securities held as assets. A new standard expected to be issued by the AICPA with the support of the SEC and the FASB will require market value determination. The new standard will require allocating security investments among investment portfolio, held for sale, and trading account.
This session will help you understand the new requirements and the techniques required to successfully implement them.
Raymond Perry, *Partner,* **Deloitte & Touche**

4:30 ASSET LIABILITY MANAGEMENT INTO THE 1990'S.
This session will outline recent advances in the 1) measuring of embedded option risks, 2) measuring volatility risk exposure, 3) measureing index and credit spread risks, 4) integrating value decisions into the management process, 5) integrating risk-based capital guidelines into the risk management process.
Alden Toevs, *Principal,* Morgan Stanley & Co.

5:30 END OF SEMINAR

BANK PROFITABILITY REGISTRATION FORM

Please indicate which seminar(s) you would like to attend — (Please mail back entire form)

	SUMMER SESSION **New York City** The Vista Hotel Monday, July 16, 1990 — Friday, July 20, 1990	**FALL SESSION I** **New York City** The Vista Hotel Monday, Sept. 10, 1990 — Friday, Sept. 14, 1990	**FALL SESSION II** **Los Angeles** The Century Plaza Hotel Monday, Sept. 17, 1990 — Friday, Sept. 21, 1990
Day 1 **Innovative Customer Service and Sales Techniques for the Nineties**	☐ Monday, July 16	☐ Monday, Sept. 10	☐ Monday, Sept. 17
Day 2 **The Nuts and Bolts of Commercial Lending and Loan Pricing**	☐ Tuesday, July 17	☐ Tuesday, Sept. 11	☐ Tuesday, Sept. 18
Day 3 **Effective Strategies for Cost Management and Expense Control**	☐ Wednesday, July 18	☐ Wednesday, Sept. 12	☐ Wednesday, Sept. 19
Day 4 **Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks.***	☐ Thursday, July 19	☐ Thursday, Sept. 13	☐ Thursday, Sept. 20
Day 5 **Asset/Liability Management**	☐ Friday, July 20	☐ Friday, Sept. 14	☐ Friday, Sept. 21

* The day 4 conference "Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks," will also be offered in:

☐ **Atlanta,** The Ritz Carlton, Tuesday, Sept. 25
☐ **Chicago,** The Ritz Carlton, Tuesday, Oct. 9

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TWO LOCATIONS:
NEW YORK, NY: *Summer Session* — Monday, July 16, 1990 - Friday, July 20, 1990; *Fall Session* — Monday, September 10,1990 - Friday, September 14, 1990, The Vista International Hotel, 3 World Trade Center, New York, NY 10048. Telephone (212) 939-9100.

LOS ANGELES, CA: *Fall Session* — Monday, September 17, 1990 - Friday, September 21, 1990, The Century Plaza Hotel, 2025 Avenue of the Stars, Century City, Los Angeles, CA 90067. Telephone: (213) 277-2000.

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OUR DISTINGUISHED PANEL OF SPEAKERS

Day One:

Innovative Customer Service And Sales Techniques for the Nineties

Charles Buchta
Executive Vice President
First Interstate Bank

John Campi
Managing Director
Chatam Consulting Group

Michael Harden
Sales Manager
Citicorp Information Systems

John Goodman
President
TARP

Bruce Grieve
Vice President
American Express

Laura Gross
Director
American Express

Thomas Jacob
Senior Vice President
Chemical Bank

Dr. A. Lorri Manasse
President
The Cortland Group

Frank Martire
Chairman
Citicorp Information Res.

Joan Miszak
Senior Vice President
California Federal Bank

Dr. Nancy O'Brien
Marketing Consultant
Sales Devel.Assoc.

Pamela O'Shea
Vice President
City National Bank

Nicholas Papanikolaw
Vice President
Manufacturers Hanover

Charlotte Pollard
Vice President
Chase Manhattan Bank

Claire Schopler
Vice President
Chemical Bank

Dennis Stevens
Vice President
American Express

Day Two:

The Nuts and Bolts of Commercial Lending & Loan Pricing

Frank Abraham
Chief Credit Officer
Security Pacific National Bank

Gary Coelho
First Vice President
Security Pacific National Bank

Marshall Davidson
Managing Director
Kidder Peabody

David Fisher
Vice President
Loan Pricing Corp.

William Gregor
Partner
The MAC Group

Clifford Griep
Managing Director
Standard and Poor's

Hugh T. Kemprer
Managing Director
Morgan Guaranty

Constance Kennealy
Partner
Zeta Services Inc.

Edward McNally
Senior V.P.
National Westminster USA

Jonathan Moynihan
Managing Vice President
First Manhattan Consulting Group

Peter Offermann
Managing Director
Bankers Trust

Robert Okabe
Vice President
Kidder Peabody

Vjay C. Popot
Principal
Booz, Allen, & Hamilton, Inc.

Leland Prussia
Vice Chairman
Capitalcorp

Christopher Snyder
President
Loan Pricing Corp

Mark Solow
Senior Managing Director
Manufactureres Hanover Trust

Day Three:

Effective Strategies For Cost Management and Expense Control

James Bemowski
Principal
McKinsey & Co.

Michael Conover
President
Ryan Beck & Co. Pacific

Peter J. Doris
Senior Vice Pres.
Right Associates

Gary Gordon
Vice President
Paine Webber

Jane Hartung
Senior Vice President
Mellon Bank

Eleni Istavridis
Senior Vice President
Bankers Trust Company

Charles F. Kalmbach, Jr.
Senior Manager
Price Waterhouse

Patrick J. Leemputte
Partner
Price Waterhouse

James M. McCormick
President
First Manhattan Consulting Group

Charles H. Nobs
Senior Vice President
Bankers Trust Company

Harry H. Tatonis
Princial
Booz, Allen, & Hamilton, Inc.

Day Four:

Bank and Cross-Industry Acquisitions of Thrift Institutions
& Should Thrifts Be Converted to Banks

Peter Barnett
Partner
Arnold & Porter

John Buchman
Assistant Deputy Director
OTS

V. Gerard Comizio
Director Corporate & Securities Division
OTS

Vernon E. Fasbender
Director for Analysis
Comptroller of the Currency

Donald Kaplan
Managing Director
Kaplan Smith & Associates

Eric Luse
Partner
Brownstein Zeidman and Schomer

Edward T. Lutz
Principal
Lyons Zomback & Ostrowski

Samuel J. Mallzia
Partner
Brownstein Zeidman & Schomer

John Mingo
Principal
BEI Golembe Inc.

Daniel Pearson
Director for Bank Supervision & Analysis
Comptroller of the Currency

Richard Reibman
Managing Director
Dean Witter Reynolds, Inc.

Kenneth Rellander
Managing Director
PaineWebber, Inc.

John Shockey
Partner
Milbank Tweed Hadley & McCoy

Roy Stoval
Director for Analysis
Comptroller of the Currency

William DJ. Sweet
Partner
Skadden Arps Slate Meagher & Flom

Donelle Ward
Director of Analysis
Comptroller of the Currency

Day Five:

Asset/Liability Management

Jennifer Johnson
Developer & Administrator
O.C.C.

Richard Laiderman
Vice President
Corporate Treasury
Bank of America

Peter G. Mantilla
Vice President
Bank of New York

Robert M. Mark
Managing Director
Manufacturers Hanover Trust Co.

Raymond Perry
Partner
Deloitte & Touche

Ronald D. Reading
Vice President
First Manhattan Consulting Group

Sanford Rose
Editor, Journal of Retail Banking
Senior Columnist, American Banker • Bond Buyer

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Fed's Proposal Seen as Volley At Hungry SEC

By ELLEN MEMMELAAR

NEW YORK — By proposing to ease restrictions on the mutual fund activities of bank holding companies, the Federal Reserve Board may be defending its turf against encroachment by the Securities and Exchange Commission, industry observers said.

The Fed issued a proposal in late June that would allow a bank holding company to sell mutual funds that it advises. A bank holding company can now either advise or market funds, but not consolidate those activities under one unit. The Office of the Comptroller of the Currency, however, permits nationally chartered banks to perform both activities.

ANALYSIS: *Follow-up on the news*

Bringing its mutual fund regulation in line with that of the Comptroller is a way for the Fed to reinforce that it has control over all activities of bank holding companies, observers said.

SEC Chairman Richard C. Breeden takes exception to the Fed's view of regulation. He has stated that his agency should supervise the securities activities of bank holding companies.

Turf Battle Seen

"Breeden at the SEC has taken a strong position," said Richard Stierwalt, chief operating officer of the Concord Financial Group, a New York-based mutual fund company. "He wants to regulate banks' involvement in the securities industry. I feel that the Fed and the OCC are protecting their turf by relaying their position in some of these areas in order to maintain control over these banks."

The SEC would not comment directly on the Fed proposal. Jeremy Rubinstein, branch chief of the office of investment company regulation at the SEC, said, "The commission is on record saying that the brokerage activities of banks should be regulated as such and in separate entities. Securities regulators should regulate securities distribution."

Virgil Mattingly, general counsel at the Fed, denied that the proposal was related to SEC policy. "We are merely bringing our regulations up to [national] bank [levels]," he said.

Industry Group Opposed

A group that openly opposes the Fed proposal is the Investment Company Institute, a trade group for mutual funds. It will issue a statement at the beginning of August opposing the

See **FED** *page* **5**

INSIDE NEWS

FINANCE

CREDIT LYONNAIS is planning a leveraged buyout fund and is said to be wooing Leon Black, formerly co-head of investment banking at Drexel Burnham Lambert, to run it. *Page 14*

INTERNATIONAL

JAPANESE MEDIA report that the country intends to tell its six partners at the forthcoming Group of Seven summit that it may independently resume lending to China. *Page 10*

TECHNOLOGY

BANK OF AMERICA is close to completing what it claims is the most complete system available for global cash management. *Page 3*

MORTGAGES

MERIDIAN BANCORP is the latest bank to make a big move in mortgage originations. It plans to buy 16 branches from Travelers Mortgage Services. *Page 7*

FUNNY MONEY



A NEWSPAPER PHOTO of newly seized Home Federal Savings in Worcester, Mass., said it all. The thrift's slogan - "better banking" - suddenly seemed within the realm of possibility. *Page 4*

CONSUMER

SMALL BUSINESSES in Massachusetts have been swamping a hot line set up to match lenders with borrowers. *Page 5*

COMMENT

LARGE AND SMALL banks must present a solid front to demand Glass-Steagall repeal, writes Mark Olson, a partner with Ernst & Young. *Page 4*

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Resignation of Davis Signals Shake-Up in Citicorp Ranks

By JED HOROWITZ

NEW YORK — In the first sign of what is expected to be a broad reorganization of its wholesale banking activities, Citicorp confirmed that its senior executive in charge of corporate finance in North America has resigned.

George L. Davis, who turns 56 next week, announced his resignation on Tuesday, almost three years to the day after he returned to lead Citicorp's corporate banking activities in the United States and Canada. Mr. Davis has spent his entire career at Citicorp with the exception of a sojourn at First Chicago Corp. from 1981 through 1987.



Peggy Norbert

George L. Davis
Leaving Citicorp

Reed Cites Changes in Business

"When he returned three years ago as head of the North American corporate finance group, we had all hoped he'd be with us for his entire remaining career," Citicorp chairman John S. Reed wrote in a memorandum to the company's policy committee on Tuesday. "However, the business has changed considerably from that envisioned in 1987, and George feels he can make a greater contribution in a different environment."

Reached at his home on Thursday, Mr. Davis would not comment on his departure or his plans. "I would let my friends at Citi do the speaking for me," he said.

A Citicorp spokesman confirmed that Mr. Davis is leaving but would not elaborate. The memo from Mr. Reed said Mr. Davis would pursue other interests; it indicated that a replacement or a reorganization eliminating Mr. Davis' position would be announced by the end of July.

A Troubled Sector

Mr. Davis presided over one of the most troubled sectors at the nation's largest banking company. He was responsible, among other areas, for real es-

See **DAVIS** *page* **11**

Bill Setting Liability Lid On Cleanups Gains Steam

By ROBERT M. GARSSON

WASHINGTON — Adding momentum to a proposal that many bankers regard as their highest legislative priority for 1990, Rep. John J. LaFalce, D-N.Y., has persuaded a majority of House members to cosponsor a bill limiting lenders' liability for environmental cleanups.

With 250 of the 435 members as cosponsors, Mr. LaFalce has gained leverage in his effort to have the legislation considered by the House Energy and Commerce Committee. Alternatively, if the measure first gains Senate approval, it would be easier to argue for House acceptance.

Bill Faces Obstacles

Despite the broad support Rep. LaFalce lined up before the Independence Day recess, the measure faces onstacles. ine shortened legislative calendar in this congressional election year and opposition from environmental groups could work against it.

In a recent letter to lawmakers, six environmental groups

See **BILL** *page* **11**

Columbia S&L's Ex-Chief Is Hit By OTS Charges

By BILL ATKINSON

WASHINGTON — In its boldest enforcement move against an executive of a troubled institution, the Office of Thrift Supervision filed civil charges Thursday against Thomas Spiegel, the flamboyant former chairman of Columbia Savings and Loan Association.

The OTS proceeding, known as an administrative action, seeks almost $19 million in restitution for misuse of Columbia funds and a $5 million civil penalty. Among Mr. Spiegel's alleged wrongs are taking an unauthorized bonus and using thrift funds to pay for personal travel, tickets to a Michael Jackson concert, and other expenses.

Would Bar Involvement

The OTS would also bar Mr. Spiegel, who presided over the rapid growth of Columbia's junk-bond portfolio into the largest in the thrift industry, from future involvement with any federally insured financial

See **EX-CHAIRMAN** *page* **11**

Baltimore Bancorp's Resistance to Merger...
Price per common share



Source: DB Technology Inc., Reuters, Baltimore Bancorp

Has Prompted Concern Among Big Shareholders

	Shares owned	Percentage of company
T. Rowe Price Associates Baltimore	1 million (largest holder)	7.8%
Glenmede Trust Philadelphia	330,000	2.6%

Baltimore Bancorp Shareholders Protest Rejection of Merger Bid

By FRED VOGELSTEIN

Major shareholders of Baltimore Bancorp, alarmed that the board of directors has rejected a merger bid from a crosstown competitor, have written letters to all the directors asking them to reconsider.

The $217 million offer, made by First Maryland Bancorp on April 30, prompted an angry rejection from Baltimore Bancorp management. Now that shareholders are raising objections to the bank's position, analysts are wondering how long management can hold out.

Litigation Seen

"I think [the directors] will be involved in some very serious lawsuits if they don't act," said Lacy Shockley, a bank analyst at Smith Barney, Harris Upham & Co.

Among those objecting is Baltimore Bancorp's largest share-

See **STOCKS** *back page*

PEOPLE *in the news*

Guiton Strives for Objectivity As Bush's Consumer Adviser

By LINDA CORMAN

WASHINGTON — Bonnie Guiton is said to have turned on the lights at the Office of the Special Adviser to the President for Consumer Affairs, which was dormant during the 1980s.

"I didn't say that," insists Ms. Guiton, who recently made her mark presenting the administration's position on revisions to the Federal Fair Credit Reporting Act. The law spells out consumers' rights when lenders and credit bureaus exchange personal financial data.

The 48-year-old former assistant secretary of Education and vice president of Kaiser Aluminum is also said to have softened her once ardent support for consumer rights since assuming her post in April 1989. But Ms. Guiton will not concede that point, either.

"We came in looking for a balanced approach," she said in an interview. Both industry and consumer groups agree she has shifted toward the center.



Bonnie Guiton

Official Advocate of Consumer Interests

In her White House post it is Ms. Guiton's responsibility to push for consumer programs and keep federal agencies and lawmakers mindful of consumer interests. She has also been weighing bankers' concerns through her work on revisions to the Fair Credit Reporting Act, about which she has testified twice since assuming leadership of the 22-person office.

"Ms. Guiton made a major impression on me when she first testified before Rep. [Richard] Lehman's [House Banking] subcommittee a year ago last September," said Craig Ulrich, general counsel of the Consumer Bankers Association. "She came on somewhat left of what we expected from the administration's spokesperson. Some of her remarks were less than sensitive to the concerns of the business community."

But now, she has received her "pragmatic and philosophical education on the job," said Mr. Ulrich. She has "established a great rapport with all communities."

Mr. Ulrich has forgotten what it was about Ms. Guiton's testimony that took him aback. But a representative of the Associated Credit Bureaus said she had a "vivid" recollection of Ms. Guiton's changed stance.

"She said reporting agencies should not have to provide a free copy of credit reports once a year," she said of Ms. Guiton's more recent testimony on the Fair Credit Reporting Act. Consumer groups staunchly support free reports. Ms. Guiton also stressed her conviction that credit bureaus try to do a good job and that consumers had to be educated to protect their rights.

"Her testimony reflected a better understanding of the industry," said the staff member for the Associated Credit Bureaus.

Edmund Mierzwinski, an official at the U.S. Public Interest Research Group, concurs that Ms. Guiton has moderated her consumer-oriented positions. But she apparently has not alienated consumer advocates.

"She's not always with us on everything," said Mr. Mierzwinski. But "she's helped to bring [privacy] issues to the forefront. We're going to win a battle [for the FCRA bill]. She'll work to try to get that for us." Consumer groups are seeking amendments to give borrowers easier access to credit reports and improve their ability to correct errors in the files.

Besides privacy, Ms. Guiton has set the concerns of minority consumers and product liability as major priorities. □

NEWS *briefs*

Cirrus and Plus Close Deal to Link Networks

NEW YORK – After more than a year of negotiations, Cirrus System Inc., Downers Grove, Ill., and Plus System Inc. Denver, said they would begin exchanging transactions on Aug. 20, 1990.

The interchange agreement could vastly expand the networks' 425 million cardholders' access to cash at automated teller machines. More than 35,000 ATMs worldwide bear the Cirrus logo and 60,000 sport the Plus mark.

An electronic gateway that will help Plus and Cirrus members handle each others' transactions is scheduled to be operating on July 15. □

Albany Bank Settles Suits

ALBANY, N.Y. — National Savings Bank of Albany said it has settled three related lawsuits, receiving a $1.9 million cash payment and is in the process disposing of its largest nonperforming asset. The litigation involved a commercial mortgage loan and title to the Florida property that secured it.

Sun to Acquire Loan Office

ORLANDO, Fla. — Sun Bank, a Sun Trust Banks subsidiary, said it has signed a letter of intent to acquire the Maitland, Fla., loan production office of AmeriFirst Bank, which is refocusing on consumer lending.

Orlando-based Sun said it will hire about 20 AmeriFirst employees with the office, which originates about $100 million a year in residential construction loans. □

Court Upholds RTC Stance on Branching

By ROBERT TRIGAUX

WASHINGTON — In a setback to state regulators seeking to prevent a federal override of state branching restrictions, an appeals court in Denver denied a request to halt the Resolution Trust Corp.'s sale of a New Mexico thrift to a commercial bank.

The state banking interests had sought a temporary order against the sale. The RTC would allow the thrift's offices in several cities to operate as branches of the First National Bank of Albuquerque, even though New Mexico law limits bank branching to a single county.

The U.S. Court of Appeals for the 10th Circuit on Tuesday denied the request for a temporary injunction. If granted, it would have prevented the RTC from selling New Mexico Federal Savings Association to First National until the appeals court could render a final decision.

Arguments in that appeal should occur in September, said Leonard Rubin, an attorney with Bracewell & Patterson, which represents those seeking to halt the sale.

In the case being appealed, U.S. District Judge Santiago Campos in Santa Fe, N.M., refused a request by the Independent Community Bankers of New Mexico to halt the RTC sale and branch override.

The lawsuits pit groups in favor of state regulatory autonomy – the Independent Bankers Association of America and the Conference of State Bank Supervisors – against the RTC. The agency, created by the 1989 thrift-bailout law, has argued that it has authority to override state branching limitations if such action helps it to sell any of the hundreds of insolvent thrifts it has in its inventory.

See page 11

Illinois Senate Balks at Insurance Sales

By YVETTE D. KANTROW

NEW YORK — Bankers lobbying for expanded insurance powers suffered a setback last week when the Illinois Senate voted against letting state-chartered banks sell all types of insurance through subsidiaries.

The bankers' hopes had been buoyed two weeks ago when the Illinois House approved an insurance bill similar to one already passed by the state Senate. But the House version included a controversial amendment, added to appease the insurance industry, that would permit banks to enter the insurance business only by acquiring or merging with existing agencies.

Last Friday, the Senate voted not to concur with the House amendment.

Heavy Lobbying by Insurers

"It was a disappointment after another debate on the whole issue of banks in insurance," said William Hocter, executive vice president of the Illinois Bankers Association. "People who had sided with us before didn't side with us again." Mr. Hocter said the loss of support was a result of strong lobbying efforts by insurance groups.

The bankers got 25 of the 30 Senate votes needed to send the bill to Gov. James R. Thompson for his signature, according to Mr. Hocter. The bill is now officially under postponed consideration. It will be called for another vote this fall, after Illinois holds its elections.

A New Battleground

The Illinois fight is the latest example of a state legislature becoming the battleground for bankers seeking to expand their insurance powers.

Bankers in Delaware celebrated last month when that state legislature enacted a law allowing state-chartered banks to underwrite and sell insurance nationwide. In 1988, bankers chalked up a victory when California voters approved an insurance-reform referendum that allowed bankers to enter the business.

But bankers have had some setbacks. Legislators in Florida recently voted to preserve a ban on banks' selling most types of insurance.

Fifteen Liberal States

Today, about 15 states permit relatively easy bank participation in the insurance business. Another 15 states, including Florida and Illinois, have laws that are considered very restrictive and prohibit bank employees from getting licenses to sell insurance.

The fight in Illinois is seen as especially important because the state is one of the most populous and is second only to Texas in the number of banks within its borders. Illinois is home to more than 700 of the nation's 9,000 state-chartered banks. □

Midlantic to Buy Trust Accounts of NatWest

EDISON — Midlantic National Bank, the lead subsidiary of Midlantic Corp., said it has bought the corporate trust business of National Westminster Bank NJ, a subsidiary of London-based National Westminster Bank.

The price of the transaction was not disclosed. Midlantic will purchase the trusteeship, paying agent, and registrar accounts – primarily those of New Jersey municipalities, school districts, and corporations – serviced by the NatWest unit.

After the acquisition, Midlantic's corporate trust services portfolio will consist of about 1,300 accounts with holdings of $10 billion, the bank said.

Reuters

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TECHNOLOGY REPORT

BankAmerica Global Services Near

Company Says Cash Management Is Unequaled

By RICHARD LAYNE

NEW YORK — BankAmerica Corp. is close to completing what it says is the most comprehensive system available for global cash management.

The technology initiative, costing more than $300 million to design and fully implement, is largely responsible for the addition of 50 major corporate customers in the past two years, bank executives said. It will be installed at all 42 branches of the company's offices within the end of 1991, said Richard Griffith, executive vice president of the San Francisco-based company.

All Offices Linked

BankAmerica's worldwide offices will then be linked through a single on-line, real-time system and customer information data base. Excluding capital markets, the banking company says it will provide "seamless" service for all aspects of cash management – outstanding balances on loans in U.S. dollars and local currencies, foreign exchange, and trade finance.

As corporations gravitate toward a more global approach, in which a single treasury office may manage the corporation's worldwide cash position, banks are working to provide information and management services across borders. But some corporate treasurers say even the most advanced global cash management systems do not answer all their global needs.

BankAmerica, Chase Manhattan Corp., and Citicorp are the major providers of worldwide wholesale banking services and the top banks in international payment systems, with BankAmerica's big rivals say they provide almost identical reporting and wire transfer services, albeit through a less unified system.



Richard Griffith
BankAmerica

Colin Klipin, senior vice president at Bank of America, said his is the only institution to have a single system for global banking, as opposed to a combination of countrywide systems and international links.

Standardized Reports

The single system allows the bank to offer a standardized report for each customer account in any country. Beginning later this year, the single system will also allow Bank of America to let customers pool their accounts in various countries and currencies into one account.

The global banking system has been operating in continental Europe for six years and is also operating in Asia and the United States. It will take the bank at least a year to toss out the old systems and link the remaining offices in India, Kuala Lumpur, Jakarta, and Manila. The bank processes the transactions in San Francisco, Hong Kong, and London over its own telecommunications network.

Mr. Griffith said the system answers the needs of corporations with increasingly worldwide activities. "A customer in Thailand can get the same cash management report as his colleague in Canada," said Mr. Griffith.

"In the last 12 months, every customer we've been able to get, we've taken from another bank," said Mr. Griffith. "The system is at least a 50% factor, even a 75% factor." In June the global banking system's capabilities helped the bank sign six sizable cash management customers, he said. His competitors cited similar statistics.

Because the global banking system is updated continuously through the day – sometimes referred to as on-line – cash management customers can view all their cash balances in their accounts throughout the world. Customers can do instantaneous money transfers to 42 countries, consolidate their cash position worldwide, and hedge transactions on foreign exchange.

"If a customer wants to get foreign exchange quotes in nine locations around the world and if they can't go on-line real time, they have to make phone calls to various offices around the world," said Mr. Griffith said of other banks' services.

"Other banks tend to operate on a franchise basis, country by country," said Doug Cannon, manager of cash and banking at American President Cos., the Oakland, Calif., shipping giant.

Citibank System Years Off

Citibank is working on a commercial banking system that combines trust and securities processing and wholesale banking, giving the system greater scope than Bank of America's version. But Citibank is years away from complete implementation.

Chase offers a service called InfoCash, which it says is also an on-line system. □

Mellon Installing a System To Track Foreign Securities

By JEANNE IIDA

NEW YORK — In an indication of the growing importance of global custody to its trust business, Mellon Bank is installing a system that will allow it to track foreign securities more efficiently for its customers.

The system, costing Mellon about $3 million, will replace a third-party arrangement. Pictet & Cie., a Geneva bank, now tracks foreign securities transactions for customers of Pittsburgh-based Mellon.

When the project is completed, Mellon will have reduced by about one day the time it takes to receive information about customers' foreign securities portfolios. Customers will also be able to get reports in multiple currencies.

Mellon is the third-largest player in the domestic U.S. corporate trust business and wants to expand its role in international custody.

"Mellon is trying to offer the same level of customer service in the global securities business that they offer in the domestic U.S. master trust business," said Marshall Carter, who heads the $110 billion global custody business at Chase Manhattan Bank.

In-House Systems Favored

Most of the big players in global custody, such as Citicorp's Citibank, Chase, and State Street Boston Corp.'s State Street Bank & Trust Co. are developing their own systems in-house.

Mellon Bank, like Bank of New York, opted instead for a packaged system offered by Vista Concepts Inc. to handle communications with foreign banks and networks such as the messaging network, Swift. The Vista software will control a communications network of some 22 to 25 financial institutions located overseas that act as "subcustodians."

Installing the software from Vista "is a prerequisite to moving to our own network" of global custody partners, said Andrew Berevowsky, senior vice president and manager of trust systems and operations at Mellon.

"It would be far more expensive to develop these systems on our own." He said that Vista's software was the most advanced that the bank evaluated.

Shift by Yearend Expected

Mellon controls about $220 billion in custody. About $150 billion of that is corporate trust, with $2.5 billion in global custody.

The bank expects to complete the shift from third-party to internal control of global custody by yearend. Along with installing the software from Vista, Mellon is developing software in-house that will give reports in multiple currencies.

Mr. Berevowsky said the new system will be cheaper to run than using a third party.

"We're already a leader in master trust," said Mr. Berevowsky. "This will help us improve service."

Expansion Projected

Mr. Berevowsky said studies show that expenses of U.S. banks to foreign investment will grow over the next three years to represent 5% to 20% of their portfolios. Mellon's is now about 1%.

The Vista software for global securities processing consists of a core system that tracks transactions until they are settled.

After a trade is executed, the system allows banks to make sure the money is paid by the appropriate parties. It sends messages to all parties involved – to Swift and to depositories, where necessary – on the value of the foreign security holdings and any activity on the holdings. □

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Fred Spradlin
First Tennessee Bank, Memphis

DIEBOLD

COMMENT/ *By Mark Olson*

Glass-Steagall Act Repeal: An Issue for 'Everybank'

"Repeal Glass-Steagall" – the banking industry's battle cry during the past decade, all but evaporated during consideration of the Financial Institutions Reform, Recovery, and Enforcement Act.

Now that the reform act is part of our law and lore, the repeal of Glass-Steagall is gaining attention again.

For the nation's largest banks, the advantages of repealing Glass-Steagall are very obvious. Many are already involved in investment-banking activities. The largest also have aggressively pursued expansion of these product lines through foreign subsidiaries that operate in nations allowing banks to enter the securities field.

Boon for Money-Center Banks

Further, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corp. have recently made favorable rulings of existing law, allowing continual expansion of securities activities by money-center banks.

By contrast, support for Glass-Steagall repeal among the smaller banks has been less than spirited. With rare exception they are not aggressively involved in securities activities. Further, the critical mass required to make a securities affiliate profitable under existing interpretations seems to put securities underwriting out of reach for all but the largest players. Opportunities for smaller banks through expanded securities powers seem limited.

We disagree. While the opportunities are not identical to those at money-center banks, there are important opportunities for all banks. Repeal of Glass-Steagall is an "everybank" issue. It is in the interest of the banking community as a whole to recognize this, and for smaller banks to take action as a result.

In contrast to the large-bank opportunities for underwriting and asset securitizations, we see community-bank opportunities on the right side of the balance sheet. Perhaps most prominent are the alternatives to deposit instruments. Banks must recognize that they either must find alternatives to existing deposit products or face severe restrictions on future growth.

The magnitude of the need is best illustrated by reviewing the impact of several new deposit products on the typical bank balance sheet. Since 1978, banks have been given new-product opportunities that include the six-month certificate of deposit (1978), negotiable order of withdrawal (NOW) accounts allowed by the Monetary Control Act (1980), and money-market deposit accounts allowed by the Garn-St Germain Act (1982).

Senior bankers greeted these new opportunities with a yawn. Few bankers felt compelled by competitive pressures to want these new products, and even fewer lobbied for them. Yet in many banks these three deposit products account for 50% of the bank's core deposits. It is hard to imagine even a small bank serving its market without offering these three products.

Alternatives Exhausted

What would banking do for a encore? The industry is out of alternatives available through further deregulation of deposits. The same Garn-St Germain Act phased out the remaining regulatory restrictions on rate, term, or minimum balance.

Many banks have faced this predicament by offering mutual funds or annuities, which can be brokered through non-bank firms. These alternatives generate fee income to the banks but certainly are not the types of products that build long-term customer relationships.

Further, it is frightening to consider the implications. The 1990s will be considerably more competitive than the 1980s were past. But the banking industry will be facing those heightened competitive pressures without having enjoyed a new deposit product for eight years!

In those 90s, as banks create products to meet customer needs, it is possible that the emphasis gradually will shift from

See **COMMENT** *page* 13

Mr. Olson is a partner with Ernst & Young and past president of both the American Bankers Association and Security State Bank.

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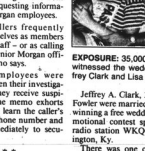
FUNNY MONEY/ *By Tom Leander*

Flash of Inspiration

An alert photographer from the *Worcester Telegraph and Gazette*, who went to watch regulators seize a local thrift, captured an irony on film that told the whole story with a whimsical twist.

On that fair morning in June, no was surprised to see personnel from the Office of Thrift Supervision take over Home Federal Savings in Worcester, Mass. More than half the company's mortgage loans, or 36% of its



Chris Chelios

IRONY: Sign flashed "Better Banking" as regulators seized Home Federal Savings.

$163 million in assets, were delinquent, prompting one well-known New England banking analyst to opine: "This is a very sick puppy we're looking at."

The regulators installed new management, opting to keep Home Federal open for business.

As this drama was being played out within the thrift's walls, the news photographer noticed that Home Federal's familiar outdoor digital sign continued to flash the slogan: "Better Banking." Once the butt of local jokes, the slogan suddenly seemed within the realm of possibility.

* * *

A Plague of Snoops

Could it be that headhunters – or company spies – are ruffling feathers at the usually unflappable J.P. Morgan & Co.? An internal memo last week warned employees that the company has been hit by a string of calls from individuals inquiring information about Morgan employees.

"These callers frequently identify themselves as members of Morgan's staff – or as calling on behalf of senior Morgan officers," the memo says.

Morgan employees were urged to sharpen their investigative skills if they receive suspicious calls. The memo exhorts them to try to learn the caller's identity and phone number and report it immediately to security.

* * *

Now, Trump Collects

Out of compassion for Donald Trump's cash-flow problems, dinner proprietor Edward Marcinci set up a collection jar three weeks ago on the counter of his Eats restaurant in Elizabeth, N.J.

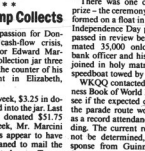
In the first week, $3.25 in donations trickled into the jar. Last week, patrons donated $51.75 more. This week, Mr. Marcinci says, donations appear to have peaked. He planned to mail the fund receipts today to Trump Organization offices at New York's Trump Plaza.

Mr. Marcini says he received a call from The Donald last week. "It was no big deal," says Mr. Marcini, "He thanked me for his support."

* * *

Lender on Parade

A loan officer from Farmers Bank in Frankfort, Ky., found a good use for "something borrowed" this week.


EXPOSURE: 35,000 spectators witnessed the wedding of Jeffrey Clark and Lisa Fowler.

Jeffrey A. Clark, 23, and Lisa Fowler were married July 4 after winning a free wedding in a promotional contest sponsored by radio station WQQ-FM, Lexington, Ky.

There was one catch to the prize – the ceremony had be performed on a float in Lexington's Independence Day parade, as it passed in review before an estimated 35,000 onlookers. The bank officer and the bride were joined in holy matrimony in a speedboat towed by a truck.

WKQQ contacted the "Guinness Book of World Records" to see if the expected crowd along the parade route would qualify as a record attendance at a wedding. The current record could not be determined, and a response from Guinness is still forthcoming.

Mr. Clark and the 23-year-old Ms. Fowler became engaged in May. They had made no concrete plans for a wedding before entering the WKQQ contest.

* * *

Espionage in Boston

The Federal Deposit Insurance Corp. has been giving financial-services reporters in Boston a run for their money to find out what, where, why, and who – especially who.

The Who Co., a fictional enterprise, turned up last week in Norma Nathan's gossip column in the *Boston Herald*. Ms. Nathan broke the story that 170 FDIC auditors had booked rooms in several city hotels. All said they were representatives of the Who Co.

The news temporarily made Boston the nation's rumor capital.

Had the FDIC heavies come to town solely to close down tiny Eliot Savings Bank, as they did last Friday? Boston rumormongers suggested the regulators were angling for a much bigger fish – alluding to Lawrence K. Fish, chairman of the troubled Bank of New England Corp. The bank denied it was a target; FDIC spokesman Alan Whitney wouldn't tell, and neither would sources in the area's banks.

Meanwhile, the lobby of the Hotel Meridien has become a favorite venue for covert observation of the comings and goings of the 70 or so Who Co. operatives.

By the end of the week, it had turned into a scene reminiscent of a classic Marx Brothers sketch. The *Herald* reported that short sellers of bank stocks were following regulators down the street, trying to ascertain which bank or thrift they had targeted for closing. They were trailed, of course, by the famished newshounds of the press corps. □

CONSUMER NEWS

SMALL BUSINESS

Credit Seekers Swamping Hot Line in Massachusetts

By LAURYN FRANZONI
Special to the American Banker

More than 750 small businesses in Massachusetts have sought help from the governor's office since the state established a toll-free hot line in mid-April to match up lenders and businesses. But its success can only be termed limited, with few cases actually resolved.

The hot line received much attention from the press initially, amid reports of a credit crunch. In the first three weeks of operation, 250 calls were reported.

About three weeks ago, the Massachusetts agency operating the line began a broader outreach campaign. It mailed letters to 10,000 manufacturers, informing them of the program. Since then, the hot line has been swamped, averaging 50 calls a day.

Complaints from 'Good Credits'

The recent complaints have come from a group with "a consistently higher quality of credit" than the previous group, said Tom Hubbard, deputy director for the Governor's Office of Economic Development.

"The common problem seems to be that covenants or provisos in credit agreements that had previously not been enforced are now being enforced," Mr. Hubbard said of complaints regarding collateral levels and financing terms. "In other cases, loans are not being renewed without apparent cause."

Of the 120 manufacturers requesting help, 40 had credit problems that were not of their own making.

The Massachusetts Business Development Corp. took on the program at the behest of Gov. Michael Dukakis. After meeting with industry leaders to discuss economic issues in the state, the governor expressed concern about businesses being caught in a credit squeeze. Even though some banks said they were relying from the double punch of deteriorating real estate markets and more stringent federal regulation, other banks set ambitious goals for lending to small businesses.

"Gov. Dukakis asked the MBDC to make the hot line available to take calls from creditworthy private business customers and steer them into private banks for funds," Mr. Hubbard said.

Agency in Business for 30 Years

The state-chartered organization, with a board from the banking industry, had been linking businesses with public agencies for about 30 years. It has acted as an economic development corporation, making business loans and investments. Two years ago, it opened a toll-free hot line to match businesses with other public agencies.

Half of the first 250 calls received by the agency were from retailers or businesses with real estate problems. The remainder came from manufacturers, according to Mr. Hubbard.

True Victims of the Credit Crunch

Of the 120 manufacturers requesting help, 40 turned out to have credit problems that were not of their own making. "After due diligence from the loan officers of the MBDC, we determined that these were victims of a credit crunch," Mr. Hubbard said.

Eight of those 40 cases have been closed out successfully, Mr. Hubbard said. In all of these cases, the agency negotiated with the business and the bank to reconcile differences. Other cases are still being processed.

A review of the recent barrage of calls reveals that the businesses typically had $10 million to $40 million in annual revenue and up to 250 employees. The greatest fear of program organizers, according to Mr. Hubbard, is that participating banks may "run out of loan capacity."

Reaction to External Problems

While some loan problems can be traced to internal company problems or problems within their markets, Mr. Hubbard said the business owners are also responding to external problems that have affected their credit lines. He cited the case of one large Boston venture capital firm that finally wrote to the governor when its executives could not get through on the hot line.

This firm, which has made a number of noteworthy investments, found that it and its client corporations were facing a shortage of funds for financing receivables. Through the Massachusetts Business Development Corp.'s operation, Mr. Hubbard hopes new financing options will open for this firm and others.

"Whatever the multitude of reasons for this uncertainty between borrowers and banks, there is a real problem," Mr. Hubbard said. "Some disruptions in credit can be solved by linking the businesses with new banks. The jury is still out on the ultimate performance of the hot line, but we are in week three of a fairly substantial onslaught."

Ms. Franzoni is a freelance banking reporter based in Springfield, Mass.

Fed Seen Protecting Turf on Funds

Continued from *page* 1

measure on the ground that it violates the Glass-Steagall Act, said Craig Tyle, associate general counsel of the trade group. He said considerations of a lawsuit were premature but did not rule out the possibility.

Bank holding companies that advise, or administer, their own mutual funds now have vending operations structured under a separate subsidiary at the bank level.

Bank holding companies that do not yet offer mutual funds would be most likely to take advantage of the Fed proposal and structure new operations under one unit, bankers said. A few other banking companies, such as Security Pacific Corp., expressed interest in consolidating existing operations.

The Fed proposal

"is clearly of some benefit to the bank holding companies."

John Walker
Simpson, Thacher & Bartlett

No Reorganization Seen

But the proposal, whose comment period ends in early August, would probably not spur banking companies to immediately reorganize their mutual fund operations, bankers said.

"Each financial institution will have to perform a refined analysis of the benefits of undertaking any dramatic structural changes in order to provide maximum flexibility regarding permissible activities," said Robert Kuruzca, a partner the Washington office of law firm Morrison & Foerster.

Richard Whiting, general counsel for the Association of Bank Holding Companies, said that the Fed proposal would allow holding companies to "structure the delivery of securities in a way that makes the best business sense to them rather than through an arbitrary governmentally defined method."

Bank Likes the Change

Debra McGinty-Poteet, vice president of Security-Pacific National Bank, said that the parent company's operations in Washington State could benefit from the proposed change in mutual fund operations and might be restructured to reflect it. The banking company declined to provide further information on its existing mutual fund operations.

The Fed proposal "is clearly of some benefit to the bank holding companies," said John Walker, partner at Simpson, Thacher & Bartlett, a law firm whose clients include Manufacturers Hanover Corp. and Barclays Bank.

Manufacturers Hanover serves as an investment adviser for the Hanover Funds Corp., a mutual fund company based in Delaware. In its branches, Manufacturers Hanover Trust Co. sells Hudson Valley Financial Services funds. The company does not plan to change its operations, Mr. Walker said.

No Change at NCNB

Charles King, vice president of NCNB Corp., Charlotte, N.C., said the company also does not plan to alter its operations. NCNB National Bank of North Carolina sells a brand of mutual funds administered by another company.

Even though few companies said they were preparing to alter their mutual fund operations, bankers said the proposal before the measure as a signal of the Fed's intention to chip away further at the wall separating investment banks and commercial banks. □

Western Union Pins Hopes on Financial Side

By ELLEN MEMMELAAR

NEW YORK — Western Union Corp. is touting the sale of its telecommunications businesses as a milestone in its efforts to become a company oriented toward financial services.

The company, based in Upper Saddle River, N.J., announced this week that it has entered into a definitive agreement to sell most of its business services unit to American Telephone & Telegraph Co. for $180 million. But the funds generated from the sale are not enough to solve the company's financial woes, analysts said.

'Too Little Too Late'

"The whole operation is too little too late," said John Bain, an analyst at Raymond James, a firm based in St. Petersburg, Fla. "It's a mystery to me why they haven't seen through some corporate reorganization earlier."

Western Union will shed its EasyLink electronic mail service and packet and telex services. It will retain Priority Services, formerly a part of the business services unit. The Mailgram, Priority Letter, and Customer Letter services will be run as a separate unit of the parent company.

"This transaction," said a company spokesman, "will also complete the transformation of Western Union from a telecommunications company to a provider of value-added services focused in the areas where the company's strengths can be brought to bear most effectively, namely the financial services and paper-based messaging businesses."

Payment Services

Western Union's financial endeavors include a money transfer service and a payment services group.

The company will file plans soon with the Securities and Exchange Commission on the proposed transaction and on plans to retire senior debt with the proceeds. It currently has $640 million in debt on its balance sheet; it said $530 million is being restructured to replace high-yield bonds with lower-yielding bonds.

An executive of American Express Money Transfer Service, a primary competitor, said Western Union has been moving toward financial services. □

AMERICAN BANKER */Bank Rate Monitor's*™

Consumer Money Index

Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on July 4 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns 0 (highest) to 3 stars. A star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields			Jumbo Rates		
One-month			**One-month**		
Maine Savings Bank, Portland		8.89%	Home Owners Savings, Burlington, Mass.		8.75%
Columbia Sav., Irvine, Calif.		8.87	Brookside Sbl., Los Angeles, Calif.		8.70
Piedmont, Bellingham, Mass.		8.84	Westchester Savings, Elmsford, N.Y.		8.60
Heritage Svgs Bank, Richmond, Va.		8.82	Columbia Sbl., Irvine, Calif.		8.70
Mainland Fed Svgs, Ocean City, N.J.		8.77	Maine Savings Bank, Portland, Me.	*	8.65
One-year			**One-year**		
Chelmsf., Bridgeport, Conn.		9.11%	Calif. Thrift & Loan, Santa Barbara	***	8.90%
Heritage Svgs Bank, Richmond, Va.		9.04	Heritage Svgs Bank, Richmond, Va.	†	8.75
Maine Savings Bank, Portland		9.00	Dartmouth Bank, Hooksett, N.H.		8.75
Homestead Svgs, Millbrae, Calif.		9.00	New Metropolitan Fed Sbl., Hialeah, Fla.		8.75
Sentry Fed Savings, Norfolk, Va.	*	8.98	Americity Fed Svgs, Dallas, Tex.		8.70*
Two-year			**Two-year**		
Eastern Svgs Bank, Hunt Valley, Md.	**	9.00%	Metropolitan Bank for Svgs, Arlington, Va.	***	10.00%
First Trade Union Svgs, Boston	**	9.00	American General Fin. Ctr, San Francisco	***	9.00
Mutl Svgs Bank, Mcllean, Va.	*	9.00	Bank Hapoalim, Chicago, Ill.		8.98
Sand Thrifticheck, Chelmsford, Calif.	***	8.99	Bank of Boston, Boston		8.95
Maine Savings Bank, Portland		8.98	New Metropolitan Fed Sbl., Hialeah, Fla.		8.75
			Equitable Fed Svgs, Wheaton, Md.	*	8.75

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Meridian Bancorp Vaulting into Ranks of Top Lenders

By STEPHEN KLEEGE

Meridian Bancorp is the latest bank to make a big move in mortgage originations, an area once dominated by thrifts.

Its subsidiary, Meridian Mortgage, announced last week that it would buy 16 branches from Travelers Mortgage Services Inc., to vault from a modest origination volume of $820 million last year to an estimated $3 billion.

Because of declining home prices within the network, "the real potential for growth may be a year or two ahead," when the residential real estate markets rebound, said Stuart Feldstein, president of SMR Research. Budd Lake, N.J. Nevertheless, he said the $3 billion volume this year would easily put Meridian in the top 25 mortgage originators in the nation.

Among bank-affiliated mortgage lenders, $3 billion of originations would have qualified for fifth place in 1989, according to statistics compiled by *Inside Mortgage Finance*, an industry newsletter.

Market Worries Overblown

While acknowledging softness in some of the markets within the branch system, Anthony W. Schweiger, president of Meridian Mortgage, said concern over declining prices is overblown.

"The data we're looking at show that while the number of loans will be constant, there will be an increase in loan amounts," Mr. Schweiger said.

Such banking giants as Chase Manhattan Corp., Citicorp, Security Pacific Corp., Bank-America Corp., and Fleet/Norstar Financial Group are vying through subsidiaries or branch networks — for a share of the mortgage market. Many of the thrifts that once dominated the field are either under government control or have been forced to reduce their lending to meet capital requirements.

Playing Field Leveled

Like other mortgage bankers, Mr. Schweiger has said the departure of thrifts means a more nearly level playing field for mortgage banks. The mortgage bankers note that thrifts traditionally held mortgages in portfolio and thus did not have to charge rates high enough to satisfy investors on the secondary market.

Nowadays, many thrifts also sell loans on the secondary market.



"We don't want to take away from the retail strategy of Meridian banking offices."

Anthony Schweiger
Meridian Mortgage

The Travelers branches stretch from Connecticut to Virginia; the biggest concentration is in New Jersey. In that region, "we've seen either the complete exit or the shrinking of some former formidable players," Mr. Feldstein said. He mentioned Meritor Savings Bank, which is cutting back, and City Federal Savings and Loan Association, which is under government control, as examples. "We think Meridian is stepping in to fill the gap. And a big gap it is."

Another Strategy Purchase

The acquisition, along with the just completed purchase of Keystone Mortgage Corp., Indianapolis, fulfills a major goal for Meridian. Keystone is a small company with about $212 million of servicing and annual originations of about $144 million, according to the Mortgage Bankers Association of America.

"The opportunity is consistent with our strategy, which is to increase our profitability through expanding our production and servicing," Mr. Schweiger said.

At the same time, "we don't want to take away from the retail strategy of Meridian banking offices" in southeastern Pennsylvania, Delaware, and northeastern New Jersey, he said.

Focus on Originations

Though other major deals announced recently focused on servicing rights, Meridian is acquiring branch offices and a staff with experience in originations. Travelers' $12 billion portfolio of servicing rights is being sold to a unit of General Electric Co.

Even though servicing was not part of this deal, servicing is part of Meridian's overall strategy, Mr. Schweiger said. On an interim basis, the company already is processing payments on about $50 million of loans from the portfolio of the Resolution Trust Corp., the agency charged with disposing of the assets of failed thrifts. Mr. Schweiger said Meridian wants to do more business for the RTC and is interested in acquiring portfolios of $50 million to $250 million.

The company's servicing portfolio grew to $3.6 billion in 1989, from $2 billion at the end of 1988. Mr. Schweiger has said the company expects to top $5 billion in servicing by yearend.

The big acquisition comes on the heels of a record year of originations for Meridian. After a downturn in 1988, originations rocketed to $820 million last year – 60% more than expected. As recently as 1983, Meridian originated only $373 million of loans.

Mr. Schweiger said Meridian primarily makes fixed-rate loans, about 85% of which are conventional and the rest insured by government agencies. □

SECURITIES

Prepayment Rate Slumps In California

By STEPHEN KLEEGE

For the latest indication that California's economy is cooling, the state has dropped from first to 10th in mortgage prepayment rates, according to a report by Bear, Stearns.

The rate, which indicates how fast borrowers pay off their home mortgages, is a key factor in the value of mortgage-backed securities.

"Some people have been paying up for securities that have a concentration of California loans," said analyst Richard Ellson, author of the report. "That premium is disintegrating."

In California, home sales have declined and increases in home prices have moderated. With fewer people moving from one home to another, fewer are prepaying their mortgages.

The Bear Sterns report compared the prepayment rate in each state with the rate of 18 months ago. And in California, the prepayment premium has been cut in half in the past 18 months.

The report also found that areas of the Midwest have prospered because of an export boom, resulting in accelerated prepayments. However, Illinois and Indiana still dropped from the top 10 list, along with Hawaii and Vermont.

Alaska has the fastest prepayment rate, according to the report, followed by Montana, Oregon, Idaho, Wyoming, Washington, Nevada, South Dakota, Iowa, and California.

Mr. Ellson noted that factors other than the economy can drive prepayment rates. In New York, mortgage rates are declining turnover pose a "structural impediment", to prepayment activity.

Alaska has the fastest prepayment rate and New York the slowest, the report says.

New York has the slowest prepayment rate, followed by New Jersey, Connecticut, Massachusetts, New Hampshire, Maine, Louisiana, Pennsylvania, Arizona, and Georgia.

The lowest fee report noted few changes in delinquencies, another factor that affects the value of securities. The 10 states with the highest delinquency rates are Mississippi, Texas, Tennessee, Louisiana, Oklahoma, Arkansas,- Utah, Indiana, Alaska, and Georgia.

The lowest delinquency rates are in Hawaii, Rhode Island, South Dakota, Vermont, Oregon, Massachussetts, Connecticut, California, Minnesota, and Washington. □

TALKING *markets*

Citicorp Shifts Chief of Single-Family Originations

By PHIL ROOSEVELT

Leonard Druger, a key player in Citicorp's rise to the top in home mortgage originations, is moving to a new assignment.

The vice chairman and head of home loan originations at Citicorp Mortgage Inc. has agreed to lead an expanded effort by that unit in lending for multifamily housing, a spokeswoman confirmed.

'Entrepreneurial Person'

A spokeswoman for the St. Louis-based Citicorp Mortgage — Citicorp's main mortgage unit — said Mr. Druger was considered a natural to lead the push in multifamily lending, which was announced in February. "He's a creative, entrepreneurial person," she said. "He's particularly good at building new businesses."

The top post in loan originations for single-family homes will be assumed by Martin F. Mayer, who joined Citicorp last year from Xerox Corp. He has been in charge of the processing side of operations.

Architect of MortgagePower

Mr. Druger, who came to Citicorp Mortgage in 1986 from Citibank in New York, is widely considered the principle architect of MortgagePower, Citicorp's controversial marketing link to realty brokers. Under the program, brokers can earn extra fees for helping homebuyers get mortgages from Citicorp.

MortgagePower, rolled out nationally in the mid-1980s, helped establish Citicorp as the nation's largest mortgage originator and servicer. The corporation's bank, thrift, and mortgage-banking units are thought to originate more than $1 billion in home loans a month.

Delinquencies Rose

Some mortgage professionals speculated that Mr. Druger's reassignment reflects concern by Citicorp about the quality of home loans that have been originated. Citicorp Mortgage's delinquencies rose to 4.56% of loans serviced at the end of 1989, from 3.16% a year earlier, according to a filing with the Securities and Exchange Commission. Foreclosures rose to 1.01% from 0.62%.

But the Citicorp Mortgage spokeswoman said the rises had "absolutely nothing" to do with Mr. Druger's shift. Mr. Druger, who will remain vice chairman, could not be reached for comment.

In his new post, he will help coordinate lending for multifamily housing by various Citicorp units and will head Citicorp Mortgage's "forward commitment" program for obtaining new mortgages from other lenders. He will move from St. Louis to California. □

Key Interest Rates

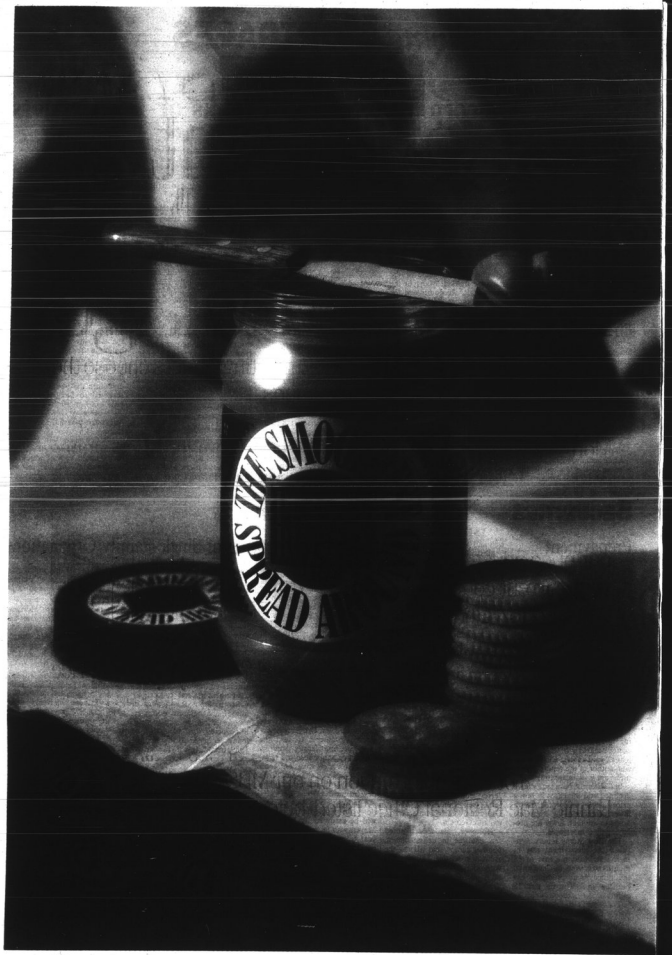
	Week ended 6/29/90	Week ended 6/22/90	Year ago 6/29/89
30-year fixed-rate mortgage	10.20	10.18	10.20
1-year adjustable-rate mortgage	8.38	8.40	8.98

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 7/03	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	99-20	0-20	9.69	-0.12	+139	+6
Fannie Mae 9½%	99-13	0-18	9.68	-0.10	+139	+1
Freddie Mac 9½%	98-29	0-16	9.68	-0.10	+128	+1

Yields: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. (*) — Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York



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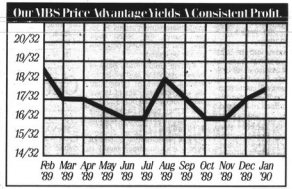

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GLOBAL *dispatches...*

Standard & Poor's Lowers Ratings of 3 Finnish Banks

By JOHN EVANS

LONDON — The ratings of Finland's three main commercial banks – Union Bank of Finland, Postipankki Ltd., and Kansallis-Osake-Pankki – were downgraded Thursday by Standard & Poor's Corp., which warned of the "difficult" operating environment they are encountering in their home economy.

The Standard & Poor's action affects about $5 billion of debt.

Postipankki lost its AAA after senior unsecured obligations were downgraded to AA-plus. The senior unsecured debt of Union Bank and Kansallis-Osake-Pankki was lowered to AA-minus from AA.

The movement of domestic Finnish funding toward higher-priced market-rate instruments is creating significant interest rate index gaps in the banks' balance sheets, Standard & Poor's said. The banks will need several years to adjust to this change, it added.

The rating agency affirmed the A1-plus rating of Union Bank's UBF North America Inc., whose commercial-paper program is guaranteed by the parent. Standard & Poor's will continue to rate AAA all long-term debt of Postipankki, which carries a Republic of Finland guarantee.

In February, Moody's Investors Service downgraded long-term debt of Union Bank and Kansallis to Aa1 from Aaa, saying Finland's weakening economy would take a toll on both and erode asset quality. Moody's maintained its Aaa rating for Postipankki.

... *by country*

JAPAN

TOKYO — Sumitomo Bank will set up a currency swap firm in London, a spokesman said Thursday.

The unit will be capitalized at $20 million and will be owned by Sumitomo Bank Capital Markets Inc., the bank's U.S currency swap unit.

The spokesman said the bank has received approval from Japan's Finance Ministry and U.S. Federal Reserve Board. He said the London unit will start operations as soon as it gains permission from the Bank of England.

The move is aimed at increasing demand for currency swap dealing among European currencies. With the establishment of the new company, Sumitomo will be the first Japanese bank that operates currency swap dealing 24 hours a day, the spokesman said. **— Reuters**

The Export-Import Bank of Japan will provide an untied loan of $200 million to Hungary, an agency spokesman said.

The funds will be used for reform in Hungary's financial system and do not require a related purchase of goods or services from Japan, he said. **— Reuters**

Repayment terms and interest have not been agreed upon, but contracts will be signed in August or later, he said.

The loan is a part of the $500 million Prime Minister Toshiki Kaifu pledged to Hungary during his visit to Eastern Europe in January, the spokesman said. The prime minister also pledged $500 million for Poland. **— Reuters**

Bank of Boston plans to discontinue foreign exchange dealing for its own account in its Tokyo branch, as well as foreign exchange option dealing, limiting its foreign exchange business in Japan to dealing for clients.

The decision follows a similar cutback by Continental Bank. Four Bank of Boston traders will be shifted back to the United States, and there are likely to be about 10 more staff cuts in the Tokyo branch. **— TFW**

ISRAEL

Overseas offices have made inadequate contributions to Israeli banks, the central bank said, and unprofitable branches should be closed.

Amnon Goldshmidt, **Bank of Israel** supervisor, said while presenting his annual report that the overseas branches of Israeli banks contributed only $23 million to their parent banks during 1989 on an investment totaling $750 million.

"The contribution of foreign subsidiaries to Israeli banks is not satisfactory," he said. "The banks should close ineffective operations and concentrate on money-making countries." According to a Bank of Israel report, overseas subsidiaries averaged an 8% return on equity during 1989 but competing banks overseas averaged 14%.

Mr. Goldshmidt said the banking system will not be able to finance the $10 billion needed to build thousands of houses for an expected influx of more than 150,000 Soviet Jews this year. **— Reuters**

CANADA

TORONTO — Bank of Montreal said it has sold its 20% stake in **Banque Transatlantique** for $23 million to BT's largest shareholder, **Credit Industriel et Commercial de Paris.**

Bank of Montreal will report a third-quarter pretax capital gain of about $17 million from the sale.

The bank said it will continue to conduct business in Paris for its North American customers but is no longer seeking a deposit base outside North America. **— Reuters**

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Cumline International Corp., Upstairs, Ltd.

Japan May Resume Loans to China

Announcement Could Come at Houston Summit

Reuters

TOKYO — Japan plans to tell its six partners at the forthcoming Group of Seven summit that it may independently resume official lending to China, according to Japanese media reports.

The National Television Network (NHK) and Kyodo News Agency quoted Prime Minister Toshiki Kaifu as saying on the eve of his departure for Houston that he would like to tell summit partners that Japan may decide to unfreeze loans to China.

NHK said Prime Minister Kaifu's remarks followed a meeting of Liberal Democratic Party executives who concluded that lending should be resumed because of Japan's special relations with China.

Massacre Led to Freeze

At the last Group of Seven summit, a year ago, the seven nations – Japan, the United States, West Germany, Britain, France, Italy, and Canada – agreed to freeze official credits in China to protest against the army's violent suppression of student-led protest in Beijing.

Japan differs from its partners on the lending question, arguing that it is more dangerous for the West to continue to isolate China than to restore official loans that would help to improve the economy and boost the standard of living.

In a related development, Mitsubishi Trust & Banking made the first disbursement on a $126 million loan to the national airline of China on June 21.

The 12-year loan at 1% above the London interbank offered rate is the first new financing by a private-sector Japanese bank since the June 1989 shutdown.

Yen Raises Worries

Meanwhile, the French daily newspaper *Liberation* said a draft of the communique to be issued after next week's meeting of the Group of Seven industrial nations says the current level of the yen could hamper the reduction of world trade imbalances.

Under a Washington dateline the newspaper printed extracts from a 16-page draft that it said was two weeks old and might still be revised.

Meeting Starts Monday

The Group of Seven will meets in Houston from Monday through Wednesday.

The communique says that "although the yen has stabilized recently ... its continued weakness could still have undesirable repercussions on the global adjustment process."

Liberation said the draft summit communique also suggests that the United States and Europe might be moving toward a compromise in their dispute over farm subsidies.

The statement reaffirms that the Uruguay Round of world trade talks should be concluded this year.

Farm Subsidy Compromise

In the area of agriculture, it says the Seven should reach an agreement "defining how far and when export subsidies, internal price supports, and market access barriers should be reduced."

The newspaper said use of the word "reduce" signals a retreat by the United States from its demand for the abolition of export subsidies, a demand rejected by the European Community.

Aid to Soviets

The newspaper said the communique bridges differences within the Group of Seven on how to aid the Soviet Union's move to democracy and market economics.

"We underline our desire to develop and deepen the scope of our cooperation with the Soviet Union," the communique says.

It adds that private Western investment will be vital for the development of Eastern Europe, but that capital will flow only to those countries with "open and hospitable markets." □

Japan argues that it is more dangerous to continue to isolate China.

Cuba Rejects Bush's Economic Proposal

Reuters

HAVANA — Cuba has urged Latin America to reject an economic initiative announced by President Bush last week, saying it is an attempt to extend U.S. domination in the hemisphere.

"President Bush's words reveal the traditional policy of the carrot and the stick," the official Communist Party newspaper *Granma* said in a front-page editorial.

Saying that some Latin American governments welcomed the plan prematurely, *Granma* called for a "common line of defense."

President Bush's June 27 proposal included writing off part of Latin America's debt to the United States, creation of new lending and investment programs and a $100 million U.S. contribution for a new investment fund.

Granma dismissed the proposal as "crumbs" and said the United States continues to treat Latin America and the Caribbean as though the region were its own backyard.

It said the Bush proposal came when "American triumphalism" is at its highest, following the U.S. invasion of Panama last December.

"In this way, the Bush initiative for the Americas, far from opening the road for the economic liberation of Latin America and the Caribbean, becomes a new instrument of domination over our countries," the newspaper added.

Granma noted that while wooing other Latin American nations, Bush attacked Cuba.

"We are, so he says, the only exception in a Latin America that is becoming democratic," it said.

It said Cuba wants Latin America and the Caribbean to defend its capacity to export. **— Reuters**

Key International Rates•

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/05	7/03	6/05	7/05	7/03	6/05	7/05	7/03	6/05	7/05	7/03	6/05	7/05	7/03	6/05
United States	8.31	8.31	8.37	8.31	8.31	8.37	8.37	8.37	8.43	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.31	7.50	7.56	7.62	7.65	7.68	7.68	7.68	7.68	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.37	13.37	13.37	13.50	13.50	13.50	13.50	13.50	13.50	13.68	13.68	13.68	14.75	14.75	14.75
U.K.	15.12	15.00	15.06	14.93	14.93	15.00	14.87	14.87	14.93	14.32	14.32	14.31	15.00	15.00	15.00
West Germany	8.12	8.12	8.18	8.25	8.25	8.25	8.50	8.50	8.56	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.25	9.31	9.12	9.06	9.06	9.00	8.93	8.93	8.81	5.50	5.50	5.50	10.66	10.66	10.66
France	10.00	10.06	10.12	10.00	10.12	10.18	10.18	10.25	10.25	9.50	9.50	9.50	10.66	10.50	10.50
Italy	10.50	12.00	10.62	11.12	11.37	11.12	11.37	11.50	11.37	12.50	12.50	13.00	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.20	14.44	8.48	8.82	7.56
6 to 12 months	8.29	13.55	8.72	7.94	7.50
12 to 24 months	8.84	12.63	8.90	7.12	7.25

• Interbank quotes at mid-day. Rates supplied by Reuters. Source: Standard Chartered Bank & Financial Times

Bill Setting Liability Lid Gains Steam

Continued from *page 1*

tate lending, leveraged acquisition finance, corporate asset funding, and syndications of loans, leases, and subordinated debt.

In the first quarter, Citicorp lost $34 million from those activities in North America, Europe, and Japan. The loss reflected a $58 million addition to reserves to cover poorly performing loans in Citibank's global finance sector. Mr. Davis' North American units make up the largest part of the sector, which serves corporations, financial institutions, and governments around the world.

The entire global finance sector registered a meager return on equity of 4.5% in the quarter, compared with 24.2% for the bank's consumer sector. That is well below the goal of an 18% ROE that Mr. Reed has targeted as a corporate goal.

Layoffs in the Wind

Banking sources at Citicorp and elsewhere said that Mr. Davis may be taking the blame for a rapidly deteriorating credit portfolio in an environment that is showing no signs of near-term recovery. They also said that sometime soon they expect a major reorganization of a restructuring and substantial layoffs, similar to those announced

Continued from *page 1*

charged that the LaFalce bill is "yet another taxpayer bailout of the savings and loan industry, as well as other lenders, [which] drastically weakens environmental protections."

The environmental advocates, including the Environmental Defense Fund, the Sierra Club, and Friends of the Earth, argue that the 1980 Superfund law places the "commonsense duty on lenders to evaluate borrowers for both economic and environmental risks in order to prevent polluters from obtaining easy financing."

Setback Is Possible

Their letter urges the House members to oppose the measure and withdraw as cosponsors. With rising sensitivity toward environmental issues, the letter could prove a major setback to the LaFalce bill.

Still, Mr. LaFalce has managed to attract an unusual degree of support for his proposal to protect lenders from multi-million-dollar judgments under the 1980 Superfund law. Courts have held banks liable for other lenders liable for such costs when they foreclose on properties that turn out to have been contaminated by hazardous wastes. In addition, bank trust departments have been held responsible for sites they hold as trustees.

Mr. LaFalce, chairman of the House Small Business Comittee and a senior member of the House Banking Committee, has warned that small companies in particular could face insurmountable difficulty in obtaining loans at affordable prices if the court rulings are not overturned.

The Bankers' View

Bankers have argued that they are unfairly being saddled with liability for environmental problems they had no part in creating and that they may not even have known about until foreclosure proceedings.

In the House, the chairman of the subcommittee with jurisdiction over the measure, Rep. Thomas A. Luken, Democrat, already signaled his intention to hold a hearing. In the Senate, the banking committee has scheduled a July 19 hearing on a similar measure sponsored by Sen. Jake Garn, R-Utah.

Congress returns next week for a four-week session and then leaves town Aug. 3 for a month-long break. In September, lawmakers in both chambers will be racing to finish up budget and spending measures as quickly as possible so that members can hit the campaign trail.

Energy and Commerce Committee chairman John D. Dingell, D-Mich., has not said whether he will support the measure. Mr. Dingell's priority has been the clean air bill, which is still pending.

The LaFalce bill "cannot be enacted unless the Energy and Commerce Committee leadership agrees to it," said Edward L. Yingling, executive director of government affairs for the American Bankers Association.

Banking Coverage Where It Counts
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Davis Resignation Signals Restructuring at Citicorp

Mr. Davis may be taking the blame for a rapidly deteriorating credit portfolio in an environment that is showing no signs of near-term recovery.

according to a regulatory filing from the company. Domestic real estate writeoffs were $56 million, compared with $4 million in the first quarter a year earlier. The company, whose first-quarter writeoffs more than tripled from the previous year's, totaled 1.02% of its average commercial loans.

The bank also had put $640 million of its $6.3 billion of leveraged finance loans on a cash-basis status, and was obligated under unused commitments to another $3.5 billion of leveraged loans as of March 31.

In an interview earlier this year, Mr. Davis acknowledged that his main areas of business had dried up, but he denied that many more credit surprises were in store. He said that he had put his employees on an austerity budget but that Citicorp is not retrenching from corporate finance. "We have not been denied what we want," he said. "The only problem is deciding what we want."

That statement appears to be the former chief of corporate banking who is widely thought to have been kicked upstairs to a customer relations role in January. At that time, consumer chief Richard Braddock was named president of Citicorp and the company's investment and corporate banking sectors were combined.

Mr. Davis was also in charge of fee-based transaction banking activities in the United States, a lucrative arena that includes corporate cash management, data processing, and information and trade services.

He also oversaw another thriving area – the sales and trading of swaps, futures, and other exposure-management activities in the United States. The global finance group earned $25 million from these activities in the first quarter.

Mr. Davis, a native of Des Moines, joined Citicorp fresh from Harvard Business School in 1958, two years after receiving a bachelor's degree in economics from Grinnell. His major assignments ranged from senior officer for Australia and head of domestic and international leasing in the late 1960s and early 1970s, to deputy controller of the holding company. He joined First Chicago in 1981 as executive vice president and senior partner of its global corporate bank. □

Ex-Chairman of Columbia S&L Faces Charges by Thrift Agency

Continued from *page 1*

institution.

The thrift regulator also issued a temporary cease-and-desist order freezing Mr. Spiegel's funds in financial institutions and brokerage firms until he establishes an escrow account to guarantee payment of the restitution and penalties.

"This is a landmark action by the OTS" said T. Timothy Ryan, director of the agency. He was flanked at the announcement by Attorney General Harris Weinstein, the agency's chief counsel and Joan Nichols, senior enforcement attorney.

The Ryan Approach

Mr. Ryan, who took office in April and is quickly becoming known as an aggressive enforcer of laws against thrift crimes, said the actions against Mr. Spiegel exemplify "just how seriously we intend to pursue violations of fiduciary responsibility to protect the taxpayer."

The Justice Department and U.S. Secret Service took part in the investigation against Mr. Spiegel, who resigned last December as chairman of Columbia, based in Beverly Hills. Calif. Edward Harshfield, the new chairman of the $4.1 billion-asset thrift, has blamed Mr. Spiegel's junk-bond strategy – the portfolio was as high as $4.5 billion – for the thrift's slide to a $591 million loss last year. It lost another $23 million in the first quarter of 1990.

Mr. Spiegel has denied responsibility for the losses. On Thursday, he expressed "outrage" at the OTS's initiation of the administrative proceeding, and denied all charges. The agency refused to meet with his attorneys to discuss the allegations or to give him a "fair" chance to respond, he claimed in a written statement.

Scapegoating Claimed

Mr. Spiegel accused the agency of proceeding with "trial by press release," and charged that it is seeking "scapegoats to divert public attention from its gross incompetence."

Mr. Spiegel had close ties to Michael Milken, the junk-bond financier at Drexel Burnham Lambert. The OTS accused Mr. Spiegel of illegally letting Mr. Milken's brother, Lowell, use Columbia-owned condominiums.

Use of the condominiums for "unjust personal enrichment" accounts for $1 million of the restitution sought by the OTS. Another $6.4 million would compensate for maintaining aircraft and a hangar with Michael Milken.

Other recoveries sought in the order include a $2.9 million unauthorized bonus from Columbia in 1989, $463,000 for personal travel and expenses such as the purchase of 55 pistols and conflict with those of several other senior executives, including Mr. Reed. He said in a recent interview with *Manhattan* that he is "deeply enmeshed" in corporate banking after having ignored it for too long.

Citicorp sources also noted that Mr. Davis' stiff personal style never meshed well with that of his boss, Michael Callen, who runs the global finance sector. Mr. Callen, who until January was Mr. Davis' equal in charge of investment banking, was on vacation Thursday and unavailable for comment.

One former Citicorp executive said that Mr. Davis also may have made a bad choice of allies. He was a close associate of vice chairman Lawrence Small, automatic weapons, $7,000 for a Michael Jackson concert, $5.7 million for losses on $28 million in loans said to be made without adequate underwriting and at below-market interest rates to a friend of Mr. Spiegel, and $2.4 million for unauthorized payments made to Columbia Savings Charitable Foundation.

Mr. Ryan of the OTS also disclosed that a public administrative proceeding will begin Sept. 25 in Denver against Neil K. Bush, the son of President Bush. As a former director of the failed Silverado Banking Savings and Loan Association, Denver, Mr. Bush is the subject of a cease-and-desist proceeding.

Mr. Ryan noted such administrative hearings on enforcement actions, which typically have been private, will now be open unless there is a compelling reason for confidentiality. □

Court Upholds RTC Override of Branching Rules

Continued from *page 2*

ventory.

The groups opposing the RTC argue that branching within any state's borders should be determined by state law.

Same Debate in Arkansas

The same issues will be be debated anew on Friday in an Arkansas courtroom, where the state's bank commissioner and independent bankers have sued to stop the RTC's sale of the $171-million asset, 20-branch Independence Federal Savings Bank of Northern Bank and Trust Co., Little Rock. The RTC has agreed not to consummate the sale until U.S. District Judge Stephen M. Reasoner rules on the injunction request.

Like New Mexico, Arkansas prohibits a bank from owning branches outside its home county. The RTC could make Northen the state's first truly statewide bank.

Lawyers in the various cases said the RTC will point to the New Mexico decision upholding its override of branching laws as evidence that it may take the same action in Arkansas.

Earlier this year, a Colorado judge granted a temporary restraining order preventing the sale of a multibranch thrift to a bank in Colorado. That action will be used by lawyers against the RTC to show the override power is not absolute.

Like New Mexico and Arkansas, Colorado restricts state bank branching. Since the injunction,

The lawsuits pit groups in favor of state regulatory autonomy against the RTC.

the RTC has formalized in a regulation its right to override state branching laws, and the case is still pending in the Colorado district court.

For the 10th Circuit Court appeal, Mr. Rubin said he plans to make essentially the same argument against the override as he did in district court in New Mexico. But he said his arguments will be bolstered on appeal by the arguments that won a temporary restraining order in the district court in Colorado. □

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COMMENT

Continued from page 1

deposit guarantee fees to cash flow. That is, products with securities characteristics – such as mutual funds, annuities, equity-appreciation capability – will complement the existing deposit-gathering emphasis.

Outlook for New Products

Predictions are always risky, but if even small banks experienced a 50% increase in traditional deposit products to newly created instruments in the last decade, is it unreasonable to expect a similar pattern in the '90?

For banks to realize a significant change in cash flow from deposit products to investment instruments, Congress will have to act. And before Congress acts it will want a solid answer to a very important question. How will the banks distinguish deposit products insured by the FDIC from investment instruments involving potential equity appreciation and devaluation?

An obvious question raised by the above scenario is: How can my bank grow if I deemphasize deposit products? Or, how can I continue to fund my loan demand without deposit growth?

If consumer demand shifts away from deposit products to investment instruments, the banks with an already lost the ability to utilize those deposits to fund loans. Even worse, from the bankers' standpoint, the money will largely be under the management of the securities industry.

Back to the Left

A second answer is to examine securitization, a trend already evident through much of banking. When we examine the banks' role, we also find dramatic changes.

Most significant is the growing trend toward securitization, defined as transferring bank assets from the bank balance sheet to an intermediary, converting them to a security instrument and selling to investors.

Banks have a long history of selling loans or participations of loans. The underwriting and selling advantages offered by securitization (which, of course, Glass-Steagall precludes) include greater efficiency, by not having to sell or monitor the portfolio loan by loan, and the increased number of potential purchasers available by selling instruments in dollar denominations desired by investors.

Expansion of Securitization

In the past few years, securitization has expanded out of its historic utilization in mortgage instruments to include credit card debt, consumer credit, auto loans, and virtually any other loan instrument on a banks' books. The trend toward securitization, driven by decreasing margins, shows no sign of abating as the new decade begins.

Securitization clearly works for the biggest banks. Will it also work for the small bank? Is it logical to expect community banks to package, securitize, and sell auto loans or consumer loans? The answer will not be easy, but several reasons exist to suggest that it is not impossible.

First, banks of all sizes have figured out how to package and sell the most cumbersome loan instrument on their books – the residential mortgage loan. It was not a desire to enter the securities business, or to feed a creative urge that prompted small banks to develop this capability.

Small banks wanting to make mortgage loans found that they needed to develop this capability or curtail their mortgage lending.

Necessity for Smaller Banks

Should changes in deposit gathering occur in the manner we have described, securitization of loans will become a necessity for smaller banks. That necessity could generate multiple bank participation in loan securitization.

The correspondent-banking network, which has long provided the means to bring big-bank solutions to small-bank problems, would be a logical vehicle for implementing this process.

One more benefit to small banks for Glass-Steagall repeal is that it would benefit the largest banks. This has not been an historic priority of the smaller banks, of course. But the major money-center banks, unable to meet the competitive pricing available through issuing commercial paper, have aggressively pursued all forms of consumer loans that they previously had left for the community banks. By allowing the largest banks to compete with full effect against the securities houses, some of the competitive consumer loan pressure felt by community banks may abate.

Here We Go Again

Few congressional observers believe that a major banking bill will emerge in the second half of the 101st Congress. The effort required to produce the reform act has diminished congressional interest in any banking bill.

Hearings already have been promised for further deregulation. The debate on community bank benefits from Glass-Steagall repeal will again be heard. Hopefully, Congress will respond before the marketplace makes such action irrelevant. □

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CORRECTION NOTICE: E.F. Fazio Auct'r Lic #789217 Sold 6/16/89 at PM at 592 Pacific Street Brklyn '70 M/B #11304012 Not R: J. Doe. Published 6/29 & 7/6/90.

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DEALS

Credit Lyonnais Seeks to Snare a Wall Street 'King' for Its LBO Unit

By STEVEN LIPIN

Seeking to capitalize on opportunities in busted leveraged buyouts, the investment banking arm of Credit Lyonnais, is looking to start a leveraged buyout fund that is expected to emphasize restructurings and workouts, a source close to the bank said.

CL Global Partners Securities Corp. is in discussions with Leon Black, formerly cohead of investment banking at Drexel Burnham Lambert and one of the top mergers specialists on Wall Street, to run the fund, the source said.

A senior official from CL Global Partners said, however, that it was "premature to speak of it" and said nothing has been signed yet. "We have not yet reached an agreement," this official said. Mr. Black could not be reached for comment.

It is unclear whether the fund would be strictly a workout fund or a leveraged buyout fund that would also take equity stakes in overleveraged companies.

Mr. Black, one of the last Drexel stars who had yet to resurface after the junk-bond firm filed for bankruptcy, would be managing an $800 million buyout fund, half of which reportedly will be supplied by Credit Lyonnais, the source said. The remaining $400 million will be raised from institutional investors, the source added.

Credit Lyonnais, France's third-largest bank, has been an active player in the U.S. market in recent years, particularly leveraged lending. The bank was ranked 10th in foreign lenders to U.S. corporations for the year ending June 30, 1989, with 88 deals under its belt, according to Loan Pricing Corp.

The investment banking subsidiary is involved in cross-border advisory work as well as securities trading and sales.

A number of investment and commercial banks have targeted workouts and restructurings as business opportunities for the 1990s that would clean up companies overleveraged from the LBO boom of the 1980s.

J.P. Morgan & Co. and Chemical Banking Corp. are known to be concentrating resources in restructurings. And at least one buyout firm – Forstmann Little & Co., a sharp critic of junk bonds – is putting together a fund to invest in overleveraged companies.

"It's all the rage," one banker said.

Very few foreign banks have set up buyout funds, bankers said. Among U.S. commercial banks, most of the money-centers have capital to invest in equity stakes, including Bankers Trust New York Corp., Continental Bank Corp., First Chicago Corp., Manufacturers Hanover Corp., and Chase Manhattan Corp.

Raising capital and committing resources throws the French bank into merchant banking in a difficult time.

The value of announced leveraged buyouts in the U.S. plummeted to $7.6 billion this year from $40.9 billion through the first half of 1989, according to Securities Data Co.

And the market is being dominated by Forstmann Little because of its ability to fund both the equity and subordinated debt layers, observers said. The firm recently announced plans to acquire General Instrument Corp. in a $1.6 billion buyout, which would be one of the largest deals this year.

Many buyout funds have not been able to commit capital because of the tough environment for financing leveraged deals. Rough estimates suggest that there is upward of $20 billion to $30 billion available on the sidelines for leveraged buyouts.

Those deals that are being done have equity levels of 40% or more, such as Wasserstein Perella & Co.'s $300 million acquisition of Maybelline, which had over 50% equity in the deal.

Mr. Black is a veteran of the takeover wars of the 1980s and was involved in virtually all of Drexel's big deals, including RJR Nabisco, Beatrice Cos., and Jim Walter Corp.

"He was their king," one investment banker noted.

Mr. Black received attention when Drexel's bankruptcy filing disclosed that he received a $15 million bonus for 1989 amidst a liquidity crisis at the firm.

Few Drexel stars have had problems landing jobs on Wall Street or at commercial banks. Arthur Kirsch, formerly a top equities executive at Drexel, is now chief executive officer of Natwest Securities. G. Christian Anderson, a top Drexel banker, was hired by PaineWebber Inc. as a vice chairman.

National Westminster Bank USA; Smith Barney, Harris Upham & Co.; Donaldson, Lufkin & Jenrette; and Jefferies & Co. all hired a number of Drexel professionals.

* * *

Dresdner Bank Maintains Tough Stance on Trump

Dresdner Bank balked at joining more than 80 banks in the Trump bailout, saying that because, unlike other banks, it asked for the future buyout of its loan under certain circumstances, banking sources close to the negotiations said.

Dresdner's demand for the buyout went a step further than the Chase Manhattan Bank banks in the syndicate led by Chase Manhattan Bank which holds a $75 million first mortgage on the Trump Tower. Each of the five banks holds a $15 million portion of the loan.

As a condition to agreeing to the credit pact for Mr. Trump, Dresdner and the other banks had demanded assurances from Chase that holders of the first mortgage on the Trump Tower would have undisputed control over subordinated lien holders on the future sale or refinancing of the property.

Buyout Scenario Unclear

Only Dresdner asked for the provision requiring a possible buyout, the sources said. Dresdner officials declined to comment and it was not clear what circumstances would trigger the buyout it requested.

The other three foreign banks are Mitsubishi Bank, Dai-Ichi Kangyo Bank, and Sumitomo Bank.

The banks were concerned that, as part of the Trump credit pact, additional liens of $62.7 million were placed on the Trump Tower. The $62.7 million represents Trump loans – either unsecured or poorly collateralized – that are held or were agented by Chase, sources said.

One of the foreign bankers involved in the Trump Tower syndicate was concerned that the subordinated liens would be in a position to hold up a decision to sell the property fast.

Chase provided the assurances necessary to win over the three Japanese banks, but Dresdner still balked because Chase did not agree to its buyout option, according to sources.

The German bank demanded from Chase that it be "pro rata whole" under certain circumstances if its rights in the future as a first-mortgage holder became impaired, according to a source.

Dresdner is said to be concerned that in a bankruptcy court, other Trump creditors could hurt the ability of first-mortgage holders to realize the full value of their loans.

Demand Called Unreasonable

However, a bankruptcy expert at a bank without any exposure to the Trump loans suggested that the German bank was being unreasonable.

"If we shocked if Chase agreed" to Dresdner's demand, the bankruptcy expert said.

"It's tantamount to buying them out."

The Japanese banks accepted Chase's assurances in separate but similar agreements, and it is possible they could wind up opposing the final wording of the documents relating to the additional liens.

That could cause the entire Trump credit pact to unravel, but it is considered unlikely.

Chase and the four foreign banks each hold 20% of the $75 million first mortgage. The original covenants provide that only 51% of the holders are needed to approve additional liens on the property.

Thus, even without Dresdner, Chase had 82% approval of the additional liens. Another foreign bank could deflect without inserting its credit pact.

Under the credit pact, Mr. Trump's principal banks provided a $250 million bridge loan and agreed to a $65 million, five-year loan. The banks also agreed to defer interest payment on some $850 million of Mr. Trump's existing $2 billion of bank debt.

— William Goodwin

Scottish Bank Still Plans a U.S. Takeover

By JULES STEWART

EDINBURGH — The Royal Bank of Scotland plans to go ahead with its $149 million acquisition of a thrift holding company in New England despite market conditions that it might back out of the deal.

"We are definitely going ahead on the deal, and there should be some news by August or September," said Sir Michael Herries, Royal Bank Group's chairman, of the agreement to acquire BankWorcester Corp. in Worcester, Mass.

The purchase agreement contained a clause that would permit Royal Bank to cancel its acquisition if BankWorcester's nonperforming loans exceeded certain levels. BankWorcester reported troubled assets exceeded those levels in the first quarter but said they did not endanger the deal.

Thrift to Make Purchase

The purchase will be made by Citizens Financial Group Inc., a Providence, R.I., thrift company that Royal Bank formed two years ago for $440 million. The decline in the New England economy, particularly in real estate, has not deterred the Scottish institution from planning expansion.

Citizens made a $38.2 million contribution to group profits last year, and Sir Michael said he expects this to rise slowly.

He said U.S. ventures are the first stage in Royal Bank of Scotland's overseas growth strategy, which is taking shape as the European Community prepares for a unified financial market in 1992.

"The second stage was Europe," he said. "We realize that if you want to remain in the big league, you have to be an international financial services group."

Buying into Development

Sir Michael said a 1988 agreement with Banco Santander in Spain, in which each bank purchased shares in the other, was essentially an investment in long-term development. Since forming the alliance, the banks have set up a banking operation in Gibraltar and bought an interest in Portugal's Banco de Comercio e Industria.

Meridian Mortgage
Wayne, Pennsylvania
a subsidiary of
Meridian Bancorp, Inc.
Reading, Pennsylvania
has acquired through merger, all of the capital stock of
KeystoneMortgage
Indianapolis, Indiana
We are pleased to have initiated this transaction and acted as financial adviser to Meridian Mortgage Corporation
STRATMOR GROUP
STRATEGIC MORTGAGE FINANCE GROUP, INC.
Investment Banking—Mortgage Banking
San Francisco (415) 974-6700 | New York (914) 633-4341 | Washington, D.C. (703) 765-5877

Highlights for Thursday, July 5

TOP 10 GAINERS %

Northern Calif. Community Bncp	6.7
Constellation Bancorp	3.7
Sumitomo Bank of California	3.6
Mid-America Bancorp	3.3
Citizens Bancorp	2.9
Marine Corporation	2.5
Plaza Commerce Bancorp	2.1
West One Bancorp	2.1
F & M National Corporation	1.9
Central Fidelity Banks, Inc.	1.8

TOP 10 LOSERS %

National Community Banks, Inc.	-6.4
Cal Rep Bancorp	-6.4
Continental Bank Corporation	-6.0
Mercantile Bankshares Corp.	-5.7
Bankworth Group, Inc.	-5.7
First Fidelity Bancorporation	-5.5
Evergreen Bancorp, Inc.	-5.2
Mellon Bank Corporation	-4.9
River Forest Corp.	-4.8
Boulevard Bancorp, Inc.	-4.6

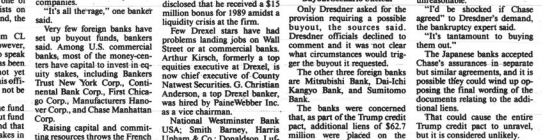
MOST SHARES TRADED

Citicorp	867100
BankAmerica Corporation	486000
J.P. Morgan & Co. Incorporated	374700
MNC Financial, Inc.	350100
Bank of Boston Corporation	347700
NCNB Corporation	315900
Shawmut National Corporation	291900
Southeast Banking Corp.	246300
SunTrust Banks, Inc.	220700
Banc One Corp.	218500

VOLUME AS % OF AVERAGE

Amcore Financial, Inc.	898.3
Grenada Sunburst System Corp.	847.9
Marine Corporation	730.9
Santa Monica Bank	726.1
Mid Am, Inc.	360.7
Boatmen's Bancshares	303.9
Iowa National Bankshares Corp	300.9
Northern Banking Corporation	298.3
One Valley Bancorp of WV, Inc.	292.6
Central Bancshares South, Inc.	281.0

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts 1/3/89=100

Top 225 Banks (4 PM Prices)

52 Wk. High	52 Wk. Low	Name	PE	Mthd to-to	Chg.	Chng.
27¼	20¾	FirstAmerCorp TN	NM	16.2	22¼	+¼
34¼	24½	FirstBancorp PR	8.1	102.4	25¾	+¼
18¾	13¾	FirstCmwlthCp IN	10.1	134.5	17¾	+¼
49¾	29	FirstChicago IL	7.1	82.3	39	+¼
30¾	24	FirstCmwlth PA	8.6	99.0	24¾	+¼
39½	25¼	FirstCityBcpTx	3.6	69.2	25¼	+¼
28¾	13¾	FirstCommrcAL	10.1	138.7	27¾	+¾
23¾	19	FirstCommrce LA	8.0	98.2	19	+¼
25¼	21¼	FirstCommrce TN	8.1	92.0	24¾	+¼
22	17¾	FirstCommrcialAL	9.7	108.6	17¾	+¼
19¾	14¾	FirstCommrcialFL	10.1	121.6	19¼	+¼
19¼	14¾	FirstCommunity IL	12.0	121.1	17¾	+¼
29¾	21¼	FirstCommunity PA	8.0	105.2	29¾	+¾
40¾	27¾	FirstEmpire NY	8.7	102.0	62	-¾
16¾	12¾	FirstFed Fin CA	10.1	72.3	13¾	+¼
14¾	10¾	FirstFdrlBcrp OH	14.5	204.3	44¼	
34¼	24¾	FirstFdrlCp CA	8.3	74.2	34¼	+¼
14¾	10¾	FirstFdrlCp FL	10.7	221.2	24	-¼
11	7¾	FirstFinancial IN	10.7	186.8	8¾	
7¾	5¾	FirstHawaiian HI	NM	105.9	39¼	-1¼
7¾	5¾	FirstInterstate AZ	7.0	105.8	7¾	
8¾	6¾	FirstInterstate CA	8.2	115.4	14¾	+¼
8¾	6¾	FirstInterstate CO	8.2	115.4	8¾	+¼
24¾	18¾	FirstMidAmerIL	8.0	123.5	19	
44	28¼	FirstPennsylv PA	5.9	102.4	28¼	+¼
18¾	13¾	FirstSecurity KY	7.5	104.2	14¾	+¼
18	14¼	FirstSecurity NC	13.7	185.1	15¾	
8¾	6¾	FirstSecurity UT	8.8	91.8	7¾	
21¾	17¾	FirstTennessee TN	17.7	90.9	21¾	+¼
19¾	14¾	FirstTexasSw TX	7.9	95.5	18¾	+¼
25¾	19¾	FirstVirginia VA	8.1	116.8	25¾	+¼
19¾	14¾	FirstWachovia NC	8.4	158.5	41	
35	29¾	FirstarCorp MI	7.4	117.9	29¾	
20¾	17	FirstbankCorp IL	8.7	106.0	18	
55¾	42¼	FirstcityBancorp TX	8.3	NM	48¾	
19¾	14¾	FleetNorstar CT	8.6	122.3	19¾	+¼
25	19¾	FortWorthNatlCp IN	8.6	108.0	20¼	
24¾	18¾	FranklinSavings IL	8.1	108.0	24¾	+¼
21¾	16	FultonFin Corp PA	7.9	138.4	16¾	
21¾	15¾	GBC Bancorp CA	8.8	108.0	15¾	
15¾	9¾	GrenadaSunburstSys MS	14.9	75.5	10	
8¾	4¾	HamiltonBancorp FL	3.9	115.1	7	
21¼	15¾	HartfordNtnl Corp CT	8.8	117.7	15¾	+¼
18¾	13¾	HawkeyeBancorp IA	18.1	108.6	14¾	+¼
22¼	15¾	HuntingtonBancshs OH	8.2	120.2	15¾	
9¾	6¾	IBS Financial Corp	6.8	66.8	9¾	
27¼	19	InsteelIndustries GA	8.6	138.1	19¾	
14¾	10¾	IntegraFin Corp PA	15.3	101.1	22	
30¾	21¾	IntegraFin Corp PA	8.3	98.9	22¾	+¼
48	33	J.P. Morgan NY	NM	147.9	34¾	+¼
17¾	13¾	JeffersonBncshs VA	8.1	108.0	13¾	
15¾	12	KeyCentury WV	10.0	104.2	12	+¼
21¾	16¾	KeycorpNY	8.0	113.6	20¾	+¼
26	21¼	KeystoneFin PA	8.9	129.0	23	-¼
21¾	16¾	KeystoneIntlBcpIN	8.1	106.1	20¾	+¼
14¾	8¾	LaSalleBancorp CA	18.6	240.8	13¾	+¼
22	17	LaSalleSvrs IL	15.0	108.0	17¾	
18	11¾	LandmarkBancshs MO	7.0	98.7	11¾	
24¾	18¾	LibertyBancCorp LA	8.1	108.0	18¾	
27	21	LincolnFin Corp IN	7.3	90.8	21	+¼
29¾	22¾	MNC Financial MD	8.5	98.9	22¾	+¼
18	14¾	MagnetBancpIL	8.2	103.2	14¾	+¼
60	41¾	ManufacturersNtl MI	6.8	103.3	45	+¼
44¾	28¾	ManufacturersNY	NM	81.7	34¾	+¼
14¾	12¾	MarineCorp IL	12.8	138.5	13¾	+¼
20½	15	MarkTwainBcshs MO	8.2	108.3	15¼	
17¾	13¾	MarshallBancpWI	8.2	108.0	13¾	
37¾	24¾	MellonBankCorp PA	7.0	86.4	24¾	-¼
28¾	23¾	MercantileBncshsMD	10.4	99.0	25¼	+¼

52 Wk. High	52 Wk. Low	Name	PE	Mthd to-to	Chg.	Chng.
27¼	20¾	MercantileBncshsMO	8.5	133.4	20¾	+¼
30¾	53	MercantileBks-NY	12.5	198.7	53	
32	21¼	MerchantsNat IN	10.5	95.4	24	
21¾	15¾	MeridianBancorp IN	7.7	87.3	15¾	+¼
57¾	32	MorganNatCorp AR	7.7	65.0	32	-¼
10¾	10	NBD Bancorp MI	10.0	100.2	10¾	+¼
23¾	18¾	NBdeLn,Inc.-OH	9.8	146.7	19¾	-¼
47¾	37¾	NBdenCorp N.C.	3.7	35.8	37¾	+¼
25¾	10	NutBank-MI	5.4	48.6	10¼	
14¾	10¾	NCNB Bancorp FL	8.8	130.2	10¾	-¼
24¾	18¾	NCNB Corp NC	7.3	128.2	19¾	-¼
15¾	13	NationalBancshs TX	15.2	162.9	20	+¼
10¾	8	NationalCity OH	8.2	140.7	15¾	+¼
51	38	NationsBank GA	12.7	218.6	41¾	
12¾	8¾	NatlBancorpAlaska AK	8.9	119.1	30¾	+¼
25¾	20¼	NatlCommrce TN	7.9	174.8	23	-¼
14¾	10¾	NatlCommunity NJ	8.4	108.0	14¾	-¼
20¾	11¼	NorthFortBancs-WI	5.4	70.4	11¾	+¼
12	10	NortheastBancorp ME	NM	51.1	11¾	
35½	28¼	NorthernTrustCo IL	9.8	189.8	29¾	
20¾	17¾	NorwestCorp MN	8.5	154.2	21¾	
32¾	24	OhioBancorp OH	7.9	106.7	25¾	
24¾	20¾	OldKentFinCorp MI	8.4	114.8	24¾	+¼
26¼	24¾	OrthetBancorp AR	13.2	160.8	25	-¼
29¾	19	OrientalBancshs NY	7.2	84.3	19¾	+¾
48¾	29¾	PNC Fincorp PA	8.9	105.5	30	-¼
38¾	24	PacificBancCA	21.4	150.0	25¾	
13¾	9¾	PacificHeritage CA	9.4	163.8	11¾	
18¾	14¾	PeoplesBancorp KS	8.3	128.2	15¾	+¼
27	26	PikevilleNatl KY	10.0	129.0	27	
15¾	10	PiperJaffrayCos MN	6.4	81.3	12	+¼
6¾	3	PremierBancorp LA	NM	53.3	3¾	
27	21	PremierBancorp OH	8.0	127.7	22	
14	9¾	PremierEntrBncshs MD	24.0	47.3	9¾	-¼
27¾	19¾	PugetSoundBancshs WA	11.9	115.3	21	+¼
52¾	42¾	RepublicNYCorp NY	321.7	133.5	48¾	-¼
9¾	6¾	RiggsNatlCorp DC	6.1	58.4	14¾	
32¾	20	RiverForest IL	12.9	284.2	28¾	-¼
43¾	24¾	SanPaoloBancoCA	11.2	208.3	34¾	+¼
23¾	17¾	SecurityBancorp AR	8.2	141.5	18¾	+¼
14¾	9¾	SecurityPacific CA	5.8	90.6	14¾	+¼
28¾	11¾	ShawmutNatlCorp MA	NM	59.0	11¾	-¼
19¾	14¾	SignetBanking VA	8.4	88.1	19¾	+¼
38¾	28¾	SocietyCorp-OH	7.0	113.3	32¾	
21¾	17¾	SouthCarolinaNCC	8.7	107.6	18¾	+¼
29	8¾	SoutheastBkCorpFL	NM	40.8	8¾	-¼
16¾	11¾	SouthernNatlCorp NC	8.1	141.3	15¾	+¼
25¼	18¾	SouthtrustCorp AL	6.8	91.3	17¾	+¼
25¾	18¾	SovereignCorp PA	8.1	97.1	20¾	
25¾	18¼	Star Banc Corp-OH	9.5	120.7	19¾	-¼
34¾	24¾	SunTrustBanks GA	14.2	246.6	34¾	+¼
20¼	6¾	StatewideBancA	NM	47.0	6¾	
13¾	8¾	SterlingBancorp NY	5.8	85.9	17	+¼
21¾	15¾	SumitomoBank CA	6.7	101.4	20¾	1
22¾	13¾	SumitomoBk-NY	8.1	92.0	20¾	+¼
23¾	17¾	SuntrustBanks FL	7.0	107.0	14¾	-¼
28¾	18¾	SuntrustBanks GA	7.0	107.0	18¾	-¼
23¾	17¾	SusquehannaBcpsPA	7.8	94.2	14¾	+¼
19¾	14¾	SwissBankCorp-NY	8.0	104.5	19¾	+¼
18¾	13	TheFleetFinCorp RI	17.1	180.0	17¾	-¼
19¾	14¾	TheProvidentCorp TN	8.2	108.0	19¾	+¼
43¾	31¾	TrustcompanyNJ	9.2	153.8	34¾	
43¾	31¾	TrustcompanyNJ	9.2	153.8	34¾	
32¾	25¾	U.S. Bancorp OR	6.8	128.3	28	
21¾	14¾	U.S.TrstCorp-CT	8.6	108.0	14¾	+¼
28¾	13¾	UJB Financial NJ	6.6	85.9	18¾	
18¾	9¾	UST Corp MA	9.4	91.8	14¾	+¼
32	21¼	UnionBancCa CA	5.2	85.1	21¼	+¼
15¾	7¾	UnionPlanters TN	NM	63.5	8	-¼
23¾	18¾	UnitedBankCorpCO	17.7	70.4	19¾	-¼
14¾	12	UnitedBcshrs-NY	8.2	97.4	12	-¼
17¾	13	UnitedCarolinaNC	7.8	105.7	13¾	
14¾	12	UnitedCorolinaNJ	10.7	120.5	12¾	
32¾	28	UnitedMissouriMO	9.3	153.3	28¾	-¼
14¾	9¾	UnitedNJ Bncps NJ	9.2	115.1	13	
36	22¾	ValleyCapCorp-RI	7.8	146.3	24¾	
28¾	19¾	WaterfordBcshs LA	8.6	108.0	19¾	
30¾	11¾	WellsFinCorp AZ	NM	68.1	15¾	-¼
24¾	18¾	WellsFargoCo CA	7.5	98.2	18¾	-2
33	26¾	WestamericBk CA	8.7	103.0	30¾	
21¾	16¾	WestBancshsInc CO	8.2	108.0	16¾	
25¾	17¾	WestamericaBancCA	14.7	165.8	23	-¼
24¾	18¾	WestcorpFinclCA	8.1	108.0	18¾	
13¾	9¾	WorthenBancorp AR	10.9	134.7	13	
24¾	18¾	ZionsBancorp UT	7.6	99.0	38	-1

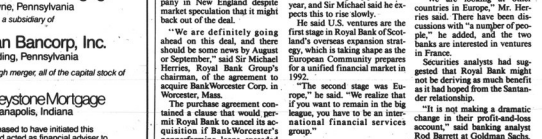
Top 25 Thrifts (4 PM Prices)

52 Wk. High	52 Wk. Low	Name	PE	Mthd to-to	Chg.	Chng.
23¾	19¼	ArmancaCo CA	9.3	98.2	20¼	-¼
45¾	37¾	CalFedInc CA	8.2	76.9	43¾	
10¾	8¾	CalFedInc CA	5.2	28.9	10¾	
55¾	38¾	CenFedBncpInc CA	12.3	75.5	49¾	+¼
9¾	7¾	CenSavBncpInc NH	NM	44.6	8¾	
17¾	14¾	CmtyBkBncpMD	8.3	98.2	15¾	
49¾	37¾	FedNewEngland MA	49.7	124.7	17¾	-¼
37¾	23¾	FirstFedAmerica MI	8.2	108.0	23¾	
27	18¾	FirstFedFin CA	6.2	126.6	22¾	-¼
21¾	12	FstFedMich Corp	8.1	97.2	12	
21¾	16¾	GLSBancorp	7.2	97.1	16¾	
34¾	22¾	GoldenWestFn CA	11.3	175.5	30¾	
24¾	15¾	GreatWestFnCorp CO	9.5	115.1	17¾	+¼
14¾	11¾	GtAmericanBcpCA	NM	21.7	13¾	
14¾	11¾	GtAmericanBcpCA	8.3	76.9	13¾	
21¾	13¾	HomeSvgBancAM	13.6	95.9	19¼	+¼
23¾	17¾	HomeFedBncpMD	8.2	98.2	17¾	
6		People's BancCT	8.3	40.7	6	-¼
19¾	14¾	PeoplesFedBncp MA	9.0	98.4	14¾	
23	9¾	SocietyForSavCT	2.7	42.8	9¾	-¼
14¾	11¾	SPaulFedBncpMN	12.6	108.0	14¾	
12¾	7¾	StandardFedBk MI	6.5	61.8	9	
14¾	10¾	WashingtonFedSL MA	12.0	108.0	14¾	
31¾	23¾	WashingtonFedSL MA	10.2	204.7	28¼	
21¾	15¾	WorldSavings CA	15.7	162.8	21¾	+¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 75 largest publicly traded thrifts as measured by the market value of all common shares outstanding. As of March 30, 1990, the market value itself for banks was $68.6 mil. and for thrifts $121.45 mil.; $2 Wk Hi Lo: the moving 52-week high and low prices for the stock; PE: the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for items extraordinary to S&L, to book; the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Dis: The price at which the stock was last traded. If no trades for the day, the bid price is listed; Net Chng: Change in weighted average of the top 250 banks in market value from the previous day. 50-50: a market value weighted index of banks and thrifts; Commercial banks and thrifts are listed in one alphabetical order. Bank holding companies are listed under their holding company name. Footnotes: pf: preferred; wt: warrants; wi: when issued; xd: ex-dividend; xr: ex-rights; xw: without warrants; z: sales in full; NM: not meaningful; NA: not available; ---: no trades.

Data sources: SNL Securities, Charlottesville, Va., 804/977-1600, publishes the tables. Financial News Network, Vienna, Va., provides SNL with the daily prices.

Libor Swap Yield Curve — Wednesday, July 5, 1990



Data source: Manufacturers Hanover Trust Co., New York

Description of table: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used to derive particular swap rates. Engaging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one-year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates (July 5,1990)

	7/06	7/03	6/28
Federal Funds-domestic range:	8¼ -8¾	8¼ -8¾	8¼ -8¾
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.90	7.80	7.70
6 Month Posted	7.90	7.85	8.00
1 Year Posted	8.00	7.95	8.10
Eurodollar deposits*			
3 Month	8¼	8¼	8¼
6 Month	8¼	8¼	8¼
1 Year	8¼	8¼	8¼
LIBOR*			
3 Month	8¼	8¼	8¼
6 Month	8¼	8¼	8¼
1 Year	8¼	8¼	8¼

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (**)— Late London bid (***)— Treasury notes, secondary market basis. Source: Telerate, New Jersey.

STOCKS

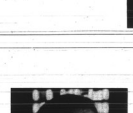
Shareholders Fight Rejection Of Merger Bid

Continued from *page 1*

holder, T. Rowe Price Associates. "We're just confounded by the behavior of the directors of the bank, and we've tried to communicate our concerns to them," said Brian Rogers, a portfolio manager at the large Baltimore money-management firm.

As owner of one million shares, equal to 7.8% of the shares outstanding, Mr. Rogers' company has written two letters to each director of Baltimore Bancorp, as well as its chairman, Harry L. Robinson, urging them to reconsider their rejection of the offer from First Maryland.

While Rogers and other shareholders stop short of accusing directors of shirking their fiduciary duty, one Philadelphia law firm has not. Greenfield & Chimicles, specialists in class action suits against banks, filed suit against Baltimore Bancorp in May, charging directors with breaching their fiduciary duties in rejecting the First Maryland bid.



Harry L. Robinson
Baltimore Bancorp

Stock Has Settled Back

The $17-a-share bid was made when the stock had been trading at $10.25. It jumped to $15 on the news and has settled back to $12.50 since then. A merger with First Maryland, the U.S. subsidiary of Allied Irish Banks PLC, would create a bank with assets of $10.8 billion, roughly half the size of the largest bank in the area, MNC Financial Corp.

Gerald B. Kracke Jr., senior vice president for marketing, said the bank's position had not changed since it rejected the offer on the ground that it was not in the long-term interests of shareholders.

First Maryland declined to comment.

Besides T. Rowe Price, shareholders that have written letters are Glenmede Trust Co. in Philadelphia, which owns 330,000 shares, or 2.6%, and Legg Mason Wood Walker Inc., Baltimore, which owns 585,000 shares, or 4.6%.

No Replies Received

William H. Miller 3d, president of the investment arm of Legg Mason, wrote a letter before the bid was rejected urging the bank to negotiate with First Maryland. He said he did not receive a reply. Officials from T. Rowe Price Associates and Glenmede Trust said they had not received replies either.

A source familiar with the situation said two other shareholders representing about 180,000 shares had also written.

Mr. Rogers of T. Rowe Price said his organization had sent two letters to the board and management, one immediately following the First Maryland bid in April urging the bank to seriously consider accepting the offer and a second on June 15 questioning the board's judgment in rejecting the offer.

John Church, chief investment officer at Glenmede Trust, said, "The stock has underperformed other bank stocks in its peer group fairly consistently and management has not lived up to its expectations.

"When they rejected the First Maryland offer, they said, 'We think we can do better. Our view is, 'Why do they think they can do it now when they haven't been able to do it in the past.'"

Glenmede Under Water

Glenmede's average cost is $19 a share. It has owned the stake since 1986.

Mr. Kracke of Baltimore Bancorp said, "Our objective has been to create value for shareholders over a longer period of time and we don't think that selling the bank at this time or especially at this price to be [in keeping with that objective].

The bank also said it was concerned about First Maryland's desire to look at its loan portfolio without guaranteeing it would go through with the deal. First Maryland is a competitor and could use the information to put it out of business, bank officials said.

Rodgin Cohen, a partner at Sullivan & Cromwell and one of the lawyers representing Baltimore Bancorp in the deal, said, "The bank has to consider all the investors. Just because a couple write in to say 'Do this' doesn't mean the bank has to change its position."

Defending the company's languishing stock price, he said, "Take any investor in bank stocks and look at their performance over the past five years and you'd find they have lost money. This isn't a good time to be an investor in bank stocks."

Bank Public Since 1985

Formerly a small savings bank called the Bank of Baltimore, the bank went public in 1985, changing its name to Baltimore Bancorp. Under Mr. Robinson, it embarked on a dramatic expansion plan that doubled the holding company's size to $3.5 billion. Mr. Robinson owns roughly 30,000 shares and has options for another 48,600.

However, shareholders and analysts say the effort so far has been unsuccessful. The stock has traded below its book value of $18,87 since late 1987. Despite reported 1989 earnings that were seven times 1988 levels, operating earnings for the year were flat. The bank's return on assets is 0.64%, well below the benchmark of 1%.

"It never had the ability to attract the demand deposits of a commercial bank," said one large shareholder who would not be quoted by name.

Shareholder Power Limited

Not everyone agrees that shareholders can force management to make a deal.

Referring to the Time-Warner merger that was upheld in court despite shareholder support for a Time-Paramount merger, Edward Herlihy, a partner at the law firm Wachtell, Lipton, Rosen & Katz, said, "The board gets to make the decision and shareholders are not necessarily entitled to participate."

He said not all bank mergers in the past have proved to be good for stockholders and some banks that have fought merger bids have turned out healthier in the long run. Specifically, he referred to BankAmerica Corp., which fought off a merger bid by First Interstate Bancorp in 1986, and has flourished.

Meanwhile, Moody's Investors Service Inc. said on Tuesday it had reviewed Baltimore Bancorp from a possible upgrade to "direction uncertain," citing the company's resistance to First Maryland as well as its "significant exposure" to the softening real estate markets in Maryland. The agency also reiterated that it might downgrade First Maryland if it acquires the relatively weaker Baltimore.

Baltimore Bancorp currently has a Ba1 senior debt rating, while First Maryland is rated A3 for senior debt and A3 for subordinated debt.

John Evans in London contributed to this story.

* * *

THURSDAY'S MARKET

Bank stocks tracked the overall market Thursday and fell sharply, with a number of issues losing between 3% and 6%. However, volume was thin, with the biggest losers not trading more than 80,000 shares by 3 p.m.

"There's just no volume so whether this is real, I don't know," said Michael Sadwick, an analyst at C.J. Lawrence, Morgan Grenfell Inc.

Mellon Bank Corp. led the losers, losing nearly 6%. It fell $1.25, to $24.25. NBD Bancorp, one of analysts' favorites, fell $1.125, to $30.875; First Interstate Bancorp fell $1.125, to $30.25, and Wells Fargo & Co. down $2, to $74.875.

Virginia banks, which were rekindled earlier this week on fears of deteriorating real estate in the area, had stabilized by 3 p.m. Crestar Financial Corp. was the exception, falling 75 cents, to $20.875. Sovran, which fell $2.125 Monday and Tuesday, was unchanged at $26.75. Dominion Bancshares rose 12.5 cents, to $13.125, and Signet Banking Corp. was unchanged.

Near the close, the Dow was off 30.44, to 2809.08.

CAPITAL

Banks Retain Funding Mix Despite Expected Rate Drop

By KELLEY HOLLAND

Wary of adding interest rate risk to the list of problems they are grappling with, banks are sitting tight with their funding mixes despite widespread anticipation of a drop in interest rates.

President-Bush's call for "tax revenue increases" and broad concerns about slowing growth suggest that interest rates will soon ease. But the prospect of gaining a few basis points in net interest margin by shortening their funding is not enough to offset banks' desire for liquidity in today's skittish markets, according to bank treasurers and funding officers.

Banks worry that if they shorten their funding, they may not be able to renew it at attractive rates when it matures.

"In general, banks are staying liquid because of general market concerns over banks, the economy, and so on," said Brian W. Nocco, a vice president at Continental Bank Corp.

A Fall in Some Rates

Short-term rates have already started to come down on some bank funding instruments. The average rate for 30-day jumbo certificates of deposit dropped to 7.71% in June from 7.78% in April, for example. And economists think rates could drop further.

Furthermore, banks' median gain in net interest margin during quarters when interest rates are falling is 42 basis points, according to data provided by IDC Financial Publishing.

But, for several reasons, banks hesitate to position themselves to take advantage of the anticipated rate decline.

Concern Over Liquidity

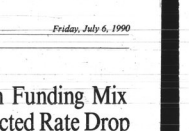
The most important reason is that many banks are nervous about frequent trips to the market in the current environment for bank securities. "We're going with the plan we set out with at the beginning of the year, and that is to continue to increase our liquidity," said a senior official at a money-center bank.

"I think most people are afraid to reduce liquidity right now," the official said. "To make a few basis points and to take this kind of risk, I don't think it's worth it."

Danger of Negative Carry

Secondly, any banks that do buck the trend could find themselves with negative carry. The overnight fed funds rate, around 8.25%, is higher than the 8.2% current rate on two-year Treasuries. Banks trying to shorten fund assets with yields between 8.2% and 8.25% would find themselves literally paying for that strategy.

The last time many banks tried to anticipate a rate decline was in spring 1989. As more and more economists became convinced rates would fall, a number of banks shortened their liabilities relative to their assets.



"In general, banks are staying liquid."

Brian W. Nocco
Continental Bank

Much to their chagrin, though, the yield curve inverted, so banks with long-term assets and short-term funding found themselves with negative carry.

Fed's Course Uncertain

Third, the Federal Reserve Bank is continuing to demonstrate concern about inflation, even though a number of economic indicators are pointing to a slowdown in growth. Some bank funding officers worry that a decline in rates may not in fact be imminent despite widespread expectations of Fed easing.

Chairman Alan Greenspan could decide that short-term rates do not yet need to be lowered, according to a funding manager at one regional bank.

"Inflation is still a big deal for the Fed, and inflation isn't coming down," he pointed out.

* * *

MARKET MONITOR

Fuji Bank Ltd. has applied to the Federal Reserve for authorization to become a dealer and a principal in the interest rate and foreign-currency swap markets, and to act as an adviser to institutional customers seeking to use interest rate and currency swaps and to swap derivative products.

* * *

Bank capital markets were quiet Thursday as traders waited for Friday's employment report to provide direction.

Trading was listless in the long-term bank bond market, and prices were little changed, traders said. □

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VOL. CLV NO. 132 Monday, July 9, 1990 155th year

Court Rulings On Seizures Rock the FDIC

By STEVE KLINKERMAN

DALLAS — The Federal Deposit Insurance Corp. is reeling from a series of recent court decisions that found it had abused its authority in provoking the failures of dozens of Texas banks.

The FDIC does not deny that in its zeal to lower the cost of several big Texas rescues it deliberately caused the failure of about 60 relatively small subsidiaries of First RepublicBank Corp., MCorp, and Texas American Bancshares.

The FDIC then sold the banks — they had been healthy, unlike those in typical FDIC actions — and pocketed the proceeds to offset the costs of the failures of those companies' larger banks.

In so doing so, the FDIC relied on highly liberal interpretations of law.

Now it can be penalized.

Time after time, federal judges in district and bankruptcy courts have condemned the FDIC for exceeding its authority and violating federal laws. If it loses on appeal, the agency could be forced to pay more than $500 million of restitution.

The Rulings' Meaning

The message is clear: The law, says say, is that the FDIC must obey federal laws – even the frustrating ones – until Congress sees fit to change them.

"If the law prevents the regulators from doing what they want, then they have to go back to Congress" for authorization, said Thomas Brooks, a former FDIC general counsel. "Otherwise, you have the potential for egregious actions on the part of regulators who overstep their bounds."

Moral Justification Seen

Though the FDIC has fared poorly in the courts, observers generally agree that the agency has moral justification for the way it dealt with the Texas crises.

The big Texas banking companies got in trouble by funneling deposits from suburban affiliates to their bigger downtown banks, such as MBank Dallas, which used the funds to make high-risk loans. When the city banks failed, the holding companies sought to hold on to the solvent suburban banks.

The FDIC went ahead and confiscated the suburban units, and that is where it ran into

See COURT *page 8*

INSIDE NEWS

FINANCE

MNC FINANCIAL was a darling of stock analysts a year ago. Today, with the real estate market in the Washington-Baltimore area souring, the company is more a subject of concern than of praise. *Page 16*

TECHNOLOGY

PORTABLE COMPUTERS are becoming standard issue for employees in diverse banking posts. *Page 3*

INTERNATIONAL

BRITISH ECONOMIC policymakers are blaming the nation's hefty inflation and persistent trade deficit on the aggressive marketing of innovative foreign financial institutions. *Page 10*

CONSUMER

MASTERCARD and Visa have filed a multimillion-dollar lawsuit in what they say is the largest telemarketing fraud operation they have ever uncovered. *Page 6*

WASHINGTON

The Rising Cost of Regulation
How a proposed change in the Comptroller's assessment method would affect national banks of various sizes



Source: Office of the Comptroller of the Currency

Comptroller Planning to Boost Assessments by 8% Next Year

By BILL ATKINSON

WASHINGTON — With its cost rising faster than projected revenues, the Office of the Comptroller of the Currency is planning to increase its assessments on national banks next year by 8%.

The assessments – which are calculated according to a bank's total assets – are the national bank regulator's primary source of revenue. The 8% across-the-board increase, along with increases in examination fees and other levies, would take effect next January after a period of public comment.

Deficit Looms in 1991

The Comptroller said the increase is necessary to avert an operating deficit in 1991

See COMPTROLLER *page 9*

Krause Tapped for Policy Role

By ROBERT M. GARSSON

WASHINGTON — Susan F. Krause has been named senior deputy comptroller for bank supervision policy, a position that puts her squarely in the middle of the debate over whether national bank examination standards have become too harsh.

The 39-year-old economist succeeds Robert J. Herrmann, who will move to Chicago on July 23 to become deputy comptroller of the Central District.

Defends Agency's Policy

In an interview on Friday, shortly after her appointment was announced by Comptroller of the Currency Robert L. Clarke, Ms. Krause defended the agency that has been accused of touching off a credit crunch in some regions, particularly the Northeast.

See KRAUSE *page 9*

L. WILLIAM SEIDMAN is back in the saddle but not out on the range. The chairman of the Federal Deposit Insurance Corp., who separated his pelvis last month in a horseback-riding accident, was back behind his desk in Washington last Friday. *Page 2*

BANKERS ARE HOPEFUL that they will get some relief from the toughest penalties of the RICO law. *Page 8*

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UAL Buyout Moves Ahead With 5 Banks As Coagents

By STEVEN LIPIN
and WILLIAM GOODWIN

In the strongest indication yet that UAL Corp.'s leveraged buyout is on track, five U.S. money-center banks have agreed to serve as coagents for the $4.4 billion proposed bid, bankers in the deal confirmed.

A source close to the union-led buyout said each bank has "pledged" about $500 million, but that could not be confirmed by the agent banks by press time.

The five coagents are the banking units of Chase Manhattan Corp., Chemical Banking Corp., Citicorp, Manufacturers Hanover Corp., and Bankers Trust New York Corp., a source at one of the banks confirmed.

Litmus Test for LBOs

The UAL buyout is considered an important bellwether of interest by banks in leveraged-buyout lending. Last October, the failure of UAL's management to arrange bank financing for a buyout sent a signal that the easy-money days of leveraged buyouts had come to an end.

A banker at one of the five banks described the developments as "a way to observe but early-stage indication of serious interest" by the quintet of lenders.

Completion of the financing by the Aug. 9 deadline, however, would still hinge on the participation of a bevy of other banks in the financing. It is estimated that the buyout group, United Employee Acquisition Corp., was initially looking for about

See UAL *page 13*

Lenders Step Up to Assist Victims of California Fire

By TERESA CARSON

LOS ANGELES — Even before the fires that destroyed more than 600 homes in Southern California were under control, the state's financial institutions had begun creating programs to aid victims of the disaster.

Assistance is now being offered in the form of 90-day forbearances on mortgage payments, relief loans, and a disaster-relief team to guide the newly homeless through the insurance maze.

First Interstate Bank of California and Glendale Federal Bank are among the institutions allowing borrowers to delay

See INSTITUTIONS *page 6*



McGuinness/SIPA

PROMPT RESPONSE: The embers were still glowing when California's financial institutions mobilized emergency loan programs for victims of a fire that devastated southern portions of the state.

PEOPLE *in the news*

Kemper Will Get to Test Skills at Great American

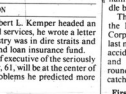
By TERESA CARSON

LOS ANGELES — In 1987, when Robert L. Kemper headed an influential think tank dealing in financial services, he wrote a letter to Congress warning that the thrift industry was in dire straits and urging a recapitalization of the savings and loan insurance fund.

As the newly named chairman and chief executive of the seriously ailing Great American Bank, Mr. Kemper, 61, will be at the center of the storm, struggling to deal with the problems he predicted more than three years ago.

Mr. Kemper replaces Gordon C. Luce, 65, who announced at the annual stockholders' meeting in May that he planned to retire as soon as a successor was found.

Trained as an accountant, Mr. Kemper will need to marshal all his financial skills at San Diego-based Great American. The thrift's capital plan, which was approved by regulators, calls for the $15.4 billion-asset institution to raise $350 million in new capital by yearend or face seizure by the government. Great American is trying to sell parts of its 213 branch network or find a merger partner.



Robert L. Kemper

Mr. Kemper spent 27 years at Wells Fargo & Co., eventually becoming vice chairman and a member of the board.

After being passed over as chairman, he resigned from Wells Fargo in 1983 to become president of Bankwire, a now defunct moneytransfer network. He was later named director of the National Center on Financial Services at the University of California at Berkeley.

'He Is a Solid Guy'

Mr. Kemper is also a former president of the California Bankers Association, former chairman of the Western States Bankcard Association, and former president of the Bank Administration Institute.

"He is a solid guy. I'm sure he understands the challenges he has taken on," says Frank N. Newman, vice chairman and chief financial officer at BankAmerica Corp. in San Francisco.

Mr. Kemper admits he has never had to turn a company around but says he has the skills needed to do the job. "I have lots of experience in mergers and acquisitions," with the necessity of trimming costs and restructuring, Mr. Kemper says. He also notes that he has been involved in raising capital.

Mr. Luce was chief executive of Great American for 21 years. Under his leadership it expanded from a four-office thrift with less than $300 million in assets to a multistate institution with branches in Arizona, Colorado, Montana, and Washington.

Mr. Luce's decision to enter Arizona by buying the $2.4 billion-asset Hohne Federal Savings and Loan, Tucson, in 1986 brought on most of Great American's problems.

Some analysts predicted that Great American would have difficulty filling this job because of the likelihood that the thrift would be seized. Mr. Kemper and Great American executives declined to discuss the terms of his employment, but other executives in similar circumstances have extracted rich contracts.

Mr. Kemper says he is in for the long haul at Great American. "I'm not here for a week or two. I hope to help Great American out of its difficulties and run it until I'm ready to retire." □

Seidman Returns to FDIC Corral

Chairman Upbeat as Ever after Serious Riding Accident

By BILL ATKINSON

WASHINGTON — L. William Seidman is back in the saddle but not out on the range.

The 69-year-old chairman of the Federal Deposit Insurance Corp., who separated his pelvis last month in a horseback-riding accident, was in Washington and behind his desk Friday, rounding up loose papers and catching up on work.

First Post-Hospital Interview

In his first interview since he was released from the hospital, Mr. Seidman was upbeat and feisty, as usual.

"I feel good, I just get tired a little more quickly," he said. "I'm on crutches, and my main problem now is, I have lost a lot of blood. I'm a doctor, my wife decided she likes my new personality."

Indeed, Mr. Seidman has plenty of work to do. In addition to heading the FDIC, he is chairman of the Resolution Trust Corp., overseeing the sale and liquidation of seized thrifts.

Mr. Seidman's accident at Wagon Mound, his New Mexico ranch, sparked rumors that he may retire sooner than expected. Last spring, he said he wanted to cut his term short and resign, but he never set a date. It was anticipated that he would bow out this summer or fall.

2d-Quarter Goal Reached

One goal he said he would accomplish before retiring was to sell or close 141 troubled thrift institutions in the second quarter. The agency surpassed that total, but in the interview, Mr. Seidman said he has had little time to think about retiring.

"I was mainly thinking about trying not to expire," he said. "I had 16 tubes in me, and I lost about 40% of my blood."

Mr. Seidman was in Wyoming and New Mexico last month speaking before bankers and a management conference sponsored by the FDIC's division of liquidation. On June 20, he went to his ranch for a cattle roundup with his daughter, Tracy, who runs the ranch. Mr. Seidman was riding his favorite horse, a gelding named Primero, when the rough ride started.

"Maybe he was getting even. He has never bucked before," Mr. Seidman said of the horse. He said his daughter later checked Primero and found a bug on it, which could have stung or bitten the horse.

Putting on a Display

"All of a sudden, he started bucking," the FDIC chairman recalled. "He put on a pretty great display. By the third time he went up, he was flabtailing. At that point, you either stay on it and lose your head, or you can bail out.

"I got set to jump off him, and in doing so, I caught my left leg in the stirrup, and that tore apart. I think what's called the pubic bone," Mr. Seidman said. "I was sort of in shock. I got up and walked to the car. I was a couple of hours from the hospital."

Mr. Seidman said a volunteer ambulance took him to St. Vincent Hospital in Santa Fe, where he was monitored and underwent surgery that night.

He expects to be at full strength in a matter of weeks, Mr. Seidman said. Next week, he will attend an FDIC board meeting, and he also expects to testify on Capitol Hill. □

Pressure on Fed By White House Draws Criticism

By ROBERT TRIGAUX

WASHINGTON — Economists are saying an interest-rate easing by the Federal Reserve, while not imminent, is only a matter of time. But they warned late last week that recent White House snubs over lower rates could prompt the Fed to delay such a move.

Fed watchers, trying to assess the secret July 2-3 meeting of the Fed's Open Market Committee, said no sign had emerged of an easing. But many agreed in principle that the committee may soon shift from a "neutral" stand on rates – in which it is inclined neither to ease nor to tighten monetary policy – to a "bias" toward easing rates.

See **PRESSURE** *page 9*

Corrections

The headline on a June 27 article ("Banc One's System Turns Frail Thrifts into Winners," page 26) was misleading. Only three of the 18 acquisitions shown in the accompanying table were of thrifts; the rest were of banking companies.

■

The July 5 Analysis ("Economist Says 'Insolvent' FDIC Is Covering Up," page 1) incorrectly stated that all three researchers hired by a House Banking subcommittee to study the health of the Federal Deposit Insurance Corp. had concluded the FDIC is probably insolvent.

Two of the three economists, Dan Brumbaugh and Robert Litan, have reached that conclusion based on previous review of public data.

But the third, James Barth, finance professor at Auburn University, indicates he has not yet drawn any conclusions from the study, slated for completion in the fall.

NEWS *briefs*

Loan-Loss Provision Helps Put Security in the Red

VINELAND, N.J. – Security Investments Group Inc., the holding company for Security Savings Bank announced Friday that additions to its provisions for loan losses and valuation allowances for certain real estate assets are expected to result in an operating loss in the quarter ended June 30, 1990.

The company said it expected to provide about $3.6 million for reserves and writedowns of other real estate in its second quarter 1990.

Pittsburgh Gas Co. Offers An Automatic Debit Plan

PITTSBURGH — Equitable Gas said it is offering an automatic bill-payment service called Soap, for Simple No-fuss Automatic Payment. Customers can avoid writing checks or paying gas bills in person by authorizing direct debits of their bank accounts. The funds are then transmitted electronically to Equitable via the automated clearing house.

Mellon Bank will process the transactions for Equitable Gas. Mellon was the fifth-largest originator of ACH debit transactions last year.

First American Completes Holding-Company Plan

CANTON, Ohio — First American Savings Bank said it completed the previously announced formation of its holding company, First American Bancorp, effective June 30.

First American Savings became a wholly owned subsidiary of First American Bancorp, and First American Savings shareholders automatically became shareholders of First American Bancorp on a one-for-one basis. — **Reuters**

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

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TECHNOLOGY NEWS

New Data Format Could Help Cut Check Handling

By JEANNE IIDA

NEW YORK — The National Automated Clearing House Association and other organizations are taking steps to lower the cost and improve the reliability of check truncation, in which a paper check is stopped at a collecting bank.

A small but vocal minority of bankers advocate the practice, also known as check safekeeping. Now the clearing house and other groups are trying to encourage more banks to truncate checks as a way to cut checkhandling costs.

When a check is stopped at a collecting bank or its agent, the payment is turned into an electronic message and cleared through the automated clearing house system.

New Standard to Be Developed

The National Automated Clearing House Association (Nacha) and the National Association for Check Safekeeping (NACS) have just started work to develop a standard for check truncation that would allow twice as many checks to be sent in a single ACH record as now permitted.

The new format will be tested early next year, and Nacha is working with the Federal Reserve to find participants.

The Federal Reserve Bank charges 1 cent to 1.5 cents for each ACH record sent by a bank, but it does not charge for check processing.

"This is not really a technical problem," said Elliott McEntee, president of Nacha. "It's a matter of deciding on the format and then getting the Fed to make the software changes."

L.L. Head Promotions and Fulfillment, a market research company based in Grand Rapids, Minn., and Itasca State Bank, also based in Grand Rapids, have agreed to participate.

Nacha said the modified format should be available commercially in 1991 for personal and corporate checks, money orders, and travelers checks.

Arizona Program

Separately, the Arizona Automated Clearing House plans to start a program in the next few months truncating checks deposited in the state's banks through the Arizona ACH system.

Mr. McEntee said no figures

New standard for check truncation would allow twice as many checks to be sent in a single ACH record.

are available for the number of checks that are now truncated or kept at the collecting bank. Other experts said the number could be as low as one million.

50 Billion Checks a Year

Of the 50 billion checks written annually in the United States, about five billion are kept at the bank rather than being returned to customers. Many of those kept at the bank are not truncated; rather, the bank on which they are written retains them as a customer service.

Of the five billion checks not returned, between one billion and two billion are corporate checks, Mr. McEntee said.

Present rules established by NACS permit truncation of corporate checks only. By yearend the rules will be changed to let consumer checks be truncated. □

New Uses for Laptops Proliferate

Tiny Machines Speed Mortgages, Pep Up Meetings

By KAREN GULLO

NEW YORK — When bankers leave the office to call on customers, more and more are taking portable personal computers with them to stay productive on the road and put some dazzle into their sales presentations.

Most banks are equipping salespeople, consultants, and auditors in their corporate banking groups with small, lightweight computers, which are usually battery powered.

But some banks are also finding uses for portables outside the corporate banking area. A handful of institutions are using portables in real estate lending units to speed mortgage qualification and application processing.

The banks are storing mortgage product and pricing information on the portables and incorporating them with communications capabilities so they can dial up credit bureau data bases and access credit reports for near-instant approvals.

Banks Slow to Catch On

Many nonbank mortgage companies began using portables a few years ago, but banks are just starting to. "It's an emerging area for banks," said Doug Gallagher, president of Gallagher Financial Systems Inc., Coral Gables, Fla.

Earlier this year, BancBoston Mortgage Corp., Jacksonville, Fla., a subsidiary of First National Bank of Boston, began requiring its 125 loan officers to use Toshiba laptop computers. Improved productivity and better customer service are the biggest advantages, say company executives.

"We find that it reduces the traditional ratio of processor to originators, allowing the originator to do more up-front processing in the field," said Stephen B. Matheson, vice chairman and chief financial officer at BancBoston.

"They allow us to respond quickly to customers and also provide very attractive and professional presentations."

Banking Goes On Location

BancBoston officers typically take the computers with them to client meetings at real estate brokers' and builders' offices, where they type customer information into the computer. A small printer attached to the machine can produce application forms and letters. The system is also equipped with a modem, which transmits information from the portable to computers in the home office.

"When you have a single product environment, it becomes hard to justify brick-and-mortar expenses," said Mr. Matheson. "Having the laptop allows the officers to be in realtors' office and download information on products and prices through the telephone line."

Gallagher Financial Systems markets a software system for mortgage originations that runs on portables. The system can tap into credit bureau data bases, communicate with a computer in the home office, and produce forms.

Mr. Gallagher says about 150 mortgage companies use the system but only a handful of banks have acquired it. That may be because of the expense. Hardware and software can cost $6,000 to $7,500 a unit, at least as much as for a desktop computer.

"They aren't cheap, but the morale boost it gives our staff is worth it," said Don A. Resler, vice president and head of the treasury management consulting group at Continental Bank, Chicago.

Continental, which has been using portables in some capacity for three years, purchased more from Compaq Computer Corp. in January for its treasury automation and cash management consultants and salespeople.

The computers have "changed the way we do consulting," Mr. Resler said.

Not only do the portables allow consultants to work on proposals in their hotel rooms at night and exchange electronic mail messages with colleagues in the office, but they add finesse to sales presentations. The portables can run spreadsheet and word processing programs, allowing consultants to revise and recalculate figures in a sales proposal on the spot.

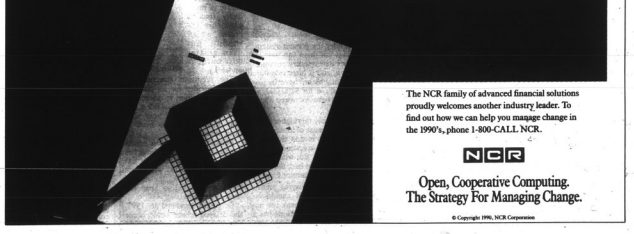
"It makes for a much more professional discussion and relieves anxiety on the loan[illegible] level," said Mr. Resler.

The portables also come in handy for demonstrations for bank products that run on personal computers. Salespeople in the trust and commercial banking units at the Northern Trust Co., Chicago, take portables along on sales calls to demonstrate how to dial into the bank's Mastertrust Client Services and use the bank's PC-based cash management products.

Advantages Outweigh Problems

While portables are relatively easy to use, getting the system's communications to work can sometimes be a problem. Usually a phone can be plugged right into most machines, but "sometimes it's not that simple," said Robert F. Schnitzer, vice president, corporate finance department, at Bankers Trust, New York.

"Sometimes phones are not touch tone, or a hotel doesn't have phones you can readily plug into," he said. □



COMMENT/ *By Paul Nadler*

The Party's Over: Analysis Is In, Hobnobbing Out

The bank credit crisis of 1990 is ample proof of the old saw "Schmidlap hasn't had 40 years' experience in banking, he has had one year's experience 40 times."

The corporate culture that is needed to survive and possibly thrive in today's lending environment appears to be quite different from that of years past, and those who have not adopted the new culture will cause trouble for their banks and themselves.

What about the nonperforming loans that are overwhelming banks today? Can they all be blamed on real estate problems and economic conditions that bankers feel they cannot control?

Obviously not. After all, the four Cs of credit include conditions, collateral, and capacity. Aren't these areas the banks should have thought of before they financed the overbuilding of commercial and residential facilities in the Northeast, Texas, and other areas?

Generation of Socializers

One can conclude that making loans was so easy for so long that banks developed a generation of lenders who were picked for their ability to socialize, make the right contacts, and generate relationships without tackling the hard job of analyzing the numbers.

Just as someone who wins on his first trip to the track thinks that the game is easy, and just as security analysts who started their careers at a time of rising stock prices think they have special savvy, many lending officers never have had to face tough times in their careers. When they finally did have to in 1990, they were unprepared.

In this regard, I was impressed by a comment made by Steve Panegko, head of commercial lending at L.J.B. Financial Corp. in New Jersey. Speaking of the credit crisis of the Northeast, he said, "About 70% of our staff of senior officers has been with us for at least 15 years since the last time we had credit problems. So they are prepared for what is happening."

Some Froze Up

One can compare this with the younger lenders at some banks who have been well trained academically and have been given decent credit training by their banks but who froze up when the loans they made started to go sour.

Having survived the baptism of fire in the mid-1970s is about as good a credential as a bank lender can have today. One can question once more the banks that have given early retirement to 55-year-old lenders so that younger people could move up, only to wish they had the perspective and experience of these older people on board in today's environment.

But there is more changing in the corporate culture than the new challenges and attitudes that lending officers are being forced to face. There is also the issue of what type of lending a bank should be doing.

Realtors, builders, and small businessmen are screaming at banks that have become so conservative they are not making the loans the nation needs to keep its economy strong.

Sharp bankers may answer that this is just not the case. The real issue, they often hold, is that these potential borrowers were given loans in the recent past that should not have been granted because of the poor prospects for sale of the structures and products being financed.

Thus what potential borrowers call super-conservatism the bankers call a return to reason. In other words, banks can no longer provide 100% of the needed funds, plus enough extra for the borrower to meet interest payments, until the property rises sufficiently in value to allow the loan to be repaid out of the capital appreciation.

Don't Count on Growth

The changes in corporate culture today also involve less stress on growth and more on basics. Growth was great when it gave employees new challenges and opportunities for promotion, and expanded the egos of top officers. Inflation slowly absorbed any overpayments for deposits and assets that growth entailed.

It is not difficult to see a correlation between growth in the 1980s and defaults in the 1990s in our financial sector.

So corporate culture is changing, and banks are likely to turn to healthier policies and goals as a result of the problems of today.

How long will this healthy change last? One would like to hope forever. More likely, the change will last just until today's lenders leave the scene and a new group comes in certain that they know and can handle situations that their predecessors were not smart enough or well trained enough to deal with. □

Mr. Nadler is professor of finance at Rutgers University's Graduate School of Management.

> **"What potential borrowers call super-conservatism bankers call a return to reason."**

"SOUND OFF"

A senior official at the Federal Deposit Insurance Corp. said recently that the agency's Bank Insurance Fund could decline as much as $2 billion by the end of the year if real estate problems persist and any large banks fail. Industry observers fear that such a decline in the fund, which is already at the lowest point relative to total deposits in its 56-year history, would force banks to foot the bill for another increase in the FDIC premium. Louis Gerhardstein, who writes for Medill News Service, asked:

Q *How would additional insurance premiums affect the banking industry? Would the burden be bearable?*

■ **Peter S. Damon**
President/CEO
Bank of Newport
Newport, R.I.

This year, the premiums we pay to the FDIC will increase about 45% to $360,000, while our earnings will be about $1.6 million.

We could continue to absorb deposit insurance increases, but that would detract from our earnings.

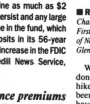


I can't imagine the FDIC would increase premiums any more than necessary, as long as there is a segregation between traditionally insured FDIC banks and the so-called "safe" banks that came out of the Federal Savings and Loan Insurance Corp. mess.

Deposit insurance is extremely important to the stability of the banking structure and the public's confidence in us, and I don't see any alternatives if the increases are required.

■ **Charles E. Waterman**
Chairman/CEO
South Holland
Trust & Savings Bank
South Holland, Ill.

South Holland can cover any additional cost of premiums through our earnings, although I wouldn't be looking forward to it, and I don't think it would be warranted.



I don't like to see coverage so low, but the situation was well-anticipated because of real estate problems in the Southwest. The fund is tracking exactly as forecast by the ABA, so I don't think additional premiums are necessary.

■ **Richard G. Kelley**
Chairman/CEO
First National Bank
of New Jersey
Glen Rock

We have the capital, but we don't want to pay for another hike in the premium. We've been in business since 1899, and have never filed a claim.

This year, the cost of insurance we pay to the FDIC went up 50% to $3 million. I think we pay more than our share right now.



I'm in favor of risk-based premiums, because we've had abuses in the fund in the past. Under the present system, a savings and loan can pay 2% more in interest than a commercial bank, and drives investors in by telling them, "your deposits are insured for $100,000, so you don't have to worry about it."

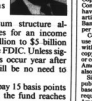
They can pay this higher interest partly because of looser regulation, which means that they can put their investments into riskier vehicles. But when those investments went bad, the S&Ls leaned on the insurance fund.

Banks that are paying premiums into the fund should be risk-rated. A good bank run according to the regulations has a lower risk and ought to pay lower rates. A bank that wants to take a risk and put a burden on the insurance fund should pay higher premiums.

In fact, I might take things one step further and allow only one deposit per person lifetime insurance of $100,000.

■ **Robert H. Dugger**
Chief Economist
American Bankers Association
Washington, D.C.

Most banks are well-positioned, and they certainly can afford the higher premiums. Some banks however, are not so well-positioned, and the effect on overall bank viability is important when considering an increase.



A delayed rebate is more likely than a premium increase, which would put even greater cost burdens on banks.

The premium structure already provides for an income flow of $4 billion to $5 billion per year to the FDIC. Unless significant losses occur year after year, there will be no need to raise the rate.

Banks will pay 15 basis points per year until the fund reaches 1.25% of insured accounts. At that point, the FDIC will rebate to individual banks the money that's not needed to keep the fund at that level.

Originally expected in 1997, the delayed rebate would occur sometime in 1998 or 1999. □

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Court Rulings on Texas Seizures Leave the FDIC Reeling

Continued from *page 1*

trouble with the courts.

"It wasn't fair," James Sexton said in defense of the agency's actions.

Mr. Sexton, the former director of bank supervision for the FDIC, said, "For all intents and purposes, those suburban banks were branches. They helped fund the high-risk loans that made the big banks fail. And because of their complicity, they should have become the property of the FDIC."

At Texas American Bancshares, for example, the FDIC was found to have unfairly seized 12 solvent banks. The 12, along with many other banks not owned by Texas American, had lent cash to the company's 12 failing banks.

FDIC Prevented Repayment

After the failing units were seized, the FDIC prevented them from repaying loans that the 12 solvent units had made to them. Denied repayment, the 12 solvent units then failed.

The decision on these loans contrasts with FDIC approval for full repayment of loans made by banks outside the Texas American system.

> **"The facts of this case indicate an . . . egregious use of the FDIC's extensive powers."**
>
> **Judge Robert Sanders**

The FDIC used the same tactic on affiliate loans at First Republicbank Corp., Dallas. All told, roughly 60 solvent banks failed because the FDIC withheld funds owed to them by seized affiliates.

Termed a Conscious Violation

Not only did the FDIC break the law by discriminating among creditors of failed Texas banks, but the agency apparently knew all along that it was acting illegally, lawyers say. In 1978, First Empire Bank won a decision against the FDIC over this very issue.

The First Empire decision, as cited by U.S. District Judge Robert Porter when he upheld an MCorp claim against the FDIC, held that Congress never intended "to have the fiscal integrity of the bank insurance fund outweigh the policy of equitable and ratable payment of creditors."

1978 Case Cited

U.S. District Judge Robert Sanders, in upholding Texas American's claim against the FDIC, also referred to First Empire. "The facts of this case indicate an equally egregious use of the FDIC's extensive powers," he said. "The seizure and sale of solvent banks through arbitrary devaluation of their assets in another bank cannot be fair."

Congress is sympathetic to the FDIC's plight. In crafting the 1989 thrift-reform bill, lawmakers inserted a cross-guarantee provision that empowers the FDIC to seize healthy banks to offset the cost of rescuing failed affiliates. Thus, the FDIC will not again act as it did in the Texas situations, which predated that legislative change.

Present Actions Challenged

But the FDIC still has not shaken its proclivity to act beyond the scope of its authority, lawyers say.

They point to recent efforts by the FDIC-managed Resolution Trust Corp. to make the former owners of failed thrifts comply with capital-maintenance agreements obtained by the defunct Federal Home Loan Bank Board. The FDIC also recently tried to establish itself as the priority claimant and litigant in any bankruptcy proceeding of a failed bank.

Federal judges blocked both attempts.

> **"The FDIC wraps itself in a flag as a protector of the public welfare, thinking that stance is enough to justify anything it wants to do."**
>
> **Howard Cayne**
> *Arnold & Porter*

"The FDIC wraps itself in a flag as a protector of the public welfare, thinking that stance is enough to justify anything it wants to do," said Howard Cayne, a lawyer with Arnold & Porter. "But the agency can't be so obsessed with its mandate as to ignore the rights of affected parties."

Indeed, that is the position being adopted fairly regularly by federal judges. And the judges are making it clear that they won't help the FDIC by making shaky liberal rulings that have the effect of circumventing the intent and authority of Congress.

"The FDIC should take all feasible measures authorized in the Federal Deposit Insurance Act to maximize recovery to the fund," said Walter Hoffman, senior district judge in the U.S. Court of Appeals for the 11th Circuit in Florida. "We cannot, however, approve of judicial expansion of the express powers and rights granted to the FDIC by Congress." □

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COMMUNITY RELATIONS

Institutions Step Up to Aid Victims of California Fire

Continued from *page 1*

home-loan payments. Bank of America and Security Pacific National Bank are providing loans with lower than normal interest rates. Home Savings of America, meanwhile, is pressing its recovery team into action.

The late June fires devastated some areas of parched Southern California. They destroyed 400-plus homes in Santa Barbara, 45 in Glendale, and additional homes elsewhere, with damage estimated in excess of $500 million.

Bankers said homeowners find themselves in a financial bind because insurance payments or disaster relief funds can take months to arrange – and the families need cash now.

A few fire victims face much bleaker prospects because they did not carry enough insurance. Some homeowners had neglected to step up their coverage to keep pace with dramatic jumps in California housing prices.

Bankers said it is too early to tell whether they will sustain loan losses because of the fires. Although the personal costs of the tragedy are high, the number of homes destroyed is small compared with the size of their portfolios, the bankers said.

Bankers also said it is too early to estimate how many customers will take advantage of special loan rates and other aid programs. "We found that after the recent San Francisco earthquake we got the most calls about a month afterward," said Patricia Kenny, vice president for retail lending at Security Pacific National Bank, Los Angeles. "That is when people had dealt with their insurance companies and the [government] agencies and decided how they wanted to repair or rebuild."

> **"These people are in shock – and often the policy was destroyed in the disaster."**
>
> **Maureen Maginn**
> *Home Savings of America*

Home Savings of America, Los Angeles, has perhaps the most elaborate aid program. It is fielding a disaster team created in 1987 for the Whittier, Calif., earthquake. The team also worked on relief efforts in the aftermath of Hurricane Hugo and the San Francisco earthquake.

Disaster Team Mobilized

The team's first action is to define the affected area, using information from the media and its local branches. In 24 to 48 hours, the team has a listing of all the thrift's customers in the affected area.

"We then contact the branches and ask them to ask the customers to call our 800 number," said Maureen Maginn, vice president. "We fax our lists to the branches and ask them for drive-by inspections."

Customers who call the 800 number get a disaster specialist at the thrift's Pasadena service center. Home Savings representatives have been specially trained to be sensitive to customers whose lives have been uprooted, said John Davidson, senior vice president. Kits are mailed to customers with brochures from relief agencies and the bank.

Help for People in Shock

Home Savings executives said the biggest problem is that homeowners often do not know who their insurance company is or how to contact it. "We have that information and help them out," said Ms. Maginn. "These people are in shock – and often the policy was destroyed in the disaster."

Security Pacific is offering emergency 90-day loans to qualified residents of the fire-ravaged areas. It is also offering personal unsecured loans of up to $20,000 or secured real estate loans of up to $100,000 at 9.5% interest, with no fees or closing costs. This compares with the bank's usual rate of 18.75% on an unsecured loan and 11.75% to 13.75% on secured loans. No payments on the emergency loans will be due until maturity.

Security Pacific promises to expedite credit card applications and requests for credit line increases. Furthermore, it is permitting early withdrawal from time accounts without penalty.

First Interstate Bank of California, Los Angeles, is offering to defer payments on all types of loans for 90 days for any customer affected by the fire.

People who lost their homes can get an immediate $5,000 unsecured line of credit. The First Interstate Bancorp unit is waiving fees and offering loans at two points below the prevailing interest rate. For now, that means a rate of 17% instead of 19%. First Interstate is also allowing early withdrawal of time deposits without penalty.

Special Fixed-Rate Loans

Bank of America, San Francisco, is allowing homeowners to borrow up to $25,000 for 90 days at a special fixed rate of 9.25% with no fees for points. The normal rate is 12.125%.

The BankAmerica Corp. unit will make personal loans for $1,000 to $5,000 at 12% with no points or fees, compared with the 21% generally charged. The bank is also working with customers who need extensions or revisions of their loans or higher credit limits. Customers burned out of their homes are being allowed to skip a payment on their credit cards. □

Card Groups Sue Telemarketers

MasterCard, Visa Say Scams Cost Them $4 Million

By ELLEN MEMMELAAR

NEW YORK — MasterCard and Visa have filed a multimillion-dollar lawsuit in what they say is the largest telemarketing fraud operation they have ever uncovered.

The lawsuit, unsealed on Thursday, names 10 individuals and 11 companies and alleges racketeering, fraud, trademark infringement, and interference with contractual relationships. The card associations are seeking $10 million in punitive damages and recovery of actual damages, estimated at $4 million.

MasterCard International and Visa International also want to ban the telemarketers from associating with them or using their accounts.

Consumers Lured with Freebies

According to the suit, consumers have been enticed by mailings that promise free cars, watches, and cash prizes. The consumers then call "boiler rooms" where salespeople use pressure tactics to persuade them to buy water purifiers, travel packages, and vitamins, the suit charges.

Such telemarketing operations often suggest that the program is affiliated with MasterCard or Visa, and the connection is used to obtain the callers' credit card numbers.

In some cases the caller is charged multiple times for the product and billed for products that were not purchased, according to the suit. Callers often don't receive the merchandise or it is not what was described over the phone, it also states.

Banks often refuse to set up accounts with telemarketing operations, fearing that customers will refuse to pay. So telemarketers turn to small businesses, which agree to process the sales drafts for a 6% commission.

These businesses file for bankruptcy protection when the banks try to collect on the fraudulent charges, and the banks lose significant amounts of money, said Richard Collier, director of security and fraud control at MasterCard International. "Banks are taking heavy hits."

Losses Sure to Grow

The lawsuit documents $4 million in losses for the card associations, said Daniel Bookin, a San Francisco lawyer representing them. But the losses are sure to be much larger, he said.

Telemarketing scams are responsible for $150 million to $200 million in annual losses at Visa and MasterCard. The Federal Trade Commission estimates that such frauds cost consumers $1 billion a year.

"It is a tremendous problem for the industry," Mr. Collier said. "We are attacking the issue forcefully."

The card associations' efforts to halt telemarketing fraud go well beyond the lawsuit, said Mr. Collier. Both associations are preparing statement stuffers on the subject and have developed seminars and videos for bank employees, he said.

Also, two bills are being debated in a subcommittee of the Senate's Commerce, Science, and Transportation Committee. The associations favor a bill introduced by subcommittee chairman, Sen. Richard Bryan, D-Nev., that would empower the FTC to pursue fraudulent telemarketers and would allow suits against them to brought in federal court. □

American Express Hastens to E. Germany

By YVETTE D. KANTROW

NEW YORK – Continuing to take advantage of the newly liberalized markets of Eastern Europe, American Express Travel Related Services Co. said it was making its charge cards and travelers checks available to consumers in the German Democratic Republic.

The New York-based financial services giant also said it will open travel service offices in East Berlin, Leipzig, and Dresden beginning this fall. American Express is striving to have a tangible presence in the region by yearend.

Its announcement represents the latest move by an American card company to seek new opportunities in the East bloc.

MasterCard International and Visa International recently signed agreements with banks in Eastern Europe to issue cards and enable merchants to accept them.

Toehold in the East

All three companies apparently have a toehold in Eastern Europe, as demonstrated by a recently released survey of consumer brand attitudes.

Landor Associates, a San Francisco-based image consulting firm, interviewed a cross section of 1,500 Eastern European consumers in April and May, asking them to rate their familiarity with 400 leading brand names. The sample was evenly distributed among consumers in the Soviet Union, Poland, and Hungary.

The average Eastern European in the study was familiar with only about 175 of the world's 400 top brand names. But the credit card brands were among the names recognized.

In Hungary, which is believed to be one of the most westernized of the Eastern European countries, the American Express brand name ranked 132, ahead of such U.S. corporate names as Time, Chrysler, and Du Pont. Visa ranked 161, while Eurocard – a charge card system affiliated with MasterCard – ranked 177.

American Express also fared well in the Soviet Union. Visa – which will begin to offer cards in the Soviet Union next year – did not make the Soviet list. Nor did MasterCard. □

AMERICAN BANKER /*Bank Rate Monitor*™

Consumer Money Index

Eight-Week Rate Trend



Retail Yields

	6-month	1-year	5-year
New York	7.98%	8.22%	8.45%
Los Angeles	8.04	8.20	8.09
Chicago	7.74	7.92	8.26
San Francisco	8.04	8.32	8.27
Philadelphia	8.00	8.14	8.10
Detroit	7.82	7.97	8.04
Boston	8.20	8.35	8.35
Houston	7.54	7.82	7.72
Dallas	7.56	7.68	7.86
Washington	8.32	8.46	8.40
BRM NATIONAL AVERAGE	7.91	8.10	8.17

Retail and Jumbo CDs

Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 biggest banks and thrifts in each of the nation's 10 largest markets on July 3. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Jumbo Rates

	6-month	1-year	5-year
New York	7.94%	7.99%	8.32%
Los Angeles	7.98	8.06	7.88
Chicago	7.79	7.84	8.20
San Francisco	8.03	8.12	8.22
Philadelphia	8.01	7.96	7.98
Detroit	8.05	8.03	8.10
Boston	8.17	8.17	8.18
Houston	7.63	7.69	7.77
Dallas	7.69	7.71	7.84
Washington	8.14	8.25	8.40
BRM NATIONAL AVERAGE	7.88	7.93	8.05

Source: Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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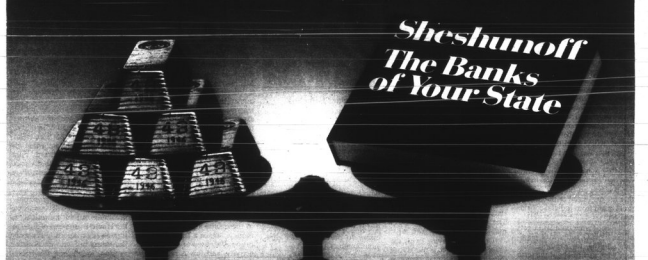

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WASHINGTON *Monday*

A weekly feature

AMERICAN BANKER
Monday, July 9, 1990

Bankers Expect Some Relief from Sharp Sting of RICO

By LOUIS GERHARDSTEIN
Special to the American Banker

WASHINGTON — The banking industry, after years of being threatened in civil suits with triple damages under the Racketeer Influenced and Corrupt Organizations Act, now feels confident that current proposals in Congress will successfully narrow use of the RICO law.

One proposal, introduced by House Judiciary Subcommittee Chairman William J. Hughes, D-N.J., and members William McCollum, R-Fla., and Rick Boucher, D-Va., is now before the full Judiciary Committee. The Senate already has passed its own RICO revision bill.

The original 1970 RICO law awarded triple damages for fraud in racketeering cases involving organized crime. But the law was so broadly applied that organized crime link almost faded from judicial consideration.

Banks became popular targets of civil RICO suits, with plaintiffs alleging, for example, that they were misled about the term "prime rate."

'Gatekeeper' Concept

The Hughes proposal hinges on a "gatekeeper" provision, which relies on federal judges to dismiss civil RICO suits that do not meet a standard of "egregious criminal conduct." The provision would reduce sharply the number of plaintiffs qualified to receive tripledamages.

"It will discourage and weed out frivolous lawsuits against banks," said John K. Villa, partner with the law firm of Williams & Connolly.

"There is an overwhelming consensus in Congress that RICO needs to be reformed," said Barry Direnfeld, a partner with the Washington law firm of Swidler & Berlin and counsel to the Business Coalition for RICO Reform, which worked with the subcommittee to draft the legislation.

Rate Squabbles

Confusion about the prime rate did exist, for example, but bankers argued that such cases did not belong in federal court and should not qualify for triple damages.

The Supreme Court ruled in 1985 that the language was too vague, but attempts to revise the statutes in 1986 and 1988 failed. The attitude among lawmakers may be different this year.

"Congress is saying [with the suggested revisions], 'We didn't intend these draconian penalties to be used in every civil dispute,' " Ms. Adams said. "They're saying, 'We really intended them to apply to truly criminal activity.'"

In the House proposal, lawsuits could be brought only against defendants already convicted of a RICO offense or other "predicate acts" that establish a pattern of criminal conduct. If a defendant has no prior convictions, the plaintiff must establish that the "magnitude or significance" of the injury makes a RICO action appropriate, that the defendant was a major participant in the criminal action that caused the plaintiff harm, and that triple damages are necessary to prevent further egregious conduct.

Spurious Cases Take Toll

One of banks' principal concerns about provisions of current RICO law is that the mere filing of such a suit can mean substantial legal costs for the bank and can erode community confidence, even if the suit has no merit.



Rep. William J. Hughes
New Jersey Democrat

"The threat of a RICO action pressures a financial-institution to settle cases without merit," said James L. Harrison, president and chief executive officer of First Community Bancshares of Princeton, W.Va., in testimony before the Senate Judiciary Committee in June.

A $7 million RICO suit brought in 1983 against a First Community subsidiary dragged on for five years and cost as much as $400,000 to defend, Mr. Harrison said. Even though a federal court of appeals dismissed the charges in 1988, Mr. Harrison said, the subsidiary's assets shrank to $50 million from $60 million, while the assets of its major competitor in the region grew to $170 million from $70 million.

First Community is still trying to resolve a $321 million RICO suit filed in 1987 that has cost the bank between $250,000 and $400,000 to defend, Mr. Harrison said.

The banker said the damages of these suits are not limited to money. "Once a financial institution is accused of racketeering activity, and this is reported to the public, the negative impact is felt for many years."

The current House bill is sponsored by eight of 10 members of the subcommittee. One dissenting member, John Conyers, D-Mich., is expected to introduce an amendment to the full committee that would maintain current RICO statutes for investigations into savings and loan fraud.

Opposition also remains strong among consumers, who contest the bill's retroactive clause and contend that vague language in the gatekeeper provision may enable individuals connected to failed S&Ls to escape conviction.

"The language of the gatekeeper is so vague that there is a very good chance the aiders and abetters will get away," said Pamela Gilbert, legislative director of Public Citizen's Congress Watch. "These defendants will use every tool at their disposal to wriggle out of liability."

But assertions that S&L criminals might get off scot-free are without merit, said Mr. Villa. The actions of people involved in S&L failures would qualify as egregious criminal conduct, he said.

Mr. Direnfeld said he is confident that the bill will be reported favorably out of committee to the House by the end of July, although negotiations to reconcile the House bill with the Senate's version "don't lend themselves to splitting the difference."

Although the simplicity of the House bill makes it more likely to be approved than the Senate bill, Mr. Direnfeld added, both bills "remove RICO to the appropriate cases."

Mr. Gerhardstein writes for the Medill News Service.

THE WEEK *ahead*

MONDAY, JULY 9

Consumer Credit figures for May are released by the Federal Reserve Board.

TUESDAY, JULY 10

Congress returns from its recess for the Independence Day holiday.

The Resolution Funding Corp. sells $5 billion of 30-year bonds.

The House Banking subcommittee on housing and community development holds a hearing on the Federal Housing Administration. The hearing will focus on Price Waterhouse's actuarial review of the FHA's Mutual Mortgage Insurance Fund. 202-225-7054.

The Federal Deposit Insurance Corp. holds an open board meeting to discuss extending the deadline for informing depositors of changes in deposit insurance coverage. Also up for consideration: a memorandum and resolution pertaining to unsafe and unsound banking practices. 202-898-3813.

WEDNESDAY, JULY 11

The Senate Banking Committee holds a hearing on the jurisdiction of regulation of securities markets by the Securities and Exchange Commission and the Commodity Futures Trading Commission. Numerous witnesses testify, including Charles Schwab, who heads the Schwab discount brokerage, and Leo Melman, head of the Chicago Mercantile Exchange. 202-224-7391.

THURSDAY, JULY 12

Federal Reserve Chairman Alan Greenspan testifies before the Senate Banking Committee on legislation to modernize the financial services industry. 202-224-7391.

The SEC/CFTC hearings continue at the Senate Banking Committee, with Treasury Secretary Nicholas F. Brady testifying. 202-224-7391.

Initial jobless claims for the week ending June 30 are reported by the Labor Department.

FRIDAY, JULY 13

Producer Price figures for June are released by the Labor Department.

Retail Sales figures for June are released by the Commerce Department. □

INSIDE *congress*

St Germain Named in Insurer's Collapse

Former House Banking Committee Chairman Fernand J. St Germain, D-R.I., has emerged as the man in the middle in the recent collapse of Executive Mutual Property & Liability Insurance Co., Providence.

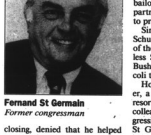
Thomas Leslie Newman, a self-described entrepreneur from Reston, Va., told the *Providence Sunday Bulletin* that he decided to buy the company after Mr. St Germain told him it was for sale. Six months after he closed the deal with a $100,000 check from the Central Falls Credit Union, the insurance company was taken over by the state.

A longtime friend of Mr. St Germain's, Roland O. Ferland, brokered the deal and received a $150,000 finder's fee, the Providence paper reported. Of that, he set aside $10,000 for Mr. St Germain, who, Mr. Ferland told the Bulletin, asked him to hold the money.

"Fred said, 'When I want it, I'll call you,' " Mr. Ferland said, according to the *Bulletin*. "He apparently didn't want it in 1989, because then he'd have to declare it on last year's income tax return."

Mr. St Germain, who acknowledged introducing Mr. Newman and Mr. Ferland and who said he was present at the closing, denied that he helped arrange the sale.

The June 23 article in the *Bulletin* was followed five days later by a report in *The Boston Globe* that Mr. St Germain had signed out investments in troubled thrifts for a businessman who was a target in a federal probe into possible fraud.



Fernand St Germain
Former congressman

Word War. Ever since White House spokesman Marlin Fitzwater denounced congressional Democrats for their role in bringing on the S&L crisis, the daily *Congressional Record* has been overrun with transcripts of floor speeches on the subject. Most try to fix blame.

On June 20, for example, Rep. Marcy Kaptur, D-Ohio, claimed that taxpayers in her state are being asked to pay too great a share of "the Bush savings and loan bailout" while the Justice Department is moving too slowly to prosecute S&L fraud.

Similarly, Rep. Charles E. Schumer, D-N.Y., complaining of the administration's "rudderless S&L ship," said President Bush has said more "about brocolli than the S&L crisis."

However, Rep. Robert Walker, a Pennsylvania Republican, resorted to verse to remind his colleagues of Democratic transgressions. One couplet, citing St Germain, gives the general idea.

There once was a Democrat named Freddy
His chairmanship made him quite heady
He said, What the hell,
Let's live on S&L,
I've got their credit card always ready.

The last line presumably referred to old reports that Mr. St Germain sometimes borrowed a charge card from James O. "Snake" Freeman, who at the time was a lobbyist for the U.S. League of Savings Institutions.

— Robert M. Garsson

Pressure on Fed by White House Is Criticized

Continued from *page 2*

Minutes of the July meeting will not be made public until Aug. 24, but *The New York Times* cited unidentified government officials Friday as reporting that the committee had adopted a resolution July 3 expressing a new willingness to reduce interest rates. The resolution conditioned such a move on fresh data showing the economy headed toward recession.

The Fed declined to comment on the article.

Minutes of the committee's May 15 meeting, released Friday, showed that the Fed had remained neutral on policy, with only Lee Hoskins, president of the Federal Reserve Bank of Cleveland, voting to tighten reserve conditions.

If a policy shift did occur last week, it would be the first this year and would indicate the central bank's worry that the economy is growing weaker. The Fed last eased short-term interest rates in December.

Dependent on Data?

"My own view is that the Fed did agree on a bias toward easing but made any action dependent on future economic and price data," said David M. Jones, senior vice president and economist at Aubrey G. Lanston & Co. in New York.

Mr. Jones and other economists said the public comments by Treasury Secretary Nicholas Brady urging the Fed to cut interest rates in advance of a government agreement to reduce the federal budget deficit would not influence the Fed.

"I think the Fed wants to avoid the perception it is making a deal with the devil or politicians, whichever word you want to use," said Mr. Jones. "The Fed would view any deficit-cutting action for its impact on the economy rather than participate in an outright deal with politicians."

Surprise in Job Numbers

Friday, employment numbers released by the government contained a surprisingly strong upward revision in May's U.S. nonfarm jobs total. That overshadowed the weak data for June and convinced economists that the Federal Reserve will not ease interest rates soon. In the Treasury securities market Friday, the yield on the benchmark 30-year bond rose from 8.42% to 8.51% on news of the May revision.

Most economists said the Fed will ease interest rates some time in the third quarter unless the economy, now growing at a 1.5% to 2% annual rate, starts to slip toward zero or negative growth.

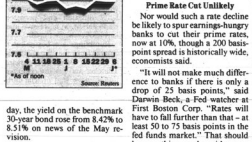
A fall in short-term rates would immediately benefit banks by increasing the spreads between their cost of funds and their lending rates. However, economists said a drop of just 25 basis points in the federal funds rate – to 8% from the 8.25% at which fed funds have traded since December – would prove inadequate to spur credit demand.

Prime Rate Cut Unlikely

Nor would such a rate decline be likely to spur earnings-hungry banks to cut their prime rates, now at 10%, though a 200 basis-point spread is historically wide, economists said.

"It will not make much difference to banks if there is only a drop of 25 basis points," said Dawson Beck, a Fed watcher at First Boston Corp. "Rates will have to fall further than that – at least 50 to 75 basis points in the fed funds market." That should happen this year, he said.

Mr. Jones of Aubrey G. Lanston characterized the economy as so sluggish that the Fed may need to ease short-term rates as much as 300 basis points over time in order to stimulate business activity sufficient to avert a recession. □



Krause Named to Key Supervisory Position at Comptroller's Office

Continued from *page 1*

"When you get the kind of criticism that has been this intense and this heartfelt, you should take a second look – and we are taking a second look," said Ms. Krause.

"But I haven't found anything yet to suggest the [current examination] policy is wrong," she added. Ms. Krause will move into her new post July 23. She and Dean Marriott, acting deputy comptroller for bank supervision operations, are the national bank regulator's highest-ranking supervisory officials.

Ms. Krause will oversee development of supervisory policy for the domestic and foreign operations of 4,200 banks with $1.97 trillion in assets. Succeeding to her will be the agency's chief national bank examiner, the deputy comptroller for compliance management, and the deputy comptroller for international banking and finance.

Nontraditional Background

Ms. Krause (pronounced Kraw-zy) is the agency's first head of bank supervision policy in memory who did not come from the ranks of examiners.



Susan F. Krause
Comptroller's Office

Her three immediate predecessors – Mr. Herrmann, H. Joe Selby, and Paul Homan – all came from the examination side of the agency.

However, Ms. Krause gets high marks from those who know her, both inside and outside the agency. "She's very bright, hard-working, and well connected within the agency," said Brian Smith, a banking lawyer with Stroock & Stroock & Lavan in Washington.

"She's fantastic," said Frank Maguire, senior vice president-counsel for legislative and public affairs. "She's been involved in most of the major policy decisions here."

Ms. Krause is probably best known to bankers for her work on the development of risk-based capital standards, a project that has consumed huge amounts of her time in recent years.

In addition to the continuing criticism over examination policies, Ms. Krause will face a number of other tough issues in her new post. The first is likely to be the agency's new procedures for monitoring compliance with the Community Reinvestment Act. □

Great American Converts

SAN DIEGO — Great American Bank said it completed its conversion to a stock savings bank June 29 by combining its federal- and state-chartered units and adopting a single identity.

The $15.4 billion-asset thrift said the change enables it to stop paying assessments to the California Department of Savings and Loans; these totaled $500,000 last year. Great American said the change does not limit its service and investment powers. □

Overcharging On Adjustables To Be Probed

By RICHARD CHANG
Reuters

NEW YORK — Sen. Richard Lugar, R-Ind., is asking the Senate Banking Committee and the General Accounting Office to probe overcharges on adjustable-rate home loans.

The requests, made in letters dated July 5, followed the Federal Deposit Insurance Corp.'s acknowledgment of the problem and its promise to compensate borrowers whose rates were overcharged on loans that regulators seized from troubled thrifts.

"The [adjustable-rate mortgage] problems acknowledged by the FDIC may only be the tip of the iceberg," Sen. Lugar said.

Scope May Be Wide

Sen. Lugar said he was particularly concerned about the scope of the problem, since adjustables are sold by banks, thrifts, credit unions, and mortgage banking companies. Some observers, have estimated that the overcharges will run into billions.

"Furthermore, in taking over the assets of failed savings and loans, the Resolution Trust Corp. may be holding incorrectly adjusted ARMs," Sen. Lugar said.

"Clearly, it would be most appropriate to correct these mortgages prior to selling them. Consequently, this issue could drive the cost of the savings and loan bailout," he said.

Precedence to Be Given

An aide to Sen. Donald Riegle, D-Mich., chairman of the Senate Banking Committee, said that because millions of consumers were involved, the issue of errors in adjustable-rate mortgages "will obviously take precedence" over other topics scheduled for committee hearings.

A spokesman for the General Accounting Office, an investigative arm of Congress, declined to comment on Sen. Lugar's request for a study.

Sen. Lugar said he first raised the issue in November with the Federal Reserve Board, Office of Thrift Supervision, FDIC, and RTC. It was then referred to the Federal Financial Institutions Examination Council, a coordinating body, which reportedly has passed the case off to a subgroup that monitors consumer compliance issues.

High Error Rate

An industry consultant who studied 7,000 adjustables held by thrifts seized by the government found that consumers were wrongly charged in half the cases. At one thrift, the error rate was 100%, said the consultant, John Geddes of Zugos Corp., Mays, Ind.

His study pointed to potential refunds of $8 billion on some $463.5 billion of loans.

In a related matter, an Indiana law firm using Mr. Geddes' data is preparing a class action on behalf of homeowners and consumers seeking compensation for overcharges on adjustables. □

Comptroller to Boost Assessments On National Banks 8% Next Year

Continued from *page 1*

as supervision costs rise and banks' asset growth slows. A steering committee within the agency recommended the increases. Costs are projected to grow 7.4% this year, to $263.8 million; current assessment levels have been in effect for two years.

The steering committee also studied alternative methods of calculating the assessment. One under consideration would increase many banks' assessments by more than 10% above current levels. (See chart on page 1.)

An 8% increase next year would cause a $173 rise in the base semiannual assessment – that paid by the smallest national banks – to $2,339. A bank with $10 billion in assets would increase its twice-yearly payment to $493,346, from $456,802.

Banking trade groups have not yet determined the full impact of the planned increase, but some expressed concern.

Banking Group Alarmed

"We, of course, are alarmed about such a significant increase," said Linda A. Garvelink, director of bank regulations at the Independent Bankers Association of America. "Increasing the fee rates is going to increase the expenses to small banks significantly [the proposal]. We do recognize that they are going to have to get more income." The Comptroller, which regulates 4,200 national banks, said an 8% increase would bring $19 million in additional annual revenue, enough to cover its short-term needs.

The agency faces several problems, beginning with bank asset growth. After increases in growth in recent years – 2% in 1987, 3.4% in 1988, 7% in 1989, and a decline in the first quarter of 1990 – has made assessment-revenue projections difficult.

Employee Costs Rise

Employee salaries and benefits have also risen, to about 72% of OCC expenditures this year, up from 66% in 1985. The Financial Institutions Reform, Recovery,

"We do recognize that they are going to have to get more income."

James D. McLaughlin
American Bankers Association

and Enforcement Act of 1989 forced compensation higher, requiring the agency's pay to be consistent with that at other regulatory agencies.

Meanwhile, problem banks, troubled areas of bank lending and highly leveraged transactions have required more supervisory resources.

In addition to the 8% assessment rise, the OCC has proposed new fees for processing certain securities-related filings by national banks. An annual fee is also proposed for banks with municipal- and government-securities dealer departments, where the OCC is the primary regulator.

The agency is also proposing to bill banks for services that have not been priced in the past. □

GLOBAL *dispatches...*

Brady Hints at Flexibility On Japan's Loans to China

Reuters

WASHINGTON — U.S. Treasury Secretary Nicholas F. Brady expressed an understanding of Japan's desire to resume lending to China but stopped short of saying whether Washington would approve of such a move.

He told a small group of reporters that the geographic proximity of the two countries had to be taken into account when discussing Japan's loan policy toward China.

"You have to respect [that]," Mr. Brady said. "That leads to business relationships."

In a show of solidarity with the West and particularly the United States, Japan cut off loans to China after Beijing's brutal crackdown on pro-democracy demonstrators in June last year.

Tokyo has been under increasing domestic pressure recently from businessmen and others to resume its suspended loan program to China, but it has feared risking U.S. criticism.

Mr. Brady said that a distinction had to be drawn between bilateral loans to China and lending by international institutions such as the World Bank. Largely at the behest of the United States, the World Bank has limited its loans to China to credits that meet so-called basic human needs. A senior U.S. official made it clear last week that that position had not changed.

Mr. Brady said he expected next week's Group of Seven meeting in Houston to discuss multilateral lending policy toward China.

... *by country*

BRITAIN

Mired in losses on its New York real estate holdings, Britain's **Berisford International** PLC, a conglomerate, set plans in London for a major corporate restructuring.

The company is primarily involved in leasing and related financial services, metals trading, property investment, and food production. It disclosed group net debts of $2.1 billion. It plans to sell its main operating division, British Sugar, to raise up to about $2.2 billion to restructure its debts.

The company is also confident that leasing, the major part of its financial activities, can be sold before yearend, a company spokesman said.

Berisford has written down a total of $340 million, covering 90% of its exposures to the New York real estate market. This follows its foray into Manhattan property in 1987, an investment badly hit by declining values. After the writedowns, the company is left with a published net worth of just over $400 million.

Meantime, Berisford has reached preliminary agreement with its leading British banks to put borrowings, mostly short-term, on a longer-term basis, the spokesman said. The company has borrowings outstanding from a total of 68 different banks, but declined to disclose its main lenders.

The rescheduling of its indebtedness is required to avoid a run on the company if creditors lose confidence, the spokesman said.
— **John Evans**

NEW ZEALAND

A New Zealand bank, **Countrywide Banking Corp.**, has conditionally agreed to buy **Diners Club (NZ) Ltd.** from **NZI Bank Ltd.** and the New Zealand branch of **Citicorp's Citibank.**

NZI Bank holds 94% of the credit card company and Citibank the rest. No price was disclosed.

NZI Bank is a unit of Britain's **General Accident** Fire and Life Assurance Corp. PLC, which also holds 20% of Countrywide.

Jim Macauley, executive chairman of NZI Bank, said Diners did not fit in with his bank's new direction, while a Countrywide spokesman said the acquisition would be a major part of the bank's consumer banking operations.
— **Reuters**

AUSTRALIA

National Australia Bank Ltd. said its brokerage unit A.C. Goode & Co. would shut down its trading operation after the close last Friday.

"All transactions will be completed in the normal manner," the bank said.

The shutdown follows the bank's announcement two weeks ago that it would pull out of the brokerage industry. A.C. Goode employees 150 people.
— **Reuters**

JAPAN

Sumitomo Bank Ltd. said it opened a representative office in East Berlin Friday.

"With the unification of Germany anticipated, the needs of our customers for information on the economy, trade, and finance in East Germany are increasing," an official said.
— **Reuters**

* * *

Bank of Tokyo's establishment of a representative office in Taipei has already received government approval, but finding an office and securing staff could delay the actual opening until this fall or later.

The bank says the delay has nothing to do with the displeasure over the move expressed by China.
— **TFW**

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Cauline International Corp., Cupertino, Calif.

U.K. Lenders Take Heat for Deficit

Voluntary Restrictions Sought on Consumer Credit

By JOHN EVANS

LONDON — Banks and finance companies are rapidly becoming public enemy No. 1 of British economic policymakers, who blame much of the nation's hefty inflation and persistent trade deficit on aggressive marketing of consumer credit.

Rumblings are beginning to emerge from the administration of Prime Minister Margaret Thatcher and consumer-protection agencies that official curbs may be placed on lenders to stem what economists describe as a credit explosion in recent months.

Credit growth is accelerating despite a sharp upward push in interest rates last year, the chief policy response of the government to Britain's destabilizing $35 billion trade deficit.

Snowballing Expansion

Consumer credit jumped $6.5 billion in May, faster than at any time in the past two years. Interest on consumer loans and credit card borrowing is approaching 30% while mortgage rates are at a record 15%.

Undeterred by costly money, consumers continue to spend freely. They are largely financed by loans from banks, thrifts, and finance companies.

Most of this credit is being advanced by British banks, although many of the 500 foreign banks that operate in London have also turned to consumer and mortgage lending.

Unfettered credit expansion stimulates the demand for imported goods, deepening Britain's trade with other countries, economists say. At the same time, British industry is hampered by sharply higher financing costs that make it less able to compete with foreign imports.

> **"Thrift has gone out of fashion."**
>
> **Robin Leigh-Pemberson**
> *Bank of England*

Neil MacKinnon, chief economist at Yamaichi Securities Ltd. in Britain, says the government's deepening concern reflects the fact that lending is still growing at a 19% annual rate, nine months after the commercial banks hoisted their prime rate to 15%.

That raises doubts around the world that Britain can put the brakes on consumer lending. The Thatcher government has so far resisted imposing any formal controls on credit, Mr. MacKinnon says.

Government Action Avoided

Britain's chancellor of the exchequer, John Major, has warned that banks and thrifts could be subject to official action if they fail to curb "irresponsible" consumer lending practices. Bank of England Governor Robin Leigh-Pemberson has sounded a similar note, contending that "thrift has gone out of fashion" in Britain.

The government urgently wants the banking industry to adopt a tough voluntary code on credit. A primary objective would be to prevent the type of misleading marketing that leads consumers into heavy debt. A recent survey showed that up to 500,000 households in Britain are suffering some form of credit problem or debt arrears.

Signal International, a consumer research group, claims that Britain will "borrow itself into a recession," without some form of credit control.

Younger Borrowers Targeted

In its survey, the firm found that a general increase in borrowing in Britain is directly connected with the availability of credit. Signal accuses some banks and financial companies of irresponsible lending, including "indiscriminate marketing" to younger borrowers.

"This is a real problem for the government, which is caught between a rock and hard place," says Signal's chief executive, Alan Charlesworth.

A spokeswoman for the British Bankers Association says that its members practice responsible lending and will support the proposed consumer lending code. "But we are not in the business of policing our customers," she says. □

World Bank to Limit Role in East Europe

By JOHN EVANS

LONDON — Though the World Bank plans to increase its lending to Eastern Europe in the next two to three years, it aims to curtail the lending thereafter to make way for the new European Bank for Reconstruction and Development.

Moeen Qureshi, senior vice-president, said that until the East European bank becomes fully operational, his own agency will expand its lending to the region to between $2.5 billion and $3 billion a year for the next two to three years. It lent Eastern Europe $1.8 billion in its latest financial year.

After that, "we would be glad to leave everything the EBRD can do for Eastern Europe to them and pick up what only the World Bank can do," he said in an interview in London.

The East European bank, which is expected to become operational from its London base next summer, plans to lend about 60% of its $12 billion of resources to private-sector projects.

The World Bank is expected to concentrate on public-sector projects in Eastern Europe, including environmental and energy programs.

This strategy will leave Western European nations, the main stockholders in the bank, shouldering the chief burden of the economic recovery of the one-time communist nations.

At the same time, leading Western commercial banks have indicated that Eastern Europe represents a high-risk area for bankers and the main sources of help must first come from official agencies.

Mr. Qureshi stressed that while his bank was making a "major effort" to help the economic transition in Eastern Europe, "it will not be taken at the expense of any other country in any other region in the world."

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/05	7/06	6/01	7/05	7/06	6/01	7/05	7/06	6/01	7/05	7/06	6/01	7/05	7/06	6/01
United States	8.31	8.31	8.31	8.37	8.31	8.31	8.37	8.37	8.37	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.25	7.31	7.56	7.62	7.62	7.69	7.69	7.68	7.81	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.37	13.37	13.25	13.50	13.50	13.50	13.25	13.25	13.50	13.73	13.83	13.83	14.75	14.75	14.75
U.K.	15.12	15.12	15.12	15.00	14.93	15.00	15.00	14.87	15.00	14.33	14.32	14.31	15.00	15.00	15.00
West Germany	8.16	8.12	8.12	8.25	8.25	8.25	8.50	8.50	8.56	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.25	9.25	9.25	9.18	9.06	9.06	9.00	8.93	8.93	6.00	6.00	6.00	10.88	10.88	10.88
France	9.50	10.00	10.12	10.06	10.00	10.12	10.18	10.18	10.18	9.50	9.50	9.50	10.50	10.50	10.50
Italy	10.50	10.50	11.12	11.12	11.12	11.25	11.37	11.37	11.37	12.50	12.50	13.00	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.30	14.50	8.56	8.48	7.00
6 to 12 months	8.40	13.85	8.78	7.97	7.05
12 to 24 months	8.93	12.85	8.93	7.15	7.31

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

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DEALS: UAL Unons in Buyout Attempt Get 'Pledges' from 5 Banks

Continued from page 1

$4 billion in bank loans to finance the deal.

Commitments Uncertain

While the pledges that the cosegents are said to have made are far less, the union source said the balance of the funds could come from other banks or outside investors. And it is unclear whether the pledges are firm commitments.

Sources in the group said banks were dealing with representative of the buyout group last Friday at Citibank.

While some observers took the news of the bank pledges to mean the buyout group has found an outside equity investor, no agreement has been reached yet with an investor, the union source said.

Equity Would Tilt the Balance

Bankers have fretted about the lack of equity in the buyout group's bids and believe the deal could be financed easily if an outside investor was found.

"The deal would look a whole lot better with $500 million in cash," said one money-center banker.

Indeed, new equity seems to be key to generating enthusiasm among bank lenders. Sources say agent banks for RJR Nabisco Holdings Corp. are whopping $7 billion of potential bank loans for a $2.25 billion portion of the buyout group's financing in this way, primarily because of infusion of new equity into the company by Kohlberg Kravis Roberts & Co.

While last fall's managementled buyout attempt at UAL had an equity investor, the effort by the unions this time around has several additional factors going for it. The price of the buyout, for instance, is slated to be $201 per share in cash and securities, instead of $300 in all cash.

The naming of the bank group for UAL comes at a precarious has raised $375 million for Unitime for the financing of leveraged transactions. Money-center banks are facing an extremely skittish syndicate market for highly leveraged transactions, and risk being stuck with loans they've underwritten if the banking community keeps the HLT spigot shut.

UAL rose $2.75 points Friday to $153 on volume of 207,400 shares. While the overall market was up strongly, UAL was likely to get a boost from the airline had halted talks with aircraft makers about the purchase of $15 billion in jets.

Jed Horowitz contributed to this article.

Citicorp Enters Junk Bond Era

By JED HOROWITZ

Picking up where public-market financing of leveraged buyout debt left off, Citibank

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DEALS: Citibank Unit Marks Debut as Junk-Bond Investment Banker

Continued from page 13

reaping commitment fees of 50 basis points and a high 300-basis-point fee for a standby letter of credit. Citibank's agent fee could not be determined.

Attractive Pricing

Citibank began to market the private placement three months ago on a best-efforts basis. It was achieved at relatively attractive pricing for Uniroyal Chemical, according to market sources.

The debt was issued in two tranches – $162 million of six-year, fixed-rate notes paying 12.22% and $113 million of floating-rate notes at the London interbank offered rate plus 250 basis points. Citibank sold much of the floating-rate tranche to Japanese investors, while U.S. institutions bought the fixed-rate tranche, a bank official said.

The sale "took longer than anticipated," he conceded, noting that private investors have become cautious and picky about nonivestment-grade deals. "People want to really understand what they are buying, and are doing more extensive analysis and due diligence," he said. They also are being offered an expanding menu of workout and exchange offers at high rates.

Citicorp Securities – along with the securities underwriting affiliates of J.P. Morgan & Co., Bankers Trust New York Corp., and Chase Manhattan Corp. – received permission last summer to underwrite corporate debt, including junk bonds. None has yet managed an issue, though officials at several banks said they are working on private placements with registration rights that could allow the securities to become publicly traded at a future date. □

Mack Requests Loan Extension

By STEVEN LIPIN

Hurt by the decline in the trucking industry, Mack Trucks Inc. said its finance subsidiary is seeking to extend a $350 million revolving credit facility that matured July 8. A spokesman confirmed that the company was unable to pay off the loan.

Chemical Bank, agent on the revolver to Mack Financial Corp., has agreed to extend the loan two weeks while negotiations continue for a longer-term extension, the company said. Of the $350 million, $339 million has been drawn down, the Mack spokesman said.

Mack will be meeting with Chemical and its other bankers this week to discuss the terms of any restructuring, the spokesman said. He confirmed, though, that Mack did not have the money to make the payment. "We're counting on the extension," he said.

A spokeswoman for the Chemical Banking Corp. unit said any long-term extension would need the approval of the 15-member bank group.

The troubled maker of heavy trucks announced Friday that Renault Vehicules Industriels, which owns 44.5% of Mack's outstanding common stock, will commence a tender offer at 3 share for the shares it does not already own.

Mack also said it would likely be in violation of loans made by the banking units of Citicorp and Credit Lyonnais, once second-quarter figures are finalized. Because Mack has not maintained minimum gross profit margins, the company said banks could declare it to be in default.

The Mack spokesman said "banks need time to digest the information" but that the company has not yet been put in default.

Mack expects to incur a net loss of roughly $90 million for the six months ending June 30, and a $130 million loss for the year ending December 31.

Since the last half of 1989 the trucking industry has skidded, and Mack has felt the brunt of the downturn. It reported a $34 million loss in the fourth quarter, one notched by Standard & Poor's Corp. in June when it downgraded Mack's debt to single-B from double-B minus.

This is not the first time the company has had to ask banks for breathing room. Mack had obtained waivers from banks from its banks after first-quarter figures showed a $60 million loss in the company's financial condition, noted May Ann Sudal, an analyst at Fitch Investors Service Inc. "Banks have appeared amenable," Ms. Sudal said. □

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The Federal Reserve Board voted to allow Atlanta-McEntee Fleet Norstar Securities of New York to offer interest advisory and brokerage services, act as agent in the private placement of its debt securities, and trade all types of securities on behalf of investors as a "risk-less" principal.

The Bank of Montreal, whose parent is Bankmont Financial Corp., also received approval to act as agent in the private placement of all types of securities through its subsidiary, Nesbitt Thomson Securities of New York. Nesbitt Thomson may provide related advisory services, trade all types of securities on behalf of investors as a "risk-less" principal, and do a limited amount of underwriting and dealing in debt and equity securities.

— Linda Corman

Highlights for Friday, July 6

TOP 10 GAINERS %

Premier Bancorp, Inc.	8.0
First Fidelity Bancorporation	4.4
National Commerce Bancorp.	4.4
Bank of New England Corp.	4.2
National Community Banks, Inc.	4.1
Baltimore Bancorp.	4.0
Zions Bancorporation	3.6
Central Bancshares South, Inc.	3.4
BayBanks, Inc.	3.4
CCNB Corporation	2.9

TOP 10 LOSERS %

Equimark Corporation	-7.0
Imperial Bancorp.	-6.9
MNC Financial, Inc.	-6.2
MidAmerica Bancorp	-4.8
GBC Bancorp	-4.7
First Community Bancorp, Inc.	-4.4
Sonoma Bank of California	-4.2
First Michigan Bank Corp.	-4.2
Citizens Bancorp	-4.2
Firstbank of Illinois Co.	-4.2

MOST SHARES TRADED

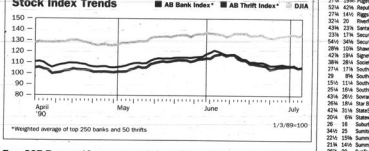
Citicorp	594100
Shawmut National Corporation	530600
BankAmerica Corporation	486200
Midlantic Corporation	447300
MNC Financial, Inc.	425300
Chase Manhattan Corporation	315900
U.S. Bancorp	253600
Crestar Financial Corporation	228600
Norwest Corporation	228300
Bank of Boston Corporation	222700

VOLUME AS % OF AVERAGE

Santa Monica Bank	1355.4
Evergreen Bancorp, Inc.	733.2
Northern Calif Community Bncp	703.7
Banks of Iowa, Inc.	532.8
Mark Twain Bancshares, Inc.	531.8
BB&T Financial Corporation	367.1
CNB Bancshares, Inc.	332.7
Deposit Guaranty Corp.	329.2
One Valley Bancorp of WV, Inc.	301.0
Statewide Bancorp	295.3

Stock Index Trends

■ AB Bank Index* ■ AB Thrift Index* ▨ DJIA



*Weighted average of top 250 banks and 50 thrifts

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¼	18¼	1stSourceCorp/In	6.5	87.7	18%	
14¼	10¾	ATBBancshares/Co	19.0	67.8	11%	¼
19¾	15½	AmeriTrust/Cl A	8.6	59.8	22%	¼
19¾	13½	AmsouthBnc/Al	8.2	81.2	14%	¼
27¼	19¾	AndersonClayton/Co	18.3	101.1	17%	¼
27¼	19¾	ArvestTrustCo/Ser A	9.4	129.3	20	—
24½	18	BB&T Fin Corp/Nc	10.2	182.2	18	—
15¾	9¾	BancNorthwest/Ak	9.8	97.2	50¼	¼
48¾	27¼	BanPonce/Pr	13.6	152.7	42	¼
33¼	26	BancPlus/Ms	11.1	180.8	26¾	¼
26	18¼	BancoPopular/Pr	6.3	95.5	19	—
56¾	42	BankAmerica/Ca	9.9	187.2	50¼	¼
23¼	18	BancorpRhode/Ri	7.0	88.7	18¼	—
36¼	23¾	BankAmericorp/Co	5.8	118.3	29	—
24	17¼	BankGranite/Corp/Nc	13.5	241.6	21½	—
23¾	2¾	BankNewEngland/Ma	NM	56.9	3¾	¼
14¾	8¾	BankSouth/Corp/Ga	8.4	95.5	9¼	¼
57¾	36½	BankersTrust/Ny	NM	34.9	41	—
21½	12½	BankworthGroup/Vt	5.2	66.3	12¾	—
30¾	11¾	BankAmerica/Ms	146.9	44.1	11¾	—
55	30	BanknorthNY/	12.4	124.5	88.9	31¼
12	9	BanknorthGroup/Mn	284.4	65.6	9¾	—
82	69	BankofBoston/Ma	11.9	114.2	71	1¾
39¾	28¾	BarnettBanks/Fl	9.2	113.3	30¾	¼
42¼	33¼	BayBanks/Ma	8.7	43.6	35¼	¼
39¼	29	BayviewFed/Ca	8.8	104.4	33¼	—
26	15¾	BoulevardBan/Il	15.3	98.9	15¾	—
18¾	12¾	BrenhamBancsh/Tx	7.5	102.6	14	—
43¾	32¾	CCB Fin/Corp/Nc	8.9	121.6	34¾	¼
22¾	17¾	CCNB Corp/Pa	7.5	104.4	18	¼
23¾	19¾	CNB Bancshares/In	10.4	127.2	22¾	—
27	20¼	CPB Inc /Il	11.2	196.3	22¼	¼
28	12¾	CRB Fin/Corp/Ca	11.4	287.4	15¾	¼
32	22	CalFed/Spl/Ca	8.5	185.2	22	—
18¼	12¾	CentralBcshs/Al	7.7	103.4	15¼	¼
34¼	26¾	CentralFidelity/Ak	9.7	110.6	27¾	¼
27	13¾	CentralJersey/Nj	7.3	97.8	14¼	—
44¾	23¾	ChaseManhattan/NY	NM	67.2	23¾	¼
41¼	22¾	ChemicalBanking/NY	NM	74.3	25¼	¼
35	30¾	ChemicalFin/Corp/Mi	9.0	100.0	31	¼
35¼	21¾	Citizens/NY	125.0	88.4	22¼	¼
25¾	17¾	CitizensBancorp/Md	7.8	99.8	17¾	¼
29¼	21¾	CitizensBanking/Mi	7.7	74.3	22¾	¼
15¼	10	CitizensFirst/Ky	6.6	108.5	10	¼
34¾	22¾	CitizensSouth/Va	6.5	100.1	22¼	¼
37½	28¾	CityNat/Ca	10.1	207.2	28¾	¼
32½	12¾	ColoradoNatBksh/Co	43.8	83.8	14¾	—
30¾	23¾	CommBancshares/Mo	8.8	113.6	27¼	¼
29¼	22¾	CommunityBcshs/Md	7.5	106.0	23¾	¼
29¾	20¾	CommunityBk/Ny	8.1	108.3	23¾	¼
37½	13¾	Constellation/Md	5.6	48.3	14¼	¼
29¾	13¾	Continental/IL	8.0	55.3	13¾	—
49¾	36¾	ConstSteelCorp/Pa	8.4	156.3	41¼	¼
34	25¾	CrestarFin/Corp/Va	6.4	86.6	26¼	¼
18¼	7¾	CullenFrost/Tx	36.8	54.0	11¼	—
32¾	23¾	DauphinDeposit/Pa	8.4	102.1	24¾	¼
32¼	23½	DepositGuaranty/MS	6.6	75.6	24¾	—
25½	13	DominionBcshs/Va	9.1	68.8	13¾	—
16	5	EquimarkCorp/Pa	NM	33.9	5	¼
21¼	12	EvergreenBan/Wa	6.4	97.4	13¾	—
15¾	12¼	F & M Nat/Corp/Va	10.2	185.3	12¾	—
14¾	12½	FNB Corp/Pa	8.9	109.4	12¾	—
26	18¼	FNH Banc/Oh	10.4	174.6	22	—
39¾	30	FarmersCapital/KY	12.0	119.5	38	—
39¾	30¼	FifthThirdBncp/Oh	10.8	167.4	30¾	¼
19¾	15¾	FinancialCorp/In	9.6	146.3	16	—
19¾	15¾	FirstAmFin/Tn	9.7	153.3	18¼	¼
15¾	12¾	FirstBancorp/Nc	9.3	117.0	17¾	¼

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
28¾	21¾	FirstAmerCorp/TN	NM	73.8	22¼	¼
34½	24½	FirstBancorp/Oh	8.1	102.4	25¼	—
29¾	22¾	FirstBancSystem/Mt	NM	73.8	24¾	¼
49¾	29	FirstChicago/IL	7.2	83.0	29¼	¼
29½	24	FirstCitizensNc/	8.2	95.1	24¾	—
39¾	25¼	FirstCitySanc/Tx	3.8	69.2	25¼	—
18¾	13¾	FirstCommerce/La	10.1	135.3	13¾	—
23¾	19	FirstCommerce/Ga	8.1	99.5	19¼	¼
27¾	22¾	FirstCommerce/Ok	8.2	96.1	22¾	—
21¼	17¾	FirstCommercial/AL	9.7	108.6	17¾	—
21¼	17¾	FirstCommercial/Ar	8.3	120.3	18	—
19¾	14¼	FirstCommonwealth/IL	11.5	115.9	18¾	¼
35¾	21¼	FirstEastBnc/	8.0	105.2	22	—
22	17	FirstFed/Mi/Mi	8.6	103.0	62¾	¼
33¾	17¼	FirstFidelity/Nj	10.1	89.7	84	¼
50	40¾	FirstFtrBanc/Oh	14.3	75.2	43¼	—
34¾	19¾	FirstFtrNet/IL	9.4	70.5	19¾	—
28¾	19¼	FirstHawaiian/Hi	10.8	223.5	19¾	—
11	7¾	FirstIllinois/IL	10.3	189.7	8¼	—
69¾	32	FirstInterstate/Ca	NM	136.3	36	—
7	5¾	FirstInterstate/Ok	7.4	103.4	5¾	—
18¾	14¼	FirstIntrstateBancCp/Az	7.8	124.5	14¾	—
24¾	18¾	FirstMidwest/IL	9.3	150.5	18¾	—
26½	19	FirstNatBancorp/Ca	7.9	123.5	19¼	—
44	26¼	FirstPeoples/Nj	5.9	102.8	26½	—
19¾	13¾	FirstSecurity/Ky	7.5	104.0	14	—
18	14¼	FirstSecurity/NC	13.5	182.0	15	—
33¾	28½	FirstSecurity/Ut	8.7	87.1	29¾	—
28¾	21¾	FirstTennessee/Tn	17.9	92.0	21¾	—
28¾	21¾	FirstUnionCorp/Nc	7.9	96.5	28¼	—
35¾	25	FirstVirginia/Va	7.9	114.0	25	¼
45¾	37¼	FirstWachovia/Nc	10.6	109.1	40¼	¼
35	26¾	FirstarCorp/Wi	7.4	117.8	28¾	—
20¾	17	FirstbankIL/IL	8.4	103.1	17¾	—
55¾	42¼	FirstofAmerica/Mi	8.3	NM	48¾	—
29¾	18¾	FleetNorstar/RI	12.3	103.2	18¾	—
25	19¼	FortWayneNat/Cp/In	8.3	104.0	19¼	—
28	20¾	FourthFinancial/Ks	7.2	154.1	20¾	—
21¾	16	Fulton/Fin/Corp/Pa	7.9	128.4	16¾	—
24¼	15¾	GBC Bancorp/Ca	8.4	206.6	17¾	—
15¾	9¾	GreenfieldSvngs/MD	14.6	73.6	9¾	—
21¼	15¼	HawkeyeBancorp/Ia	3.9	115.1	7	—
21¼	15¼	HeritageFin/Mo/IL	8.8	117.7	15¼	—
18¾	14¾	HiberniaCorp/La	18.5	112.4	15	¼
20½	15	HuntingtonBcshs/Oh	8.1	119.3	15¾	¼
32¾	23	INB/Nb/Corp/In	6.8	94.5	23	—
27¼	18½	ImperialBancorp/Ca	8.1	120.0	18¼	-1¼
30¾	24¾	LibertyNatBanc/Ky	11.6	98.4	27¼	—
30¾	21¾	IntegraFin/Pa	15.3	100.1	22	—
37¾	24¾	InvestNetBancs/Ak	8.3	135.9	37¼	—
48	33	J.P. Morgan/NY	NM	148.5	35¼	¼
28¼	18¼	JeffersonBncsh/Nc	7.8	93.6	18¼	—
15¾	12	KeyCentur/on/WV	10.0	104.2	12	—
25¾	22¾	KeyCorp/NY	8.0	113.9	24¾	—
21¾	15¾	KeystoneFin/Pa	8.8	126.2	22¼	—
39¾	29	KeystoneInterstate/Pa	10.5	155.5	29	—
14¾	8¾	LaJollaBancorp/Ca	18.4	244.5	13¾	—
22¾	16¾	LaSalle/Nb/IL	15.7	158.5	22	—
18	11¾	LanchmarkBcshs/Mo	6.9	66.0	11¾	—
30¾	24¾	LibertyNatBanc/Ky	8.6	115.2	25¾	—
27	20½	LincolnFin/Corp/In	7.0	88.4	20¾	¼
29¾	11¾	MNC Financial/MD	4.2	66.6	11¾	¼
18	14¾	MagnaGroup/IL	9.3	104.1	14¾	—
60	41¾	ManufacturersNat/MI	6.6	102.7	44¾	—
44½	28¾	Manufacturers/NY	NM	80.2	33¼	—
21	16¾	MarinCorp/L	12.8	136.1	20¼	—
20½	15	MarkTwainBncsh/MO	7.9	102.9	15	¼
37¾	30¾	MarshallIsl/Nb/Corp/In	13.6	112.8	30¾	—
37¾	24¾	MeritonGap/Corp/Pa	7.0	86.8	24¾	—
28¾	23½	MercantileBncsh/MD	194.2	99.0	25¼	—

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18¾	MercantileBnkshr/MD	8.3	132.1	20¼	¼
90¾	53	MerchantsBank/Vt	12.5	199.7	53	—
22¾	16¾	MerchantsNat/In	10.3	93.4	22¼	—
26¼	15¼	MetroBancorp/Pa	7.1	87.3	19¾	—
29¾	22	MichiganNat/Corp/Mi	8.7	85.5	25¾	¼
18¾	14¾	MidAmerica/KY	9.5	95.3	14¾	—
19¾	14¾	MidlantBnc /Dr	9.7	145.7	19	—
47½	13¾	MidlanticCorp/Nj	3.7	35.4	13¾	¼
25½	15	MuttBank/Wi	5.5	49.8	15¾	¼
35¾	29½	NBD Bancorp/MI	9.0	132.9	31½	¼
34¾	24¾	NCNB Corp/NC	7.5	131.3	26¼	—
26	18½	NCalifCom/Bncp/Ca	14.9	159.8	19¾	¼
41¾	31¾	NationalCity/OH	8.3	142.7	36¼	¼
51	38	NationalPenn/Pa	12.2	218.8	41	—
30¾	24¾	NatBancorpofAK	8.8	118.1	26¾	¼
25½	20¼	NatCommerce/Tn	10.6	184.5	24	1
18¾	14¾	NatCommunity/Ny	5.1	87.4	19	¼
20¾	11¼	NorthFinBanc/Wi	5.4	70.4	11¼	—
72	18	NorthwestBan/CT	NM	51.1	18	—
35½	28¾	NorthernTrust/IL	9.8	189.0	29¾	¼
23¾	17¾	NwstCorp/Mn	8.5	155.0	21¾	¼
32¼	24	OhioBancorp/Oh	7.6	102.6	24¾	-1
24¾	18¼	OldNatnlFin/Corp/Ky	8.3	115.1	24¾	¼
26½	24¾	OldNatBancorp/In	13.4	162.2	25¼	¼
29¾	19	OneWestBank/NY	7.1	83.2	19¼	—
48¾	29¾	PNC Fin/Corp/Pa	8.9	105.5	30	—
28¼	24	PacificBan/Ca	11.4	150.0	24¾	—
13¾	9¼	PacificHeritage/Ca	9.2	182.0	11	—
18¾	14¾	PeoplesBancorp/Wa	9.2	127.2	15¾	¼
27	26	PlanetBank/Az	10.0	129.0	27	—
10	3	PremierBancorp/LA	9.3	17.5	11¼	-¼
6¾	3	PremierBancorp/LA	NM	56.4	3¾	¼
27	22	PremierBanc/Oh	9.0	127.7	22	—
14	8¾	ProvidentBcshs/MD	23.0	45.3	8¾	-¼
23¾	19¾	PugetSoundBanc/Wa	11.8	118.3	21	—
52¾	42¾	RepublicNY/Corp/NY	321.7	133.5	48¼	—
27¾	14½	RigglesNatCorp/SC	6.1	58.4	14½	—
22¼	20	RiverFinnc/IL	12.8	2926	28	—
24¾	18¾	SantaMonicaBank/Ca	11.0	264.1	23¾	¼
13¾	9¾	SecurityBancorp/Ar	8.3	144.4	13½	¼
54¼	34¾	SecurityPac/Corp/Wa	8.7	96.4	35¾	¼
39¾	10¾	SeveranceBancorp/MA	NM	57.0	10¾	—
42¾	19¾	SignetBanking/VA	4.5	68.7	19¾	—
28¾	24¾	SoCarolCorp/Sc	6.8	111.6	31¼	¼
27¼	17¾	SouthCarolNat/Sc/SC	6.8	111.8	17¾	—
29¾	8¾	SoutheastBC/Corp/Fl	NM	39.7	8¾	—
15½	11¼	SouthernNatCp/NC	10.1	141.3	12¼	—
25¾	16¾	SouthTrust/Corp/AL	6.8	91.9	17¾	—
43¾	26½	SovranFin/Corp/VA	5.8	96.2	26¾	—
24¾	18¾	Star Banc Corp./Oh	9.4	118.1	19¼	—
42¾	31¾	StateStBoston/MA	14.3	248.0	40¾	¼
19¾	17¾	SterlingBancsh/Tx	NM	47.9	18	¼
26	16	SuburbanBancorp/IL	11.8	85.9	17	—
34½	25	SumitomoBank/CA	8.4	97.1	28¾	¼
25½	15¾	Summit/Nj/Nj	8.1	92.0	16¼	—
14¾	10¾	SummitBancorp/NJ	7.0	107.0	14¾	—
26¾	20	SunTrustBanks/GA	7.7	122.2	20¾	¼
18¾	14¾	SwissFirstBanc/MA	7.9	65.3	15	—
22¾	17¼	SusquehannaBcsh/PA	7.9	103.8	18¼	—
19¾	16¾	SymonsonFin/Corp/KS	10.9	212.0	16¾	—
19½	13	ThePantersCorp/NC	9.5	132.1	15¼	¼
33	25¾	TheSouthFin/Corp/SC	9.2	163.3	30¼	—
43¾	31¾	TrustcompanyNJ	8.9	152.7	35¼	—
32¾	25¾	TrustmarkCorp/MS	6.6	78.2	28¾	—
32¾	25¾	U.S. BancorpOR	8.9	130.6	28¼	¼
42¾	32¾	U.S.TrustCo/s.NY	12.4	186.6	36¾	—
28¾	13¾	UJB Financial/Nj	6.6	85.9	18¼	¼
6¾	4¾	UST Corp/Ma	5.4	81.1	11¼	¼
32	21¼	UnionBank/Ca	5.2	85.1	21¼	—
15¾	7¼	UnionPlanters/TN	NM	64.5	8¼	¼

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18¾	UnitedBanksCo/CO	17.7	70.4	18¾	—
24	12	UnitedBcshs/WV	9.2	87.2	17¾	—
17½	13	UnitedCentralNc/	7.8	105.7	13¾	—
32	22	UnitedCounties/Ct	7.1	155.5	32¼	—
32¾	28	UnitedMissouri/MD	9.3	110.3	28¾	—
24¾	18¾	UnitedNewMex/Nm	9.3	118.3	23¾	¼
22½	20	WestCapCp/Inv/Wi	8.0	150.1	24¾	¼
19¾	15¾	WestSouthBnc/Az	8.2	158.8	22	—
42¾	32¾	WestamericaBnc/Ca	NM	67.5	15¼	¼
87¾	64¼	WestaffAg/Ca	8.4	107.7	70¾	—
11¾	8¾	WestbankCorp/Ri	8.7	103.0	30¾	—
27¼	21¾	WestOneBancorp/ID	8.2	112.0	24¾	¼
24¾	18¾	WilmingtonTrust/DE	11.7	272.2	24¾	—
46	35¾	WilmingtonTrust/DE	11.7	272.2	46	—
28¾	21¾	WorldBancorp/Ak	10.8	133.4	12¾	-¼
32¼	25	ZionsBancorp/Ut	7.2	124.0	25¾	—

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
24¾	18¼	AmsancorpCa	9.5	106.6	20¾	¼
45¾	30¾	AppleBancorp/Va	8.3	76.1	42¼	¼
28¼	15	CalFed/Inc/Ca	5.1	69.2	18¼	¼
55¾	39½	CitadelHldg/Ca-A	12.2	74.9	46	¼
14¾	11¾	CitadelHldg/Ca-B	NM	43.9	13¾	¼
17¾	6¼	DimeDel/Bk/NY	NM	21.6	6¼	—
24	14¼	DownerSavings/CA	50.4	128.5	18¾	—
37¼	24	FirstFedAmerica/MI	10.6	133.9	36¼	¼
27	18¾	FirstFed/Fin/Ca	8.2	128.2	27¼	—
21¼	12	FstFedMich/Cp/Mi	9.8	95.8	14¾	—
21¾	15¾	GLENFED/CA	3.3	31.6	16¾	—
34¾	22¾	GoldenWest/Fn/CA	11.5	179.1	31	¼
24¾	15¾	GreatWestern/Fn/CA	9.6	105.7	17¾	¼
14¾	13	GrNorthern/Bancsh/CA	NM	20.9	14	¼
47¾	19¾	HomeFed/Corp/CA	3.8	38.3	19¾	—
21¾	13¾	HomeSaBancsh/AR	13.6	96.5	19¾	¼
14¾	11	HSB Group/Ma	11.3	65.4	14¾	—
10¼	6	People's Bank/Ct	8.3	40.7	6	—
18¾	11	PeninsulaCorp/SB/NY	7.6	48.2	11½	—
23	9¾	SocietyFor/Sav/CT	2.6	41.6	9¾	—
19¾	9¾	SPSBancorp/Ma	10.9	51.8	9¾	—
12¾	7¾	StandardFed/Bk-MI	8.5	61.6	9	—
26¼	15¼	WesMichAud/Bk/MI	12.1	69.0	16¾	—
31¾	23¼	WestSideFed/SL/MI	10.1	202.9	28	—
11¼	6¾	WestcorpCA	15.5	105.3	8¾	—

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding as of March 30, 1990, the market value cutoff for banks was $29.6 mil. and for thrifts $121.45 mil.) **52 Wk Hi Lo:** the moving 52-week high and low prices for the stock. **PE:** the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest stock dividend or split. **Mkt to bk:** the ratio of the current stock closing price to the stock's book value, expressed as a percentage. **Book value** is adjusted for announced earnings and dividends. **Chg.:** The price at which the stock last traded. If no trades for the day, the latest bid. **AB Bank and Thrift Indexes:** A weighted average of the top 250 banks by market value and the top 50 thrifts in market value, respectively. **Highlights** show largest percent gainers and losers and the two value indicators post shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: **SNL Securities,** Charlottesville, VA, 804-977-1600, processed the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

New Bank and Thrift Securities

Most recent offerings

Issuer / Manager	Offer Date	Amount ($ Mil.)	Sec. Type	Offer Price (Current)	Offer Yield (Current)	Maturity Date
Great Lakes Bancorp	6/29/90	$15.0	DP	10.000	Adjust	
Wm. C. Roney						
Mitsubishi Bk LTD,Ny Branch / Horgan Stamp	6/28/90	$30.0	PL	100.00	Idex	6/30/93
Manufacturers Hanover / Merrill Lynch Capital Market	7/02/90	$100.0	PS	25.00	10.96	
Bancorp Hawaii / Montgomery Securities	7/02/90	$75.4	COM	50.25		

Most recent SEC Filings

Issuer	Filing Date	Amount ($ Mil.)	Sec. Type	Contact
Pioneer Federal Bancorp	5/04/90	22.0	COM	Shearson Lehman Hutton
Evergreen Bancorp	4/02/90	10.0	S2	Ryan - Beck
Financial Center Bancorp	3/21/90	8.0	COM	Keefe, Bruyette & Woods
IFED Financial	3/19/90

STOCKS

MNC Financial Is Losing Favor As Loans Sour

By FRED VOGELSTEIN

It was only a year ago that analysts were calling MNC Financial Corp. one of the most innovative banks in the Southeast, perhaps in the country.

It was considered a pioneer in marketing credit cards and securitizing their receivables. One analyst called its chairman, Alan P. Hobbitzell Jr., "one of the brightest people in the banking industry."

Today, with the real estate



market in the Washington-Baltimore area souring, analysts say MNC is much more the subject of their concern than praise.

Problems Expected

"MNC is going to have a lot of problems," said Lacy Shockley, an analyst at Smith Barney, Harris Upham & Co.

Investors have clearly grown disenchanted in a hurry. MNC's stock has lost 28% of its value since June 5, falling from $17 to $11.50 on Friday.

The stock had already been beaten down with other bank stocks before June, having fallen from $29.875 since October 1989. It is now selling at 70% of its book value of $17.34. The industry average is 105%.

Contributing to the recent drop in the stock was the bank's June 13 announcement that continued softeness in the Washington-Baltimore real estate market "is likely to have an adverse effect on second quarter results."

Funding Available

However, it said Friday that it was not having trouble borrowing money to meet its needs.

A spokesman said it would reserve further comment on its financial situation until after release of its second-quarter earnings.

Standard & Poor's Corp. substantiated investor and analyst fears late Thursday, announcing it had downgraded MNC's debt rating from A- to BBB+.

What makes MNC's situation particularly severe is the extent of its exposure in what analysts say is a very weak market. Roughly 30% of its $14 billion loan portfolio is in real estate related lending, analysts say.

"They just took on too much real estate too fast," said Michael Plodwick, an analyst at C.J. Lawrence, Morgan Grenfell Inc.

Anthony Davis, an analyst at Wheat First Securities, said he was projecting MNC's nonperforming assets to increase 46% in the second quarter, from $360 million to $525 million.

* * *

FRIDAY'S MARKET

Shares in St. Paul Bancorp had plunged 13% by 3 p.m. Friday on news that the Chicago-based thrift had been ordered to increase its provisions for loan losses $26 million, a move that would cause a $20.8 million loss for the second quarter. The shares were off $1.50, to $9.625, on the news.

Bank stocks were mixed within a narrow range, with roughly the same number of losers as gainers.

Provisions Defended

St. Paul Bancorp, responding to the directive by the Office of Thrift Supervision to increase its loan loss provisions, said it continued to believe that loan loss reserves had been adequate.

It said nonperforming assets as of June 30 were $39.5 million, or 1.19% of total assets, compared with 1.44% a year earlier and 0.93% at the end of 1989.

Chicago Corp. analyst John Snow said the loan-loss order was not due to actual problem loans, so St. Paul should return to its normal earnings rate of about 45 cents a share for the third quarter but would likely post a loss for the year. □

CAPITAL

Debt Downgradings Elicit Anger, Relief

By KELLEY HOLLAND

The avalanche of bank debt downgradings by the nation's credit agencies is generating heated objections from some bank executives and, surprisingly, relief from others, who feared worse.

Late last week, for instance, Standard & Poor's Corp. placed three Virginia banks on CreditWatch for possible downgrades and lowered its ratings on MNC Financial Inc.

Executives from the Virginia banks – Signet Banking Corp., Crestar Financial Corp., and Central Fidelity Bank – reacted with various degrees of disappointment to being placed on notice.

But at MNC Financial, which has already felt the sting of rating agencies' disapproval, the chief financial officer is quietly relieved that its downgrading was not more severe.

Downgrading Called Unjust

At Central Fidelity Bank, which has never been downgraded, one executive was hopping mad about being grouped with the other Virginia institutions.

"We were very, very taken aback; to say the least," said John T. Percy, an executive vice president and head of asset-liability management at Central Fidelity. "We think Standard & Poor's is making a mistake to lump us in there with Crestar and Signet."

Lower Earnings

Crestar and Signet both announced last week that their second-quarter earnings would prove lower than previously expected. Crestar said it would be adding $25 million to its loan-loss reserves, and Signet said its nonperforming assets would increase to about $150 million. But Central Fidelity has made no similar announcement.

Central Fidelity can boast higher reserve levels than its neighbors. The bank finished the first quarter with loan-loss reserves equal to two times nonperforming assets and loans 90 days past due, in contrast to an 86% ratio for Crestar and 59% for Signet, according to Sheila Davis, a ratings specialist at Standard & Poor's.

Mr. Percy said he thought Standard & Poor's, with its frequently voiced concerns about banks' exposure to commercial real estate, was unfairly tarring his bank with the same brush as Signet and Crestar on the basis of geographic proximity. "The market's getting weaker, but it's not a disaster," he said. "We've just got to go to New York and defend our case."

Officials at Signet and Crestar seem more resigned to the rating agency's action, but they are still unhappy.

"It was disappointing," said Robert M. Freeman, chairman and chief executive officer at Signet. But, he added, "I think they're following up on what they've done everywhere."



Robert M. Freeman
Signet Banking Corp.

Bank executives reacted with various degrees of disappointment.

As for the real estate market in Virginia, Mr. Freeman said it had long been robust because of the stability provided by nearby Washington. "Washington has buoyed this market for a very long time," he said. But even factoring in Washington, he declined to predict whether the weakness in the Virginia market is near an end.

Patrick Giblin, chief financial officer of Crestar, said his institution was downgraded in May and "we don't feel a further downgrade is justified." But he conceded that the commercial real estate market in Virginia is overbuilt, and he said the problem would persist. "We think the real estate problems in our market will go well into 1991."

MNC Financial was actually downgraded, but Peter L. Gartman, MNC's chief financial officer, took a more positive view of the action than did his counterparts put on CreditWatch. "I view this as a positive because of the affirmation of the commercial paper rating and the fact that they said our outlook was stable," he said.

In the corporate bond market, securities of Crestar, Signet and MNC were virtually unchanged on news of the rating agency action. Trading was so light during the holiday-shortened week that trading levels were almost impossible to establish. The banks' bonds could reflect the rating agency action this week when activity picks up, however.

Officials at all the institutions said their funding strategies would not be affected by the possibility of a rating downgrade. For one thing, Standard & Poor's affirmed the commercial paper rating of Signet and Central Fidelity, and it does not rate Crestar's commercial paper. Also, none of the banks are currently planning long-term debt issues, the officials said. □

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MERGERS ANNOUNCED IN JUNE
See table on page 26

AMERICAN BANKER

VOL. CLV NO. 133 Tuesday, July 10, 1990 155th year

Banks to Do Less Lending, More Brokering

By SANFORD ROSE

The financial needs of the American consumer are changing inexorably, creating both problems and opportunities for the country's banking institutions.

It is a well-established fact that the consumer has been the mainstay of bank profitability for much of the last decade. Large banks with scale advantages have been able to garner returns on equity of as much as 45% to 50% in the credit-card business and comparable returns in home-equity lending, thereby offsetting much lower risk-adjusted profits in the troubled commercial-lending area.

Comment

Retail banking as a whole – both lending and deposit taking – is now responsible for an outsize proportion of the equity values of major banks, argues the First Manhattan Consulting Group. An estimated 60% of the market value of a sample of nearly 200 large bank-holding companies is attributable to their retail operations.

Bank credit-card operations alone account for approximately 19% of this retail value, or 11% of the total market capitalization of the nation's largest banks. In absolute numbers, the credit card boosts big-bank share values by around $16 billion.

An Aging Population

Many bankers are therefore mightily concerned about what will happen to their profits and stock prices if consumer borrowing slows, as it now shows signs of doing. A progressive slowing of consumer borrowing is in fact being forecast not merely for cyclical reasons, but for secular considerations as well.

The long-term factors commonly cited are the aging of the population and the fact that the distribution of income has become more skewed – that is, there is a higher proportion of both very rich and very poor households and a concomitantly smaller proportion of those middle-income consumers who are most prone to borrow.

Scrambling for Share

As the total of consumer borrowings begins to taper off, there inevitably will be a scramble to redivide the market share of available loan footings. Those banks that are able to originate and service consumer loans at the lowest cost will obviously take market share away from

See **BANKS** *page* **19**

INSIDE NEWS

REAL ESTATE

FALLING BIRTHRATES and vast property surpluses have created a structural problem in the real estate industry, not just a cyclical downturn, many real estate experts say. *Page 10*

CONSUMER

THE BEST SERVICE in America is provided by banks, according to a recent consumer survey in *U.S. News & World Report*. Banks were rated tops among seven business categories. *Page 8*

INTERNATIONAL

BARGAIN THRIFTS in the United States are the targets of Canadian financial institutions shopping for acquisitions to help them expand south of the border, industry officials said. *Page 14*

FINANCE

Shawmut Tests A New Low

Price per common share



Price of $11.25 at 3 p.m. on Monday
Source: DB Technology Inc.

SHAWMUT NATIONAL Corp., whose stock tumbled to a 10-year low by midday Monday, scotched rumors of a huge increase in nonperforming assets. Shawmut said it would report an increase closer to $200 million than the rumored $500 million. *Page 24*

TECHNOLOGY

SMALL-TICKET businesses such as fast-food outlets, supermarkets, and movie theaters are to be served by a three-second authorization service that Mastercard International has started offering in alliance with Viata Corp. *Page 3*

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Merger Offers for Healthy Banks And Thrifts Continue to Be Slack

By GORDON MATTHEWS

NEW YORK — Massive consolidation of the banking industry may be inevitable, say the experts, but few bankers seem to be doing much to make it happen.

Mergers among healthy banks and thrifts institutions remained stuck in low gear in the second quarter, with most companies focusing their expansion efforts on government-assisted deals for sick thrifts.

Total Could Shrink

For the third straight quarter, the value of proposals announced fell below $1 billion in value, a level routinely exceeded – sometimes in a single month – until bank stock prices began their steep decline last October.

Even the $950 million of deals tallied for the quarter may be subject to revision. The figure includes a $212.7 million bid by First Maryland Bancorp., Baltimore, that has been rejected by its crosstown rival, Baltimore Bancorp.

But while merger activity in banking is moribund, some idea can be gained of what may spark the large-scale consolidation widely expected by industry observers.

First off, bank stock prices would have to rebound. With their stock prices – the currency for dealmaking – currently so

See **MERGER** *page* **6**

Mass. Bankers Cite Lobbying In Tax Victory

By ELLEN MEMMELAAR

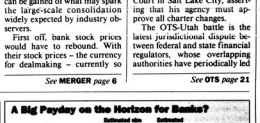
Massachusetts bankers on Monday said a grass-roots campaign was instrumental in turning back a proposed 5% sales tax on their services.

The state legislature approved a broad sales tax early Saturday morning as part of a package to raise $1.1 billion in fiscal 1991 and $1.6 billion the following year. But conspicuously absent from the list of businesses subject to the 5% sales tax is the financial services industry.

An earlier version passed by the Senate would have levied the tax on banking and brokerage services. That measure, passed in mid-June, left mortgage bankers infuriated, with some threatening to move their operations to another state if it was adopted.

The bankers rallied to block the measure by organizing a large-scale letter-writing effort. The effort was orchestrated primarily by the Massachusetts

See **TAX VICTORY** *page* **6**



Rich Fees in RJR and UAL Deals Signal Lenders' Tougher Posture

By STEVEN LIPIN

If the proposed leveraged buyout of UAL Corp. goes through and the RJR Nabsico Inc. refinancing closes, major banks will see a payday of at least $300 million in up-front fees, bankers and observers believe.

The deals signal more than just a revival for big-ticket highly leveraged transactions. This revival brings a new set of rules that include much higher fees and much more equity. In fact, the fees expected on the UAL and RJR deals approximate the high underwriting spreads that investment banks charge for high-yield bond offerings.

"It's a consequence of what the market is requiring," said Raphael Soifer, a banking analyst at Brown Brothers Harriman & Co. "Even with a good credit, it takes high fees to get a deal done. Banks probably feel they need this sort of fee income to sell the deal."

For its $2.25 billion deal, RJR is paying 350 basis points over the London interbank offered rate, with fees of 3.5% to 4%.

Fees 'North of RJR'

Coming on the heels of RJR's successful financing, the $4.4 billion UAL deal could require up to $4 billion in bank loans. If completed, it is expected to offer fees "north of RJR," said a source at one of the five banks

See **LENDERS** *page* **22**

OTS, Utah In a Wrangle Over Thrift's Conversion

By ROBERT M. GARSSON

WASHINGTON — In the latest flare-up of tensions between federal and state regulators, the Office of Thrift Supervision has sued the Utah commissioner of financial institutions for permitting a thrift to become a commercial bank without OTS approval.

The federal agency accused George Sutton, the Utah regulator, of defying an OTS order to seize Home Savings Bank, Salt Lake City, and instead encouraging it to convert to a commercial bank. As a bank, it would no longer be regulated by the federal thrift agency.

Injunction Sought

Seeking an injunction to prevent the conversion, OTS director T. Timothy Ryan Jr. filed documents with U.S. District Court in Salt Lake City, asserting that his agency must approve all charter changes.

The OTS-Utah battle is the latest jurisdictional dispute between federal and state financial regulators, whose overlapping authorities have periodically led

See **OTS** *page* **21**

PEOPLE *in the news*

California Suits Tech Chief Who Moved From Wall St.

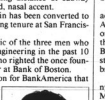
By RICHARD LAYNE

By most accounts, Martin A. Stein is a dyed-in-the-wool New Yorker. The new technology chief at BankAmerica Corp. went to college and graduate school within walking distance of subway stops, and he still speaks with a hard-edged, nasal accent.

But two weeks into his new job, Mr. Stein has been converted to the California good life and is planning a long tenure at San Francisco-based BankAmerica.

Staying power has not been characteristic of the three men who have headed Bank of America Systems Engineering in the past 10 years. The latest was Michael Simmons, who righted the once foundering unit before accepting a job this year at Bank of Boston.

Mr. Stein, however, has a long-term vision for BankAmerica that includes some major changes for the 4,300-employee technology organization.


Martin A. Stein

"Because of the size of the institution, we have to be on the leading edge of technology," said Mr. Stein, who was formerly executive vice president of PaineWebber Inc. "The bank must step up its implementation of new data base designs, to imaging, to artificial intelligence – the bank must move faster to apply emerging technologies."

The banking company also will examine the types of computers it uses.

"There is a whole series of cost curve changes, with personal computers, minicomputers, and workstations becoming a substantial presence and networking becoming a major issue," said Mr. Stein. As the banking business becomes more international, computer systems must update data bases instantly, not overnight, he said.

'A Seven-Minute Commute'

Mr. Stein applauded BankAmerica's recent decision to reorganize BASE into seven operating units to support the business better. "It frees me up to think about the future, to look at costs, and to keep spending consistent with revenue growth," said Mr. Stein, who regularly puts in 12-hour days.

The workday may not have changed when he moved across the continent, but the surrounding scene has.

"I am adjusting to the rigors of a seven-minute commute," said Mr. Stein, who previously battled traffic and commuters' elbows for an hour and a half each way to and from his home in New Jersey.

An inveterate jogger, Mr. Stein clocks four to eight miles each morning. To make sure he knew the route from his temporary apartment to his BASE office in Concord, Calif., he woke up at 4 a.m. his first day of work and ran the route he would drive two hours later.

He has arranged a cultural exchange program, shipping sourdough bread to New York and receiving bagels in return.

A recent evening found him watching the sun set over Mount Diablo. "To quote my wife, 'What's not to like?' " said Mr. Stein, who worked for Fleet/Norstar Financial Group Inc., Chase Manhattan Corp., and Citicorp before jumping to PaineWebber.

'Grace Under Pressure'

Colleagues said Mr. Stein is cool, calm, and collected, necessary traits on Wall Street, where frustrated traders are not above breaking the screen of a malfunctioning personal computer with a hammer. "He has grace under pressure," said Christopher A. Green, vice president of First Manhattan Consulting Group.

Mr. Stein and his wife have an 11-year-old daughter, who is settling into the California lifestyle, and a son with a technical bent, who is spending his summer vacation from college teaching computer skills to the government of Mali. Mr. Stein holds degrees from St. John's University and New York University.

Perhaps the only real difficulty in the Steins' move across country was transporting their menagerie of 14 animals, including a horse, goats, sheep, dogs, and cats. BankAmerica hired the guy who moved the Moscow circus on its U.S. tour. □

NEWS *briefs*

A Tide of Name Changes

NEW YORK — Banks, thrifts and other financial institutions made 202 name changes in the first half of 1990, or 29% of all changes in corporate identity, the consulting firm Anspach Grossman Portugal reports. Financial industry name changes rose by 4% from the first half of 1988, while the total for all companies fell 9% to 697.

Among the banking industry changes registered this year were Citicorp's renaming of four thrift subsidiaries to Citibank.

Loan Extensions Expected

HOUSTON — Leaders of the Group of Seven industrial countries agreed that longer debt-repayment periods are necessary for lower-middle-income countries such as Poland, the West German government spokesman Dieter Vogel said. He added that increased aid may have to be considered for such countries.

Bluebonnet Savings Under Senate Scrutiny

Thrift's Success Story in Question

By STEVE KLINKERMAN

DALLAS — A Senate Judiciary subcommittee turned its investigative spotlight Monday on Bluebonnet Savings Bank, one of the top-performing thrifts organized under the controversial Southwest plan.

The Dallas-based thrift was acquired in December 1988 by Arizona financier James Fail, only three weeks after he learned that the Federal Home Loan Bank Board would form the institution from the remains of 15 broke Texas thrifts.

According to earlier testimony by the defunct Bank Board, Mr. Fail's investment group, CFSB Corp., got $234 million of tax breaks when it bought Bluebonnet, along with a federal assistance package worth $1.8 billion.

A Subsidized Gold Mine

The tax breaks and federal assistance have turned the $3 billion-asset Bluebonnet into a gold mine. The thrift earned $35.4 million in 1989, for a return on common equity of about 40%.

Most of the institution's earnings have come from the management of distressed loans and properties for the federal government, which has guaranteed the profitability of at least a third of Bluebonnet's assets.

So comprehensive are the

See **BLUEBONNET** *page* **11**

Dallas S&L Case Evokes Senate Ire

By DEBRA COPE

WASHINGTON — Former federal thrift regulators and a Phoenix insurance executive who acquired 15 failed Texas thrifts with only $1,000 of his own money will be subpoenaed to testify before a Senate probe if they do not appear voluntarily, Sen. Howard Metzenbaum said Monday.

Speaking at a Senate Judiciary antitrust subcommittee hearing that he chairs, Sen. Metzenbaum expressed outrage that the insurance executive, James M. Fail, was awarded $1.8 billion in federal aid to buy Bluebonnet Savings Bank despite a 1976 indictment and guilty plea for securities fraud and tardiness in bringing $10 million of capital to the deal.

Sen. Metzenbaum also charged that a $10 million loan obtained by Mr. Fail to capitalize the thrift was eventually sold to Mississippi Savings Bank, Jackson, Miss., a troubled thrift that has since been seized by the Resolution Trust Corp.

"At what price are we saving savings and loans? Is it worth draining other parts of insurance companies to make one thrift viable?" he asked. Sen. Metzenbaum did not disclose whether the loan was repaid.

But an attorney for Dallas-based Bluebonnet Savings countered that Sen. Metzenbaum's motives are political, and defended Mr. Fail's refusal to testify before the committee. Stanley M. Brand said in a statement that the subcommittee had overstepped its jurisdiction and accused Sen. Metzenbaum of "behaving like a political vigilante."

The Federal Savings and Loan Insurance Corp. agreed to allow Mr. Fail to capitalize the thrift

See **DALLAS** *page* **11**

Bank Seeks to Cancel Thrift Deal

Reuters

PONTIAC, Mich. — First Federal Bancorp Inc. said it obtained a restraining order last weekagainst regulators' plans in an attempt by the company to stop the acquisition of a thrift institution in Florida.

The temporary order, in effect pending a hearing Wednesday on a permanent injunction, came after the $1.4 billion-asset First Federal filed a lawsuit against the Office of Thrift Supervision and the Federal Deposit Insurance Corp.

Disagreement on Deal

Pontiac-based First Federal claimed the agencies approved of its acquisition of Citizens Federal Savings Bank, an $80 million-asset thrift in Jacksonville, but then imposed conditions that delayed and frustrated the purpose of the acquisition.

First Federal, the fifth-largest thrift in Michigan, said the regulators' actions made the merger agreement between the two thrifts unenforceable. The deal would have added four Jacksonville branches to First Federal's 28 in Michigan.

The Michigan thrift is also seeking a court order to prevent the OTS and FDIC from taking any action toward appointing a conservator of First Federal or calling such action "unwarranted, unjustified, and unconstitutional."

Hearing Set for Wednesday

The hearing on a permanent injunction against the acquisition is set for Wednesday in U.S. District Court for the Eastern District of Michigan, First Federal said.

In another OTS-related development, the $900 million-asset John Hanson Savings Bank and the thrift agency has approved its capital restoration plan.

The approved plan requires a $10 million capital infusion by Dec. 31. Hanson has hired Legg Mason Wood Walker Inc., Baltimore, to advise and assist in its capital-raising program. □

COMPANY *index*

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MasterCard Eases Small Purchases

Viata Alliance Permits 3-Second Authorizations

By KAREN GULLO

NEW YORK — MasterCard International has begun offering an authorization service that will encourage member banks to sign up small-ticket businesses such as fast-food outlets, supermarkets, and movie theaters for credit card services.

MasterCard is making the service available through an alliance with Viata Corp., an electronic payment and marketing company. Credit card authorization and settlement of small-dollar charges are being handled through Viata's Quick Payment Service as of July 1.

Visa Is Experimenting

Visa U.S.A. is also experimenting with quick authorization for small-dollar transactions through a number of pilots across the country.

Banks have generally shied away from pursuing small-ticket merchants, reasoning that profit margins are too low. But MasterCard officials foresee a lot of fee-income potential for banks.

Traditional Market 'Saturated'

"The traditional merchant market is fairly well saturated," said Sharon G. Cline, vice president of marketing for MasterCard's automated point-of-sale program, "and this is a way for them to increase their merchant customer base easily and more significantly."

The service, which will be added to MasterCard's point-of-sale program, gives authorizations for charges of up to $25 within three seconds.

For High-Speed Merchants

"Usage is geared primarily for high-speed merchants and is expected to make credit card acceptance more attractive to establishments where the speed of the payment is critical to the sale," said David Mills, president of Viata, which is based in Fort Worth.

Some large banks have been experimenting with the quick-authorization concept. Bank of America, San Francisco, teamed up last month with Visa U.S.A. and Safeway Inc. for a test to determine whether customers will use Visa cards to pay for groceries.

Widespread Interest Seen

Visa says its studies show that nearly half of Americans are interested in using credit cards at supermarkets and that 3,000 su-

> **"The challenge is breaking down the barriers and getting the banks to sell their services to those merchants."**
>
> **Sharon G. Cline**
> *MasterCard International*

permarkets around the country accept credit cards.

"The average ticket sale goes up dramatically when a customer uses a credit card, according to the studies I've seen," said Ms. Cline. "The potential is there, but the challenge is breaking down the barriers and getting the banks to sell their services to those merchants."

With the Quick Payment Service, MasterCard sends negative card information over telephone lines from its processing center in St. Louis to Viata in Fort Worth.

Negative Data Downloaded

Viata then downloads the information to merchants, stores, where it is stored on a computer terminal or personal computer.

When a customer uses a MasterCard, Visa, or Discover card for a purchase of $25 or less, the card is swiped through a reader and the account information is checked against the negative card information stored on the site. Those data are updated daily.

The on-site authorization takes three seconds. Authorizations for purchases of more than $25 are sent over dial-up telephone lines and take about 12 seconds.

Brand 'Practically Nonexistent'

"Fraud and chargebacks have been practically nonexistent," Ms. Cline said. "We recently gave presentations on the new service to three of our largest customers, and they're very interested."

The Viata system also captures and stores data about customer buying habits. This allows the merchant to develop targeted marketing programs, such as sending discount coupons to customers most likely to buy particular products.

Eventually, Checks Too

The system will eventually be enhanced to authorize personal checks for payment through the Quick Payment Checkcard.

Visa's pilot with Bank of America and Safeway works essentially the same as the Viata system. Negative card information is stored on-site at the merchant.

Banks that sign up for the service are charged a lower interchange rate for MasterCard authorizations only. The interchange charge is the fee that the merchant's bank pays to the card-issuing bank when the transaction is transmitted to MasterCard for processing. □

Indianapolis Bank Will Use Artificial Intelligence System

By JEANNE IIDA

NEW YORK — INB Financial Corp. of Indianapolis has signed a pact that will make it the third U.S. banking company to use artificial intelligence to reduce risks in commercial lending.

INB, which has $6 billion in assets, joins Security Pacific Bank Washington, Seattle, and Integra Financial Corp., Pittsburgh, in licensing Lending Advisor, a system that helps bankers make credit decisions and frees them to devote more time to developing customers' business.

Mainframe Software

INB expects to be testing the system by yearend and have it fully operational early next year. The software, which the bank is installing on its mainframe, will eventually be used to help credit officers make decisions for the bank's entire $1.7 billion commercial loan portfolio.

The other two U.S. banks expect to have Lending Advisor in production by yearend.

The only other bank to have installed the software is the $80 billion-asset Canadian Imperial Bank of Commerce, Toronto. Lending officers at the Canadian bank have been using the system since January.

The software, developed by Syntelligence Inc., Sunnyvale, Calif., uses a branch of artificial intelligence called expert systems, which uses the expertise of professionals in a given field to aid decision-making.

Lending Advisor combines standard underwriting methodology with the educated judgments of lending experts to help lenders focus on the right issues in analyzing customers' credit.

INB said it expects the software to mitigate the problem of high staff turnover in its commercial lending area. One in five lending officers leaves a bank every year.

"We saw a problem with credits becoming more complex, and the average age and experience of lending staff declining," said Thomas F. Kelly, senior vice president and manager of INB's credit services division. "Something had to jump in the middle of this."

The software tool "forces you to go through the methodology of good underwriting on a consistent basis," Mr. Kelly said.

INB is the parent company of INB National Bank, the largest bank in Indiana, and two affiliated banks.

Mr. Kelly said that banks in the state of Indiana experience particularly high turnover as out-of-state banks come in and hire away good people. While the bank has an experienced "back bench" of senior lenders, the "first-line" lenders tend to have only one or two years of experience, Mr. Kelly said.

The system, while expensive – costing INB "in the low seven figures" – will be worth the price, Mr. Kelly said. "We only need to duck one medium-sized bullet, and [the system] pays for itself."

'An Intuitive Feeling'

By yearend 1991, about 70 lenders, 25 analysts, and 7 or 8 loan reviewers will be actively using the system for all commercial loans in INB's Indianapolis headquarters.

"After we're satisfied we have it under our belt, we'll roll it out to our affiliates," Mr. Kelly said.

Mr. Kelly declined to estimate how much the software would reduce the banking company's loan losses.

"It's an intuitive feeling that if you do all the steps and use the expert knowledge, you're going to do better underwriting," he said. □

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COMMENT/*By Anat Bird*

Why Not All Regionals Are Turning Out Exactly Super

Regional banks are in vogue. Bigger is better, particularly when it is local. However, facts seem to indicate that large regional banks are much more at risk than the true superregionals – banks that diversified their presence across economic regions.

The true superregionals, such as First Interstate, Bancorp are doing much better than the large regional banks, ranging from Bank of New England Corp. to Marine Midland Banks Inc..

Trend of the 1980s

The late 1980s witnessed an emerging trend among banks in various regions of the country. Size was deemed to be essential to success: without economies of scale, it was felt, banks could not achieve significant profitability.

As a result, several banks emerged as large regionals through a spree of mergers and acquisitions within their market areas. Examples include:

• Bank of New England, which grew within the New England proper and then acquired Connecticut Bank and Trust.

• Republic Bank of Dallas, which acquired troubled Interfirst only to encounter multiple problems.

• First Bank Systems in Minneapolis, which is the result of a combination of several local banks.

• First Jersey, itself a combination of two banks, which acquired Fidelity Bank of Pennsylvania.

These banks and others like them became large, assumably strong regional banks. They have reached the critical mass that is necessary for success.

The Logic of Regionals

The logic behind the strategy appeared infallible: The regional bank would still be perceived as a local bank and maintain its community orientation while consolidating back offices and reaching greater efficiencies possible only in large institutions (with assets exceeding $20 billion, in most cases). Back offices were gutted, people were let go, and new institutions were born.

These new institutions focused on their marketplace. They wanted to avoid the "Penn Square syndrome" of making loans in far-flung territories where they have no local expertise and market knowledge.

Rather, they focused on building a local presence, a clear identity, in their defined geographic market.

The Superregionals

In the same period, several banks exemplified alternative regionalization trend by creating "superregional" institutions. These focused on a strong home base augmented by major acquisitions in different geographic areas.

Ms. Bird is director of financial institutions consulting at BDO Seidman, New York.



Peggy Turbett

"The true superregionals are doing much better than the large regional banks."

Although the banks were regional, the regions were large enough for the banks to achieve diversity in the economic environments serviced and in the management styles of the individual banks making up the superregional entity.

Examples include Citizens & Southern Corp. from Georgia, which bought several large banks in Florida and other states in the south, and First Interstate. (The First Interstate banks were somewhat unusual, since they involved a franchise concept. The "home base," located in California, franchised its name and consolidation efficiencies throughout the West Coast, as far north as Oregon and as far south as Arizona.)

The superregional concept was similar to the regional but involved one important exception: more geographical diversity.

It is important to emphasize that asset size did not make the difference; most regionals and superregionals reached a similar size, regardless of expansion strategy. The differentiating factor was local focus versus regional focus – for instance, New England as opposed to the Georgia-Florida corridor.

Both strategies were quite fashionable in the 1980s. They were applauded as the wave of the future and the secret to survival.

The Middle Vanishes

The superregionals and regional banks created an intermediate tier between the huge money-center banks and the tiny community bank. They have brought about the virtual disappearance of the medium-size bank, in the $500 million to $1 billion range.

Banks below $500 million were not deemed acquisition-worthy by the larger regionals; banks bigger than $1 billion often could survive on their own. Those in the middle range seemed to be ideal acquisition targets for builders of large regional banks.

Problem Seen with Regionals

The regional concept is still very popular. It is considered the last word in the restructuring of the banking industry; studies emphasizing economies of scale continue to bring the point home.

We beg to differ.

All regionals indeed created efficient larger entities that resulted in improved efficiencies and reduced costs per dollar pro-

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CRIME BLOTTER/*By Tom Leander*

Foot Couriers Get the Boot

Reacting to a recent knifepoint robbery, the Bank of England will phase out the time-honored use of foot messengers to transfer securities in the City of London.

For at least two centuries, banks and other institutions within the City – as London's financial district is called – have settled their money market transactions by physical delivery of the valuable documents, usually by foot messenger.

Britain's central bank is inaugurating a computer clearing system for the money markets on Oct. 1. Officials of the bank, known affectionately as the Old Lady of Threadneedle Street, say they are establishing the system to prevent theft and fraud.

When three men robbed the money broker's courier two months ago, he was carrying 80 bank certificates of deposit valued at $130 million – part of a securities delivery worth a total of nearly $500 million. The securities were recovered last month during a routine baggage search at London's Heathrow Airport.

* * *

2 Held in West Virginia Heist

Two West Virginia men were arrested last week on charges of holding up West Union Bank in Salem, W.Va. The robbers escaped with $19,000 after using sawed-off shotguns to threaten two tellers.

The men are also being held in connection with the Father's Day stickup of a Baptist meeting in Phillipi, W.Va. The churchgoers were relieved of about $1,000 in cash, jewelry, and other valuables.

Roger L. Smith, 29, of Philippi and Arthur R. Weidlich, 20, of Grafton were arrested July 4. An anonymous phone call advised police to investigate Mr. Smith's van, which was parked at a local campground.

Police discovered some of the bank cash inside the van. And some items taken from the Baptist congregation were found at home of Mr. Smith's mother.

Also on July 4, Mr. Weidlich was arrested in a car near Flemmingdon, W.Va. Police say he also had some of the loot from the bank and the church in his possession.

In the robbery at Faith Way Baptist Church, a lone gunman interrupted the Sunday service, ordered parishioners to the floor, seized their belongings, then darted off into the woods.

* * *

The Cash Was in the Mail

Oregon police are scratching their heads over the "C.O.D." return of a large bundle of cash stolen May 29 from a Federal Reserve Bank shipment.

The parcel was deposited late at night on July 2 in a mailbox on a Portland city street corner. It was addressed to the U.S. Treasury Service but carried no stamps to cover the cost of delivery.

Postal inspectors in Portland who opened the postage-due package found the cash, which they identified as part of a shipment the Fed had sent by mail from Portland to a bank in LeGrande, Ore.

Police inspector James Pitkin, who is heading the investigation into the theft, said the Federal Reserve uses the mail to ship cash only in those very rare cases when there is no other expeditious way to get cash to a bank. Cash is normally transported via armored car.

The exact sum of money stolen May 29 has never been disclosed. Portland police described the amount as "large." They have posted a $10,000 reward for information leading to the thief who stole the money – and perhaps mailed it back.

Police would not say whether all the money has been recovered. According to inspector Pitkin, the cash had been rewrapped. Rather than handle the money to count it, investigators sent the package to a crime lab to see if it would yield clues about the sender.

* * *

Swiss Tackle Laundering

A bill aimed at fighting money laundering was passed in Switzerland last week. A compromise was struck in the upper house of the Swiss legislature to drop a penalty provision for financial institutions that negligently accept criminal funds.

The law becomes effective Aug. 1. It makes money laundering a crime even if committed outside Switzerland through an account in a Swiss bank, if money laundering is illegal in the country where the action originates. Swiss financial institutions are now be required to check the identity of their depositors.

The new law bans the laundering of criminal proceeds under penalty of fines and jail sentences. Opponents of the bill were unable to meet a July 2 deadline for mustering up sufficient votes to call for a referendum.

The penalty clause, which did not survive, would have imposed heavy fines on banks that were connected with money laundering violations. The banks strongly objected to such proposals, saying they were impractical and would require them to perform police-type duties. □

COMMENT

Continued from *page 4*

cessed or originated.

The local regionals maintained their local presence, building upon their identity and market knowledge.

Spreading the Risk

The superregionals created economic diversification, through which they reduced the risk of exposure of total bank assets to an economic downturn in any one region.

For instance, Financial General Bancshares, which owns the First American network, has banks in New York, the District of Columbia, Maryland, Virginia, Tennessee, and Georgia. Through such expansion, it reduced risk in its loan portfolio.

Hedging Against Downturns

This is quite different from buying banks from Penn Square, an unknown originator in an unknown marketplace. Rather, your own loan officers build a loan portfolio consistent with your own credit criteria.

By doing so in different regions of the country, they reduce exposure to local economic downturn. The diversification is achieved without overstretching the institution and within major regions of the country.

(This concept worked exceptionally well for First Interstate – until it chose to expand further East into Texas. Texas did not invalidate the First Interstate concept. It was a mistake, and a serious one, since it nearly dragged the institution down. Nonetheless, the rest of the network was strong enough to pull its ailing brothers through, as the bank's first-quarter results testify.)

Regionals Falter

On the other hand, the regional banks that opted to create large entities in a single region fared less well.

Republic and Bank of New England demonstrate the problems of very large entities that did not diversify geographically. When the economy turned in Texas or in New England, both banks suffered major blows from which they may not recover.

Thus by yearend 1989, the profitable regional banks in the table were truly superregionals, but the local giants were in suffering.

Further Diversification

The superregionals diversified – either through acquisitions or through nationwide activities (CoreStates Financial Corp. in lending, National Westminster Bank U.S.A. in trust services, Banc One Corp. in data processing).

The regionals in the table are all in economically troubled areas. And other regionals, now healthy, might face the same fate if they take heavy losses when the cycle turns and their economy sours.

Regionals Versus Superregionals

Yearend 1989					
SUPERREGIONALS			REGIONALS		
	ROA	ROE		ROA	ROE
Citizens & Southern	1.09%	6.91%	Bank of Boston	0.19%	3.35%
NetWest	1.08	19.21	First Bank System	(0.09)	(1.69)
NCNB	0.83	19.89	First Fidelity	0.55	10.13
Banc One	1.51	16.93	Midlantic	0.67	9.95
CoreStates	1.19	18.67	PNC	0.60	12.69
Average	**1.14**	**18.32**		**0.38**	**6.85**

A Significant Difference

The regionalization idea works when superregionals are created. It combines efficiency with strong local loan production and risk reduction through geographic diversification of the portfolio. The larger bank takes advantage of combined funding capabilities, larger loan minimums, and economies of scale.

However, the concept does not work when all eggs are put in one basket.

Size has its benefits, particularly in curbing operating costs and in centralizing functions.

But it is a major disadvantage when it represents a single-risk economy. When that economy turns sour, the large bank collapses under its own weight. □

"Size has its benefits, but it's a major disadvantage when it represents a single-risk economy."

Florida Thrift Fined in Fraud

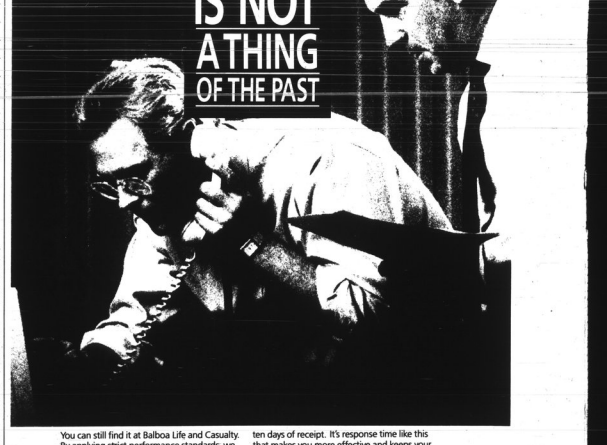
ST. PETERSBURG, Fla. — Florida Federal Savings Bank said a U.S. District Judge in Tampa has ordered the thrift to pay $17 million of restitution and $2.2 million in federal fines following its conviction for student loan fraud.

Florida Federal said the ruling clears the way for recapitalization. Last month, the institution was found guilty of falsifying collection records contained in some insurance claims for defaulted student loans.

Several investment groups have in progress due-diligence evaluations of the $4 billion-asset Florida Federal, the thrift said.

Florida Federal is negotiating with the Civil Division of the U.S. Justice Department and the U.S. Department of Education to quantify and resolve other aspects of the student loan issue.

The thrift said the Office of Thrift Supervision asked it to enter into a consent agreement because its regulatory capital is below the specified level of $15 million. A consent agreement is often a signal that an institution will be placed under regulatory management, Florida Federal said. — **Reuters**



Merger Bids for Healthy Thrifts and Banks Remain Slack

Continued from page 1

low, banks that are potential acquirers now find most acquisitions too expensive in terms of dilution of earnings per share for potential acquirers. In addition, the cloud over asset quality will have to lift. As it is, healthy banks are wary of loan portfolio bombshells at institutions they might buy.

Independent of those trends, a powerful new force toward consolidation is emerging at the bank board level. Often after forceful reminders from regulators about their duties and liabilities, directors are stirring to action in a way that some industry observers believe could begin to force some mergers.

Board Are Vulnerable

"Many managements have lost the control they once had of their boards, because directors have been put in position of very direct responsibility and accountability for actions of their institutions," said John J. Lyons, a New York consultant to banks and thrifts.

Activism by directors could help prompt future consolidation, noted James M. McCormick, president of FMCG Inc., a New York consulting firm.

"I don't see bank directors becoming three times as active as they are now, but the top managements in weaker organizations could lose credibility with their boards and then be susceptible to being put in play on a friendly or not friendly basis," he said.

While such forced mergers have yet to surface, evidence of the increased independence of boards can be seen in the increasing number of announcements on earnings projections and nonperforming assets that managements would prefer to keep quiet.

These losses of credibility, he said, could happen "both in terms of why you committed so into the predicament they're in as well as for not having a well-articulated strategy for profitability and growth going forward."

"Directors have got to get active and push harder because Firrea [the Financial Institutions Reform, Recovery, and Enforcement Act of 1989] puts the burden on them. Egos and social issues may count for less," said Katherine R. Hensel, a banking analyst for Shearson Lehman Hutton Inc.

Shareholder Activism

Large shareholders are also expected to flex their muscles in telling management what to do. Ms. Hensel and others believe that large shareholders will become restless if bank stocks continue out of market favor indefinitely. "Subpar returns could make big investors more proactive," she said.

Certainly there are more major stakeholders at big banks than ever before. The Kohlberg Kravis Roberts Group, for instance, earlier this year took a big stake in First Interstate Bancorp.; the Tisch family owns a major block of Boston Corp.; and the Chilmark Capital Parriners Inc. has recently become a major shareholder in UJB Financial Corp., Princeton, N.J.

Directors and large investors are likely to turn more aggressive if the softness in the real estate markets and corporate loan demand persist, say consultants and analysts.

"Consolidation over time is inevitable, but distress, like war, is accelerating events massively," noted Mr. Lyons, who is managing principal, of Lyon, Zomback & Ostrowski Inc. in New York. He thinks a few deals could occur soon among some relatively healthy institutions "whose stocks have been beaten down."

Opportunity Available

If they can swap stock and combine capital resources, they will be in a spot to take advantage of opportunities created by difficulties at rivals, Mr. Lyons said.

Carole A: Berger, a banking analyst for C.J. Lawrence, Morgan Grenfell Inc., however, believes there will be minimal consolidation among healthy banks and thrifts until the smoke over the troubled real estate clears. And that could require another two or three years, she said.

Others are slightly more optimistic, although expecting little activity in the immediate future.

"How could a banker possibly have the nerve to buy anything right now, not knowing what's in the loan portfolios?" asked Lacy M. Shockley, banking analyst at Smith Barney, Harris Upham & Co.

Correction Takes Time

She thinks several years are required for overbuilding in real estate to be corrected, but notes that a construction hiatus in areas where the economy has allowed excess capacity to be absorbed reasonably quickly. Ms. Shockley cited middle Tennessee as such an area. Construction activity slowed there well over a year ago.

But while some areas can heal themselves in a couple of years, regions such as New England – with slow economic activity and static population growth – could require much longer.

Meanwhile, the hot merger activity these days is in banks taking over the deposits and branches of troubled thrifts. A number of large institutions now under government control are available to propel the consolidation trend from either Dallas Sooner Federal Savings and Loan Association, Tulsa, Okla.; Empire of America Federal Savings Bank, Buffalo, N.Y.; and City Federal Savings Bank, Bridgeport.

Efficiencies Vital

When combinations resume among healthier institutions, they will be driven by the need for greater capital and for increased efficiency and cost savings to offset the lack of loan growth anticipated in this decade by most analysts.

Mr. McCormick of FMCG cites several major forces that are expected to drive merger activity in the 1990s, besides management credibility with directors.

Second-Quarter Bank and Thrift Announcements Of Offers for Which Prices Were Available
Combinations not involving government assistance

Acquirer	Acquired	Price (in Millions)
Home Savings of America	**Home Savings Bank**	$ 300.0
Los Angeles	Bayside, N.Y.	
Assets: $35 Billion	Assets: $1.8 Billion	
First Maryland Bancorp.	**Baltimore Bancorp.**	212.7
Baltimore	Baltimore	
Assets: $7.2 Billion	Assets: $3.5 Billion	
Investor Group*	**Talman Home Federal**	100.0
(Harrison I. Steans)	Chicago	
Assets: N.A.	Assets: $6 Billion	
Wilmington Trust Co.	**Sussex Trust Co.**	68.0
Wilmington, Del.	Georgetown, Del.	
Assets: $4 Billion	Assets: $500 Million	
Comerica Inc.	**Talbancshares**	40.0
Detroit	City of Industry, Calif.	
Assets: $12 Billion	$242 Million	
Key Centurion Bancshares	**Southern Bankshares**	36.0
Charleston, W.V.	Beckley, W.V.	
Assets: $2.4 Billion	Assets: $218.4 Million	
Mercantile Bankshares	**Farmers & Merchants Bank**	35.3
Baltimore	Onley, Va.	
Assets: $4.2 Billion	Assets: $127 Million	
F&M National Corp.	**Peoples Bank of Ctrl Va.**	30.0
Winchester, Va.	Lovingston, Va.	
Assets: $665 Million	Assets: $32 Million	
BB&T Financial Corp.	**Home S&L Association**	29.7
Wilson, N.C.	Durham, N.C.	
Assets: $4.9 Billion	Assets: $231.1 Million	
Cukurova Holdings AS	**FNB Rochester Corp.**	29.0
Ankara, Turkey	Rochester, N.Y.	
Assets: N.A.	Assets: $270 Million	
Southern Pacific Holdings	**Southeastern Savings Bank**	26.0
Atlanta, Ga.	Charlotte, N.C.	
Assets: N.A.	Assets: $426.4 Million	
Waltham Savings Bank	**Lexington Savings Bank**	25.5
Waltham, Mass.	Lexington, Mass.	
Assets: $432 Million	Assets: $235 Million	
CCNB Corp.	**Homestead Holding Corp.**	17.9
New Cumberland, Pa.	Middleton, Pa.	
Assets: $1.2 Billion	Assets: $160 Million	
Michigan Natl. Corp.	**Lockwood Banc Group Inc.**	17.3
Farmington Hills, Mich.	Houston, Texas	
Assets: $181 Million	Assets: $181 Million	
Home Interstate Bancorp	**Torrance National Bank**	17.0
Signal Hill, Calif.	Torrance, Calif.	
Assets: $376 Million	Assets: $86 Million	
Old National Bancorp	**Warrick Financial Corp.**	15.8
Evansville, Ind.	Boonville, Ind.	
Assets: $2.2 Billion	Assets: $95 million	
California State Bank	**Empire Bancshares**	14.0
Covina, Calif.	Rancho Cucamonga, Calif.	
Assets: $252 Million	Assets: $82 Million	
INB Financial Corp.	**FL&T Financial Corp.**	12.0
Indianapolis, Ind.	Columbia City, Ind.	
Assets: $56 Billion	Assets: $80 Million	
Trans Financial Bancorp	**First Financial of Russellville**	8.4
Bowling Green, Ky.	Russellville, Ky.	
Assets: $355 Million	Assets: $42 Million	
First Financial Bancorp	**Fayette Federal Savings Bank**	7.9
Monroe, Ohio	Connersville, Ind.	
Assets: $1.1 Billion	Assets: $67.3 Million	
Fulton Financial Group	**Great Valley Savings**	4.8
Lancaster, Pa.	Reading, Pa.	
Assets: $1.4 Billion	Assets: $185 Million	
First Eastern Corp.	**Summit Hill Trust Co.**	4.8
Wilkes Barre, Pa.	Summit Hill, Pa.	
Assets: $2.5 Billion	Assets: $18 Million	

*Deal Terminated, July 3, 1990

Source: Securities Data Co.

First, in-market mergers will be popular because of the efficiencies that can be gained. Second, aggressive chief executive officers will continue to seize opportunities to expand their franchises.

Returns on Equity Strong

These moves will be possible, he said, because "some regional banks are amassing the ability to operate in the low 20% return on equity range, which should give them stock price and market capitalization with which to make acquisitions in the 1991-92 time frame."

Another force for consolidation, he said, will be scale-building in some areas of the banking business such as securities processing. Moves to build scale by some banks in these areas could trigger a series of responses by others in the same

Massachusetts Bankers Cite Lobbying in Tax Victory

Continued from page 1

Bankers Association and the Massachusetts Federal Savings Council, a thrift trade group.

The state bankers' group sent a three-page letter to legislators and aides outlining the impact of a service tax on financial institutions and a list of 35 banking products and services that would have been effected, said Robert Sheridan, president of the Massachusetts Bankers Association.

"We would have been impacted very seriously," Mr. Sheridan said. "Clearly, it would have made us less competitive."

He said the letter-writing campaign persuaded the legislators to exempt financial services from the tax.

The final Massachusetts tax package covers 594 services, including those of lawyers, accountants, engineers and architects, with many other industries receiving exemptions and special provisions under the complex legislation. It is awaiting Gov. Michael Dukakis' signature to become law.

Banks in the state, especially smaller ones that use more outside services, will still be affected by the new sales tax, said Robert Stoico, president of First Federal Savings Bank of America, Fall River. His $400 million-asset institution will have to pass the additional cost of accountants, lawyers, and other professionals directly on to the consumer, he said.

The Massachusetts Bankers Association argued in its letter that the state's bankers already pay a disproportionate amount of taxes, Mr. Sheridan said. Banks are subject to a 12.54% income tax, and other corporations pay only a 9.54% tax, he said.

Real estate problems have rocked the state banking industry, Mr. Sheridan said, and bankers are worried about out-of-state competition. These fears are heightened by Gov. Dukakis' signing of an interstate banking bill that will open the borders to banks from other states in July 1992, he said.

Along with sending its own letter, the state bankers' group urged member banks to voice their concerns to legislators.

The Massachusetts Federal Savings Council also rolled out its troops, said ring-leader Robb Osinski, vice president of First Federal Savings Bank of Boston. The group decided not to send lobbyists to the state house, but rather to gather support through a public relations campaign, he said.

Large numbers of letters were sent from the organization and its members, and press releases were sent to the media to generate public support, Mr. Osinski said.

EXECUTIVE *changes*

Fuji Bank Names Kamio NY Director

Tomohiro Kamio, general manager of the **Fuji Bank Ltd.,** Tokyo (American division), has been named director and general manager of the bank's New York branch.

He succeeds **Toru Nonoyama,** who will become managing director and will oversee all American operations from the division's regional headquarters in New York. The New York branch is Fuji's largest operation outside Japan.

Mr. Kamio assumes leadership of a New York branch with 200 employees and $43 billion in assets, the largest of 10 offices in Fuji's U.S. banking network.

Fuji New York has diversified its client base to include a large number of U.S. corporations and Japanese corporate customers.


Tomohiro Kamio

The New York branch offers broad merchant banking services in the corporate, municipal, real estate, project and international finance market as well as in capital markets, money markets, and foreign exchange.

Previously, Mr. Kamio was joint general manager of the international planning division of Fuji Bank, Tokyo. From 1982 to 1986, he served as president of the European subsidiary, Fuji Bank (Luxembourg) S.A.

— Franklin Smith

NEW ENGLAND

The Boston Co., Boston, has appointed **Patricia P. Baillieul** senior vice president and manager of human resources.

The Federal Reserve Bank of Boston has appointed **Jonathan S. Fine** assistant vice president, banking structure department, and **David K. Park** assistant vice president and assistant general counsel.

Plymouth Five Cents Savings Bank, Plymouth, Mass., has named **Dennis P. Jones** vice president and chief financial officer.

MIDWEST

Credit Union Executive Society, Madison, Wis., said **Jeanne Klemm** is retiring as senior vice president and chief administrative officer on July 1 after 21 years of service.

First of America Bank Corp., Kalamazoo, Mich., said **Jae M. Maxfield** has been named president and chief executive officer of its First of America Bank-Monroe unit. As president, Mr. Maxfield succeeds **Malcolm Powell,** who has assumed the presidency of the company's Indianapolis bank.

MIDDLE ATLANTIC

John Hanson Savings Bank, Beltsville, Md., has elected **John V. Pollock** president.

He assumes the presidency from **J. William Middendorf 2d,** who continues as chairman and chief executive officer of the thrift.

Mr. Pollock has been serving as senior executive vice president and chief operating officer since joining John Hanson Savings in March 1989.

Bankers Trust Co., New York said **John T. McNabb 3d** has joined the bank as managing director and head of BT Southwest Inc., a wholly owned subsidiary of **Bankers Trust New York Corp.** BT Southwest includes the Houston office of the corporation's Energy Merchants Bank.

Mr. McNabb was formerly an executive with **Prudential Capital Corp.,** Dallas, where he was responsible for merchant banking in the Southwest as well as energy investment in North America.

In addition, **Paul J. Gronski** has joined Bankers Trust Co. as head of analysis and planning for the private banking/marketing group. He will be responsible for market research and analysis, project management, product and market strategy development, and strategic planning.

He comes to Bankers Trust after eight years with **Citicorp,** most recently working in the strategic marketing unit of Citicorp's private bank.

Riggs National Corp., Washington, D.C., announced the following promotions at its Washington and Maryland units:

Riggs National Bank of Washington, Richard E. Brewer has been named senior vice president and trust officer in the personal trust division, and **Bruce J. Wildman** has been named senior vice president and trust investment officer in the trust division's asset management group.

Barbara Boykin-Brown has been named senior vice president of the private banking group at **Riggs Bank of Maryland** and **Michael P. Fitzgerald** has been named senior vice president in charge of Riggs' business banking unit in Maryland.

Travelers Mortgage Services, Cherry Hill, N.J., has named **Lori Gagliardi** assistant vice president, business and financial strategies, for the company's wholesale division, which purchases mortgages nationwide from 343 clients in 34 states.

Meridian Bancorp Inc., Reading, Pa., said **Steven P. Kurtz** has been named chairman, president, and chief executive officer of its American Title Insurance subsidiary.

He replaces **John W. Tagge,** who has resigned for personal reasons but will, during the transition period, remain on as a consultant.

Mr. Kurtz will relocate to the Miami, Fla., area, where American Title has its headquarters.

James Madison Ltd., Washington, said **Donna W. Eacho** has been elected a director of Madison National Bank of Virginia, a subsidiary of the bank holding company.

Ms. Eacho' brings a background in commercial banking to Madison National Bank of Virginia, working as a vice president with **Crestar Bank,** Richmond, Va., since 1987.

— Franklin Smith



CREDIT UNIONS

Bank CEOs Earning More Than Peers at Nonprofits

By ELLEN MEMMELAAR

Though credit union chief executives had made some progress since the previous year, their 1989 compensation still fell as much as 40% shy of what a bank executive made for comparable work, according to a study by the Credit Union Executive Society.

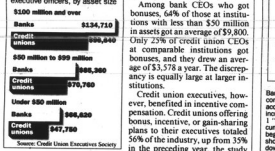
The compensation gap between chief executive officers of banks and credit unions of comparable size is substantial, ranging from 21% to 40% in 1989, the study found. Industry watchers attributed the difference to the institutions' structures and their varying philosophies.

The study for the society, which was completed by Koch-McNabb Resources, includes responses from 854 of the trade group's members. The respondents gave information on more than 700 chief executive posts and nearly 2,100 other executive jobs. The results are published in the *1990 Credit Union Management Compensation Manual*.

The biggest salary growth was at credit unions with $50 million to $99 million in assets, where executives' base salary grew 7.6%, and at institutions with more than $200 million in assets, where growth was 7.5%. Growth in base salary among other credit union executives remained close to the inflation rate, about 4% or 5%, according to the study.

For executives one rung beneath the top, credit union pay was even skimpier. Second-ranking officers at banks with less than $50 million in assets made $46,640, or 40% more than their credit union counterparts, who earned $33,270, the study found. The average operations officer at a $100 million-plus credit union made $48,990, while his banking opposite number pulled in $82,990, a 69% difference.

The Salary Gap
1989 Compensation of chief executive officers, by asset size



Source: Credit Union Executives Society

Bankers also soundly beat credit union executives in incentive or performance bonuses, according to the study.

Among bank CEOs who got bonuses, 64% of those at institutions with less than $50 million in assets got an average of $59,800. Only 25% of credit union CEOs at comparable institutions got bonuses, and they drew an average of $3,578 a year. The discrepancy is equally large at larger institutions.

Credit union executives, however, benefited in incentive compensation. Credit unions offering bonus, incentive, or gain-sharing plans to their executives totaled 56% of the industry, up from 35% in the preceding year, the study showed.

"It is pretty clear that the reason bankers make more than credit union people is the philosophy of how both organizations are run," said Thomas Powers, president of First Commonwealth Credit Union, Lehigh Valley, Pa. He cited credit unions' nonprofit status, their reliance on volunteerism, and a tendency for credit union executives to place less emphasis on salary.

"There will always be a difference," Mr. Powers said of credit union pay vs. bankers' pay. But credit union executives should gain ground, he added, because credit unions are stretching beyond the small, single-purpose institutions that they were two decades ago.

Talented people with master's degrees in business administration are needed to run these increasingly complex organizations, he pointed out.

Salaries will increase for other reasons, too, Mr. Powers said. He and others pointed to a shrinking pool of executives who have risen in credit union ranks. These institutions have grown so rapidly in recent years that they have not had time to cultivate their own candidates, he said.

The average age of the credit union executive is fairly high, said Marvin Umholtz, senior vice president of government and public affairs at the Michigan Credit Union League, Southfield.

"Many of these executives have retired in recent years, and others are getting closer," Mr. Umholtz said, creating numerous potential vacancies.

Therefore, more credit union executives are being drawn from the banking industry, Mr. Powers said. These executives have the necessary experience but come at a higher cost, he said.

While he expects the gap to close somewhat in the 1990s, Mr. Powers said, it will never close completely.

Tun Wai, director of research at the National Association of Federal Credit Unions, said he doubts the gap will close in the next decade. Bank operations "are much more complicated," he said. Bankers must handle more complex types of commercial activity that credit unions are legally prohibited from handling. This alone will cause a continued salary differential, he said. □

Banks Rated No. 1 in Survey on Service

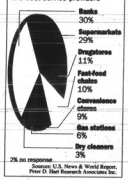
By ED LYNCH

NEW YORK — Bankers struggling to improve service quality can take heart. *U.S. News & World Report* says they give the best service in America.

For its "Best of America" edition, dated July 9, the magazine compiled lists of excellent performers, including predictable winners like Sam Walton for his business acumen and less likely ones like Jimmy Carter as best social advocate.

To determine top-rated services, the magazine contacted 1,005 consumers and asked which of seven everyday businesses gave the best service. Banks came out on top with 30% of those surveyed; supermarkets were favored by 29%, said Amy Bernstein, an associate editor of the weekly newsmagazine.

How Businesses Rank
1,005 consumers pick the best service providers



Source: U.S. News & World Report, Peter D. Hart Research Associates Inc.

"The banking industry is really working like heck on this thing, and it is a moving target because the consumer's expectation is always being ratcheted up by wherever they're getting the good service."

"I'm delighted that consumers are thinking that way," said John A. Russell, vice president and director of corporate communications for Banc One Corp., Columbus, Ohio. "I don't know if we're getting better or the others are getting worse."

Both men seemed to relish the victory over supermarkets.

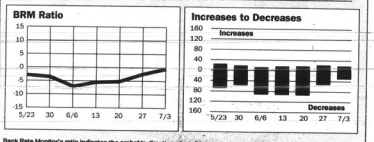
"That's who has been beating us consistently," said Mr. Nelson: "These really nice new grocery stores that are very large."

A Cautionary Note

J. Douglas Adamson, executive vice president of the Bank Marketing Association, said, however, "it is extremely well documented" that the American public is unsatisfied with service in all consumer industries. "So to be ranked the best among bad should not be that consoling to an industry so reliant on service quality," he said.

Ms. Bernstein said the survey was done in April by Peter D. Hart Research Associates Inc., a Washington firm that telephoned people 18 or older at 263 randomly selected locations in the continental United States. □

AMERICAN BANKER /Bank Rate Monitor's™
Consumer Money Index — **Latest rate trend: ratio goes on hiatus**



Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it usually signals the beginning of the end of a cycle. The graph shows how the ratio has moved over the past 8 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.
Source: Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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DEALMAKERS

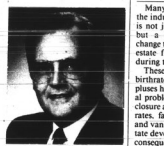
Deutsche Bank's U.S. Unit Digs In For Long Dry Spell of Acquisitions

By ANDREW REINBACH

In 12 years in the U.S. real estate business, Deutsche Bank has made only one mortgage, a $550 million loan on New York's Worldwide Plaza.

Even during the boom years, Deutsche Bank Capital Corp. set its sights on acquiring office buildings in the U.S. market rather than lending. In keeping with this focus, the Worldwide Plaza mortgage converts to 50% ownership after 10 years.

Now, the acquisition deals may be drying up, too. Karl H. Casagrande, executive vice president of Deutsche Bank Capital, sees the end to the current slump as three to five years away. Until then, his bank won't even consider real estate loans here.



Karl H. Casagrande
Deutsche Bank Capital Corp.

His unit has been most active in buying leased office buildings for a real estate investment trust traded on the Liechtenstein stock exchange. He expects few new deals in the near future, citing the prevailing opinion of European investors; "U.S. [real estate] is a dead market."

Timing explains why Deutsche Bank sat on the sidelines during one of the biggest real estate lending booms in U.S. history. The bank's real estate unit opened here in 1978.

"By the time we understood the markets, we didn't feel we would be adequately compensated for the risk," Mr. Casagrande said.

Businessmen and politicians from Europe and Asia will determine the future of the U.S. real estate business, Mr. Casagrande said. The economies of Europe and Asia are outperforming the United States, which will eventually reduce demand for American office and warehouse space.

On the brighter side, he pointed out, "Banks pulling out of the real estate market will allow it to avoid overbuilding and absorb what's there now. But it will be quite a while before there is money for new buildings." □

Structural Decline Seen in Realty

Revived Lending Boom Unlikely in '90s, Experts Say

By ANDREW REINBACH

Many real estate experts say the industry's current downturn is not just a cyclical correction but a fundamental structural change that could cut banks' real estate financing nearly in half during the 1990s.

These experts said falling birthrates and vast property surpluses have created the structural problem. Today's rising foreclosure and nonperforming asset rates, falling real estate prices, and vanishing interest in real estate development are among the consequences.

"It's not difficult to conjure up a development industry working at 50% of the activity of the 1980s, and you're not going to see very many real estate loans done until this market straightens out," said Ralph Carestio, corporate executive vice president of NCNB Corp., the Charlotte, N.C.-based bank holding company.

Demographics, Tax Law

"The volume of activity will never get back to where we were in 1985," he said. "Twenty-five percent of the incentive disappeared [with enactment of the 1986 tax reform], and you can easily add another 20% for demographics."

Academics agree that the high rolling 1980s were an exception to the normal business cycle.



"The volume of loans you saw then won't be seen again unless there's a tremendous structural change affecting the entire economy," said William B. Brueggman, Corrigan professor of real estate at Southern Methodist University, Dallas.

It's the inconvenient arithmetic of demographics that spells out the worst news for real estate and construction loans lending.

"Because of the baby boom followed by the baby bust, we have entered into a period extending a few years into the next century in which we have a decline in the number of young people entering the job market," said Peter A. Morrison of the Rand Corp., Santa Monica, Calif.

Office Space Burgeons

From 1985 through 1989, 972.1 million square feet of office space were built in the nation's 55 top markets alone, a 71% increase in inventory, according to TCW Realty Advisors, Los Angeles. Another 132.7 million square feet are under construction.

But the economically active U.S. population in those years grew by only 9%, to 117.8 million, from 106.3 million, according to the U.S. Bureau of Labor Statistics.

A total of 629.3 million square feet – 24% of inventory – was vacant or under construction Jan. 1, 1990. This space will take 5.6 years to absorb at last year's leasing rate, according to TCW. But this is an optimistic estimate; Salomon Brothers Inc. thinks it will take 7.6 years to reach a 5% vacancy rate nationwide.

Local Variations

This oversupply won't be universal, though.

Areas with relatively high population growth will see demand for property – and real estate loans – recover more rapidly, than in slow-growing areas. And a severe local property crash today means price declines that attract tenants, hastening a comparative recovery in the local real estate market.

Commercial banks – not just insolvent savings and loans – deserve a lot of the blame for this predicament, both banking and real estate experts said.

"The banks were involved in creating speculative excesses, and now we're reaching triggers that may suggest we've gone too far," said Alex Sheshunoff, an Austin, Tex.-based banking analyst. "The major engine behind loan growth has been real estate lending. It was a major source of profitability, and now it's a major source of vulnerability."

Little Sympathy for Banks

Banks get scant sympathy from real estate professionals.

"Why did banks keep lending for the past five years? Because they were making money. They deserve everything they get," said Leanne Lachman, a managing partner at Schroeder Real Estate Advisors Inc., based in New York.

Some real estate professionals pointed out that most major insurance companies – generally considered the most sophisticated real estate lenders – had largely pulled out of the market by 1984. By that year, insurers had stopped writing mortgages with the money they were raising on Guaranteed Investment Contracts, or GICs, and had begun investing in leveraged buyouts.

Banks Replaced Insurers

Banks stepped into the breach, and office development soared.

"The building boom supercycle was started by the insurance companies with GICs money but further accelerated by S&Ls and commercial banks after deregulation in 1986," said Sol Rabin, senior partner of TCW.

And the future? It holds less building and less real estate lending.

"The moment of truth is now at hand," said Gabriel Sternlieb, university professor of urban planning at Rutgers University, New Brunswick, N.J. "But what we're going back to isn't a revolution – it's a counterrevolution.

"We're going back to normalcy. Bankers will have to think small; they'll have to think about the tenant and customers that will use the building, not a goal post to goal post pass." □

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Dallas S&L Case Evokes Outrage Among Senators

Continued from page 2

with $70 million borrowed from insurance companies, Sen. Metzenbaum said.

Charging that this strategy "put thousands of policyholders at risk in the investment," the Ohio Democrat called for a closer look at insurance company investments in failed or weak thrifts. Half the funding came from seven insurance companies controlled by Mr. Fail, the balance from Bankers Life and Casualty, Chicago.

"At what price are we saving savings and loans?"
Sen. Howard Metzenbaum
Ohio Democrat

Sen. Metzenbaum said he plans to subpoena Mr. Fail; M. Danny Wall, former Federal Home Loan Bank Board chairman; Stuart Root, former executive director of the FSLIC; Thomas Lykos, former director of FSLIC's Southwest Plan, under which the Bluebonnet deal was negotiated; Robert Thompson, a lobbyist and former congressional liaison to then-Vice President George Bush, and Robert T. Shaw, chairman of Bankers Life and Casualty.

Mr. Brand, the attorney for Bluebonnet, said federal authorities were fully informed of Mr. Fail's 1976 indictment for securities fraud, which was dismissed, and the guilty plea he entered on behalf of United Security Holding Co., which he controlled. "Neither matter disqualified Mr. Fail from purchasing the Texas thrift," Mr. Brand said. □

Recapitalization Plan Is Scrapped

PONTIAC, Mich. — First Federal Bancorp Inc. said a potential investor has decided not to pursue a proposed recapitalization of the company's two thrift subsidiaries and has withdrawn its letter of intent.

President Leo Ottoni said the investor indicated its decision was based on conversations with its recently retained investment adviser regarding the ability to attain the group's investment objectives in a transaction that would not be assisted by regulators.

"While we are disappointed with their decision, we will continue to explore alternatives designed to enable First Federal's subsidiary savings banks, First Federal Savings Bank and Trust and Citizens Federal Savings Bank, to attain compliance with the recently enacted tougher regulatory capital requirements," Mr. Ottoni said.

The units are operating under Office of Thrift Supervision restrictions because of insufficient capital.

— Reuters

Bluebonnet Savings

Continued from page 2

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Tax breaks and federal assistance have turned the $3 billion-asset Bluebonnet Savings Bank into a gold mine.

ties, and despite a 34% drop in net mortgage loans during the year.

Tracing Source of Investment

Mr. Fail's group initially invested $70 million into Bluebonnet. Ultimately it is obligated to invest an additional $50 million into the unit.

Arizona and federal examiners are investigating whether Mr. Fail misled regulators about the source of some the funds he used to buy Bluebonnet, including the possibility that he concealed a $10 million loan from a Mississippi thrift that later failed.

Examiners also suspect that Mr. Fail improperly pledged some of his Bluebonnet stock as surety on investments in the failed Farm and Home Life Insurance Co., Arizona, which he owned. □

Athletes Do Well in British Event

NEW YORK — A 12-member squad of outdoor sports enthusiasts from the London branch of Bankers Trust Co. performed well as contestants in the annual Challengers Trophy, held in the United Kingdom.

The unit of Bankers Trust New York Corp., the only American institution to participate, fielded two women's teams, one of which took first place in the women's competition. The men's team, brought together from Scotland, Germany, Spain, the United States, and England, finished 15th in its division.

The Challengers Trophy competition, which some call the ultimate corporate sports event, took place in the rugged Trossachs area not far from Glasgow.

Men's and women's teams spent four days in activities such as mountain biking, mountain climbing, canoeing, and road running. Each team spent one night navigating a lake in a rubber dinghy, then hiking five miles through woods.

"Our hard work and training has paid off," said Kate Crean, a member of the bank's winning team. "We covered some tough terrain. Training proved extremely valuable.

"The win can be credited totally to teamwork," she said. "It was a big plus to have built up such a bond over the past couple of months."

Ninety-two teams from around the United Kingdom participated in the competition, held May 30 through June 2.

— Franklin Smith

***NBD Bancorp, Inc.**
Detroit, Michigan
has acquired the deposits and certain assets of
New Guaranty Federal S&LA
in a
Resolution Trust Corporation assisted transaction
April 1990

***New Brunswick Savings Bank**
New Brunswick, NJ
has converted from a mutual to a stock savings bank and has been acquired by
Constellation Bancorp
September 1989

***Mellon Bank Corporation**
Pittsburgh, PA
has acquired 54 branches of
Meritor Financial Group's subsidiary, FSFS
May 1990

***PrimeBank, FSB**
Grand Rapids, MI
has entered into a definitive agreement to affiliate with
First of America Bank Corporation
November 1989

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ADVISOR
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POST-FIRREA
TRANSACTIONS

***Commercial National Corporation**
Shreveport, Louisiana
has merged with
Deposit Guaranty Corporation
February 1990

***Washington Trust Bank**
Spokane, WA
acquired six branches from
Great Western SB
December 1989

***Park National Corporation**
Newark, OH
has entered into a letter of intent to acquire
Mutual Federal Savings Bank
November 1989

***F.N.B. Corporation**
Hermitage, PA
has entered into a letter of intent to acquire
Dollar Savings Association
October 1989

***Harris Bancorp**
Chicago, Illinois
has acquired the deposits and certain assets of
Libertyville Federal S&LA
in a
Resolution Trust Corporation assisted transaction
April 1990

***United Federal Bancorp, Inc.**
State College, PA
has entered into a definitive agreement to affiliate with
Founders Federal S&LA,
which will convert from a mutual to a stock savings & loan association
November 1989

*Deals advised by BEI Golembe

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INDEX *of top stories*

The following is a selected index of the top stories that appeared in the *American Banker* in the past two weeks, arranged by subject. The date on which the article appeared precedes each item.

COMMENTARY

6/26 Research from Booz-Allen & Hamilton Inc. indicates that the typical branch need earn only about 1.2 basis points on its abilities, Sanford Rose reports. *Page 4*

6/27 The FDIC must demand a fair price for the shares of Continental Illinois that it acquired in the 1984 bailout, writes Irvine Sprague. *Page 4*

6/28 The mortgage market is ripe for exploration by bankers, says Alden L. Toevs. *Page 4*

6/29 The key challenge in deposit insurance reform is to eliminate incentives for banks to take more risks as their net worth declines, writes Robert Eisenbeis. *Page 4*

7/2 "No doc" loans perpetuate the mistakes that got thrifts into hot water, writes Paul Nadler. *Page 4*

7/3 Branch survival depends on close attention to scale of operations, staffing patterns, and product-pricing and product-mix management, writes Sanford Rose. *Page 4*

7/5 Deposit insurance reform still faces many hurdles, writes William M. Isaac. *Page 4*

7/6 Large and small banks must present a solid front to demand Glass-Steagall repeal, writes Mark Olson, a partner with Ernst & Young. *Page 4*

COMMERCIAL REAL ESTATE

6/26 Marriott Corp. is shopping for foreclosed hotels, on the theory that it can buy at a deep discount from banks and convert the properties profitably to its own brand names – without adding to the glut of rooms. *Page 8*

6/28 In the first indication that Donald Trump's financial problems could affect bank earnings, Manufacturers Hanover Corp. disclosed in a regulatory filing that it will place up to $157 million of its loans to the real estate developer on a nonperforming basis. *Page 1*

7/3 The California market, which has been the hottest in the nation, is showing signs of weakness. Tighter credit demands are putting a crimp in construction. *Page 8*

COMMUNITY RELATIONS

6/29 For the first time, banks will have to disclose how well they are complying with the Community Reinvestment Act, the 13-year-old law that requires regulators to monitor an institution's record of providing credit to low-income and middle-income communities. *Page 1*

COMPETITION / BANK

6/26 Promising "significant and rapid change," the newly named chairman and president of Chase Manhattan Corp. announced in an internal memo a sweeping restructuring that is aimed at saving $300 million a year, or 8% of current operating expenses. *Page 1*

7/2 A horse race is developing after a period of banking consolidation in Philadelphia, with CoreStates Financial Corp. and Mellon Bank Corp. neck and neck for the lead in retail market share. *Page 1*

CONSUMER SERVICES

6/25 Shorebank Corp. of Chicago doesn't just finance community development. A subsidiary, City Lands Corp., has built 1,300 units of low- and moderate-income housing units since it was formed in 1978. *Page 6*

6/25 An unusual degree of financial uneasiness makes older members of the baby-boom generation a potentially lucrative marketing target for astute bankers, researchers and bank marketers say. *Page 1*

6/26 The New York Cash Exchange says an award-winning ad campaign helped it make significant inroads in the competitive New England market. *Page 6*

6/28 In pursuit of consumers concerned with environmental problems, Wells Fargo Bank is diving into water conservation, and First Interstate Bank of California has a new program to cut through the smog and get older cars off the freeways. *Page 6*

6/28 MasterCard International plans a discount calling-card program in conjunction with MCI Communications. *Page 15*

6/29 Senior citizens are a potentially lucrative market, yet banks are failing to offer them truly comprehensive packaged accounts. *Page 8*

7/2 Bank of New England Corp. said it plans to sell or close more than 95 branch offices by the end of the year. *Page 2*

7/3 Elizabeth Burkhart, a strong supporter of the credit union movement, is retiring to Hawaii after eight years with the NCUA. *Page 6*

7/3 A booming economy and the ailing thrift industry are fueling a surge in consumer lending in California that is unmatched in any other region of the country. *Page 1*

7/5 Morgan Guaranty is forming within its private bank a global asset management group that will offer clients many products developed for institutional and corporate customers of parent J.P. Morgan. *Page 6*

7/5 Chase Manhattan Corp. plans to launch a nationwide identity campaign this fall to integrate all its consumer products. *Page 6*

7/6 Small businesses in Massachusetts have been swamping a hot line set up to match lenders with borrowers. *Page 5*

CREDIT CARDS POINT OF SALE

6/27 Spiegel Inc., the catalogue retailer, said it plans to purchase First Consumers National Bank, a credit card institution in Portland, Ore. *Page 20*

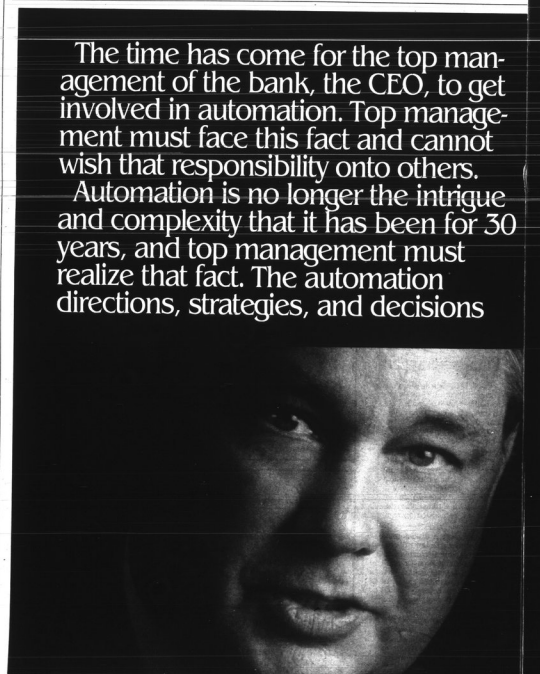
6/28 The Federal Reserve Board introduced a new wrinkle into the increasingly competitive credit card market last week by easing a long-standing ban on offering card discounts to attract other business. *Page 1*

CREDIT UNIONS

7/3 Elizabeth Burkhart, a strong supporter of the credit

See **INDEX** *next page*

The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others.
Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.
Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.



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union movement, is retiring to Hawaii after eight years with the NCUA. *Page 6*

DEPOSIT INSURANCE

7/2 The Federal Deposit Insurance Corp.'s Bank Insurance Fund could decline as much as $2 billion by yearend if real estate problems persist and any large banks fail, a senior official at the agency said. *Page 1*

7/5 Economist R. Dan Brumbaugh, who was among the first to predict the collapse of the thrift industry, now says the Federal Deposit Insurance Corp. is effectively insolvent and commercial banks are in big trouble. *Page 1*

EARNINGS

6/28 Adding consumer loans to its growing list of woes, Equimark Corp. said it expected to report a net loss of $12 million to $17 million for the second quarter. *Page 1*

6/28 In the first indication that Donald Trump's financial problems could affect bank earnings, Manufacturers Hanover Corp. disclosed in a regulatory filing that it will place up to $157 million of its loans to the real estate developer on a nonperforming basis. *Page 1*

7/3 Following disclosures that its second-quarter earnings would be soft, First City Bancorporation of Texas said that it would cut its work force by more than 10% over 12 months. *Page 2*

FINANCE

6/25 RJR Nabisco Holdings Corp. appears well on the way to raising $2 billion to $3 billion in bank loans to help retire some of its junk bonds. *Page 14*

6/26 Dai-Ichi Kangyo Bank, one of Donald Trump's Japanese lenders, denied press reports over the weekend that it had agreed to a new credit pact to bail out the troubled developer. *Page 18*

6/27 Japanese Banks may siphon off a source of capital for U.S. banks if they get permission to issue subordinated loans and include them in regulatory capital. *Page 32*

6/27 Banc One's winning strategy has been to expand rapidly through acquisitions and yet maintain a high level of performance. *Page 26*

6/27 Even as Kohlberg Kravis Roberts & Co. invests an additional $1.7 billion in RJR Nabisco Inc., the leveraged-buyout firm is looking to withdraw $500 million as well as accrued interest in short-term debt it had previously invested in RJR, according to banking sources. *Page 1*

6/28 Brokered deposits, which abetted the growth of troubled thrifts in the 1980s, are now also being used by large banks as an important part of their borrowed-funds mix. *Page 24*

6/29 Faced with the inability to refinance short-term bank loans in the junk-bond market, Zale Corp. and its bank lenders restructured $300 million in acquisition-related debt, bankers and analysts said. *Page 1*

6/29 Short sellers continue to take positions in Fleet/Norstar Financial Group, betting that earnings at the New England regional will suffer as nonperforming real estate loans rise. *Page 20*

7/2 In what could prove to be the first in a series of debt offerings by Japanese banks in the United States, a subsidiary of Sumitomo Bank Ltd. is preparing to issue $500 million of 10-year fixed-rate guaranteed notes. *Page 1*

7/3 Despite a drastic drop in the prices of Charter Medical Corp.'s high-yield bonds, the company's bank creditors have not begun to clamp down on the company. *Page 14*

7/3 A weak market for financial stocks has created an opportunity for Jamaica Savings Bank, which last week completed its conversion from a mutual- ly chartered to a public thrift. *Page 16*

7/5 Manufacturers Hanover expressed confidence in its ability to syndicate $1.17 billion in bank loans to back Forstmann Little's bid for General Instruments. *Page 16*

7/5 The best way for a bank to tap the capital markets may be for it to avoid operating like a bank, G Republic New York Corp.'s recent experience is any indication. *Page 16*

7/6 Credit Lyonnais is planning a leveraged buyout fund and is said to be wooing Leon Black, formerly cohead of investment banking at Drexel Burnham Lambert, to run it. *Page 14*

HOME MORTGAGES

6/29 NCNB Mortgage, which last year made waves with aggressive pricing in home-loan originations, now has set its sights on becoming one of the biggest mortgage servicers. *Page 6*

INTERNATIONAL

6/25 Some Japanese bankers, fearing that further penetration of the U.S. market could prove a political liability, acknowledged that they may have to accept voluntary growth restraints. *Page 10*

6/26 Florida's Department of Banking and Finance has ordered foreign banks to tighten internal controls as part of a crackdown on money laundering in the state. *Page 12*

6/27 Citibank concluded a long-awaited agreement in Tokyo for access to the 20,000-strong automated teller machine network operated by Japan's big banks. *Page 24*

6/28 Regionals like First NH Banks, confronted with the growing internationalization of U.S. trade, have decided to expand international operations. *Page 10*

6/29 West German banks have shipped the equivalent of $15 billion into East Germany in the past six weeks to lay the foundation for a new banking system. *Page 12*

7/2 Perestroika in the Soviet Union is failing an important test of a modern economy – the creation and management of an effective banking system. *Page 10*

7/3 The Bank of England has unveiled a five-pound banknote that it says can foil a new genera-

See **INDEX** *page* **17**

LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Salomon Brothers Inc.

	7/3 Bid	7/3 Offer	6/20 Bid	6/20 Offer
Algeria	79.00	82.00	80.00	83.00
Argentina	13.25	14.00	12.50	13.50
Bolivia	10.25	11.25	10.25	11.25
Brazil	23.25	24.00	23.25	24.00
Chile	66.25	67.00	65.25	66.00
Colombia	63.00	64.00	60.50	62.50
Dominican Republic	16.50	18.50	17.75	19.25
Ecuador	16.00	17.00	16.00	17.00
Honduras	18.00	19.00	18.00	19.00
Ivory Coast	4.00	6.00	4.25	6.25
Jamaica	46.00	47.00	42.00	44.00
Mexico	43.75	44.50	43.75	44.50
Morocco	44.00	44.75	45.00	45.75
Nicaragua	2.00	6.00	2.00	6.00
Nigeria	27.75	28.75	27.50	28.25
Panama	11.00	13.00	10.00	14.00
Peru	4.50	5.50	4.00	5.50
Philippines	51.25	52.00	51.00	52.00
Poland	14.75	15.75	13.75	15.75
Senegal	31.00	34.00	31.00	34.00
Sudan	1.00	2.00	1.00	2.00
Uruguay	49.75	50.50	49.00	50.00
Venezuela	45.50	46.50	45.50	46.50
Yugoslavia	63.00	64.00	62.25	63.00
Zaire	18.75	19.75	19.00	20.00

Source: *LDC Debt Report*

Mitsubishi in Options Venture

TOKYO – Mitsubishi Trust and Banking Corp. and Chicago Research and Trading Group Ltd. will set up a joint venture to pursue arbitrage opportunities, primarily in derivative currency and interest rate products, a Mitsubishi statement said.

The new company, yet to be named, will be capitalized at $150 million, and will be owned equally by Mitsubishi and Chicago Research. CRT is a leading options trading company with membership on 20 exchanges.

The joint venture will take over all of Chicago's existing operations. It and its affiliates will operate in New York, Philadelphia, London, and Tokyo.

The joint venture will enable Mitsubishi to obtain membership at major U.S. and European exchanges and participate as a primary dealer in U.S. securities through Chicago Research. — **Reuters**

Key International Rates*

	Day-to-day money		3-mo. interbank		5-mo. interbank		Discount rate		Prime equivalent	
	7/5	7/6	7/5	7/6	7/5	7/6	7/5	7/6	7/5	7/6
United States	8.43	8.31	8.37	8.37	8.31	8.43	6.37	6.37	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.37	7.25	7.50	7.62	7.62	7.68	7.68	7.68	7.75	5.25	5.25	7.13	7.13	7.13
Canada	13.37	13.37	13.37	13.50	13.50	13.50	13.25	13.25	13.50	13.73	13.73	13.83	14.75	14.75	14.75
U.K.	15.00	15.12	15.00	15.00	15.00	15.00	15.00	15.00	14.93	14.32	14.32	14.31	15.00	15.00	15.00
West Germany	8.18	8.18	8.06	8.31	8.25	8.31	8.56	8.50	8.56	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.37	9.25	9.37	9.18	9.18	9.12	9.00	9.00	8.93	6.00	6.00	6.00	10.88	10.88	10.88
France	10.00	9.93	10.00	10.12	10.06	10.06	10.25	10.18	10.18	9.50	9.50	9.50	10.50	10.50	10.50
Italy	10.62	10.50	12.56	11.12	11.12	11.37	11.37	11.37	11.42	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.34	14.49	8.58	8.64	7.60
6 to 12 months	8.46	13.85	8.62	7.99	7.55
12 to 24 months	8.97	12.98	8.88	7.30	7.30

* Midday quotes in the New York market

Source: Nieman, Ashley & Pearce Inc., New York.

Canadian Banks Hunting Bargains

See U.S. Thrift Crisis as an Expansion Opportunity

By ANN BROCKLEHURST
Reuters

TORONTO — Canadian financial institutions are shopping for U.S. thrifts, hoping they can spot bargains to allow them to expand south of the border, industry officials said.

Companies such as Royal Trustco Ltd. of Toronto scour the quarterly list of U.S. thrifts up for sale published by the Resolution Trust Corp., the Washington agency responsible for selling savings and loan assets.

Sometimes they find what they are searching for: salvageable savings and loans.

Western Acquisitions

Last October, Royal Trust bought Pacific Savings Bank, an insolvent 11-branch thrift in Costa Mesa, Calif., from the RTC. In June, it picked up 62 branches and some assets of Oregon's American Savings for about $30 million.

Both thrifts are being folded into the operations of Seattle-based Pacific First Financial Corp., a bank with $6.6 billion in assets that Royal Trust bought in February 1989 for $212 million.

Canadian trust companies – with their wide experience in mortgage lending – are attracted to U.S. savings and loans, which have a majority of of their assets in real estate.

The U.S. market is "probably the best opportunity and the scariest," says Peter Maurice, who will soon take over as the chief executive officer of Canada Trustco Mortgage Co.

In May, U.S. Treasury Secretary Nicholas F. Brady said it might cost the government $130 billion to clean up the thrift industry, not including interest on bonds to pay for the bailout. More than 1,000 savings and loans, or about 40% of the industry, may eventually be seized by the government and then put up for sale.

Royal Trust, which had been researching the U.S. market since 1987, looked at some 100 institutions, according to Barry Henstock, senior vice president and chief financial officer. But eventually, it decided to concentrate on the Pacific Northwest and California because of the dynamic economy of the region.

Shopping for More

Royal Trust is still shopping with about $400 million to spend, building up its U.S. banking network over the next three-and-a-half years.

"We just have one gap in our coverage," said Mr. Henstock. "We need a bigger retail franchise in California."

> **"There's certainly risk in going in. No one really knows if it's bottomed out down there."**
>
> **Peter Maurice**
> *Canada Trustco Mortgage Corp.*

While Mr. Henstock said there was no risk in buying the thrifts, because of provisions allowing buyers to return bad assets to the RTC for cash within 18 months, other industry sources say the situation is not quite so clear-cut.

Would-be buyers must scrutinize the asset quality of possible purchases to make sure they are as insulated as possible from future real estate downturns. It is also important that the thrifts have a good interest rate mix.

Despite believing that U.S. real estate markets will continue to deteriorate, Canada Trustco's Mr. Maurice is keen to buy a U.S. thrift chain, most likely in the Northeast.

Canada's big five banks do not have the same appetite for thrifts as the trust companies because they would have to make a huge purchase for it to affect profits, banking analyst Keyin Choquette of First Boston Canada Ltd. said.

"Trust companies are under a little more pressure [than banks] to try and expand and create growth potential," he said. "It's just the logistics in terms of relative size of assets and the relative product mix they're after."

However, Harris Bankcorp of Chicago, the Bank of Montreal's U.S. subsidiary, has done some bargain shopping for thrifts.

In April, Harris bought Libertyville Federal Savings and Loan, an insolvent three-branch institution in suburban Chicago, which it has now converted into a bank.

Senior vice president Ed Lyman said Harris was still shopping. "There are two to three [thrifts] for sale in the Chicago area. We're interested in looking at thrifts as a way to expand." Mr. Lyman said it was easier to get a charter to turn a once-insolvent savings and loans into a bank than to apply for a charter, because the RTC is grateful to have thrifts taken off its hands. There are fewer restrictions on a bank's lending.

Royal Trust's Mr. Henstock said: "Our prediction is, there will not be in the marketplace, in two or three years, a thrift industry. There will be, in the marketplace, a single industry: banks." □

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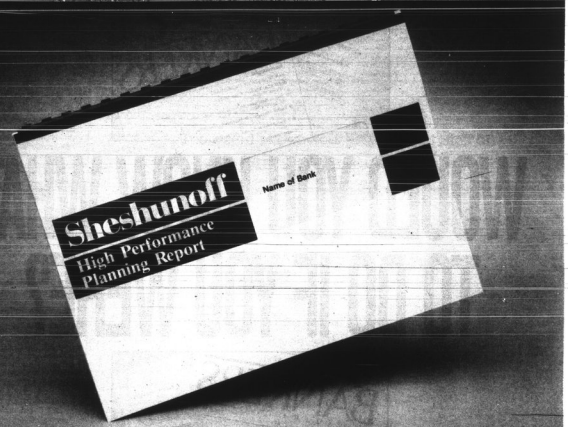

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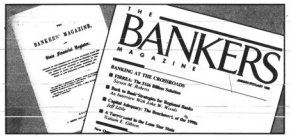

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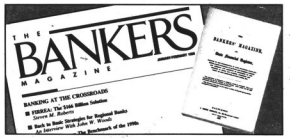

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tion of high-tech counterfeiters. *Page 10*

7/5 Japan's agreement to open its economy will provide new opportunities for U.S. banks, according to Charles Dallara, the U.S. Treasury's assistant secretary for international affairs. *Page 10*

7/6 Japanese media report that the country intends to tell its six partners at the forthcoming Group of Seven summit that it may independently resume lending to China. *Page 10*

INTERSTATE BANKING

6/25 Claiming that the U.S. banking industry is overly fragmented and losing ground to international competitors, a powerful coalition of federal regulators, legislators, influential consultants, and some large banks is renewing the call to allow U.S. banks to branch nationwide. *Page 1*

LEGAL CRIME

6/25 Facing increasing political heat over his administration's handling of the savings industry crisis, President Bush announced several initiatives Friday to crack down on fraud and other criminal activity related to thrift failures. *Page 1*

6/26 Sen. John Heinz wants to turn bounty hunters loose in the fight against fraud in the savings and loan industry. *Page 1*

7/3 After an 18-month investigation, the Office of the Comptroller of the Currency, alleging an attempt to defraud several banks of more than $250 million, has banned 13 people from banking. *Page 2*

LEGISLATION REGULATION

6/25 Peter Cooke, a former Bank of England official who helped lay the groundwork for international risk-based capital rules, suggested to the Senate Banking Committee that the U.S. emulate other nations and adopt a centralized system of bank regulation. *Page 8*

6/25 After months of skirmishing, bankers are confident that they will defeat a bill this week that would require them to cash government checks for customers and noncustomers alike. *Page 1*

6/26 Is the highest bid necessarily the best deal? That question has come up since the Resolution Trust Corp.'s sale last month of Phoenix-based Western Savings and Loan Association to BankAmerica Corp. *Page 1*

6/26 The Treasury Department has agreed to a temporary rule that will relax strict lending limits at the best-capitalized thrifts, OTS Director T. Timothy Ryan Jr. told a group of savings-institution executives. *Page 1*

6/27 A federal judge has ruled that the Federal Deposit Insurance Corp., in trying to limit its cost of rescuing 12 insolvent Texas banks last year, illegally provoked the faiure of a dozen healthy affiliates. *Page 1*

6/28 Three months ago, when he burst on the scene as the nation's top thrift regulator, T. Timothy Ryan Jr. marched into office promising to punish the plunderers of S&Ls. But while Mr. Ryan is still flashing his badge, a conciliatory nature is starting to show through. *Page 1*

6/28 A House Banking subcommittee is expected to approve legislation that would give the Resolution Trust Corp. access to federal tax records for investigations. *Page 1*

6/29 Worried by continuing signs of credit and earnings deterioration in the banking industry, the Federal Reserve Board has issued fresh marching orders to its examiners to assure adequate liquidity on the balance sheets of bank holding companies. *Page 1*

6/29 For the first time, banks will have to disclose how well they are complying with the Community Reinvestment Act, the 13-year-old law that requires regulators to monitor an institution's record of providing credit to low-income and middle-income communities. *Page 1*

7/2 Martha R. Seger of the Federal Reserve Board is skeptical of attempts to test banks in an effort to root out discrimination in mortgage lending. A Fed advisory board found no airtight evidence that such bias exists. *Page 8*

7/3 Banking lobbyists are racing against the clock to persuade Congress to ease the limits on holds they can place on deposited checks. *Page 1*

7/2 William D. Davis, California's new savings and loan commissioner, faces much the same job as many of the institutions he regulates. He must shrink and restructure his department to meet the new demands of the thrift business. *Page 2*

7/3 The banking industry's victory over Sen. Howard Metzenbaum's government check-cashing legislation could be reversed this week; two key senators are said to be ready to offer an amendment that incorporates most of the Ohio Democrat's objectives. *Page 1*

7/5 Counterattacking against the insurance industry, Citicorp has told the Federal Reserve Board no legal ground exists to prevent banks' entry into the insurance business under a recently enacted Delaware law. *Page 1*

7/6 Adding momentum to a proposal that many bankers regard as their highest legislative priority for 1990, Rep. John J. LaFalce, D-N.Y., has persuaded a majority of House members to cosponsor a bill limiting lenders' liability for environmental cleanups. *Page 1*

MANAGEMENT HUMAN RESOURCES

6/27 Continental Bank Corp. became the latest money-center bank to announce a significant staff reduction, saying on Tuesday it would drop 900 employees – 13% of its total – after completing a broad reassessment of its product lines. *Page 1*

6/28 Mary Jean Wolf, personnel chief at the Dime Savings Bank in New York, earned her wings as a problem solver while she was in a similar post at the troubled TWA. *Page 8*

7/5 Richard W. Dalrymple, head of the banking service division at Bank of Boston, has borrowed the Japanese concept of "just in time" to help promote efficiency at a futuristic new office. *Page 8*

7/5 His Pacific Western Banc-

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shares does not even rank in the top 300, yet Philip R. Boyce is among the industry's money-making elite with salary and bonus for 1989 totaling $918,106. *Page 1*

MARKETING

6/25 An unusual degree of financial uneasiness makes older members of the baby-boom generation a potentially lucrative marketing target for asset bankers, researchers and bank marketers say. *Page 1*

7/5 Back in the days when private banking was entirely synonymous with "old money," institutions landed new clients through referrals. Now that brash entrepreneurs and self-made corporate executives have captured the bankers' attention, advertising is the name of the game. *Page 6*

MERGERS/ ACQUISITIONS

6/25 With so many troubled thrifts for sale at bargain prices, the bank-takeover market is relatively dormant these days. But that's not stopping speculators from keeping alive talk of a bid for First Interstate Bancorp. *Page 1*

7/2 Fiserv Inc., a supplier of data-processing services for financial institutions, said that talks about a potential merger had been terminated. *Page 3*

7/2 Bank of Boston Corp.'s directors adopted a poison pill stockholder rights plan, but insisted that the move was not in response to any known plan to acquire the company. *Page 11*

7/5 Talman Home Federal Savings and Loan Association announced Tuesday that an investor group headed by Chicago banker Harrison I. Steans had terminated its agreement to acquire the thrift because of lower-than-expected profit projections. *Page 1*

7/5 In an unexpected move, software company Jack Henry & Associates called off merger talks with Peerless Systems Inc. *Page 3*

MORTGAGES

7/6 Meridian Bancorp is the latest bank to make a big move in mortgage originations. It plans to buy 16 branches from Travelers Mortgage Services. *Page 7*

PEOPLE

6/25 Arthur F. Ryan, newly appointed president of Chase Manhattan Corp., is a hands-on, Brooklyn-bred executive who fits right in at a patrician institution closely identified with the Rockefellers. *Page 2*

7/2 William D. Davis, California's new savings and loan commissioner, faces much the same job as many of the institutions he regulates. He must shrink and restructure his department to meet the new demands of the thrift business. *Page 2*

7/3 Charles J. Buchta, a former Marine, is executive vice president for the western-states consumer unit at the $25 billion California Federal Bank, Los Angeles. He says he aims to encourage an environment where his managers can function creatively. *Page 2*

7/5 After making his mark as the entrepreneurial chief executive officer at Telecredit Inc., Lee A. Ault 3d is getting a new boss. *Page 2*

TECHNOLOGY

6/25 Verifone and Financial News Network reached an agreement that will allow merchants to receive credit card authorizations via television transmissions. *Page 2*

6/26 Electronic Data Systems Corp. is said to be considering a bid for Fiserv Inc., which may face revenue shortfalls as the thrift industry consolidates. *Page 3*

6/26 Moving to consolidate its telecommunications services, Bauc One Corp. said Monday it had signed a four-year contract worth at least $42 million with MCI Communications Corp. *Page 1*

6/27 Royal Bank of Canada is installing 13,000 personal computers in a multimillion-dollar project to make its retail branch network operate more efficiently. *Page 3*

6/27 Hoping to cut technology costs while staying on the leading edge of automation, many banks are considering hiring an outside company to run their technology operations. But bankers and analysts say the decision is less clear-cut for larger banks than for smaller ones. *Page 1*

6/28 Northern Trust will jointly market electronic data interchange services with IBM, which owns a worldwide communications system called Information Network. *Page 3*

6/29 Foreign banks are expanding their cash management business in the United States, but they may be forced to shrink their payments service offerings. *Page 3*

7/2 Banco Latino International of Miami will begin using an image-processing system to handle inquiries about letters of credit and electronic funds transfers. *Page 3*

7/2 Fiserv Inc., a supplier of data-processing services for financial institutions, said that talks about a potential merger had been terminated. *Page 3*

7/3 Security Pacific Corp. has made a big commitment to a technology called neural networking, a branch of artificial intelligence that attempts to recreate how the mind learns. *Page 3*

7/3 As West German banks moved into East Germany, they grappled with an antiquated telecommunications system. *Page 3*

7/5 Sovran Financial and Citizens and Southern are each consolidating data center operations to cut technology costs in advance of their merger. *Page 3*

7/5 This summer, the flagship subsidiary of Bank South Corp. will become one of the first in the United States to test smart cards. *Page 3*

7/6 Bank of America is close to completing what it claims is the most complete system available for global cash management. *Page 3*

THRIFTS

7/3 A weak market for financial stocks has created an opportunity for Jamaica Savings Bank, which completed its conversion from a mutually chartered to a public thrift. *Page 16* □

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Banks to Deemphasize Lending, Stress Savings Brokering

Continued from *page 1*

their less efficient competitors. Thus, trends in consumer borrowing will reinforce other environmental factors that presage a further consolidation of banking-industry assets during the current decade.

Of course, if the consumer is slated to borrow and spend less, he will be saving more. Is it possible that what bankers lose as lenders they will recoup as deposit takers, enjoying the lower cost of funds that could result from an upsurge in consumer savings?

Unfortunately, it is unlikely that very much of the increased consumer saving will take the form of deposit balances. From 1985 through 1989, the compound rate of growth of bank deposits amounted to only 5.9%, down from 9.9% in the previous five years. Adjusted for inflation and the increased number of households, the growth rate of deposit balances was practically zero during the 1985-1989 period.

Deposits: Less Desirable

Consumers have been increasingly earmarking their savings to nonbank vehicles, principally mutual funds, tax-exempt bonds, pension fund reserves, government bonds, and equities. As a result, the share of consumer financial assets held in the form of bank deposits fell from 33% in 1984 to 26% in 1989.

"The share of consumer financial assets held as deposits fell seven percentage points, from 33% in 1984 to 26% in 1989."

Banks that wish to profit from the projected upsurge in consumer saving must therefore find a way to offer those savings products to which the consumer is most attracted. Hence in the future, banks should become less interested in utilizing their branches as deposit-gathering vehicles, especially since there will be fewer opportunities to invest such deposits profitably, and more interested in developing both branch and bankwide capabilities to broker nonbank investment products.

J. William Bowen, a managing vice president of FMCG, has assessed the relative strengths of banks in satisfying the five basic financial needs of the consumer, as originally categorized by Citibank. These needs are: transactions, credit, investment, protection, and advice. As noted by Bowen, banks do an excellent job of satisfying the consumer's need for transactions, or money-transfer, services and for credit. They do very much less well in providing him with suitable investment vehicles, investment advice, and insurance-protection products.

They Hanker for a Banker

Yet, as Bowen points out, the banking industry is uniquely favored in its contacts with the consumer. Nearly seven out of eight households have relationships of one sort or another with a commercial bank.

What's more, bankers also seem to have the confidence and trust of their key customers. For example, according to a Yankelovich, Skelly, and White survey, affluent consumers attach a high value to the financial advice given by their bankers.

Despite the adverse publicity received by many financial intermediaries in the last few years, the plain fact is that, as one economist puts it, "consumers still hanker for a banker to manage their financial affairs." Thus, the demand for bank financial services is strong, far stronger, it turns out, than is the supply of such services.

The task, says Bowen, is to exploit and strengthen the basic bank franchise through product diversification, tailored distribution of these products, and careful attention to erecting barriers to competitor market entry.

Preempting the Broker

Banks must offer more all-in-one accounts, thereby consolidating most of the traditional banking needs of their customers. More important, they must offer to put the customer into a variety of mutual funds – both large-capitalization and small-capitalization stock funds, bond funds, and money-market funds. And they must also offer what are called "asset-allocation life-cycle investment programs" – plans that take into account the fact that most households have distinctive financial needs at various stages of their financial life cycles.

"Bankers must strengthen their franchise through product diversification."

The aim in all of the above is to induce the rank-and-file saver to forsake the retail broker in favor of the bank, by providing him with a diversified menu of investment options geared to his income and age. Banks already provide this service for the most affluent savers through their personal trust activities. They must now find a way of using personal-computer-driven investment models to do the same job for the more moderate-net-worth individual at an affordable fee.

Projecting an Image

Once the products are in place, banks need to protect themselves from competitors by projecting a distinctive image. Image can constitute a barrier to

See CONSUMER *page 21*

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Foundation Notices

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The annual report of the WILLIAM & HELEN MAZER FOUNDATION, INC. for the fiscal year ended September 30, 1989 is available at its principal office located at c/o Wiliam Mazer, 944 5th Avenue, New York, NY (212) 879-5347 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is William Mazer.

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OTS and Utah in Wrangle Over Thrift

Continued from *page 1*

to conflict. A group representing state officials, the Conference of State Bank Supervisors, has lobbied for preservation of their power in a "dual banking system," sharing power with the federal agencies.

The state regulators are currently pressing efforts by the Resolution Trust Corp. to override some states' limits on bank branching. The RTC claims that banks will be more willing to take over failed thrifts if they can hold onto the thrifts' offices as branches.

Rulings in Conflict

On Monday, an Arkansas judge ruled that the RTC cannot override state laws when it sells insolvent, multibranch thrifts to commercial banks. The ruling went against an earlier one in New Mexico, where a federal judge sided with the thrift-bailout agency.

In Little Rock, U.S. District Judge Stephen M. Reasoner called the RTC's override "unlawful, null and void." The decision effectively kills the RTC's planned sale of the $171-million asset, 20-branch Independence Federal Savings Bank of Batesville to Worthen Bank and Trust Co, Little Rock. Sources said the RTC will appeal.

Losses Called Excessive

In the Utah case, OTS officials are contending that Home Savings Bank was losing too much money to be allowed to change its charter while leaving its management team in place.

> **"Obviously some things are of higher priority to OTS than saving the taxpayers' money."**
>
> **Ron Draughon**
> *Utah Thrift Supervisor*

But Utah regulators say they had a commitment from private investors to turn the institution around – as a bank – with $1 million in capital.

"Obviously some things are of higher priority to OTS than saving the taxpayers' money," said Ron Draughon, the Utah supervisor of savings and loans, who reports to Mr. Sutton. Describing the OTS lawsuit as part of a turf fight, he added, "They just want to assert their authority."

The $1 million in capital would have been pumped into the ailing, $16 million-asset thrift was twice the amount needed to repair its capital deficiency, but the OTS insisted on placing it in receivership, Utah officials charged.

Move Called Useless

Home Savings "lost $60,000 in June alone," said one OTS official familiar with the case. "It doesn't help the taxpayers to recapitalize the institution if they continue to lose that much money."

The OTS had also found the institution in violation of truth-in-savings regulations and had ordered it to pay $100,000 in restitution, said the agency official. The OTS would be unable to enforce the order if the thrift converted.

In its complaint, OTS argues that Utah's action "impermissibly conflicts with, hampers and impedes the federal regulatory process," and asks for an order barring future thrift conversions without prior OTS approval.

Conversions Allowed

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, an acquired thrift can be converted to a commercial bank, thereby depying the OTS of income from its assessment on regulated institutions' assets. The thrift must continue to pay insurance premiums to support the bailout and the Savings Association Insurance Fund for at least five years. After that, a thrift can leave SAIF provided it pays required exit fees.

OTS is required to seek written approval from the appropriate state official before moving on a state-chartered institution.

The Utah commissioner gave permission for the charter change on June 15. OTS was notified on June 19, issued a receivership order July 5, and filed the federal court complaint July 6. □

Consumer to Save More in '90s

Continued from *page 19*

market entry as formidable as is the lack of the required capital. Unfortunately, most banks are not terribly good at projecting a clear and distinct corporate personality.

Says Bowen: 'Banks can achieve better market positioning by extolling their virtues. The best positioning comes from identification with consumers' needs. One example of this is Citibank's positioning as the bank for people "who want to succeed, not just survive." Another example is that of Household Bank, a thrift which is positioning itself as "America's Family Bank" in markets across the country.

Those institutions that manage to build images which fit their new roles as financial problem solvers rather than as mere lenders and deposit takers will adjust quite well to an environment in which the consumer is borrowing less and saving more. Retail interest-differential earnings will unquestionably drop, at least relative to total earnings. But fee-based retail profits may rise sufficiently to offset or more than offset the shortfall in asset income. □

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NOTICE OF FORECLOSURE AND SALE. PLEASE TAKE NOTICE, pursuant to Section 1-328 of the Administrative Code, and the terms of those certain Collateral Assignments of Mortgage and Security Agreements (collectively, the "Agreements") dated September 30, 1988 and recorded in the Office of the City Register of New York County, as collateral Lender: 1) Mortgage Agreement securing the consolidated principal amount of $440,000.00 dated November 15, 1988 between 184-86 Realty Corp. and ASSOCIATES, as mortgagee, and MFC, as mortgagee. 2) Mortgage Agreement securing the consolidated principal amount of $460,000.00 dated November 15, 1988 between 452 WEST 164TH STREET ASSOCIATES, as mortgagor, and MFC, as mortgagee. 3) Mortgage securing the principal amount of $567,000.00 dated November 29, 1988 by 391 EAST 165TH STREET ASSOCIATES, as mortgagor, to MFC, as mortgagee. 4) Mortgage Agreement securing the consolidated principal amount of $1,050,000.00 dated December 1, 1988 between 111-15 WEST 141 STREET ASSOCIATES, as mortgagor, and MFC, as mortgagee. 5) Mortgage Agreement securing the consolidated principal amount of $1,533,000.00 dated December 1, 1988 between 2500-04 SEVENTH AVENUE ASSOCIATES, as mortgagor, and MFC, as mortgagee. 6) Mortgage Agreement securing the consolidated principal amount of $1,323,000.00 dated December 13, 1988 between LONGWOOD 850 AVENUE ASSOCIATES, as mortgagor, and MFC, as mortgagee. 7) Mortgage Agreement and Consolidation Agreement securing the consolidated principal amount of $987,000.00 dated December 13, 1988 between EAST STREET-166TH 118TH ASSOCIATES, as mortgagor, and MFC, as mortgagee. 8) Mortgage Agreement securing the consolidated principal amount of $630,000.00 dated December 13, 1988 between 270 W. 153 ASSOCIATES, as mortgagor, and MFC, as mortgagee. 9) Mortgage Agreement securing the principal amount of $5,412,000.00 dated February 2, 1989 between 445 WEST 125TH STREET ASSOCIATES AND 449 WEST 125TH STREET ASSOCIATES, collectively, as mortgagor, and MFC, as mortgagee. 10) Mortgage Agreement securing the consolidated principal amount of $1,468,000.00 dated February 8, 1989 between MONTEREY AVENUE 2022 ASSOCIATES, as mortgagor, and MFC, as mortgagee. 11) Collateral Assignment of Mortgage dated February 8, 1989 and recorded on February 14, 1989 in Reel 900 Page 179 in the Office of the City Register of Bronx County. 12) Collateral Assignment of Mortgage dated January 11, 1989 and recorded on January 19, 1989 in Reel 1527 Page 1727 in the Office of the City Register of New York County. 13) Collateral Assignment of Mortgage dated February 2, 1989 and recorded on February 21, 1989 in Reel 1537 Page 1993 in the Office of the City Register of New York County. 10. Collateral Assignment of Mortgage dated February 8, 1989 and recorded on February 14, 1989 in Reel 900 Page 179 in the Office of the City Register of Bronx County. 11. Collateral Assignment of Mortgage dated January 22, 1990 and recorded on February 5, 1990 in Reel 1594 Page 844 in the Office of the City Register on New York County.

SUPREME COURT - COUNTY OF BRONX Joseph Nathanson and Rosenberg, Attorneys for Plaintiff Trust; Plaintiff against Art Realty Development Corp. et al Defendant(s). Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, NY, in Room 118, Mezzanine, on the 26th day of July, 1990 at 10:00 A.M. premises briefly described. Lots 1, 80, 91, 97, 124, 175, 98 and 23 In Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint. Approximate amount of judgment $1,003,347.82 with interest and costs. Premises will be subject to prevailing rents of tenant(s). Index Number 16590/88 Dated: July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, N.Y. 10007.

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C. LAUDISI & ASSOCIS., INC., auct'rs sell June 25, 1990 at 9 AM at 96-14 Northern Blvd., Qns 1987 Oldsmobile #2G3AJ51RXH9331530 Acct., Silver V. L. Eversley and/or V. Goodmas; 10 AM at 57-11 70th Ave., Qns 1984 Nissan #JN1HJ16S3EX000819 Acct., L. M. Ayele, 12 Noon at 110 Eastern Pkwy., Bklyn 1987 Ford #1FABP64W2HH143900 Acct., C. Davino and/or D. I. Davino; 2PM at 18-25 Govan Ave., Bklyn 1987 #WVWCB0166HW755867 Acct., K.M. Reeves, 1987 Hyundai #KMHLA21J7HU135395 Acct., E. Diaz; 1990 Mazda #1YVGD31D3L5214617 Acct., B. Y. Montague. Published July 10 & 17, 1990.

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South Shore Used Cars Will Sell at Public Sale on 7/25/90 at 9 AM at 590 Sunrise Highway Bayshore NY' Nissan #1N1FB25S5HN150911 Toyota Camry Used Cars. Published 7/10 & 7/17/90.

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DEALS
Lenders Are Demanding Rich Fees

Continued from page 1

working with the union-led buyout group. The five banks have yet to commmit funds.

The rough figure talked about is at least 4% and as much as 5% of the deal, although no final price has yet been ironed out, banking sources said. Back-of-the-envelope estimates suggest that UAL would generate from $160 million to $200 million in up-front fees for banks.

"It is dangerous to offer low fees," said one banker at a Japanese institution. "You can't do a big deal without high fees now."

"If the trend continues," Mr. Soifer said, "it will certainly help to make up the severe shortfall in corporate-finance income all the major banks are experiencing. Corporate-finance income continues to be slow."

Based on his discussions with banks, Mr. Soifer said earnings from corporate finance will likely be flat, compared with the sluggish first quarter, and down versus the year-ago second quarter.

Some Exceptions to Trend

There are some conspicuous exceptions to the upward trend in fees, mostly Hannan Industries' $2.6 billion deal that had very thin pricing and fees. In that case, banks looked past the U.S. arm's parent and saw $5 billion in cash on its books. "And deals that do not have rich pricing are of higher quality, with strong equity components," said Gina Sprintzeis, director of research at Loan Pricing Corp.

But fees in general have jumped. Last year, the Japanese banker said, many HLTS were done with fees of 1% to 1.5%. The Revlon Inc. credit had fees of 2% to 2.5%, but that was clearly not enough.

Revlon's $1.8 billion refinancing was underwritten by four banks that have had great difficulty reducing their exposure. The new deal carried a lower interest rate than the facilities it was replacing.

Large banks found that they could not easily unload their commitments into the secondary market. In fact, the Japanese banker called Revlon "a test case" that could have prompted the recent increase in fees.

"That didn't go well, and I think it caused an impact on RJR and UAL," he said.

Proper Compensation for Risk

Loan Pricing Corp. believes banks had not been getting properly compensated for many leveraged deals of recent years. "Because of the reluctance of banks to fund leveraged buyouts, the deals are expected to be better structured and have pricing more in line with the risk," said Ms. Srinivasan of Loan Pricing.

"Banks have to get paid for the risk," Mr. Soifer said. "This is a judgment of what it will take to sell a deal."

HLT capital is a scarce resource since the failure of Federated Department Stores and the collapse of UAL's management-led buyout last year. Not only are many regional and foreign banks cutting back on commitments to new deals, but many are looking to sell down their portfolios through the secondary market for buyers of existing loans.

Pressure on Leveraged Credits

One Japanese banker said selling down loans in both the U.S. and Tokyo markets has become very difficult. "We're all under pressure not to increase our exposure to HLTs," he said. The Japanese banks. "Thinly priced deals have no excuse going through."

Newly released data for 1989 show that roughly $259 billion in loans were sold in the quarter ending Dec. 31, 1989, putting the annual total at just over $1 trillion, a 6% increase over 1988, according to Sheshunoff Information Services Inc. But the trend turned sharply downward in the year's final quarter, when the pace of sales fell by about 10% compared with fourth-quarter '88. □

2 Coagents Join Forstmann-Little Credit

By WILLIAM GOODWIN

Chemical Bank and Nippon Credit Bank signed on as coagents in a $1.165 billion loan to Forstmann Little & Co., whose agent bank is Manufacturers Hanover Trust.

The loan will help finance Forstmann Little's recently announced $1.6 billion bid for General Instrument Corp.

The Chemical Banking Corp. unit and Nippon each committed $250 million, according to Dominick Baione, a managing director at Manufacturers Hanover.

The two new coagents join Continental Bank of Chicago, which previously committed $300 million.

Continental's commitment will be scaled back to $250, and Manufacturers Hanover's initial $700 commitment will be reduced to $415 million.

Hanover also received a commitment from a fourth potential coagent, but a squabble over a request for incremental fees made it appear unlikely that an additional bank would sign on to the deal, a banking source said.

The coagents were offered fees of 175 basis points. That is a little richer than the fees Hanover offered to coagents on the loans used to finance the acquisitions of Gulfstream Aerospace and Saks Fifth Avenue.

Hanover's Mr. Baione said the coagents on the General Instrument loan were given an extra 25 basis points because of the extra "homework" required to understand General Instrument's product line. The New York-based company makes cable television equipment.

The General Instrument loan is priced at prime plus 150 basis points, and will be marketed later this month.

"I think we'll ultimately have a very high hit ratio," Mr. Baione said of the syndication.

As previously reported, the loan package for General Instrument comprises a $565 million eight-year term loan, a $250 million eight-year revolver, a $200 million two-year term loan, and a $150 million two-year revolver.

Forstmann Little is drawing $800 million from its buyout fund to complete the financing for the deal.

The bank loans include funds for working capital.

There has been speculation that a higher bidder might emerge for General Instrument. But a spokeswoman for Forstmann Little previously said the buyout group would not raise its offer of $44.50 a share. □

BANK AND THRIFT STOCKS

Highlights for Monday, July 9

TOP 10 GAINERS %

Premier Bancorp, Inc.	18.5
MNC Financial, Inc.	6.5
Lake Shore Bancorp., Inc.	5.7
Keystone Financial, Inc.	4.4
Firstbank of Illinois Co.	4.4
First Interstate of Iowa, Inc.	4.3
Jefferson Bankshares, Inc.	4.1
First National Bancorp	4.0
Fort Wayne National Corp.	3.9
Mellon Bank Corporation	3.6

TOP 10 LOSERS %

Zions Bancorporation	-5.2
National Commerce Bancorp.	-4.2
First Security Financial Corp.	-4.2
Bank of New England Corp.	-4.0
Banks of Mid-America, Inc.	-4.0
Mississippi Valley Bancshares, Inc.	-4.0
CullenFrost Bankers, Inc.	-3.3
City National Corporation	-3.3
Southwest Bancshares, Inc.	-3.3
Union Planters Corporation	-3.1

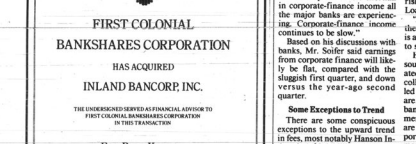
MOST SHARES TRADED

Shawmut National Corporation	748600
Citicorp	438200
Southeast Banking Corp.	387700
Banc One Corp.	328400
MNC Financial, Inc.	325000
BankAmerica Corporation	287700
NCNB Corporation	251300
Crestar Financial Corporation	247900
J.P. Morgan & Co. Incorporated	224100
Chase Manhattan Corporation	213700

VOLUME AS % OF AVERAGE

Santa Monica Bank	1017.8
Planters Corporation	434.1
Shawmut National Corporation	363.3
Bancorp Hawaii, Inc.	316.4
Equimark Corporation	307.9
Merchants National Corporation	277.3
Crestar Financial Corporation	265.6
First Florida Banks, Inc.	265.1
Imperial Bancorp	263.2
First National Bancorp	258.6

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
26¼	11⅞	FirstAmerCorp TN	NM	73.9	12¾	
24¼	24¼	FirstAmerican Corp	14.0	1.6	24¼	
26¾	12⅝	FirstBankSystem MN	NM	117.7	13	¼
12¾	7¾	FirstCapCorp CT	8.6	72.7	8¾	
29½	24	FirstCitizens NC	8.2	95.1	24¾	
25¾	24¾	FirstCommerce LA	10.6	67.8	25¾	¼
18¾	13¾	FirstColonial IL	10.1	136.5	13¾	
9¾	7¾	FirstCommCorp IL	8.4	98.2	9	
29	21½	FirstCommerce NE	8.5	91.0	28¾	
27	17⅜	FirstCommercial AR	7.9	94.8	18¾	¼
21¼	17½	FirstCommercial AR	8.3	120.3	19	
14¾	11⅝	FirstCommunity IL	11.5	115.9	14¾	
35½	21½	FirstEastern PA	8.0	104.0	22¾	-¼
40¾	32½	FirstEmpire NY	8.0	102.6	32½	
33⅞	17¼	FirstFidelity NJ	10.4	74.4	17¾	-¼
40¾	30¾	FirstFidelBncrp OH	14.3	202.0	40¾	
34¼	19¾	FirstFlorida FL	9.4	75.3	19¾	
34¼	19¾	FirstFinancial IN	10.6	218.9	20¾	+¼
11	7⅞	FirstIllinois IL	10.5	183.9	8	-¼
30¾	19	FirstInterstate CA	6.1	124.6	30¾	
7	5⅜	FirstInterstate AR	7.8	107.8	6¾	
14¾	11¾	FirstInterstate BC	9.1	114.4	14¾	
24⅜	16⅝	FirstMidwest IL	9.4	152.5	19	+¼
26½	19	FirstMississippi	6.1	124.6	26½	
44	29¾	FirstPeoples NJ	5.9	101.9	29¾	
21¾	19¾	FirstSecurity KY	9.1	154.0	19¾	
18	14¼	FirstSecurity NC	13.0	174.5	14¾	-¼
31¾	28¾	FirstTennessee TN	10.7	183.0	31¾	
28¾	21¾	FirstTennessee TN	18.3	94.1	22¾	¼
28¾	18¾	FirstUnionCorp FL	7.9	94.8	18¾	-¼
35¾	24¾	FirstVirginia VA	7.8	112.8	24¾	-¼
45¼	37¼	FirstWisconsin WI	10.7	181.0	41¾	-¼
35	26¾	FirstarCorp WI	7.4	116.4	28¼	
17	13¾	FirstbankIL IL	8.7	108.0	13¾	
29¾	18¾	FleetNorstar RI	12.3	103.7	19¾	
25	19¾	FortWayneNatCrp IN	8.6	108.0	25¼	
28	20¾	FourthFinCorp KS	12.8	164.1	25¾	
18	14	FullerFinCorp PA	8.6	108.0	14¾	
24¼	16¼	GBC Bancorp CA	8.7	215.9	18¼	
19¾	9¾	GeneseeBancshrs MS	14.6	73.6	9¾	
5¾	3⅝	GeneseeBancorp IA	3.9	115.1	7	
21¾	15¾	HeritageFin Bcrp IL	8.8	118.3	15¾	-¼
26	14¼	HiberniaCorp LA	18.2	133.5	14¾	-¼
20¾	15	HighlandBancorp IL	8.0	118.3	15¾	-¼
32¾	23	HiBFinCorp IN	6.8	97.6	23¾	-¼
18¾	16¾	ImperialBancorp CA	9.1	120.0	18¾	
26¾	16	IndependenceOne IN	11.6	98.4	17¾	
21¾	15¾	IntegraFinCorp PA	15.3	101.1	15¾	
48	37¾	InvestBnkBnshrs IA	9.3	135.9	37¾	
18	14¾	JP Morgan NY	9.4	150.1	16¾	-¼
28¼	18¾	JeffersonBnshrs VA	8.1	97.4	19¾	-¼
12	9¾	KaufmanInvest MS	14.2	108.3	10¾	
29½	23½	KeyCorp KY	8.0	113.9	26¾	
21	16¾	KeystoneFin PA	9.1	131.8	18¾	¼
36¾	29	KeystoneHeritage PA	10.0	151.5	29	
24¾	20¾	LaSalleFinancial IL	10.6	168.3	20¾	-¼
29½	22	LakeShore IL	16.6	204.9	23¾	¼
12¾	11¾	LandmarkBncrp MO	6.8	64.6	11¾	
30½	24¾	LibertyNatBncrp KY	8.7	115.7	25¾	
27	20¾	LincolnFinCorp IN	7.0	88.4	20¾	
29¾	11⅛	MNC Financial MD	4.5	70.7	12¾	¾
18	14¼	MagnaGroup IL	8.0	103.3	14¾	
60	41⅜	ManufacturersNat MI	6.7	103.8	45¼	
44¼	28¾	ManufacturersNat WI	NM	80.2	32¾	
21	18¾	MarineCorp IL	13.0	137.8	20¼	
20¾	13	MartinTownBncrp MD	8.1	104.6	19¾	
37¾	30¾	MarshallBncrp IN	8.6	118.4	31¼	
34¾	28¾	MarshallIlsley WI	9.8	154.3	34¾	
28¾	23½	MercantileBncrp MD	14.2	98.0	25¼	
37½	30¾	MercantileBncrp MO	8.5	133.4	29¾	

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
14	12	MetroBankcorp MI	8.2	97.4	12	
17½	13	MetroCentralNy NC	7.8	105.7	13½	
62	52	MetroCourtcrpe NJ	10.1	105.5	52¾	
32¼	28	MetroMidwestn MO	9.4	112.2	29	½
27¼	22	MidwayBancorp MI	9.1	113.8	22¾	
36	22½	MidwayCapCorp KY	8.1	152.4	25¾	¾
28¼	19¾	MidwayNatBncrp MO	8.1	150.2	21¼	
30¾	11¾	MidwayNatCorp AZ	NM	98.6	15½	¼
21¾	14¾	MidwayNatCorp IL	6.6	98.6	14¾	
33	26⅝	MidwayNatCorp MT	8.7	103.0	30¾	
27¼	21¾	MidwayNatCorp TX	8.0	107.0	24	
25¼	17½	MidwayNatCorp WA	14.8	167.6	23¼	
36¾	27¾	MidwayNatCorp WI	9.6	107.2	41	
13½	9¼	MorrisBankingCorp NJ	10.9	134.7	13	
32¼	25	MorrisBancorp NJ	7.5	97.3	27¼	-¼

TOP 25 THRIFTS (4 PM PRICES)

52-Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
24¾	16¼	Almanson-CA	9.5	100.6	20¾	
45¾	30¾	AppleBancorp NY	8.3	78.1	42¼	
28¾	15	CalFed Inc CA	5.1	38.5	16¼	
55¾	39½	CitadelHldgCp CA	12.2	74.5	45¾	-¼
20¼	6¼	CoastSavingsFn CA	NM	42.9	6¼	
17⅛	6	DimeSvgBk NY	NM	21.1	6	-⅛
24	14¾	EmeryBancorp CA	10.4	126.5	16¾	
37½	28¼	FirstFederalAm MI	10.6	133.9	36¾	
17¾	12¾	FirstFederalCap IN	8.7	179.2	17¾	
11	6¼	FirstFedCp CA	6.6	34.7	11⅜	-⅛
25¾	11⅞	FirstWFD CA	6.5	51.6	11⅞	
25¾	13⅜	GoldenWestFn CA	13.8	97.9	25¾	
24¾	15¾	GreatWesternFn CA	19.6	118.2	19¾	
14⅝	13¾	GtSwnBancorp IL	10.8	134	14¾	
47¼	19	HomeFedCorp CA	3.7	37.7	19	
13¾	10¾	HomeNwBancshr NY	10.6	200.0	13¾	
18¼	11	NBB Bancorp MA	11.3	55.4	12¾	
9¾	7	People's BkNwCtv CT	9.7	98.4	9¾	
18¾	11	RochesterCmtyS NY	7.6	48.2	11½	
9¾	6¾	SecondBancorp OH	4.4	68.3	9¾	
19¾	9¾	SPbsBancorp FL	NM	60.9	10¼	¼
12¾	7¾	StandardFedBk MI	7.2	97.0	8¾	
26¼	15¾	WashMutualSB WA	12.3	70.0	17¾	¼
15¾	10¾	WashingtonFedSL MA	10.2	282.4	15¾	
11¼	6¾	WestcorpCA	15.0	102.2	8¼	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the total value of their outstanding common stock. As of March 30, 1990, the market value cutoff for banks was $60.6 mil. and for thrifts $121.45 mil. PE is the ratio of the stock's 52-week high and low prices for the stock. PE, the price-earnings ratio, is the current stock price divided by the bank's per-share earnings per share adjusted for latest announced earnings. Mkt. to book, the ratio of the current day's closing price to the stock's book value, expressed as a percentage. **Book value** is adjusted for announced earnings and dividends. Cls. The price at which the stock last traded. If no trades for the day, the latest bid. **AB Bank Index**, a weighted index of average prices of the 250 largest banks by market value and the top 50 thrifts in market value, respectively. Highlights three largest percent gainers/losers in price, and the same indicators most shares traded and today's volume as a percentage of average shares traded daily over the year.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables; Financial News Network, Vienna, VA, provides SNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended July 7

LARGEST PRICE GAINERS*	% change	6/30/90	7/07/90
Premier Bancorp Inc.	12.50%	$ 3	$ 3⅜
Southern National Corp.	9.88%	11¼	12⅜
CPB Inc.	5.88%	21¼	22½
Central Bancshares of the South	5.17%	14½	15¼
First Illinois Corp.	4.76%	7¾	8¼
LARGEST PRICE LOSERS*	**% change**	**6/30/90**	**7/07/90**
St. Paul Bancorp Inc.	16.30%	$11¼	$ 9⅜
Equimark Corp.	14.89%	19	16⅛
Signet Banking Corp.	14.13	23	19¾
Chester Fed Corp.	12.50	23	20¼
Star Banc Corp.	11.36	22	19½
LARGEST CHANGES IN VOLUME†	**Multiple**	**Average**	**Last week**
Santa Monica Bank	3.66	7,562	27,700
Chemical Fin'l Corp.	3.58	2,879	10,300
Granada Sundurst Sys	3.48	16,755	58,300
St. Paul Bancorp Inc.	3.46	160,500	562,400
Marine Corp.	3.29	17,375	56,800

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gain, the five with largest price decline, and the five with largest increase in their average volume for the previous week as identified (*)—the percentage calculations are based on the closing price of each week's close. (†)— The multiple of last week's trading volume to the average weekly volume over the previous 52 weeks.

Data Source: *Salomon Brothers Inc., New York.*

Key Rates

(July 9,1990)

	7/09	7/06	7/02
Federal funds-domestic range:	8¼–8⅜	8¼–8⅜	8¼–8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	8.00	7.90	7.90
6 Month Posted	8.05	8.00	8.00
1 Year Posted	8.15	8.10	8.05
Eurodollar deposits*			
3 Month	8¼	8⅜–¼	8⅜–¼
6 Month	8⅜	8⅜	8⅜
1 Year	8⅜	8⅜	8⅜–⅜
LIBOR*			
3 Month	8⅜	8⅜	8⅜–¼
6 Month	8⅜–¼	8⅜	8⅜
1 Year	8¾–⅞	8½	8¾–⅞

Mid-afternoon quotes, New York market. (†)— Largest offering rates at selected NYC banks.
(*)— Late London bid (¶)— Annualized-money market basis - source: Manufacturers Hanover Tr.

STOCKS

Shawmut Denies Big Writedown; Slide Is Halted

By FRED VOGELSTEIN

Rumors of huge increases in nonperforming assets drove shares of Shawmut National Corp. to a 10-year low midday Monday. However, a bank representative put an end to the speculation at midafternoon, saying nonperforming assets would not be as big as rumored.

Teresa Jones denied that the bank, based in Hartford and Boston, would report increases near $500 million.

"It's wild," Dow Jones newswire quoted her as saying. "It's simply not true."

She told Dow Jones the figure would be closer to $100 million. Later, a bank spokesman said it would be about $200 million.

Earnings Seen Off Slightly

Ms. Jones said second-quarter earnings would range from 35 cents to 40 cents share, lower than the 40 cents to 43 cents a share analysts had predicted. A full earnings report is expected at the end of next week, another bank spokesperson said.

billion in assets, was profitable in the first quarter, earning about $40 million, but it cut its quarterly dividend 31%-to 25 cents a share.

Joel B. Alvord, Shawmut chairman, had said at the company's annual meeting in May that nonperforming assets would increase for the second quarter but that the bank would be profitable for the quarter and the year.

Assets Reduced

The bank shed $3 billion in assets during the first quarter to better enable it to weather the storm surrounding its loan portfolio.

A specialist with Shawmut's New York Stock Exchange specialist firm, Nick, Lyden & Co., said much of the selling on Friday and Monday was the result of three block trades by Montgomery Securities totaling 350,000 shares.

The representative, who asked his name not be used, said it was not unusual for a stock to hit a new low when someone sells large blocks.

One trader said the sales were by investors unloading long positions rather than by short sellers.

* * *

Shawmut Tests A New Low

Price per common share



Price of $11.25 at 3 p.m. on Monday

Source: DM Technology Inc.

Before the 2 p.m. announcement, volume was running about four to five times normal, at 440,600 shares. The stock had been off 12.5 cents to $10.625, after falling 37.5 cents Friday on volume of 550,600 shares.

Since early June, when it was trading at $15.125 a share, Shawmut's stock had declined nearly 30% before rising Monday afternoon.

The stock rebounded 50 cents after the announcement to close at $11.125, regaining its losses of early Monday and Friday. Volume was nearly 849,100 shares by the close.

Results Restated

Shawmut, one of the New England banks hit particularly hard by problem real estate loans, was forced to restate its fourth-quarter 1989 results in March to reflect a $326.7 million loss rather than a $3.9 million profit. The disclosure came on the heels of its exam by the Office of the Comptroller of the Currency, completed in March.

The bank, which has $24.9

MONDAY'S STOCKS

Most bank stocks fell Monday but not by much as few banks fell more than 25 cents. The exception was NCNB Corp. in Charlotte, N.C., which was off $1, to $36, on negative news about its Texas banking subsidiary in Monday's *Wall Street Journal*.

The overall market was higher, with the Dow up 9.16, to 2809.08.

The *Journal* quoted a report from Charles Peabody, a Kidder Peabody & Co. analyst, stating he expected additional problems in NCNB-Texas' loan portfolio in the second quarter.

MNC Financial Corp., which has fallen steadily through June and early July, was up 75 cents, to $12.25, on volume of roughly 300,000 shares.

St. Paul Bancorp, which fell $1.50, to $9.625, on Friday on news of substantial increases in nonperforming assets, gained 62.5 cents to $10.25.

Chase Manhattan Corp., Chemical Banking Corp., Citicorp, Manufacturers Hanover Corp., and Bankers Trust New York Corp., the five banks identified as cosigners for UAL Corp.'s leveraged buyout, had uneventful days, with none changing by more than 12.5 cents. □

Focus On A Changing Industry
Home MORTGAGES
Read It Fridays in AMERICAN BANKER

CAPITAL

Fed Lags on Issuing Interim Capital Rules

By KELLEY HOLLAND

Although new international capital guidelines have been approved by regulators around the world, the Federal Reserve has yet to approve the capital requirements that its member banks must meet this year.

That could change this week, though, if the Fed approves transitional rules that its member banks must meet on their way to complying with the international standards by 1992. The Fed issued the rules for comment late last year.

Most member banks already meet the transitional capital standards. But the proposed requirements also include a leverage constraint, and that has flustered some institutions.

Raising the Leverage Ratios

"The transition rules are really just to help banks in their capital planning process," said one regulator. "The idea behind [the leverage limit] is to place a constraint on the leverage ratios of institutions."

The proposed capital guidelines for the period through Dec. 31, 1990, call for banks to maintain either primary capital of 5.5% of assets and total capital of 6%, or a 7.25% risk-based capital ratio.

In addition to the total capital requirements, banks would have to maintain at least a 3% Tier 1 capital-to-total-assets ratio. This last requirement, a leverage-capital ratio, could rise 100 to 200 basis points for institutions deemed to have overly risky capital structures.

Under the international risk-based capital guidelines, most banks face a Tier 1 capital requirement that includes common equity, perpetual preferred stock, and minority interests in subsidiaries, less most goodwill. Total capital includes Tier 1 capital and qualifying loan-loss reserves, auction preferred stock and term preferred stock, mandatory convertible notes, perpetual debt, and subordinated debt.

Most Large Banks Comply

The proposed leverage restriction would be on top of the international capital requirements.

Almost all the largest U.S. banks already have capital exceeding the risk-based capital requirements proposed for 1992, let alone 1990. At the end of 1989, 89 of the 100 largest banks had total capital exceeding 8% and Tier 1 capital exceeding 4%, according to data from an American Banker survey.

Most smaller state-chartered banks regulated by the Fed are also adequately capitalized, according to a spokesman for the American Bankers Association. "The community banks and some of the smaller banks have excellent capital adequacy," he said. "Certainly this isn't a problem for them."

Most banks probably also have enough equity to meet the leverage capital requirement. But since the exact requirement for each bank can only be set by the Fed, it is impossible to determine just how many institutions have adequate Tier 1 capital. And that has upset some interested parties.

Competitiveness Said at Risk

For example, three multinational banks responding during the comment period on the proposed rules this year said the 3% leverage-capital provision could undermine the competitiveness of U.S.-banking organizations. And David E. Danovitch, chief regulatory counsel for the National Council of Savings Institutions, said, "We are concerned that there is no objective measure of capital in this rule."

During the comment period, 45 respondents, including 33 banks and thrifts and nine trade groups, gave their opinions.

* * *

MARKET MONITOR

Having been late with a debt payment once already, American Capital Corp., Miami, is now seeking to restructure its outstanding subordinated notes.

American Capital, parent of TransOhio Savings Bank, Cleveland, missed a June 15 payment of $3.3 million in interest due on $78.5 million in notes, saying it was exercising its right to be 30 days late if a "restriction event" occurs.

The company said last August's passage of the Financial Institutions Reform, Recovery, and Enforcement Act, with its risk-based capital standards, sharply reduced the company's capital ratios and constituted a restriction event.

The company is now negotiating with bondholders to find a way to satisfy them while reducing the cash burden created by the debt.

American Capital, which issued its bonds in 1985 in an offering managed by Drexel Burnham Lambert, had adequate capital under the old guidelines. But it is far short of the levels required under the new risk-based rules. At March 31, it had $69 million in equity and $5.2 billion in assets. □

Giving Banks The Green

Under the Federal Reserve's proposed capital standards for yearend 1990, banks can choose either ...

Either...

6.5% primary capital
6% total capital to total assets

Or...

7.25% risk-based capital

As well as...

3% Tier 1 capital to total assets

The community banks and some of the smaller banks have excellent capital adequacy, the American Bankers Association said.

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AMERICAN BANKER
VOL. CLV NO. 134 Wednesday, July 11, 1990 155th year

OTS' Easing Of Loan Limit Seen as Feeble

By ROBERT M. GARSON

WASHINGTON — For savings and loan executives looking for temporary relief from tough new limits on loans to one borrower, the regulation issued last week by the Office of Thrift Supervision came as a disappointment.

"It's like attacking homelessness by expanding the IRA program," said Palmer Hamilton, a Mobile, Ala., lawyer. "It just doesn't have much effect."

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 imposed national bank standards on the thrift industry, limiting most loans to no more than 15% of an institution's capital. An exception was made for loans for residential housing development, which could run as high as 30% of capital.

ANALYSIS: *Follow-up on the news*

Previously, thrifts had been able to lend the equivalent of 100% of capital to any one borrower.

In a speech to the League of Savings Institutions on June 25, T. Timothy Ryan Jr., director of the Office of Thrift Supervision, announced that the Treasury Department had agreed to a transition rule that would give well-capitalized institutions until 1992 to meet the new standards.

Qualifiers Are Few

That was little enough: With much of the industry struggling to meet the new capital requirements, only 1,100 institutions qualify under the rule, according to OTS.

But the regulation made public last week gave a good deal less than that.

The transition rule comes down to this:

- For loans backing the development of domestic residential housing, thrifts that already meet capital requirements taking effect in 1992 get a break: between now and the end of the year, they can lend up to 60% of capital to a single borrower. Next year, such loans will be limited to 30% of an institution's capital, the amount specified in the bailout law.
- For commercial loans, there is no transition period: Credit is limited to 15% of capital.

Little Benefit Seen

"I don't know what good this will do anyone," said David Danovitch, regulatory counsel to the National Council of Savings Institutions. Mr. Danovitch expressed surprise that the transition rule did not cover assets other than loans for residential

See THRIFT page 20

INSIDE NEWS

INTERNATIONAL

A REALTY RECESSION that is starting to plague Britain also threatens to nire U.S. and other bank lenders. *Page 18*

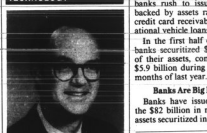
FINANCE

WHAT SOURED the 1987 merger of First Fidelity with Fidelcor Inc.? Though analysts gave the combination rave reviews, chief executive officer Harold Pote was forced to resign just 16 months later. *Page 25*

CONSUMER

PRESCREENING mailing lists of credit prospects has proven controversial. Opponents cite loss of privacy, but advocates say credit opportunities are enhanced. *Page 8*

TECHNOLOGY



MARSHALL N. CARTER of Chase Manhattan says U.S. banks are coming to view the Pacific Basin as a hotbed for securities processing services, as foreign investors pour more funds into the region. *Page 10*

DESPITE BIG INCREASES in use of automated tellers to get cash, banks are not realizing the volume increases on their proprietary networks that would save money, Speer & Associates has found. *Page 3*

PEOPLE

BEING TOP COP of the Justice Department's special task force on bank and thrift fraud has thrust James G. Richmond into the spotlight of national outrage over the savings and loan crisis, which was partly caused by fraud. *Page 2*

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The Surge in Asset Securitization

By commercial banks, dollars in billions



Banks Rushing to Securitize Assets, But Analysts Fear Long-Term Harm

By KELLEY HOLLAND

If a bank asset isn't nailed down these days, it may well be on the way to being securitized.

A market created five years ago when auto loans were first securitized has exploded as banks rush to issue securities backed by assets ranging from credit card receivables to recreational vehicle loans.

In the first half of this year, banks securitized $12.8 billion of their assets, compared with $5.9 billion during the first six months of last year.

Banks Are Big Players

Banks have issued 48.1% of the $82 billion in nonmortgage assets securitized in recent years and are increasingly finding willing buyers among pension funds and mutual funds holding corporate bonds.

Behind the rush by banks to this growing market is their need to pump up capital ratios. Securitizing takes the assets off their books, immediately increasing banks' financial ratios and reducing their need for capital.

But longer-term, analysts and capital markets specialists say, securitization may make it harder for banks to raise capital to fund the less-desirable assets they will have left on their books.

"Banks are securitizing their best assets," said one analyst.

See CAPITAL page 32

OTS to Seek Bids Before Seizing Sick Institutions

By DEBRA COPE

WASHINGTON — Moving ahead with a plan to sell troubled thrifts before they become unattractive to potential acquirers, the Resolution Trust Corp. board on Tuesday authorized the Office of Thrift Supervision to line up buyers before seizing the institutions.

OTS officials said they will select eight to 12 institutions for a 90-day test of the accelerated resolution program. If the procedure succeeds, up to 70% of 299 thrifts with $193 billion in assets that the OTS has identified as most likely to fail could be sold without being placed in RTC conservatorship, according to William Roelle, director of RTC's resolutions and operations division.

3-4 Months for Results

"At the end of three or four months, we should know definitively if this program will work," OTS Director T. Timothy Ryan Jr. said in an interview. "We're all enthusiastic about the prospects for success."

Mr. Ryan, who sits on the RTC board, said he envisions

See RTC page 21

Norwest, United Of Colorado Talking Merger

Norwest Corp. and United Banks of Colorado Inc. announced late Thursday afternoon that they were discussing a possible merger.

"There is no definitive agreement, and there is no assurance that any such agreement will be reached," according to the two-sentence statement.

Company Would Be in Top 20

A merger between the two holding companies would be one of the biggest ever in banking, creating the nation's 20th-largest.

Norwest, an eight-state superregional based in Minneapolis, now ranks 30th, with $24.33 billion in assets. Denver-based United Banks is Colorado's largest holding company and the 81st-largest in the United States. It owns 40 banks in Colorado and has $6.08 billion in assets.

The announcement came after the stock market closed. Nor-

See NORWEST page 20

Insiders Are Snapping Up Bank Stocks

Second quarter purchases by officers and directors

Company	Number purchased	Buyers	Average price	Price as of 3 p.m. Tuesday
First Bank System	43,980	10	$18.25	$18.375
First Interstate Bancorp	1,000	1	$125.00	$124.75
SouthTrust Birmingham	26,230	5	$17.00	$17.375
Dauphin Deposit Harrisburg, Pa.	6,000	3	$27.375	$28.00
Comerica Detroit	4,180	10	$43.00	$45.25
First Interstate Los Angeles	4,000	1	$125.00	$124.75

Source: InvestNet

Though Bank Shares Are Down, Insiders Are Buying Vigorously

By GORDON MATTHEWS

NEW YORK — With most investors running away from bank stocks these days, it sometimes seems that the only buyers willing to step forward are the banks' own officers and directors. And they have been active buyers, indeed.

In June, for instance, 10 insiders at First Bank System, including the new chief executive officer, John F. Grundhofer, spent nearly $665,000 to acquire 43,590 shares of its stock.

In May, five insiders of SouthTrust Corp., Birmingham, Ala., acquired 26,230 shares for $445,910. The largest buyer, director Raymond J. Harbert, purchased 15,000 shares.

Stocks Have Plunged

Also in May, 10 officers and directors of Comerica Inc., bought 4,180 shares for $161,250. Insider buying at the

See STOCKS page 32

PEOPLE *in the news*

Top Cop on S&L Task Force Set to Tackle Major Frauds

By NANINE ALEXANDER

James G. Richmond, U.S. attorney for the Northern District of Indiana, has been thrust into the spotlight of national attention by the ground swell of public outrage over fraud that contributed to the savings and loan crisis.

Last month, President Bush picked Mr. Richmond as his top cop to lead a special task force in the Justice Department that will coordinate investigation and prosecution of bank and thrift fraud.

Mr. Richmond says his job – special counsel for financial institutions – is a temporary assignment to get the fraud unit operational. He will review and redeploy available resources, direct a team of 10 representatives from the various agencies, and create a spousal squad of investigators and attorneys who can help out in cases where resources are thin or other enforcement personnel are unfamiliar with the special nature of financial fraud.

"After you identify suspect transactions, you have to determine whether you have a case of fraud or poor business practices," Mr. Richmond said in a telephone interview from his Washington office. "In fraud cases, the documents are never in one easy-to-find place."



James G. Richmond

Mr. Richmond said the reassignment of experienced assistant U.S. attorneys and FBI agents to the effort is under way, with 118 attorneys and 202 agents added since December. With an additional $75 million budgeted for fiscal year 1991 beginning in October, Mr. Richmond expects to add more personnel, but he said it is too soon to know how many or in which areas.

Top Priority Is Data Base

The toughest and most important task facing Mr. Richmond will be the creation of a data base by the 10-member interagency Financial Fraud Coordinating Unit. The members will represent Justice, the FBI, the Treasury Department, the Office of Thrift Supervision, the Resolution Trust Corp., the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, the Federal Reserve Board, the National Credit Union Administration, and the attorney general's advisory committee of U.S. attorneys.

The team is using the FBI's definition of major frauds: those involving more than $100,000, bank officers and other insiders, or multiple borrowers. Of 2,100 referrals, Mr. Richmond said investigations at 100 institutions identified by the RTC, the OTS, and the FDIC have priority status.

In addition to keeping current the status of each investigation, the data base will help the team target cases for civil action, such as freezing assets, while criminal investigations go forward.

Witness Cooperation Deemed Essential

Because the beneficiaries of financial fraud generally do not sign any documents, Mr. Richmond said cooperation is needed from the traceable participants to nail the major players.

"This is not like the average bank holdup, where you can line up the suspects and have a teller say, 'That's the guy who put the gun in my face.'" Mr. Richmond said.

Mr. Richmond, 46, brings over 20 years of experience to his assignment, including stints as an FBI special agent and an IRS agent, six years as a defense attorney, and service as an assistant U.S. attorney.

Mr. Richmond is a graduate of Indiana University with degrees in business and law. He enjoys fishing and pheasant hunting. □

NEWS *briefs*

GAO Chief Revises Upward Estimate of Thrift Bailout

WASHINGTON — Charles Bowsher, head of the General Accounting Office, said he was revising upward his earlier estimate that the cost of bailing out the savings and loan industry would be a minimum of $325 billion.

"The minimum will be more than $325 billion," Mr. Bowsher told reporters after speaking at a meeting of economists. He added that the higher figure – $500 billion – is still correct because it takes into account lower real estate values. — Reuters

Mortgage Group Buys Washington Bancorp Unit

WASHINGTON — Washington Mortgage Acquisition Group said it had completed the purchase of the mortgage banking subsidiary of the troubled Washington Bancorp. Terms of the deal were not disclosed.

The company also said it received Federal National Mortgage Association approval to participate in the delegated underwriting and servicing program, allowing it to sell multifamily home loans at preferred prices to the agency known as Fannie Mae. □

FDIC Bends on Notification Of Minor Coverage Changes

By BILL ATKINSON

WASHINGTON — The Federal Deposit Insurance Corp. said Tuesday that it would give banks and savings and loans an extra month to inform depositors of a list of minor changes in deposit insurance coverage – as long as the institutions are making a good-faith effort to comply with a disclosure rule adopted in April.

Bankers and trade groups have been at odds with the agency over the rule. The bankers charge that the rule is unclear, the time frame is too short, and they will bear the costs of mailing to depositors. Financial institutions were expected to inform depositors about the changes by July 29.

Under the rule, about 10 types of accounts will be affected, including single-ownership accounts, joint-ownership accounts, and retirement accounts.

Mandated by Reform Act

The rule was mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which required the FDIC to eliminate differences in deposit insurance coverage at

Bankers charge that the rule is unclear.

banks and savings and loan associations.

The one-month extension is insufficient, said Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America. "It should have been delayed to later in the year."

Mr. Guenther is concerned that the rule, because it concerns changes in deposit insurance at a time of public concern about the S&L crisis, could be misinterpreted as something more serious than it is.

"I think the FDIC underesti-

See **FDIC** *page* **21**

Corrections

In a July 3 article ("Security to Try Neural Networking," page 3), the consulting company was misidentified.

The company's correct name is New Science Associates, Southport, Conn.

■

Because of a typographical error in Paul Nadler's Comment column Monday ("The Party's Over: Analysis Is In, Hobnobbing Out," page 4), the bank where Steve Panevko is head of commercial lending was misidentified. It is UJB Financial Corp.

■

In Monday's Analysis ("Court Rulings on Seizures Rock the FDIC," page 1), the misplacement of a paragraph made it appear that a former Federal Deposit Insurance Corp. official, James Sexton, was criticizing recent court decisions on the FDIC. Instead, Mr. Sexton was criticizing certain banking practices that caused losses for the FDIC.

Another misplacement of a paragraph made it appear that court findings, in litigation involving Texas American Bancshares, supported Mr. Sexton's remarks. In fact, the court findings supported Texas American's contention that the FDIC had illegally caused 12 of its banks to fail.

Fed Chairman Sees a Decline In Inflation Rate

WASHINGTON — Federal Reserve Chairman Alan Greenspan said he sees a gradual reduction in U.S. inflation and does not expect to see a sharp drop in real estate values as overall inflation is brought under control.

In written answers to questions from the Senate Banking Committee, Mr. Greenspan said it is possible that reducing the inflation rate could push real estate prices lower.

"A sharp adjustment of prices is not likely, however, as we envision only a gradual, measured reduction in inflation," Mr. Greenspan said.

Lower inflation would have the added benefit of reducing the savings and loan bailout costs because interest costs for the Resolution Trust Corp. would be less, Mr. Greenspan said.

Lower interest rates would also help healthy savings and loan institutions, while lower inflation will promote a more stable economic environment, he added. — Reuters

COMPANY *index*

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TECHNOLOGY NEWS

An Unfulfilled Promise of the ATM

Survey Finds Sluggish Growth in Network Volume

By JEANNE IDA

NEW YORK — Despite big increases in consumer use of automated teller machines to get cash, banks are not chalking up the volume increases on their proprietary networks that would save them money, according to a study by Speer & Associates Inc.

"We think there are too many ATMs out there for the card base and the activity," said Thomas E. Reynolds, senior vice president of the Atlanta-based research firm. "Most financial institutions are still over-ATMed."

The average monthly volume of transactions per ATM is up only 8% over the past five years, despite a 105% increase in the number of transactions per card, according to the study. The number of ATM cards in circulation has also risen steadily.

Poll Covered 110 Networks

Speer based its findings on a poll of 110 proprietary networks with a total of 4,833 ATMs, consumer transaction accounts and a proprietary debit card base of 22.6 million at the end of 1989. The percentage of consumer accounts with a debit card was 51% overall.

The survey respondents reported an average of 4,833 transactions per ATM each month, and the average cardholder used his card 37 times in 1989.

Thirteen percent of the banks surveyed said they would introduce or increase ATM fees in 1990, and 12% said they would introduce or expand point-of-sale services this year. Nine percent said they expected to consolidate networks this year, and 7% said they would market to increase cardholder and ATM use.

Overlapping Service

Mergers and acquisitions are not necessarily resulting in ATM consolidations, the research firm also concluded. In mergers with overlapping networks, a reduction in machines can increase average ATM volume. But if two merging banks do not have overlapping markets, the average transaction volume per ATM may remain the same or decrease.

"We're seeing some banks slow to reduce number of ATMs in a merger," said Mr. Reynolds. "It's definitely better when they can reduce the number of ATMs."

Mr. Reynolds said his firm has found that two merging institutions with overlapping bases can reduce the number of ATMs by 15% to 20% and retain 90% of their customers.

Mr. Reynolds cited CoreStates Financial Corp., Philadelphia, as an example of efficiencies in ATM deployment achieved by a merger. CoreStates said in May that it plans to close a total of 25 branches, including 20 ATMs, belonging to First Pennsylvania Bank and Philadelphia National Bank, now owned by CoreStates. About 116 branches will remain.

Considerations of Scale

Furthermore, Speer & Associates recommends that a branch have at least 3,000 accounts before it puts in an ATM. "We don't believe that you need an ATM at every branch," Mr. Reynolds said.

"We keep hoping to see some quantum jump in the number of transactions per ATM, but we haven't seen it," said Mr. Reynolds.

Intangible factors, however, make it difficult to measure the cost-effectiveness of regional networks, according to Paul Martaus, director of research at Payment Systems Inc., Tampa.

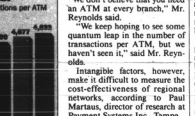
One intangible is whether customers would change institutions if their bank reduced ATM service. Another is whether the bank's ATM network is set up as a profit center or as a service.

Other banks may use ATM networks as part of a strategy for geographic expansion, Mr. Martaus said. These banks put ATM networks in a region before putting in branches.

Both Payment Systems and Speer & Associates reported that regional networks are feeling a pinch. For regionals, Speer forecasts, shared network costs will remain in the range of 10 cents to 15 cents over the next three to five years. Speer estimates that a bank needs 5 cents to 11 cents to remain competitive.

Payment Systems said it has noticed a growing trend for banks to charge for transactions at their own machines. In a recent survey of 150 of the top bank holding companies, 17% said they charge for transactions that their customers perform at their own ATMs.

To increase network volume, Speer & Associates advises banks to market debit cards more aggressively for retail point-of-sale purchases. "Significant" volume growth will not occur for about three to five years," Mr. Reynolds predicted. □



First Chicago Uses New Software To Automate Its Direct Lending

By KAREN GULLO

NEW YORK — Coin Banking Systems Inc., Norcross, Ga., has introduced software that automates the processing of direct-lending operations at the main offices of a bank and its branches.

The system, which is based on personal computers and operates on a local-area network, is being installed at branches of First National Bank of Chicago. Called Application Manager DLS, the system replaces manual processing of loan portfolios at the First Chicago Corp. unit.

DLS can communicate with mainframes and other computers and tap into credit bureau data bases. The enhancement will allow First Chicago loan officers to generate loan documents and process loans on PCs at the branches, rather than fax documents to the home office and wait for approvals to be faxed back.

Control of Approvals

"The system can control the approval process on the front end," said Joseph M. Wilda, executive vice president of Coin, "and all the file-folder documents can be transmitted electronically from the central office to the branch or automatically faxed between offices."

First Chicago is installing personal computers at many of its branches, which will be linked to one of two central processing centers. Customer files, credit scoring, and other information can be downloaded from the central processing system to the PCs, where it can be incorporated in loan documents.

The system is designed to work with Coin's Indirect Lending System, which is installed at 350 midsize and large banks.

MasterCard and Visa Reporting Surge of Growth in the Far East

By RICHARD LAYNE

NEW YORK — Both MasterCard International and Visa U.S.A reported significant first-quarter increases in transactions and authorizations in the fast-growing Asia/Pacific region.

MasterCard, with members joining its Banknet processing network and card-usage climbing, said it processed 2.71 million authorizations in the first quarter, 38% more than a year earlier. Settlement transactions rose 47%, to 4.73 million.

Settlements Rise 107%

Visa's preliminary figures show even larger increases for the first quarter. The volume of settlement transactions for cash and sales was eight million, a 107% increase over the period last year. In authorizations, Visa cited a 53.4% increase, to 7.6 million. Only Latin America is a faster-growth area for Visa.

MasterCard said the number of members in the region using its Banknet network doubled over the past three years.

MasterCard said it had four million cards in the Asia/Pacific region, compared with 29 million cards for Visa.

Fastest-Growing Regions

MasterCard has had three regional switching centers – Tokyo, Sydney, and Hong Kong – on its Banknet network to provide Asian users. MasterCard added that it had more than doubled its members in the region without increasing the number of switching centers. □

ANOTHER

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COMMENT/*By Charles H. Nobs and Eleni Istavridis*

Cost Leadership Gives Competitive Edge

While New York City may not always be an accurate barometer for the state of the national economy, today's city conditions pose an interesting metaphor for the banking industry.

Manhattan employment is down in both manufacturing and service sectors. Real estate markets are in a slump. Opportunities to raise tax revenues are evaporating, and embedded costs are uncompetitively high.

This is particularly relevant to financial firms based in new York, where the health of the city and the financial-services sector are so closely related. Cities and industries alike can be ripe candidates for restructuring.

Forecast for the '90s

Certainly, the 1980s showed that cost leadership is key to success in any restructured setting. Whether the restructured corporate environment is steel, electronics, automobiles, airlines, computers, or telecommunications, market leadership is invariably associated today with those firms that managed their cost profiles with the greatest finesse and foresight.

Just as these industries underwent a sea change in the past decade, so too will a combined banking and securities industry be restructured in the 1990s.

Stratification trends in returns to shareholders, market valuations, and market share are predestining the fortunes of most banks. Analysis by IDC Financial Publishing shows that banks with better credit quality and better cost control over the 1984-89 time frame achieved stronger investment returns than those institutions with less favorable credit and cost performance.

Market Capitalization

Research by First Manhattan Consulting Group shows that banks with "strong" expense performance have stock prices that are 60% or more higher than if they had "average" performance. Studies by McKinsey & Co. show that superregional banks increased their average market capitalization almost seven times during 1982-88.

This far outdistanced multinationals, who increased their capitalization less than two times. Regionals also increased their market share of total bank deposits, according to McKinsey, while money-center and community banks lost ground.

> **"Market leadership is invariably associated today with those firms that managed their cost profiles with the greatest finesse and foresight."**

Thus the gap between the "strong" and "less so" is well established and growing. A fundamental reshaping of the banking industry has already begun and will accelerate. To exert cost leadership, knowledge about the relevant competitive universe must be gained and details about relevant competitors' costs must be learned.

Factors such as the growing strength of superregionals and availability of foreign capital will eventually affect most aspects of retail and wholesale banking. These considerations will alter scale economies, pricing latitude, and technology strategies for many financial products, rendering them fundamentally unattractive for all but those bank providers whose size and business mix have been rationalized along the new competitive lines.

Expense or Investment?

Part of this rationalization process involves a strong differentiation between expense and investment. Since expense is most often defined by the existing, rather than future, culture, it must be rigorously questioned. Moreover, expense must be made variable to the greatest practical degree, thereby allowing changes in business and transaction volume to be met with expense growth or decline.

Examples include incentive-based compensation across various job classifications, use of contract and temporary workers where feasible, flexible benefits programs, profit sharing rather than guaranteed savings plans, and outsourcing a broad range of bank service activities.

The contracting-out of non-strategic bank services, often

See **COST** *page* **9**

Mr. Nobs is senior vice president and department head for corporate operating services at Bankers Trust Co. Ms. Istavridis is senior vice president for corporate services control and administration at Bankers Trust.

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ART
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GRAPEVINE/*By Jed Horowitz*

Ties that Bind. Money-center bank executives these days are quick to speak about the theoretical benefits of mergers, but few have spoken of actual combinations or hard numbers.

One who has not shied away from getting specific, however, is Manufacturers Hanover Corp.'s president, Thomas Johnson.

At a meeting with institutional investors, he said that a combination of any two of the following New York branch-system banks could lead to incremental annual earnings of between $400 million and $700 million for the merged institution: Chemical Banking Corp., Chase Manhattan Corp., Bank of New York Co., and Hanover.

Mr. Johnson's company, meanwhile, may try to "unlock hidden values" on its own, a Merrill Lynch & Co. analyst, Judah Kraushaar, wrote in a recent report. Manny Hanny may eventually unload its Park Avenue headquarters building, which the company values at between $500 million and $750 million, and it is likely to sell entire business lines overseas.

* * *

Chasing the Reorganization. Chase Manhattan Corp. has reassigned a number of executives after dissolving its tripartite global individual-institutional structure. The most dramatic shift is of Hughlyn F. Fierce, believed to be Chase's highest ranking black executive. Mr. Fierce, who was head of the Asia-Pacific corporate finance unit, is now to run a unit that markets retail bank products to municipal and state governments in New York City, Westchester County north of the city, and Long Island.

Mr. Fierce's former domain has been combined with the Japanese corporate finance unit under Timothy McGinnis, head of the Japan unit.

Chase also bestowed new responsibility on Michael F. Dacey, head of North American corporate finance. With the transfer of vice chairmen Richard Boyle and Robert Douglas to nonline duties, Mr. Dacey has full responsibility for Chase Securities, Chase Municipal Securities, Chase Leasing, and domestic institutional banking services.

Robert D. Hunter added Chase Home Mortgage Corp. to his national financial services empire. Donald Boudreau, head of the metropolitan community bank, also now oversees Chase's regional bank franchise.

* * *

The Fizz is Gone. It's not just money-center banks that are curtailing their corporate finance and investment banking ambitions. The sharp downturn in corporate finance activity also is affecting regional banks.

With each passing month, the membership rolls of the Bankers Association for Corporate Finance – a group of regional bankers who aspired to be on the cutting edge in mergers and acquisitions, private placements, and other investment banking areas – are dwindling. The group was founded a few years ago by about 30 bankers who meet twice a year to share ideas and plans.

Recent Refugees

Among the most recent refugees from the group are bankers at First Fidelity Bancorp's Fidelity Bank and NCNB Corp.'s North Carolina bank.

The three principals of Fidelity's investment banking group – Mark DeNino, Leslie Brun, and Jai Bowers – left recently to join CMS Cos., a Philadelphia-based personal investment banking firm. Mr. DeNino, who would not comment on the departure, said the trio continues to offer M&A and private-placement services to middle-market customers.

Investment Banking Mandates

A First Fidelity spokesman said that Stephen H. Clark, who heads the bank's asset sales units, has picked up the group's investment banking mandates.

At NCNB, veteran banker J.G. Richards Roddey – who has run the bank's corporate finance activities for over 10 years – moved last month to London.

"Either congratulations or condolences are in order," joked Mr. Roddey, 53, an NCNB managing director and founding member of the Bankers Association group. In London, he is overseeing NCNB Corp.'s two British-based branches and coordinating activities with NCNB's British merchant bank and its broker-dealer, Panmure Gordon & Co.

His U.S. domain is being split between managing directors Richard Gross, who will run corporate finance activities, and Richard Robb, who will be in charge of domestic mergers and acquisitions.

* * *

Guten Morgan. When J.P. Morgan & Co. set up a group to develop government and business contacts in eastern Europe in May, it targeted privatization and debt restructuring for the nascent democratic governments in the region as an initial goal for the group. Debt restructuring was a natural since the group reports to Rodney Wagner, Morgan's veteran negotiator on Third World debt.

It turns out that Morgan also has an ace in the hole when it comes to privatization. Detlev Rohwedder, a member of the advisory board of its German bank subsidiary – J.P. Morgan GmbH – has just been named chairman of Treuhandanstalt, a trust that Morgan says owns most of East Germany's industrial companies and is charged with privatizing them. Herr Rohwedder also is chairman of Hoesch, the West German steel and engineering conglomerate.

* * *

Hong Kong Bound. State Street Bank and Trust Co. won permission from the Federal Reserve Board late last month to convert a Hong Kong-based depository trust subsidiary to a full branch.

An official at the Boston-based bank company said the conversion will allow the State Street Boston Corp. unit to expand its foreign-exchange trading activities, since the branch can tap the capital of its parent company. The conversion still awaits approval from Hong Kong authorities.

Although many foreign companies are fretting about the return of the British territory to China in 1997, State Street sees Hong Kong – where it employs about 100 people – as a vital part of its expansion into the Far East. Earlier this year, it announced plans to buy Wells Fargo & Co.'s Tokyo branch. The $10 billion-asset State Street specializes in securities custody and asset management. □



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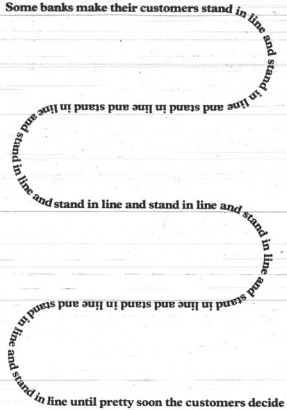

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PRIVATE BANKING

Foreign Currrency Accounts Getting Off to a Slow Start

By MAUREEN KEVIN DUFFY
Special to the American Banker

NEW YORK — Six months have passed since U.S. banks got the green light to maintain deposit accounts in foreign currencies, but Federal Reserve sources say only 125 to 150 banks are offering such products. Monthly filings with the Fed indicate that foreign currency deposits amount to just under $2 billion, these sources say.

Before the United States lifted its ban on multicurrency deposit accounts, foreign banks pointed to the ban to suggest a lack of sophistication in the U.S. private banking market. Observers expected U.S. banks to seize their new opportunity with the lifting of the ban.

But most of the large private banks have yet to show a strong interest in foreign currency accounts.

U.S. Trust Co., New York, is not taking multicurrency deposits and doesn't plan to. Wells Fargo Bank, San Francisco, doesn't take foreign deposits in the United States, but a spokesman said it may consider doing so. Bankers Trust Co., New York, offers a multicurrency deposit account through offshore units but not in the United States — an arrangement most other worldwide private banks favor.

At Morgan Guaranty Trust Co., where money market or mutual fund accounts average $900,000, there is little incentive to open a U.S. account in which funds are insured up to $100,000. Morgan doesn't accept foreign currency deposits but is reviewing the possibility, said Arthur B. Sculley, managing director of the private bank.

> **"If we get into a period of dollar devaluation, foreign currency accounts could be viewed as a safe haven."**
>
> **Ronald Mandle**
> *Sandford C. Bernstein & Co.*

Citibank is an exception. "Over the first few months of the year, we've really seen interest building among selected individuals in U.S. multicurrency accounts," said David Hessney, head of private bank product development.

Citibank began accepting foreign currency deposits in January but did not actively promote them until June. "Now that we've seen exactly what customers look for in a multicurrency product, we're expanding our product offering," Mr. Hessney stated in early June.

The New York bank is offering time deposit and money market accounts in British pounds, Canadian dollars, deutsche marks, Japanese yen, and Swiss francs. Each account requires a minimum balance of $50,000 per currency. Citibank is promoting the products through statement stuffers and its relationship managers in the private bank. The accounts are open to consumer bank clients as well as worldwide personal bank customers.

Accounts Serve Varied Purposes

Wealthy clients use multicurrency accounts for various purposes, including savings diversification and hedging on currency fluctuations. Clients with accounts overseas can move the money to the United States without converting to dollars. They also may save money if the original currency appreciates.

Other clients may own property overseas and want to make payments in that currency through the multicurrency account. And Americans whose forebears came from Europe may want to hold the old country's currency to show confidence in its future.

Though banks seem slow to exploit this market, Ronald Mandle, an analyst with Sandford C. Bernstein & Co., sees potential growth. "They'll be popular among some foreigners and people who travel for business or pleasure, for their convenience.

"In addition, if we get into a period of dollar devaluation like the '70s, foreign currency accounts could be viewed as a safe haven."

Mr. Mandle said the accounts could prove useful in smoothing commercial trading in currency futures. "You settle the trade by transferring the funds to your account, and this way you don't have to convert first."

Neither First Chicago nor Northern Trust, both based in the hometown of the Chicago Board of Trade and the Chicago Board Options Exchange, plans to market such accounts.

Foreign Competition Is Heavy

One drawback to consumer support is heavy competition from abroad. Joanne Snyder, vice president and product manager for foreign currency accounts at Citibank, said, "We've seen interest pick up in the concept of a foreign currency deposit, but many end up going offshore for the extra interest." Accounts in the United States yield lower interest because of FDIC insurance fees.

"It depends on the client's risk tolerance," she said. "The multicurrency account is still a new idea for the American client. But we're having excellent results."

Ms. Snyder said interest rates on multicurrency accounts vary greatly, with some banks paying no interest at all. Citibank is offering a fixed rate that which varies according to the currency.

Ms. Duffy is a freelance banking reporter based in New York.

Credit Prescreening Is Criticized

Pending Bills Would Ban the Practice or Tighten Rules

Reuters

WASHINGTON — Prescreening mailing lists of credit prospects has proved to be controversial, with opponents citing loss of privacy and advocates saying credit opportunities are enhanced.

In the practice, a credit bureau sells a list of names and addresses within parameters set by the credit-offering company.

Financial marketers, sensing the opportunities, have learned to refine their requests to make sophisticated sales pitches.

Upscale Buyers Targeted

Credit companies now screen for potential "gold card" holders by buying the names of people with the highest incomes and best reports from credit bureaus. They also screen for riskier customers who have more questionable credit histories and have to pay higher rates to get credit. "If you can get 18% or 19% on those customers, maybe you can afford to take more risks of a few people not paying," says Fritz Elmendorf, spokesman for the Consumer Bankers Association.

> **Credit companies now screen for potential "gold card" holders.**

Prescreening has incurred the wrath of some consumer groups and sparked concerns among some legislators.

"Consumers are unaware that credit information they think of as confidential is used to place them on lists sold to persons with whom they have never dealt," said Rep. Richard Lehman, D-Calif.

Legislation Pending

As chairman of the House banking subcommittee on consumer affairs, Rep. Lehman has introduced legislation that would tighten rules on reporting accuracy and on credit repair groups. It also would require credit bureaus to give consumers a copy of their credit reports, free, at least once a year. Consumers generally pay for that privilege now.

A second bill, by Rep. Charles Schumer, D-N.Y., would abolish prescreening.

Both measures would amend the Fair Credit Reporting Act, which took affect in 1971. The House subcommittee held heated hearings on both proposals in mid-June but has not scheduled a markup session on the bills.

Lobbyists and congressional aides say that any legislation is at least a year away from passage.

Easy Access to Credit Reports

Consumers Union reports that prospective employers and landlords have legal access to credit reports as long as they can prove they have a "legitimate business purpose."

Some evidence indicates that employers are increasingly making use of this right but not fulfilling the requirement that they notify the potential employee if a poor credit report kills the chance for the job.

"Employers are not following the current amendments," said Kathleen Brueger, legal counsel for the congressional subcommittee handling the legislation. "They are required to tell you when they used a credit report to deny the job."

Prohibition Seen Unlikely

Congress could pass a law prohibiting disclosure of credit information unless the subject of the report authorized it, much as medical records are authorized for distribution to insurance companies. But that's not likely.

"It would be a very costly requirement," said Ms. Brueger. "Frankly, it would be difficult to even get it out of the subcommittee."

Rep. Lehman's legislation is aimed instead at making sure employers and landlords meet existing disclosure rules. But in practice, it's hard to force a potential employer to explain exactly why an applicant was denied a job.

Advantages of Prescreening

However, prescreening is not expected to be eliminated altogether. The practice is well established, and many argue that the credit and credit reporting industries need to prescreen. They also say that the practice helps ease the effects of a credit crunch by making credit available to large numbers of people.

> **"Americans are willing to reveal information when they can see a clear benefit."**
>
> **Rep. Richard Lehman**
> *Democrat of California*

"Americans are willing to reveal information when they can see a clear benefit to be gained," Rep. Lehman said in introducing his bill.

"An example of one such benefit is access to credit opportunities," he said. "Some diminishment of control over private information may be the price we pay for living in a society with numerous credit opportunities available to us."

He is said to lean toward a compromise proposal, pushed by the banking industry, that would allow consumers to prohibit their names from being used for prescreening. Even that action would probably be costly to the big three credit reporting companies: TRW Credit Data in Orange, Calif., TransUnion Credit Information Co. in Chicago, and Equifax-CBI in Atlanta. □

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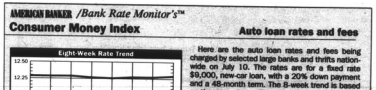

Auto loan rates and fees

Here are the auto loan rates and fees being charged by selected large banks and thrifts nationwide on July 10. The rates are for a fixed rate $9,000, new-car loan, with a 20% down payment and a 48-month term. The 8-week trend is based on the rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.

Banks

BANK	RATE	FEES
First American Bank, Detroit	11.75%	$40
First City, Dallas	10.75	none
La Salle Nat'l Bank Chicago	11.00	none
Team Bank, Fort Worth	10.75	none
Texas Commerce Bank, Dallas	11.00	none

Thrifts

THRIFT	RATE	FEES
Brookfield Svgs Bank, Philadelphia	11.25%	none
Boston 5 Cents Savings, Boston	11.00	none
First Fed Svgs Bk & Trust, Pontiac, Mich.	13.00	none
First Mutual of Boston, Boston	13.00	none
Provident Inst.for Svgs Boston	13.00	none

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COMMENT

Cost Leadership Provides an Edge

Continued from *page 4*

called "vending," is an important discipline for noninterest expense control. Vending is a state of mind, limited only by management's will and creativity.

At the other end of the spectrum lies investment, a resource (i.e., capital) which must be tightly rationed and only apportioned to those projects and/or acquisitions directly linked with strategic goals.

The operative word is "directly." The 1980s will be remembered as the decade when all too many U.S. financial services firms built lavish headquarters buildings and acquired new lines of business, only to turn around and soon dispose of people and assets to bring costs and capital into line. Discipline in capital spending will come to be viewed as an increasingly important discriminator in judging bank management performance.

Organizational Psychology

While all banks ascribe value to the pursuit of expense optimization and capital rationing, the execution processes needed to achieve these goals are tenuous. What is needed in many banks is a revised organizational psychology and a dedicated focus on doing those things that matter most. Changing the way an organization thinks about cost management is a critical evolutionary step.

> **"The tendency to accept the status quo is a disturbing trend in U.S. banking."**

Effective leadership today involves defining spending for internal "consumption" of services (e.g., technology, real estate, travel and entertainment, office supplies), monitoring usage through timely MIS designed to heighten awareness, and ensuring compliance with policies via strong and consistent enforcement mechanisms. While standardizing what is expected in all areas affecting corporate lifestyle, senior management must also focus on those elements which have greatest impact on a bank's cost profile:

- Lines of business and number of locations/geographic reach.
- Absolute size of work force and compensation practices.
- Technology spending and investment.
- Corporate real estate portfolio management.

Decisions regarding lines of business to be pursued and geographic reach are potentially the most beneficial and costly to make and undo. But once an organization has invested time, capital, and ethos in a particular course of action, it is rare to see large-scale shifts in strategy even when market dynamics are changing.

This tendency to accept the status quo is a disturbing trend in the U.S. banking industry, where operating costs equal about 66 cents of each dollar of total revenue; analysis conducted by Price Waterhouse shows that this proportional relationship has not shifted materially over the past five years.

Human Resources

Overall size of work force and compensation practices bear close attention, because redefining appropriate staffing versus the relevant competition is essential to any notion of profitability leadership.

The most successful bank competitors have already differentiated themselves in the human resources marketplace. Goals of high-quality, talent attraction and strategic cost management are being addressed simultaneously.

Progressive firms are abandoning historical views of internal compensation "fairness" (i.e., consistency driven by title and grade) in favor of market-driven compensation differentiated by specific line of business.

Base salary is being deemphasized while incentive compensation is being substituted for growing numbers of both managerial and nonmanagerial staff. The end result is a reward system aligned with individual and organizational performance.

Technology

Technology has had a consequential shaping and enabling influence on banking. But as declining costs – in real terms – of mainframe computers, minicomputers, and personal computers have fostered automation, many banks have lost control over their spending.

> **"Many banks have lost control over their technology spending."**

Next year's budget is invariably higher than the last. Decreases in computing efficiency are far outstripped by new application demands, and maintenance grows annually. Well-managed users of technology devote considerable effort to assembling a total picture of spending – for data centers, telecommunications, systems development, and personal computing.

Forward thinkers are devoting increasing attention to budgeting and planning for an environment in which every professional will have a personal computer with electronic mail linkage – an enormous one-time and recurring investment for most banks.

These users all develop standards for areas such as hardware, systems architecture, and communications networking.

Leading-edge firms separate strategic from maintenance-related technological spending. Strategic investments must build business value. Maintenance spending must be scrutinized for lower-cost sourcing.

Corporate Real Estate

Finally, we turn our focus to corporate real estate. Very few banks manage their corporate real estate with the care befitting

See **COST** *page* **11**

Which branch automation company offers a single point of service and product management?

Major Banks Vie for Global Custody Business in Far East

By RICHARD LAYNE

As Far Eastern investors place more funds in foreign markets and dollars pour into the region from abroad, U.S. banks are coming to view the Pacific Basin as a hotbed for securities processing services.

The major providers of global custody services are adding offices in the Far East and, to serve both local and foreign investors, changing the way they process trades. They are giving regional offices autonomy and creating a seamless, electronic system to monitor trades and settlements.

Business Grows in Asia

U.S. banks have historically looked to Europe as the major source of global assets. But with the pace of industrialization quickening, the Pacific Basin countries are accumulating vast wealth that will be invested. Whenever that money is placed in another country's securities, the investor relies on a global custodian to make sure the trade is settled and the accounting is performed.

"What we are seeing is a growth in pools of funds put together in Asia for investment outside of the home country," said Marshall N. Carter, senior vice president of Chase Manhattan Corp., the largest global custodian, with $112.2 billion in assets and $20 billion in the Far East.

"The interest in the Pacific Basin may have been drained slightly because of what is happening in Europe, but it is still the exciting shop," said Mark C. Aprahamian, vice president of Citicorp, another big provider of global custody in the 40-country region.

Scratching the Surface

Chase, Citicorp, and Security Pacific Corp. – the three major global custody providers in the Far East – have a total of about $60 billion in assets under custody in the region.

"We are just scratching the surface in providing global custody services to investors in Asia," said Edward Cooper, vice president of Chase. He said that Chase's share of the market may triple in three years, with Japan, Hong Kong, Singapore, and Australia the most attractive markets.

Overall, Asia represents about a $200 billion market for global custodians, Chase estimated.

"The Far East is growing at 30% to 50% per annum as a home for investment funds," said James Hockley, the head of Chase's Far Eastern custody business.

Offices Are Added

Echoing a change among investment managers, Chase has opened customer service offices in recent months in Tokyo, Hong Kong, Singapore, and Sidney, Australia.

"We are starting to market to customers resident in Asia, who are investing in Asia and outside Asia," Mr. Cooper said. Chase plans to set up similar offices in Taiwan and Korea – when those countries lift restrictions on direct foreign investment.



"What we are seeing is a growth in funds put together in Asia for investment outside the home country."
Marshall N. Carter
Chase Manhattan Corp.

The new offices are connected via a private telecommunications network to Chase's data processing facility in Bournemouth, England. The offices provide local trade settlement services and instant access to Chase's worldwide data base on securities trading. Through this new setup, investment managers can tap into the same securities data base as their bosses at the head office in New York or London.

Change from the Past

Previously, local investment managers could find out trade information only through their head offices.

"When a [Hong Kong] fund manager did a trade in Thailand and wanted to know did we receive foreign-registered shares or local shares, he had to call London or New York," said Mr. Hockley. "Now he can get the answer to his question that day." Mr. Hockley said that the new processing capability has brought in several million dollars in business from local fund managers.

U.S. and U.K. investment fund managers have taken on a larger role in the Far East, with funds granting them more autonomy to invest in the local markets. Hong Kong, for instance, has more than 100 fund managers operating locally.

Security Pacific, which has had a strong presence in the Far East, offers a single-system service similar to Chase's. The Los Angeles-based banking company, however, is in far fewer countries than Chase.

Concentration by Security

Unlike other major domestic custodians, Security Pacific has concentrated more on the Far East than on Europe and has about $4.5 billion in funds originating in Asian countries.

Until two years ago, the banking company did processing exclusively in Tokyo, its flagship office in the Far East. The securities movement and control system in Tokyo, which primarily handles settlements for broker-dealers, is now being rolled out to other Far Eastern countries.

The system, called DISC (for distributed international securities clearance system), has recently been installed in Singapore, Kuala Lumpur, and Malaysia because of heavy trading volume. The next cities on the list are Bangkok and Hong Kong. All trade and settlement information is entered directly into the system and routed to a central data base in the United States.

Fast Service Demanded

"Broker-dealers want nearly real-time information in terms of failed-trade management and control," said Richard A. Pregiato, managing director of the Sequor Group, part of the merchant banking operation of Security Pacific National Bank.

Citicorp trails its major U.S. competitors in building a single system for securities processing and wholesale banking. While Citibank offers global custody services throughout the Far East, the settlement activity in each country is not connected to a central data base.

Citibank, which has been in Tokyo longer than any other non-Japanese bank, plans to spend $100 million over the next three years improving its securities processing in the Pacific Rim. □

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STRATEGIES: *joint venture*
Mellon Looks North for Fee Market Growth

By RICHARD LAYNE

To open new markets for its fee-based services, Mellon Bank Corp. plans to become the first U.S. banking company to form a joint venture with a Canadian financial institution for securities processing.

Mellon, the largest U.S. provider of securities transfer services, and Toronto-based National Trustco Inc. recently signed a letter of intent to form a processing company. Mellon is to invest an undisclosed amount in the already established operation and will manage an expanded joint operation. The deal is subject to approval by the Federal Reserve Board and by Canadian regulators.

Pittsburgh-based Mellon has an estimated 20% of the stock-transfer market in the United States, counting its own business as well as processing services done for 100 other banks, an arrangement called private labeling.

Lure of Moves Abroad

"Moving into Canada is desirable for any American company heavily involved in stock transfer," said Allan P. Woods, president of Mellon's fiduciary services group. "Most large players want to expand internationally."

Mr. Woods said that the joint venture will let National Trustco expand its securities transfer business, although he declined to cite financial goals. National is one of four major providers of securities transfer services in Canada; it serves more than 1,000 corporate clients, representing 1.2 million shareholders. In Canada, trust companies are separate from commercial banks.

The joint venture sprang from informal conversations between bankers at Mellon and National Trust, the major operating company of the Canadian Trust Corp., when National Trust was building a back-office processing system for securities transfer and sought advice. The talks turned formal when National asked Mellon this year whether it was interested in a joint venture.

High Volume the Key

A securities transfer agent keeps computerized records of all individual shareholders for a corporation, issues new certificates, dispenses dividends, and does proxy tabulations. As in other processing businesses, the higher the transaction volume, the better the chance to make a profit. Many banks no longer maintain stock-transfer operations, preferring to hire service providers.

Mr. Woods said National Trust has a sophisticated processing system that can calculate dividend payments in multiple currencies and calculate exchange rates for the purchase of shares.

A Mellon executive will head the joint venture and run the day-to-day operation, supplying processing experience. The banking company does not plan to move a significant number of employees to Toronto.

"We aren't planning an invasion," said Mr. Woods. Mellon is sensitive to the fact that the joint venture will be operating in a foreign country with different business customs, he said. National Trust, with 171 offices throughout Canada, will provide the local contracts.

Mr. Woods said the joint venture may open the door for Mellon to expand its fee-based services northward. □

COMMENT
Cost-Control Leadership Gives an Edge

Continued from *page 9*

a sizable investment portfolio, often valued in the hundreds of millions of dollars. Banks forget that net occupancy cost is typically the second-largest noninterest expense, after employee compensation.

For the majority of moneycenter institutions, occupancy costs rose at double-digit rates during much of the 1980s. For those banks that built new headquarters both domestically and overseas, global premises costs doubled in well under five years.

An effective corporate realty program creates and unlocks value in premises assets while restraining occupancy cost growth. Real estate value is usually optimized by accurately forecasting square-footage needs, bundling these needs together to maximize negotiating clout, and obtaining equity positions or options consistent with the level of space commitment being made.

Occupancy-cost growth is minimized by acquiring needed space on a just-in-time basis, subletting the balance of vacant area to generate tenant income, standardizing square-footage allotments for employees, and avoiding notions of full colocation (i.e., "Let's put everyone together in a new headquarters facility. . .").

Compounded expense growth has turned corporate real estate into a sizable business at many banks and it needs to be managed as such.

A Design for Restructuring

Leadership in cost management has proven to be a key element of success in all restructured industries. Financial services is no different.

While the forecasted pace and degree of restructuring in banking can be widely debated, there is little doubt that the growing influence of superregionals and foreign financial players poses serious challenges to existing profitability and market share.

Achieving excellence in cost containment must begin with a knowledge of competitors' practices, standards, and costs. Distinctions between expense and investment must be carefully drawn for all categories of expenditure.

Rationing of Capital

No effort should be spared to variabilize expenses and outsource nonstrategic activities. Capital must be rationed to build business value, rather than simply add discretionary fixed assets.

It also cannot be stressed enough that the organization's lifestyle must be attuned to cost-awareness and action – beginning first at the ranks of senior management and extending to the most junior employee.

Finally, management must focus on those items that matter most: lines of business and geographic reach, size of work force and compensation practices, technology spending and investment, and corporate real estate portfolio management. □

Reported Rise in Spending Is Puzzling to Economists

Reuters

WASHINGTON — Economists this week were confused by a report that consumers took on 10 times as much debt in May as they did in April, contradicting other signs that Americans were turning cautious on spending.

"It's a puzzling increase," said Jerry Jordan, chief economist with First Interstate Bancorp, Los Angeles. He noted that retail sales fell in May for a third straight month. An increase in borrowing is usually reflected in higher consumer spending.

"It doesn't square up with anything else," Mr. Jordan said of the Federal Reserve Board disclosure that outstanding consumer credit swelled by $3.91 billion in May after growing a revised $390 million in April.

That meant total consumer debt was growing at a 6.5% annual rate in May, the fastest pace since last October when it hit 7.5%. The annual rate in April was a meager 0.6%.

Contradicts Prevailing View

If borne out by other statistics, the credit data would dispute the prevailing view that the economy is moribund.

Most recent surveys of consumer spending plans have indicated a growing wariness about the direction of the economy over the next several months.

The largest part of May's consumer debt was a $3.14 billion increase in revolving loans, primarily credit-card outstandings. The May growth followed a $1.7 billion increase in April.

In contrast, auto loans shrunk in May by $87 million, after declining $1.99 billion in April. These figures were misleading because auto sales have been weak for much of this year.

All of credit figures are seasonally adjusted.

Is the Consumer Back for Real?

Retail sales figures for June are to be released Friday, and analysts are sure to watch them closely for a possible upward revision in the May figures in light of the big credit expansion.

"If the consumer really was back in there to that extent, then a lot of perceptions about the economy could change," said Jean Sundrla, an economist with Evans Economics Inc. in Washington.

Consumer spending fuels about two-thirds of the economy's growth. A principal reason for a slowdown in the past year is the rate of expansion of the gross national product has been slower growth in personal consumption spending.

So-called "other" credit, which includes bank loans, grew by $533 million in May after a $689 million increase in April. Before seasonal adjustment, outstanding consumer credit in May totaled $720.3 billion, compared with total debts of $691.2 billion in May 1989, the Fed said. □

Who has the largest installed base of branch automation systems?

REQUIRED READING/By W. Lee Hoskins

Coordinating Global Economic Policy

This is an edited version of a speech that Mr. Hoskins, president of the Federal Reserve Bank of Cleveland, gave May 25 at the Fraser Institute in Vancouver, British Columbia.

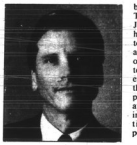
When I spoke to the Fraser Institute last year, in Toronto, my talk dealt with the instability that inflation causes and the merits of a monetary policy that strives for zero inflation. Policymakers in Canada and the United States have become more aware that a commitment to price stability is the most important contribution monetary policy can make to achieving full employment and maximum sustainable growth.

Bank of Canada governor John W. Crow and other Bank of Canada officials have publicly supported the goal of price stability. In the United States, Federal Reserve chairman Alan Greenspan and other Fed officials have publicly supported House Joint Resolution 409, which would make zero inflation the primary overriding goal of the Federal Reserve.

I will build on this basic idea and discuss international markets, exchange-rate volatility, and international policy coordination.

Two decades ago, many nations embraced flexible exchange rates as a means to promote worldwide trade, economic growth, and higher standards of living. Canada's experience from 1950 to 1962, when its exchange rate was allowed to float, encouraged those hopes.

Currently, though, some critics are claiming that the system of flexible rates has failed to provide exchange-rate stability and adjustments in trade imbalances. These critics seek, instead, a system of negotiated exchange rates maintained through international policy coordination.



I hope to convince you that some forms of coordination, particularly foreign-exchange market intervention, do not promote certainty and do not reduce fluctuations in exchange rates.

Holdings of foreign currencies by the Federal Reserve and the Treasury were at $45.2 billion in January 1990. More than one half of this large accumulation took place during the past year as concern over the rising value of the dollar prompted officials to intervene extensively in foreign exchange markets. But throwing money at the alleged problems only worsens the situation, because we are not focusing on the real problems: defective fiscal and monetary policies.

A Case for Intervention?

Those who argue for intervention in foreign-exchange markets note the increased volatility of exchange rates since the demise of the fixed exchange-rate system of Bretton Woods, which was abandoned in 1973. Unpredictable fluctuations in exchange rates pose a risk to people who buy and sell goods and services internationally — a risk that cannot be completely eliminated through hedging.

It is true that exchange rates, both nominal and real, have been more volatile since the advent of the floating-rate regime in 1973. But there is no reliable evidence that this volatility has reduced trade or international commerce, or that systematic intervention can reduce volatility in exchange rates.

Account Imbalances Persist

Another complaint is that the floating-rate system has failed to promote adjustment in nations' trade accounts. Critics cite the existence of prolonged current account imbalances around the world as evidence that some intervention is necessary to move markets toward long-term equilibrium and economic stability and growth.

"There is no reliable evidence that exchange-rate volatility has reduced trade or international commerce."

A system of floating exchange rates, by itself, cannot be expected to promote a balance in each country's trade accounts. First, there are many other factors that contribute to trade imbalances. Most important among those factors are monetary and fiscal policies, which are beyond the control of markets.

Second, economists have not found a clear correlation between nominal exchange rates and international current accounts. And third, despite its size, it is not clear that the United States current account deficit represents disequilibrium, or even that it is unsustainable given present circumstances.

Information Processors

Convincing evidence does not exist that foreign-exchange markets suffer from avoidable imperfections. Exchange markets are highly efficient information processors. There are many participants, and none dominates the market. Moreover, there are few barriers to entry. As flexible rates adjust rapidly to supply and demand shifts, they act as a

See **REQUIRED** *next page*

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Setting Global Economic Policy

Continued from *page* **12**

cushion to the international transmission of shocks that otherwise would more severely affect other economic variables — prices, interest rates, and employment.

Policy Intentions

In a flexible exchange-rate system, the equilibrium rate is determined by factors affecting the supply of and demand for currencies. Some of the factors — like domestic monetary and fiscal policies — lie within the realm of control of policymakers, while others — like changes in productivity, demographics or supply shocks — cannot be controlled by policymakers.

The fundamentals that are controllable by policymakers should not be allowed to contribute to confusion and volatility in markets and prices.

Policymakers can minimize uncertainty by adopting sound policies; namely, policies that have clear objectives, are verifiable, and embody rules that are consistently adhered to. If policymakers follow sound policies, then decision makers can factor the effects of such policies into foreign exchange prices, contributing to stability in foreign exchange markets.

"Convincing evidence does not exist that foreign-exchange markets suffer from avoidable imperfections."

Unfortunately, the absence of sound and credible economic policy objectives around the world has forced decision makers to focus on short-term governmental actions, adding to uncertainty and volatility in foreign exchange prices.

Central Bank Actions

Foreign exchange dealers base their price quotations partly on current economic conditions and partly on the actions of policymakers. Recognizing the links between monetary growth, inflation, and foreign exchange rates, dealers pay particular attention to central bank actions.

Dealers scrutinize a variety of central bank data — changes in reserves, changes in the discount rate, and conditions in the money market — for clues about changes in the Federal Reserve's objectives and its reaction to current economic conditions.

For example, if Federal Reserve actions are interpreted by the market as a policy of unexpected easing, that will cause a rise in the U.S. inflation rate and the U.S. dollar exchange rate may decline. In this way, unexpected changes in the money stock contribute to exchange-rate volatility.

Future Expectations

Changes in the expected future value of market fundamentals are also integrated into foreign exchange prices. Foreign-exchange rates always embody expectations of central banks' longer-run policies.

Where intentions are unclear, the market is forced to place heavy emphasis on central banks' behavior as an indication of their future expected policies. Put another way, the lack of sound and credible policy causes unnecessary uncertainty and consequently, unnecessary volatility in change markets.

Conflicting Objectives

The Federal Reserve, like most central banks, has a lengthy list of policy objectives — high employment, maximum output growth, balance of payments equilibrium, exchange-rate stability, and price stability.

The lack of an overriding objective, or an explicit prioritization of the current list, makes it difficult for markets to know how the Federal Reserve will respond to the latest economic data.

Although the Governors of the Federal Reserve and the 12 Federal Reserve Bank presidents are on record in support of price stability, there is neither an explicit timetable for achieving it nor as strong a public mandate to do so as I would like.

A central bank that attempts to maintain price stability and a nominal exchange-rate target has more policy objectives than policy instruments. At times, these two objectives might be

"Furnishing a sound and stable currency is frequently overlooked."

compatible. For example, in the late 1970s, limiting rapid dollar depreciation through intervention was compatible with a contractional monetary policy to eliminate inflation. As often as not, however, these two policy objectives will be incompatible, and generally, foreign exchange intervention activities are sterilized, or offset, to avoid interfering with domestic policy objectives.

Opposing Actions, Goals

U.S. intervention sales of dollars in early 1989, for example, seemed inconsistent with a goal of price stability and with Federal Reserve actions at that time to slow monetary growth.

That intervention carried a risk of sending confusing signals to foreign exchange and bond markets, since the markets may have thought that U.S. monetary policy had become less focused on lowering the inflation rate.

Under such conditions, markets may not view either price stability or exchange-rate stability as credible policy goals. The knowledge that central banks will deviate from a policy of price stability to pursue an exchange-rate objective will raise uncertainty about real returns and will distort the allocation of resources across sectors and

See **REQUIRED** *next page*

Here's a hint:
It's not IBM.

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Setting Global Economic Policy

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over time.

Moreover, without sound monetary and fiscal policies, attempts to maintain nominal exchange rates will not eliminate exchange-rate uncertainty, since countries inevitably will resort to periodic exchange rate realignments. Hedging exchange-rate risk will remain an important aspect of international commerce.

Interventionists argue that a sterilized approach, in which the central bank offsets any monetary effects of intervention, can influence the exchange rate without compromising domestic policy. If this view has any merit, the effects are very short-lived.

Furthermore, distinguishing between the two types of intervention — sterilized and unsterilized — is difficult in practice and bound to create additional uncertainty on the part of private decision makers.

Reduce Government's Role

Policymakers can best minimize uncertainty by reducing government interference with market mechanisms. To be sure, providing an institutional framework that protects individual property rights is a necessary role for governments to play. But government policies to control market prices can be destructive.

Unlike the market, the machinery of government includes no automatic mechanism to promote efficiency. Rather than fostering efficiency, intervention slows and impedes the market's natural adjustments. Furthermore, such intervention will, sooner or later, be at odds with publicly stated domestic goals, causing substantial confusion and speculation.

Intervention's Attractiveness

Conventional wisdom suggests that elected officials and markets usually do not share the same incentives and goals. While market forces promote long-run efficiency and equilibrium, governments often react to shorter-run factors and the pressures of their constituencies.

"Price stability offers nations the opportunity for the highest possible economic growth."

These diverse and often conflicting goals tend to reduce the credibility of domestic policies, increasing uncertainty and volatility in foreign exchange markets.

Elected officials might find exchange-rate intervention attractive because it defers criticism while buying time for more fundamental actions. In 1985, U.S. domestic manufacturers were experiencing stiff competition from abroad. Competition was intensified by extremely high dollar exchange rates, and lobbyists besieged Congress with proposals to restrict imports.

Fixing Structural Imbalances

The administration realized that the U.S. current account deficit reflected imbalances between savings and investment in the United States, West Germany, and Japan.

These structural imbalances could have been corrected through adjustments in fiscal policies. However, governments cannot easily change fiscal policies because of strong vested interests in maintaining various taxes and expenditures.

The continued struggle to balance the U.S. federal deficit typifies the problem. Similarly, in the early 1980s, West Germany and Japan were extremely reluctant to adjust fiscal policies for balance-of-payments purposes.

Responding to Constituencies

Lacking the ability to address these structural problems directly and quickly, policymakers find it easy to resort to exchange market intervention. When coordinated and publicized through the Group of Seven — Britain, Canada, France, Italy, Japan, the United States, and West Germany — such intervention offers a highly visible signal that governments are responding to the desires of their constituencies.

"Flexible exchange rates themselves can contribute to price stability by providing another channel through which markets can work."

In this way, government intervention can serve to diffuse criticism of its policies, to stall protectionist demands, and to buy time for more fundamental policy adjustments.

Temporary Benefits

In addition, it has been a long-standing belief that a nation can offer temporary benefits to specific constituencies by adjusting monetary policy to depreciate the value of its currency.

However, unless markets are imperfect or unduly constrained, such a policy cannot succeed in the marketplace for any substantial period of time. Furthermore, depreciation of a nation's currency via monetary policy will eventually cause domestic inflation.

Economists have long questioned the wisdom of attempting to achieve current account objectives through a monetary manipulation of nominal exchange rates, and most have come to reject this practice as little more than a near-term palliative. Nevertheless, aiming monetary policies at nominal exchange-rate targets increasingly seems to be the approach of choice among national leaders.

Defective Public Policy

The ability of governments and central banks to intervene freely in foreign exchange markets has not really promoted effective policy coordination and has not materially affected exchange rates. Nations that commit to sound economic policies can live with flexible or rigid exchange-rate regimes, but a rigid structure of exchange rates cannot be maintained when nations pursue fundamentally different domestic economic policies.

For example, it is hard to imagine a fixed exchange-rate system that would encompass the high-inflation policies of Latin American nations as well as the low-inflation policies of West Germany and Switzerland.

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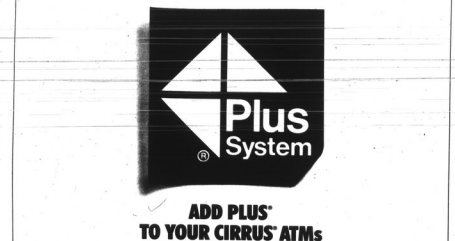

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Any successful system of international coordination must be founded on the proper economic incentives for each individual country. Price stability offers nations the opportunity for the highest possible economic growth and would reduce fluctuations in exchange rates. Over the long haul, it is in society's best interests for governments to commit to a policy of price stability, or zero inflation.

Conditions for Recession

Every recession in Canada's and the United States' recent history has been preceded by an outbreak of cost and price pressures. And these results aren't confined to North America.

Evidence from a number of countries with various institutions and economic conditions indicates that persistent inflation erodes long-term growth by favoring projects with quick paybacks and discouraging the formation of capital.

Policy coordination should not be abandoned. However, important economic fundamentals should not be ignored and market forces should not be encumbered by public policies.

Attaining Price Stability

Attention to the fundamentals will encourage the adoption of goals — specifically, price stability — that are essential to reach the highest levels of social and economic welfare for each nation and the world as a whole.

To attain price stability, we need to adopt a sound policy — one that is verifiable, with clear objectives and rules that are consistently adhered to.

If we cannot get firm commitments for zero inflation, should we abandon floating rates and resort to a fixed-rate system? The answer is no! As long as there are separate, sovereign nations, we must accept the possibility of varied domestic agendas.

A system of floating rates can accommodate these interests with the least governmental interference. The key is adherence to sound policies; as long as governmental policies are predictable, uncertainty can be minimized.

International coordination should be viewed as a journey, not a destination. Policy coordination should not take the form of intervening to slow the natural adjustment of exchange rates, or to fix them. While markets may not be perfect and may not always coincide with the interests of politically driven systems, they generally outperform the actions of governments. □

Bank Executive Guilty of Fraud

Washington Bureau

WASHINGTON — The U.S. Justice Department said that Alfred Lon Robertson, former executive vice president of First State Bank, Blanchard, Okla., pleaded guilty to bank fraud.

According to the U.S. attorney for the Western District of Oklahoma, Robertson made personal and corporate loans to Pinnacle Land Management Corp., an entity in which he had a concealed ownership interest.

Robertson and others had formed Pinnacle and a subsidiary to operate Brothers Fried Chicken restaurants in Oklahoma. He allegedly concealed his ownership from the bank and the Federal Deposit Insurance Corp. in 1985 and 1986, when two loans totaling $895,000 were made to Pinnacle.

Law enforcement officials said Robertson borrowed money in his own name from First State, but failed to disclose that the proceeds would be used in connection with the business of Pinnacle.

Also, Robertson allegedly documented the transactions to make it appear that Pinnacle was borrowing money from First State in arm's-length transactions.

Robertson, 36, could receive a fine of up to $250,000 and up to five years in prison, the law officials stated. □

Va. Bank Investigates Diversion of Funds

BRISTOL, Va. — Charter Federal Savings Bank said it is investigating an embezzlement of at least $1.2 million by one or more former employees at a branch in Roanoke. The $1 billion-asset thrift referred the case to the Federal Bureau of Investigation.

Charter Federal said funds deposited by a small number of customers, principally in certificates of deposit, were diverted in the scheme. E.L. Byington Jr., chairman and chief executive officer, said employees will investigate and make good on any account discrepancies, and the bank intends to file civil claims to reclaim lost funds. □

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COMMENT / *By Stephen T. Crosson*

Law, Market Transforming Battered Appraisal Industry



Few industries are changing faster than real estate valuation.

Once an obscure field, valuation became a major topic during the 1980s as appraisers came under new scrutiny from the federal government and private industry. And the importance of accurate, unbiased appraisals has become increasingly apparent in the midst of the banking crisis.

Now, moves toward increased professionalism – including state licensing and certification and the adoption of national uniform appraisal standards – are elevating what had mostly been a cottage industry.

For the most part, the changes are welcome; in some cases, they are long overdue.

Born in Volatility

The foundations of modern valuation practices were established during the 1920s and 1930s, when volatility in the financial markets created a need for reliable asset valuation. The American Institute of Real Estate Appraisers was established in 1932 to provide a forum for appraisal education and a vehicle for certification.

"The importance of accurate, unbiased appraisals has become increasingly apparent."

The appraisal report became an inherent part of underwriting, though too often the document was regarded as support for a preconceived value rather as an objective estimate of worth.

Not until the early 1970s, when the teachings of Leon W. Ellwood and other emerging theorists began to gain recognition, did the field really start to become a skilled profession.

Rapid advances in software and microcomputers have contributed to the development of more sophisticated valuation techniques. These required more intelligent and better-educated appraisers, and required them to work harder.

Nonetheless, much more was needed to bring the practice as a whole to a true professional level.

Taint of Fraud

The industry passed under a cloud during the 1980s, when the banking crisis revealed unethical conduct by certain individuals engaged in appraisal practice. It was clear that the availability of advanced appraisal techniques did not assure quality work.

The events of the 1980s brought to light the lack of centralized control in the appraisal industry.

Though the American Institute of Real Estate Appraisers and the other leading organization, the Society of Real Estate Appraisers, have long provided the main body of knowledge and standards governing the industry, appraisal designations can be obtained from a host of other organizations created over the years. Many of these have few or no approval requirements.

Outsiders were surprised to learn during the so-called Barnard congressional hearings, which exposed cases of appraisal abuse involving securities and government-insured mortgage programs, that the appraisal industry was virtually devoid of state and federal controls.

In most states, people with no formal training or education – or only a license to sell real estate – could evaluate residential and commercial properties.

The fraud identified in the Barnard hearings was limited to only a few individuals, but their actions stained the entire industry.

Most appraisers are dedicated to accurate and objective analysis. What worries them is the possibility of errors of omission, rather than commission, by unqualified individuals.

Though it is estimated that 250,000 people work as part-time or full-time appraisers in the United States, only about 5 percent have achieved designations from the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers. This is alarming, given the complexity of many valuation assignments and the specialized techniques required.

Positive Changes

The events that have spurred government intervention in the appraisal industry were negative, but the resultant changes have been quite positive.

As an outgrowth of the Barnard hearings, measures regarding program and procurement of appraisals were written into the Financial Institutions Reform, Recovery, and Enforcement Act, the huge thrift-bailout package passed by Congress in 1989.

Firrea required that by Feb. 9 of this year federal agencies dependent on real estate appraisals draft regulations on appraisal standards and the use of state-

See **THE CHANGING** *next page*

Mr. Crosson is chairman and chief executive officer of Crosson Dannis Inc., Dallas, which evaluates and consults on real estate. He is a member of the Appraisal Institute.

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COMMENT

The Changing Appraisal Industry

Continued from *page* **16**

certified and licensed appraisers. The agencies must issue the regulations in final form by Aug. 9.

States must establish procedures and begin certifying and licensing appraisers by July 1, 1991. From that date on, appraisals involving federally related transactions must be performed by state-certified or licensed-appraisers.

Shared Responsibility

The new law establishes a regulatory system similar to the one governing certified public accountants. In both, responsibility is shared by the federal government, the states, and the profession.

Firrea has contributed to the creation of a single organization, the Appraisal Foundation, that is responsible for establishing the standards and qualifications that states and federal agencies must use. The Appraisal Foundation is a consortium of the nation's leading appraisal organizations, including the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers.

A nationwide reform effort among states is already under way to certify and license appraisers. By late 1989, 24 states had adopted laws or rules providing for certification, licensing, or the creation of appraisal standards. Most other states are drafting or approving similar measures.

Under the Firrea mandate, only state-licensed appraisers will be able to perform valuation on transactions of more than $1 million. All other transactions, and those involving one- to four-unit residential structures, may be performed by state-certified appraisers.

Few Hardships Foreseen

For practicing professionals, the new regulations should pose no significant hardships. The Uniform Standards of Professional Appraisal Practice (USPAP), promulgated by the Appraisal Foundation, parallel those already established by the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers. Licensing and certification should come easily to people already involved with a reputable appraisal organization.

"The law establishes a system like the one governing certified public accountants."

Although the purchasers of appraisal services may not see an overnight change, the new regulations should benefit the real estate industry over the long term. The new standards should assure that higher-caliber individuals are attracted to the valuation field, while people more interested in the success of a transaction than the objective estimation of value gravitate to other aspects of real estate.

Ultimately, the value estimates underlying mortgages, mortgage-backed securities, real estate purchases, and all other areas requiring asset valuation should become more uniform and dependable as the USPAP standards become the foundation of most appraisal assignments.

The Market Pressed for Change

Though the nationwide adoption of uniform appraisal standards has been largely the result of government intervention, the private sector had already begun to demand better performance by real estate appraisers.

Because the Tax Reform Act of 1986 eliminated most of the tax-shelter advantages of investment real estate, investors were concentrating much more closely on the financial feasibility of their holdings.

Sophisticated Buyers

The increasing sophistication of investors demands better methods of analysis by appraisers. More and more, buyers of appraisals are questioning the reasoning behind the final value estimate and are scrutinizing the appraisal report. Appraisers are being challenged to support their conclusions with hard statistical data.

The distinction between the appraiser and the analyst/advisor will continue to erode. As valuation assignments become more complex, appraisers are being required to be experts in economic and statistical analysis.

Advances in technology – most notably in data bases – will increase the availability of information on a grand scale and force valuation experts to keep pace with technology.

These developments extend not only to the individual appraiser, but to the firms providing valuation services.

Industry Is Consolidating

Historically, the appraisal industry has been characterized by small shops headed by one or a few practitioners.

Such firms will continue to occupy a niche in the financial-services industry – a niche in which large-scale information management is not vital.

However, economies of scale are contributing to consolidation in the appraisal industry much like the consolidations that swept accounting, law, and advertising in years past.

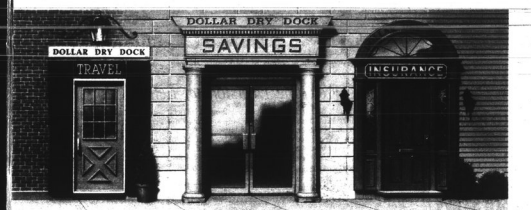
The synergy/efficiency of the emerging "super" firms is a primary reason for this trend, as is the consolidation of the financial-services industry as a whole.

The creation of large national or global funds targeting real estate investments has greatly increased the need for portfolio valuations that often involve multiple metropolitan locations and regions.

The coming years could prove difficult for appraisers or appraisal firms unable to adapt to the rapid changes under way in this industry.

But the future will be rewarding for those who can anticipate the changes and find their niche in the market. □

Dry Dock divide



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GLOBAL *dispatches...*

BankAmerica Back in Italy With Milan Branch Opening

By JOHN EVANS

LONDON — BankAmerica Corp. has returned to Italy with full-service banking after a four-year absence, opening a branch Tuesday in the business center of Milan.

This Italian venture also marks the San Francisco bank's first new commercial branch to be opened in Europe since 1984.

BankAmerica pulled out of Italy in 1986 when it sold its controlling interest in the Banca d'America e d'Italia network to Germany's Deutsche Bank AG. Since then it has maintained a representative office in Italy.

Variety of Services

The Milan branch will provide treasury and capital markets, corporate finance and electronic banking services to international companies active in Italy and major Italian companies with worldwide business, the bank announced.

Chief executive officer Richard M. Rosenberg, who dedicated the Milan branch, said it "underscores our commitment to be a major player in European wholesale banking."

The branch gives the bank a full presence in each of its key European markets, providing it with a presence in the European Community ahead of unification scheduled for 1992, he added.

BankAmerica has maintained ties with Italy almost from its inception. Originally called Bank of Italy when it opened in San Francisco in 1904, its founder, A.P. Giannini, was the son of Italian immigrants.

Vice president Pier Giorgio Rota Baldini has been named to manage the branch.

Japan's Banks Consider Bank-Card Loans

Japan's city, or money-center, banks are considering a publicity drive that stresses the convenience of revolving credit through bank cards.

Not for two years will the banks be able to offer revolving-credit payments systems. But they are interested in expanding the market for loans tied to their own credit cards.

This month **Bank of Yokohama** will launch month an overdraft capability tied to its credit card.

The industry is being careful not to anger consumer credit companies or local merchant groups, for fear that excessive restrictions could be attached to the permission for revolving credit. — **TFW**

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Comline International Corp., Cupertino, Calif.

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U.K. Realty Slump Threatens Banks

American, Other Foreign Lenders Seen as Big Losers

By JOHN EVANS

LONDON — U.S. and other bank lenders are becoming mired in a deepening real estate recession that is starting to plague Britain.

Though real estate values in London and other cities haven't plunged as deeply as in the United States, banks in Britain still face potential losses running into billions of dollars from their high-rolling property financing of recent years, analysts warn.

High Financing Costs

The shakeout was triggered by high financing costs, stemming from a 15% prime rate, and a surplus of projects, the result of a development boom.

The Bank of England, which has repeatedly warned about excessive real estate lending, has released data showing how Britain's 500-institution banking industry and other lenders have rushed pell-mell into realty.

Outstanding loans to developers and construction companies, $27 billion in May 1988, are now estimated at $67 billion.

Leading to real estate companies alone rose $17 billion in the 12 months that ended in February. Of this total, $850 million came from U.S. banks and $3.4 billion from Japanese. Other overseas banks, mostly European, lent $4.5 billion.

Foreign Banks Seen Hurting

IBCA Banking Analysis Ltd., a London-based rating agency, estimates that Britain's large commercial banks will lose $1.25 billion in provisions for bad real estate debts.

Foreign banks could lose even more, the agency says.

Alison Deuchars, an analyst at the brokerage firm Smith New Court, agreed. Non-British banks often did "riskier lending," much of it last year when real estate values were at their peak, she said. "It's natural to assume that foreign banks will have to take more than their fair share of the problems."

> **Non-British banks often did "riskier lending."**
> **Alison Deuchars**
> *Smith New Court*

The Biggest Failure

In the biggest corporate failure so far, developer Rush and Tompkins PLC, with a construction portfolio worth $1.25 billion, owes its bankers about $600 million.

Its lead lender is Lloyds Bank. Thirty-five other banks, including Security Pacific, Citibank, and First Interstate , have loans outstanding to the company or its joint ventures.

Security Pacific and a major colender, the Halifax Building Society, a thrift, also sent liquidators to the Kentish Property Group, a specialist developer in London's residential sector.

However, Security Pacific's outstanding loans in construction, real estate, and related investment in Britain amounts to less than $600 million, and non-performers have been minimal, said Johnyn Moss, a senior vice president who heads the bank's British property division.

"I'd be akin to an ostrich" to deny that Security Pacific, "like other lenders," is concerned about the British real estate industry," he said in an interview. But the bank's exposure to Rush and Tompkins and other problem developers is "very small," amounting to less than 3% of its portfolio for debts where it's no longer accruing interest. The Kentish Property exposure is under $9 million.

U.S.-Style Collapse Is Doubted

He said he doubts real estate will plunge as deeply in Britain as it did in the United States.

"The downturn here can't be compared with Texas or other states. Cycles in the U.S., where shorter leases are the norm, tend to be much deeper than in the U.K., where 25-year institutional leases for commercial property are more prevalent."

But a recovery isn't likely soon, says the British brokerage firm Barclays de Zoete Wedd. Values of commercial real estate are falling at an annual rate of 10% to 20%, it estimates, and "the property bear market will last at least another 18 months." □

Japanese Welcome Decision on Lending to China

TOKYO — Japan's decision to resume official loans to China after this week's Group of Seven economic summit was greeted with satisfaction by the business community.

A government spokesman said in a news conference in Houston that Prime Minister Toshiki Kaifu had told the other leaders in the organization of seven top industrial nations that Japan plans to resume loans to China gradually after the summit.

The spokesman quoted the prime minister as saying that Japan had made a commitment to extend $5.6 billion in official loans to Beijing and could not break the promise.

Taizo Hashida, chief of the Bankers' Federation of Japan, told reporters that his association welcomes the resumption of loans.

"We think positively about it, but the association has to watch the movement of the United States and the World Bank," said Mr. Hashida, who is also president of Fuji Bank.

Limits Are in Place

A Japanese banker pointed out though the resumption is positive for banks, new lending to China would be capped by country credit limits. The limits are decided by indexes, including domestic inflation, external debt, foreign-currency reserves, and access to public loans.

An official of a major trading company said traders and businesses welcome the news because Japanese companies usually win about half of the contracts offered under the yen loans.

The loans to be resumed through 1995 will go to 42 projects, including power stations, fertilizer plants, roads, and railways. — **Reuters**

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/10	7/09	7/03	7/10	7/09	7/03	7/10	7/09	7/03	7/10	7/09	7/03	7/10	7/09	7/03
United States	8.43	8.43	8.31	8.37	8.37	8.31	8.43	8.43	8.37	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.25	7.37	7.50	7.65	7.62	7.65	7.71	7.68	7.68	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.37	13.37	13.37	13.50	13.50	13.50	13.25	13.25	13.25	13.73	13.73	13.83	14.75	14.75	14.75
U.K.	14.87	15.00	15.00	14.93	15.00	14.93	14.87	15.00	14.87	14.33	14.33	14.32	15.00	15.00	15.00
West Germany	8.31	8.18	8.12	8.37	8.31	8.25	8.56	8.56	8.50	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.37	9.37	9.31	9.25	9.18	9.06	9.06	9.00	8.93	6.00	6.00	6.00	11.38	10.88	10.88
France	10.00	10.00	10.06	10.12	10.12	10.12	10.25	10.25	10.25	9.50	9.50	9.50	10.50	10.50	10.50
Italy	12.62	12.62	12.00	11.25	11.12	11.37	11.37	11.37	11.50	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.33	14.45	8.60	8.74	7.66
6 to 12 months	8.44	13.61	8.86	7.92	7.60
12 to 24 months	9.00	12.83	8.93	7.21	7.25

*Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

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Norwest and United of Colorado Say They Are Discussing Merger

Continued from *page 1*

west's stock closed at $21.125, down $1. United Banks closed at $20, up $1.125.

Bruce Hoyt, a vice president of the investment banking company Boettcher & Co., estimated that Norwest would have to pay between $400 million and $500 million to buy United Banks, or, a premium of up to 25% of book value.

A spokesman for Norwest declined to elaborate beyond the release. Norwest has been expanding aggressively in its immediate 11-state market, acquiring small bank holding companies and related businesses. It has loan offices and a corporate banking operation in Colorado.

United Banks, with 39 offices, controls 18% of the bank deposits in Colorado, according to Mr. Hoyt.

Mr. Hoyt said the negotiations come at a time when the Colorado economy is showing signs of a rebound after several down years. Real estate and energy woes have buffeted the state's financial institutions. Colorado is now showing employment growth and some increased demand for housing. □

CEO Resigns at Unit of Maine's One Bancorp

PORTLAND, Maine — The One Bancorp said Arthur M. Burton has resigned, effective immediately, as chairman, president, and chief executive officer of the company's Southstate Bank for Savings.

The company said that Mr. Burton and the Southstate board of directors differed about the institution's future. Mr. Burton said that because One Bancorp offered to sell Southstate as part of a capital recovery plan, it seemed appropriate for him to seek other opportunities.

The board appointed Thomas J. Whalen, a director since 1976, as acting chairman, and it formed a search committee to find a successor to Burton.

The One Bancorp also owns the $1.5 billion-asset Maine Savings Bank, Portland.

— Reuters

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SunTrust Profits Rise 3% in 2d Quarter

By KENNETH CLINE

ATLANTA — SunTrust Banks Inc. reported Tuesday that its profits rose 3% to $88.5 million in the second quarter.

The modest increase was due to a 21% boost in the bank's loan loss reserves to $102.6 million, which was taken following an examination by the Office of the Comptroller of the Currency last month.

Reserves Boosted

Several other Southeastern banks, which increased their reserves following exams by the Comptroller's office in the first and second quarters, are also are expected to report strained second-quarter earnings. Atlanta-based SunTrust is the first bank in the region to report its earnings.

Analysts say the situation may improve later in the year, now that most banks have completed their exams by the Comptroller's office.

"Barring any major deterioration in real estate values in the Southeast, we should see loan-loss provisions come down significantly in the second half," said Gerard J. O'Meara, Jr., with the Robinson-Humphrey Co. in Atlanta.

"The OCC exams are just being completed, so there will be further pain or interruptions at certain institutions. But for the most part, the earnings power of the banks has not been impaired dramatically."

Results No Surprise

SunTrust increased its provision for loan losses by $26.6 million between the first and second quarters. The company had predicted an approximately $27 million increase on June 28, following the Comptroller's office exam.

"SunTrust had conditioned the market earlier, so the mystery was removed and the results came in basically as expected," Mr. O'Meara said.

SunTrust was trading Tuesday afternoon at $20.875, up $0.25. SunTrust lessened the effect of its loan-loss provision on second quarter earnings with two unrelated purchase accounting adjustments on earlier acquisitions aggregating $19 million.

Tenn. Leads Nonperformers

As usual, Tennessee provided the bulk of SunTrust's $90 million in new nonperforming assets between the first and second quarters - up 20%. The state has been in a real estate recession for several years. The 15.5% boost in nonperformers in Florida, where SunTrust's largest subsidiary is located, was more modest.

Outlook Stable to Flat

The outlook for other southeastern superregionals, who will be reporting second quarter results over the next two weeks, is stable to flat, except for Norfolk-based Sovran Financial Corp. The company is expected to build its reserve following its exam.

Most analysts are predicting that Sovran's earnings in the second quarter could fall to about $30 million, down from $65.5 million in the second quarter of 1989. □

SunTrust Banks Inc.

Atlanta — Dollar amounts in millions (except per share)		
Second Quarter	**2Q '90**	**2Q '89**
Net income	$88.5	$85.9
Per share	0.69	0.66
Net interest income (tax. equiv.)	730.4	731.8
Spread	4.88%	5.12%
ROA	1.16%	1.19%
ROE	16.44%	17.56%
Noninterest income	137.1	121.1
Noninterest expense	285.3	275.3
Loss provision	64.6	38.8
Net chargeoffs	57.8	29.0
First Half	**1990**	**1989**
Net income	$175.4	$169.5
Per share	1.38	1.31
Net interest income (tax. equiv.)	1,453.2	1,432.7
Spread	4.95%	5.19%
ROA	1.17%	1.19%
ROE	16.66%	17.67%
Noninterest income	274.1	251.1
Noninterest expense	564.2	543.7
Balance Sheet	**6/30/90**	**6/30/89**
Assets	$31,257	$29,309
Deposits	25,147	23,954
Loans	21,413	20,710
Shareholder equity	2,200	1,998
Loss reserve	102.6	85.0
Reserve/loans ratio	1.67%	1.60%
Nonperf. loans	357.1	296.0
Nonperf. loans/loans	1.92%	1.14%
Primary capital ratio	8.00%	7.85%

Thrift Industry Sees Few Benefits In OTS' Easing of Loan Ceilings

Continued from *page 1*

development.

How much latitude OTS and its parent agency, the Department of Treasury, had in designing a transition rule is controversial. "There isn't much room to do anything," said Treasury Under Secretary Robert Glauber a week ago.

Likewise, Congressional aides who worked on the legislation said the legislative history made it clear that Congress intended for the regulation to take effect immediately without a phase-in period. The new limits, according to the House-Senate report on the law, "are self-executing."

Balance Sheets Differ

"The provisions could not be self-executing," said Martha Ellet, a thrift lawyer with Gibson, Dunn & Crutcher. "You cannot take the national bank standards and abruptly apply them to S&Ls, with their different balance sheets."

To many in the thrift industry, the new regulations are evidence of a second-class regulator, one under the thumb of the Department of Treasury and the Office of the Comptroller of the Currency.

Much of what the OTS does is determined by the Comptroller. Capital requirements, for example, are to be "no less stringent" than those that apply to national banks, under the bailout law.

On loans to one borrower, thrifts are made "subject to the same limit . . . as [applies] to national banks," according to the House-Senate conference report that accompanied the 1989 law.

Reaction to Press Report

But in the case of loans to one borrower, Treasury department policy makers appeared to have played a key role as well. In early June, *The Washington Post* published an editorial describing efforts to provide a transition period as a "grotesque" reminder of the industry's once-cozy relationship with its regulator. The Treasury Department reacted by temporarily shelving the regulation.

"Right now, you would have to say this is a very timid regulator."
Palmer Hamilton
Lawyer

It was not known whether the department insisted that the regulation be watered down before it was issued, but a number of industry sources said the limited nature of the transition rule suggests that OTS is unlikely to emerge as an independent agency in the mode of the Comptroller.

"It's still too early to tell," said Mr. Hamilton. "But right now, you would have to say this is a very timid regulator." □

RTC Backs Plan for OTS to Try Selling Shaky Thrifts Before Seizure

Continued from *page 1*

resolving each case in roughly 90 days.

The agencies hope to sell each thrift intact; that would put assets in private hands rather than letting them languish in the government's growing stockpile. Some deals will fall short of this goal, and some could be structured as insured deposit transfers, the least desirable option.

Procedure Outlined

The OTS will notify thrifts of their eligibility, market and prepare institutions for sale, prepare bid packages, work with the RTC to make sure bids conform to its guidelines, and supervise due-diligence examinations. Then bids will be evaluated by RTC staff members, who will recommend action to the RTC board.

The accelerated resolution program, outlined by RTC Chairman L. William Seidman in a National Press Club speech last March, was hammered out by OTS and RTC officials. As its inventory of thrifts swelled, the RTC has been at odds with the OTS over the pace at which thrifts should be moved into conservatorship.

Under the plan, bidding for ailing thrifts would be decentralized.

Employees in the RTC regions and OTS districts are to work hand-in-hand under direction from Washington to identify institutions for the fast-track sales. Thrifts in danger of failing and destined for RTC conservatorship within one year could be placed in the program or could enter it voluntarily.

Mutual Thrifts May Act

The voluntary option is most likely to be chosen by mutual thrifts, perhaps after they line up their own buyers.

"This is a program designed to sell thrifts in the most efficient and quickest manner possible, with the least possible deterioration in value," Mr. Seidman said after the vote approving the program.

The plan won high marks from a prominent investment banker, who said it could become the RTC's new blueprint for case resolutions.

"This could be an important thrust for dealing with resolutions rather than simply piling them into the RTC and letting them atrophy in receivership," said John Oros, a partner in the investment banking firm of Goldman, Sachs & Co., New York.

Ely Urges Faster Action

But the Alexandria, Va., consultant Bert Ely, a critic of the bailout program, questioned whether thrift franchises' value would be preserved just by putting them out of conservatorship.

"I don't believe franchise value deteriorates overnight," he said. "It begins to break down long before a thrift is placed in conservatorship."

Mr. Ely added, "This is essentially what the FDIC has been doing at the rate of 200 a year. This shouldn't be a pilot program. They should be going full-bore on this thing."

In related news, RTC Executive Director David Cooke told the RTC board that 155 thrift cases were resolved in the second quarter of 1990, bringing to 207 the number of RTC resolutions by June 30. These institutions had assets of $85 billion. The RTC retains $39.4 billion in assets and expects to take back about $3 billion more if acquirers exercise options to return assets, he said. □

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER

FDIC Bends On Mailing Of Notices

Continued from *page 2*

mates the nervousness and skittishness among the depositors of this nation. Deposit insurance is becoming an increasingly sensitive issue. I think it is going to confuse people, it is going to make depositors uncertain," Mr. Guenther said.

"We are disappointed by the FDIC's action," said Mark Burnenko, a spokesman for the American Bankers Association. "We don't feel it goes far enough, considering the costs the banks are going to have to absorb in complying."

The ABA estimates that it will cost banks, depending on their size, from $2,500 to $200,000 to cover the mailing cost.

"I think it is going to confuse people."
Kenneth A. Guenther
Independent Bankers Association

"I think [the rule] is a bunch of garbage," said Gerald F. Chapman, president and chief executive officer of Reston, Va.-based Vista Federal Savings Bank. The $173-million-asset institution has already enclosed the FDIC form with its monthly statements. "It is another statement stuffer that will go out and 99% of the people will throw it away without ever reading it."

The IBAA's Mr. Guenther was particularly angered by a section of the FDIC rule that said customers who find out that their deposits are not fully insured may wish to consider transferring excess funds to another institution.

"They are actively encouraging deposit-switching," he said. □

Pact for American Bancorp

INDIANAPOLIS — Merchants National Corp. has agreed in principle to acquire American Bancorp Inc. American, Merchants' 21st announced acquisition, owns the $68 million-asset American State Bank, with offices in North Judson, Koontz Lake, and San Pierre. □



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EXECUTIVE *changes*

First NH Bank Picks Marshall For CEO Post

F. William Marshall Jr. was appointed chairman of the board and chief executive officer, effective next Monday, of First NH Banks Inc., the Manchester, N.H., subsidiary of the **Bank of Ireland.**

He was formerly executive vice president-corporate banking group – which includes large corporate customers, special industries, international trade, and cash management activities for the corporation – at Shawmut National Corp., Boston.

Mr. Marshall succeeds **Frank O. Buhl,** who will remain on the board through 1990.

Mr. Buhl announced his intention to retire last spring, noting, "It was important for me to make my announcement now, providing the board sufficient time to select a suitable successor." He also asked that First NH Banks' new CEO be given the chance to provide "leadership into the 21st century."


F.W. Marshall Jr.

Mr. Marshall was raised in Bellport, N.Y., on the south shore of Long Island. In 1964, he got a bachelor of science degree in finance from Washington University, St. Louis, then joined Shawmut Bank, Boston, as a management trainee. In 1982, he became executive vice president of Shawmut Worcester County Bank. He was elected president and chief operating officer in 1983 and chief executive officer in 1986.

— **Franklin Smith**

NEW ENGLAND

Centerbank, Waterbury, Conn., elected **Robert J. Narkis** chief executive officer; he had been named chairman and acting CEO in January.

Stedman G. Sweet, chairman of the board of directors' search committee, stated: "Bob Narkis is a respected businessman, attorney, and community leader. He has served on Centerbank's board of directors for over 22 years, most recently as chairman of the executive committee and as a member of the board's nominating committee."


Robert J. Narkis

Until January, Mr. Narkis was a senior partner, specializing in real estate and commercial transactions, at Gager, Henry & Narkis, a Waterbury-based firm of 42 lawyers.

Robert T. Kenney was elected president of Centerbank. He previously was chief operating officer.

Rockingham County Trust Co., **Salem, N.H.,** an affiliate of **New Hampshire Savings Bank Corp.,** named **Robert F. Dickinson** vice president-commercial lending with responsibility for asset quality within the commercial and consumer loan divisions.

He previously was with US Trust Corp. and Bank of Boston, where he was vice president and assistant vice president, respectively, in the banks' commercial loan divisions.

Edward A. Gray was named assistant vice president-commercial loan officer at Rockingham Trust. He is to manage business development in the bank's Plaistow region, as well as personally serving the needs of Salem and Plaistow customers.

Chittenden Bank, Burlington, Vt., promoted **F. Sheldon Prentice** to senior vice president; he joined the bank in 1985 as vice president and general counsel and was named secretary in 1987.

MIDWEST

Lincoln Financial Corp., Fort Wayne, Ind., named **Jeffrey E. Smith** senior vice president and general counsel, **David A. Thackery** assistant vice president and assistant controller, **Carl A. Miller Jr.** assistant vice president, and **Michael J. Dennis** accounting officer.

MIDDLE ATLANTIC

New York State Bankers Association, New York, said **David L. Glass,** formerly a partner in the New York law firm of Hawkins, Delafield & Wood, has been named general counsel.

As the association's chief legal officer, Mr. Glass will analyze


David L. Glass

and help shape responses to regulatory, court, and legislative proposals; be secretary to the association's board of directors; and serve as counsel on insurance activities. He joined the staff in early June.

Essex Corp., New York, named **Frederick S. Nicholas** vice president in its New York City office and **Edward E. Potter** vice president in the Los Angeles office.

Essex markets annuity and investment products through leading commercial banks and thrift institutions.

New regional vice presidents are **Craig W. Cooper,** Sandy, Utah; **Seth E. Friedman** and **Jay G. Joyce,** New York; **Peter J. Kalman,** Tigard, Ore.; and **Margaret E. Raupp,** Buffalo.

Bank Leumi Trust Co., New York, a subsidiary of **Bank Leumi Le-Israel,** appointed **Robert Fine** president of its BLT Leasing subsidiary. He has more than 15 years experience in lease financing.

Student Loan Marketing Association, Washington, announced four promotions.

Paul Carey was named vice president, public finance. He manages Sallie Mae's higher education facilities finance department, which handles financing to colleges and universities for construction, renovation, or purchase of academic plant and

See **EXECUTIVE** *next page*

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PROF. THEODORE LEVITT

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EQUIFAX
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EXECUTIVE *changes*

Continued from *page 22*

equipment.

Moving up from director to assistant vice president are **David Karstens,** administrative services; **Bruce Pearlman,** financial planning and analysis; and **Clark Pewitt,** computer services.

The lead banking subsidiary of **Chase Manhattan Corp.,** New York, announced appointment of the following vice presidents.

They are: **Kenny T. Li,** real estate finance; **Kok-Aeng Liam,** international individual banking; **Arnold Lieberman,** corporate planning; **Martin S. Linde,** legal; **James P. Linnane,** personal financial services; **John J. Marino,** administration services; **Susan K. Markuson,** corporate human resources; **Matthew H. Massie,** North America corporate finance; **John Masur,** Chase Securities Inc.; **David W. Mengel,** North America corporate finance; **Anthony Minko,** corporate operations and systems; **Carole M. Moore,** personal financial services; **Edward J. Neeck,** real estate finance; **Rosemarie Palermo** and **Gregory A. Parris,** corporate operations and systems; **Chayongsak Pisitpong,** Asia-Pacific corporate finance; **Cynthia Powell,** Western Hemisphere corporate finance; **Gordon G. Pratt,** domestic institutional banking; **John T. Rooney,** Chase InfoServ International; **Lucia Rosato,** corporate controller; **Clifford Rote,** corporate planning; **Wendy C. Sellitto,** direct response; **Shelley M. Simon,** corporate controller; **David Skinner,** metropolitan community bank; **Patricia Sparacio,** corporate human resources; **Mark Squillante,** Chase Securities Inc.; **Chin Poh Tan,** international individual banking; **Gay S. Truscott,** real estate finance; **Peter R. Valone,** administration services; **Samuel M. Weissman,** real estate finance; **Robert F. Wilkinson,** corporate operations and systems; and **Deborah A. Willis,** Chase InfoServ International.

The following were named managing directors:

Lawrence Cohn, domestic institutional banking; **Enrique Ido, Renato Silva,** and **Jorge Sosa,** Western Hemisphere corporate finance; and **Kinue S. Ino,** Chase Investment Management Corp.

United Jersey Bank, Hackensack, N.J., elected **Robert S. Gates,** chairman of Gates Construction Corp. and president of Gates Equipment Corp., both in Little Ferry, N.J., to its board of directors. The bank is a unit of **UJB Financial Corp.**

Marine Midland Bank, New York, a subsidiary of the **Hongkong and Shanghai Banking Corp.,** appointed **Frederick C. Braun 3d** regional corporate executive for Long Island, responsible for corporate business development.

Kenneth Reeve was named to succeed Mr. Braun as regional commercial executive. He is responsible for Marine's commercial districts in Nassau and Suffolk counties, serving the credit and noncredit needs of small to middle-market business and professional clients.

Bankers Trust New York Corp. said **Willem Dudok de Wit** and **Geoffrey Blanning** have joined the London office of Bankers Trust Investment Management Ltd.

Mr. Dudok de Wit will be vice president-European sales and marketing, responsible for developing the bank's institutional management presence in Europe, with particular focus on the Netherlands, Belgium, and Scandinavia. He was formerly with Mitsubishi Bank (Europe) in Brussels.

Mr. Blanning will be multicurrency fixed-income portfolio manager, with specific responsibility for the United States, Canada, and Australia. He was formerly with Kidder, Peabody Asset Management Ltd.

Norstar Bank, Melville, N.Y., a subsidiary of **Fleet/Norstar Financial Group** Inc., Providence, R.I., hired **R. David Pontius** for its New York corporate banking division as senior vice president.

He has more than 20 years of corporate lending experience with Manufacturers Hanover Trust Co. and Chemical Bank.

Barclays de Zoete Wedd Investment Management, New York, a member of the **Barclays Group,** London, hired **Michael R. Horsburgh** as managing director to establish and head its U.S. investment fund management business.

Mr. Horsburgh joins the investment unit from Bear, Stearns & Co., New York, where he was a senior managing director in the international equities division.

SOUTHEAST

Signet Bank, Richmond, a unit of **Signet Banking Corp.,** named **Patrick T. O'Hara** vice president and **Sharon Higginbotham** assistant vice president.

Mr. O'Hara is national accounts sales representative for marketing cash management products in the commercial services division. Mrs. Higginbotham manages the bank's card sales support department.

First National in Palm Beach, Fla., a division of **Southeast Bank,** appointed **Janice S. Lacy** assistant vice president and banking center manager.

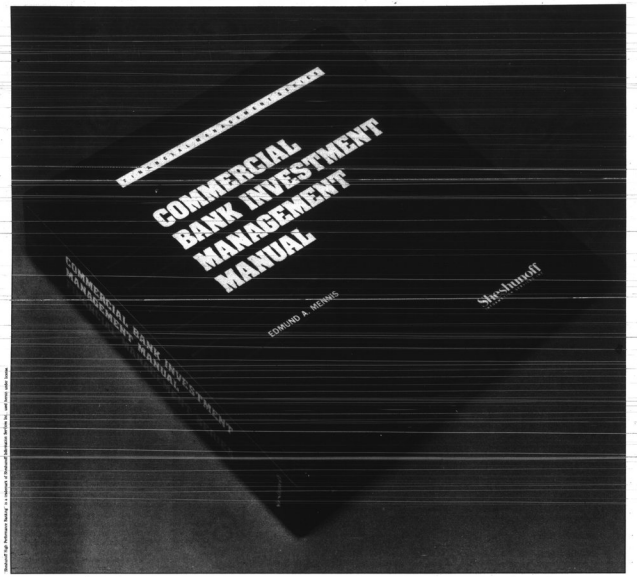
Mrs. Lacy directs the personal banking and lending activities of the Sunrise Banking Center, Palm Beach.

The **Virginia League of Savings Institutions,** said **Clarence W. Keel,** president of Seaboard Savings and Loan Association, Virginia Beach, was elected league chairman.

As chairman of the board of governors, Mr. Keel will also be chairman of the league's executive committee. In the past year, he was first vice chairman of the league and chairman of its finance committee.


Clarence W. Keel

Other officers elected were **Barry D. Crawford,** president of Fidelity Federal Savings Bank, Richmond, first vice chairman, and **Gerald F. Chapman,** president of Vista Federal Savings Bank, Reston, second vice chairman. □



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MERGERS

Case Study from the 1980s: Harold Pote and First Fidelity-Fidelcor

By DANIEL PIRO

In the summer of 1987, with the stock market at its peak, First Fidelity – then a company with $15.4 billion in assets – agreed to merge with the $11.7 billion Fidelcor Inc.

First Fidelity, the largest banking organization in New Jersey, was a confederation of operating units brought together by prior mergers. It had done little to integrate operations, and, as a result, had been criticized for failing to capitalize fully on its franchise.

The pending deal with Philadelphia-based Fidelcor brought rave reviews from most analysts and dealmakers. Harold Pote, who was Fidelcor's CEO at the time, was considered the key to the deal. He would become the CEO of the combined organization.

In December 1988, 16 months later, Mr. Pote was asked to resign. What happened, and what lessons can bankers learn from this experience?

Words of Love

In the summer of 1987, almost everyone in the investment community trumpeted the abilities of Hal Pote. "Hal Pote really knows how to run an efficient bank," said analyst Lacy Shockley.

The pending deal with Fidelcor brought rave reviews from most analysts and dealmakers.

Talking about Mr. Pote and his management team, another analyst, Felice Gelman, said, "They are a dynamic group, young and deep in talent. They are very, very good at strategic planning."

Ryan Beck's Fenwick Garvey praised the combination as one of the best-conceived mergers ever.

The only dissenting opinion appeared in the pages of the August 1987 issue of *Bank Mergers & Acquisitions*. At the time, it was questionable whether Mr. Pote would be able to do the job of integrating the operations of the two companies. We believed he would encounter steadfast resistance from the New Jersey side to any plan that would cut operating budgets or eliminate areas of responsibility.

Modern CEO

Armed with a Princeton education and a Harvard MBA, Hal Pote dazzled the banking industry with his rapid rise. When he became CEO of Fidelcor in 1984, he proclaimed that success in the new banking era required knowledge of how to create new delivery systems, develop new products, improve productivity, and properly manage assets and liabilities.

He presented himself not as a traditional banker but rather as a corporate executive who happened to be managing a bank. He was focused on growth.

By the age of 40, in only three years at the helm, he had, through a series of acquisitions, built a regional banking company with almost $12 billion in assets. He seemed to be the very model of a modern major bank CEO.

A Feather in Mr. Pote's Cap

When Fidelcor and First Fidelity announced merger plans in the summer of 1987, Mr. Pote's prestige ascended to new heights. He had negotiated a merger in which Fidelcor shareholders would receive a modest premium in the division of equity interests, while Mr. Pote and his team retained management control.

Hal Pote dazzled the banking industry with his rapid rise.

As it turned out, some of the risks Mr. Pote had taken earlier in growing the Fidelcor earnings returned to hurt him. In December 1988, reports from external auditors concerning loans made by the London office took Mr. Pote and the board of directors by surprise.

At the same time, the board learned of the need to take loss provisions on loans to a Philadelphia real estate developer. It appeared that Mr. Pote had known in early 1987 (prior to the merger announcement) that the developer was facing economic difficulties. Possibly the pressure to maintain solid earnings growth while merger negotiations were in process dissuaded him from taking additional loss provisions in 1987.

After a lengthy board meeting in that same month of December; Mr. Pote agreed to resign. First Fidelity then announced that, as a result of the portfolio difficulties, it would be declaring a loss in the fourth quarter that would offset most of its gains for the first nine months.

The next day, the company's

See **CASE** *page* **27**

Mr. Piro is senior editor of *Bank Mergers & Acquisitions*, a newsletter published by SNL Securities.

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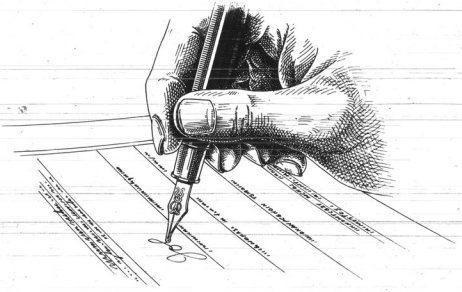

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MERGERS

Case Study from the 1980s: First Fidelity

Continued from *page* 25

stock fell in price by 23%. As a result of a $235 million provision for loan losses, the company declared a loss of $180 million for the 1988 fourth quarter. Profits for the year were only $16 million.

With a different combination of organizational policies and circumstances, Hal Pote might have survived his mistake. But Mr. Pote was doing things his way, attempting to impose his vision and his corporate culture.

People from the New Jersey side who saw things differently were waiting for him to err in a big way. They had ultimate control, since 14 of the 26 members of the First Fidelity board, including chairman Robert Ferguson, came from the New Jersey organization.

With a different combination of organizational policies and circumstances, Hal Pote might have survived his mistake.

The problems that have since occurred on the New Jersey side of First Fidelity's portfolio add weight to the view that Mr. Pote was defeated primarily by organizational resistance. In the fourth quarter of 1989, the company again declared a loss. Although smaller than the corresponding 1988 loss, the $26 million loss in fourth-quarter '89 was the catalyst for implementing the long-overdue operational efficiencies.

Interim CEO Ferguson retired, and Anthony Terracciano, a long-time Chase executive who had recently served as president during the successful turnaround of Mellon Bank Corp., was hired to enact the program that Mr. Pote never had a chance to implement.

The lesson from this story for the bank executive is to enter a merger agreement with a well-defined plan of action that addresses vital issues, and with firm commitments from the managements and boards of both companies to enact the plan. The added size that results from a merger does not necessarily correspond with increased shareholder value.

A second lesson is to be a banker first and a corporate executive second. A bank remains a highly leveraged entity. A banker knows his first priority is to avoid damaging portfolio hits. This means that in good times, he must manage risk under the premise that economic circumstances may soon become less favorable.

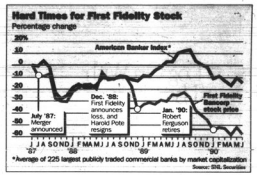
For analysts, the lesson is to take a hard look at the facts. When there is a conflict between current promises and past performance, be prepared to discount the promise.

Shareholders have paid for the company's delay in consolidating.

Analysts were correct in believing the merger between First Fidelity and Fidelcor had great potential. The two companies shared a 100-mile border along the Delaware River. Their territories in Pennsylvania and New Jersey were adjacent. The potential for efficiencies in marketing and delivering services was undeniable. Unfortunately, there was ample evidence that such efficiencies would be difficult to actuate.

The pre-Fidelcor version of First Fidelity had itself failed to produce efficiencies in the operations that delivered services. Management had encountered so much resistance to its cost-cutting program that, in his letter to shareholders in 1986, then-CEO Ferguson reported: "We have refrained from grasping too urgently at the available economies of scale arising from the merger into our organization in late 1984 of the banks of the former Fidelity Union Bancor-

See **CASE** *page* **29**



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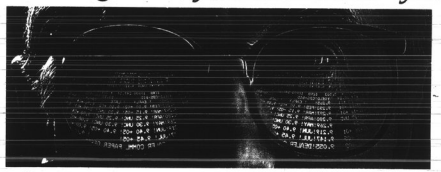

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MERGERS
Case Study from the 1980s: First Fidelity and Fidelcor

Continued from page 27

portation..."

Only a year earlier, in the afterglow of the 1984 merger, the same Mr. Fenimore had advised shareholders: "We believe that in 1986 and in subsequent years the economies to be realized from our present mergers will become substantial."

When it came time to deliver on its promise, management waffled: It would not push for cost gains with pain. A key measure, the ratio of operating expenses to average assets, was still at 3.43% in 1986. This equaled the premerger 1984 ratio that could be calculated for the two organizations on a pro forma basis.

When the deal with Fidelcor was announced, it was obvious that a strong commitment to achieve cost efficiencies was not in place. Absent from the official announcements was any discussion of strategies to achieve synergies from unified operations.

Reductions in staff expense would be accomplished by attrition only. No strategies existed with respect to technology issues. Officials could not even say if and when the ATM systems of the two companies would be integrated.

Despite the known advantages of employing a common name in a contiguous territory, and despite the fact that the banking units in the Philadelphia metro market operated under the name Fidelity in Pennsylvania, but were called First Fidelity on the Jersey side, the slight name change to First Fidelity for the Pennsylvania banks was not contemplated.

Mandate Was Lacking

The evidence was clear in 1987 that a mandate to achieve the potential operating synergies did not exist. Much to the detriment of First Fidelity shareholders, it appears that the real objective of the merger was to create an organization large enough to avoid being acquired.

At the time, the euphoria that accompanies every speculative wave blinded the markets served by the two companies. The boards and managements probably found it easy to accept the premise that the prevailing favorable economic circumstances would continue for at least a few more years, thereby supplying the revenue that would finance high levels of operating expenses.

That convenient assumption enabled the parties to the merger to sidestep the issue of unifying the organization at the price of consolidating functions, trimming the ranks of management, and making deep cuts into expense budgets.

It was the economic downturn in the markets served by First Fidelity-Bancorp. that finally produced a commitment to creating a unified and efficient operation. The selection of Mr. Terracciano, an executive with the skills to turn around a troubled company, has now mandated that which should have been done in 1987.

In only five months on the job, Mr. Terracciano has trimmed core operating outlays by $95 million, and has programs in place that are targeted to save another $50 to $60 million during the next two years. The swiftness of these actions serves to highlight the failure of prior management.

Shareholders have paid a large penalty for the company's delay in consolidating. First Fidelity's market capitalization has declined 47%, to $1.05702 billion on June 27, this year from $1.997 billion (on a pro forma basis) on the date of the announcement. □

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Capital Bancorp	New York,NY	FDIC	137	Capital Intermediate Bancorp	2,000
United Savings Bank, F.S.B.	Windom, Minn.	RTC	127	Multiple Acquirors	2,100
United Svgs Bk-Brownville office	Windom, Minn.	RTC	NA	Bremer Financial Corp.	1,200
United Svgs Bk-Two Branches	Windom, Minn.	RTC	NA	Community First South Dakota	904
First Federal Svgs Bank & Trust	Independence, Mo.	RTC	21	Bank 10	212

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source:SNL Securities

When it came time to deliver on its promise, management waffled: It would not push for cost gains with pain.

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Retail Lending Manager at supermarket which seeks senior position in retail banking. Proven ability to grow consumer at 20%/yr to excess of 1.5%, $650 mil. outstandings. Extensive experience in commercial lending, marketing, budgeting, loan workouts, real estate, systems development, securitizations, pricing, quality. Outstanding analytical and managerial skills. Reply to BOX #362, c/o American Banker, 1 State Street Plaza, New York, New York 10004.

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Purch. Director/Administ. Services
High exped. banking professional with over 25 years of service in both financial and savings industry. Demonstrated expertise in managing all aspects of the Purch. function. Implemented automated inventory control procedures for two major banks with a deposit base over $2 billion. Established, instituted and retained an annual budget of $2.1 million. Coord. all activities relating to Administ. Services, Security, Maint., Mail, Duplicating and Record Retention. Excel. record in developing and improving employee performance and morale. Competent in innovating administrative efficiencies. Call Francis (201) 679-4665.

Recent MBA Graduate, specializing in finance and real estate, seeks a case management, property management, or financial analyst position within the REO department of a financial institution or government agency. Has practical work experience in the stock brokerage and the real estate development/ management industries. Honest and hard-working. Willing to travel/ relocate. Please contact: Elizabeth Ashgreen, 2512 S. University Blvd. #16, Denver, CO 80210, (303) 722-8813.

FLOOR BROKER
Seeking joint venture partner(s) with interest in establishing futures trading unit at the Chicago Board of Trade. J.V. Partner to hold controlling interest. Management team/ individuals experienced floor broker and trading analyst. Future growth financially rewarding, as many firms internationalize their operations and look to cut costs. B. Buckbinder, 4718 Meridan Ave. #346, San Jose, CA 95118.

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Experienced mortgage banker seeks career challenge in residential mortgage and consumer loan production management. Have successfully owned manager and sold two mortgage companies. Have broad experience. Additional expertise in facilities management, property management, marketing and sales. Prefer Middle Tennessee (NW/E-TN/PA). References and resume... P.O. Box 59043, Cleveland, OH 44139.

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CFO or CEO that loves a challenge. Described as "Mr. Fix It." Like "turn-around" situations, or organizing new opportunities or ventures. Thrive on establishing, monitoring, and follow through on well-conceived strategic plans. Call David Hamburger 818-789-0772.

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Auction Notices

DEFAULT In Security Agreement Made By Rafael Mateo to Bolivar Cruz d/b/a Bolivar Grocery & assigned to Principal Funding Corp. Filed Orange Co. On July 12, 1990 At 11 A.M. At 402 Jersey St. S.I., N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Auction Conserves The Right To Bid. FRANK E. SEIPP. Auct. Lic. #733234 Of F.E.S. AUCTIONS INC. As Agents.

MARGIL AUCTIONEERS CO., INC., 194 Broadway, Bklyn, N.Y. As Agents For Gem Pawnbrokers Corp., 378 Schermerhorn St., Bklyn Will Sell All Unredeemed Pledges Loan No. D5280 &/4/00 To J17948 10/14/89. Also, Gem Pawnbrokers Queens Corp. Pledges 0001 10/6/87 To 14934 6/30/89 Of Watches, Jewelry, Etc. On July 18, At 9 A.M. At Gem Pawnbrokers Queens Corp. At 216-15 Jamaica Ave., Queens Village, N.Y.

DEFAULT In Security Agreement Made By Petsks Realty Inc. to Jonas E. Mimoun 9/6/85/85 Dtd. & Filed 1:30 PM At 203 West 37th St., N.Y.C. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP. Auct'r Lic #732234 of F.E.S. AUCTIONS INC. As Agents.

G. Defuseo sells R/T/1/7/28/90 12 Noon at 1702 E. 23hd St. Bx. 789 Mercury #2MEBM7473K8X33891 By: Dawson, '83 Chevy. #1G1AZ3789DR283256 Re: V. Bonilla. 31 Cad. #1G6AB6993HR200389 Re: I. Wisstreich. '73 Dynahoe #D1H3R2G205128 Re: ABC. '84 Dodge P/U #1B7FD14H8ES239019 Re: M. Pereira. Published 7/11 & 7/18/90.

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AMERICAN BANKER

DEALS

Some of UAL's Bankers See Japanese Participation as Vital to Buyout

By WILLIAM GOODWIN

In a sign of the continued importance of Japanese banks to the deal market, several New York money-center bankers said the underwriting group for the proposed union buyout of UAL Corp. must be expanded to include at least one Japanese institution.

"Conceptually, I think we need the Japanese in the deal," said an official at one of the five money-center banks that have agreed to serve as coagents for the $4.4 billion buyout effort.

The five coagents are the banking units of Chase Manhattan Corp., Chemical Banking Corp., Citicorp, Manufacturers Hanover Corp., and Bankers Trust New York Corp.

"It is clearly recognized that having some major Japanese lenders [in the underwriting group] is a critical element in successfully syndicating" the bank loans, said an official at another of the five New York banks.

A Role in Most Major Buyouts

This banker noted that 25% to 40% of the financing for most major buyouts in the United States comes from Japanese members of bank syndicates.

That's why U.S. bankers are so anxious to have Japanese representation in the underwriting group for the UAL deal.

The reluctance of Japanese banks to support the failed $6.8 billion buyout of UAL last year also weighs heavily on bankers' minds.

"We are ready to consider this [new] transaction in a serious way," said an official in the Chicago branch of one major Japanese bank.

The Information Gap

At the same time, though, the Japanese banker said he has not held any talks yet with Gerald Greenwald, the former Chrysler Corp. chairman who is leading the buyout effort by the three principal unions of United Airlines.

"We need more information on this financing," the Japanese bank official added.

Because the addition of at least one Japanese bank, the underwriting group ultimately could consist of as many as eight to 10 banks, an official at one of the five New York banks said.

The eventual size of the bank underwriting group will depend, at least in part, on how much money the union-led buyout group can raise from outside investors.

Talks have been held with airframe and engine manufacturers in the United States and Europe, including Boeing Co., General Electric Co., Airbus Industrie, and Rolls-Royce.

A source close to the unions said last Friday that each of the five New York banks "pledged" about $500 million, or a total of $2.5 billion.

While no commitments have yet been made, "I think that's a good number to focus on," an official at one of the five banks said.

$4 Billion Nut to Crack

The buyout group needs to raise a total of roughly $4 billion to cover the cash portion of the deal. That amount also includes funds for working capital and a letter-of-credit facility.

Apart from the roughly $2.5 billion from the five New York banks, the buyout group must still raise about $1.5 billion from investors and others.

The unions have until Aug. 9 to raise the necessary financing, though that ability to meet the deadline appears questionable.

Several bankers said it is "conceivable" that the deadline can be met, but by no means certain.

PRODUCT ANNOUNCEMENT

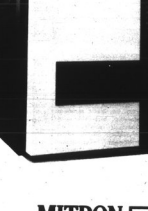
MITRON STD 6250

MITRON Systems Corporation of Columbia, Maryland has added a new magnetic tape data communications terminal to its product line which will process 6250 bpi high-density formats. In service since January 1989, the STD 6250 provides an efficient, cost-effective method for sending and receiving data off-line without the need for a computer.

With the STD 6250, any requirement to ship tapes between offices via courier service or mail can be eliminated. Tape data generated in either 1600 bpi or 6250 bpi format can be transferred anywhere via dial-up, private line or digital networks.

The STD 6250 requires no software for its operation and accurately transfers data at speeds up to 256KB. This versatile off-line data communications terminal provides reliable and timely data exchanges while communicating with remotely located MITRON terminals or other manufacturers' bisynchronous terminals and computers.

MITRON offers several lease and purchase programs.



Since 1969, Mitron's magnetic tape systems have been used in a wide variety of data communication applications. For more information on how the Mitron STD 6250 can be used to send or receive magnetic tape data files, call 800 638-9665 (in Maryland, 301 992-7700).

Future announcements will describe an STD 3480 cartridge-compatible data communications terminal and a higher speed STD 6250. Both terminals will operate faster than T1's 1.544 mega-bit per second data rate.

MITRON Systems Corporation

2000 CENTURY PLAZA
COLUMBIA, MARYLAND 21044
301 992-7700 800 638-9665

Highlights for Tuesday, July 10

TOP 10 GAINERS %

Northeast Bancorp, Inc.	12.5
Colorado National Bankshares	11.0
Affiliated Bankshares of Co.	8.7
Equimark Corporation	7.5
First Citizens Bancshares Inc.	6.2
United Banks of Colorado, Inc.	6.0
Cal Rep Bancorp	5.8
Mercantile Bankstjobpt, Inc.	5.6
Trustmark Corporation	4.7
First Illinois Corporation	4.7

TOP 10 LOSERS %

Premier Bancorp, Inc.	-6.3
Suburban Bancorp, Inc.	-5.9
Shawmut National Corporation	-5.6
First Security Corporation	-5.4
Norwest Corporation	-4.5
Continental Bank Corporation	-4.5
Central Jersey Bancorp	-4.4
First American Corporation	-4.2
Bank of New England Corp.	-4.2
Firstbank of Illinois Co.	-4.2

MOST SHARES TRADED

Citicorp	1732000
Continental Bank Corporation	855000
Mellantic Corporation	557700
U.S. Bancorp	450300
First Chicago Corporation	437100
Bank of New England Corp.	373300
BankAmerica Corporation	344700
MNC Financial, Inc.	320000
Norwest Corporation	307300
Banc One Corp.	300700

VOLUME AS % OF AVERAGE

First Financial Bancorp	785.0
Fort Wayne National Corp.	739.4
United Banks of Colorado, Inc.	709.3
Continental Bank Corporation	657.1
Sand Mountain Bancshares	619.5
Affiliated Bankshares of Co.	592.7
Cal Rep Bancorp	542.3
Mercantile Bankshares Corp.	421.2
Central Bancshares South, Inc.	407.3
Security Bancorp, Inc.	396.6

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	18⅝	1stSourceCorp/In	6.5	87.7	18¾	--
14⅝	10¼	1stUnionRealEstate	20.3	71.4	11⅝	--
28	20	AmSouthBancorp/Al	8.5	92.6	22	-¼
15¾	13¼	AmbancCl'A'/Oh	7.5	97.1	14	--
29	17	AmeriFirstCorp/Oh	18.3	105.1	17¾	-¼
22¾	18¾	AssociatedBanc/Wi	9.6	132.5	20¾	-¼
24⅛	18	BB&T FinCorp/Nc	8.4	113.7	19¾	-⅛
15⅜	9⅜	BancFlorida/Fl	10.1	65.6	12⅜	-⅛
48⅜	36¼	BankPcorp/Pi	13.6	152.7	46¼	-½
33¼	26	BanklstCorp/Oh	10.1	178.1	28¼	-¼
26	18¼	BancoPopular/Pr	6.3	95.5	19	-¼
56¾	42	BancorpHawaii/Hi	10.1	189.7	51¼	¼
23¾	18	BancorpRhode/Ri	7.3	92.4	19	-1
36¼	23⅜	BankersCorp/Oh	5.7	117.3	29¾	-¼
24	17¾	BankGrantCorp/Nc	13.8	247.2	22	-½
23¾	20	BankNewEngland/Ma	10.8	52.4	22¾	-¼
14⅜	8⅜	BankSouthCorp/Ga	6.2	92.9	9	-⅛
57¾	35½	BarnettBanks/Fl	NM	143.4	39¾	-¼
21¾	12¾	BarnwellOrtgroup/Y	5.3	67.0	12¾	--
30¾	11⅜	BayBanksInc/Ma	14.8	43.2	11½	-¼
55	30	BankofNY/	125.0	89.2	31¼	-¾
12	9	BanksMidAm/In	225.0	53.4	9	--
82	68¾	BanknorthAm/Wi	11.4	110.2	68¾	-¼
38¾	28¾	BanponceCorp/Pr	9.2	113.3	30¾	-¼
42¾	13¾	BayBanks/Ma	9.1	45.7	16	-¼
36¼	29	BostonBancorp/Ma-MD	8.6	102.4	35½	-¼
26	15⅜	BoulevardBanc/Il	15.3	98.9	15¾	-¼
18⅝	12⅜	BushBanks/Fl	7.5	102.6	14	--
43¾	33¼	CCB FinCorp/Nc	8.8	119.9	34¼	-¼
22⅜	17¾	CCNB Corp/Pa	7.3	101.5	17¾	-¼
23¾	19¾	CNB Bancshares/In	10.4	127.2	22¾	-¼
27	20½	CPB Inc./Il	10.1	109.7	23	--
28	12⅞	CNB FinCorp/Pa	10.8	248.6	15	-¼
33¾	21½	CalBancorp/Ca	8.8	170.8	22¾	-¼
18¼	12¾	CentralBcshs/Al	7.5	100.0	14¾	--
34¼	26¾	CentralBancorp/Oh	7.8	113.5	30¾	-¼
27	13¾	CentralJersey/Nj	7.1	94.4	14	-¾
44⅜	23¾	CharterBancshs/Nm	NM	66.5	23¾	-¼
41¼	22¾	CharterBanking/Ny	NM	72.1	24¾	-¼
30¾	25¾	CharterOne/Oh-pd	7.3	100.0	31	--
35¼	21⅛	Citicorp/Ny	122.2	88.4	22	-¼
29¼	21¼	CitizensBancorp/Md	8.7	101.0	27¼	-¼
29¼	21¼	CitizensBanking/Mi	7.7	73.8	22	-¼
15½	8⅜	CitizensFirst/Ky	6.5	108.2	9¾	-⅛
34⅜	22	CitizensSouthCo/Ca	6.5	99.5	22	-¼
27½	17⅜	CityNational/Ca	9.1	134.2	25¾	-¼
22½	12⅜	ColonialBankGroup/Al	46.2	92.3	16¾	-⅛
58¾	39¼	CommerceInc/Mi	8.6	110.9	45¼	-¼
29¼	22¾	CommercialBnkrs/Mo	7.5	105.5	24	--
20¾	15¼	CommonwealthBk/Va	9.1	90.8	15¼	-¼
37½	13¾	CoreStatesFin/Pa	5.8	48.3	14¼	-¼
28¾	13¾	CornerstoneS.	8.0	55.3	13¾	-¼
49⅜	36⅜	ConstellationFin/Pa	8.2	152.5	40¾	-½
34	20¾	CrestarFinCorp/Va	7.1	8.7	20¾	-¾
18¾	7¾	CullenFrost/Tx	37.9	52.8	11	-¼
27¾	20¾	DeltaDepositA/Ri	9.0	102.7	20¾	-¼
32¾	23½	DepositGuaranty/Ms	6.4	73.3	24	-½
25½	13	DominionBcshs/Va	9.0	83.0	13	-¼
16	5	EquimarkCorp/Pa	NM	36.4	5¾	-⅛
21¼	12	EvergreenBancs/Wi	6.0	107.8	13¾	-¼
15⅝	12¼	F & M NatlCorp/Va	10.3	183.7	12¾	-¼
14¼	12¼	FNB Corp/Pa	8.9	109.4	13¼	-¼
26	18¼	FNH Bancorp/Il	10.5	173.4	22¾	-¼
29	20	FarmersCapital/Ky	12.0	118.5	26	--
38¾	30¼	FifthThirdBncp/Oh	10.7	186.7	30¼	-¼
33	23	FinancialTrust/Tn	9.1	107.2	24¾	-¼
51½	38¼	FirstTennNat/Tn	9.6	160.7	39¼	-¼
19¾	15¼	FirstAlabama/Al	9.3	117.0	17¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
26½	11½	FirstAmCorp/Dc-TN	NM	69.4	11½	-½
8¾	6¾	FirstAmericanCp/Tn	8.1	63.4	6¾	-¼
26¾	12¾	FirstBankSystem/Mt	NM	114.8	14¾	-½
19¾	14¼	FirstBanks/Co	7.4	85.6	18¾	-¼
29¾	24	FirstCitizens/Nc	8.7	100.9	25¾	1¼
39¾	24¼	FirstCityBcp/Tx	3.5	49.8	24¼	-¼
18¾	13¾	FirstCmbnkCa	9.9	134.0	13¾	-¼
23¾	13	FirstCommerce/La	7.6	98.2	13	-¼
29	21½	FirstCommerce/Ne	8.5	91.0	28½	--
24¾	17¾	FirstCommerce/Tn	9.7	99.6	17¾	-¼
21¼	17½	FirstCommercial/Ar	8.2	118.6	18¼	-¼
19¾	14¼	FirstCommunity/Ky	11.5	115.9	18¼	-¼
35½	21¼	FirstEastern/Pa	8.0	104.0	22¾	--
22	16¾	FirstEmpire/Ny	8.7	102.4	20¾	-¼
32¾	17¼	FirstFidelity/Nj	10.1	72.3	17¼	-½
50	40¾	FirstFidBancs/Nc	14.4	202.6	43¾	-¼
34¼	19¼	FirstFtnNat/Tn	9.7	78.2	20¼	-¼
26¾	19¾	FirstMidAmBan/Ca-Al	10.5	216.2	20¾	-¼
24¾	16¾	FirstMidwest/Il	9.3	150.5	18¾	-¼
21¾	19	FirstNationCorp/Ne	8.4	129.5	20¾	-¼
44	26¼	FirstPeoples/Nj	5.9	101.9	26¼	--
24¾	16¾	FirstSecurity/Ky	7.1	98.4	18¾	-¼
18	14	FirstSecurity/Nc	12.6	169.9	14	-¼
28¾	26¾	FirstSecurity/Ut	8.6	89.5	29¼	-¼
28¾	21¾	FirstTennessee/Tn	18.6	95.1	22¾	-¼
28¾	15¾	FirstTrustCorp/Ok	7.7	93.6	18¾	-¼
35¾	24¾	FirstVirginia/Va	7.9	111.6	25	-¼
45¾	37¾	FirstWisconsin/Wi	10.8	159.5	41	-¼
35	28¾	FirstarCorp/Wi	7.1	112.8	27¾	-¼
20¾	17	FirstbankIll/L	8.4	103.1	17¾	-¼
55¾	42¼	FirstofAmerica/Mi	NM	NM	47¼	-¼
29¾	18¾	FirstofAmerica/Tn	9.6	122.8	19¾	-¼
25	19¼	FortWayneNatCp/In	8.4	106.0	19¾	-¾
20¾	15¾	FourthFinCorp/Ks	12.6	180.9	20	-¼
21⅜	18	FultonFin/Pa	7.8	124.5	18¾	-¼
24¼	19¾	GBC Bancorp/Ca	8.7	215.9	19¾	-¼
15¾	9¾	GeneseeSunburst/Ms	14.9	75.5	10	-¼
34¾	25¾	GreatAmBancorp/Fl	3.9	115.1	26	-¼
21¼	14¾	HeritageFinSvc/Ia	8.5	113.8	14¾	-¼
28	14¾	HiberniaCorp/La	18.4	111.4	16¾	-¼
20¼	15	HuntingtonBcshs/Oh	8.1	118.2	15¾	-¼
32¾	23	INBFinCorp/In	6.8	97.6	23¾	-¼
27¼	18¾	ImperialBancorp/Ca	8.2	121.6	18¾	-¼
39¾	26	IndependenceBk/Ri	11.6	98.4	27¾	-¼
30¾	21¾	IntegraFin/Pa	15.3	101.1	22	--
48¾	37¾	InvestmentBancs/La	8.5	138.1	37¾	-¼
48	33	J.P. Morgan/W	NM	147.9	34¾	-¼
28¾	18¾	JeffersonBancshs/Va	7.8	93.8	19¾	-¼
15¾	12	KeyCentury/Ok-WI	10.2	106.3	12¼	--
29¾	23¾	KeyCorp/Ny	7.9	103.7	25¾	-¼
28	21¼	KeystoneFin/Pa	9.1	131.8	23¾	--
30¾	29	KeystoneFin/Pa-pf	10.0	161.5	29	--
14⅜	8½	LaSalleBancp/Ca	16.8	248.1	13½	-¼
20¾	12	LaidlawInc/L	20.2	200.6	23	--
18	11¼	LandmarkBcshs/Mo	6.7	63.8	11¼	-¼
24¾	16¾	LiberalBancorp/La	8.0	115.2	20¾	-¼
20¾	16¾	LibertyFinCorp/Sc	7.2	87.6	20¾	-¼
27¾	20¾	MNC Financial/Md	7.0	87.3	20¾	-¼
24¾	18¾	MagnaGroup/L	8.3	104.1	18¾	-¼
60	41¾	ManufacturersNat/Mi	8.6	102.7	44¾	-¼
46¼	28¾	ManufacturersNat/In	NM	78.1	32¾	-¼
21	16¾	MarineCorp/L	12.9	136.9	20¾	-¼
20¼	15	MarkTwainBcshs/Mo	10.2	103.7	15¾	-¼
37¾	30¾	MarshallBkNa/Wi	8.6	118.4	31¼	-¼
24¾	18¾	MarylandCorp/Md	7.3	89.8	19¾	-¼
28¾	23¾	MercantileBncsh/Md	192.3	98.0	25	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	15¾	UnitedBanksCo/Co	18.1	71.8	20	1¼
14	12	UnitedBshrs/Wv	8.2	97.4	12	--
17¾	13	UnitedCarolina/Nc	10.4	96.4	15¾	-¼
62	52	UnitedCounties/Ri	7.1	105.5	52¼	--
32¾	28	UnitedMissouri/Ks	8.7	111.2	28¾	-¼
27¾	22	ValleyNational/Nv	9.3	113.8	22¾	--
36	22¾	ValleyCapCorp/Ky	7.7	145.6	24	-1¼
28¾	19¾	ValleyNatBancs/Az	8.1	155.2	21¾	-¼
30¾	19¾	ValleyNatBancs/Ca	10.5	49.8	19¾	-¼
87¾	64¾	WellsFargo/Ca	6.5	149.7	74¾	-½
28¾	24¾	WestBancorp/Ri	8.5	100.2	26¾	-¼
27¾	21¾	WestOneBancorp/Id	8.8	109.2	24¾	-½
28¾	19¾	WestamericaBcp/Ca	9.8	150.2	20¾	-¼
46	35¾	WilmingtonTrust/De	11.9	278.4	41¾	¼
24¾	18¾	WintrustFin/Il	8.2	127.2	22	-¼
32¾	25	ZionsBancorp/Ut	7.8	100.8	28¾	-¼

Top 25 Thrifts (4 PM prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
29¾	16	AmericanCo/Ca	6.4	89.4	20¼	-¼
45¾	30¾	AppleMortgage/Al	8.2	75.2	42	-¼
26¾	14¾	BayViewFed/Ca	5.0	49.3	15¾	-¼
55¾	39¼	CitadelHldgCp/Ca	13.2	74.5	45¾	--
14¾	10¾	CoastSavingsFn/Ca	4.7	45.1	10¾	-¼
17¼	6	DimeDepBk/Nf	NM	21.1	8	--
37¾	24	FirstFedFin/Ca	5.1	122.8	25¾	-¼
37¾	24	FirstFedMichigan/Mi	10.8	134.3	37	-¼
24¾	14¾	FirstFederal/Fl	9.2	127.2	22	-¼
21¼	12	FirstNtnlBnk/Nf	6.5	34.4	13¾	-¼
14	9¾	GLENFED/Ca	3.3	91.9	12¾	-¼
34¾	22¾	GoldenWestFn/Ca	11.3	176.9	30¾	-¼
22¾	16¾	HomeFed/Ia-DE	10.6	118.2	17¾	-¼
14¾	7¾	GilchristCo/Ca-Cl	NM	19.3	3	-¼
21¾	13¾	HomeFed/Ca	12.6	28.7	17¾	-¼
21¾	13¾	HomeSvgsBcp/Mi	13.6	95.9	19¾	-¼
18¾	11¾	ImperialCp/Ca	10.6	197.7	23¾	-¾
13¾	7¾	InspirySvgs/Ca	6.1	140.5	9¾	-¼
54¼	34¾	SecurityFin/Ca	5.7	97.4	35¾	-¼
42¾	19¾	SecurityPac/Ca-Cl	NM	93.7	19¾	-¼
42¾	19¾	SigmaBanking/Ak	4.3	66.5	19¾	-¼
38¼	28¼	SoleaCorp/Or	7.0	114.6	32¾	-¼
27¼	17¾	SouthCarolinaNt/Sc	6.7	92.0	18	--
29	19¾	SouthwestBcSec/Fl	NM	39.1	8¼	-¼
15¾	11¼	SouthwestNtnl/Oh	9.9	138.4	12	-¼
25¼	18¾	SouthtrustCorp/Al	6.9	93.3	17¾	-¼
43¾	28¼	SovereignCp/Pa	5.7	94.8	29¼	-¾
25¾	21¾	StarBancCorp/Oh	8.5	120.7	21¾	-¼
42¾	31¾	StatebCb/BostonMa	14.7	255.8	41¼	-¼
24¾	6¾	StatewideBancp/Ca	NM	47.0	6¾	-¼
26	16	SuburbanBancorp/Il	11.1	80.8	16	-½
20¾	15¾	SuntrustBanks/Ga	12.3	191.1	16¾	-¼
23½	15¾	SummitBcp/Nj	8.0	91.3	16	--
14¾	10¾	SunwestBancp/Az	7.0	107.0	14¾	-¼
26¾	20	SunTrustBanks/Ga	7.9	125.2	21	¼
24¾	16¾	SunwestFin/Ca-Wd	7.8	64.2	14¾	-¼
22¾	17¾	SusquehannaBcsh/Pa	7.9	103.1	18¾	-¼
14¾	10¾	SymbiosFin/Co-pd	16.6	274.0	11¾	-¼
18¼	13	TheParentsCo/Ca	9.4	129.1	15½	-¼
23	20¾	TrustCoBancorp/Ga	9.2	165.3	20¾	-¼
42¾	31¾	TrustcompInc/Ny	6.8	151.6	35½	-½
24	18¾	UCBancorp/Ca	7.0	82.3	19¾	-¼
32¾	25¾	U.S. Bancorp/Or	9.0	131.7	28¾	-¼
43	33¼	U.S.TrustCorp/Ny	12.3	191.1	36¾	-¼
23¾	13¾	UJB FinancialNJ	6.6	85.9	16¾	--
11¾	9¾	UST Corp/Ma	5.5	93.0	11¾	-¼
32	21¼	UnionBank/Ca	5.2	85.1	21¼	-¼
13¾	7½	UnionPlanters/Tn	NM	60.3	7¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices of banks and thrifts traded over the national banking firms and the 25 largest publicly traded thrifts as measured by the most recent quarterly asset figures available (As of March 30, 1990, the market value cutoff for banks was $89.2 million and for thrifts it was $127.2 million). Mkt to bk is 52-week high and low prices for the stock. PE: the price-earnings ratio. Is the current share price divided by the bank's annual earnings per share adjusted for latest announced earnings. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Cls.: the price at which the stock last traded. If no trades for the day, the latest bid. AB Bank and Thrift Indexes: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights: How largest gainers and losers performed and two volume indicators most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data source: SNL SECURITIES, Charlottesville, VA. 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides DJIA, with the daily prices.

Key Loan Registrations — **July 2-July 6**

Dollars in millions

Working Cap./Gen'l Corp. Purposes	
Fred Meyer	$350.0
Whittaker Corp.	140.0
Bankers & Terminals	26.0

Takeover	
Siebe Inc.	$875.0
Herritage Media Corp.	220.0
H.H. Robertson	200.0
Qume Corp.	40.0
Lincoln Financial Corp.	15.0

Placements	
ALC Communications Corp.	$7.2

Debt Repayment	
ALC Communications Corp.	$38.0
Arrow Automotive Industries	25.0

CP Backup	
International Lease Finance	$480.0

Project Finance	
Amkara Metro	$431.5
AES Barbers Point	383.5

LBO	
Earle M. Jorgenson	$350.0
Maybelline Cosmetics	185.0

Description: This table tracks key corporate financial flings made weekly with the SEC. (*)-Deal older than 1yr.
Data Source: Loan Pricing Corp., New York (212) 489-5455

Key Rates — **(July 10, 1990)**

	7/10	7/09	7/03
Federal Funds-domestic range:	8¼-8⅜	8¼-8⅜	8¼-8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit			
3 Month Posted	8.00	8.00	7.80
6 Month Posted	8.05	8.05	7.85
1 Year Posted	8.15	8.15	7.95
Eurodollar deposits*			
3 Month	8⅛	8⅛	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅛	8⅛
LIBOR*			
3 Month	8⅛	8⅛	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅛	8⅛

*Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks. (*)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

Chemical to Issue Paper for Allied

By WILLIAM GOODWIN

Chemical Banking Corp. has formed a special-purpose financing corporation to issue up to $700 million of commercial paper backed by Allied Stores Corp.'s credit card receivables.

Proceeds from issuance of the commercial paper will be used to fund Allied's credit card operation which, in turn, will use the loans to finance the purchase of receivables from Allied's operating companies.

Allied, a unit of Campeau Corp., filed in January under Chapter 11 of the bankruptcy code. Allied said the new financing vehicle will provide it with a cheaper source of funds than the company's existing $700 million receivables facility with Citicorp's Citibank, which is scheduled to expire in '91.

Allied expects to save about $10 million annually under the new three-year facility, which can be extended.

The new financing vehicle is authorized to issue $630 million of commercial paper, but that amount could rise to $700 million. Initially, about $400 million to $450 million of paper is expected to be issued.

Chemical also agreed to extend for two years an existing $300 million debtor-in-possession loan, which was originally negotiated at the time of Allied's Chapter 11 filing. The DIP loan is now set to expire May 5, 1993.

A bankruptcy court hearing on the new receivables facility is scheduled for July 26 in Cincinnati. □

STOCKS

Though Bank Shares Are Down, Insiders Are Buying Vigorously

Continued from page 1

Detroit banking company has been high for several months.

Banks and thrift institutions, whose stocks have plunged since last fall on fears of loan problems and lower profits, lead all groups of publicly traded companies in insider stock acquisitions during the past year, according to Robert Gabele, president of Invest/Net, a Miami firm that tracks such activity.

"The buying has continued all the way down," Mr. Gabele said on Tuesday. "The fact that they're still buying at the lower levels has to be seen as a vote of confidence for the industry."

Buying Despite Uncertainties

"There are a lot of uncertainties out there for the bank, but you have to say that there are people at the banks stepping up to plate," he noted.

The trend goes beyond bank stocks that have been heavily sold by regular investors, and includes some that are well-liked on Wall Street and have fallen far less than others in the industry.

At Corestates Financial Corp., Philadelphia, a favorite of many banking analysts, three directors recently purchased 6,500 shares for $178,750.

Thrift Stocks Favorites

Thrift stocks, shunned by many, are also insider favorites. Mr. Gabele said that Dime Savings Bank of New York; Greater New York Savings Bank; Coast Savings Financial Corp., Los Angeles; and Conservative Savings Bank, Omaha, Neb., have been among the leaders in insider buying in the past six months.

At First Bank System, the heavy buying activity — 43,000 shares at an average cost of $15.25 per share — is viewed as a sign that top managers at the Minneapolis company feel restructuring at the long-troubled company is complete and that they believe the stock will appreciate significantly in the future.

Analysts Neutral

But most Wall Street analysts are decidedly neutral of the stock, noting that it already trades at a premium to other regional banks. The stock was off 12 cents to $14.875 in midday trading on Tuesday.

Analysts take a wait-and-see attitude on First Bank System's revised business strategy and anticipate up to 10% dilution of earnings per share through next year, after the company's recent recapitalization with a $175 million private placement of common stock.

"In general, turnarounds in 1990 may be more difficult to engineer than those of the early 1980s," Kristina E. Anderson, a bank analyst at Kidder, Peabody & Co., noted in a recent report on the company.

Some analysts said the large amount of insider buying may have been a show of faith in the company following the private placement, which was taken by Corporate Partners, an investment group, and the State Board Administration of Florida.

A spokeswoman at First Bank System declined to comment on that possibility.

A leading inside buyer at the company last month was Mr. Grundhofer, the new chairman and chief executive officer. He purchased 10,000 shares.

Mr. Grundhofer, who joined the company on Jan. 30 after a career in California at Wells Fargo & Co. and Union Bank, made his purchase on a single day, June 21. He paid $14.50 per share for a total investment of $145,000.

The June acquisitions were substantial enough to increase by 11.5% the amount of stock owned by officers and directors of the banking company, as reported last Feb. 1.

Selling Drives Stocks Down

Late afternoon selling drove bank stocks sharply lower Tuesday. One analyst said there were late rumors that another analyst would issue a report that he was more bearish about banks than he had been previously. However, most said they were at a loss to explain the late drop beyond that banks followed the overall market, which turned sharply lower late in the day.

Bankers Trust New York Corp. lead money center banks, falling $1.125 to $39.75. Manufacturers Hanover Corp. was off 87.5 cents to $32.625. Chemical Banking Corp. was off 75 cents to $24.75. Bank of New York, Chase Manhattan Corp. and Citicorp were also lower, although not as severely.

The Dow Jones Industrial average, after being off about 13, fell 10 points in the last 30 minutes of trading to end the day at 2890.84, down 23.27. □

CAPITAL

Banks Rushing to Securitize Their Assets

Continued from page 1

"Isn't that eventually going to make it harder for banks to sell stock and debt?"

In a single week in June, banks issued $2.8 billion in securities backed by credit card receivables. And Norwest Corp. securitized $95 million in manufactured home loans.

"The asset-backed market is really developing into the fourth leg of a chair: governments, corporates, mortgages and now asset-backed," said Stephen A. Candland, senior vice president at Dean Witter Reynolds Inc.

Deals Marketed Globally

Recently, the market has spread beyond the United States. Citicorp has taken the lead, issuing billions of dollars in securities backed by credit cards from subsidiaries called global credit card trusts.

European banks are also starting to securitize assets. Swiss Bank Corp. recently issued $500 million in securities backed by automobile loans, for example.

By taking the assets off their books, banks raise their equity-to-assets ratios and their return on assets. Equally important, they continue to earn the difference between the yield on the asset and the cost of funding it; and they are able to take the tax deduction for the interest expense associated with the securitization.

Raising return on assets makes a bank appear more profitable, and more appealing to current and potential investors, according to Jack J. Ross, a director at Merrill Lynch Capital Markets.

"They have improved their risk profile by securitizing those assets," he said. Banks "still retain the servicing [of those assets, even though they're off balance sheet."

As for investors, portfolio managers of trust accounts and corporate bond funds are eager for high-grade securities, such as asset-backeds, with yields above Treasuries, according to Alan F. Bembenek, an analyst at Fidelity Management and Research Co.

"I think you're going to see a continuation of large issues coming to market," he said.

But some capital markets specialists and analysts question the long-term implications. If a bank transfers all its best assets off its balance sheet, investors in that bank's debt and equity may balk at the notion of financing only that bank's lower-quality assets, they say.

"For a bank with problems in other areas of its loan portfolio, securitization would affect the receptiveness of investors to its securities," William King, a bank bond analyst at Merrill Lynch Capital Markets. "For less than top-quality banks, securitizing leaves their real estate loan portfolios looming larger and larger."

Mr. Bembenek agreed. "Once those assets are removed from the balance sheet, what's left is relatively unattractive," he said.

Several banks have been particularly aggressive in securitizing assets. Citicorp has been the biggest issuer, but MNC Financial Inc., First Chicago Corp., Chemical Banking Corp., Security Pacific Corp., BankAmerica Corp., and Hongkong & Shanghai Banking Corp.'s subsidiary Marine Midland Bank have all been major players in the asset backed securities market.

And banks are having to pay less in fees to underwriters as competition heats up for the business and underwriting presence in asset-backeds shifts. First Boston dominated the market in its early years.

But Merrill Lynch Capital Markets is making inroads. In 1990, Merrill has underwritten 20% of the asset-backed issuance, compared with First Boston's 26%.

Automobile loans and equipment leases were the collateral used most often in the market's early years. But credit card receivables began to be used in 1987, and they now back 42% of the asset-backed securities in the market. Home equity loans, boat loans, time-share loans, and recreational vehicle loans have all been used for collateral, and securities backed by other assets, such as commercial loans, are reportedly in the offing. □

A Blinding Rate for Credit Cards

Changing mix in the asset securitization market, as a percentage of the total paper issued



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FINANCIAL TECHNOLOGY UPDATE

NCR in the '90s: helping you manage change

The fiercely competitive decade which lies ahead will bring unprecedented changes in the banking industry, and therefore unprecedented technology, designed to meet those challenges.

In an era when banks must reduce the cost of delivery while increasing its quality, managing information technology has become the single most powerful factor for success in banking. In retail banking for example, service, sales and office automation must be integrated into a single retail delivery system that can accommodate the inevitable changes of technology.

NCR has evolved a long-term strategy to enable its customers to take full advantage of these changes. It's called "Open, Cooperative Computing. The Strategy For Managing Change." It means providing customers with a vendor-neutral computing environment based on open industry standards, allowing information resources to interoperate enterprise-wide as one integrated system, and in a way that is easy to use.

Simply put, NCR's delivery systems will seamlessly integrate customers' systems, networks and software from multiple vendors into a single, flexible solution.

This long-term strategy, which began in 1981 with a commitment to open systems, has positioned NCR as the only company with the products, global presence and financial clout to deliver its advantages to the end-users.

For example, Integrated Retail Delivery Systems (IRDS) will allow customers to deliver new products in new ways. Self-Service Automation will continue to help the branch to focus on cost reduction while freeing up branch personnel for cross-selling efforts. New NCR 3 Image solutions will help create new productivity in document management, item processing and office information systems.

NCR will bring its leading-edge technology together with that of other niche technology providers in an architecture designed to facilitate change and deliver superior solutions to critical business problems. This commitment will help financial institutions manage change now and throughout the evolution of their retail delivery strategies.

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Open, Cooperative Computing.
The Strategy For Managing Change.

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THE VISTA HOTEL
MONDAY, SEPTEMBER 10, 1990 — FRIDAY, SEPTEMBER 14, 1990

LOS ANGELES, CA
CENTURY PLAZA HOTEL
MONDAY, SEPTEMBER 17, 1990 — FRIDAY, SEPTEMBER 21, 1990

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SEMINAR 1

INNOVATIVE CUSTOMER SERVICE AND SALES TECHNIQUES FOR THE NINETIES

July 16, 1990 • The Vista Hotel • New York City
September 10, 1990 • The Vista Hotel • New York City
September 17, 1990 • Century Plaza Hotel • Los Angeles

As the banking environment becomes more competetive, industry leaders view improved customer service as a sollution to retaining market share. But how can your bank achieve such improved service? And as importantly, can quality service be translated into sales? The seminar will address the pressing need for improved customer service and how to implement a service program in your bank. It will also focus on the next step... profiting from quality service through innovative sales techniques, state-of-the-art technology and sales incentives. The industry leaders will address the issue of the nineties...achieving competitive advantage by making your company customer and sales-oriented.

9:00 KEYNOTE SPEECH: EFFECTIVE CUSTOMER SERVICE...THE KEY TO PROFITIBILITY IN THE 90'S
- Profiting from customer service in an age of transition
- A banker's perspective on past successes and failures... and innovations for the future
- A case study in improving service and sales

Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Joan Mizask, *Senior Vice President,* California Federal Bank (LA)

9:45 TURNING SERVICE INTO SALES...ACHIEVING BOTTOM LINE RESULTS FROM QUALITY SERVICE AND SALES TECHNIQUES
- Creating a competitive advantage through customer service
- Improving service...and controlling costs

John A. Goodman, *President,* Techn. Assistance Research Program (NY)
John A. Goodman, *President,* TARP (NY)
Marty Wikoff, *President,* Management Performance Systems (LA)
- The need for effective salesmanship
- Sales techniques for the 90's

Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dir. Bankers Industry Group, ASTD (NY)
Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dir. Bankers Industry Group, ASTD (NY)
Shirly Ward, *Vice President,* Bank of America (LA)

10:45 CREATING A SALES CULTURE...A STEP BY STEP APPROACH
- How to implement your new strategy through out the corporation
- How to build a corporate culture based on customer service
- Defining and targeting your customers

Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (LA)

11:30 COFFEE BREAK

11:45 ACHIEVING A TECHNOLOGICAL ADVANTAGE...THE ROLE OF TECHNOLOGY IN IMPROVING CUSTOMER SERVICE AND SALES
- Using innovative technology to cross-sell
- How to implement state-of-the art systems to improve service and increase sales

Dr. Michael Harden, *Sales Manager,* Citicorp Information Resources (NY)
Frank Martire, *Chairman,* Citicorp Information Resources (NY)
Charles J. Buchta, *Executive Vice President,* First Interstate Bank (LA)

12:30 HOW TO REMOVE MIDDLE-MEN FROM THE BANKING TRANSACTION...FROM THE BOARDROOM TO THE MAILROOM
- Skills to implement to reduce costs while improving quality of service
- Removing obstacles to the sale

Nicholas Pepanikolow, *Vice President,* Manufacturers Hanover (NY, NY, LA)
John J. Campi, *Managing Director,* Chatham Consulting Group (NY, NY, LA)

1:00 LUNCH WORKSHOP OPPORTUNITIES FOR THE 90'S IN RETAIL AND WHOLESALE BANKING...HOW TO IMPROVE PROFITIBILITY THROUGH SALES AND SERVICE
- Innovative techniques and training methods... a roundtable discussion

Chairperson:
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Pamela O'Shea, *Vice President,* City National Bank (LA)

2:45 THE AMERICAN EXPRESS EXAMPLE...A CUSTOMER SERVICE SUCCESS
- A case study in implementing quality service
- Lessons for banks and thrifts

Laura Gross, *Director,* American Express (NY)
Bruce Grieve, *Vice President,* American Express (NY)
Dennis Stevens, *Vice President,* American Express (LA)

3:30 A CASE STUDY IN IMPROVING SALES...THE CHASE TRAINING PROGRAM
- Teaching selling skills
- How to implement a training program

Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (LA)

4:15 THE KEY TO IMPROVING SALES...MEASURING YOUR CUSTOMER SERVICE
- Judging the quality of service at your bank
- Learning from the leaders...what techniques do the leading bank use to measure service
- How to determine your bank's effectiveness

Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Douglas Smith, *Managing Director,* BEI Golembe (LA)

5:00 THE ROLE OF SALES INCENTIVES...WHAT WORKS AND WHAT DOESN'T
- How to use worker compensation to increase sales
- Improving service without increasing costs

William Casey, *Principal,* Paris, Casey Ifc. (NY)
William Casey, *Principal,* Paris, Casey Inc. (NY)
Matt Walgon, *Senior Consultant,* Sibson and Co. (LA)

6:00 END OF SEMINAR

SEMINAR 2

THE NUTS & BOLTS OF COMMERCIAL LENDING & LOAN PRICING

July 17, 1990 • The Vista Hotel • New York City
September 11, 1990 • The Vista Hotel • New York City
September 18, 1990 • Century Plaza Hotel • Los Angeles

The battle for commercial loan profitability promises trying times for large corporate and middle market lenders. Over the past two decades, the risk in banks lending portfolios has steadily increased. This is not a function of uncontrolled risk-taking, but rather of the banks' necessary response to the need to find assets which will provide acceptable levels of risk-adjusted return. The events of the past few years have shown that many banks, however, have been unable to effectively control the level of risk that they have taken. Unacceptably high levels of loss have taken place in many banks due to a combination of poor pricing, excessive concentration and the failure to understand the level of risk in a specific loan. Furthermore, new competitors are entering the marketplace scrambling for territory and sparking intense new battles for turf. The seminar reviews how leading-edge banks are beginning to develop new sets of techniques that will give them a competitive edge in the marketplace for controlling their level of loss, and achieving low-risk diversified portfolios.

8:45 CHAIRMAN'S OPENING REMARKS
William T. Gregor, *Partner,* The MAC Group (NY,LA)

RE-ENGINEERING FROM A CUSTOMER POINT OF VIEW

9:00 KEYNOTE ADDRESS: WHAT RECIPE SHOULD YOU USE TO TURN AROUND YOUR COMMERCIAL LENDING BUSINESS?...A CONSULTANT'S & A BANKER'S VIEWPOINT
William T. Gregor, *Partner,* The MAC Group (NY,LA)
Peter DiFlorentino, *Managing Director,* Bankers Trust (NY)

9:45 CUSTOMER PROFITABILITY & OPPORTUNITIES FOR REFOCUSING ON THE PROFITABLE BUSINESS...NATIONAL WESTMINSTER'S & SECURITY PACIFIC'S MIDDLE MARKET STRATEGY
Vjay C. Popat, *Principle,* Booz Allen & Hamilton (NY,LA)
Edward A. McNally, *Senior V.P.,* National Westminster USA (NY,LA)
Frank Abraham, *Chief Credit Officer,* Security Pacific National Bank (LA)

11:00 COFFEE BREAK

11:15 PRESTO CHANGO...CONVERTING UNPROFITABLE CUSTOMERS INTO PROFITBLE ONES...USING THE EMERGING SECONDARY MARKET TO YOUR ADVANTAGE
- Where Will The Secondary Market Work & For What Kind Of Loans?
- How Will The Secondary Market Affect Your Ability To Price?
- Secondary Markets & Loan Sales...What Are The Elements Necessary For Success?

David E. Fisher, *Vice President,* Loan Pricing Corp. (NY,LA)

12:15 LUNCH BREAK

RE-ENGINEERING THE PRICING PROCESS

1:30 ARE YOU GETTING THE BANG FOR YOUR BUCK?... DEVELOPING A TARGETED PRICING STRATEGY TO ADEQUATELY PRICE FOR RISK
- What Are The Key Components Of Pricing?
- What Prices Are Banks Actually Getting On Commercial Loans?
- How To Set Strategic Pricing Goals For Your Portfolio
- Do Banks Price Adequately For Risk?

Christopher L. Snyder, *President,* Loan Pricing Corp. (NY,LA)

2:15 A CREDIT BASED APPROACH TO ALIGNING RISK & RETURN IN A C&I LOAN PORTFOLIO
- How To Analyze The Relationship Between Credit Risk & Pricing
- Testing The Adequacy Of The Existing Credit Risk Assessment System
- Refining The Existing Credit Risk System To Serve As A Basis For Commercial Loan Pricing Scenarios

Constance Kennealy, *Partner,* Zeta Services Inc. (NY,LA)

3:00 COFFEE BREAK

RE-ENGINEERING THE CREDIT PROCESS

3:15 EMERGING NEW TECHNIQUES FOR CONTROLING LOSSES & MANAGING THE PORTFOLIO
- Automated Loan Credit Procedures...Ensuring Repayment After The Loan Is Made
- Pricing To Recapture Expected Losses
- Diversification As A Tool In Portfolio Management
- Giving Your Problem Loans A Workout...Security Pacific's Workout & Recovery Strategy

Jonathan P. Moynihan, *Managing VP,* First Manhattan Consulting Group (NY,LA)
Gary J. Coelho, *First VP,* Security Pacific National Bank (LA)

4:00 ARE BANKS LENDING TO LBO's TO CHEAP!LY?...THE FUTURE OF HIGHLY LEVERAGED TRANSACTIONS
Mark G. Solow, *Sr. Managing Director,* Manufacturers Hanover Trust (NY)
Hugh T. Kemper, *Managing Director,* Morgan Guaranty (NY)
Leland S. Prussia, *Vice Chairman,* Capitalcorp., Inc. (LA)

4:45 COMMERCIAL LOAN SECURITIZATION...A STEP BY STEP APPROACH TO SECURITIZING PERFORMING LOANS
Marshall V. Davidson, *Managing Director,* Kidder Peabody (NY,LA)
Robert M. Okabe, *Vice President,* Kidder Peabody (NY,LA)
Clifford Griep, *Managing Director,* Standard & Poors (NY,LA)

5:30 END OF SEMINAR

SEMINAR 3

EFFECTIVE COST MANAGEMENT

July 18, 1990 • The Vista Hotel • New York City
September 12, 1990 • The Vista Hotel • New York City
September 19, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Patrick J. Leempputte, *Partner,* Price Waterhouse (NY, LA)

9:15 ACHIEVING COMPETITIVE ADVANTAGE THROUGH COST LEADERSHIP

The 1980's showed that cost leadership is a critical success element in all restructured industries. As the pace of restructuring in banking accelerates, winners will emerge based on competitive cost position and related strategic focus. Global finance will come to be dominated by firms obsessed with the twin pursuits of profitability and productivity.

This session concentrates on managing the key noninterest cost drivers of bank performance: 1) business scope and geographic reach, 2) size of workforce and compensation practices, 3) technology spending and investment, and 4) corporate real estate portfolio management.

Charles H. Noba, *Senior VP,* Bankers Trust Company (NY)
Charles H. Noba, *Senior VP,* Bankers Trust Company (NY)
Eleni Istavridis, *Senior VP,* Bankers Trust Company (LA)

10:00 KEYS TO WINNING THE PRODUCTIVITY RACE

If superior expense control is essential to surviving the merger decade, then how is it accomplished?

This session addresses three key issues for banks concerned about expense control: 1) How good is the bank now and where is the potential for greater frustration?.Analysis based on business mix can identify bloated budgets and problem areas: 2) What kind of programs work to bring expense under control? Experience shows what are the do's and don'ts of crafting a program to reduce staff areas, lines of business, branches, operations and systems; 3) What does it take to stay on top? A "coherent organization" and quantitative performance measures can be keys to sustaining a cost effective culture.

James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (LA)

11:00 STORIES FROM THE FRONT: HOW MELLON BANK'S COST CONTROLS HAVE LED TO NEW BUSINESS OPPORTUNITIES AND LOWER EXPENSES

Mellon Bank has experienced a great deal of cost cutting in the past decade. Mellon's expertise in this area has shown that you can actually turn a cost center into a profit with the appropriate resources and strategy.

In this session, you will learn how Mellon effectively downsized into a better performing bank. This dedication to cost leadership has helped Mellon develop it's technologies and data processing to the point where these strengths have led to new business opportunities.

Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (LA)

12:00 LUNCH BREAK

1:15 HOW TECHNOLOGY CAN HELP YOUR BANK CUT COSTS WHILE IMPROVING PERFORMANCE

Commercial banks and financial institutions are wholeheartedly embracing information technology (IT) as a way to achieve competitive advantage. But, while bank IT costs have skyrocketed, banks are cautious to crow about their success. Instead, they suffer from exponential growth in computer spending with almost no impact on their bottom line or market shares.

In this session, you will learn how to begin to think about, structure and approach the IT problem in your organization. Learn what technology can do to help control costs and what it cannot do. Analyze how to cut the rising costs of your own IT infrastructure. Most important, begin to understand how you can approach IT complexity without being overwhelmed.

Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)

2:15 ELIMINATING EXPENSE THROUGH ACQUISITIONS

If banks merge to achieve economies of scale then why do most mergers fail to meet their expectations? As bank mergers continue to increase, minimizing costs during the integration process has become essential.

While banks of different sizes and market niches will have different merger goals, there is a proper rationale to mergers that will minimize the consolidation process. This session will look at past mergers to critique successful mergers as well as failures. In particular, where can the economies be achieved?... in back office operations/overhead, retail or wholesale operations, data processing and technology or duplication of staff responsibilities. This session provides a framework to minimize the costs of the merger.

Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
James Bemowski, *Principal,* McKinsey & Co. (LA)

3:15 MONITORING THE DOWNSIZING EFFORT THROUGH EFFECTIVE HUMAN RESOURCES MANAGEMENT

- How to retain top performers and employee commitment
- What to cut?...What to keep?...How to cut?

Peter J. Doria, *Senior VP,* Right Associates (NY)
Peter J. Doria, *Senior VP,* Right Associates (NY)
Peter J. Doria, *Senior VP,* Right Associates (LA)

4:15 MEASURING THE IMPACT OF COST ON PROFIT PERFORMANCE AND SHAREHOLDER VALUE...THE ANALYST'S PERSPECTIVE

How does a bank's cost performance effect stock price? In this session, learn how analysts objectively view cost cutting practices and how profit performance is related to effective expense practices and how it effects stock price. What banks have made the right moves and what strategies were responsible for improved profit performance.

Gary Gordon, *Vice President,* PaineWebber (NY)
Gary Gordon, *Vice President,* PaineWebber (NY)
Michael Conover, *President,* Ryan Beck & Co. Pacific (LA)

5:00 END OF SEMINAR

SEMINAR 4

BANK AND CROSS-INDUSTRY ACQUISITIONS OF THRIFT INSTITUTIONS & SHOULD THRIFTS BE CONVERTING TO BANKS?

July 19, 1990 • The Vista Hotel • New York City
September 13, 1990 • The Vista Hotel • New York City
September 20, 1990 • The Century Plaza Hotel • Los Angeles
September 25, 1990 • The Ritz Carlton • Atlanta
October 9, 1990 • The Ritz Carlton • Chicago

FIRREA has opened the doors to bank acquisitions of thrift institutions and thrift institution conversions to banks. However, it is not altogether clear what this new regulatory flexibility means and whether banks and thrifts should take advantage of these new options. This one day intensive program for bank, thrift, and other business executives, attorneys and consultants focuses on the mechanics and regulatory procedures involved in bank and non-bank acquisitions of thrifts, as well as how and whether thrifts should convert to banks.

9:15 CHAIRMAN'S OPENING REMARKS
Eric Luse, *Partner,* Brownstein Zeldman and Schomer

9:30 SHOULD A THRIFT CONVERT TO A BANK?
- What Are The Advantages And Disadvantages
- A Review Of The Bank And Thrift Charters

Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
Trent Feldman, *Partner,* Kaplan Smith & Associates (AT,LA)
Edward T. Lutz, *Principal,* Lyons Zomback & Ostrowski (NY,CH)

10:00 REGULATORY HURDLES AND CONSIDERATIONS INVOLVED IN CONVERTING A THRIFT TO A BANK...HOW CAN IT BE DONE & WHAT IS PERMISSIBLE?

V. Gerard Comizio, *Director, Corporate and Securities Division,* Office of Thrift Supervision (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
Vernon E. Fassbender, *Director for Analysis;* Comptroller of the Currency (Southeastern District) (AT)
Roy Stovall, *Director for Analysis,* Comptroller of the Currency (Northeastern District) (NY)
Donelle Wenk, *Director for Analysis,* Comptroller of the Currency (Central District) (CH)
Daniel Pearson, *Director for Bank Supervision & Analysis,* Comptroller of the Currency (Western District) (LA)

10:45 COFFEE BREAK

11:00 CONVERTING A SAVINGS ASSOCIATION TO A BANK... A CASE STUDY
Samuel J. Malizia, *Partner,* Brownstein Zeldman & Schomer (NY,CH)
James S. Fleischer, *Partner,* Silver Friedman & Taff (LA)
Robert Friedman, *Partner,* Silver Friedman & Taff (AT)

11:30 WHY SHOULD A BANK OR NON-BANK ACQUIRE A THRIFT... A STEP BY STEP REVIEW
- What Are The Economic Advantages And Disadvantages?
- Market/Geographic Expansion And Pricing Considerations

Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
T. Stephen Johnson, *President,* T. Stephen Johnson & Associates (AT)
John Mingo, *Principal,* BEI Golembe Inc. (NY,CH)
Richard Reibman, *Managing Director,* Dean Witter Reynolds, Inc. (NY,LA)

12:00 EVALUATING A THRIFT ACQUISITION...AN ACQUIRER'S PERSPECTIVE
- Regulatory, Operational & Financial Differences With Banks

12:30 LUNCH BREAK

2:00 A REVIEW OF THE REGULATORY PARAMETERS & ROADBLOCKS TO BANK ACQUISITIONS OF THRIFTS
- Interstate/Intrastate Banking Issues
- Obstacles Of State Branching Laws & How To Circumvent Them
- Healthy Thrift vs. Failing Thrift Acquisitions

V. Gerard Comizio, *Director Corporate & Securities Division,* OTS (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
John Shockey, *Partner,* Milbank Tweed Hadley & McCoy (NY,AT)
John Buchman, *Assistant Deputy Director,* OTS (NY,AT,LA,CH)

3:00 COFFEE BREAK

3:15 WHAT ARE THE STRUCTURAL OPTIONS AND CONSIDERATIONS WHEN ACQUIRING A THRIFT?
- How Should The Resulting Or Target Institution Be Chartered And Insured?
- Holding Company vs. Direct Acquisitions

Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
Peter Hamett, *Partner,* Arnold & Porter (AT,LA)
William J. Sweet, *Partner,* Skadden Arps Slate Meagher & Flom (NY,CH)

4:15 A BANK ACQUISITION OF A THRIFT...A CASE STUDY
Donald Kaplan, *Managing Director,* Kaplan Smith & Associates (NY,LA,CH)
William Moore, *President,* Trident Financial Corporation (NY,AT)

4:45 TAX AND ACCOUNTING CONSIDERATIONS
- Recapture Of Bad Debt Reserve
- Pooling vs. Purchase
- Use Of Net Operating Loss Carryovers

Roger Teurfs, *Partner, KPMG* Peat Marwick (NY)
James L. Spreng, *Partner,* KPMG Peat Marwick (NY)
Douglas McEachern, *Partner,* Deloitte & Touche (LA)
Vincent Lamuzs, *Partner,* KPMG Peat Marwick (CH)
Gerald F. Hunter, *Partner,* KPMG Peat Marwick (AT)

5:30 END OF SEMINAR

SEMINAR 5

ASSET/LIABILITY MANAGEMENT

July 20, 1990 • The Vista Hotel • New York City
September 14, 1990 • The Vista Hotel • New York City
September 21, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Sanford Rose, *Editor, Journal of Retail Banking*
Senior Columnist, American Banker

9:15 INTEREST RATE RISK MANAGEMENT

The management of interest rate risk is fundamental to sound banking practice. Banks can experience earnings, liquidity, and capital adequacy problems, if management is poorly run.

This session will deal with a number of fundamental rules in managing interest rate risk as well as develop an integrated risk management project. You will understand how risk is measured, as well as, what tools are used to measure risk. Learn how to incorporate these tools to increase bank profitability.

Ronald D. Reading, *Vice President,* First Manhattan Consulting Group

10:30 COFFEE BREAK FOR SPEAKERS AND GUESTS

10:45 LIQUIDITY

This session learn to understand what liquidity is. Where you can get it. How much it costs, and how much it is worth. Finally, learn to understand how to measure and manage liquidity.

Peter G. Manilla, *Vice President,* Bank of New York (NY)
Richard Leiderman, *Vice President,* Bank of America (LA)

11:45 THE USES OF DURATION IN ASSET LIABILITY MANAGEMENT

Technological and analytical developments in the 1990's will significantly enhance the ability to deal with risk. The methodology, tools, and implementation approach provide a more rigorous assessment of market risk.

The specific focus will be to contrast the duration approach with a new approach called risk measurement unit approach. The risk measurement unit approach captures both volatility and non-parallel shifts in the yield curve.

Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker
Robert M. Mark, *Managing Director,* Manufacturers Hanover Trust

12:30 LUNCH BREAK FOR SPEAKERS AND GUESTS

1:30 OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE NEW EXAMINATION GUIDELINES

"The OCC has alerted all bankers that they must prudently manage, measure and limit risk, and that enough capital be available to support exposure to such risk."

This session will discuss the OCC's policy on interest rate risk and how active the Office of Thrift Supervision is. The different topics which will be discussed include: risk matrix, gap reports, simulation, and duration.

Jennifer Johnson, *Developer and Administrator,* OCC

2:30 SECURITIZATION...WHEN AND HOW TO USE IT.

- Being able to securitize your own product
- Opening a secondary market
- The 144 Rule with regards to Private Placement

To Be Announced

3:30 LOWER COST OF MARKET AND THE INVESTMENT PORTFOLIO

1990 will be a year when your accounting department must be able to deal effectively with the new AICPA requirements on accounting for debt securities held as assets. A new standard expected to be issued by the AICPA with the support of the SEC and the FASB will require market value determination. The new standard will require allocating security investments among investment portfolio, held for sale, and trading account.

This session will help you understand the new requirements and the techniques required to successfully implement them.

Raymond Perry, *Partner,* Deloitte & Touche

4:30 ASSET LIABILITY MANAGEMENT INTO THE 1990'S.

This session will outline recent advances in the 1) measuring of embedded option risks, 2) measuring volatility risk exposure, 3) measureing index and credit spread risks, 4) integrating value decisions into the management process, 5) integrating risk-based capital guidelines into the risk management process.

Alden Toevs, *Principal,* Morgan Stanley & Co.

5:30 END OF SEMINAR

BANK PROFITABILITY REGISTRATION FORM

Please indicate which seminar(s) you would like to attend — (Please mail back entire form)

	SUMMER SESSION New York City The Vista Hotel Monday, July 16, 1990 — Friday, July 20, 1990	FALL SESSION I New York City The Vista Hotel Monday, Sept. 10, 1990 — Friday, Sept. 14, 1990	FALL SESSION II Los Angeles The Century Plaza Hotel Monday, Sept. 17, 1990 — Friday, Sept. 21, 1990
Day 1 **Innovative Customer Service and Sales Techniques for the Nineties**	☐ Monday, July 16	☐ Monday, Sept. 10	☐ Monday, Sept. 17
Day 2 **The Nuts and Bolts of Commercial Lending and Loan Pricing**	☐ Tuesday, July 17	☐ Tuesday, Sept. 11	☐ Tuesday, Sept. 18
Day 3 **Effective Strategies for Cost Management and Expense Control**	☐ Wednesday, July 18	☐ Wednesday, Sept. 12	☐ Wednesday, Sept. 19
Day 4 **Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks ***	☐ Thursday, July 19	☐ Thursday, Sept. 13	☐ Thursday, Sept. 20
Day 5 **Asset/Liability Management**	☐ Friday, July 20	☐ Friday, Sept. 14	☐ Friday, Sept. 21

* The day 4 conference "Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks," will also be offered in:

☐ **Atlanta,** The Ritz Carlton, Tuesday, Sept. 25
☐ **Chicago,** The Ritz Carlton, Tuesday, Oct. 9

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Innovative Customer Service And Sales Techniques for the Nineties

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Executive Vice President
First Interstate Bank

John Campi
Managing Director
Chatam Consulting Group

Michael Harden
Sales Manager
Citicorp Information Systems

John Goodman
President
TARP

Bruce Grieve
Vice President
American Express

Laura Gross
Director
American Express

Thomas Jacob
Senior Vice President
Chemical Bank

Dr. A. Lorri Manasse
President
The Cortland Group

Frank Martire
Chairman
Citicorp Information Res.

Joan Miazak
Senior Vice President
California Federal Bank

Dr. Nancy O'Brien
Marketing Consultant
Sales Devel.Assoc.

Pamela O'Shea
Vice President
City National Bank

Nicholas Papanikolaw
Vice President
Manufacturers Hanover

Charlotte Pollard
Vice President
Chase Manhattan Bank

Claire Schopler
Vice President
Chemical Bank

Dennis Stevens
Vice President
American Express

Day Two:

The Nuts and Bolts of Commercial Lending & Loan Pricing

Frank Abraham
Chief Credit Officer
Security Pacific National Bank

Gary Coelho
First Vice President
Security Pacific National Bank

Marshall Davidson
Managing Director
Kidder Peabody

David Fisher
Vice President
Loan Pricing Corp.

William Gregor
Partner
The MAC Group

Clifford Grieg
Managing Director
Standard and Poor's

Hugh T. Kempner
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Constance Kenneally
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Zeta Services Inc.

Edward McNally
Senior V.P.
National Westminster USA

Jonathan Moynihan
Managing Vice President
First Manhattan Consulting Group

Peter Offermann
Managing Director
Bankers Trust

Robert Okabe
Vice President
Kidder Peabody

Vjay C. Popot
Principal
Booz, Allen, & Hamilton, Inc.

Leland Prussia
Vice Chairman
Capitalcorp

Christopher Snyder
President
Loan Pricing Corp

Mark Solow
Senior Managing Director
Manufactureres Hanover Trust

Day Three:

Effective Strategies For Cost Management and Expense Control

James Bemowski
Principal
McKinsey & Co.

Michael Conover
President
Ryan Beck & Co. Pacific

Peter J. Darla
Senior Vice Pres.
Right Associates

Gary Gordon
Vice President
Paine Webber

Jane Hartung
Senior Vice President
Mellon Bank

Eleni Istavridis
Senior Vice President
Bankers Trust Company

Charles F. Kalmbach, Jr.
Senior Manager
Price Waterhouse

Patrick J. Leemputte
Partner
Price Waterhouse

James M. McCormick
President
First Manhattan Consulting Group

Charles H. Nobe
Senior Vice President
Bankers Trust Company

Harry H. Tatonis
Princial
Booz, Allen, & Hamilton, Inc.

Day Four:

Bank and Cross-Industry Acquisitions of Thrift Institutions
& Should Thrifts Be Converted to Banks

Peter Barnett
Partner
Arnold & Porter

John Buchman
Assistant Deputy Director
OTS

V. Gerard Comizio
Director Corporate & Securities Division
OTS

Vernon E. Fasbender
Director for Analysis
Comptroller of the Currency

Donald Kaplan
Managing Director
Kaplan Smith & Associates

Eric Luse
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Samuel J. Malizia
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John Shockey
Partner
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Roy Stoval
Director for Analysis
Comptroller of the Currency

William DJ. Sweet
Partner
Skadden Arps Slate Meagher & Flom

Donelle Ward
Director of Analysis
Comptroller of the Currency

Day Five:

Asset/Liability Management

Jennifer Johnson
Developer & Administrator
O.C.C.

Richard Laiderman
Vice President
Corporate Treasury
Bank of America

Peter G. Mantilla
Vice President
Bank of New York

Robert M. Mark
Managing Director
Manufacturers Hanover Trust Co.

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Partner
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Utah Has Opened Door to Interstate Branch Banking

By SAM ZUCKERMAN

SAN FRANCISCO — In a little-noticed decision that further erodes prohibitions against interstate branch banking, Utah authorities have allowed Bank-America Corp. to operate a Salt Lake City office as a unit of its Arizona-chartered bank.

BankAmerica has obtained full banking privileges in Utah and may open more branches if it wishes. Previous interstate branching decisions have limited the number or location of offices.

"This is the first effective creation of a multistate bank since the Civil War," said Michael Roster, a lawyer with Morrison & Foerster, Los Angeles, who worked for BankAmerica to obtain regulatory approval.

ANALYSIS: *Follow-up on the news*

Lawyers and banking regulators familiar with the case said the ruling sets a precedent that could ease the way for further interstate branching by state-chartered banks. "It's a harbinger of things to come," said James B. Watt, president and chief executive of the Conference of State Bank Supervisors.

Utah Office Purchased

BankAmerica acquired the Utah office as part of its $81 million purchase of some Western Savings and Loan Association assets and liabilities from the Resolution Trust Corp. at the end of May. Western had 61 offices in Arizona and a lone branch in neighboring Utah.

On acquiring Western, BankAmerica immediately converted it from a thrift to a state-chartered commercial bank.

As part of the package of regulatory approvals needed for the deal to go ahead, Utah's top 2 banking official formally allowed BankAmerica to operate the Salt Lake City branch as a full-service office using the Arizona charter.

Bowing to the Inevitable

George R. Sutton, the Utah commissioner of financial institutions, said he permitted Bank-America to operate with an out-of-state charter not because of special circumstances but because he believes that states must accommodate interstate branching.

Congress is considering legislation that would permit nationally chartered banks to branch across state lines. That is a signal, Mr. Sutton said, that states must get on the bandwagon.

"If states do not go along with

See **UTAH** *page* **14**

INSIDE NEWS

MANAGEMENT

MANY AIRLINES, hotels, and car rental firms are offering price breaks to banks that can guarantee some flow of travel dollars. *Page 8*

CONSUMER

CITICORP is promoting travel packages for the first time, sparking speculation about its long-term goals in the travel business. *Page 6*

INTERNATIONAL

AMSTERDAM-ROTTERDAM Bank cut its last links with Belgium's Generale Bank, paving the way for Amro's merger with another Dutch bank, Algemene Bank Nederland. *Page 12*

TECHNOLOGY

MELLON BANK CORP. is establishing common products and systems for retail operations in an attempt to cut operating expenses and adopt a uniform marketing approach. *Page 3*

WASHINGTON



RICHARD BREEDEN, chairman of the Securities and Exchange Commission, called for radical reforms in banking laws, including a dismantling of the barrier separating banking from commerce. *Page 2*

FINANCE

CITYTRUST BANCORP shares have been rising in a down market for bank stocks, and analysts are hard pressed to explain the strength. *Page 20*

COMMENT

MARKETING COSTS can be rationalized on the basis of analysis of the economic value of various loan products, writes Sanford Rose. *Page 4*

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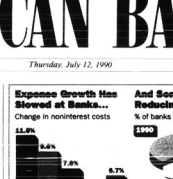


Cost Cutting Gains Momentum As Sources of Revenue Dry Up

By PHIL ROOSEVELT

NEW YORK — Commercial banks' cost-control drive, increasingly visible in recent weeks, has only just begun.

Faced with weak earnings and sluggish loan growth, banks across the country have been moving aggressively to cut their noninterest expenses, such as personnel, branches, and back office systems.

Bankers and analysts said the increased austerity will shape banks' 1991 budgets, which are now in preliminary planning stages.

"We are looking at 1991 as another year in which we will be giving a lot of attention to cost control," said J. Robert Lee, chief financial officer of First Union Corp., Charlotte, N.C. He hopes to cap cost increases to 3%, despite an expected inflation rate of 4% to 5% and hefty increases in postal rates and deposit insurance premiums.

Out-and-Out Reductions

Many banks have striven in recent years to better control the annual growth of their noninterest expenses. But now, a significant portion of the industry appears to be going a step further and actually reducing the expenses.

A recent survey of 32 banks by Trans Data Corp., an affiliate of the *American Banker*, found that 25% were cutting costs this year, by magnitudes ranging from 3.5% to 15% from 1988 levels. The greatest reductions were reported by larger banks.

Moreover, 21% of those surveyed already have plans to cut costs in 1991.

Such reductions were far more rare just two years ago, consultants and analysts said. They

See **REVENUES** *page* **8**

U.S. Files 500 Suits Against Former Bank, S&L Officials

By DEBRA COPE and BILL ATKINSON

WASHINGTON — In a dragnet that could eventually snare the son of President George Bush, federal investigators have filed more than 500 lawsuits against former directors and officers of failed banks and thrifts.

The Federal Deposit Insurance Corp. chairman, L. William Seidman, disclosed the number of legal actions in a House subcommittee hearing on Wednesday. He did not discuss the case of Neil Bush, the President's 35-year-old son, a former director of a failed thrift in Colorado.

Substantial Penalties Sought

Probes of 550 banks and 350 thrifts under the FDIC's control and 400 thrifts in the Resolution Trust Corp.'s caseload have led to the professional liability suits seeking civil penalties ranging from $1 million to $1 billion, Mr. Seidman, who is also chairman of the RTC, told the House Judiciary subcommittee on criminal justice.

Neil Bush fits in the category of those targeted by investigators sifting through the ruins of failed institutions. The younger Mr. Bush was a director of the defunct Silverado Banking, Sav-

See **500 SUITS** *page* **11**

U.S. Orders 20% Writedown on Latin Lending

By JAMES R. KRAUS

NEW YORK — Regulators ordered U.S. banks on Wednesday to write down their medium- and long-term loans to Argentina and Brazil by 20% in the third quarter.

The writedowns will have no immediate impact on earnings, since banks will use existing reserves against loan losses to cover them, bankers and analysts said. However, the move may force some banks with low reserves – including Citicorp and Chase Manhattan Corp. – to replenish them later.

Total of Lending

U.S. banks had outstanding loans of $16.3 billion to Brazil at yearend, of which nearly $10 billion are medium and long term. Loans to Argentina totaled $4.5 billion, of which $3.4 billion are

See **ORDERS** *page* **12**

U.S. Banks Increase Dominance In Global Syndication of Loans

By JOHN EVANS

LONDON — U.S. banks are tightening their grip on the international loan-syndication market this year, a British magazine survey shows.

Nine of the top 10 global loan syndicators in the first half of 1990 were U.S. banks, according to *International Financing Review*, an *American Banker* affiliate. U.S. banks took six of the top 10 positions in the first six months of 1989.

The U.S. dominance of the global syndication business came despite a 30% drop in corporate borrowing at home, to $68 billion from $97 billion in the same period a year earlier. European funding expanded 13.5% to $46.3 billion from $40.8 billion.

Total syndicated lending in the first half dropped 18% to a total of $136.8 billion from $167.4 billion a year ago, the

See **U.S.** *page* **12**

The Global Leaders

International loan syndications for the first half of 1990

Bank	Volume (billions of dollars)	Number of deals
Citicorp	$31.1	42
Chemical	16.4	24
National Westminster	14.7	33
J.P. Morgan	14.6	13
First Chicago	10.6	22
Bank of America	12.5	24
Manufacturers Hanover	10.0	45
Bankers Trust	9.9	21
Chase Manhattan	9.7	35
Continental Bank	8.8	12

Source: International Financing Review

PEOPLE *in the news*

Patrick Weber Takes Helm Of Norwest Mergers Unit

By NANINE ALEXANDER

At a time when many banks are scaling back investment-banking activity, Norwest Corp. is expanding. Last week the Minneapolis-based bank holding company named Patrick J. Weber to head mergers and acquisitions in its financial services group.

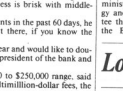
Mr. Weber, 32, becomes a vice president of the company's lead institution, Norwest Bank Minnesota. In the new mergers and acquisitions unit, he will work with buyers or sellers, assist in finding financing, and provide fairness opinions.

Mr. Weber agreed that many observers say the pace of mergers is declining. But he pointed out that business is brisk with middle-market companies in the upper Midwest.

Norwest has signed six new fee agreements in the past 60 days, he said. "There are pockets and money out there, if you know the market."

The company handled eight deals last year and would like to double the number, said James R. Campbell, president of the bank and head of corporate banking.

Norwest Bank's fees are in the $50,000 to $250,000 range, said Mr. Campbell. "We're not getting the multimillion-dollar fees, the big home runs, but we're getting solid base hits."



Patrick J. Weber

Norwest represents both buyers and sellers. But Mr. Weber said it is more common for his unit to represent the sell side.

He cited the printing industry as one that is consolidating. He said other regional middle-market industries that make up Norwest's market include food, agribusiness, basic manufacturing, and high technology.

The Norwest unit is concentrating for the moment on expanding its sources of referrals. Internally, Mr. Weber hopes to tap the bank's relationship managers. For outside sources, he looks to lawyers, accountants, and other banks.

Mr. Weber, a Michigan native, has lived in Minneapolis in the past. He moves to Norwest from Salvio & Co., the investment-banking arm of John Hancock Insurance Co., based in Los Angeles. While there he handled several transactions that used Pacific Rim financing, including Japanese investors.

An Avid Runner, Tennis Player, and . . .

Prior to Sutro, Mr. Weber managed the West Coast mergers and acquisitions office for KPMG Peat Marwick from 1983 to 1988. He joined Peat Marwick as an auditor after graduation from Michigan State University in 1980.

An avid marathoner, Mr. Weber said he lost 20 pounds of fluid running the Long Beach, Calif., marathon in the 90-degree heat last May. He was pleased because it qualified him for next year's Boston marathon. In the meantime he plans to run the Twin Cities marathon this October.

He also plays tennis and competes in volleyball tournaments. Mr. Weber said his wife is a personal trainer and sales representative for a fitness-equipment company, perhaps explaining why he also lifts weights. □

NEWS *briefs*

Bankers Trust New York Announces an Elite Group

NEW YORK — The banking unit of Bankers Trust New York Corp. on Wednesday announced that it has established a corporate finance group of elite managers to initiate, develop, and maintain relationships with corporate and individual clients.

The group will be headed in New York by Scott C. Marden, a managing director who coordinates the bank's cross-border and media merchant banking efforts. Bankers Trust, which two weeks ago slashed its corporate finance staff by 10%, said it has recruited the bank's "most senior managers" for the group.

Bank's ESOP Raises Stake To 10% of Company Stock

BELLEVUE, Wash. — First Mutual Savings Bank said its employee stock ownership plan had increased its stake in the bank to 10.7%.

The ESOP disclosed in a filing with the Federal Deposit Insurance Corp. that, from June 22 to July 9, it bought 60,500 shares, increasing its ownership to 148,880 shares, the bank said.

— Reuters

Kansas Thrift to Reserve Against Big Loan Losses

OVERLAND PARK, Kan. — Western Financial Corp. said its principal subsidiary, Columbia Savings Association, will take unspecified material charges against earnings to cover loan and real estate losses and to add to loan-loss reserves.

The company said it will charge off loans that will significantly exceed Columbia's current $1.8 million loan-loss reserve. The charges will be set after an examination by the Office of Thrift Supervision.

— Reuters

Breeden Asks Radical Bank Reform

Urges Repeal of Wall Between Finance, Commerce

By ROBERT M. GARSSON

WASHINGTON — Securities and Exchange Commission Chairman Richard Breeden called Wednesday for radical reform of banking laws, including a dismantling of the barrier between banking and commerce.

Mr. Breeden, who has been President Bush's closest adviser on financial services industry issues since Mr. Bush's days as Vice President in the Reagan administration, told a House Energy and Commerce subcommittee that the Glass-Steagall Act, the Bank Holding Company Act, and laws restricting interstate banking should be rewritten, if not repealed.

The 1933 Glass-Steagall Act prohibits commercial banks from involvement in investment banking, and the 1956 Bank Holding Company Act erects a barrier that prevents banks from owning or affiliating with nonfinancial companies.

Mr. Breeden outlined a system under which the barrier to affiliations with a variety of financial and nonfinancial companies would be largely repealed.

With his characteristic caution, Mr. Breeden declined to say after his testimony how his reform approach compares with others under discussion, such as the proposed Depository Institutions Affiliation Act, which would effectively repeal both Glass-Steagall and the Bank Holding Company Act.

But he repeatedly criticized both laws, which he said impose "avoidable regulatory costs, or reduce liquidity and efficiency of U.S. financial firms and markets."

On a related issue, Mr. Breeden also told the House panel

See **BREEDEN** *page 17*

Loans a Worry in Norwest-United Talks

By NANINE ALEXANDER

A Norwest Corp. acquisition of United Banks of Colorado Inc. has the potential to be a minefield, but if properly structured, the benefits could be great, analysts said.

The two companies announced late Tuesday that they were discussing a merger but emphasized that agreement was not assured.

Analysts said the biggest problem is United Banks' poor asset quality. The $6 billion company's loan-loss reserve of $72 million is only 40% of the $180 million in nonperforming loans. Its ratio of nonperforming loans to total loans at the end of March was 5.7%.

Price Must Be Right

Pointing to Norwest's track record, industry watchers were convinced that a deal would go forward only if the price were right.

"Norwest is not going to do a dumb deal," said James Rosenberg, analyst at Sheraton Lehman Hutton Inc. Any combination would almost assuredly be for stock. Mr. Rosenberg said Minneapolis-based Norwest could be expected to make 100% reserves against nonperforming loans a condition of the agreement.

Describing United Banks as underlisted and deposit rich, Richard J. Tejera, who follows the bank for Dain Bosworth Inc. in Seattle, said the Denver company offers good earnings potential in the right hands. He said that, assuming adequate reserves are factored into the purchase price, deposits could be turned into earning assets fairly quickly.

Deal Makes Sense

Steven Schroth, managing director of research at Piper Jaffray & Hopwood Inc., said the discussed acquisition by Norwest made sense, since Norwest wants to enter Colorado.

But other companies may be interested in acquiring the Denver company, analysts said. Colorado's bigger date for national interstate banking is Jan. 1, and banks from other states, specifically California, might show interest, they said.

As a unit-banking state, the options for establishing a franchise in Colorado are limited.

Ben Crabtree, at Dain Bosworth's Minneapolis office, said Norwest would need to wring 20% in cost savings out of United Banks and make sure no large increase in nonperforming loans was looming. If those conditions are met, he said, he could see a stock price of as high as $30 a share.

Under such a scenario, Mr. Crabtree said, he would expect 5% earnings dilution in the first year and nothing in 1992.

Confidence in Johnson

Analysts expressed confidence in the ability of Norwest chief executive Lloyd P. Johnson, who they described as an aggressive cost-cutter.

Mr. Johnson left Security Pacific Corp. in 1985 to take over at Norwest, when the company was struggling with sour agricultural loans and high costs. In about a year, staff was cut from 19,000 to 15,000. Since then, assets have grown from $20 billion to $26 billion. □

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TECHNOLOGY NEWS

Fleet/Norstar to Automate Branches with NCR System

By KAREN GULLO

NEW YORK — Fleet/Norstar Financial Group Inc. has signed a $10 million contract with NCR Corp. to automate its branches in New York and plans to spend a similar amount to update its New England systems over the next three years.

In New York, Fleet plans to install 1,400 personal computers and accompanying software from NCR to facilitate loan processing, the opening of new accounts, and cross-selling of products. The move is Fleet's first attempt to bring state-of-the-art branch technology to its banks in Albany, Buffalo, and Syracuse and on Long Island.

The $37 billion-asset banking company, which is based in Providence, R.I., operates 300 branches in New York, mostly upstate. But Fleet has captured only a small share – about 3% at the end of 1988 – of the state's giant consumer banking market.

Productivity Is Goal

The new system is designed to improve the productivity of platform and branch personnel, sales culture, and improve customer service – and it could go a long way toward helping Fleet gain market share.

Many large banks are following a similar route by installing PC-based branch automation systems that offer greater functionality and flexibility than controller-based systems. Bank of America, San Francisco, and Manufacturers Hanover Trust Co. are among the institutions installing thousands of PCs in their branches.

Though Fleet has lagged in moving to branch automation, it believes the timing of its shift will be an advantage.

Older Technology

"A lot of banks have a financial commitment to older technology," said David Shepherd, executive vice president of Fleet/Norstar Services Corp., the company's automation and operations unit. "We have a chance to start fresh."

Fleet plans to install NCR's FTS II branch automation system at 155 New York branches by yearend and equip the rest of then New York branches by mid-1991.

The new system will be installed in 260 New England branches next year, replacing some older controller-based branch automation equipment from ISC-Bunker Ramo and International Business Machines Corp.

> **Fleet believes the timing of its shift will be an advantage.**

Initial Cost $10 Million

The initial $10 million contract covers the installation of systems in New York. The systems for banks in Rhode Island, Maine, and Connecticut represent an additional $10 million investment.

Fleet chose NCR after evaluating systems from American Telephone & Telegraph Co., IBM, ISC-Bunker Ramo, and NCR. Mr. Sheppard said NCR offered the best price, adding that the system had a strong set of core software programs.

"The question we fought with was whether to buy a total automation package or a tool that we could use to build our own platform automation," said Mr. Sheppard. "The NCR system has the automation, some of which we will modify to suit our needs." □

Mellon Unifying Retail Network

Objective Is to Cut Operating Cost, Tighten Control

By RICHARD LAYNE

NEW YORK — To cut operating expenses and adopt a uniform marketing approach a la McDonald's, Mellon Bank Corp. is establishing common products and systems for retail operations.

Joining the vanguard of banking consolidators, Mellon will bring all its Pennsylvania banking affiliates, the 54 recently acquired PSFS branches, and its Maryland bank onto a common back-office and branch-automation system by 1992.

The system is already in use at its major banks in Pittsburgh, Philadelphia, and Delaware.

The McDonald's Approach

Bankers sometimes call the move to such common systems and products the McDonald's approach, referring to the fast-food chain's reputation for uniformity at outlets around the world. Mellon executives said common systems will save the Pittsburgh-based banking company hundreds of thousands of dollars in annual operating costs and would increase management's control.

"Without a common set of applications with a common product agenda to chose from," said Richard A. Gaugh, Mellon vice chairman. "To get the efficiencies from the affiliate banks, we've got to do this."

Until recently, state banking regulations prevented Mellon from consolidating its Pennsylvania affiliates into a single charter.

Conversions Planned

Mellon now plans to convert the affiliates to branches, easing centers into two. Even before the recent Pennsylvania announcement, Mellon had begun to convert the Maryland bank to its systems.



> **"The system will give you the ability to monitor the effectiveness of your operations."**
> **Richard A. Gaugh**
> *Mellon Bank Corp.*

Other major banking companies, including Banc One Corp., Columbus, Ohio, and First Union Corp., Charlotte, N.C., believe common systems are critical to a superregional bank's survival.

"To succeed as a big regional bank, you have to have common systems, common products, and reduce the number of data centers," said Charles G. Klapheke, director of automation at First Union, which will finish bringing all affiliates onto a common system for both retail and wholesale by 1992.

A Uniform Voice

"The real objective is that when you are talking to customers, you speak with the same voice in all your markets," said John Russell, a vice president of Banc One, which offers a common slate of products for its affiliate banks in Ohio, Indiana, Michigan, and Kentucky.

Mr. Gaugh said by next week Mellon will have settled on the retail products it will offer at all its Pennsylvania banks. "We are trying to make these like a McDonald's standard set," said Paul Nussbaum, first vice president. Local managers will be able to price their services for their markets.

By the third quarter of 1991, the three Pennsylvania banking affiliates, along with the newly acquired PSFS branches, will run on a consolidated back-office system that already handles Mellon's banks in Pittsburgh and Philadelphia.

Ready for Acquisitions

"After we are through with this conversion, we can go into [potential acquisitions] with a knowledge of how we run a branch, what products to offer, and what functions we have in our branch automation," said Mr. Gaugh.

The consolidation may pave the way for better management control of affiliates.

"The system will give you the ability from a central site to monitor the effectiveness of certain facets of your operations," said Mr. Gaugh. It is difficult to interpret a bank's lending exposure, for instance, by comparing reports gleaned from two separate units.

Under Mr. Nussbaum, Mellon is working on the technical details of converting the 54 PSFS branches onto the system running at Mellon East.

The PSFS branches are also extremely costly to run. Under an existing contract, EDS Corp. provides processing services for their 800,000 accounts. Mr. Nussbaum said that converting the PSFS systems to the Mellon system would save the banking company $1 million a month. □

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NEWTREND. A Step Ahead.

COMMENT / *By Sanford Rose*

Determining Loan Values And Marketing Outlays



How much money should a bank spend to market a given type of loan? At most banks marketing expenditures depend more on educated guesses than on scientific evaluations. Yet it is possible to rationalize marketing costs based on an analysis of the economic value of various loan products. Such an analysis will reveal the amount of money that can be allocated to product sourcing or marketing while still preserving an acceptable level of loan profitability.

To determine the appropriate level of marketing expenditures, banks must do a capital-budgeting analysis of loan types, taking into consideration their size, term to maturity, interest rate, the expenses involved in booking and servicing, expected losses, and the cost of both the internal and external funds used to finance them.

As pointed out by Michael Lenora, vice president for marketing at The Walter Latham Co., a direct-marketing agency specializing in financial services and domiciled in Broadview, Ill., determining the economic value of a loan is conceptually similar to determining the value of the lender. Both values depend on discounting a complete set of future cash flows by the appropriate cost of capital.

Determining Discount Rates

The value of a loan is determined by comparing the discounted present worth of the cash flows it will generate in the future with the current cost of making the loan. The trick, of course, is to choose appropriate discount rates.

Since a lender assembles funds from both outside creditors and shareholders, he must discount future cash flows at rates that provide acceptable returns to each class of funds provider. The rate of return demanded by outside creditors is the rate of interest at which they lend. The return demanded by equity holders is determined by the opportunity cost of equity – the return that could have been earned had the shareholders put their money in other equity investments of comparable risk.

Thus the appropriate discount rate is a composite number, reflecting both the cost of debt and the usually much higher cost of the equity component of investable funds. If the discount rate is properly computed, it already incorporates the return required by debtholders and that which is minimally acceptable to shareholders.

Generating Excess Returns

Hence the lender is justified in making the loan if the discounted present worth of its net cash flows (future revenues minus initial and future expenses) is just equal to the loan size. If the present value of the net cash flows exceeds the loan size, the lender is generating excess returns, which can be retained, serving to boost stock values, or else earmarked to appropriate marketing expenditures. Ideally, the level of permissible marketing outflows emerges as a by-product of a careful discounted cash-flow analysis.

Mr. Lenora of The Walter Latham Co. has analyzed the excess returns, or permissible marketing costs, available from installment loans of various types and terms. He finds, for example, that for installment loans of $10,000 made at an 18% rate of interest for 48 months, the excess value, assuming 4% losses, $50 initial booking expense, and $12 monthly maintenance, amounts to about $445.

In other words, $445 is the

See **COMMENT** *page 5*

THE LOBBYISTS

Common Cause Lists The D.C. Recipients Of Columbia Largees

California's **Columbia Savings** and Loan, the once high-flying Beverly Hills thrift now under scrutiny by authorities, was uncommonly generous in its political contributions, according to a study by **Common Cause**, the self-proclaimed "citizens lobby."

In the nine-year period ended in April, Columbia executives and their spouses gave a total of $284,900 to congressional candidates and political party committees, the study found.



Louise Kraft

Rep. Donald W. Riegle
Michigan Democrat

The top recipient was Senate Banking Committee Chairman Donald W. Riegle, D-Mich., who also received large contributions from individuals associated with the failed Lincoln Savings and Loan, Irvine, Calif.

Mr. Riegle received $29,000 from Columbia executives and spouses, beating out Sen. Jake Garn, R-Utah, who received $25,200 during the period under study. Mr. Garn is the committee's ranking Republican and was its chairman.

The Common Cause disclosure comes after the Office of Thrift Supervision filed civil action against Columbia and former chairman Thomas Spiegel. The OTS wants to collect $24 million that it alleges Mr. Spiegel squandered on corporate jets, lavish bonuses, vacation condominiums, and other extravagances.

While Mr. Spiegel and his associates paid closest attention to the Senate Banking Committee chairman and ranking Republican, other members were treated well.

Next in line were Sen. Timothy E. Wirth, D-Colo., with $17,500; Sen. Bob Packwood, R-Ore., $17,000; Sen. Pete Wilson, R-Calif., $15,500; Sen. Alan Cranston, D-Calif., $13,500; Sen. Howard M. Metzenbaum, D-Ohio, $11,000; and Sen. Alfonse M. D'Amato, R-N.Y., $7,000. Mr. Wirth, Mr. Cranston, and Mr. D'Amato are members of the banking committee.

House members made the list too. Rep. Howard L. Berman, D-Calif., received $5,000, while Rep. Lee H. Hamilton, D-Ind., and Rep. Carroll Hubbard Jr., D-Ky., both got $4,000.

Former Rep. Fernand J. St Germain, D-R.I., the chairman of the House Banking Committee until his defeat in 1988, received $15,700.

The Democratic party fared even better. The Democratic National Committee and the two Democratic campaign committees received a total of $66,850, Common Cause said. The Republican National Committee received $1,000. But for anyone feel sorry for the Republicans, Common Cause said Mr. Spiegel made a soft-money contribution of $100,000 to President Bush's 1988 campaign.

* * *

Bank Directors Take Aim at Crime Bill

A fledgling trade group representing bank directors has charged that a crime bill sponsored by Chalmers P. Wylie, R-Ohio, could drive away directors from serving on boards of banks and savings and loans.

The **American Association of Bank Directors** is taking issue with several provisions in the Financial Crimes Punishment and Prevention Act of 1990, backed by such heavyweights as House Banking Committee



Louise Kraft

Rep. Chalmers P. Wylie
Ohio Republican

Chairman Henry B. Gonzalez, D-Tex.; Frank Annunzio, D-Ill., and Doug Barnard Jr., D-Ga.

In short, the legislation cracks down on bank and S&L executives who commit financial crimes.

Although it agrees with the spirit of the law, the association charges that the legislation is drafted so broadly that unwitting directors who sit on the board of a failed institution could have their assets frozen as well as tax returns released to banking agencies.

"It [the legislation] is overly broad," said David H. Baris, executive director of the Washington-based trade association. "Those directors who read it carefully will be scared."

Mr. Baris said the association believes that freezing assets may be unconstitutional. Mr. Baris said the group has about 200 members, but he would release only the names of the association's advisory committee, which includes Alfred M. Pollard, director of federal government relations, Security Pacific Corp.; Dana H. Cook, partner and national director of financial institution capital markets, **KPMG Peat Marwick**; and William Resnik, senior counsel of Seattle-based **Seafirst Bank**.

The association also takes issue with with an amendment made to the legislation on June 28 that increased the financial risk to directors. The House Banking financial institutions subcommittee took the action without holding a hearing.

According to the association, the amendment permits a banking agency to have a court issue a restraining order prohibiting any party subject to a civil cease and desist order or other actions from withdrawing, transferring, or disposing of assets.

The association has requested a hearing.

* * *

Laundering Bill Gets Thumbs-Up from ABA

The banking community is originally pleased with the Senate version of money-laundering legislation that will be considered by the Senate Banking Committee on July 17. In particular, the **American Bankers Association** is pleased with a new provision that shields a company from liability if it acquires an institution that violated money-laundering laws.

However, the trade group listed a number of concerns in a June 26 letter to Sen. Donald W. Riegle, D-Mich., the banking committee chairman. For example, the bill's removal provisions may be too harsh, the ABA said.

"While removal authority is justified for individuals who violate money-laundering laws, removal for record-keeping violations of the Bank Secrecy Act may be in the majority of cases inappropriate and in our opinion should be addressed through civil penalties," the letter said.

— Robert M. Garsson and Bill Atkinson

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LETTERS *to the editor*

Idea of Seizing, Selling Mutuals Is Condemned

To the Editor:

The proposal set forth by Reid Nagle and Kevin Stiroh in the July 5 issue ("Auction of Mutual Thrifts Could Raise Billion Fast," page 14) ignores the legal system's protection of mutual savings institutions. It also ignores simple economics and the role played by mutuals in their communities.

Proposal Seen as Illegal

First, let us deal with the legalities.

Mr. Nagle and Mr. Stiroh are proposing the confiscation of property simply because institutions are mutually held rather than held by stockholders or other private owners. The authors blithely ignore the court cases and other legislative and regulatory barriers to such confiscation, including Constitutional provisions such as due process, equal protection under the law, and prohibitions against the government's taking private property.

COMMENT

Continued from *page 4*

amount the lender can theoretically spend to source such loans while still covering all expenses and maintaining an acceptable rate of return.

A Highly Sensitive Number

This figure is based on a finance-company leverage ratio of 7-to-1 and therefore a weighted average cost of capital of 11.03% – a combination of an 8% cost of external funds and an expected pretax return on equity funds of 30%. If bank leverage ratios, which are often much higher than finance-company ratios, had been used, the weighted-average cost of funds would have been lower and thus the net present value of the loan would have been higher, justifying larger marketing outlays.

In practice, of course, the net present value of loans is highly sensitive to changes in loan characteristics. The larger the loan size, the larger the excess return because while interest earnings rise, maintenance and booking expenses remain fixed. Similarly, of course, the higher the loan rate and the lower the expected losses, the higher is the excess return.

Lower loan rates eviscerate the feasible marketing effort. For example, if we drop the rate from 18% to 16% and hold everything else constant, the amount of feasible marketing dollars tumbles from $445 to only $44.

Mr. Lenora's point is simply that the level of appropriate marketing expenses need not be based on seat-of-the-pants judgments. A more informed estimate can be made through the use of discounted cash-flow analysis. A detailed review of the methodology for determining loan values will be published in the fall issue of the *Journal of Retail Banking.*

Secondly — though perhaps it is a means to distract us form the first problem — Mr. Nagle and Mr. Stiroh have developed a peculiar scenario under which this confiscation is to take place. They equate confiscation with either the conversion of a mutual to stock or its immediate merger with another institution, then propose the government as the beneficiary.

But even if their proposal were legal, the economics simply won't work. The conversion of a mutual institution to stock is a way to raise capital.

What a Bid Means

Let us say, for example, that the total bid for stock in a healthy mutual is $10 million. This $10 million stays with the institution and becomes new working capital to expand loan or investment activity or to raise the existing capital level.

In fact, the new stockholders are bidding on the basis of the knowledge that they will have their $10 million plus the existing institutional value through which a return on that investment will be generated.

Value Would Be Reduced

Clearly, if the government states beforehand that it will confiscate the vast majority of the new institution's value, bidders would pay little if anything for the package. In fact, the package value would be reduced by at least the amount of the proceeds given to the government.

Another way of looking at this problem would be to ask the market what it would pay for an institution if the government took its cut out of the retained earnings before the conversion took place. Clearly, the amount bid would be reduced precisely by the amount of the government cut.

The Role of Mutuals

Legalities and economics aside, there is a third and perhaps most important reason for preserving mutuals: They play an important role in the communities they serve.

State-chartered mutual savings banks have served local communities for over 175 years. The overwhelmingly majority are solvent, successful, and crucial to the economic needs of individuals and smaller businesses in cities and towns across the country.

Mutuals have worked hard to ensure their strong financial position; on average, their tangible capital it approximately 8.5%. They are conservative. They are very well managed.

In a period of crisis in the financial industry, we believe that many could benefit from studying the managerial and operational accomplishments achieved by mutual institutions. Further, we believe that mutuals can serve as a model during the current evolution of our industry. They should not be a target for misleading speculations such as the Nagel-Stiroh proposal.

Janet M. Pavliska
Chairman
National Council of Savings Institutions
President
Bank Five for Savings
Arlington, Mass.

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MARKETING/ADVERTISING

Banks Push Brand Identity To Stand Out from the Pack

By ELLEN MEMMELAAR

Recognizing that many consumers still view financial institutions as commodity operations, some large banking companies are trying to differentiate themselves through brand-identity campaigns.

BankAmerica Corp., Chase Manhattan Corp., and Citicorp all appear knee-deep in brand-identity development. Such efforts closely link a symbol or logo with all the institution's products. In more traditional campaigns, institutions merely try to project a positive image.

"Institutions are not building brand identity clearly into their advertising," said Tyrus Ragland, president of Message Factors, a marketing and research firm based in Memphis, Tenn. The name of the bank is often not clearly tied to the campaign or the product being promoted, he said.

Mr. Ragland's research indicates that the typical advertising campaign for a major financial institution generates some sort of awareness among about one-third of consumers.

Of consumers who say they have seen, read, or heard such campaigns, only 14% can identify the financial institution, and 34% believe another institution did the advertising, Mr. Ragland said.

Clearly, financial companies need to explore alternative advertising styles if they are going to succeed, he said.

> "Symbols are very powerful. We've seen it work for our competitor."
>
> Lucille Deluilis, *BankAmerica Corp.*

The surge in interest in brand identity has other explanations, as well. Financial institutions tightening their belts are attracted by the effectiveness and efficiency of a brand-identity campaign, which combines elements of image and product advertising, said Michael Sullivan, a Charlotte, N.C.-based consultant.

The maturing of the credit card market is also forcing institutions to focus more on their bread-and-butter products, he said.

"With branding, there is a real understanding that many products are mature," said Mr. Sullivan, and brand and product differentiation is more important in mature markets.

BankAmerica Will Bring Back Its Eagle

BankAmerica, which gave its eagle symbol a vacation five years ago, is calling it back into action for an all-encompassing campaign, said Lucille Deluiis, vice president and director of regional advertising. A series of television advertisements in coming months will feature the eagle. After its reintroduction, the eagle will become a unifying device in all the bank's advertising, including print, she said.

"Symbols are very powerful," said Ms. Deluiis. "We've seen it work for our competitor."

The competitor is Wells Fargo & Co., whose stagecoach debuted in 1964 and has rolled through the banking company's advertising ever since. Banks are just beginning to recognize the value of brand identities, said William McEuen, senior vice president and director of strategic planning at McCann-Erickson, San Francisco, a subsidiary of the Interpublic Group of Companies Inc., which handles Wells' advertising.

Campaigns Termed Expensive

"Developing [a brand-identity campaign] is an expensive thing," said Mr. McEuen. "Not all have the willingness to go through with it now." Brand campaigns must last through management changes, budget cuts, and changes in taste, he said.

Robert Visini, McCann-Erickson vice president and management supervisor, said establishing an image means an institution needn't be first in the marketplace with everything. Rate wars and market downturns become less costly for the institution that has established a firm presence in consumers' minds, he said.

Chase Manhattan, Citibank Consider Brand Campaigns

Both advertising executives warned that building an image isn't as simple as going out and getting one. "A me-too image is no better than a me-too product," said Mr. Visini.

On the East Coast, news of Chase Manhattan's search for an advertising agency to create a brand campaign surfaced last week right after similar reports from Citibank.

Chase will consolidate mortgage, credit card, and other products under a single advertising theme, said Aubrey Hawes, a vice president who is corporate director of advertising and promotion. Details of Citibank's plans are sketchier, but the campaign is said to be under development at N.W. Ayer & Son Inc., the bank's advertising agency of record.

Unlike the more common television-based image campaigns, brand-identity campaigns of the 1990s will be direct-response oriented, said Mr. Sullivan, the North Carolina consultant.

While television has a high impact, TV commercials are too general and lack a feedback mechanism, he said. More marketers will incorporate brand identities into direct-response print advertisements, mailings, and toll-free numbers, he predicted. □

Citicorp Moves into Travel Industry

Bank Joins Others in Bid for Piece of Market

By ELLEN MEMMELAAR

NEW YORK — Citicorp is promoting travel packages for the first time, sparking speculation about the banking company's long-term goals in the travel business.

Last month, Citicorp mailed fliers to select gold MasterCard and Visa cardholders promoting luxury weekend trips to London, the Rockies, and the Cayman islands.

The company's new service, called the Personal Travel Portfolio, is being organized through Citicorp Information Management Systems, a small travel information subsidiary based in Connecticut.

The banking company hopes to continue providing travel packages to credit card customers, said a Citicorp spokesman, and will add more trips to its roster. The spokesman denied that the institution was making a big push into the travel business, though industry observers say it appears to be doing just that.

"Citibank appears to be testing the waters with a Citibank-branded travel approach," said Les Dinkin, a Westport, Conn.-based consultant. "They're bringing their technology, operations, consumer data base management, and consumer services marketing expertise to bear."

Citicorp will offer a variety of services in a bid to attract consumers and generate more fee income, said Ronald Mandle an analyst with Sanford C. Bernstein & Co. "The bank is trying to capture more of the consumer financial services spending," he said.

Citibank, however, is prohibited from opening a full-fledged travel agency.

In 1978 the Office of the Comptroller of the Currency ordered nationally chartered banks to divest their travel agency operations within three years and prohibited them from setting up new travel agencies.

Despite the restrictions, some observers see a growing opportunity for national banks that are willing to elbow their way into the industry and fight to have the 1978 restriction repealed.

"The regulation was not based on a reasoned analysis," said Robert Kurucza, a partner at Morrison & Foerster. "It's unfortunate that it is out there."

> **About 100 thrifts and state-chartered banks have travel subsidiaries.**

Mr. Kurucza believes that the Comptroller should and will take a second look at the issue. He also has high hopes for legislation in 1991 that would loosen the reigns on bank activities.

Many Banks in Travel Field

More than 7,000 financial institutions, including national banks, offer some type of travel service to their customers. Many of these institutions, however, are simply promoting packages created by outside agencies.

About 100 thrifts and state-chartered banks have travel subsidiaries with a full menu of offerings. Dollar Dry Dock Bank, New York, and Washington Mutual Savings Bank, Seattle, are among the institutions to have entered the business in the past five years in hopes of becoming a one-stop shopping center for their customers.

New York-based Dollar Dry Dock is especially eager to expand its travel customer base and plans to acquire two travel agencies in 1990.

Future Remains Uncertain

Even though some financial institutions are dodging restrictions and forging ahead, the future of bank-owned travel agencies remains uncertain.

The business has undergone a dramatic change in the last decade from a "cottage industry" into one with big players and deep pockets. American Express Travel Related Services Co. has blossomed into a dominant financial/travel services company, with travel agencies, travelers checks, money exchange centers, and other programs.

"Because of generally restrictive laws for bank-owned travel agencies and the limited returns on investment for travel agencies in general, we do not anticipate additional banks expanding into the travel industry," said Diane Steeman, president of Banc One Travel, a subsidiary of Bank One.

Competition Not Welcome

The travel industry is much opposed to banks and thrifts expanding in the travel business and has lobbied Congress to prevent such actions.

"Much of the savings and loan crisis was due to financial institutions getting into businesses that are low profit and highly risky," said Lonnie Johns, president of Travel Consultants Jacksonville, Ill., based company. "The last thing we need is for banks in Illinois to get involved in a low-profit and risky business." □

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Bank Travel Agencies Seek More Corporate Accounts

By ELLEN MEMMELAAR

NEW YORK — Financial institutions with travel agencies are looking to boost profitability by creating a mix of corporate and retail accounts that guarantees a stable cash flow.

"I think that many banks have missed the boat on this," said Joy Cristell, president of the Bank Travel Marketing Group, a subsidiary of JMS Enterprises, Edison, N.J. "Good, solid corporate accounts for travel will bring in the money."

Changes May Be Coming

Most banks and thrifts with travel agencies have concentrated on leisure accounts and their existing customer bases, Ms. Cristell said. But that may be changing.

Dollar Dry Dock Bank, which established its travel service unit in early 1989, has begun soliciting corporate customers, said Steven Safaway, first vice president of planning and future technology for the New York institution.

One-Stop Shopping

Its entry into travel services was spawned by a desire to provide "one-stop shopping" for services, including brokerage

> "Good, solid corporate accounts for travel will bring in the money."
>
> Joy Cristell, *Bank Travel Marketing Group*

transactions. Six of Dollar Dry Dock's 23 branches now have a two-person travel center.

The travel service's client mix is about 90% retail and 10% corporate, Mr. Safaway said.

60-40 Seen Ideal Mix

Ms. Cristell, whose trade group has more than 300 members, said travel agencies should have 60% corporate accounts and 40% leisure travelers. Corporate travel generally occurs when leisure travel is slowest – between holidays and during the winter.

Dollar Dry Dock hopes to duplicate the successful mix of American Express Travel Related Services Co. by selling travelers checks, money exchanges, and other banking products to travel customers.

"We want the consumer to buy things other than investments," Mr. Safaway said.

First Alabama's Plans

First Alabama Travel, a subsidiary of First Alabama Bancshares Inc., is also targeting the corporate market, said Betty Howe, manager of the operation. The Birmingham-based company has travel service centers in four bank locations.

"We are looking for a balance" of corporate and leisure travelers, Ms. Howe said. "It would be nice to get some larger accounts. But that takes time."

The travel agency is also evaluating the relative profitability of various sizes of accounts, she said.

Fixed Focus

Mutual Travel Corp., a subsidiary of Seattle-based Washington Mutual Savings Bank, focused on garnering corporate accounts from the day it was launched in 1985, said Robert Dunlop, president of the travel subsidiary.

Corporate accounts represent 50% of its business, leisure travel accounts for 35%, and group travel the rest. □

AMERICAN BANKER /Bank Rate Monitor's™ Consumer Money Index — Auto, personal and credit card rates

Market	CREDIT CARD INTEREST 7/9/90	CREDIT CARD FEES 7/9/90	AUTO 7/9/90	PERSONAL 7/9/90
New York	19.39	19.39	10.71	16.71	13.79	13.79
Los Angeles	19.16	19.16	20.06	20.06	13.18	13.18
Chicago	18.65	18.95	17.10	17.10	11.66	11.66
San Francisco	19.74	19.74	20.06	20.06	12.80	12.80
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Detroit	18.00	18.00	15.83	15.83	12.03	12.00
Boston	17.35	17.35	17.50	17.50	12.93	12.93
Houston	19.12	19.12	15.56	15.56	11.63	11.63
Dallas	19.17	19.17	16.87	16.87	11.51	11.51
Washington D.C.	18.71	18.71	16.55	16.55	11.45	11.46
BRB Index	18.64	18.64	17.29	17.28	12.29	12.29

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered in the same institutions. Auto loan rates are for a $15,000, 48-month new-car loan with a 20 percent down payment. Personal loan rates are for a $5,000 unsecured personal loan with a 24-month term. Credit card rates are for major national only and do not take into account differing annual fees or grace periods.

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LOWEST PERSONAL LOAN RATES	7/9/90
First Pennsylvania, Philadelphia	12.65%
Philadelphia Nat'l Bank, Philadelphia	12.90
Beneficial Trust Co., Philadelphia	13.00
HIGHEST PERSONAL LOAN RATES	
Commercial Bank, Hanover Trust, NY	24.00%
Bank Of America, San Francisco	21.26
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.50
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Instl. for Svgs., Boston	14.90%
St. Paul Fed. Bank, Chicago	15.00
Benjamin Franklin Sngs, Houston	15.90
HIGHEST CREDIT CARD RATES	
World S&L, Oakland, Calif.	20.90%
Homestead Savings, San Francisco	20.90
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As Revenues Shrink, Cost-Cutting Drives Gain Momentum

Continued from *page 1*

added that the survey's findings of significant cutting of total costs were in line with their observations.

Cost Control Now Imperative

While cost control became an increasingly high priority for the industry in the mid- to late-1980s, this year's market conditions have made the activity a virtual imperative.

With the rise in nonperforming real estate loans, the industry's profits fell 15% in the first quarter, to $6.2 billion. Stocks have slumped, and opportunities to boost revenues seem limited.

"You're not seeing much in the way of loan growth at either regional or money-center banks, which is leading to slow revenue growth," said Raimundo C. Archibould Jr., an analyst at Fox-Pitt Kelton Inc. "In order to maintain earnings, you have to restrain growth in expenses."

In the first five months of this year, total loan growth was just 0.7% at banks participating in Federal Reserve surveys, according to Salomon Brothers Inc. "Growth in consumer and commercial and industrial loans is exceptionally weak, except in the Dallas and Philadelphia districts," a recent Salomon report said.

Large banks, which raked in handsome fees financing corporate restructurings in the 1980s, have been suffering as deal mania has died and regulators have stepped up their scrutiny of highly leveraged portfolios.

Several big banks already have unveiled plans for major cuts in their corporate finance departments and other areas. On June 25, Chase Manhattan Corp. announced a sweeping restructuring aimed at saving $300 million a year, 8% of current operating expenses. The next day, Continental Illinois Corp. said it would drop 900 employees, or 13% of its total, after completing a broad reassessment of its product lines.

According to the Trans Data Corp. survey, 40% of banks with assets of more than $1 billion are cutting costs this year, and 26% are already planning to cut costs in 1991.

Less Cutting at Smaller Banks

Smaller banks also have joined the cost-cutting trend, though to a lesser extent. The survey found that 11% of banks with assets under $750 million are cutting costs this year, while 17% plan to cut next year.

Howard Bank, Burlington, Vt., plans to reduce both staff and expenses by 7% next year. The $500 million-asset bank plans to farm out all its data processing work, for an expected saving of $1 million a year.

It also plans to restructure its branch system, using more automation and fewer employees. Chief executive Joseph L. Boutin said these steps are necessary for the bank to meet its goal of boosting return on equity to 17% in 1991 from 14% in 1989.

"There seems to be a broadening awareness on the part of most bank managers that they've got to get their cost structures down," said James J. McDermott Jr., director of research for Keefe, Bruyette & Woods Inc.

James M. McCormick, president of First Manhattan Consulting Group, said more banks may be inspired to launch aggressive cost-cutting campaigns as they watch two of the industry's most prominent turnaround efforts unfold.

Heavy cost cutting by Anthony Terracciano, chief executive at First Fidelity Bank Corp., and Lawrence K. Fish, chief executive at Bank of New England Corp., "will provide evidence that banks can operate, albeit not at full speed, at a much lower level of operating expense," Mr. McCormick said.



Swift Action at First Fidelity

In the first five weeks after taking the job in February, Mr. Terracciano cut 1,400 employees from the company's total of 13,500. In April, a month after Mr. Fish assumed his post Bank of New England, that institution announced that it would eliminate 5,600 jobs, or about one-third of its work force, this year.

Of course, many other banks have been quietly paring costs in recent years, with particular attention to reducing head count. After peaking in 1986 at 1.56 million people – up from 640,000 in 1960 – the industry's employment has fallen to about 1.53 million people, said Diogo Teixeira, a consultant with McKinsey & Co.

"This is the only time we've observed in the past 30 years that the number has started to come down, and that is very significant," he said.

Mr. Teixeira said the decline largely reflected advances in banking technology. "Most of the industry is still paper based, but the share of information flows handled electronically has gotten to be enough that employees are decreasing," he said.

Yet, by some measures, the industry as a whole has yet to become substantially more efficient.

An efficiency measure used by Keefe, Bruyette & Woods – recurring noninterest expense divided by the sum of noninterest income and taxable-equivalent net interest income – has changed little for banks of all sizes over the past five years. For banks with assets of more than $25 billion, the ratio has actually risen somewhat, to 63.91% last year from 62.28% in 1985, according to Keefe Bruyette.

Thus, the search for savings continues, and some banks are leaving no stones unturned. In the Trans Data survey, one bank advocated replacing real plants in offices with artificial ones. Others said they were cutting back on such expenses as conventions and subscriptions.

Hugh McColl, the hard-driving chief executive of NCNB Corp., told Trans Data that he is making cuts this year in "anything that doesn't make money."

Many banks that already have implemented major cost-cutting programs in recent years are now trying to fine-tune their strategies.

"The thing that is most dramatic for us right now is the cost of employee benefits, particularly in the medical area," said L. Scott Nelson, chairman and chief executive of First Security Bank, Salt Lake City. Through a new compensation system the bank is also trying to encourage branch managers and other unit leaders – not just senior executives – to implement cost-cutting measures. □

COST CONTROL

Discounts Can Keep Employees Airborne Without Breaking the Bank

By DON MUNRO
Special to the American Banker

Even managers facing the most stringent cost-cutting mandates need not eliminate travel entirely from their budgets.

The Bank of Boston Corp.'s 3,500 employees spend $6.5 million a year on air travel alone. For years, the $39.2 billion-asset commercial bank has been wielding its travel-buying clout to negotiate large rate discounts with major travel suppliers.

Many airlines, hotels, and car-rental firms are itching to offer price breaks to banks that can guarantee a minimum flow of travel dollars into their pockets, says Elizabeth Meyer, manager of corporate travel and relocation at Bank of Boston.

In the bad times – and even in good times, for a few observers – business travel is perceived as little more than a euphemism for frivolous, martini-filled junkets.

A Priority for New England

In New England, where many banks and thrifts are reeling from bad real estate loans, cost-control is a particularly urgent priority.

But completely eliminating travel can harm customer relationships, and ultimately do more harm than good.

"You can't totally avoid travel," says Susan Grace, president of SDG Consulting, Southboro, Mass. SDG advises companies on ways to manage business travel.

"But banks here are in a mess, cutting and slashing travel. Many are making longer trips, hitting more places on one trip versus going out every week."

The troubled Bank of Boston has negotiated approximately a 25% discount on air fares. Negotiations with individual carriers on specific routes have netted price breaks of up to 37%.

"We've taken our most commonly used city pairs and bargained for discounts with the specific carriers who fly those routes."

Ms. Meyer says the bank gets discounts of 30% to 35% at individual hotels in Los Angeles, Boston, and New York. Without these discounts, the bank's $3 million annual hotel bill would be substantially more.

She notes that the price breaks she has won are reducing the bank's 1990 travel costs by 15% over the previous year. Without the discounts, there would be greater pressure from senior management to reduce bank travel, according to Ms. Meyer.

"Managers would look at trip requests and ask: 'Can you do in three days what you usually do in four?'

Despite the obvious advantages to the Bank of Boston, Ms. Meyer wages a daily war to get employees to use her hard-won price concessions.

Some employees simply ignore directives to fly with a carrier that offers the discounts, chiefly because they want to continue earning the maximum mileage on their favorite airline.

"For some people, those mileage programs outweigh any desire to cut costs. But we have a weapon: We send out exception reports of people who aren't using the preferred airlines."

The current economics of the banking industry make it much less likely that Bank of Boston travelers will ignore cost-cutting directives, Ms. Meyer adds.

"There's a general concern in the banking industry to reduce costs. People are more willing today to follow through on that than they were five years ago." □

Mr. Munro is senior editor at *Business Travel News*, a biweekly newspaper covering the business travel industry.

Proven Ways to Cut Costs Sought for New Column

Bankers are looking everywhere for ways to control their cost of doing business. To provide readers with constructive cost-cutting tips, *American Banker* has begun a column that will appear Thursdays on the management page.

We invite readers to let us know about methods they have found successful in trimming expenses. Please contact Patricia Stundza, features editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004; 212-943-5733.

BALANCING ACT.

BANK COMPENSATION AND BENEFITS MANUAL

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Gonzalez Questions Plans For Increase in FHA Fees

Reuters

WASHINGTON — House Banking Committee chairman Henry Gonzalez, D-Tex., has expressed concern that administration proposals to strengthen the Federal Housing Administration will make it harder for low- and moderate-income people to buy homes.

The banking committee's housing subcommittee is concerned that the administration's proposals, by requiring higher down payments and increasing premiums for FHA mortgage insurance, would limit the number of families who could afford a home, Mr. Gonzalez said at a subcommittee hearing on the proposals.

Report's Accuracy Questioned

The proposals were made by Housing Secretary Jack Kemp after a Price Waterhouse & Co. report said the FHA mutual mortgage insurance fund was losing money and might become insolvent within several years.

Mr. Gonzalez said the report might be inaccurate. He gained support from the National Association of Realtors and Mortgage Bankers Association, which agreed the proposals were too stringent.

The Department of Housing and Urban Development seeks to bring up the FHA mortgage insurance fund by imposing higher closing costs and raising the premium for buyers making down payments of less than 10%.

The National Association of Realtors said the change would increase the fee, now 3.8%, to as high as 7.5% of the loan amount, with the highest premiums charged to those making the smallest downpayment.

Consequences Predicted

"Changes in FHA are needed, but not at the expense of the future homebuyers who need FHA to buy their homes," association president Norman Flynn said at the subcommittee hearing.

The Realtors' group estimated that the proposed change could shut out as many as 100,000 borrowers a year who can now use the program. The group supports legislation sponsored by Rep. Bruce Vento, D-Minn., and Rep. Thomas Ridge, R-Pa., that would set a non-refundable fee of 1.35% of the loan, payable at closing from the proceeds of the loan, as well as an annual renewal fee of 0.5%. □

Barnett Profits Off 9% in 2d Quarter

Analysts Expected Better Rebound from Exam Effects

By KENNETH CLINE

ATLANTA — Barnett Banks Inc. announced on Tuesday that its profits declined 9% in the second quarter to $58.5 million, from $64.3 million in the same period a year earlier.

The Jacksonville-based superregional's performance improved sharply from the first quarter, when it earned only $15.5 million. But many analysts expected better numbers because Barnett had significantly boosted its reserve in the first three months following an examination by the Office of the Comptroller of the Currency.

"The quality of earnings was high, but I think other analysts are going to be somewhat disappointed that the rebound was not as much as they had hoped," said Kathryn H. Bissette, an analyst with Interstate/Johnson Lane.

Barnett's stock was trading Wednesday afternoon at $30.25, off 25 cents.

Downward Revision

Interstate/Johnson Lane, which previously estimated Barnett's 1990 earnings at $216 million, or $3.45 a share, believes they could go as low as $204 million, or $3.25 a share. "The assumption that each quarter is going to build on the previous is much more difficult to see now," said John Mason, an analyst with the Atlanta-based brokerage company.

Barnett's loan-loss reserve rose to $332.3 million from $316.6 million in the first quarter. After being examined by the Comptroller, Barnett was forced to adopt stricter methods for classifying its real estate loans.

Effect of Exam

"What was important for Barnett's numbers was this was the first bank we've gotten to look at after the exam," Ms. Bissette said. Most other large southeastern banks were examined in the second quarter.

The level of nonperforming assets ended the quarter at $467 million, up from $456 million at the end of the first quarter and $324 million a year ago. Of Barnett's nonperforming loans, 24% are less than 90 days past due, according to the company. □

After the Comptroller's exam, Barnett was forced to adopt stricter methods for classifying real estate loans.

BARNETT BANKS Inc.
Jacksonville, Fla.

Dollar amounts in millions (except per share)		
SECOND QUARTER	**2Q '90**	**2Q '89**
Net income	$58.5	$64.3
Per share	0.93	1.02
Net interest income (tax. equiv.)	315.3	279.1
Spread	4.61%	4.58%
ROA	0.78%	0.95%
ROE	14.52%	16.34%
Noninterest income	103.6	115.7
Noninterest expense	274.4	251.9
Loss provision	46.6	42.3
Net chargeoffs	34.0	30.3
FIRST HALF	**1990**	**1989**
Net income	$74.0	$126.7
Per share	1.18	2.02
Net interest income (tax. equiv.)	628.7	561.9
Spread	4.68%	4.65%
ROA	0.50%	0.95%
ROE	9.07%	16.57%
Noninterest income	201.5	204.4
Noninterest expense	542.7	495.9
BALANCE SHEET	**6/30/90**	**6/30/89**
Assets	$31,120	$27,260
Deposits	27,302	23,577
Loans	24,613	21,858
Shareholder equity	1,597	1,585
Loss reserve	332.3	277.7
Reserve/loans ratio	1.40%	1.11%
Nonperf. loans	467	277
Nonperf. loans/loans	1.90%	0.98%
Primary capital ratio	7.64%	7.91%

500 Suits Filed by FDIC Against Former Bank, S&L Officials

Continued from page 1

ings and Loan Association of Denver.

Reports circulated on Wednesday that the FDIC would file a $200 million suit against Mr. Bush and other former directors and officers of Silverado, according to *The New York Times*, the suit would charge the former officials of negligence and of employing unsafe and unsound practices in operating the institution, which thrift regulators seized in December 1988.

Alan Whitney, a spokesman for the FDIC, acknowledged that an investigation is under way into Silverado's failure, but he would not confirm whether the agency is about to file a lawsuit.

"The matter is under review and no decision has been made," he said. "Silverado has not been singled out." Mr. Whitney said the FDIC has been conducting the Silverado investigation since last August to determine whether a suit could be filed for damages.

Timing of Seizure Questioned

Some Congress members have raised questions about the timing of Silverado's closing. OTS Director T. Timothy Ryan Jr. said Wednesday that he has asked the Treasury Department's inspector general to look into why the thrift was seized six weeks after supervisors recommended the action.

The House panel, chaired by Rep. Charles Schumer, D.-N.Y., heard testimony from legislators, regulators, and the Justice Department on further steps to increase prosecutions of thrift crimes.

At the urging of the House leadership, Rep. Schumer is crafting an S&L enforcement package to pad out the omnibus crime bill currently pending before the House.

In a related development, on Wednesday the Senate passed by 94 to 6 an omnibus crime bill that provides $152.5 million in annual budget authority for the Justice Department to pursue cases of financial institutions fraud and abuse.

With rumors flying about an FDIC suit, Neil Bush is wrestling with charges by the OTS that he violated conflict-of-interest rules from 1985 to August 1988. He is scheduled to appear before an administrative law judge on Sept. 25 in Denver, who will hear the accusation that he approved millions of dollars in loans to Bill L. Walters and Kenneth M. Good, who were partners in Mr. Bush's JNB Exploration Co., a Colorado partnership.

Mr. Bush has refused to knuckle under to the government by publicly answering charges. He spent all of Monday answering reporters' questions, and repeated the task on Wednesday, said James Nesland, "Mr. Bush's attorney. He said Mr. Bush intended to stay out of the media, but the regulators forced the issue into the open.

In January, the OTS informed Mr. Bush that it was going to take steps to ban him from the thrift industry. Mr. Bush took issue with the move and now the agency is taking a milder stance that would require him not to violate conflict of interest rules in the future.

Last Thursday, the OTS changed its policy on administrative law hearings by opening them to the public.

"They mounted their public crusade. They opened [the hearing] to the public. I think he almost has to" go public Mr. Nesland said.

Most of a battery of legislative initiatives advanced by House members were dismissed by James G. Richmond, the Justice Department's new special counsel for financial institutions.

The Justice official said he opposes measures to set up a national commission to investigate S&L fraud and abuse; establish local strike forces to crack down on thrifts; set a deadline of Jan. 1, 1992, for the Justice Department to work through its backlog of S&L cases; put Secret Service investigators to work on S&L cases; and set up a financial services crime division at the Department of Justice.

The RTC has made criminal misconduct referrals to the Justice Department for more than half of the thrifts it controls, said Mr. Seidman. He said insider abuse and misconduct significantly impaired 40% of RTC-controlled thrifts, and indicated that the agency sees growing evidence of collusion among lenders. About 15% of thrifts controlled by the RTC were involved in "irregular and possibly fraudulent transactions with other financial institutions," he said.

In Texas, Edwin T. McBirney 3d, former president of Sunbelt Savings Association, was indicted on charges of defrauding the government in connection with a $700 million real estate scam, according to Justice.

Mr. McBirney acquired the institution in 1982 with five associates. Sunbelt and seven other insolvent S&Ls were consolidated and managed by the Federal Savings and Loan Insurance Corp. in 1988 as part of the government's Southwest plan. □

Some Proposals to Tackle Thrift Crimes

Sponsor	Measure
HOUSE	
Gerald Kleczka* D-Wis.	Create financial services crime division at the Justice Department.
Stephen Neal D-N.C.	Justice must prosecute 50% of cases by yearend, up from 1991.
Peter Smith R-Va.	Appoint special prosecutor for thrift crimes.
Chalmers Wylie R-Ohio	Form commission to investigate crisis.
SENATE	
John Heinz R-Pa.**	Increase penalties up to life sentence for most severe S&L frauds; authorize $487 million over three years for federal agents and prosecutors.
Terry Sanford D-N.C.	Require attorney general to accelerate dealing with regulators' referrals of S&L crimes.

*Sen. Robert Graham, D-Fla., has sponsored a similar measure in the Senate. Numerous senators have companion versions to House bills.
**Rep. Tim Wirth, D-Colo., is House cosponsor. Measure passed Senate Wednesday as part of omnibus crime bill.

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GLOBAL *dispatches...*

Amro Cuts a Merger Link To Clear Way for Another

By JOHN EVANS

LONDON — Amsterdam-Rotterdam Bank cut its last links with Belgium's Generale Bank on Wednesday, paving the way for merger with Amsterdam-Rotterdam's fellow Dutch bank, Algemene Bank Nederland.

Amro said that its chairman, Koelof Nelissen, had resigned from Generale Bank's supervisory board. Also, Generale's chairman, Paul Janssen, has left the Dutch bank's board.

The Last Remaining Links

The seats on the respective boards were the only links that remained after merger plans were abandoned in August 1989. The two banks had planned to merge to compete better when the European Community becomes a single market in 1992. But their plans were scuttled because of legal, tax, and supervisory problems.

Amro's deal with Alegemene Bank Nederland is intended to strengthen its position at home and abroad.

"We're back to where we started – good friends, that's all," said an Amro spokesman.

The proposed Dutch merger, first announced in March, will create Europe's seventh-biggest bank, with $170 billion in assets, and one of the world's top 30 banking companies.

Amsterdam-Rotterdam and Algemene Bank Nederland have made it clear that their merger is aimed not only at speeding their banks' ability to expand abroad but also at strengthening their combined position in their own domestic market.

Strong capitalization is required "if you want to be a global player from a small market like the Dutch," said ABN chairman Robert Hazelhoff. "A merger would put us among the top banks and allow us to expand rapidly." □

U.S. Orders Writedown on Latin Loans

Continued from *page 1*

medium and long term.

Regulators ordered banks to write down their loans to Argentina by 40% last year after the country suspended interest payments. The latest writedowns mean regulators do not expect banks to collect more than 40 cents on the dollar of their loans to the Latin American country.

Argentina resumed nominal interest payments of $40 million a month in June. Brazil has not paid any interest on its foreign commercial bank debt since March 1989.

Wednesday's action by the Interagency Country Exposure Review Committee was the first time banks have been ordered to write down Brazilian loans. The regulatory agency comprises nine representatives from the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corp.

"Argentina is an anticipated continuous writedown, but Brazil is a new name in the equation," said James J. McDermott, executive vice president with Keefe, Bruyette & Woods Inc. in New York.

The level of reserves against losses on Third World loans varies widely. J.P. Morgan & Co., for example, is reserved for 100% of its loans.

Citicorp, however, is reserved for only 38% of its medium- and

"Argentina is an anticipated continuous writedown, but Brazil is a new name in the equation."

James J. McDermott
Keefe, Bruyette & Woods Inc.

long-term loans, Manufacturers Hanover Corp. for 35%, Bank-America Corp. for 41%, and Chase Manhattan Corp. for 45%, according to Keefe Bruyette.

Citicorp will not be affected by the latest Argentine writedown since it wrote off 60% of its loans to the country last March, on its own initiative.

The reserves of Citicorp and other major banks will be seriously depleted by the Brazilian writedown.

At yearend, Brazil owed Citicorp $3.9 billion, BankAmerica Corp.$2.65 billion, Chase Manhattan Corp. $2.3 billion, Manufacturers Hanover Trust Co. $2 billion, and Chemical Banking Corp. $1.5 billion.

Argentina owed Citicorp $900 million, Manufacturers Hanover $888 million, Chase $580 million, J.P. Morgan $400 million, and BankAmerica $380 million.

Although banks stand to gain tax deductions from the writedowns, they will be of little benefit due to lackluster earnings.

"Profits are at depressed levels and tax deductions are about the last thing banks need now," said J. Richard Harvey Jr., a partner with Price Waterhouse.

The writedown order apparently took bankers by surprise. Few of them expected the U.S. government agency to order additional writedowns because both Argentina and Brazil were moving to open talks with their banks. □

U.S. Banks Build Dominance in Global Syndication

Continued from *page 1*

magazine reported.

U.S. banks are "learning earlier than most banks" to adjust to the tougher lending climate, said Rudiger Eisenhart-Rhote, a managing director at Chase Manhattan Corp. "Necessity is a very forceful innovator."

Guidelines issued by the Bank For International Settlements require banks to back their loans with more capital. International loan syndications have become increasingly attractive because they pool risk among a group of banks, requiring participating banks to put up smaller amounts of capital.

And the big banks that arrange syndications also welcome the much-needed fees that they collect for their efforts.

While money-center banks such as Citicorp have historically been major forces in loan syndications, they have rarely dominated to the extent seen this year, bankers said.

For example, Chemical Banking Corp., ranked 19th in first-half 1989 lending, jumped to second place this year. Continental Bank Corp., ranked 17th a year ago, is now in 10th position. The only non-American to figure in the top 10 is Britain's National Westminster Bank PLC, standing in third place.

Successes in Europe

Europe's banks were not unduly favored by the surge in corporate borrowing in their home market. Citicorp has won the key coordinator role in a $1 billion loan currently being sought by Enimont, an Italian industrial concern.

J.P. Morgan & Co. won prestigious deals like the $1.4 billion loan facility for Bayerische Motorenwerke (BMW), the German automaker. Morgan has also received the mandate to raise $1 billion for West German industrial group Thyssen AG, acting together with Deutsche Bank AG as colead manager.

"U.S. banks, including ourselves are having some notable successes in capturing European loan business which formerly would have undoubtedly gone to European relationship banks, a move definitely helping our rankings this year," said Morgan's Hugh Payton, vice president and loan-syndications head.

Citicorp: Most Active

Citicorp was by far the most active arranger in volume terms, syndicating just over $31 billion or almost double that of its nearest rival, Chemical Bank, with $15.4 billion.

Only two Japanese banks figure among the 20 leading lenders, a big reversal over previous years when Tokyo banks were among the main sources of global loan financing. But U.S. bankers said much of this past clout hinged more on the ability of Japanese lenders to book assets easily than their skills as loan arrangers.

"The Japanese have really pulled back and this has caused big changes in the [loans] market. They now closely scrutinize every loan for profitability, Mr. Payton said. □

THE WORLD'S TOP BANKS

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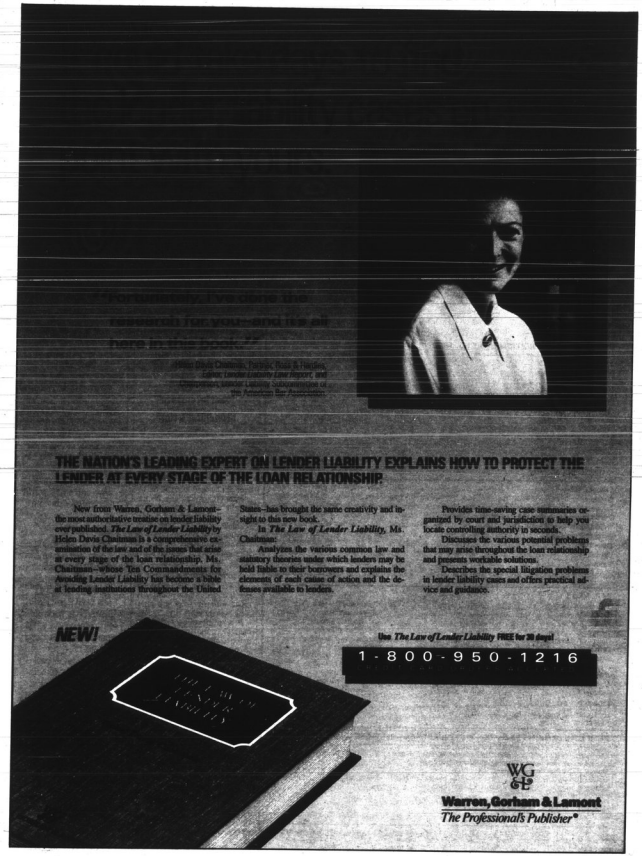
United States	8.37	8.43	8.31	8.37	8.37	8.31	8.43	8.43	8.37	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.31	7.31	7.50	7.68	7.68	7.68	7.87	7.81	7.87	5.25	5.25	5.25	7.13	7.13	7.13
Canada	14.12	13.37	13.37	13.62	13.50	13.50	13.37	13.25	13.25	13.73	13.73	13.63	14.75	14.75	14.75
U.K.	15.00	14.97	15.00	15.00	14.93	14.93	14.87	14.87	14.81	14.31	14.32	15.00	15.00	15.00	15.00
West Germany	8.31	8.31	8.19	8.37	8.37	8.25	8.56	8.56	8.50	6.00	6.00	6.00	10.00	10.50	10.50
Switzerland	9.00	9.37	8.31	9.06	9.25	9.06	8.87	9.06	8.87	6.00	6.00	6.00	10.00	10.50	10.50
France	10.12	10.00	10.06	10.18	10.12	10.12	10.31	10.25	10.25	8.50	9.00	9.00	10.00	10.00	10.50
Italy	11.62	10.62	12.00	11.25	11.25	11.37	11.37	11.37	11.50	13.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollar	Sterling	West German mark	Swiss franc	Yen
3 to 6 months	8.31	14.44	8.56	9.62	7.56
6 to 12 months	8.41	13.94	8.62	7.94	7.38
12 to 24 months	8.68	13.75	8.81	7.69	7.25



Utah Decision Opens Door to Interstate Branch Banking

Continued from page 1

this trend, it will put pressure on banks to flip to a federal charter," he said in a telephone interview.

On another front, Mr. Sutton has made waves at the Office of Thrift Supervision. The federal thrift regulator has sued him for allegedly encouraging a thrift he regulates to convert to a commercial bank without OTS approval. It is another flashpoint in the debate over where state regulators should defer to federal authorities.

Currently, state laws widely restrict or prohibit such branching. An unpublished survey by the Conference of State Bank Supervisors found that only Utah, Nevada, Rhode Island, and Virginia allow interstate branching.

"In most states, it would require state statutory action" before interstate branching could become common, said Washington State Banking Supervisor Thomas H. Oldfield.

BankAmerica referred questions about its Arizona charter to its outside attorneys.

The branching authority of federally chartered banks is defined by the McFadden Act of 1927.

Exception, Not the Rule

This federal law does not specifically bar interstate branching by state-chartered banks outside the Federal Reserve System. But traditionally, the law has been interpreted to allow interstate branching only in exceptional cases. These have included offices already open when the law was enacted and banks that relocated their headquarters across state boundaries.

Generally, banking companies have been able to operate in more than one state only under a holding company structure in which each state unit is separately chartered and has its own board of directors and administration.

Many banks are convinced that interstate branching would save money by eliminating parallel administrations.

An Opening for States

The Utah case demonstrates that, when state law permits, state regulators can allow state-chartered institutions to operate branches outside their home states.

"Under today's law, if you are a state-chartered, nonmember bank and you have found two states willing to sign off, then you've got yourself a bank that can go across state lines," said William S. Eckland, a Washington, D.C.-based lawyer with Morrison & Foerster.

> **"Interstate banking is something whose time has come. I do not yet believe that interstate branching's time has come."**
>
> **William H. Rivoir**
> *Arizona banking superintendent*

By extension, the Utah precedent can be used to argue for interstate branching rights for nationally chartered banks and Federal Reserve members, Mr. Eckland said. The McFadden Act ties branching authority of federal institutions to that of state-chartered, nonmember banks.

States' Readiness Unclear

If Mr. Eckland's interpretation is correct, states would have broad authority to permit interstate branching.

It is not clear how many state banking commissioners are prepared to allow out-of-state banks to open branches within their borders or, if necessary, recommend that their legislatures change the law to permit interstate branching. But the Utah precedent could fuel moves by some states to liberalize interstate branching laws, banking experts said.

"A lot of states are going to look at [Utah] and see what happens," said Mr. Oldfield, the Washington State regulator.

Mr. Watt of the state bank supervisors' group said, "My feeling is, a majority of state supervisors would support interstate branching as long as there is no negative impact on safety and soundness and that the institution meets local standards."

Arizona Banking Superintendent William H. Rivoir remains opposed to interstate branching. He has blocked a BankAmerica proposal to operate Western's branches as units of its Nevada-chartered bank.

"By having an institution with corporate status here, [a bank has] a greater commitment to Arizona," he said.

"Interstate banking is something whose time has come. I do not yet believe that interstate branching's time has come."

Despite his position, Mr. Rivoir has agreed to work out a joint supervisory agreement with Utah, under which Mr. Sutton's office will be responsible for examining BankAmerica's Salt Lake City office. □

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ASSETS

Cash and Due from Banks		$ 260,035,921
U.S. Government Securities:		
Direct and Guaranteed		154,161,497
State and Municipal Securities		50,870,161
Federal Funds Sold		95,250,000
Loans and Discounts		489,840,814
Customers' Liability on Acceptances		23,119,733
Interest and Other Receivables		31,383,189
Premises and Equipment, net		31,430,041
Other Assets		12,296,161
		$1,148,387,517

LIABILITIES

Deposits		$ 952,733,926
Federal Funds Purchased and Securities Sold Under Agreement to Repurchase		42,905,000
Acceptances Less Amount in Portfolio		23,119,733
Accrued Expenses		16,798,508
Other Liabilities		9,780,350
Capital	$36,000,000	
Surplus	67,050,000	103,050,000
		$1,148,387,517

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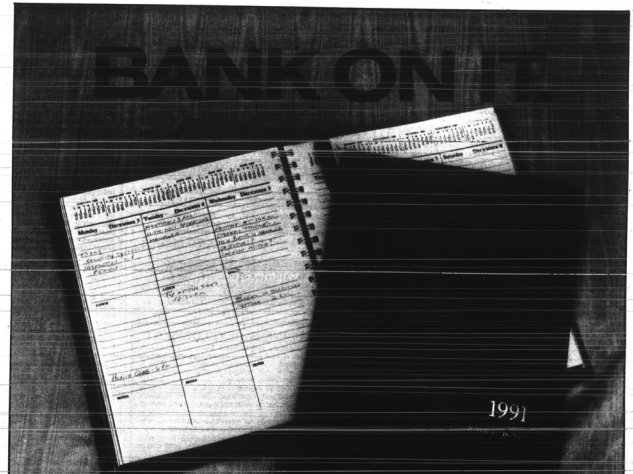

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Breeden Asks Congress for Radical Banking Reforms

Continued from page 2

that, if the Office of the Comptroller of the Currency relaxes rules governing the marketing of bank collective investment funds, the SEC would require that the investment vehicles be registered as mutual funds. Collective investment funds were traditionally offered only through bank trust departments.

Subcommittee Chairman Edward J. Markey, D-Mass., expressed concern that the Comptroller's proposal would not afford adequate supervision of bank investment products, which would compete against SEC-regulated mutual funds. He said he plans hearings on the issue when Congress returns from its August break.

Action Foreseen in 1991

As Congress prepares for what is likely to be major movement toward restructuring legislation in 1991, Mr. Breeden's testimony gives the clearest indication yet that the Bush administration will press for big changes.

Mr. Breeden, who is the administration's point man on last year's savings and loan bailout legislation, and he is still widely believed to have the President's ear on financial services issues.

However, while Mr. Breeden was outlining his vision of reform, Wednesday's hearing gave ample evidence that many obstacles blocking past reform efforts remain in place.

Mr. Markey told Mr. Breeden that, while some provisions of both Glass-Steagall and the Bank Holding Company Act may require modification, "I have yet to be convinced that, in a world where certain truths hold constant, the basic thrust of that legislation is misguided."

Mr. Markey – whose subcommittee will have a big hand in any restructuring bill considered by Congress – also held out the prospect of comprehensive legislation, including deposit insurance reform, in the next Congress.

'Deaf Ears'

One restructuring proponent, Rep. Jim Cooper, D-Tenn., told Mr. Breeden that, while he "had made important recommendations," his words "had fallen on deaf ears.

"I don't know of any way to overcome the interest-group gridlock on this," Rep. Cooper said, referring to the turf wars among the banking, securities, and insurance industries that have blocked action in the past.

Mr. Breeden said each regulated subsidiary of a bank holding company would be supervised by function; that is, an insured bank would be overseen by a bank regulator, while a broker-dealer subsidiary would be supervised by the SEC.

Mr. Markey, the subcommittee chairman, said that in Mr. Breeden's scheme no single regulator served "as a tiebreaker."

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G. Delucco tells R/T/I 7/30/90 12 Noon at 1702 E. 233rd St. Bx. '87 Nissan #JN1HU11P5HT329766 Rr: Misco. '81 Ford Truck #2FDJF37J2ABC45959 Rr: J. Dees. '80 Olds #3M669AA2407047 Rr: F. Ali. Published 7/12 & 7/19/90.

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Auction Notices

C. LAUDISI & ASSOCS., INC. auct'n sell July 27, 1990 at 9AM at 226-12 Jamaica Ave., Qns 1981 Cadillac #1G6AD5491B9158815 Acct., R. Gikitono; 10 AM at 109-14 98th St., Qns 1987 Nissan #1N4PB21S7HC7B1975 Acct., P.E. Naudin; 11 AM at 70-11 30th Ave., Qns 1988 Nissan #N8HD11FW0J32840 Acct., Y. Ramirez; 1987 Lincoln #1LNBM81F2HY634340 Acct., S.M. Kim; 1988 Nissan #JN1HT21S1JT142155 Acct., F. Abreau; 1988 #WVWFB9160JW311695 Acct., L.S. Boaz; 12 Noon 108-09 Northern Blvd., Qns 1983 #2GAFG35L8D4127526 Acct., Marie Transportation Inc. and/or Farhan Motors Inc.; 1978 GMC #TCE628V371465 Acct., J.F. Murphy; 1 PM at 100-35 Atlantic Ave., Qns 1983 Oldsmobile #3GJAX37Y0DM805248 Acct., T.F. Murphy; 2PM at 1236 Grand St., Bklyn 1986 Dodge #2B7KB31Y8GK350459 Acct., Access Delivery Service, Inc; 4 PM at 4320 Bronx Blvd., Bronx. 1988 BMW #WBAAE0406J1700870 Acct., B. Daniels. Published July 12 & 19, 1990.

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Joel Pope auct'r Lic #794209 sells 7/20/90 10 AM at 1001 Long Island ave Deer Park New York '89 Toyota #2T2MK18EXKC018231 Rr: Michaelson's Foreign Car Parts &/Or J. Doe; 11 AM at 232 Glen Cove Ave Glen Cove NY '86 Toyota P/U# JT3T4R37D3J5060759 Rr: Alliance Auto Parts Inc.; 1 PM at 1001 Long Island Qns NY '88 Dodge #3B8U66K4JC242057 Rr: Geico Corp.; 1 PM at 115 Kent Ave Bklyn NY '87 Chevrolet 21Ft Box #1GBJC34K2HJ102362 Rr: Haines, Citibank NA. Published 7/5 & 7/12/90.

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R. A. Felder Lic Auctr #793917 sells on 7/27/90 10 AM at 12-34 31Ave/8th, Qns, NY '81 #1LNBP94F4BY616106 Rr: M. Scott & S. Misner; 10:30 AM at 301-303 Front St., Binghamton, NY Chevy #5S22N7R20603 Rr: S. Clark; 11 AM at 146 No. Rte 45, Spring Valley, NY '84 Chevy #1G1AP87H6EN102362 Rr: J. Roemer; 11:30 AM at 34-02 Broadway, Qns, '83 Cadi #1G6AD6988D9129998 Rr: A. Bardatoon. Published 7/12 & 7/19/90.

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Correction Notice

CORRECTED NOTICE FRED REISNER INC., Auct'r Lic #732421 Sold July 12, 1990 At 8:30 A.M. At 1709 Jerome Ave., Bronx, NY '86 Toyota Buick Vin 1G4AT69PXK413243 Acct Jane M. Carini.

Foundation Notice

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The annual return of THE SILVER-WEED FOUNDATION, INC. for the calendar year ended December 31, 1989 is available at its principal office located at Lot 2 Yohaleta, Gillman & Co., 477 Madison Ave., New York, NY 10022-5802 for one (1) year. (212) 371-2100, for inspection by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Karen Freedman.

Dated: July 12, 1990.

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DEALS

Siebe's $900 Million Acquisition Loan Not Deemed 'Highly Leveraged'

By STEVEN LIPIN

Siebe PLC has arranged roughly $900 million in bank financing for the acquisition of Foxboro Co. Bankers said it is one of the largest acquisition-type loans that does not fall under banking regulators' definition of a highly leveraged transaction.

The banking units of Bankers Trust New York Corp. and Chemical Banking Corp. have agreed to underwrite the entire facility for Siebe, the U.S. arm, a source at one of the banks said. Bankers Trust has been Siebe's traditional banker in the United States.

While the loan is not strictly speaking an H.L.T., fees and pricing are expected to be generous and approach those commanded by highly-leveraged transactions. The source said final pricing and fees had not been determined by late Wednesday, but tentative pricing was set at prime plus 125 basis points, or the London interbank offered rate plus 225 basis points. Fees were said to be over 200 basis points.

A Question of Equity

One banker involved said there is enough equity in Siebe's capital structure to qualify the new loans as unleveraged, even though the $900 million will go toward the acquisition of Foxboro. The interest coverage ratio is two and a half times, indicating significant excess cash flow.

The two banks are expected to launch the primary syndication today, the banker said. One banker not involved in the deal said initial responses were positive.

Siebe PLC, based in the United Kingdom, manufactures industrial and environmental controls. Foxboro, based in Massachusetts, produces process controls for manufacturing.

Siebe is tendering for all outstanding shares of Foxboro Co. at $52 a share. The tender expires July 27, and Siebe needs two-thirds of the shares for the acquisition to go through. Siebe officials could not be reached for comment by press time.

Expensive Price Tag

On June 25, Siebe won an auction for Foxboro and agreed to buy the company at a price that represented 75% over Foxboro's share price before the company put itself up for sale.

At the time, a number of analysts said the $656.4 million price tag for Foxboro was expensive, considering the company posted a net loss in 1989 of $4.6 million. But Siebe has had a string of successes in U.S. acquisitions, including Robertshaw Controls Co. and Ranco Inc.

It was not clear late Wednesday why the company was raising $900 million in debt for a $656 million transaction, but one reason could be for refinancing existing Foxboro debt.

The other large acquisition loan that was not considered an HLT was the $1 billion facility for MCI Communication Corp. for Cellnet Data Systems USA. □

United Tote's Banks Refinance Bridge Loan

By WILLIAM GOODWIN

United Tote Inc. said its banks committed to provide $46.9 million in new loans to refinance a bridge loan obtained last December for the acquisition of Autotote Systems Inc. for $87.8 million in cash and securities.

MNC Financial Inc.'s Maryland National Bank, Baltimore, committed to provide $31.9 million in new funds, with the balance to be provided by U.S. Bancorp's U.S. Bank of Washington, Seattle.

The two banks and Wembley Inc., a United Tote stockholder, provided last year's bridge loan. The loan, which was originally set to expire June 30, has been extended through Sept. 30 to allow time for completion of the new financing.

The new financing consists of a $7 million revolving credit due March 31, 1992, and a $39.9 million term loan, also due in March 1992.

Similar Pricing

The revolver is priced at prime plus 100 basis points and the term loan is priced at prime plus 150 basis points, according to David Jorgenson, United Tote's vice president for finance.

United Tote will pay fees amounting to 1.5% of the loan, Mr. Jorgenson said.

Pricing on the original bridge loan was prime plus 150 basis points.

United Tote, Shepherd, Mont., supplies computerized betting machines. It financed the balance of the Autotote Systems acquisition last year with a combination of subordinated debentures and stock. □

OTS Rejects Fulton Federal's Plan

NEW YORK — Fulton Federal Savings Bank, Atlanta, said Wednesday the Office of Thrift Supervision had rejected its plan for complying with the capital requirements stipulated in the 1989 thrift-bailout law.

The $2.4 billion-asset thrift said the action left it subject to a variety of supervisory and enforcement actions. But chief executive Henry B. Garmon said, "We remain committed to working with the regulators to develop a solution to Fulton Federal's capital problems."

The thrift also announced an agreement to sell most of its $1.5 billion mortgage-servicing portfolio to Bibliotech Savings Bank, a Dallas thrift now under Senate scrutiny. Bluebonnet is one of several problem thrifts organized under the controversial Southwest plan, an attempt by the defunct Federal Home Loan Bank Board to resolve thrift problems in Texas.

Fulton Federal is at least $100 million short of its required tangible capital, a spokesman said. The thrift's capital plan had called for selling 22 branch offices in the Atlanta area. □

Chase in Pact To Service Loans

NEW YORK — A unit of Chase Manhattan Corp. has purchased rights to service about $2 billion of home loans from a subsidiary of capital-strapped Commonwealth Savings.

Officials at Chase and Crossland confirmed rumors of the deal, but information on terms was not immediately available.

Market sources pointed to the transaction as a prime example of how banks are gaining ground in all aspects of mortgage finance as the thrift industry struggles to meet the requirements of the 1989 bailout law.

Chase Home Mortgage Corp., based in Tampa, Fla., is one of the nation's 10 largest servicing companies. At the end of 1989, it was servicing about $14 billion of loans for investors.

A spokesman for New York-based Crossland said the thrift's mortgage unit routinely sells some servicing rights. He said the sale to Chase was not designed to help the thrift meet new capital rules "but it certainly helps." □

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. No offering is made except by the Prospectus, a copy of which has been filed with the Department of Law of the State of New York. The Attorney General of the State of New York has not passed on or endorsed the merits of this offering.

New Issues **June 26, 1990**

$996,659,458

$687,026,000 Class A-1 Certificates

$200,000,000 Class A-2 Certificates

$109,633,458 Class B Certificates

Home Equity Loan Asset Backed Certificates, Series 1990-1

Household Finance Corporation
Master Servicer

The Home Equity Loan Asset Backed Certificates, Series 1990-1 represent interests in a trust consisting of a pool of home equity revolving credit line loans secured by mortgages (of which approximately 23.4% by principal balance are first mortgages and the remainder are second mortgages) on one- to four-family residential properties. The mortgage loans were originated by various lending subsidiaries of Household Finance Corporation in the ordinary course of business.

Copies of the Prospectus may be obtained in any State in which this announcement is circulated from only such of the undersigned or other dealers or brokers as may lawfully offer these securities in such State.

Merrill Lynch Capital Markets
Lehman Brothers
Morgan Stanley & Co.
Incorporated

Highlights for Wednesday, July 11

TOP 10 GAINERS %

United Banks of Colorado, Inc.	11.3
First Security Financial Corp.	7.1
Sunwest Financial Services	6.8
U.S. Bancorp	5.2
Keystone Heritage Group, Inc.	5.2
Pantera Corporation	4.8
BayBanks, Inc.	4.7
First Pacific Bancorp	4.3
Sovran Financial Corporation	3.8
Union Bank	3.5

TOP 10 LOSERS %

Grenada Sunburst System Corp.	-7.5
Bancorp of Mississippi, Inc.	-5.3
Trustmark Corporation	-5.1
Premier Bancorp, Inc.	-5.0
Associated Banc Corp.	-4.9
Multibank Financial Corp.	-4.8
Sumitomo Bank of California	-4.3
Central Jersey Bancorp	-3.6
Norwest Corporation	-3.6
Constellation Bancorp	-3.5

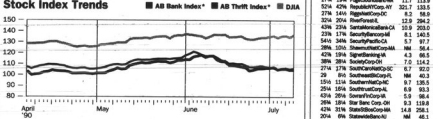
MOST SHARES TRADED

Citicorp	1073600
BankAmerica Corporation	665200
NCNB Corporation	549900
MNC Financial, Inc.	507200
United Banks of Colorado, Inc.	570400
Midlantic Corporation	404400
U.S. Bancorp	389200
Sherwin National Corporation	384300
SunTrust Banks, Inc.	361900
Bank of New England Corp.	341900

VOLUME AS % OF AVERAGE

United Banks of Colorado, Inc.	1774.1
Chemical Financial Corporation	1240.8
Colorado National Bankshares	914.2
Heritage Financial Services	849.3
Pantera Corporation	575.4
Affiliated Bankshares of Co.	574.6
Premier Bancorp, Inc.	467.5
First Commercial Bancshares	364.4
MNC Financial, Inc.	343.7
River Forest Bancorp	337.6

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
34¼	18¼	1stSouthwestCorp+h	6.8	90.1	19¾	¼
44¾	33¼	1stTennessee+Cos	10.8	70.7	37¾	¼
28⅜	20	AmSouthBancorp+	8.4	91.5	21¾	-⅛
19¼	13¾	AmeribancCorp+	7.5	93.2	15¾	¼
29	17	AmeritrustCorp+Oh	18.0	99.7	17¾	-⅛
22¾	19¾	AssociatedBanc+WI	9.1	126.1	19¾	-¼
24½	18	BB&T Fin'l Corp+NC	8.3	112.2	18¾	-¼
15¾	9¾	BancFla+FL	9.1	98.2	9¾	-⅛
48¾	36¼	BankPonce-PR	13.8	152.7	46¼	-¼
35¾	28	BanksSouth+GA	13.8	178.8	28¾	-¼
26	18¼	BancoPopular-PR	6.3	95.5	19	--
56¾	42	BancorpHawaii+HI	10.0	186.6	51	-¼
23¾	18	BancorpNtlBks-MD	6.9	87.5	18	-¼
36¾	23⅞	BancorpSouthCorp+Ms	5.8	115.7	26¼	¾
24	17¾	BankVirginiaCorp+VC	13.5	238.6	22	--
29¾	21¾	BarnettBanks+FL	10.8	63.4	23¾	--
14¼	8¾	BankSouthCorp+GA	6.2	92.9	9	--
25¾	19¾	BanksFirstWI+WI	25.0	53.4	19¾	--
82	66¼	BarnettBanks+A	11.7	112.6	70	¼
39¾	28¾	BayBanks+MA	9.3	114.3	30¾	-¼
42¾	13¾	BayBanks+MA	9.8	47.8	19¾	-¼
39¾	29	BeneficialCorp+NJ	8.7	103.6	37¾	-¼
26	15⅝	BoulevardBanc-IL	15.3	98.9	15⅝	--
18⅝	12¾	BrenhamBanks+TX	7.5	102.6	14	--
43¾	33¼	CCB FinCorp+NC	8.9	122.5	35	¼
29¾	17¾	CCNB Corp+FL	8.3	97.1	17¾	-¼
23¾	19¾	CNB Bancshares+IN	10.4	137.2	22¾	--
27	20¼	CNB Inc+OH	9.4	159.7	23	--
28	12⅞	CYB FinCorp+CA	10.7	246.7	14¾	-¼
24¾	16¾	CalFed Inc+CA	4.1	170.8	22¾	--
18¾	12¾	CentralBcshs+KS	7.3	98.3	14¾	-¼
24¾	21¾	CentralBancorp+OH	7.8	116.1	22	--
27	13¾	CentralJersey+NJ	6.8	91.0	13¾	-¾
42¾	22¾	ChemicalBanc+MI	NM	88.1	22¾	-¾
41¾	22¾	ChemicalBanking+NY	NM	72.4	24¾	-¼
35	30¾	ChemicalFin'l Corp+MI	9.3	107.6	30¾	-¼
30¾	21¾	Citizens+NY	12.5	86.0	21¾	-¼
29¾	17¾	CitizensBancorp+MD	8.7	103.9	18	--
29¾	21¾	CitizensBanking+MI	7.6	73.0	21¾	-¼
24¾	17¾	CitizensFin'l+PA	8.6	73.0	17¾	-¼
38	27	CitizensUtilities+A	10.2	100.0	27¾	-¼
27¾	17¾	CityNatCorp+CA	6.6	103.5	27¾	-¼
18¾	12¾	CoastFedBancorp+CO	6.0	85.0	13¾	-¼
58¾	39¼	ComericaInc+MI	9.7	112.1	45¾	--
29¾	20¾	CommerceBancorp+NJ	17.5	24.3	20¾	-¼
20¾	15½	CommonwealthPA	7.3	90.8	15¼	--
37½	18¾	CommunityBk+NJ	7.3	103.6	18¾	-¼
28¾	13½	ContinentalIL	7.9	54.8	13¾	-¼
49¾	30¾	CoreStatesFin+PA	10.8	180.0	30¾	-¼
34	20¼	CrestarFin'l Corp+VA	6.3	90.3	21	--
18¾	7¾	DeKalbBk+TX	37.0	52.8	7¾	--
37¾	29¾	DeposBancorp+PA	8.9	132.7	30¾	--
32¾	23¾	DepositGuaranty+MS	6.4	74.1	24¾	-¼
25¼	13	DominionBkshs+VA	9.1	83.8	13¾	-¼
16	5	EquimarkCorp+IN	NM	37.2	5½	--
21¼	12	EvergreenBancs+NY	8.8	102.7	14¾	-¼
15¾	12¾	F & M NatCorp+VA	10.5	108.9	13	-¼
14¾	12¾	FNB Corp+PA	8.9	109.4	12¾	--
26	18¾	FBW Bancorp+IL	10.5	174.3	22¾	-¼
29	28	FarmersCapital+KY	12.0	119.5	28	--
39¾	30¼	FifthThirdBcp+OH	10.8	180.0	30¾	-¼
38¾	33	FinancialTrust+IN	8.5	143.2	33¾	-¼
51½	38¼	FirstAmCorp+TN	9.8	104.0	38	-¼
19¾	15¼	FirstAlabama+AL	9.3	117.0	17¾	-¼

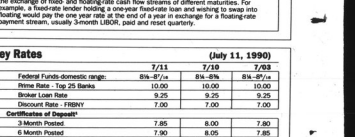
52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
24½	16¼	FirstAmerBancorp+TN	NM	79.0	15¾	-¼
34¾	24¼	FirstBancorp+NC	9.6	150.0	24¾	-¼
26⅜	12¾	FirstBancsIntercst+MN	NM	113.8	14½	-¼
40⅝	28¼	FirstBanks+CO	6.9	89.2	28¼	-¼
29½	24	FirstBanksInc+IC	8.7	100.9	25¾	--
36¼	24¼	FirstBkSystem+CO	12.5	106.1	26¼	-¼
18¾	13¾	FirstCalifornia+IL	9.9	134.0	13¾	--
25	19	FirstCommerce+LA	12.9	284.2	20¾	-¼
29	21½	FirstCommerce+NE	8.5	91.0	28¾	--
29¾	21¾	FirstCommerce+NC	8.4	98.8	23¾	-¼
21¼	18	FirstCommerce+TN	8.2	118.8	18¾	--
24¾	16¾	FirstCommunity+IL	11.5	113.9	16¾	--
35¼	21½	FirstEastern+PA	7.9	102.9	22¼	-¼
17¾	10¾	FirstEssex+MA	8.4	99.8	10¾	-¼
33¾	17¾	FirstFedAk+AJ	10.2	73.3	17¼	-¼
50	43¾	FirstFedBcrp+OH	15.0	211.2	49¾	-¼
34¼	19¾	FirstFedFin+FL	9.7	78.2	20¼	--
14¾	11¾	FirstFedMichigan+MI	10.7	222.1	12¾	-¼
11	7¾	FirstFedNA+IL	10.9	180.7	8¼	-¼
30	23¾	FirstFedNorth+WI	NM	108.6	24¾	-¼
7	5¾	FirstInterstate+A	7.6	106.6	6	-¼
34¾	25¾	FirstMidAm+Cp+IN	8.2	108.4	26¾	-¼
24¾	18¾	FirstMidwest-IL	9.2	148.5	18¾	-¼
24¾	19¾	FirstMidwestCorp+IN	8.4	125.5	20¾	-¼
44	28¾	FirstNiagara+NY	5.9	101.9	29¼	--
18¾	13¾	FirstNorthern+CA	7.1	96.4	13¾	-¼
18	14	FirstSecurity+KY	13.5	182.0	15	1
24¾	17¾	FirstSecurity+UT	8.6	88.0	20¼	-¼
28¾	21¾	FirstTennessee+TN	10.8	96.2	22¾	-¼
28¾	19¾	FirstUnionCorp+NC	7.7	93.6	28½	-¼
35¾	24¾	FirstVirgIsIs+A	7.8	109.9	24¾	-¼
37¾	27¾	FirstWisconsin+WI	10.7	181.0	41¾	-¼
36	27	FirstarCorp+WI	7.2	113.3	27¾	-¼
30¾	22¾	FleetBostonFin+MA	8.1	103.9	22¾	-¼
50¾	42¾	FleetNorthEast+RI	8.1	103.9	47¾	-¼
20¾	18¾	FloridaBkshs+FL	12.6	101.6	18¾	-¼
25	19¾	FortWayneNatCp+IN	8.4	105.3	19¾	-¼
25¾	20¾	FourthFin'l+KS	8.3	102.5	20¾	-¼
21⅜	18	FultonFin+Cp+PA	7.9	128.4	18¾	-¼
24¼	18¾	GBC Bancorp+CA	6.3	202.5	18¾	-¼
31¾	19¾	GrenadaSunburst+MS	13.8	69.8	19¾	-¾
5¾	3¾	HamiltonBancorp+FL	4.0	117.2	4	--
21¼	14¾	HeritageFedInc+IL	8.7	118.7	15¾	-¾
24¾	18¾	HeritageFin'l+CA	18.2	110.5	18¾	-¼
20¾	13	HuntingtonBcshs+IN	8.1	119.3	19¾	-¼
24¾	17¾	IBT Bancorp+OH	8.1	117.9	18¾	-¼
24¾	17¾	IndianaFed+IN	7.1	117.9	18¾	-¼
26⅝	18	IndependenceBk+IL	15.5	113.2	18¾	-¼
15¾	10¾	IntegraFin'l+PA	11.5	101.7	10¾	-¼
34¾	17¾	InvestBkSbshs+A	9.8	142.2	22	-¼
19¾	14¾	JeffersonBcshs+TN	9.3	104.1	14¾	-¼
28¼	18¼	JeffersonBkshs+VA	8.1	96.8	19¾	-¼
44¾	28¾	JeffersonPilot+NC	NM	77.8	32¾	-¼
29¾	23¾	KeyCorp+NY	8.0	112.9	26¼	-¼
20¾	15	MNC Financial+MD	8.0	103.7	15¾	-¼
35¾	29	KeystoneHerit'g+PA	10.5	159.4	30¾	1½
24¾	18¾	LaSalleBancorp+IL	18.6	246.6	19¾	-¼
29¾	22	LakeShore+IL	16.4	202.6	23	--
18	11¾	LandmarkBancs+MO	6.7	83.9	13¾	--
30¾	24¾	LibertyBkNtnl+NY	8.6	115.2	25¾	--
27	20¾	LincolnFin'l Corp+IN	7.1	89.3	20¾	-¼
29¾	11¾	MNC Financial+MD	4.3	67.0	11¾	-¼
20¾	14¾	MagnaGroup-IL	9.3	104.1	14¾	-¼
60	41¾	ManufacturNatl+MI	6.6	103.0	44¾	-¼
44¾	28¾	ManufacturersNY	NM	77.8	32¾	-¼
21	16¾	MarineCorp-IL	12.5	132.7	19¾	-¼
20¾	15	MartinFedBkshs+MD	8.0	103.7	15¾	-¼
37¾	30¾	MarshallBkshs+WI	8.8	120.3	31¾	-¼
51½	38¼	MellonBankCorp+PA	9.4	183.3	39¾	-¼
28¾	23¾	MercantileBancorp+MO	190.4	97.1	24¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	18¾	MercantileBkshs+MD	8.5	128.5	20¾	-¼
90¾	50¼	MerchantsBank+VT	11.9	190.3	50½	-¼
18	12¾	MerchantsNatl+IN	10.3	93.4	23½	-¼
26¼	15¼	MeritanBancorp-PA	7.1	88.0	15¾	--
57¾	41¾	MidlanticCorp+NJ	2.7	65.5	52¾	-¼
18¾	14¾	MidAmericaNY	9.5	95.3	14¾	--
19¾	15¾	MidAm,Inc.-OH	9.8	146.7	19¾	-¼
47¾	13¾	MidlantisCorp+NJ	3.6	34.8	13¾	-¼
15¾	12¾	MultibankInc	5.2	47.4	13	--
35¾	28¼	NBD Bancorp+MI	8.8	130.8	31	¼
14¾	10¾	NCNB Corp+NC	7.1	124.6	14¾	-¼
26	18¾	NCalfCommBncp+CA	15.0	185.8	19¾	¼
10¾	7¾	NationalSvCp+OH	8.3	143.2	10¾	-¼
38	30	NationalPenn+PA	12.5	224.1	42	1
25¾	20¾	NatlBancgsMid-AK	9.7	117.6	20¾	½
25¾	20¾	NatlCommerce+TN	13.6	184.5	24	--
44¾	18¾	NationsBancorp-NJ	8.6	88.3	18¾	--
11	7	NorthFortBnks+WI	5.3	98.9	11	-¼
27	18	NorthwestBanc+IC	NM	58.2	20¼	-¼
35¾	28¼	NorthernTrust-IL	9.4	181.1	28¼	-¼
23¾	17¾	NorwestCorp+MN	8.0	144.4	20¾	-¼
32¾	24	OneBancorp-OH	7.8	103.8	25	¼
24¾	18¾	OneBancorp-MI	8.3	115.1	24¾	--
24¾	18¾	OldKentFin'l+MI	13.5	163.8	20¼	-¼
23½	19	OneNetBkNtnl+NE	9.1	95.2	19¾	-¼
48¾	29¾	PNC Fin'l Cp+PA	8.3	142.2	30¾	-¼
24¾	18¾	PeoplesBcrp-CA	11.4	150.5	18¾	--
24¾	18¾	PeoplesBcshs+CT	8.1	180.2	19¾	-¼
18¾	14¾	PeoplesBancorp-NC	9.2	124.9	15¾	--
24¾	18¾	PeoplesFin'l+MS	10.0	128.0	18¾	-¼
15¾	10	PiedmGovernor-GA	9.4	181.3	12	--
19¾	8	PioneerBkshs+TX	19.8	58.7	14¾	-¼
27	22	PrivateBnkSec-IH	9.0	127.7	22	--
24¾	18¾	PublicSvcBancs-IL	22.0	43.4	19¾	--
29¾	19¾	PugetSoundBnc+WA	11.7	113.9	20¾	--
52¾	42¾	RepublicNYCorp-NY	10.7	133.5	48¼	¼
27¾	14¾	RiggsNatlCorp+DC	8.2	98.6	14¾	--
24¾	18¾	RiverForest-IL	12.9	284.2	20¾	-¼
43¾	23¾	SantaAnnaBancs+CA	10.9	203.0	23¾	-¼
17¾	12¾	SecurityBancorp-GA	8.1	140.5	13	--
54¾	34¾	SecurityPacific-CA	5.7	97.7	35¼	-¼
18¾	13¾	SecurityBancorp-CA	NM	56.4	13¾	-¼
42¾	19¾	SignetBanking-VA	4.3	66.5	19¾	-¼
28¾	20¾	SouthCarFin'l-SC	7.0	114.2	20¾	-¼
21¾	17¾	SouthCentralNtl-Cp-SC	6.7	92.0	18	--
24¾	18¾	SouthTrustCorp+AL	NM	40.3	19¾	-¼
15¾	11¼	SouthernNatCp-NC	9.7	135.5	11¾	-¼
15¾	10¾	SouthwestCorp-IL	6.9	93.3	13¾	-¼
43¾	29¾	SovranFinCorp-VA	5.9	98.4	27¾	1
18¾	15¾	StarBancCorp-OH	9.3	118.9	20	-¼
43¾	31¾	StateStBcorp-MA	14.8	258.1	42¾	-¼
52¾	42¾	SunBanks-FL	NM	46.1	49¾	-¼
26	18	SuburbanBancorp-IL	11.3	82.1	18¼	-¼
25¾	18¾	SummitBancorp-NJ	6.3	96.2	18¾	-¼
23⅝	15¾	SummitcorpIN	8.1	92.7	18¾	-¼
18¾	14¾	SunTrustBancorp-GA	6.8	105.2	15¾	-¼
26¾	20	SunTrustBanks-GA	8.0	124.8	21¼	¼
18¾	14¾	SuntrustBanks-FL	75.0	73.7	15¾	-¼
22¾	17¾	SusquehannaBcsh-PA	8.1	105.9	19	-¼
18¾	12¾	SwiftEnergy-TX	18.6	270.6	15¾	-¼
18½	13	TheFarmersCp-NC	9.9	135.4	18¼	¼
24¾	18¾	ThirdCoastBancp-CA	9.0	102.4	18¾	-¼
43¾	31¾	TrustcompanyNJ	8.8	151.6	35¼	--
24¾	18¾	TrustmarkCorp-MS	7.1	78.2	18¾	-¼
32¾	25¼	U.S. BancorpOR	9.5	138.6	30¾	1¼
24¾	13¾	U.S.TrustCorp-NY	12.4	102.4	27	--
28¾	23¾	UB Financial-IN	6.7	86.0	28¾	-¼
24¾	18¾	UMB Corp-MO	8.0	92.0	18¾	-¼
33	21¼	UnionBanCal-CA	5.4	88.0	22¾	¼
24¾	18¾	UnionPlanters-TN	NM	77.8	32¾	-¼

Data source: Manufacturers Hanover Trust Co., New York.

Description of table: For lenders and borrowers who want rate swap market, the LIBOR swap yield curve is the benchmark interest rate used to active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Libor Swap Yield Curve — Wednesday, July 11, 1990



Key Rates (July 11, 1990)

	7/11	7/10	7/03
Federal Funds-domestic range:	8¼-8⅜	8¼-8⅜	8¼-8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.85	8.00	7.80
6 Month Posted	7.90	8.05	7.85
1 Year Posted	8.00	8.15	7.95
Eurodollar deposits²			
3 Month	8¼	8¼	8¼
6 Month	8⅜	8⅜	8⅜
1 Year	8⅞	8⅞	8⅞
LIBOR²			
3 Month	8⅛	8⅛	8⅛
6 Month	8⅞	8⅞	8⅞
1 Year	8⅞	8⅞	8⅞

*Mid-afternoon quotes, New York market. (¹)— Largest offering rates at selected NYC banks. (²)— Late London bid (²)— Annualized money market basis. - source: Manufacturers Hanover Tr.

Top 25 Thrifts (4 PM prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	18¾	AmericanFed+CA	6.8	90.1	21	¼
45⅜	30⅜	AplleBancorp-KY	8.2	75.2	42	--
28¾	21¾	CalFed Inc+CA	4.1	170.8	22¾	--
55⅜	40	CitadelHldgCp-CA	12.1	74.3	45¾	-¼
20¾	15¾	CrossCountry+CA	NM	42.3	15¾	-¼
17¾	5¾	DimeBcp-NY	NM	19.8	5¾	-¼
14¾	10¾	EquitableBcp-MD	30.0	125.6	11¾	-¼
27	24¾	FirstFedAmerica-MI	10.7	135.2	37¼	-¼
28¾	18¾	FirstFedFin+CA	NM	61.3	19¾	-¼
25¾	11¾	GATXCapital-CA	6.5	34.1	13¾	-¼
28⅜	11¾	GLENFED-CA	6.3	34.1	13¾	-¼
28¾	21¾	GlobalBanc-CA	8.3	175.2	22¾	-¼
31¾	25¾	GreatWestern+Fin-CA	10.9	117.6	28¾	-¼
24¾	17¾	GreenPointSav-NY	7.1	96.4	18¾	-¼
47¼	17¾	HomeFedCp-CA	3.4	34.5	17¾	-¼
24¾	18¾	HomeFed-Bank-CA	13.8	125.6	18¾	-¼
16½	11	HSB Bancorp-MA	11.0	53.7	12¾	--
17¾	12¾	SecurityMutual-NY	8.1	140.5	13	--
18¾	11	RochesterCmty-SB-NY	7.5	47.8	11¾	-¼
18¾	14¾	SouthEastBnkgCp-FL	NM	56.4	13¾	-¼
19¾	9¾	SPSvBancorp-A	NM	65.3	11	-¼
24¾	18¾	WashMutual-WA	8.6	107.9	18¾	-¼
29¾	15¼	WashMutualSB-WA	12.4	70.6	17¾	-¼
24¾	18¾	WestFedSvBk-CA	8.6	206.5	18¾	-¼
11¼	9¾	Westcorp-CA	14.3	97.6	7¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order the 225 largest publicly traded banks and the 25 largest publicly traded thrift institutions in the nation, based on the total market value of all common shares outstanding (As of March 30, 1990), the market value cutoff for banks was $69.6 mil. and for thrifts $121.45 mil.) PE is the price to earnings ratio, 53-week high and low prices for the stock, PE: the price-earnings ratio. It is the current stock price divided by its trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. to bk: the ratio of the current day's closing price to the stock

STOCKS

CityTrust Rises Despite Woes In Real Estate

By FRED VOGELSTEIN

Even though most bank stocks have been falling recently, in anticipation of another dismal set of earnings reports, shares in CityTrust Bancorp, one of the most troubled, have been rising, confounding analysts.

At the close of trading Monday, the stock was at $6.375, up 50% from its July 2 low of $4.25. Since then, the stock has given up only a little of the ground it gained. It closed Wednesday at $6, down 12.5 cents.

Still, analysts say to stay away from the stock. The Bridgeport-based bank has been staggering

A Slight Recovery: Will It Last?

CityTrust Bancorp's price per common share



Price of $6.125 at 3 p.m. on Wednesday
Source: DB Technology Inc.

for more than a year under the weight of bad real estate loans in a market that shows no sign of improving. Its capital is running low, analysts say.

Little Value Seen

"It'll probably round up at zero," said Donald Kauth, an analyst at First Albany Corp. He said he was skeptical of the bank's ability to survive. "It's critically short of capital and long on nonperforming assets."

The company's $85 million in loan loss reserves cover only 30% of its first-quarter nonperforming assets of $285 million, the lowest coverage of any major bank in the area. Those $200 million of unreserved nonperforming assets are more than three times the bank's equity of $60 million.

The bank, which had 1989 assets of $2.63 billion, is due to to report second-quarter results July 18. Analysts expect the losses to continue, although some have stopped predicting how bad they will be. James Plunkett, a company spokesman, would not comment on the prospect of earnings or losses.

No Explanation

As for the recent rally in the stock, "I was surprised the shares stayed as high as they did for so long [when they traded at $9]. I don't know what's causing this," said Lacy Shockley, an analyst at Smith Barney, Harris Upham & Co.

The stock, which traded as high as $34.375 last summer, has been sliding steadily since then. It started May at around $9.50. By the beginning of July it had fallen to its all-time low of $4.25.

Gerard Cassidy, an analyst at Tucker Anthony Inc., in Portland, Me., theorized that the stock's thin trading float was partly responsible for the rise. "One buyer or seller can drive it up or down," he said.

Insiders hold nearly 40% of the company's 4.2 million shares, he said.

"They still have a good franchise in a good market. Maybe someone decided it was so cheap it was worth buying," said Charles Cranmer, an analyst at Shearson Lehman Hutton. "When stocks reach those levels, they don't move on fundamentals."

* * *

WEDNESDAY'S MARKET

Bank stocks tracked the market for the second day in a row, closing mostly higher as the Dow rose 42.08, to 2932.92.

US Bancorp, in Portland, Ore., led the way, gaining $1.50, to $30.25, on news of record second-quarter earnings, a rarity for banks these days.

"Strong loan growth and our philosophy on controlling expenses were two factors leading to these fine results," said Roger L. Breezley, chairman and chief executive officer.

Net income for the second quarter was $47.3 million, or 95 cents a share, up 23% from the $38.4 million, or 78 cents a share, earned in the same last year. Return on assets was 1.10% and on equity 17.20%.

Earnings Estimates Raised

J. Richard Fredericks, an analyst at Montgomery Securities, said the results were so good he was raising his earnings estimates for the year from $3.60 to $3.70 and predicting a 10% to 20% increase in the dividend in the third quarter.

"That growth rate will be at the top of the banking industry for the year," he said.

Wells Fargo & Co. rose $1.375, to $76.25, possibly on news that the outlook for California banks remained strong.

Sovran Financial Corp., which hit a 52-week low of $26 on Monday, climbed $1.125, to $27.25, on Wednesday. It is due to report second-quarter earnings next week, following the completion of its exam from the Office of the Comptroller of the Currency. Although all agree earnings will be down, there is no agreement among analysts about how much.

NCNB Corp. was among those that fell Wednesday, losing 25 cents to reach $34.625.

"I would assume it's primarily concerns about asset quality," said Marc Alpert, an analyst at Bear Stearns & Co. "I think those concerns are exaggerated. We expect nonperforming assets to rise less than 20% in the second quarter, which is better than most Southeastern banks." □

CAPITAL

Spanish Bank to Offer Shares in the U.S.

By KELLEY HOLLAND

In the first of what could be a wave of offerings by foreign banks, the Spanish bank Banco Central is readying an issue of five million American depositary shares, representing 2.5 million shares of common stock.

A number of European banks could soon be actively tapping the American market in order to gain wider placement of their shares before the economic unification due in 1992, market sources said.

"Issuing in the U.S. could give them a wider distribution base and more investors," said Frederick L. Psorro, a senior vice president at Thomson BankWatch.

Broadening Investor Base

As for Banco Central, it is clearly broadening its investor base through the upcoming offering. The offering being readied for American and Canadian investors is taking place at the same time one million American depositary shares will be offered overseas.

Capital raising is not a pressing need for the highly profitable Banco Central. Its net interest margin was a hefty 4.79% on an annualized basis in the first quarter of 1990, and its annualized return on average shareholders' equity was about 48% for the quarter.

Banco Central's Vital Statistics

Capital and profitability ratios as of March 31

Net interest margin	4.79%
Return on average shareholders' equity	48.43%
Tier 1 capital ratio	7.32%
Total capital ratio	11.71

Source: Banco Central

At the end of March, the bank had Tier I capital equal to 7.32% of its risk-weighted assets and a total capital ratio of 11.71%, well in excess of the 4% and 8% required minimum levels, according to a preliminary prospectus.

"When you look at the Spanish banks' capital ratios on a stated basis, they have very good reserves," Mr. Psorro said.

Europeans Get First Crack

Officials from Banco Central are currently marketing a concurrent overseas offering of one million shares to European investors. They will be marketing the domestic issue in the United States next week, according to a senior official at Banco Central.

The offering is for shares now held by an unconsolidated insurance broker subsidiary of Banco Central. Proceeds will be used for general corporate purposes.

Prudential-Bache Capital Markets is lead manager of the offering. Officials there declined to comment on the offering because it is in registration.

* * *

MARKET MONITOR

Sumitomo Bank priced its $500 million 10-year subordinated debt offering at 102 basis points over comparable Treasuries, with a coupon of 9.55%.

The spread over Treasuries is tighter than it has been for any of the American banks in the market for subordinated debt recently. Even Republic New York Corp. offered a yield 105 basis points over Treasuries when it issued $100 million in 10-year subordinated debt late last month.

* * *

Standard & Poor's Corp. lowered its ratings on Shawmut National Corp. on Tuesday, citing the bank's recent announcement that its nonperforming assets could increase nearly 20% in the second quarter.

Shawmut's subordinated debt is now rated below investment grade at BB-plus, down from the previous rating of BBB. □

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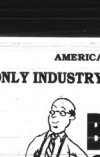

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THE INDEX FOR THE 90'S

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TOP 100 MORTGAGE COMPANIES Tables on page 9, 10

AMERICAN BANKER

VOL. CLV NO. 136 — Friday, July 13, 1990 — 155th year

This Is Friday, So Expect Tales Of Big Seizure

By TOM LEANDER

NEW YORK — Boston has become the banking industry's rumor hub.

Every Friday — the day the Federal Deposit Insurance Corp. usually seizes troubled financial institutions — whispers abound in Boston that Bank of New England may be targeted for takeover.

The FDIC has declined to comment. And Bank of New England officials said they have reassurances from the agency that such a move is not imminent.

Nevertheless, the rumors fly. They first circulated when the bank announced a $1.1 billion fourth-quarter loss because of massive real estate loan problems. And several recent developments have fed the rumor mill.

ANALYSIS: *Follow-up on the news*

• Two weeks ago, a senior FDIC official predicted that the bank insurance fund could decline by as much as $2 billion this year if real estate problems persist and any large bank fails. Since the FDIC typically takes in $4 billion a year, that would imply losses of about $6 billion. Such a loss could only be produced by the failure of a bank the size of Bank of New England.

• In late June, a horde of FDIC examiners suddenly checked into Boston hotels, registering as employees of a mysterious concern, the Who Co. No one – including the FDIC – has produced an exact number of examiners. Reports have said 100. Some analysts said the total may have reached 300, then declined. At any rate, most agree that too many examiners are on hand for just the takeover of a string of smaller banks.

• Last month, two investment bankers advising major bondholders claimed that a Bank of New England Corp. vice chairman told them "one or more" subsidiary banks were in danger of failing within months. R.T. McNamar has denied he made that statement or that the conversation even took place. Some observers believe the report, however.

Bank of New England Corp. has four subsidiary banks. The obvious target for a seizure would be the flagship Bank of New England unit in Boston, analysts said. It has $15 billion in assets.

Other Subsidiaries Vulnerable

And some have suggested that, simultaneous with a Bank of New England seizure, regulators might take over the $9 bil-

See **ANALYSTS** *page 18*

INSIDE NEWS

MORTGAGES



COMMERCIAL BANKS, as part of their broad push in home mortgage finance, have been posting big gains in the business of servicing mortgages for investors, an American Banker survey shows. *Page 8*

FINANCE

MERITOR SAVINGS Bank, continuing a drive to shrink assets and improve capital ratios, announced a series of moves that will result in a second-quarter loss of $128 million and a substantial increase in primary capital. *Page 20*

INTERNATIONAL

U.S. BANKS are unlikely to replenish soon reserves depleted by mandated writedowns on their Brazilian and Argentine loans. *Page 12*

CONSUMER

CLOSE SCRUTINY of small businesses, with judicious use of data bases, can help lenders choose the best prospective customers. *Page 6*

TECHNOLOGY

RECENT COURT RULINGS indicate that banks may be unable to collect operating fees when acting as trustee for a corporation that enters bankruptcy proceedings. *Page 1*

COMMENT

NEW AVENUES have opened to banks seeking enhanced revenues and customer relationships through insurance products and services, writes Philip S. Corwin. *Page 4*

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ATM Derby: Diebold, IBM Join Forces

By RICHARD LAYNE

NEW YORK — In a bid to lead the global market for automated teller machines, Diebold Inc. and International Business Machines Corp. have agreed to form a joint company to manufacture and market self-service banking devices worldwide.

The joint venture gives Diebold a substantial marketing presence in the hot European market and access to IBM's research and development, placing the company on at least equal footing with its computer company rivals.

NCR Is the Leader

IBM and Diebold plan to develop a new generation of self-service machines, using advanced technologies that will allow the machines to grant loans and accept bank documents.

Together, the two companies still trail NCR Corp., the worldwide market leader. According to *The Nilston Report*, an industry newsletter, NCR shipped 15,800 units last year, more than double Diebold's 7,301. IBM shipped 2,955 machines. If the joint venture can overtake NCR in the European market, it could

See **DIEBOLD** *page 3*

Fed Set to Go Beyond Capital Rules of 1992

By ROBERT M. GARSSON

WASHINGTON — The Federal Reserve Board is working on a proposal to require increases in bank capital levels well above the risk-based standards that regulators are phasing in over the next two years, Fed Chairman Alan Greenspan said on Thursday.

In a wide-ranging policy statement before the Senate Banking Committee, Mr. Greenspan did not give specifics on the increase in capital requirements but said they would be "not insignificant" over an extended period.

The minimum would go higher than the 8% ratio of total capital to risk-based assets that the United States and other major countries have agreed to impose by the end of 1992. About 90 of the 100 largest U.S. banks had already hit the 8% level by year-end 1989.

Limits on Expansion

Banks falling short of capital requirements should not be permitted to expand into new lines of business, Mr. Greenspan added, because insufficient capital could threaten the "federal safety net." He said arguments that higher capital standards would place U.S. banks at a disadvantage against international competitors are "short-sighted."



Alan Greenspan
Federal Reserve chairman

"Too many banking organizations, in our judgment, have traveled too far down the road of operating with modest capital levels," he said.

Bank Stocks Driven Down

Mr. Greenspan's threat, made in remarks Thursday morning, to increase the capital burden helped drive down money-center bank stock prices. Chase Manhattan Corp. and Manufacturers Hanover Corp. were off $1 much of the day. Chemical Banking Corp. fell 75 cents to $24.125 in late trading, and Bank of New York fell 62.5 cents to $30.625. (See market report

See **FED** *page 11*

Visa, Paying a Fee of $20 Million, Sees Gold in Olympic Sponsorship

By YVETTE D. KANTROW

NEW YORK – Visa is renewing its corporate sponsorship of the Olympic Games – a strategy that in 1988 proved to be one of the most successful in its history.

The San Mateo, Calif.-based card association plans to sign a pact today making Visa the official card and travelers check for the Games. Visa is paying an estimated $20 million for that privilege and will gain the right to use the Olympics' logo of five interlocking rings in promotions worldwide.

In addition to the sponsorship fee, Visa International is expected to spend $50 million to $60 million on related advertising and marketing campaigns by the time the 1992 events are completed in Albertville, France, and Barcelona, Spain. Advertising will include television, radio, and print efforts with an Olympics theme, and a number of special promotions.

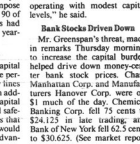
A Cause-Related Drive

As it did for the last Olympics, Visa will sponsor a major cause-related marketing campaign under which it will make a small contribution to the U.S. team each time one of its payment products is used.

"No one gets the value out of the sponsorship fee that we do," said John H. Bennett, a Visa senior vice president who has been instrumental in aligning the card company with various sports

See **VISA** *page 6*

The Olympic Edge
Growth in transaction volume in the 1988 Olympic year



MNC Foresees Quarterly Loss Of $75 Million

By FRED VOGELSTEIN

Adding to investor fears about the Middle Atlantic commercial real estate market, MNC Financial Inc. announced Thursday that its problem loans would more than double and that it would report a $75 million loss for the second quarter.

The bank said in a press statement revealing preliminary results for the quarter that nonperforming assets rose to $750 million from $359 million and its loss would equal 90 cents a share. It said the loss was primarily due to problem loans for commercial real estate.

Largest in Capital Area

The increase raises the bank's ratio of nonperforming loans to loans outstanding to 5.35%, substantially more than the 2% to 3% that analysts have been considering normal recently. With $25 billion in assets, MNC is the largest banking company in the Baltimore-Washington area.

Analysts and an investor said

See **MNC** *page 20*

PEOPLE *in the news*

Innovator or Outlaw? Focus Is on Utah's Chief Regulator

By TERESA CARSON

LOS ANGELES — Normally, the commissioner of financial institutions for Utah does not spend a lot of time in the national spotlight. But George R. Sutton is grabbing attention because the Office of Thrift Supervision is suing him and because he is breaking ground on interstate banking.

Despite this, the 43-year-old Mr. Sutton is not considered a radical. "He is a fair and innovative regulator. He is not reckless or on the fringe," said David Adams, president and chief executive of the Utah League of Credit Unions, Salt Lake City.

The OTS is suing Mr. Sutton for allowing a thrift to switch to a bank charter without the agency's approval. It accused Mr. Sutton of defying an OTS order to seize Home Savings Bank, Salt Lake City, and instead encouraging the thrift to convert to a commercial bank.

In another case with national implications, Mr. Sutton allowed BankAmerica Corp., San Francisco, to branch into Utah using an Arizona bank charter. This eliminated the need for a separate Utah bank charter and is considered a major step toward interstate branch banking.



George R. Sutton

"I'm not trying to stir the waters," said Mr. Sutton, a native of Salt Lake City who studied philosophy at the University of Utah. But he admitted, "I'm willing to look at the regulatory framework a little differently."

Sutton Has Been a Utah Regulator for 7 Years

Mr. Sutton was appointed to his current post three years ago, after being deputy commissioner for four years. Before becoming a regulator, he worked for two small Salt Lake City law firms, where he specialized in real estate and small business.

As commissioner, Mr. Sutton oversees about 185 financial institutions – banks, thrifts, and credit unions – with about $7.5 billion in assets.

Lawry Alder, executive vice president of the Utah Bankers Association described Mr. Sutton as an accessible regulator. "You might have problems with one regulator trying to regulate several industries," he said. "But George tries to be fair."

Resolving Collapse of Thrift and Loan Industry

Mr. Sutton got a trial by fire as a regulator. When he came to the department in 1983, he said, "the thrift and loan industry and its insurance fund was in a general state of collapse." He and the former commissioner eventually closed six of the state's seven thrift and loans.

Mr. Sutton said he tries to balance his concern for safety and soundness with how financial institutions must respond to changing markets. "The health of a financial institution depends on its ability to operate successfully," he said. "They must compete with less regulated businesses, or we doom them to fail." □

Treasury Fears Home Loan Exits

Sees Threat To Funding Of Bailout

By DEBRA COPE

WASHINGTON — A senior Treasury Department official warned this week that an exodus of thrifts from the Federal Home Loan Bank System could impair the system's ability to contribute to the costs of the thrift bailout.

The warning led the Federal Deposit Insurance Corp. board to postpone a discussion at its meeting Tuesday on whether to permit a Wisconsin thrift to retain FDIC insurance after its planned departure from the Federal Home Loan Bank of Chicago.

State-chartered thrifts have traditionally been members of the Home Loan Bank System, but it is not clear whether membership is required for deposit insurance coverage.

Temptation to Cash In

Membership in the system gives thrifts access to liquidity and other operating services.

The Thrifts that Went Out
Applicants to leave the Federal Home Loan Bank System, as of June 25

	Home district	Assets ($millions)	Value of FHLB stock ($millions)
Security Savings & Loan Association	Chicago	$2,100	$14,000
Republic Capital Bank	Chicago	636	3,600
Kenosha S&L Association	Chicago	380	2,800
Wauwatosa Savings & Loan Association	Chicago	352	3,000
Home Savings Bank	Chicago	152	1,100
First S&L Association	Des Moines	147	800
La Jolla Savings Bank	San Francisco	144	880
American Home S&L	Des Moines	81	500

Sources: Federal Housing Finance Board and American Banker

But with the system's earnings lagging, several thrifts have served notice to regional home loan banks that they wish to cash in their shareholdings and reinvest the money elsewhere.

In a Tuesday letter to FDIC Chairman L. William Seidman, Deputy Treasury Secretary John Robson urged the insurance agency to delay a decision on whether to let Wauwatosa Savings and Loan Association keep FDIC coverage after leaving the Home Loan Bank System.

The $352 million-asset thrift was the first to decide to leave the bank system and is the only one to have formally applied for a dispensation from the FDIC.

Taking Extra Time

Mr. Seidman's top aide, John Bovenzi, said Thursday that the

See **HOME LOAN** *page* **13**

First Union and Wachovia Increase Profits

By KENNETH CLINE

ATLANTA — First Union Corp. reported a record loan loss 5.7% in the second quarter, and First Wachovia Corp. announced an 8% increase.

Meanwhile, NBD Bancorp Inc. reported that second quarter earnings rose 2.9% to $68 million.

First Union, Charlotte, N.C., and Wachovia, Winston-Salem, did not take any special loan loss provisions related to exams by the Office of the Comptroller of the Currency, which have caused serious problems at some other Southeastern banks.

First Union's nonperforming assets rose 23%, to $616 million. The company's results incorporated for the first time the full effects of its January acquisition of Jacksonville-based Florida National Banks of Florida Inc.

Gerard J. O'Meara, an analyst with the Atlanta-based brokerage firm Robinson-Humphrey Co., estimated that 45% of First Union's nonperforming assets derived from Florida National's portfolio.

James M. Rosenberg, an analyst with Shearson Lehman Hutton Inc. in New York, said First Union's nonperformers were "a little higher than expected," but expressed overall approval of the second-quarter numbers.

"First Union has been stalled for several years," Mr. Rosenberg said. "These numbers are beginning to show they're generating a little bit of steam after a long period in the station."

In the first half of the year, First Union earned $149 million, compared with a $146 million in the period a year earlier. The year-ago period included after-tax gains of $6 million, primarily from the sale of mortgage servicing rights.

First Wachovia, long considered one of the Southeast's best-run banks, continued its stellar earnings record despite its OCC exam.

"As expected, the impact [of

See **FIRST** *page* **18**

NEWS *briefs*

Torell Is Named Chairman Of Fortune Financial Group

CLEARWATER, Fla. — John R. Torell 3d, a former president of Manufacturers Hanover Corp. and chairman of CalFed Inc., was named chairman of Fortune Financial Group, parent of the $3 billion-asset Fortune Savings Bank.

Mr. Torell, 50, succeeds John A. Moran, who is chairman of Dyson-Kissner Moran Corp., New York. The latter company owns 9.97% of Fortune Financial's stock and has applied to the Office of Thrift Supervision for permission to buy up to 20%. The OTS required Mr. Moran to relinquish his Fortune post as a condition of the stock purchase.

Hove Appointment to FDIC Clears Senate Panel, 19-0

WASHINGTON — The Senate Banking Committee voted 19-0 to recommend that the Senate confirm the nomination of Andrew Hove to the Federal Deposit Insurance Corp. board.

Mr. Hove would fill a seat on the five-member board.

Northeast's Shareholders Approve of Restructuring

HARTFORD, Conn. — Shareholders of Northeast Savings have approved the formation of a holding company, Northeast Federal Corp. The Office of Thrift Supervision reported the move in April as part of a reorganization and capital-raising plan.

MCorp Signs Deal to Sell Waco Bank to Investors

DALLAS — MCorp said it has executed a definitive agreement to sell its interest in MBank Waco to a private investor group led by Gerald J. Ford, an owner of several Texas financial institutions.

MCorp, which is in bankruptcy, owns 100% of MBank Waco, which had $333 million in assets and $329 million in deposits March 31. □

COMPANY *index*

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Bankruptcy Trustee Fees in Doubt

Rulings Might Drive Them from Business, Banks Say

By JEANNE IIDA

NEW YORK — Bankers say recent court rulings indicate that they may be unable to collect operating fees when acting as trustee for a corporation that enters bankruptcy proceedings.

The judicial trend could cause some banks to stop offering these services or to raise fees in order to compensate for possible losses, said bankers with sizable corporate trust operations.

Banks' Alternatives

"These decisions clearly adversely affect our ability to do what we're supposed to do," said Robert I. Landau, Bankers Trust Co. senior vice president. "Banks may start to say, 'As soon as this issue starts to come down the tube, we're getting out, because we're not going to get paid.'" Or they may raise fees, "so the rest of corporate America will have to pay the cost."

Obligations of Trustees

The controversy centers on a bank's role as an indentured trustee.

When a corporation issues bonds, it must appoint a bank to act as trustee for its bondholders. The bank is obliged to process transfers and payments, maintain records, and handle bondholder inquiries.

When a company encounters problems meeting interest payments or has other financial difficulties, the bank is legally obligated to do what it can to make sure bondholders are paid.

Broader Interests

In several recent court cases, judges have decided that unless the bank acts to protect the interests of all creditors – not just the bondholders – it may be entitled to its operating fees and expenses from the bankrupt estate.

Bankers said they are especially concerned about the judges' rulings because of the number and size of bankruptcies. Dun & Bradstreet counted 49,719 bankruptcies in the United States in 1989; total liability was $35.6 billion. Dun & Bradstreet said the trend is slightly up in 1990.

Corporate trust services are offered by 1,854 banks, according to the Federal Deposit Insurance Corp. The FDIC has estimated that about 200 do 50% of the business.

> **"Banks may start to say, 'We're getting out.' "**
>
> **Robert I. Landau**
> *Bankers Trust Co.*

1939 Act Cited

Bankers say that trustees have an obligation under the 1939 Trust Indenture Act to look out for the class of creditors they represent. But doing so may sometimes be to the detriment of other creditors.

For example, if the issuer is having trouble making interest payments, the trustee might speed up payment on the principal of the loan. That could leave less for other creditors.

Amendment Suggested

Some bankers say they would like the federal Bankruptcy Code to be amended to more clearly describe the right of trustees to recover their fees.

They would also like the to be issue reviewed by the Securities and Exchange Commission, which early last year invited comments on the Bankruptcy Code. The SEC has not scheduled hearings to review the comments. The American Bankers Association wrote to the SEC late last year, saying it would testify in any hearings.

The case arousing the most controversy involved Manufacturers Hanover Trust Co. and a flight charter company that issued bonds and then went out of business. A circuit court ruled that Manufacturers Hanover was not entitled to full compensation. The bank had sought about $175,000 from the bankrupt estate in fees and expenses; the court allowed only $18,000.

An appeals court upheld the judgment. The bank settled out of court but maintained throughout that it had upheld its obligations to bondholders.

What Concessions Were Made?

The court essentially asked, "What sort of concessions did you make to help the case draw to a conclusion?" said Timothy Crane, who heads fiduciary operations for Hanover.

But bankers say their top concern must be bondholders.

Someone who has worked hard for the bondholders "should get paid for it," Mr. Crane said.

Additional Costs

Banks also are cautious when an account gets into trouble – a fact the courts are overlooking, Mr. Landau said. Costs triple because the bank spends more time on accounts and sends senior executives to administer them and attend meetings, he said.

Also, banks administering trust accounts engaged in bankruptcy proceedings lose chances to pursue other business, Mr. Landau said. "It's a double-edged sword, with both edges working against the trustees. Even if you get paid the normal fee, you lose money."

The uncertainty surrounding banks' right to recover fees "doesn't make for a viable corporate trust industry," Mr. Landau said. □

Diebold, IBM Join Forces In Global ATM Marketing

Continued from *page* **1**

emerge as the worldwide leader.

Diebold will be the majority owner of the new company, Robert P. Barone, Diebold's president, will become the chief executive officer.

IBM will have a minority stake in the venture, which will be based in Canton, Ohio. It is scheduled to open for business later this year.

Division of Territories

Diebold, which had $451 million in revenue last year, will market the new lines of self-service machines in the United States. IBM, which has worldwide marketing and distribution operations, will sell the machines internationally.

"We were looking to expand our distribution channel outside the U.S.," said Robert W. Mahoney, chairman of Diebold.

Separately, Diebold agreed to purchase IBM's ATM servicing business, increasing its own $241 million servicing operation by about $25 million in annual revenue. The price was undisclosed, but observers said it is less than the annual revenue.

Diebold Sales Trending Upward

Diebold has watched U.S. ATM sales stagnate in recent years, but the Canton-based company has experienced an upturn recently.

Analysts said a new generation of computerlike ATMs has sparked sales in the past six months. Also, a restructuring announced last year to attain manufacturing and operating efficiencies is slightly ahead of schedule, they said.

Mark L. Carr, vice president with McDonald & Co. Securities, Cleveland, said the announcement further brightens the ATM picture for Diebold.

Industry observers said Europe is the fastest growing ATM market, with sales increasing 18% to 22% a year.



Robert P. Barone
Diebold Inc.

"There is a fairly big market for new ATMs in the next five years or so," said Ron Mackintosh, chief executive for Computer Sciences Corp., a U.S.-based consulting and systems integration company, in Britain.

Cutting-Edge Technologies

In a telephone interview, Mr. Mahoney and Marvin Mann, vice president of IBM, said the self-service machines will use advanced technologies not now available in ATMs. They envision machines that can create and transmit images of documents between ATMs and a bank's main processing system. They also said that self-service machines may be equipped with artificial intelligence to emulate a customer's credit and grant car and boat loans.

Mr. Mann said IBM also plans to use the self-service machines in building branch automation systems.

Diebold and IBM will share research and development activities and will have laboratories in Canton and in two major IBM centers – North Carolina and Germany. Observers said the new products could be ready in 18 months. □

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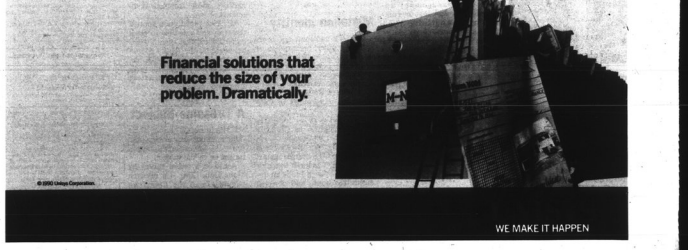

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WE MAKE IT HAPPEN

COMMENT/ *By Philip S. Corwin*

Insurance Powers Arrived In Bits, Pieces over a Decade

The struggle in the past decade to expand insurance opportunities for commercial banks has been arduous. In Congress, particularly, it's been a cliff-hanger.

In 1982, Title VI of the Garn-St Germain Act permanently restricted the Federal Reserve's power to permit new insurance activities by bank holding companies. In 1984, the Senate passed the Dodd amendment, which would have barred insurance activities by the two-thirds of state banks in bank holding companies. The measure died, but a one-year moratorium in 1987 froze federal regulatory action on the issue. In 1988, insurance provisions in the Proxmire bill would have both reaffirmed and restricted states' rights. It died, too.

Openings in Present Laws

The role of the American Bankers Association in the turbulent 1980s was to resist anti-

Mr. Corwin is director and counsel for operations and retail banking at the American Bankers Association in Washington.

competitive legislation while pushing for financial restructuring.

And while no federal law on the subject has been enacted since 1982, the ABA has explored opportunities available under existing law. It has helped individual banks seeking regulatory approval, state banking associations advancing state initiatives, and participants in critical litigation.

After simmering for years, the insurance powers pot has suddenly boiled over. New avenues have opened to banks seeking enhanced revenues and customer relationships through insurance products and services.

The remainder of this article reviews these new options.

Fixed Annuities Power

Feb. 12, the Office of the Comptroller of the Currency advised Goodhue County National Bank of Red Wing, Minn., that it could sell fixed annuities under the general authority of national banks to broker financial investment instruments.

Though generally marketed as a species of insurance, annuities

The ABA has explored opportunities available under existing law.

are not insurance under the National Bank Act because they lack the basic characteristic of indemnification against risk.

An April 1985 ruling by the OCC had allowed national banks to sell variable annuity contracts as securities that may be traded for the account of customers under authority of the Glass-Steagall Act. If the interpretation on fixed annuities withstands legal challenge, national banks will be able to market the full spectrum of annuity products – quite an opening, given that annuities generate about half of all life insurance company premiums.

Publicizing a Distinction

While judging as minimal the risk that customers may confuse annuities with Federal Deposit Insurance Corp.-insured accounts, the OCC nonetheless required full disclosure of this distinction.

Further, before an annuity sale, the bank must obtain a signed customer statement of understanding that the annuity is an obligation of the issuing insurance company and is not FDIC-insured. Also, banks are instructed to determine and fully comply with state laws governing annuity sales.

However, in March 1989, the OCC held that the National Bank Act preempts not only Tennessee's law prohibiting national banks from selling variable-rate annuities but also its statute requiring national bank employees to obtain a state license for such sales.

Hence, it is not clear that the OCC's advice to "fully comply" with applicable state law would include licensing requirements – although variable annuities are securities under federal law and therefore distinguishable from fixed annuities issued by an insurance underwriter.

Small-Town Insurance Offices

May 8, U.S. District Court for the District of Columbia upheld

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FUNNY MONEY/ *By Tom Leander*

Unfunny Papers

A $174,000 lawsuit ain't "Peanuts," even when the defendant is famed cartoonist Charles M. Schulz.

It turns out that the creator of the "Peanuts" comic strip borrowed $174,000 from the ill-starred Penn Square Bank a decade ago – and the bank that took over the loan claims he never made a payment.



AP/Wide World

GOOD GRIEF! A bank is suing cartoonist Charles M. Schulz.

Details of the suit against Mr. Schulz and a dozen other investors were reported late last week by Robin Robinson, writing in the Oklahoma City *Journal Record Press*. According to Ms. Robinson, the investors' group borrowed nearly $1.7 million to participate in a drilling fund, the Copeland Energy 1980 Deep Program Ltd.

The notes were originally due March 1, 1985, but the borrowers apparently renewed them until March 1 of this year. Except for one borrower, who sent $98, they have yet to make any payments of principal or interest on the notes, the Oklahoma newspaper reported.

Penn Square, located in a shopping center in Oklahoma City, collapsed noisily on July 5, 1982. In August 1983 the Federal Deposit Insurance Corp. assigned the notes signed by Mr. Schulz and his coinvestors to Seattle First National Bank, a unit of BankAmerica Corp., which filed suit against Mr. Schulz and the others.

* * *

Chopping Overhead

Yasuda Trust & Banking Co. has found an imaginative way to cut costs, reduce trash, and save trees – all in one stroke.

Yasuda management announced this week that the company cafeteria will switch Aug. 1 to reusable plastic chopsticks.

The firm said it has been going through disposable wooden chopsticks at the rate of 650,000 pairs a year, generating three tons of garbage in the process.

A Yasuda spokesman said a cleaning system will be installed at the cafeteria to wash the new chopsticks at a cost of $6,600 per year. The current size of the bank's chopstick budget was not disclosed.

* * *

Guten Appetit!

East Germans have shown a lusty appetite for capitalist investment vehicles in the few short days since they merged their economy with West Germany through adoption of the western mark as the single currency for both sides.

Citizens of the new, free-market East Germany have invested the equivalent of several million dollars in bonds since July 1. So far, observers say, they have completely shunned the stock market.

Hundreds of financial advisers from East and West Germany are competing to attract business with their investment tips. Along with their appetite for bonds, East Germans are flocking to take advantage of banks that are paying 7.5% on deposits, double the rate paid under the communist regime.

Total East German deposits are estimated at the equivalent of $60 billion. The heavy rate of savings largely reflects the shortage of consumer goods under communism, leaving consumers with little choice but to put their cash in the bank.

John Evans

* * *

Mistaken Identity

NBC-TV had some egg on its face the other night when it broadcast a news item about the Office of Thrift Supervision's civil charges against Thomas Spiegel, flamboyant former chairman of Columbia Savings and Loan Association in California.

The network's "Nightly News" program predictably showed a photograph while anchorman Tom Brokaw ran through the OTS charges against Mr. Spiegel: The thrift regulator claimed Mr. Spiegel took an unauthorized bonus and objected to his alleged use of funds from the junk-bond-laden thrift in Beverly Hills, Calif., to pay for personal travel and tickets to a Michael Jackson concert.

But someone at NBC blundered. Instead of showing Mr. Spiegel's photograph, the network flashed a picture of Lawrence K. Fish, former Spiegel associate and ex-president of Columbia Savings.

Mr. Fish, of course, is now lashed to the tiller at Bank of New England Corp., one of the nation's most troubled institutions.

Mr. Fish's institution spotted the error and was able to get it corrected for that night's NBC newscasts to the Rocky Mountain and Pacific time zones. Mr. Brokaw acknowledged the error nationally and set matters straight on July 6.

* * *

A Tiresome Subject

Cost-cutting may be one of the hottest trends in banking, but some executives clearly are not turned on by the subject.

Asked in a recent survey by Trans Data Corp. – a research subsidiary of the *American Banker* – for the most interesting cost-cutting measure that his institution has implemented, one banker responded: "They were all dull."

— Phil Roosevelt



GOOF: NBC showed Lawrence Fish, not Thomas Spiegel

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SMALL BUSINESS

Data Bases May Provide Edge in Choosing Clients

By LAURYN FRANZONI
Special to the American Banker

For many small-business bankers, trying to gauge their market share performance is like putting pants on an octopus: It is hard to know where to start.

But banks need to look closely at small businesses to decide which they want as clients, consultants say.

In small-business banking as in retail banking, "aggregate market share might be a very misleading statistic," said consultant Barry Deutsch of Coral Gables, Fla. "There are vast segmenting possibilities, and you'd be making a mistake if you failed to segment the small-business market."

Mr. Deutsch recommends that bankers consider three areas of segmentation: size, use of credit, and form of ownership (that is, family owned versus professionally managed).

Even if you knew market share, "you wouldn't know how profitable it was, or even if it was the right share," said Kathleen C. Holmes, executive vice president of Furash & Co., Washington. She advises banks on forming and improving their small-business units.

"You must ask who they are and how site-sensitive those business customers are," she said. Even if a bank has the sites to serve a particular business, she said, "credit quality is so uneven that you need a good screen to identify with whom you would like to do business. One bank may only want to bank 30% of a given market, based on profit potential."

Developing an internal tracking system for the small-business market need not be costly. Executives who have done it say critical elements are time and staff to develop high-quality data.

Some data-gathering services track small-business data, according to consultants. But few of these concerns break the data down into categories that are useful for banks' marketing needs. Loan Pricing Corp., a New York-based research and publishing firm, offers evaluation product designed to compare loan portfolios in a peer group.

> **Even if you knew market share, "you wouldn't know how profitable it was."**
>
> **Kathleen C. Holmes**
> *Furash & Co.*

Loan Pricing's ProtVal project considers criteria of loan portfolios including individual loan size, revenues of the small business, industry line, credit score, purpose, and fees. The results, however, are revenue projections and cost analysis, not market share data.

Ruth Stanat, president of Strategic Intelligence Systems Inc., New York, said the lack of pure data is one reason her firm no longer collects and reports for the financial industry.

"The key challenge banks face is to collect the correct information," she said. "You really have to build it on a local level using some public information and a lot of primary research."

TRW Target Marketing Services, Orange, Calif., offers customer lists based on demographics.

Help with Defining the Criteria

"Many banks have thought out who the customer is, and when we are given that profile we can help them further define the criteria," said communications manager Cheryl Bukacek.

For fees averaging $65 per 1,000 names, TRW scans its vast client lists for business marketing data. At additional cost, the company can prescreen a bank's target customer list according to payment histories, credit scoring, and other features.

"The bank marketer really has to take control," Ms. Bukacek said. "You need to know what you're trying to do and then track the returns carefully to learn how to make the lists respond even better next time."

Consultant Kathy Holmes says that identifying market share is a management issue rather than a technical one. "It's not a massive effort," she said. "Banks need a centralized business development data base."

Such a data base, much like a customer information file, should contain as much information as possible, including product and service usage, on individual business customers.

An Investment of Time, More Than Money

"It really represents more of an investment in time than money," Ms. Holmes said. "You need to dedicate at least one person full time to setting up and maintaining the data. And it's important that information get in and out . . . quickly."

Most advisers recommend beginning a small-business data base with Dun & Bradstreet Inc. or other basic information lists, including credit histories and basic financial data.

Then, they say, banks should use mass-marketing techniques such as mail and telephone surveys to update information on current and prospective customers.

"The data are so poor in small business that banks must continue to find ways to qualify the data base," Ms. Holmes said. "Most of the banks that are doing this well are banks in markets where it is impossible to know every business customer personally."

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Visa Sees Gold in Sponsoring the Olympics

Continued from page 1

and entertainment events.

The money that Visa will spend on its Olympic blitz will be annualized over its advertising budgets for the the next three years and will ultimately be shared by the 200,000 banks that belong to Visa worldwide.

Ad Space Available

Visa's competitors – American Express Travel Related Services Co.; Sears, Roebuck and Co.'s Discover Card; and MasterCard International – will be allowed to buy advertising space during Olympic broadcasts, but only Visa will be accepted within the arenas. And only Visa will have the right to issue cards sporting the Olympic logo.

"We're 'everywhere you want to be,' " said Mr. Bennett, invoking Visa's familiar advertising slogan. "It's a leveraging of that idea."

In aligning itself with high-profile events, Visa is engaging in the type of mass-marketing activities traditionally associated with household brands such as Budweiser, Coca-Cola, Kodak, and Pepsi Cola. In addition to the Olympic Games, Visa has been affiliated with the 1989 Super Bowl and the L.A. Lakers' appearances of the 1990 Paul McCartney World Tour.

... A Form of Leverage

"What we see with the Olympics, with McCartney, and with the Super Bowl, is a way to leverage" the relatively small advertising budget, Mr. Bennett said. While Visa controls 40% of the U.S. card market, it accounts for only 14% of the ad dollars spent in that market.

MasterCard has garnered its share of exclusive sponsorships in recent years, particularly in the sports realm. MasterCard is designated the official card of professional baseball, basketball, and hockey, as well as of the 1990 World Cup tournament of soccer.

Visa's sponsorship of the 1988 Olympic games proved fruitful for the card association. In the United States, Visa's sales volume increased 16% in 1988. The company had projected only 12% growth.

Others Grew More Slowly

By comparison, MasterCard saw U.S. sales volume increase 11% that year. American Express, which did not break down its sales volume by region that year, reported worldwide sales growth of 13%.

Aligning itself with the Olympics also helped Visa gain ground against American Express in the push for prestige, Mr. Bennett said. While American Express is often viewed as having more cachet than bank cards among frequent travelers and other upscale groups, Visa said sponsorships were slowly helping to change that image.

According to studies by Barna Research Group commissioned by Visa, the card was rated best for international travel by only 11.5% of consumers in early 1985. At the same time, 71% of consumers rated American Express the best.

Gaining on Amex

By January 1988, Visa was rated best by 21% of consumers and American Express by 58%. In October of that same year, 27% of consumers said Visa was the best card for international travel; 47% cited American Express.

"We didn't come out ahead, and it will be a long time before we do," Mr. Bennett said. "But that gain was significant for us."

Visa will begin to exercise its sponsorship rights long before the first torch is lit for the 1992 Olympics.

The association is planning an Olympic Card Club under which members marketing Olympic cards to consumers can offer additional benefits, including Olympic newsletters, pins, magazines, and packaged trips to the events.

Visa is planning to buy a substantial amount of advertising time during the Olympics broadcasts. Airtime goes for about $200,000 for a 30-second spot, about one-third more than prime-time advertising usually costs.

"You swallow that hard," Mr. Bennett acknowledged. But the largely professional audience, which has an average annual income of $40,000, is a desirable one for Visa. □

For $10,000 Deposit, First Union Donates a Tree

By ELLEN MEMMELAAR

Money may not grow on trees, but deposits are helping plant trees in South Carolina.

Earlier this week, the First Union National Bank of South Carolina launched a nine-month evergreen certificate of deposit. For every $10,000 invested, the Greenville-based bank will donate a tree to the South Carolina Parks.

Customers will receive a certificate verifying that the tree was planted in honor of the person they choose. Each depositor will also receive a book, "50 Simple Things You Can Do to Save the Earth."

"We thought it was important to come up with something that positioned us as a company concerned about the environment," said Jeep Bryant, a spokesman for the subsidiary of First Union National Bank, Charlotte, N.C. A radio and print advertising campaign, created by William Cook Inc. of Jacksonville, Fla., supports the product.

The bank is offering the CD at an initial interest rate of 8%, 8.10%, and 8.15% for amounts of $10,000, $50,000, and $100,000, respectively. The bank has 56 branches in 32 communities across the state.

"We congratulate First Union and its customers for their vision and for this act of conscience and caring," said Charles Harrison, assistant state park director of the South Carolina Department of Parks, Recreation, and Tourism.

"Everyone has an increasing awareness of our stewardship responsibility to our environment," said Sid Tate, chairman and chief executive of the bank. "We feel this is a chance to care for our state's environment while encouraging economic investment in our state." □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index — **Highest Retail Yields and Jumbo Rates**

These are the highest jumbo CD rates and retail CD yields offered on July 11 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators (an asterisk means 0 (lowest) to 3 (highest) star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

Six-month		
Columbia SBL, Irvine, Calif.		8.87%
Citytrust, Bridgeport, Conn.		8.84
Heritage Svgs Bank, Richmond, Va.		8.82
Imperial TBL, Beverly Hills, Calif.	***	8.80
Maine Savings Bank, Portland		8.78
One-year		
Citytrust, Bridgeport, Conn.		9.11%
Heritage Svgs Bank, Richmond, Va.		9.04
Maine Savings Bank, Portland		8.90
Calif. TBL, Santa Barbara, Calif.	***	8.80
Imperial Fed Svgs, San Diego, Calif.		8.88
Five-year		
Imperial TBL, Beverly Hills, Calif.	***	9.18%
Eastern Svgs Bank, Hunt Valley, Md.	**	9.00
Greater NY Svgs, Medford, N.Y.	***	9.00
NVR Svgs Bank, Malvern, Pa.	*	8.80
Calif. TWRBLoan, Santa Barbara, Calif.	***	8.80

Jumbo Rates

Six-month		
Home Owners Savings, Burlington, Mass.		8.75%
First America Fed Svgs Bk, Longmont, Colo.	*	8.75
Westwood Savings & Loan, Calif.		8.75
Eagle Savings Bank, Chicago, Calif.		8.75
Columbia SBL, Irvine, Calif.		8.70
One-year		
Calif. TBL, Santa Barbara, Calif.	***	8.90%
Heritage Svgs Bank, Richmond, Va.		8.75
New Metropolitan Fed SBL, Hialeah, Fla.		8.75
Dartmouth Bank, Hooksett, N.H.		8.70
Columbia SBL, Irvine, Calif.		8.70
Five-year		
Metropolitan Bank for svgs, Arlington, Va.	***	10.00%
Bank Hapoalim, Chicago, Ill.		9.00
4th General Fin. Cp., Thrift, San Francisco	***	9.00
Imperial TBL, Beverly Hills, Calif.	***	8.80
Equitable Fed Svgs, Wheaton, Md.	*	8.75

Source: Ofdank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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Banks Gain Momentum in Servicing

Survey Finds Shrinking Share for Thrifts' Secondary Markets

By PHIL ROOSEVELT

NEW YORK — Commercial banks, as part of their broad push in home-mortgage finance, have been posting big gains in the business of servicing mortgages for investors.

An *American Banker* survey has found that bank-affiliated companies accounted for 43% of the servicing handled by the top 100 servicing companies last year, up from 35% just two years earlier. And some of the leading banking concerns in the field continue to post big gains this year.

Thrift-related servicing companies, meanwhile, saw their share drop to 20% from 29% in 1987, reflecting efforts to comply with the capital requirements of the thrift bailout law. Other mortgage companies, including independents and units of industrial concerns, saw their share rise slightly, to 37%.

Top 100 Servicing Companies

A ranking of the top 100 servicing companies, along with a description of their ownership, appears on the following two pages. This annual ranking focuses on mortgage companies and thus excludes a number of thrifts that perform servicing directly rather than through mortgage company subsidiaries.

Mortgage servicing, long the most profitable part of mortgage banking, entails funneling monthly payments from borrowers to investors, handling property tax and insurance payments, and initiating foreclosure proceedings.

The rise of commercial banks in the field, which follows a slide in the mid-1980s, underscores banks' increased role in virtually all areas of mortgage finance.

Rise in Bank Originations

As part of overall strategies to boost consumer banking, many banks have sharply increased their originations of mortgages in the past two years. In June 1990, banks surpassed savings and loans in originations for the first time, as insolvent and capital-short thrifts pulled back.

The industry has also posted big increases in its holdings of mortgage-backed securities, encouraged by risk-based capital rules.

Some industry observers say banks' growth in servicing could be slowed by a pending rule to restrict the amount of purchased servicing rights that banks and thrifts can count toward capital.

The ranking excludes thrifts that service directly.

To proposal, if enacted, could well cause the mortgage units of nondepository institutions to gain ground. But some leading bank-related companies say they are loading up on servicing, both by purchases and through their own originations.

Chase Home Mortgage Corp., for example, expects to be servicing more than $23 billion of mortgages by yearend, up from $14 billion at the end of 1989 and $10.7 billion at the end of 1988. The unit of Chase Manhattan Corp. is a big buyer and recently purchased a $2 billion portfolio from a unit of capitalstrapped Crossland Savings.

First Union Mortgage Corp. increased its servicing portfolio to $15.3 billion last year from $10.6 billion. The portfolio should hit around $19 billion by the end of this year, said James Abbott, chief executive officer of the First Union Corp. subsidiary.

Megaservicer in the Making

It has been recognized by our holding-company management that we have the capabilities . . . to be a megaservicer," Mr. Abbott said.

The two mortgage units of Fleet Norstar Financial Group boosted their combined portfolio by 53% last year, to $41.3 billion. By the end of this year, that could hit $50 billion, Fleet officials have indicated. □

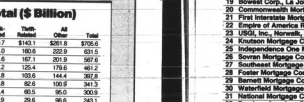
Top 100 Servicing Companies
A look at market share of banks, thrifts, and all others

Number of Companies



Year	Bank-Related	Thrift-Related	All Other
1990	37	30	33
1989	40	29	31
1988	34	26	31
1987	35	31	34
1986	37	27	36
1985	41	25	34
1984	45	20	35
1983	46	12	42

Servicing Total ($ Billion)



Year	Bank-Related	Thrift-Related	All Other	Total
1990	$300.7	$140.1	$261.8	$705.6
1989	248.0	160.6	222.9	631.5
1987	196.6	167.1	201.9	567.6
1986	156.2	125.4	179.6	461.2
1985	149.8	103.6	144.4	397.8
1984	157.8	82.6	100.9	341.3
1983	145.4	60.5	96.0	300.9
1982	116.9	29.6	96.6	243.1

Percent of Total Servicing



Year	Bank-Related	Thrift-Related	All Other
1990	42.6%	20.3%	37.1%
1989	39.3	25.4	35.3
1987	35.0	29.4	35.6
1986	33.9	27.2	38.9
1985	37.7	26.0	36.3
1984	46.2	24.2	29.6
1983	48.3	20.1	31.6
1982	48.1	12.2	39.7

MBA Membership Makes Sense

To more than 2,600 mortgage bankers, servicers, investors and others in the real estate finance industry, membership in the Mortgage Bankers Association of America makes sense. As commercial banks come to the fore in mortgage lending, membership in MBA makes sense for them.

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For more information call: Membership Department, Mortgage Bankers Association of America, 202 861 6568

TALKING markets

Realty Brokers Face Cap on Loan Fees

By PHIL ROOSEVELT

Pennsylvania is poised to become the first state to impose a limit on the fees real estate brokers may charge for helping homebuyers obtain mortgages.

The Pennsylvania Real Estate Commission last month proposed to limit such fees to $100, unless the realty broker holds a license to act as either a mortgage broker or mortgage banker.

The proposal, though still subject to a lengthy review process, has drawn observers from mortgage banking trade groups in Pennsylvania and elsewhere. These groups have argued that real estate brokers have a conflict of interest when they take mortgage fees from borrowers while earning commissions from sellers.

Cap Called Too Low

But the National Association of Realtors and some lenders said the $100 cap was arbitrary and low.

The proposal "is of tremendous significance," said E. Robert Levy, executive director of the Mortgage Bankers Association of New Jersey and a consultant to the Pennsylvania Mortgage Bankers Association. He said it could give new momentum to efforts to limit the fees on a nationwide basis.

While some states, such as Connecticut, have passed laws requiring that realty brokers' mortgage fees be commensurate with services rendered, several experts said they knew of no other state that has set a cap.

The $100 cap is lower than many observers had expected and well below the fees realty brokers earn under the programs of many lenders. The programs often allow brokers to charge homebuyers a feed of about 1%.

A spokeswoman for Citicorp Mortgage Inc., Citicorp's main mortgage unit, said her company had no objections to the idea of limiting mortgage fees for re-

Key Interest Rates

	Prior week ended 7/6/90	Week ago ended 6/29/90	Year ago ended 7/7/89
30-year fixed-rate mortgage	10.13	10.20	10.17
1-year adjustable-rate mortgage	8.38	8.39	8.66

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for all loan types.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 7/11	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	99-08	-0-19	9.77	+0.11	+120	-5
Fannie Mae 9½%	99-25	-0-24	9.81	+0.15	+124	-1
Freddie Mac 9½%	99-25	-0-24	9.80	+0.15	+123	-1

Yields, bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. (†— Current coupon changed since last week.
Source: Merrill Lynch Mortgage Research

Top 100 Firms in Mortgage Servicing for Investors

Among mortgage companies and commercial banks, based on permanent mortgages serviced for investors on Dec. 31, 1989

Rank 1989	Name of Firm and Headquarters City	Dollar Volume of Mortgages Serviced 12/31/89	12/31/88	Rank 1988	Gain in Rank	Number of Mortgages Serviced 12/31/89	12/31/88	Number of Investors Including Pools 12/31/89	12/31/88	Number of Pools 12/31/89	12/31/88	Year Established
1	Citicorp Mortgage, Inc., St. Louis	60,600,000,000	52,200,000,000	1		696,800	639,000	322	448	11,851	4,103	1967
2	Fireman's Fund Mortgage Corp., Farmington Hills, Mich.	29,706,000,000	22,763,639,647	3	+1	512,314	443,620	497	460	21,311	12,305	1946
3	GMAC Mortgage Co., Ellisville, Mo.	29,670,723,399	25,658,375,090	2		418,907	382,923	845	1,114	4,492	5,039	1985
4	First Mortgage Corp., Milwaukee, Wis.	22,997,761,000	19,196,709,199	5	+1	407,596	347,000	497	597	6,631	4,826	1921
5	Lomas Mortgage USA, Dallas	21,001,026,000	21,751,283,373	4		532,575	564,211	N.A.	862	5,876	5,583	1894
6	First Nat'l Bank Mortgage Corp., Florence, S.C.	18,181,461,000	14,797,769,941	14	+8	321,633	267,232	716	618	9,466	5,470	1933
7	Meimor Financial, Inc., Overland Park, Kan.	15,984,149,000				303,653		793		6,352		1989
8	First Union Mortgage Corp., Charlotte, N.C.	15,257,362,000	10,804,341,000	16	+8	228,099	181,154	340	340	2,156	1,873	1946
9	BancBoston Mortgage Companies, Inc., Jacksonville, Fla.	14,387,000,000	13,235,142,526	7		298,075	279,385	716	1,000	6,172	4,704	1926
10	Chase Home Mortgage Corp., Tampa, Fla.	14,040,617,586	10,648,900,000	15	+5	185,943	145,247	203	300	6,179	4,454	1960
11	Security Pacific Mortgage Corp., Irvine, Calif.	13,985,878,486	14,137,100,000	6	-5	191,032	184,941	1,334	1,334	1,946	3,334	1946
12	Goldome Realty Credit Corp., Buffalo, N.Y.	12,237,400,000	12,956,137,894	9		196,076	217,575	501	525	8,428	4,352	1983
13	Chemical Mortgage Co., Columbus, Ohio	12,187,641,000	10,559,805,000	20	+7	134,176	106,288	226	364	2,408	2,408	1983
14	Countrywide Funding Corp., Inc., Pasadena, Calif.	11,782,629,000	11,054,513,460	12		159,466	153,173	89	61	4,278	16,968	1969
15	Weyerhaeuser Mortgage Co., Los Angeles	11,572,623,000	10,842,885,000	13		159,839	159,018	393	466	3,369	4,104	1955
16	Marine Midland Bank NA, Buffalo, N.Y.	11,033,000,000	5,578,000,000	36	+20	134,223	78,431	111	116	1,005	8,450	1976
17	Travelers Mortgage Services, Inc., Cherry Hill, N.J.	11,001,811,718	8,714,447,825	29	+12	117,863	73,688	60	45	7,164	5,404	1945
18	BancPlus Mortgage Corp., San Antonio, Tex.	10,774,407,000	12,062,920,000	11		199,090	235,473	782	998	7,053	6,816	1985
19	Bowest Corp., La Jolla, Calif.	10,182,118,292	3,324,354,011	65	+46	205,689	81,426	204	234	6,481	750	1971
20	Commercial Mortgage of America, L.P., Houston	9,760,778,000	12,117,306,000	8		228,202	249,425	522	692	4,413	4,511	1959
21	First Interstate Mortgage Co., Pasadena, Calif.	9,473,000,000	9,741,000,000	19		91,606	93,576	0	589	0	2,227	1971
22	Empire of America Realty Credit Corp., Buffalo, N.Y.	9,340,000,000	7,434,470,592	27	+5	148,492	130,308	133	352	4,598	2,429	1984
23	USGI, Inc., Norwalk, Conn.	9,332,399,000				4,062		247		482		1970
24	Knutson Mortgage Corp., Bloomington, Minn.	9,287,778,307	10,077,500,000	18		163,726	152,939	362	356	5,371	5,379	1954
25	Independence One Mortgage Corp., Southfield, Mich.	9,250,936,188	8,506,014,045	22		166,372	161,792	207	270	5,058	3,860	1970
26	Sovran Mortgage Corp., Richmond	8,755,587,000	7,667,000,000	25		160,574	153,801	285	303	3,957	3,184	1963
27	Southeast Mortgage Co., Miami	8,602,000,000	6,100,000,000	35	+8	106,821	69,405	465	465	1,000	920	1970
28	Foster Mortgage Corp., Fort Worth, Tex.	8,183,922,922	6,031,755,102	33	+5	106,337	77,881	276	262	7,472	3,898	1938
29	Barnett Mortgage Company, Jacksonville, Fla.	7,929,454,149	6,653,382,234	30	+1	125,622	115,586	172	148	1,000	1,000	1941
30	Waterfield Mortgage Co., Inc., Fort Wayne, Ind.	7,342,000,000	6,378,000,000	31	+1	161,150	150,100	219	225	2,257	2,018	1928
31	National Mortgage Co., Memphis, Tenn.	7,334,457,325	5,346,336,961	43	+32	172,072	107,282	100	102	3,250	0	1951
32	Barclays American/Mortgage Corp., Charlotte, N.C.	6,808,333,741	2,756,806,000	78	+46	116,805	61,898	106	102	4,410	2,404	1984
33	Sovran Mortgage Service Inc., Reno, Calif.	6,546,610,607	4,498,400,000	47		95,505	118,329	655	450	2,358		1973
34	Midland Mortgage Co., Oklahoma City	6,289,165,050	4,733,000,000	42	+8	106,508	80,113	272	272	1,844	1,920	1950
35	Anchor Mortgage Services, Inc., Wayne, N.J.	6,229,065,291	6,849,479,511	28		109,663	124,499	0	192	686	819	1973
36	Sears Mortgage Corp., Chicago	6,099,000,000	5,799,704,337	21		79,623	139,038	250	250	1,000	1,077	1982
37	Bank of America NT&SA, San Francisco	5,800,000,000	4,200,000,000	47	+10	120,396	90,395	324	222	1,684	406	1904
38	Associates National Mortgage, Columbus, Ohio	5,360,000,000	5,151,000,000	38		69,011	68,166	0	0	3,100	2,400	1984
39	CrossLand Mortgage Corp., Salt Lake City	5,359,000,000	4,098,353,802	48	+9	52,000	40,962	181	190	7,139	935	1892
40	Troy & Nichols, Houston, Tex.	5,146,000,000	4,500,000,000	45	+5	108,172	104,033	373	373	1,000	1,000	1971
41	J.J. Kislak Mortgage Service Corp., Miami	5,075,132,217	4,066,342,860	49	+8	132,222	126,085	0	287	2,994	2,184	1953
42	Southeast Mortgage Company, Dallas	5,036,052,560	3,966,405,904	104	+62	98,998	77,141	372	147	6,767	2,737	1974
43	Dorman & Wilson, Inc., White Plains, N.Y.	4,875,731,000	3,956,000,000	52		699	867	53	+10	0	0	1977
44	ARCS Mortgage, Inc., Calabasas, Calif.	4,836,809,000	3,424,291,545	60	+16	59,450	48,803	71	104	781	3,296	1971
45	Talman Home Mortgage Corp., Chicago	4,835,100,000	4,941,175,000	41		113,786	119,286	194	194	1,000	1,000	1981
46	Alliance Mortgage Co., Jacksonville, Fla.	4,694,408,185	5,317,564,949	37		91,259	101,527	225	190	3,826	2,396	1960
47	Aetna Home Mortgage Co., Dallas	4,640,807,139	2,965,097,026	75	+28	85,146	66,425	266	266	4,000	2,847	1987
48	Paine Webber Mortgage Finance, Inc., Columbia, Md.	4,627,892,998	4,272,000,000	44		33,664	32,713	61	70	1,207	1,250	1938
49	National Bank of Detroit, Detroit, Mich.	4,535,572,000	4,611,000,000	39	+1	91,264	92,219	0	0	1,000	1,000	1933
50	U.S. Bancorp Mortgage Co., Portland, Ore.	4,493,037,306	4,014,241,423	51	+1	74,394	71,988	202	201	2,889	2,329	1967
51	Coldwell Banker Comm'l Mtge Sls Services, El Segundo, Calif.	4,472,498,993	3,828,675,266	55	+4	4,195	3,668	16	15	0	0	1972
52	Lincoln Mortgage Co., Miami	4,253,941,019	4,236,155,135	40		60,692	62,086	122	114	1,229	1,146	1976
53	SunTrust Mortgage, Inc., Atlanta	4,235,643,000	3,687,789,301	56	+3	74,352	66,539	264	280	1,415	1,235	1927
54	Banc/Mortgage Capital Corp., Inc., East Providence, R.I.	4,188,300,000	3,956,000,000	52		66,200	70,000	2,600	2,600	1,000	1,000	1985
55	Commonwealth Mortgage Co., Wellesley Hills, Mass.	4,028,411,233	2,733,418,197	80	+25	46,636	36,599	113	105	1,752	1,278	N.A.
56	Security Pacific National Bank, Los Angeles	3,937,532,456	3,387,682,758	61	+5	50,373	54,104	154	154	0	1,000	1981
57	Shawmut Mortgage Co., West Hartford, Conn.	3,929,327,000	4,400,000,000	43		55,085	65,000	240	250	1,458	2,480	1985
58	Dominion Bankshares Mortgage Corp., Fairfax, Va.	3,749,417,000	2,527,197,000	85	+27	55,081	41,344	55	52	3,475	1,158	1900
59	Commercial Federal Mortgage Corp., Omaha, Neb.	3,599,225,765	1,941,736,827	87	+8	75,631	63,647	234	234	1,000	1,000	1983
60	Metropolitan Financial Mortgage Corp., St. Paul, Minn.	3,547,094,387	3,929,377,000	54		69,718	77,759	478	325	601	1,034	1985
61	Murray Mortgage Co., Dallas	3,490,000,000	3,121,550,337	70	+9	52,320	48,249	250	250	1,000	850	1908
62	CitiFed Mortgage Corp. of America, Dayton, Ohio	3,383,701,276	2,965,097,026	71	+9	52,873	44,111	48	45	2,667	639	1980
63	American Home Mortgage Corp., Melville, N.Y.	3,291,425,302	2,615,000,000	83	+20	64,560	36,082	79	79	2,744	2,628	N.A.
64	First Wachovia Mortgage Co., Winston-Salem, N.C.	3,280,569,435	2,864,589,799	74	+10	63,563	56,510	125	135	1,403	925	1968
65	United Mortgage Corp., Dallas	3,268,819,817	2,965,097,026	77	+12	49,873	42,029	65	65	1,351	1,229	1975
66	C&S Real Estate Services, Inc., Tucker, Ga.	3,229,216,493	3,455,559,000	58		64,632	64,130	374	467	1,053	1,053	1973
67	York Associates, Inc., Bethesda, Md.	3,217,187,203	2,979,500,000	73	+6	557	576	0	N.A.	557	576	1980
68	M-I-Home Mortgage, Inc., Orange, Calif.	3,207,967,000	3,350,000,000	62		44,180	47,415	124	100	2,438	762	1984
69	Altus Mortgage Corp., Mobile, Ala.	3,168,416,282				60,999		120		4,599		1963
70	Real Estate Financing, Inc., Montgomery	3,157,513,000	2,573,383,944	84	+14	74,777	68,099	227	225	1,000	1,169	1946
71	NBD Mortgage Co., Troy, Mich.	3,140,869,985	2,769,910,736	76	+5	75,135	71,093	195	127	1,727	108	1973
72	AmSouth Mortgage Co., Inc., Birmingham, Ala.	3,126,234,296	2,964,000,000	64		92,401	98,483	210	1,564	1,645	1,645	1946
73	Meridian Mortgage Corp., Wayne, Pa.	3,124,476,419	1,994,304,989	100	+27	45,069	36,603	80	60	2,045	974	1983
74	First California Mortgage Co., San Rafael, Calif.	3,100,000,000	1,950,000,000	102	+28	28,150	20,245	151	0	296	0	1953
75	Lumberman's Mortgage Corp., Austin, Tex.	3,097,786,425	2,965,097,026	78		62,162	63,972	252	186	1,476	1,476	1954
76	Heitman Financial Services Ltd., Chicago	3,036,635,000				928		5		0		1913
77	America's Mortgage Servicing, Inc., Lisle, Ill.	3,015,838,187	3,520,333,000	57		48,089	69,390	25	150	1,276	3,074	1978
78	America's Mortgage Co., Springfield, Ill.	2,915,638,169	1,160,000,000	155	+77	48,088	21,889	25	27	1,278	533	1925
79	Lefcon & Bruhl, Inc., Philadelphia	2,900,000,000	2,800,000,000	82	+3	790	796	36	38	0	0	1952
80	Crester Mortgage Corp., Richmond	2,812,951,172	2,009,809,183	99	+19	57,468	46,580	260	273	2,739	1,636	1927
81	Victoria Mortgage Co., San Antonio, Tex.	2,779,854,000	2,960,180,418	72		54,086	58,364	174	230	2,382	2,382	1961
82	SCG Mortgage Corp., Hollywood, Fla.	2,776,846,008				33,040		25		1,252		1987
83	PHH US Mortgage Corp., Cherry Hill, N.J.	2,758,314,000	1,551,343,000	127	+44	37,782	18,547	25	15	169	471	1977
84	Huntington Mortgage Co., Columbus, Ohio	2,729,600,000	1,086,742,000	160	+76	40,155	22,819	75	75	1,000	1,000	1985
85	NVR Mortgage, L.P., Pittsburgh	2,713,445,830	2,470,003,907	97	+12	38,790	40,181	103	92	2,309	2,097	1970
86	Citizens Mortgage Corp., Fort Lee, Louisville, Ky. (d)	2,686,000,000	1,744,000,000	108	+22	49,650	35,352	81	81	1,000	1,000	1968
87	FBS Mortgage Corp., St. Paul, Minn.	2,635,849,000	2,352,234,000	91	+4	31,126	32,447	179	187	938	807	1968
88	Bailey Mortgage Co., Jackson, Miss.	2,561,308,418	1,642,853,520	118	+30	44,335	45,983	180	180	1,000	1,000	1974
89	Loan America Financial Corp., Mineral Lakes, Fla.	2,546,471,398	2,016,502,916	98	+9	26,321	24,413	78	80	1,383	1,413	1980
90	Cal-Bay Mortgage Group, San Rafael, Calif.	2,536,292,000				24,902		N.A.		N.A.		1983
91	Western Mortgage Loan Corp., Salt Lake City	2,513,232,921	1,837,889,000	103	+12	44,020	31,489	0	46	1,573	1,036	1951
92	WeSav Mortgage Corp., Gilbert, Ariz.	2,464,955,920	1,356,530,735	135	+43	46,533	24,732	90	8	1,940	150	1971
93	Margaret Kimberly & Company, Inc., Fort Amboy, N.J.	2,404,000,000	2,776,61,223	94	+1	39,531	38,310	61	64	981	1,009	1969
94	National State Bank, Elizabeth, N.J.	2,336,639,449	1,743,000,000	113	+19	36,888	29,215	74	50	4,367	2,453	1865
95	Interwest Mortgage Corp., Ponca City, Okla.	2,332,487,000				27,848		25		5,698		1987
96	CenTrust Mortgage Corp., Deerfield Beach, Fla.	2,306,341,000	2,335,240,000	92		26,564	31,393	123	200	546	562	1975
97	HCNB Mortgage Corp., Charlotte, N.C.	2,227,900,262				31,496		69		1,000		1966
98	Colonial Mortgage Co., Montgomery, Ala.	2,185,277,190	2,383,330,256	89		53,255	58,120	75	118	1,134	1,157	1966
99	TCF Mortgage Corp., Minneapolis	2,179,326,508	1,864,644,000	101	+2	53,616	52,690	30	28	774	646	1962
100	Directors Mortgage Loan Corp., Riverside, Calif.	2,172,090,867	1,785,676,882	110	+10	24,111	21,508	34	32	2,139	1,930	1964

Data Source: American Banker questionnaire to the top 200 mortgage companies and commercial banks in mortgage servicing. **Description of table:** A ranking of individual mortgage companies and commercial banks based on the dollar volume of mortgages serviced for investors. **Dollar Volume of Mortgages Serviced:** permanent commercial and residential real estate mortgages serviced for investors. Excludes mortgages owned by the institution, as well as forward commitments, home improvement loans and all temporary financing, such as construction and development loans. **Number of Mortgages Serviced:** are the number of loans associated with the volume reported. **Number of Investors Excluding Pools:** includes depository institutions such as thrifts and banks, pension funds, insurance companies, etc. **Number of Pools:** This is the sum of GNMA pools, FNMA pools, and FHLMC pools.

Compiled by American Banker, Bethesda, Md.

MORTGAGE SERVICING

Ownership of the Top 100 Firms in Mortgage Servicing

The name of parent company as of Dec. 31, 1989, and recent developments

Rank 12/89	Name of Mortgage Servicer	Name of Parent Company	Recent Developments
1	Citicorp Mortgage, Inc., St. Louis	Citicorp, New York	
2	Fireman's Fund Mortgage Corp., Farmington Hills, Mich.	Fireman's Fund Corp., Novato, Calif.	
3	GMAC Mortgage Co., Elkins Park, Pa.	General Motors Acceptance Corp., Detroit	Acquired $5.6 billion in servicing rights during 1989.
4	Prudential Mortgage Corp., Milwaukee, Wis.	Fleet/Norstar Financial Group, Inc., Providence, R.I.	
5	Lomas Mortgage USA, Dallas	None, independent.	Acquired $3.5 billion in servicing from Bright Mortgage Co.
6	Fleet Real Estate Funding Corp., Florence, S.C.	Fleet/Norstar Financial Group, Inc., Providence, R.I.	Acquired Norstar Mortgage Corp.
7	Metmor Financial, Inc., Overland Park, Kan.	Metropolitan Life Insurance Co., New York	
8	First Union Mortgage Corp., Charlotte, N.C.	First Union Corp., Charlotte, N.C.	
9	BancBoston Mortgage Corporation, Inc., Jacksonville, Fla.	Bank of Boston Corp., Boston	
10	Chase Home Mortgage Corp., Tampa, Fla.	Chase Manhattan Corp., New York	
11	Shearson Lehman Mortgage Corp., Irvine, Calif.	Shearson Lehman Hutton Inc., New York	
12	Goldome Realty Credit Corp., Buffalo, N.Y.	Goldome, Buffalo, N.Y.	
13	Chemical Mortgage Corp., Columbus, Ohio	Chemical Banking Corp., New York	
14	Countrywide Funding Corp., Inc., Pasadena, Calif.	Countrywide Credit Industries, Inc., Pasadena, Calif.	
15	Weyerhaeuser Mortgage Co., Los Angeles	Weyerhaeuser Co., Tacoma, Wash.	
16	Marine Midland Bank, Inc., Buffalo, N.Y.	Marine Midland Banks, Inc., Buffalo, N.Y.	Acquired $1 billion in servicing in 1988.
17	Travelers Mortgage Services, Inc., Cherry Hill, N.J.	Travelers Corp., Hartford, Conn.	In May, agreed to sell $12 bil. in servicing to GE Mortgage Capital. On 6/28, TMSI reached an agreement to sell its retail production operations to Meridian Mortgage Corp. and to Margaretten & Co.
18	BancPlus Mortgage Corp., San Antonio, Tex.	BancPlus Savings Assn., Pasadena, Tex.	
19	Bowest Corp., La Jolla, Calif.	Bowest Holding Co., San Diego, Calif.	Acquired $7 bil. portfolio of New York Guardian Mortgagee Corp.
20	Commonwealth Mortgage of America, L.P., Houston	Commonwealth Federal Savings Assn., Houston	Parent is in RTC conservatorship. On 4/30/90, Commonwealth sold $1.8 billion of servicing to Houston-based United Savings Association of Texas, the thrift led by mortgage-securities pioneer Lewis S. Ranieri. On 6/21, released plan to unitholders to liquidate and dissolve company.
21	First Interstate Mortgage Co., Pasadena, Calif.	First Interstate Bancorp., Los Angeles	
22	Empire of America Realty Credit Corp., Buffalo, N.Y.	Empire of America Fed. Savings Bank, Buffalo, N.Y.	
23	USGI, Inc., Norwalk, Conn.	None.	
24	Knutson Mortgage Corp., Bloomington, Minn.	Home Owners Savings Bank, Boston	Acquired Huntoon, Paige Associates for about $30 mil. on 10/24/89.
25	Independence One Mortgage Corp., Southfield, Mich.	Michigan National Corp., Farmington Hills.	Acquired $2.6 billion in servicing last year.
26	Sovran Mortgage Corp., Richmond	Sovran Financial Corp., Norfolk, Va.	
27	Southeast Mortgage Co., Miami	Southeast Banking Corp., Miami	Selling $6.4 bil. in servicing to 36th-ranked Sears Mortgage.
28	Foster Mortgage Corp., Fort Worth, Tex.	Benjamin Franklin Savings Assn., Houston	Negotiations are under way for the acquisition of the company.
29	Barnett Mortgage Company, Jacksonville, Fla.	Barnett Banks, Inc., Jacksonville	
30	Waterfield Mortgage Co., Inc., Fort Wayne, Ind.	None, independent.	
31	National Mortgage Co., Memphis, Tenn.	None, independent.	
32	Barclays American/Mortgage Corp., Charlotte, N.C.	Barclays American Corp., Charlotte, N.C.	Acquired over $2 billion in servicing rights over the last half of 1989.
33	Imco Realty Services Inc., Santa Rosa, Calif.	Owned by a limited partnership.	
34	Midland Mortgage Co., Oklahoma City	Midland Financial Co., Oklahoma City	
35	Anchor Mortgage Services, Inc., Wayne, N.J.	Anchor Savings Bank FSB, Northport, N.Y.	
36	Sears Mortgage Corp., Riverwoods, Ill.	Sears Roebuck & Co., Chicago	Agreed to but $6.4 bil. portfolio from 27th-ranked Southeast Mortgage.
37	Bank of America NT&SA, San Francisco	BankAmerica Corp., San Francisco	
38	Associated National Mortgage Corp., Irving, Tex.	Ford Motor Co., Dearborn, Mich.	Gulf + Western, Inc. sold company to Ford in Oct. 1989. Immediate parent company is Associated Real Estate Financial Services Co., Inc.
39	CrossLand Mortgage Corp., Salt Lake City	CrossLand Savings FSB, Brooklyn, New York	
40	Troy & Nichols, Inc., Monroe, La.	Southwest Savings Assn., Dallas	
41	J.I. Kislak Mortgage Service Corp., Miami	J.I. Kislak, Inc., Miami	Acquired $788 million in servicing last year.
42	Sunbelt National Mortgage Corp., Dallas	Sunbelt Savings FSB, Dallas	
43	Dorman & Wilson, Inc., White Plains, N.Y.	None, independent.	
44	ARCS Mortgage, Inc., Canoga Park, Calif.	Bank of New York Co., Inc.	
45	Talman Home Mortgage Corp., Chicago	Talman Home Federal Savings & Loan Assn., Chicago	
46	Alliance Mortgage Co., Jacksonville, Fla.	Bridges, Minchew & Wheeler, Savannah, Ga.	Company was sold by Owens-Illinois, Inc., Toledo, Ohio.
47	Banc One Mortgage Corp., Indianapolis	Banc One Corp., Columbus, Ohio	Acquired servicing portfolio of Weaver Brothers, Chevy Chase, Md., 10/89.
48	Paine Webber Mortgage Finance, Inc., Columbia, Md.	PaineWebber, Inc., New York	
49	National City Mortgage Co., Miamisburg, Ohio	National City Corp., Cleveland	Formerly Shawmut Mortgage Corp. Merged BancOhio Mortgage Co., a sister company with $728 million in servicing (16,800 loans)
50	U.S. Bancorp Mortgage Co., Portland, Ore.	U.S. Bancorp., Inc., Portland, Ore.	12/1/89. And it purchased $980 million (17,000 loans) from First National Bank, Louisville, another affiliate 10/1/89.
51	Coldwell Banker Real Estate Fin. Ser., El Segundo, Calif.	Sears Roebuck & Co., Chicago	Acquired Sears Savings Bank's commercial loan servicing portfolio.
52	Lincoln Service Corp., Owensboro, Ky.	Great Financial Federal Savings & Loan Assn., Louisville	
53	SunTrust Mortgage, Inc., Atlanta	SunTrust Banks, Inc., Atlanta	
54	BancNewEngland Mortgage Co., Inc., East Providence, R.I.	Bank of New England Corp., Boston	Formerly known as BNE Mortgage Corp.
55	Commonwealth Mortgage Co., Wellesley Hills, Mass.	None, independent.	
56	Security Pacific National Bank, Los Angeles	Security Pacific Corp., Los Angeles	
57	Shawmut Mortgage Co., West Hartford, Conn.	Shawmut National Corp., Hartford, Conn.	Acquired Shawmut Bank's $942 million servicing portfolio.
58	Dominion Bankshares Mortgage Corp., Fairfax, Va.	Dominion Bankshares Corp., Roanoke, Va.	
59	Commercial Federal Mortgage Corp., Omaha, Neb.	Commercial Federal Savings & Loan Assn., Omaha, Neb.	Acquired $489 million in servicing last year (10,426 loans).
60	Metropolitan Financial Mortgage Corp., St. Paul, Minn.	Metropolitan Federal Bank, Fargo, N.D.	Formerly known as Rothschild Financial Corp.
61	Murray Mortgage Co., Dallas	Murray Savings Assn., Dallas	
62	CitFed Mortgage Corp. of America, Dayton, Ohio	Citizens Federal S & L Assn. of Dayton, Ohio	
63	American Home Funding, Inc., Richmond	Rochester Community Savings Bank, N.Y.	
64	First Wachovia Mortgage Co., Winston-Salem, N.C.	First Wachovia Corp., Winston-Salem, N.C.	
65	United Mortgage Corp., Minneapolis	Midwest Savings Assn. FA, Minneapolis	Parent is in RTC conservatorship, and United is in the process of being sold.
66	C&S Real Estate Services, Inc., Tucker, Ga.	Citizens & Southern Corp., Atlanta	
67	York Associates Inc., Bethesda, Md.	None, independent.	
68	M-West Mortgage Corp., Orange, Calif.	None, independent.	Formerly known as Meritor Mortgage Corp.-West.
69	Altus Mortgage Corp., Mobile, Ala.	Altus Bank FSB, Mobile, Ala.	
70	Real Estate Financing, Inc., Montgomery	First Alabama Bancshares, Inc., Montgomery	
71	NBD Mortgage Co., Troy, Mich.	NBD Bancorp, Inc., Detroit	Net servicing additions totaled $333 million (7,506 loans).
72	AmSouth Mortgage Co., Inc., Birmingham, Ala.	AmSouth Bancorporation, Birmingham, Ala.	
73	Meridian Mortgage Corp., Wayne, Pa.	Meridian Bancorp, Reading, Pa.	Acquiring 16 branches from Travelers Mortgage Services.
74	First California Mortgage Co., San Rafael, Calif.	None, independent.	
75	Lumbermen's Investment Corp., Austin, Tex.	Kilgore Federal S&L Assn., Tex.	Formerly owned by Temple-Inland, Inc., Diboll, Tex.
76	Heitman Financial Services Ltd., Chicago	Heitman Financial Ltd., Chicago	
77	Standard Federal Mortgage Servicing, Inc., Lisle, Ill.	Standard Federal Savings Bank, Gaithersburg, Md.	
78	America's Mortgage Co., Springfield, Ill.	Standard Federal Savings Bank, Gaithersburg, Md.	
79	Lettmer & Buck, Inc., Philadelphia	First Fidelity Bancorporation, Newark, N.J.	
80	Crestar Mortgage Corp., Richmond	Crestar Financial Corp., Richmond	
81	Victoria Mortgage Co., San Antonio, Tex.	Victoria Savings Assn., Tex.	
82	SCG Mortgage Corp., Hollywood, Fla.	Suncoast Savings & Loan Assn., Hollywood, Fla.	
83	PHH US Mortgage Corp., Cherry Hill, N.J.	PHH Group, Inc., Baltimore	
84	Huntington Mortgage Co., Columbus, Ohio	Huntington Bancshares, Inc., Columbus, Ohio	Acquired $882 million in servicing rights (11,000 loan) in 1989
85	NVR Mortgage, L.P., Pittsburgh	NVR L.P., McLean, Va.	Acquired over $200 million in servicing rights last year.
86	Citizens Fidelity Bank & Trust Co., Louisville, Ky.	PNC Financial Corp., Pittsburgh	
87	FBS Mortgage Corp., St. Paul, Minn.	First Bank System, Inc., Minneapolis	
88	Bailey Mortgage Co., Jackson, Miss.	Security Savings & Loan Assn., Jackson, Miss	
89	Loan America Financial Corp., Miami Lakes, Fla.	None, independent.	
90	Cal-Bay Mortgage Group, San Rafael, Calif.	None, independent.	
91	Western Mortgage Loan Corp., Salt Lake City	United Savings Bank, Salt Lake City	
92	Weller Mortgage Corp., Gilbert, Ariz.	Western Savings & Loan FA, Phoenix	Parent recently was seized by federal regulators.
93	Wangenheim & Company, Inc., Perth Amboy, N.J.	Marco Holdings, Inc., Perth Amboy	Acquiring four offices of Travelers Mortgage Services in the third quarter.
94	National State Bank, Elizabeth, N.J.	Constellation Bancorp., Elizabeth, N.J.	
95	Interwest Mortgage Corp., Ponca City, Okla.	Heartland Federal Savings & Loan Assn., Ponca City	
96	CenTrust Mortgage Corp., Deerfield Beach, Fla.	CenTrust Bank ISB, Miami	Currently there are negotiations for sale of company.
97	NCNB Mortgage Corp., Charlotte, N.C.	NCNB Corp., Charlotte, N.C.	
98	Colonial Mortgage Co., Mobile, Ala.	Colonial Company, Montgomery	
99	TCF Mortgage Corp., Minneapolis	TCF Bank Savings FSB, Minneapolis	
100	Directors Mortgage Loan Corp., Riverside, Calif.	None, independent.	

Fed Expected to Go Beyond International Capital Rules

Continued from *page 1* on page 20).

The Fed chairman made several other comments on far-reaching policy matters.

Aside from describing the central bank's evolving proposal for higher capital levels, he said regulators should move quickly to require suffering banks to rebuild depleted capital by cutting dividends, allowing asset growth, or divesting affiliates, if needed. On other matters, he said:

• Bank examinations should be intensified to ensure that institutions are not "maintaining return on equity by acquiring riskier assets." Examiners should insist that banks with shaky loans create new reserves from earnings or capital.

• The Fed is looking closely at whether examination policies are affecting interest rates and is prepared to ease monetary policy if necessary to offset any rate increases that are not intended by Fed monetary policy.

• Firewalls have not proved effective in sheltering banks from the risks undertaken by nonbank subsidiaries and should probably be dispensed with.

Mr. Greenspan conceded that raising capital levels "will be neither easy nor cheap."

• Congress should grant banks new powers to engage in a wide variety of financial activities, including a full range of underwriting services. In contrast to Securities and Exchange Commission Chairman Richard Breeden, who testified before a House panel on Wednesday, Mr. Greenspan called for a link-age between higher capital and new businesses and did not suggest that banks be permitted to affiliate with nonfinancial companies.

• The McFadden Act should be amended to permit banks to branch across state borders. Although a number of states have made provision for some form of interstate banking, branching across state lines is still generally forbidden.

• Congress should not limit the ability of regulators to bail out large institutions on a case-by-case basis. However, Mr. Greenspan said, regulators should take a "presumption that no institution is too large to be liquidated."

Deposit Insurance Limits

In comments on reform of the deposit insurance system, Mr. Greenspan expressed considerable sympathy for efforts to limit the number of insured accounts that a single depositor should be able to hold.

Under questioning from committee chairman Donald W. Riegle, D-Mich., who has been advocating limits, Mr. Greenspan said that they "would be a useful reform" but that there would be problems in implementing them.

Mr. Greenspan said the Fed has nearly completed a study showing that only 1.4% of the nation's families have more than $100,000 on deposit in multiple accounts. But those relatively few households own 28.6% of the nation's deposits, he added.

Interpretations Differ

The two numbers are likely to work at cross purposes in the debate over deposit insurance reform. Mr. Riegle noted that the first statistic showed that "98% of the nation's families have less than $100,000" on deposit, a fact that would make limits on multiple accounts politically palatable.

But the second number, he noted, indicates that limits have the potential to disrupt the banking system. "If you go to a $100,000 limit, some substantial part of the 28% might move out of banks," he noted.

Any efforts to tinker with the scope of deposit insurance coverage – up to $100,000 per account and no limit on the number of accounts at different institutions – would be opposed vehemently by many banks, especially community institutions.

Community bankers believe such limits would divert deposits from their institutions to large banks that are deemed too big too fail. At the big banks uninsured depositors are generally made whole in a bailout.

Mr. Greenspan's "willingness to tinker with insurance coverage of multiple accounts in small banks is troublesome, particularly since he concedes too-big-to-fail banks are here to stay," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America.

Mr. Greenspan conceded that raising capital levels for banks "will be neither easy nor cheap." Return on equity would fall and U.S. banks would be at a competitive disadvantage compared with institutions in countries that stick with the minimums adopted in the international Basel accords.

But he said "well-capitalized banks are the ones best positioned to be successful in the establishment of long-term relationships...to be the most attractive counterparties for a large number of financial transactions and guarantees, and to expand their business activities to meet new opportunities and changing circumstances."

Mr. Greenspan acknowledged that higher capital requirements would increase the cost and reduce the availability of bank loans, but that a bank would stop making risky loans at rates that do not reflect the credit's true risk.

"Obviously, we have to wait and see how the standards they come up with, but most banks I've talked to have been managing according to higher de facto standards anyway," said Raphael Soifer, a bank analyst at Bron Brothers Harriman & Co. "They know from their conversations with the Fed that regulators are targeting higher standards, particularly for banks that are expansion minded."□



HONEST
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INTERNATIONAL NEWS

GLOBAL *dispatches...*

E. Germans Block Accounts In Fighting Mark Profiteers

Reuters

East Germany said Wednesday it had frozen 56 new hard-currency bank accounts containing tens of millions of marks on suspicion the sums were amassed through illegal speculation.

The newly democratic nation adopted the West German mark when the two Germanys merged their economies July 1. Accounts in almost-worthless East marks were converted into West marks at par or a two-to-one rate, depending on the saver's age.

Thousands of Cases Checked

Government spokesman Matthias Gehler told reporters huge sums had been deposited in some special exchange accounts set up by citizens in the weeks before economic union, prompting investigations of 60,000 cases.

Thousands of suspected cases of black market dealings were investigated.

About 1,600 personal accounts are still being examined and 26 of those, containing a total of $2.4 million, were frozen on the suspicion the money was obtained through black-market speculation, Mr. Gehler said.

He said 660 accounts in the names of companies and organizations were also being scrutinized and 30 containing tens of millions of marks had been blocked.

... by country

HUNGARY

The Hungarian Credit Bank and Daewoo Securities of South Korea have started the first financial joint venture between the two countries.

The venture, called Invest-Trade, will provide financing for trade between the two countries, investing in Hungarian ventures and advising on mergers and acquisitions. The $100 million company is a member of the new Budapest Stock Exchange. — EMMA

HONG KONG

Chemical Banking Corp. is closing its foreign-exchange and money-market trading operations in Hong Kong, a bank spokeswoman said Thursday.

The trading units employed 21 persons, who will be offered positions at the bank's Singapore branch.

Douglas H. Short, regional manager of Hong Kong operations, will transfer to head activities in Singapore.

Chemical also announced this week that it planned to close its 18-person branch in Taipei, Taiwan, within four months.

The Chemical spokeswoman said the Hong Kong and Taiwan trading units were profitable, but added that the moves were being made to improve efficiency. Several other banks this year also have closed their Hong Kong operations.

The Chemical spokeswoman will continue to operate its regional merchant bank, Chemical Asia Ltd., out of its Hong Kong branch. A small financial services group that offers cash-management services also will remain in Hong Kong, she said. — **James R. Kraus**

SWITZERLAND

Swiss federal authorities have decided to accept 10 applications for banking permits from Japanese companies, including **Daiwa Bank**, **Nikko Securities**, and **Tokai Bank**. Permits are expected to be issued between this fall and next summer.

The new entrants will add to the 11 Japanese institutions, including **Fuji Bank** and **Nomura Securities**, that already have banking permits.

The Swiss move is thought to represent a favorable reaction liberalization of the banking system in Japan because the Swiss authorities believe in reciprocity. — TFW

TOKYO

Big Japanese banks, especially the city banks, are facing additional difficulties in their programs for keeping capital ratios at good strong levels.

The Ministry of Finance has in effect said the banks are not to participate in the reopening of the new-issue markets this month because of the fear that the banks would oversupply the market with equity.

The ministry sees last year's big bank issues as contributing to the equity market's problems this year. — TFW

* * *

Real estate-related loans by all Japanese banks as of the end of April showed a drop of 1.3% from the figure at the end of March, the first such monthly drop in more than two years.

The drop compares with a net gain of about $11 billion in the three months through March, and represents a rather sudden shift in lending policy in response to the central bank's and finance ministry's "guidance." The figure is the first statistical confirmation of a drop in real estate lending. — TFW

European Media Monitor and Analysis is a Brussels-based news service that provides abstracts from the European financial and business press.

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Comline International Corp., Cupertino, Calif.

U.S. Banks Not Adding Reserves

Won't Replace Funds Written Off Under Mandate

By JAMES R. KRAUS

NEW YORK — U.S. banks are unlikely to replenish soon their reserves depleted by mandated writedowns on loans to Brazil and Argentina, bankers and analysts said Thursday.

Since most money-center banks with large loans to both countries already face problems with low levels of capital and earnings, the banks are extremely reluctant to see these levels reduced further, the bankers said. Any increase in reserves would come out of either equity or earnings.

"It's going to be a tough [third] quarter. There are no real factors which would be boosting earnings and that would permit them [banks] to add to their reserves," said a senior banker in New York who declined to be identified.

Writedowns Ordered

Federal regulators ordered U.S. banks this week to write down 20% of some $10 billion in medium-term and long-term loans to Brazil and an additional 20% of around $3.3 billion in medium-term and long-term loans to Argentina. The writedowns have raised questions over whether current levels of reserves at major banks are adequate.

"My guess is that [banks] won't do anything just because of the regulators' action. But in the longer term, they will have to rebuild their reserves," said Mark Gross, a banking analyst with IBCA Inc., the credit rating agency.

Analysts said any decision to increase reserves would also depend on how highly a bank is exposed and what level of reserves it considers adequate.

The analysts identified Citicorp, Manufacturers Hanover Corp., BankAmerica Corp., Chase Manhattan Corp., and Chemical Banking Corp. as the banks most underreserved and undercapitalized. They said the five banks would probably seek to increase their capital and reserves by selling nonessential businesses or using tax deductions gained through the writeoffs.

A Citicorp spokesman told Reuters on Thursday that the bank considers its reserves against Third World loan losses to be adequate. Citicorp has $3.1 billion in reserves, or 37% of some $8.4 billion in medium- and long-term Third World loans.

"All the banks, including Citicorp, have reserves specifically for these Third World portfolios," the Citicorp spokesman told Reuters. "Unlike normal reserves, it is not the practice to replenish them" after a writeoff."

Writeoffs Rebuild Capital

Among banks, BankAmerica has been the most active to use tax deductions obtained through Third World loan writeoffs to gradually rebuild capital and reserves.

"BankAmerica's reserves are low, but its capital position is increasingly strong, so it is unlikely to have serious problems," said Raphael Soifer, an analyst with Brown Brothers Harriman & Co. in New York.

Spokesmen for BankAmerica, Chase, and Chemical could not be reached for comment. □

Soviet Seeking Big U.S. Loan Guarantees

By RICHI MILLER
Reuters

HOUSTON — The Soviet Union is pressing the United States to grant big loan guarantees later this year to help buy American food, Agriculture Secretary Clayton Yeutter said.

But Moscow should not assume the guarantees will be granted, he added. "It's not a sure thing that the Soviets will obtain credits at all, let alone credits of the magnitude they would prefer."

The government's Commodity Credit Corp. guarantees about $5.5 to $6 billion in private loans each year for exports of American farm goods.

Amounts Called Substantial

Mr. Yeutter declined to say how much Moscow is looking for but said the amounts are very substantial. "They've been talking to us about how important it is for us to give them these programs," he said.

But before the United States can even consider the Soviet Union's request, Moscow would have to pass legislation allowing free emigration. Moscow has said will happen in fall, but Mr. Yeutter noted that the Soviets have missed deadlines before.

The Soviet Union, long a major importer of food, has been faced with increasing shortages in recent months, even in big cities.

Support for Reforms

At the start of the three-day economic summit of major nations that ended Wednesday, National Security Adviser Brent Scowcroft said Soviet leader Mikhail Gorbachev wants food and consumer aid over a period of about two years until his economic reforms can take effect.

Commerce Secretary Robert Mosbacher said he had been told by Soviet officials that the problem lies mainly with the Soviet food distribution system, something that experts from the U.S. Commerce Department are already working on with Moscow.

Once Moscow passes the emigration legislation, the United States could grant most-favored-nation status, giving the Soviets the best possible access.

"My impression is that they simply assume that once the [most-favored-nation] hurdle is overcome here that everybody is going to rush in to give them all types of credits," Mr. Yeutter said.

"That may turn out to be wishful thinking," he added. "We have a lot of other countries in the world who also want CCC credit guarantees.

He said the United States would apply the same criteria for deciding whether to grant the Soviet Union credit guarantees as it does with other countries. That includes which markets are the most potential and the credit standing of the borrower. □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/12	7/11	7/05	7/12	7/11	7/05	7/12	7/11	7/05	7/13	7/11	7/05	7/12	7/11	7/05
United States	8.31	8.37	8.31	8.31	8.37	8.31	8.31	8.43	8.37	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.37	7.31	7.31	7.69	7.69	7.69	7.65	7.69	7.69	5.25	5.25	5.25	7.13	7.13	7.13
Canada	14.00	14.12	13.37	13.62	13.62	13.50	13.50	13.37	13.25	13.73	13.73	13.69	14.75	14.75	14.75
U.K.	15.00	15.00	15.12	15.00	15.00	14.93	14.93	14.93	14.87	14.39	14.33	14.32	15.00	15.00	15.00
West Germany	8.25	8.31	8.12	8.37	8.37	8.25	8.62	8.56	8.50	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.50	9.00	9.25	9.06	9.06	9.06	9.00	8.87	8.93	6.00	6.00	6.00	11.38	11.38	10.88
France	10.43	10.12	10.00	10.25	10.18	10.00	10.37	10.31	10.18	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.62	11.62	10.50	11.37	11.25	11.12	11.00	11.37	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.10	14.35	8.53	8.60	7.60
6 to 12 months	8.20	13.53	8.72	7.95	7.49
12 to 24 months	8.85	12.83	8.95	7.34	7.10

* Midday quotes in the New York market

Source: Hoenert, Astley & Pearce Inc., New York

Home Loan Exits Feared as Threat to Bailout Funding

Continued from page 2

FDIC board intends to address the Wauwatosa application in two to three weeks.

"Because there's such interest and concern about this issue, the board is just taking the opportunity to hear more views," he said.

He added that the review focuses on legal issues and whether existing law is a threat to the safety and soundness of the banking system.

Mr. Robson said departures could impair the Home Loan banks' ability to pay interest expenses on bonds issued by the Resolution Funding Corp. to finance the bailout. Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the 12 Home Loan banks may be tapped for up to $300 million per year to cover those interest costs.

Arthur Siddon, a Treasury spokesman, said Mr. Robson suggested that exits should be limited during a transition period. Mr. Siddon, who confirmed the contents of the letter to Mr. Seidman, did not elaborate. Mr. Robson was unavailable for comment.

Eight Petitions to Quit

Wauwatosa's exit application, filed last September and made public in March, was followed by several others in the Chicago, Des Moines, and San Francisco Home Loan bank districts. By June 25, eight state-chartered thrifts insured by the FDIC's Savings Association Insurance Fund had petitioned to leave, asserting that they have no legal obligation to remain in the system.

The controversy has forced the FDIC to become the reluctant arbiter in a public policy debate that may reshape the Federal Home Loan Bank System.

"It's an emotionally charged policy issue," said the FDIC deputy general counsel, Douglas Jones.

While the FDIC studies the implications, the Home Loan banks face mounting pressure on earnings because of shrinking membership and slack demand for advances.

1,085 Departures Feared

If the FDIC permits departing state-chartered thrifts to continue their insurance, the banks could open for as many as 1,085 thrifts to leave, taking with them 19% of the bank system's capital, the Federal Housing Finance Board has told the FDIC. The board is the overseer of the home loan banks.

Federally chartered thrifts are clearly required to belong to the bank system, but the Housing Finance Board has raised the prospect that these institutions could convert to state charters to escape.

Worries Called Exaggerated

Wauwatosa's president and chief executive said concerns about wholesale exits from the bank system are exaggerated. "If more people were inclined to go, they would be in line by now," said Raymond J. Perry.

> **"If a little Midwestern savings and loan can destroy the system, then the system ought to be destroyed."**
>
> **Raymond J. Perry**
> *Wauwatosa Savings and Loan Association*

He said Wauwatosa wants to quit the system because it does not borrow from the advance window and could reinvest its $3 million stock subscription more profitably in loans to the community.

"I think there's a place for the system," Mr. Perry added. "But if [the withdrawal of] a little Midwestern savings and loan can destroy the system, then the system ought to be destroyed as a useless appendage of government."

But a Housing Finance Board official, speaking on background, said it is possible that more thrifts will petition to leave. "The question is how quickly the line will form if the FDIC lets them out," this official said.

The House Banking Committee chairman, Rep. Henry B. Gonzalez, opposes the exit bids. "The overriding thing in last year's bailout bill was that the S&L industry would have to pay as much of the cost as possible," said Jake Lewis, an aide to the Texas Democrat. "No one was going to escape this obligation to help bail themselves out." □

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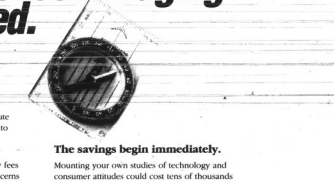

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Chase in Deal To Service Loans

NEW YORK — A unit of Chase Manhattan Corp. has purchased the rights to service about $2 billion of home loans from a subsidiary of capital-strapped Crossland Savings.

Officials at Chase and Crossland confirmed rumors of the deal, but information on terms was not immediately available.

Market sources pointed to the transaction as prime example of how banks are gaining ground in all aspects of mortgage finance as the mortgage industry struggles to meet the requirements of the 1989 bailout law.

Chase Home Mortgage Corp., based in Tampa, Fla., is one of the nation's 10 largest servicing companies. At the end of 1989, it was servicing about $14 billion of loans for investors.

A spokesman for New York-based Crossland said the thrift's mortgage unit routinely sells some servicing rights. He said the sale to Chase was not designed to help the thrift meet new capital rules "but it certainly helps." □

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R. A. Felder Lic Auctr #793917 sells on 7/30/90 11 AM at Rte 32 Highland Mills, NY. '82 Jag #SAJAV1346CC331811 Rt. 84, McWhoney; 10:30 AM at 210 E. Florence Ave., '88 Volks #WVWFB9165KW248847 Rte W. Grnsa. Published 7/13 & 7/20/90.

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Substance of Certificate of Limited Partnership filed in New York County Clerk's office 6/19/90 of LENOX AVENUE HOUSING ASSOCIATES LIMITED PARTNERSHIP, principal office 240 W. 116th St., NY, NY. Business: hold title etc. to certain real property in County of NY and related activities. Term: until Dec. 31, 2032 or earlier per Partnership Agreement (PA). General Partner (GP): Lenox Avenue Apartments, Inc., 240 W. 116th St., NY, NY. Limited Partner (LP): New York Equity Fund 1989 Limited Partnership, c/o National Equity Fund, Inc., 118 North Clinton St., Chicago, IL 60606. Art'c: Patrick Johnson, cash contribution $10.00, share of profits 50% per PA. LP has not agreed to make additional contributions, except for $880,842 to be contributed in deferred payments per PA. No terms agreed upon for return of LPs contribution. LP may not assign interest without consent of GP. GP may not admit additional LPs without consent of limited LP. LP may not admit additional LPs. No Priority among LPs as to contributions or compensation. Upon death, retirement or insanity of GP, remaining GP(s) if any, or if none, then the LP may appoint substitute GP and continue business. LP may not dissolve prior to end of term except upon sale of substantially all assets or upon written consent of all partners. Upon dissolution, assets will be distributed to partners in accordance with their capital accounts after all debts and liabilities are paid or provided for. Each partner shall look solely to the assets of the partnership for the return of his contribution and shall have no right to demand and receive property other than cash in return for contributions.

PARIS JEZEBEL CO., c/o Jezebel, 630 9th Ave., NYC Subs of Fmr Art of Ltd Partnership filed NY Co Clks Office 6-4-90. Business: purchase shares of a French corp. which shall own; manage & operate a restaurant in GP: Paris Jezebel, Inc., 630 9th Ave., NYC. LP & Contbn: Lang N.Y.C. Inc., Newmark & Co. Real Estate, Inc., 1501 Broadway, NYC, $100,000. Term: to 2020 unless sooner terminated. No addtl contrbns agreed to be made. No terms agreed upon for the return of contrbns. LP shall receive a pro rata share of profits. LP may assign his interest w/out consent of GP. Addtl LPs may be admitted. No priorities among LPs. No right is given to remaining prtrs to continue business on death, retirement or insanity of a GP. No LP may demand and receive other than cash for its contrbn.

Auction Notices

BY VIRTUE OF A Default In A Certain Security Agreement Made By Ogden Deli Food Corp., Debtor, To Carebee Industries Corp., Secured Party. Notice Is Hereby Given That ACAUCTIONEER General of the State of New York A petition having been duly filed by Mary Ann Crisci Esq. whose office is located at 1130 N. Jamestown Road, Decatur, Georgia 30033 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street New York, on August 21, 1990, at 10:00 a.m., why a decree should not be made in the estate of Irma Frances Howe, a/k/a Irma F. Howe, lately domiciled at 160 West 95th Street, in the County of New York, admitting to probate as a will of real and personal property a paper dated August 6, 1986, and ordering that Letters of Testamentary issue to Mary Elizabeth Howe. Dated, Attested and Sealed, July 9th, 1990 (L.S.) HON. RENEE R. ROTH Surrogate, County of New York ROBERT M. REAVES Clerk of the Surrogate's Court Name of Attorney: Vincent E. Cucci Telephone Number (212) 686-8170 Address of Attorney: 276 Fifth Avenue, New York, N.Y. 10001.

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Citation Notice

File No. 0684/1990 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT. TO The heirs at law, next of kin, and distributees of KATHERINE PACTAR, deceased, lifeing and dying at the City of Dead, to their heirs at law, next of kin, distributees legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator of the State of New York Attorney General of the State of New York. A petition having been duly filed by Peter M.J. Reilly, who is domiciled at 16 Captains Drive, Islip, New York 11751 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street New York, on August 23, 1990, at 10:00 a.m., why a decree should not be made in the estate of KATHERINE PACTAR, lately domiciled at 250 East 63rd St., Apt. 1107, New York, New York 10021 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 16th, 1982, (a copy of which is attached), and ordering that Letters of Testamentary issue to Peter M.J. Reilly. Dated, Attested and Sealed, June 29, 1990. HON. RENEE R. Roth Surrogate, County of New York, Robert M. Reaves Clerk of the Surrogate's Court. Name of Attorney: Philip L. Weyiouu Telephone Number: 516-944-6084 Address of Attorney: 144 Prospect Avenue, Valhalla, New York 10595. This citation is served upon you as required by Law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

File No. 56740 – 1988 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT. TO The heirs at law, next of kin and distributees of IRMA FRANCES HOWE, a/k/a Irma F. Howe, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown to Mary Elizabeth Howe. Dated, Attested and Sealed, July 9th, 1990 (L.S.) HON. RENEE R. ROTH Surrogate, County of New York ROBERT M. REAVES Clerk of the Surrogate's Court Name of Attorney: Vincent E. Cucci Telephone Number (212) 686-8170 Address of Attorney: 276 Fifth Avenue, New York, N.Y. 10001.

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Analysts Call Seizure Likely but Await 2d-Quarter Results

Continued from page 1

lion-asset Connecticut Bank and Trust Co., Hartford, or the $2 billion-asset Bank of New England-West. The corporation is seeking a buyer for its Maine National Bank and Bank of New England-Old Colony, a Rhode Island subsidiary.

James Dorney, a Bank of New England spokesman, called the rumors "frustrating." He maintained that they have spurred off in recent months, since the arrival of chairman Lawrence K. Fish.

The magnitude of the company's problems was acknowledged by Mr. Fish at a recent shareholders meeting.

"After all," he told the disgruntled crowd, "the problems we face are enormous. The future is uncertain. The recent past was a disaster, and the present is frankly very difficult."

Mr. Fish has said that the company's future depends on a turnaround in the regional economy. Most analysts don't see a rebound in New England real estate until next year at the very earliest.

Analysts Feel Dubious

Many banking analysts feel the company's survival is in question. Most feel its chance of survival through the end of the year is less than 50%. Only one – and he declined to be quoted – said he thought the chances were good that the banks could "muddle through."

"It's 50-50," said Nancy Bush, an analyst at Dean Witter Reynolds Inc. in New York. "I think that [the regulators] have given [Mr. Fish] some time, some breathing room, but they realize that there's only so much management can do."

"The likelihood is overwhelming. We feel pretty certain that the bank will be shut down this year," said Kristine Andersen, an analyst for Kidder, Peabody & Co. Ms. Andersen has predicted the seizure could come as soon as Labor Day.

Market Pressures FDIC

A consultant with close ties to the bank said, "Talk about brinksmanship! Of course, it's a possibility." He added that, while the FDIC is in no rush to seize the institution, deepening real estate troubles in New England might force its hand.

A bailout of the $24.8-billion asset holding company would be the nation's third-largest banking failure – after Continental Illinois, which had $40 billion in assets when it failed in 1984, and $33 billion-asset First Republicbank Corp. in Texas.

Officials familiar with FDIC procedure said it is unlikely the agency would move unless it had an immediate fire to put out.

Alluding to the takeover of Continental Illinois, Irvine Sprague, a former FDIC chairman, said, "Something always triggers the action. For example, they put on Continental forced us to move."

Some recent developments suggest that Mr. Fish's hand-picked management team was averted such a crisis.

Bank of New England has no immediate liquidity problem. Borrowings of funds from the Fed discount window in Boston have stopped, the bank said, a sign that the fire sale of its assets had forestalled any liquidity crisis. The bank had borrowed $2 billion from the discount window this year.

Its new management team has halted the outflow of deposits and attracted new ones by aggressively advertising certificates of deposit nationwide at rates ranging from 8.5% to 9%. But the higher rates may eventually squeeze the bank's net interest margin, analysts pointed out.

Analysts have speculated that the outflow of $6 billion in deposits since December may have been stemmed by "hot" money – large commercial deposits.

"A number of important relationships have left the bank," a source said.

> **"If Bank of New England has the wherewithal to survive, the first signs of it would be [visible] now."**
>
> **Nancy Bush**
> *Dean Witter Reynolds Inc.*

In turn, smaller retail deposits in amounts covered by the FDIC fund have flowed into the bank since the recent CD marketing campaign.

And other signs indicate that confidence in the company is building. Larger banks have resumed lending overnight funds to the ailing institution – at the FDIC's urging, a source close to the bank suggested.

Finally, reports from within the bank indicate that morale has remained high, despite the rumors. "The staff cuts have been made," said a source on the bank's staff. Most employees "feel they've hit bottom and are on the way back up."

Lackluster Stock Performance

The company's share price has been moribund in recent weeks. The stock did, however, hit $2.75 Thursday morning – its lowest since Mr. Fish took charge – before rising to $2.875 near the close, according to Bloomberg. Bank of New England shares made a 52-week low of $2.50 shortly after its problems were revealed in January.

The bank has taken drastic measures to turn the situation around.

Mr. Fish unveiled a strategic plan in April to recapitalize the company and focus its business on retail and consumer banking in Massachusetts and Connecticut. The plan included shrinking the company by about one-third, cutting 5,600 jobs, selling the Maine and Rhode Island banking subsidiaries, extensive expense reductions and a possible exchange offer for all or a portion of its outstanding long-term debt.

Still, analysts said, strong factors are pressing regulators to move soon.

With second-quarter results due out at the end of this month, analysts said that regulators may be watching to see whether non-performing loans grow.

"Why now? The timing around the end of the second quarter is key," said Ms. Bush of Dean Witter. "If Bank of New England has the wherewithal to survive, the first signs of it would be peering through now."

Analysts also said that a significant increase in nonperforming loans might convince regulators that the bank cannot be saved.

At March 31, Bank of New England had $2.7 billion in nonperforming assets, with about 60%, or $1.5 billion of those nonperforming loans.

The company's ratio of equity-to-assets was 1.6%, or about $398 million, down from 5.1% the year before. That means uninreserved bad loans now represent about 300% of equity.

"A bank can't have bad nonperformers at 100% of equity is a bank with serious problems," said Donald Kauth, an analyst at First Albany Cos., an investment bank. He added, however, that a reserve of 60% is usually considered good insurance against loan losses. □

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COMMENT

Insurance Powers Arrived in Bits and Pieces

Continued from page 4

a 1986 ruling by the OCC that a national bank or its branch in a town of 5,000 or fewer people may sell insurance to existing or potential customers without geographic restriction.

Assuming this decision is upheld on appeal, a national bank could establish an insurance office in any small place where it has a branch and then market insurance statewide, regionally, or even nationwide.

While the issue was not raised in this case, it is even possible that, because insurance is not a core banking activity subject to the McFadden Act, a national bank might establish an insurance office in any small place, whether or not coincident with a branch location, within or outside its headquarters state.

Not Subject to McFadden?

The Financial Institutions Act requires only that the activity be

> **insurance authority affirmed May 8 by a federal trial court would certainly preempt any state antiaffiliation law.**

conducted in a small place where the bank is "transacted and doing business"; the business might be the insurance agency or another office, such as a loan production office, not subject to McFadden.

On the other hand, the court's emphasis on the statute's purpose of enhancing revenue for small-town national bank offices may require the insurance agency to be associated with a bank branch.

In any event, insurance sales can certainly be made by direct mail. And agents based in the office could market widely on a person-to-person basis.

This insurance authority would certainly preempt any state antiaffiliation law prohibiting a bank from underwriting once. However, legitimate state licensing and other general requirements would apply because the McCarran-Ferguson Act delegates the regulation of insurance to the states and can only be preempted by a federal law specifically addressing insurance.

State Banks' Powers

Nov. 29, the 2d U.S. Circuit Court of Appeals upheld the Federal Reserve Board's determination that nonbanking restrictions of the Bank Holding Company Act do not reach the direct activities of bank subsidiaries.

The practical effect of this decision was to permit holding companies' state bank subsidiaries to engage in any authorized insurance activity. Thus, for example, all California banks can continue to use the insurance sales opportunity offered by Proposition 103, even as courts continue to review it.

The case did not decide whether Citicorp could be permitted out by an operating subsidiary of the state bank (as opposed to directly by the holder) restricted by the federal law. The Fed has asserted such authority but never has issued a supporting revision of Regulation Y.

The ABA and other bank trade associations would litigate against any such Fed rule change. The regulator's willingness to pursue this claim of authority may have been further dampened May 15 by a decision of the 5th U.S. Circuit Court of Appeals.

"In striking down the Fed's 'source of strength' doctrine, the court declared that the Bank Holding Company Act "does not grant the [Federal Reserve] Board authority to consider the financial and managerial soundness of the subsidiaries, or to alter it approves the application" of acquisition, nor does it give the [Fed] any power to regulate those subsidiaries' day-to-day affairs.

Delaware's Insurance Law

May 30, Delaware enacted broad new legislation permitting its state-chartered banks both to sell and underwrite insurance (except title insurance). Consideration of this authority had prebecause the Delaware Supreme Court in a 1986 decision, which reaffirmed the ability of Delaware and other states to act.

The new Delaware law not only authorizes bank insurance sales but also establishes a complex regulatory and supervisory scheme. It permits new insurance activities to be conducted directly within a separate bank division or through an operating subsidiary.

> **The practical effect of a Nov. 29 federal Appeals Court decision was to permit holding companies' state bank subsidiaries to engage in any authorized insurance activity.**

Safety and soundness and consumer protection requirements include maintenance of separate financial records and capital; limited, arms-length loan transactions; disclosure rules on bank use of information obtained by the insurance operations; 23% limit on total capital (of the Delaware bank, not the parent bank holding company) that can be devoted to insurance operations; anti-tying prohibitions; a 30-day customer cooling-off period, with complete right of cancellation; and full supervision of these activities by the Delaware insurance commissioner.

Modest Operations Allowed

These requirements, taken as a whole, mean that Delaware insurance powers will be of a modest scale. If the 2d Circuit decision gave a clear "green light" to states, the Delaware law provides a striking example of how to proceed responsibly.

Insurance products and services offered outside Delaware would be subject to the same licensing and regulation as are applied to any other out-of-state insurance agent or underwriter.

Generally, Delaware banks could not sell insurance in states with antiaffiliation laws. However, at some point, such laws might be challenged on equal-protection grounds – if Prudential, Sears-Allstate, Travelers, American Express, and others with affiliated banks are permitted to market their insurance products.

Predictably, a coalition of insurance groups has already petitioned the Federal Reserve Board to prohibit banks from using the new Delaware law. It is unclear whether the Fed will respond; as discussed above, its grounds for asserting jurisdiction have been substantially diminished.

An FDIC Intervention

Finally, June 12, FDIC Chairman L. William Seidman indicated that he was instructing agency employees to assess safety and soundness implications of the Delaware law. The mid-1980s FDIC proposal to require specific structural safeguards – many of its provisions reflected in the Delaware law – will be revisited.

The agency's staff may recommend prohibiting certain activities or, more likely, require them to be conducted in a separate subsidiary. FDIC concerns appear centered on certain forms of property and casualty underwriting. Mr. Seidman's announcement appeared to assert FDIC primacy on this issue vis-a-vis the Fed.

Delaware's law is only the most striking example of a new state activism on insurance.

Other States Open Up

Oregon's legislature – somewhat by 1987 permitted state-chartered banks to sell insurance, and California's voters did the same through Proposition 103 the following year. Florida banks have just gotten legislative authority for the same antiunity activities as national banks perform.

In a regulatory decision last month, the Washington State Banking Department authorized all its commercial banks to act as general insurance agents if either the head office or a full-service branch is a city of fewer than 5,000 people. And Illinois is on the brink of authorizing agency activities.

Legislative and regulatory opportunities undoubtedly exist in other states and will be actively explored. Most bankers will probably move cautiously, however, due both to remaining legal uncertainties and to questions about the most effective means of marketing insurance.

Insurers' Counteroffensive

While continuing its efforts in state legislatures, with regulators, and in the courts, the ABA is on guard against attempts by the insurance industry to roll back these gains in Congress.

Congress, however, is not eager to expose itself to the cross fire, and insurers are apparently being advised to continue pursuing administrative and judicial remedies.

Legislatively, the insurers' problem can no longer be solved by a simple, 1987-style moratorium freezing federal authority actions. The cat is now out of the bag, and insurers could reverse those developments only by writing permanent restrictions into federal banking law.

When Congress revisits insurance powers in the context of deposit insurance reform and financial restructuring, one hopes that bankers will have established a prudent, procounsumer record that settles the matter once and for all. □

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Shawmut Unit Buys Trust Accounts

Reuters

HARTFORD, Conn. — Connecticut National Bank said Thursday that it has contracted to acquire the corporate trust department of National Westminster Bank USA, New-York.

Connecticut National, a subsidiary of Shawmut National Corp., which is based in Hartford and Boston, said it would become successor trustee for almost all of the National Westminster unit's corporate, state, and municipal debt issues. The companies did not disclose financial terms of the transaction.

The Shawmut trust group now serves more than 5,000 debt trusteeships with $40 billion in outstanding bond issues.

The trust department sale is the second announced this month by U.S. subsidiaries of National Westminster Bank PLC, London. National Westminster Bank NJ, Jersey City, earlier said it had sold its corporate trust accounts – mostly administered for New Jersey corporations, municipalities, and school districts – to Midlantic Corp.'s Midlantic National Bank, Edison, NJ. □

OTS Taps NJ Lawyer For Eastern District

WASHINGTON — Faith S. Hochberg has been named the Office of Thrift Supervision's top regional attorney, litigation lawyer for the eastern United States.

As a senior deputy chief counsel based in the Jersey City district, Ms. Hochberg will oversee the agency's crackdown on fraud and abuse there and in the Atlanta, Boston, Cincinnati, and Pittsburgh districts.

Ms. Hochberg was a partner with Cole, Schotz, Bernstein, Meisel & Forman in New Jersey. As an assistant U.S. attorney from 1983 to 1987, she headed the securities-fraud unit for the Eastern District's New Jersey district. □

Opinions and Insights
Management
In Thursday's AMERICAN BANKER

DEALS

Tonka Corp.'s Bankers Agree to Amend Covenants on Acquisition Loan

By WILLIAM GOODWIN

Tonka Corp., which faced high acquisition-related debt costs and a continued slump in sales of its Ghostbusters toys, said it has reached an agreement with its banks that will allow the company to avoid violating loan covenants.

A group of 18 banks, led by First Chicago Corp.'s First National Bank of Chicago, agreed to lower interest coverage ratio requirements for the second and third quarters of 1990. Concurrently, the banks postponed a scheduled reduction in interest rates on the loans.

Tonka was also forced to waive its right to repurchase series-A subordinated bonds until the first quarter of 1991 and its option to make cash payments in lieu of payment-in-kind interest on its series-B debentures.

Net Loss Possible for Year

Tonka's current cash flow appears sufficient at the moment to cover debt payments, analysts said, despite a projected net loss for the first half of 1990 and possibly for the full year.

"Going into Christmas 1991, it's uncertain" if the Minnetonka, Minn., toymaker will be able to meet its debt payments, though, said Garry Jacobson, an analyst at Kidder, Peabody & Co.

"History has shown that in the toy industry – especially in leveraged situations – caution should prevail," Mr. Jacobson said.

"I wouldn't want to be [Tonka's] bankers," another analyst said privately.

Kenner Parker Buyout Debt

The company's bank debt stems from its 1987 acquisition of Kenner Parker Toys.

Tonka obtained a $275 million term loan to finance roughly half the purchase price. The bank group also provided a $350 million working capital line, which was reduced last fall to $275 million.

The bank group lowered Tonka's interest coverage ratio for the second quarter to 1.64 from 1.8. The third-quarter ratio was cut to 1.59 from 1.9.

Tonka will continue paying Libor plus 250 basis points on its term loan through yearend, and Libor plus 200 basis points on the working-capital line.

Those rates had been scheduled to decline in the second quarter by 100 basis points and 50 basis points respectively.

Immediately after the Kenner Parker acquisition, Tonka's debt soared to 87% of total capital. The company has since lowered its debt ratio to 68%, still well above Tonka's own target level of 50%. In a telephone interview, William Frame, Tonka's treasurer, would not comment on when the company expects to reach the target.

"If you forget about the debt, the business is nicely profit-

> **"In the toy industry . . . caution should prevail."**
>
> **Gary Jacobson**
> *Kidder, Peabody & Co.*

able," said Kidder's Mr. Jacobson. On an operating basis, he said, Tonka makes over $100 million a year.

However, the company has substantial noncash charges, including amortization of goodwill arising from the Kenner Parker acquisition.

"Net income sharply understates cash flow," said Paul Valentine, an analyst at Standard & Poor's Corp.

Mr. Valentine said Tonka made a strategic decision several years ago to focus on the highly profitable but fickle segment of the toy industry that features such video games, Cabbage Patch dolls, and Teenage Mutant Ninja Turtles.

"Obviously, in the face of the Nintendo phenomenon, that decision has not been vindicated," Mr. Valentine said, referring to the current video-game craze. However, the analyst thinks video games have peaked.

"I believe the collapse in video-game sales over the next 12 to 18 months will bail Tonka out," Mr. Valentine said.

Ghostbusters sales, which accounted for 20% of Tonka's total revenue in 1989, are off substantially this year.

"Obviously, looking out to 1991 and 1992, it's a substantial part of revenue that's going to have to be replaced," S&P's Mr. Valentine said.

Tonka, however, has a good record of managing inventory, and its costs as a percent of sales are below those of rival toy makers Hasbro Inc. and Mattel Inc., Mr. Valentine said. □

New RJR Loans Raise Doubts About Old Loans' Value

By STEVEN LIPIN

The high fees and lofty interest rates in RJR Nabisco Inc.'s new bank loans have bank syndicate officials scratching their heads about the value of the company's existing bank facilities in the secondary loan market.

"The question is: what's the dollar price differential?" asked one banking official with knowledge of both deals.

What is likely to emerge, bankers and loan sales officials say, is an unusual arbitrage between virtually identical RJR Nabisco bank loans.

"There's an unbelievable arbitrage here," said the head of secondary loan sales at a major bank. "At least in theory."

Potential Impact on Funds

One impact, some say, is that mutual funds, which have to mark loans to market on a daily basis, might have to carry the old loans at a loss, eating into the total return of the funds.

A number of experts believe ry the same senior status and mature at about the same time, the extra 100 basis points in interest that the new deal pays essentially means the old deal is worth roughly 1.5 points less in the secondary market, using net-present-value analysis.

"It's fairly strange," said one Japanese lender involved in both deals. "How the market will value this is very interesting."

Similar Terms

The terms of the loans are very similar, and both are senior loans at the same level of the corporate structure. The new $2.25 billion term loan pays 350 basis points over the London interbank offered rate, maturing in October 1996, with a 5.5-year average life.

The existing $3.5 billion term that because both bank lines carloan pays 250 basis points over Libor, maturing in February 1995 with a three-year average life.

> **Both are senior loans at the same level of the corporate structure.**

The rate on the new loans is 100 basis points greater than the existing loans because of the bullet structure of the new facility. The bulk of the loan repays at maturity, while the existing facility amortizes within three years.

A Bet on Tobacco

"The new money is a longer bet on tobacco," said one banker involved in the deals.

But bankers interviewed said they could not recall one company with two similar bank facilities that were priced that far apart.

Syndicate sources said they expect the new RJR deal to hit the market at up-front fees of 2%, or a dollar price of 98. That assumes the underwriters take two points of the bank-acquisition fee and reoffer two points to the secondary market.

The existing loans now trade at an up-front fee of about 3%, or a dollar price of 97.

Because most loans are nowhere near as volatile as stocks and bonds, loan-sales executives say the daily mark-to-market requirement is more for the Securities and Exchange Commission than for mutual-fund investors.

But some do not agree with the analysis, and point out that the terms are not identical. Also, the larger supply of the existing loans could contribute to the drop in price of the existing loans. □

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First Union and Wachovia Increase Profits

Continued from *page 2*

the OCC exam] was minimal," said Mr. O'Meara, of Robinson-Humphrey, "overall, it was a very solid quarter for First Wachovia."

As of June 30, First Wachovia's nonperforming assets totalled $118 million, or 0.74% of total loans, and foreclosed real estate, one of the best ratios in the region.

Profits for the six months increased to $146.5 million from $135.2 million in 1989.

Income Figures Climb

First Wachovia's loans grew by $1.1 billion, or 8.3%. Noninterest income rose 16% to $98.4 million, from $85.1 million during the second quarter of 1989.

Detroit-based NBD attributed its earnings improvement to a 4.4% rise in net interest income from the comparable period a year earlier to $220.6 million, from $211.3 million.

Net income for the six months rose 4% to $135 million. □

FIRST WACHOVIA CORP.
Winston-Salem, N.C.
Dollar amounts in millions (except per share)

SECOND QUARTER	2Q '90	2Q '89
Net income	$75.2	$67.9
Per share	1.06	0.96
Net interest income (tax- equiv.)	222.6	214.5
Spread	4.32%	4.46%
ROA	1.27%	1.23%
ROE	16.09%	16.82%
Noninterest income	98.4	85.1
Noninterest expense	182.1	177.8
Loss provision	22.5	14.5
Net charge-offs	16.8	16.0
FIRST HALF	**1990**	**1989**
Net income	$146.65	$135.23
Per share	2.07	1.92
Net interest income (tax- equiv.)	444.7	431.1
Spread	4.37%	4.45%
ROA	1.24%	1.24%
ROE	16.04%	16.85%
Noninterest income	186.0	162.7
Noninterest expense	361.8	340.7
BALANCE SHEET	**6/30/90**	**6/30/89**
Assets	$24,280	$22,981
Deposits	16,460	17,207
Loans	15,921	14,995
Shareholder equity	1,834	1,648
Loss reserve	178	162
Reserve/loans ratio	1.12%	1.08%
Nonperf. loans	99	49
Nonperf. loans/loans	0.62%	0.33%
Primary capital ratio	8.34%	7.94%

FIRST UNION CORP.
Charlotte, N.C.
Dollar amounts in millions (except per share)

SECOND QUARTER	2Q '90	2Q '89
Net income	$77.0	$72.0
Per share	0.72	0.69
Net interest income (tax- equiv.)	351.8	293.2
Spread	4.08%	4.35%
ROA	0.89%	0.90%
ROE	13.72%	15.04%
Noninterest income	143.8	94.9
Noninterest expense	316.5	250.8
Loss provision	35.2	14.9
Net charge-offs	36.0	14.9
FIRST HALF	**1990**	**1989**
Net income	$146.0	$146.8
Per share	1.39	1.37
Net interest income (tax- equiv.)	621.8	523.1
Spread	4.02%	4.40%
ROA	0.87%	1.00%
ROE	13.66%	16.25%
Noninterest income	283.5	195.6
Noninterest expense	614.5	513.1
BALANCE SHEET	**6/30/90**	**6/30/89**
Assets	$39,385	$30,379
Deposits	28,200	20,324
Loans	26,006	20,480
Shareholder equity	2,460	2,011
Loss reserve	413	249
Reserve/loans ratio	1.59%	1.22%
Nonperf. loans	497	194
Nonperf. loans/loans	1.91%	0.76%
Primary capital ratio	8.10%	8.05%

Highlights for Thursday, July 12

TOP 10 GAINERS %

Pacific Bank	8.0
Banks of Mid-America, Inc.	5.6
Grenada Sunburst System Corp.	5.4
Hawkeye Bancorporation	5.3
Union Bank	4.5
Security Bancorp, Inc.	4.0
Valley National Corporation	4.0
Statewide Bancorp	3.8
Zions Bancorporation	3.6
First Bancorporation of Ohio	3.5

TOP 10 LOSERS %

Bank of Granite Corporation	-9.1
National Penn Bancshares, Inc.	-7.1
Ohio Bancorp	-6.9
Keystone Heritage Group, Inc.	-4.9
Chase Manhattan Corporation	-4.3
Northern Trust Corporation	-4.0
Planters Corporation	-3.9
First Bancorp Puerto Rico	-3.8
Northern Calif. Community Bncp	-3.8
Sovran Financial Corporation	-3.7

MOST SHARES TRADED

BankAmerica Corporation	1210.5
Citicorp	1545500
Chase Manhattan Corporation	1422100
Chemical Banking Corp.	761100
UJB Financial Corp.	673600
MNC Financial, Inc.	613600
Shawmut National Corporation	492400
NCNB Corporation	489900
Manufacturers Hanover Corp.	489700
J.P. Morgan & Co. Incorporated	429300

VOLUME AS % OF AVERAGE

UST Corp.	1210.5
National Penn Bancshares, Inc.	804.1
UJB Financial Corp.	635.6
First Security Corporation	587.1
Jefferson Bankshares, Inc.	536.3
Pacific Western Bancshares	454.2
Pacific Bank	421.3
Keystone Heritage Group, Inc.	386.6
MNC Financial, Inc.	347.8
Northern Trust Corporation	339.2

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt Bid	Chg.	Chg.
23¾	19¾	TalCtyBncCorp/GA	9.8	90.1	1¾	
144	109	AmSouthBancorp/FL	20.2	112.0	1¼	¼
28⅜	20	AmSouthBancorp/AL	8.5	93.1	2¼	¾
29⅜	23¼	AmTrustCorp	8.5	85.0	1¼	
29	17	AmeritrustCorp/OH	17.9	99.0	1⅞	¼
22¾	18¾	AmeritrustCorp/MD	8.1	136.3	1¾	¼
24¾	18	BB&T Fin/Corp/NC	8.5	115.2	1½	
15¾	9¾	BancFirst/Corp/MD	8.5	85.0	1¼	¼
48¾	36¾	BancPonce/PR	31.8	152.6	4⅞	
33¼	26	BancPonce/PR	10.7	175.3	2¾	
26	18¾	BancoPopular/PR	6.3	95.5	1⅜	
56¾	42	BancorpHawaii/HI	9.3	145.0	5¼	¼
23	18	BancorpNewHo/MS	6.9	87.5	1⅛	
36¾	23⅜	BankAmerica/CA	5.6	115.2	2⅜	
24	17¾	BankOrdGrp/Corp/MD	12.3	216.9	2¾	¾
23⅝	21¾	BankSouth/Corp/GA	NM	52.4	1⅜	
14⅛	8¾	BanksOutCorp/GA	6.2	92.9	⅜	
57¾	39¼	BankAmerica/CA	NM	142.5	3¾	¼
21¾	12½	BankersTr/Group/VT	5.3	87.5	1⅛	
30⅝	11⅝	BankNorthGrp/MN	14.9	44.1	1⅛	
55	30	BankofNY/NY	12.0	87.1	3⅜	¾
12	9	BanksOfCommerce/MS	23.5	56.4	⅛	
82	69½	BarnettInvest/FL	11.9	114.2	7½	
11⅜	8¾	BarnettInvestors/FL	9.7	114.0	3⅛	¾
42	13¾	BeaNetwks/MA	9.4	47.2	18¼	¼
24¾	20	BeneficialCorp/NJ	8.7	87.0	2¾	
26	15⅜	BeverlyBancorp/MA	15.3	91.5	1⅝	
18¾	12¼	BeverlyEnterprises/CA	7.2	102.8	3¼	
43¾	33¼	CCB Fin/Corp/NC	7.5	104.4	1⅜	
22¾	17¼	CCB Fin/Corp/NC	7.5	104.4	1⅜	
43¾	33¼	CCB Fin/Corp/NC	10.4	104.4	1⅜	
27¾	19¾	CPB Inc/IN	11.4	158.0	2⅜	¾
28	21⅛	CalFed/Inc/CA	10.7	348.7	3⅛	
33⅜	21⅛	CalFedGrp/Com/CA	8.8	170.8	2⅜	
18¾	13¾	CapitalBcp/FL	7.3	99.3	1¼	
34¼	26⅜	CentralFidlty/WI	8.0	114.5	2⅜	¼
44¾	22⅜	CentralFidlty/WI	8.0	114.5	2⅜	¼
44¾	22⅜	CheseManhattan/NY	NM	63.6	2⅜	¼
44¾	22⅜	ChaseManhattan/NY	NM	63.6	2⅜	¼
35	30⅜	CheminalNtCorp/MI	9.1	100.8	3¼	¼
35⅛	21¼	ChemicalBnkg/NY	8.4	100.8	2¾	¼
25¾	17¼	CitizensBancorp/MD	8.3	102.2	1⅜	
25¾	17¼	CitizensBancorp/MD	7.8	102.2	1⅜	
15⅜	9¾	CitizensFstl/KY	6.5	108.8	3¾	¼
27¾	17¾	CitizensFstl/NY	6.5	108.8	3¾	¼
27¾	17¾	CitytrstCorp/CA	10.2	192.1	1⅜	
27¾	17¾	CitytrstCorp/CA	10.2	192.1	1⅜	
58¾	36¼	CoreStates/PA	9.7	112.1	4⅜	
58¾	36¼	CoreStates/PA	9.7	112.1	4⅜	
15¾	12¾	CommBcshrs/MO	7.5	104.0	1⅜	
15¾	12¾	CommonwealthFin	7.5	93.7	1⅜	
37¾	13¾	CmntyBnkSys/NY	9.4	100.0	1⅜	
26¾	13¾	CmtBnkrsInc/IL	7.7	53.3	1¾	¼
46¾	36¾	CmtyFstBnkCp/PA	8.3	89.8	2¾	¼
34	20¾	CmtyFstGrp/VA	6.3	89.8	2¾	¼
18¾	7¾	CmtyNtBnkCp/NJ	8.6	89.8	2¾	¼
37¾	29¾	DauphinDeposit/PA	8.9	132.1	3¾	¼
32¾	23¾	DauphinDeposit/PA	8.9	132.1	3¾	¼
25¾	13¾	DominionBnkshs/VA	8.9	82.2	1⅜	¼
18	9	EagleBancCorp/IN	NM	36.4	5¾	
21¾	12	EastgroveBancorp/MD	6.8	102.7	1¼	
15¾	12¾	F & M Bancorp/IN	10.5	106.9	1⅜	
14¾	12¾	FNB Corp/FL	8.0	109.4	1⅜	¼
26	18¼	FNH Bancorp/IL	10.2	105.8	2¾	
29	28	FarmersCapital/KY	12.0	119.5	3⅜	
33⅜	30¼	FidelityBncshs/MD	10.8	108.4	3¾	¼
38¾	33	FinancialTrust/IN	9.3	140.0	3½	¼
38¾	33	FinancialTrust/IN	9.3	140.0	3½	¼
19¾	15¾	FirstAlabama/AL	8.3	117.0	1¾	¼

52 Wk Hi	Lo	Name	PE	Mkt Bid	Chg.	Chg.
35¾	31½	FirstAmerCorp/TN	NM	70.2	1⅛	¼
24¾	20¾	FirstBancorp/PR	6.5	95.0	1¼	
29¾	12¾	FirstBancshrs/MN	NM	116.8	1⅛	¼
29¾	12¾	FirstBancshrs/MN	NM	116.8	1⅛	¼
29¾	24	FirstCitizens/NC	8.7	100.9	2⅝	¼
29¾	23¾	FirstCtyBcshrs/TX	10.1	133.3	1¾	
19¾	13¾	FirstColonial/A	10.1	133.3	1¾	
23¾	18¾	FirstCommerce/LA	8.5	91.0	2¾	
29	21¾	FirstCommerce/NC	8.5	91.0	2¾	
23¾	18	FirstCommerce/NC	8.3	120.3	1¾	
23¼	18	FirstCommercial/AR	8.3	120.3	1¾	¼
35¼	21⅜	FirstEastern/PA	7.9	102.9	2¾	
72	60¾	FirstFinancial/IN	7.9	102.9	2¾	
33⅜	17¼	FirstFinCp/IN	10.5	186.7	3¼	
70	40¾	FirstFinCp/OH	14.4	203.1	4¾	
34¾	19¾	FirstFinInc/IA	8.4	100.0	1¾	
34¾	19¾	FirstFinInc/IA	8.4	100.0	1¾	
18¾	14¾	FirstHrtfdBncshrs/ME	8.5	126.3	1¾	¼
34¾	29¾	FirstHrtfdBncshrs/ME	8.5	126.4	1¾	¼
28¼	19	FirstHrtfdBancorp/CA	8.4	126.5	2¾	¼
34¾	29¾	FirstHrtfdBancorp/CA	8.4	126.5	2¾	¼
14¾	11¾	FirstSecurity/KY	7.2	100.3	1¾	¼
18	14	FirstSecurity/KY	13.2	177.5	1¾	¼
13¾	28¾	FirstSecurity/UT	8.6	88.5	2¾	
33¾	23¾	FirstUnion/NC	7.7	108.8	2¾	¼
28¾	18¾	FirstUnionCorp/NC	7.7	92.9	1⅜	¼
24¾	18¾	FirstVirginia/VA	7.7	108.8	2¾	¼
45¾	37¼	FirstWachovia/NC	10.7	181.5	4¼	¼
45¾	37¼	FirstWachovia/NC	7.3	181.5	4¼	¼
20¼	17	FirstfedFtL/IL	8.8	106.5	1⅞	
30¾	42¾	FirstfedMichgn/MI	8.1	106.4	1⅜	¼
28¾	19	FirstNatBancorp/GA	12.0	101.8	1⅜	
28	18¾	FirstNatBancorp/GA	12.0	101.8	1⅜	
28	20¾	FirstNtlFin/Corp/MS	12.4	109.3	2¾	¼
24¾	18¾	FirstNtlFin/Corp/MS	7.3	126.4	1⅜	
24¾	18¾	GBC Bancorp/CA	8.3	203.5	1¾	¼
24¾	18¾	GBC Bancorp/CA	8.3	203.5	1¾	¼
9¾	5¾	HawkeyeBancorp/IA	4.2	123.4	7¼	¼
11¾	8¾	HawkeyeBancs/IL	8.8	106.5	1⅜	¼
28	14¾	HiberniaCorp/LA	18.1	109.0	1⅜	¼
28	14¾	HiberniaCorp/LA	18.1	109.0	1⅜	¼
33¾	23	HiltPBCorp/A	8.6	94.5	2¾	¼
28¾	18	IndependentBk/MI	11.5	87.7	1¾	
28¾	18	IndependentBk/MI	11.5	87.7	1¾	
48	37¼	InvestBkHldcs/A	9.8	142.2	3¾	
48	37¼	InvestBkHldcs/A	9.8	142.2	3¾	
28¼	18¾	JeffersonBnkshs/VA	7.9	94.3	1⅜	¼
28¼	18¾	JeffersonBnkshs/VA	7.9	94.3	1⅜	¼
29¾	23¾	KeyCorp/NY	8.0	112.9	2¾	¼
29¾	23¾	KeyCorp/NY	8.0	112.9	2¾	¼
35⅜	29	KeystoneHerit/Gp/PA	10.0	151.5	3¾	¼
35⅜	29	KeystoneHerit/Gp/PA	10.0	151.5	3¾	¼
28¾	22	LakeShore/IL	16.4	202.6	2¾	
28¾	18	LandmarkBncshs/MO	8.1	112.8	2¾	¼
28¾	24¾	LibertyNatBncs/NY	18.1	112.8	2¾	¼
27¾	24	LloydsBkCorp/NY	8.7	88.5	2¾	¼
29¾	15⅜	MBC Financial/MD	4.2	65.8	1⅜	¼
18	14¾	MagnetBnk/IL	8.1	106.4	1⅜	¼
18	14¾	MagnetBnk/IL	8.1	106.4	1⅜	¼
41¾	30¾	ManufactHan/NY	6.5	102.1	4¾	¼
41¾	30¾	ManufactHan/NY	NM	78.0	3¼	¼
21	16¾	MarineCorp/A	13.7	134.4	2¾	¼
21	16¾	MarineCorp/A	13.7	134.4	2¾	¼
28¾	18	MarshallBncshs/WI	8.8	126.3	3¾	¼
28¾	18	MarshallBncshs/WI	8.8	126.3	3¾	¼
28¾	23¾	MercantileBncsh/MD	8.6	130.0	2¾	¼
27¼	20¼	MercantileBncsh/MD	8.6	130.0	2¾	¼
32	21¼	MercantileBncsh/MI	10.3	93.4	2¾	
29¾	19¾	MercantileBancorp/IN	7.0	88.8	1¾	
57¾	32	MichiganNatCorp/MI	2.7	65.5	3¼	
24¾	19¾	MidAmerica/KY	8.5	95.3	1⅜	
23¾	19¾	MidAm.Inc./OH	9.8	147.8	1¾	¼
47¾	33¾	MidlantdCorp/NJ	8.5	94.1	1¾	¼
25¼	10	MultiBanc/MI	5.2	47.4	10	
39¾	28¾	NBD Bancorp/MI	8.6	113.4	3¾	¼
54¾	34¾	NCNB Corp/NC	7.0	123.7	3¾	¼
54¾	34¾	NCorthBancorp/CA	8.1	106.4	1⅜	¼
41¼	33¾	NationalCity/OH	8.3	142.2	3¾	¼
11	8	NationsBank/NC	8.3	142.2	3¾	¼
30¼	25¼	NatlBancorp/MI-AR	9.5	115.2	2⅜	
30¼	20¼	NatlBancorp/TX	10.6	184.5	2¾	
44¾	18¾	NatlCommunity/IN	5.0	86.3	1⅜	
15¼	11	NorthFinMem/WY	5.3	68.9	1⅜	
73	18	NorthwestBncs/CT	NM	55.3	20¾	
35¾	27¾	NorthernTrust/IL	9.0	173.9	27¾	1¼
25¾	17¾	NorwestCorp/MN	8.0	144.4	2¾	¼
25¾	22¾	OhioBancorp/OH	7.2	97.4	2¾	1¼
39¾	24	OldKentFin/Corp/MI	8.4	118.2	2¾	¼
53⅜	38⅛	OldKentBancorp/MI	8.4	118.2	2¾	¼
23¾	19	OneValleyBncp/WV	7.3	85.3	2¾	¼
48¾	29¾	PNC Fin/Corp/A	9.0	107.2	3¾	¼
28¾	24	PacificBank/CA	11.3	185.3	7	
15¾	9¾	PeoplesBancorp/IN	5.1	107.0	1⅜	¼
15¾	14¾	PeoplesBancorp/IN	8.0	129.0	27	
37¾	24¾	PeoplesFinCorp/MS	8.4	185.3	12	
25¾	13	PremierBancorp/LA	18.4	57.7	3¾	¼
25¾	13	PremierBancorp/LA	18.4	57.7	3¾	¼
14	8¾	ProvidentBkshs/MD	20.0	43.4	8¾	
17¾	11¾	RgntCourtBanc/MN	11.7	113.9	2¾	
52¾	42¾	RepublicNYCorp/NY	330.0	132.8	4⅜	
52¾	42¾	RepublicNYCorp/NY	7.9	132.8	4⅜	
32¼	20¾	RiverFreed/IL	12.8	260.9	2¾	
42¾	32¾	SanPaoloBancs/CA	10.2	209.3	3¾	¼
23¾	17¾	SecurityBancorp/MI	8.4	146.4	1⅜	
34¾	24¾	SecurityPac/CA	5.7	98.4	1⅜	¼
30¾	23¾	ShawmutNatCorp/MA	NM	55.7	1⅜	¼
19¾	15¾	SignetBnkg/VA	4.2	162.2	1⅜	¼
38¾	28¼	SouthlyCorp/OH	7.0	113.3	3⅜	¼
28¾	20	SouthCarolBnk/SC	6.8	83.3	1⅜	¼
30¾	14¾	SunwestFin/Svcs/NM	70.5	73.7	15¾	
27¾	17¾	SusquehannaBcshs/PA	8.1	108.9	2¾	
18	14¼	SyracuseFinCorp/GA	16.4	308.7	17¾	¼
18	14¼	SyracuseFinCorp/GA	16.4	308.7	17¾	¼
21¾	17¾	TrustCoBnkCorp/GA	9.7	130.2	1⅜	¼
21¾	17¾	TrustCoBnkCorp/GA	9.7	130.0	2¾	
24¾	18¾	TrustmarkCorp/MS	8.6	78.2	1⅜	
24¾	18¾	TrustmarkCorp/MS	8.6	78.2	1⅜	
25¾	21¾	U.S. Bancorp/OR	9.0	82.1	3¾	
43	33¾	U.S.TrustCorp./PA	12.4	192.4	37	
39¾	33¾	UJB Financial/NJ	8.5	94.1	1⅜	¼
18¼	9¼	UST Corp./MA	5.4	91.1	11¼	¼
21¼	16¾	UnionBancCo/CA	8.3	107.0	2¾	¼
15¾	7½	UnionPlanters/TN	NM	62.5	7¾	

Data Sources: **SNL Securities**, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Key Rates

	7/12	7/11	7/05
Federal Funds-domestic range:	8¼–8⅜	8¼–8⅜	8¼–8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.85	7.85	7.90
6 Month Posted	7.90	7.90	7.90
1 Year Posted	8.00	8.00	8.00
Eurodollar deposits*			
3 Month	8¼	8¼	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅛	8⅛
LIBOR*			
3 Month	8⅛	8⅛	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅛	8⅛

Mid-afternoon quotes, New York market. (*)— Latest closing rates at selected NYC banks. (**)— Late London bid (%) — Annualized money market basis - source: Manufacturers Hanover Tr.

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of July 0, 1990, ($ billions)

Monetary Aggregates*	7/02/90	6/25/90	Change	6/18/90	6/11/90	6/04/90
M1- weekly average	NA	$ 808.8	+$0.0	$ 807.5	$ 807.5	808.2
M2- weekly average	NA	3,270.5	+0.0	3,268.5	3,265.8	3,260.8
M3- weekly average	NA	4,085.0	+0.4p.5	+30.5	4,058.0	4,059.2	4,053.1
M1- annual change:						
Latest 13 weeks				+3.5%		
Latest 26 weeks				+4.2%		
Latest 52 weeks				+3.9%		
Other data	**7/09/90**	**6/27/90**	**Change**	**6/20/90**	**6/13/90**	**6/06/90**
Business Loans#						
9 New York City banks	$ 57.3	$ 56.7	+$ 59	$ 57.9	$ 57.9	$ 58.2
All large banks	320.3	321.6	-1.3	321.6	321.4	321.2
Consumer Deposits#						
9 New York City banks	$ 53.6	$ 49.0	+4.6	$ 47.3	$ 48.1	$ 47.3
All large banks	221.9	224.5	-2.6	224.5	224.4	224.5
Commercial Pa

STOCKS

MNC Expects $75 Million Loss for Quarter

Continued from page 1

the figures were worse than expected but said it was hard to tell just how bad things are at the Baltimore-based bank until the Office of the Comptroller of the Currency conducts its exam later this month. Still, they said unless the situation radically improves soon, the bank's dividend could be in jeopardy.

"This is the second quarter where they haven't paid the dividend out of earnings," said Theodore Price, head of research and vice chairman of Wheat Investment Advisors in Richmond. "What worries me is that if they don't make enough to pay it out of earnings in the third quarter, [regulators] might say, 'Don't pay it.' At which point the stock" could drop significantly.

Wheat Investment owned roughly 100,000 shares of MNC stock six months ago but sold all of it when the the price continued to decline and the bank's problems mounted, Mr. Price said.

Immediately after the news was released, the stock plunged more than 6%, or 75 cents, to a low of $10.875 early Thursday afternoon. It closed at $11.375, down 25 cents. Volume was 631,000 shares. Over the past month MNC's stock has lost about 28% of its value.

Bank officials declined to comment further until July 24 when at complete earnings report will be made. But analysts said MNC officials told them that the loss and the large writedowns were partly a strategic move to prevent huge writedowns following the new controller's exam.

"They want to be able to show regulators they will have decent earnings by the end of the year, so they won't force them to cut the dividend," said Kyle Legg, an analyst at Alex. Brown & Sons, Baltimore.

That won't be an easy task. With MNC's announcement, analysts said it is clear that the



Baltimore-Washington-Northern Virginia commercial real estate market is in dire straits and that the bank's recovery may take longer than expected.

"There are serious problems with commercial real estate in the area, and MNC is very heavily exposed," said Michael Plodwick, an analyst at C.J. Lawrence, Morgan Grenfell Inc. "I don't think this is a one-quarter event for MNC."

He said that 22% of MNC's $14 billion loan portfolio is in commercial real estate.

Although many banks, especially those on the East Coast, have been hit with problems stemming from sour real estate loans, the decline of MNC's fortunes is particularly disturbing. Only a year ago is was considered one of the most innovative and profitable banks in the country and its chairman, John P. Hoblitzell Jr., was considered one of the industry's top executives.

Mr. Plodwick said, "They just took on too much real estate too fast."

Other Richmond-based banks fell on the MNC news. Sovran Financial Corp. was down $1 to $26.25. Signet Banking Corp. fell 37.5 cents to $18.75. Crestar Financial Corp. fell 12.5 cents $20.875. Dominion Bancshares, which is based in Roanoke, Va., dropped 25 cents to $12.875.

* * *

THURSDAY'S MARKET

The overall market hit a record, but bank stocks continued their slide, with money-centers, in particular, falling sharply.

The Dow Jones industrial average rose 37.13 to 2969.80, surpassing its previous high of 2956.93.

Nervousness about the state of the banking industry expressed by Federal Reserve Chairman Alan Greenspan, continued concern about the degree of deterioration in second-quarter earnings, and negative comments by a bank analyst drove bank stocks down. Analysts said the increased writedown in Latin American loans was not responsible for the bank stocks' slide.

Chase Manhattan Corp. lead the way, falling 87.5 cents to $22.50 on volume of nearly 1.5 million shares. Manufacturers Hanover Corp., which was down more than $1 for most of the day, fell 87.5 cents to $44.75. Chemical Banking Corp. fell 50 cents to $24.75, and Bank of New York fell 75 cents to $30.50.

Mr. Greenspan said Thursday that stiffer bank capital requirements may be necessary to ensure the stability of the banking system.

Also on Thursday, Carole Berger, an analyst at C.J. Lawrence, Morgan Grenfell Inc., predicted money-center banks would begin cutting their dividends by yearend. She was particularly bearish about Chase, which she said would be the first to eliminate a payout to shareholders. She said investors and speculators should consider shorting the stock.

"Whenever an analyst takes that aggressive a position, it makes people think," said Ralph Rieker, an analyst at Brown Brothers, Harriman & Co. He said Ms. Berger's remarks, Mr. Greenspan's comments, and concern about deteriorating second-quarter earnings "makes for a very pleasant scene."

Shares of Northern Trust Co. also were down sharply Thursday, falling $1.125 to $27.375.

Robert Sharpe, a Federal First Bank System Inc. were among the few that bucked the downward trend. They rose $7.5 cents to $77.125. First Bank was up 25 cents to $14.75.

First Wachovia Corp., one of analysts' favorite stocks, reported higher earnings for the quarter. It earned $1.07 a share, up from 98 cents in the second quarter of 1989. The stock closed up 12.5 cents to $41.50.

Even though First Union Corp. reported higher earnings – 72 cents a share versus 69 cents a year ago – its stock was down 12.5 cents to $18.375. □

CAPITAL

Meritor Will Pull Out the Stops To Strengthen Capital Position

By KELLEY HOLLAND

Continuing a drive to shrink assets and improve capital ratios, Meritor Savings Bank announced a series of moves on Thursday that will result in a second-quarter loss of $138 million and a substantial increase in primary capital.

Meritor's actions include: settling and redeeming $172 million in debt of its Florida subsidiary and replacing them with a cash payment and note worth $60 million, terminating swap contracts with a notional value of about $1 billion, adding $35 million to loan-loss reserves, and establishing a $54 million reserve against gains that had been anticipated but are no longer likely.

Next: Improve Profits

As a result of the recapitalizing moves, Meritor will finish the second quarter with a positive tangible net worth and insure its immediate viability. But more remains to be done, particularly in terms of profitability, according to Roger S. Hillas, chairman.

"We've done the downsizing, and we've gotten into capital compliance," he said in an interview on Thursday. "The third thing is to make money."

Meritor will finish the second quarter with a positive tangible net worth.

Certainly the downsizing and capital increases have been dramatic since Mr. Hillas took over the helm at Meritor two years ago. At that time, the bloated institution was losing money at a rapid clip and its tangible capital base was negligible.

Meritor had more than $18 billion in assets, and it reported a loss for 1988 of $5.98 a share. But after sales of assets such as its mortgage banking operations, its consumer finance company, and $1.5 billion in liquid investments, Meritor shrank down to finish 1989 with assets of $12.6 billion. And the reducing continued this year. Meritor sold 54 branches to Mellon Bank Corp., enabling the thrift to finish the second quarter with assets of only about $7 billion.

Meritor was also insufficiently capitalized when Mr. Hillas took over. The thrift had almost no tangible net worth in 1988 and $313 million worth of goodwill. Meritor's capital has been increased since then, but the Philadelphia thrift still finished the first quarter with primary capital of 5.45%, well below the 6.5% requirement the regulators established.

Some Pressure Taken Off

The restructuring moves announced on Thursday substantially reduce Meritor's need for new capital going forward, according to David M. West, a financial institutions analyst at Wheat First Securities.

"Meritor won't have to take a big loss on the subsidiary, so that decreases the level of required capital you have going forward."

And recapitalizing the Florida subsidiary makes it a more salable asset, Mr. West said. A sale would further reduce Meritor's need for new capital, he pointed out.

"The capital ratios appear to me to have healed," said Roger G. Powell, an analyst at Alex. Brown & Sons in Baltimore.

When its second-quarter results are reported, Meritor will show a loss of about $138 million despite receiving a premium of $337 million when it sold its branches to Mellon. But with $172 million in goodwill off its books after the branch sale, the thrift will also show an increase in tangible net worth to nearly $140 million, Mr. Hillas said. Its primary capital ratio will be a hefty 7.3%.

"The game isn't over, but we're still surviving," he said.

In the stock market on Thursday, Meritor's shares were changing hands at $1.94, down 62.5 cents.

* * *

MARKET MONITOR

Standard & Poor's Corp. lowered its ratings on debt of Bank of New York Corp., citing the bank's exposure to highly leveraged transactions and weakening asset quality.

Bank of New York's senior debt ratings were lowered to A-minus from A, its subordinated debt rating to BBB-plus from A-minus, its bank stock rating to BBB from BBB-plus, and its commercial paper to A2 from A1.

* * *

Fleet/Norstar Financial Group has filed a shelf registration with the Securities and Exchange Commission covering $700 million in debt. Salomon Brothers Inc. and Merrill Lynch Capital Markets will be among the underwriters, the filing said. □

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Maine Thrift's Bad Assets Rising

PORTLAND, Maine — Peoples Heritage Financial Group said it expected nonperforming assets to rise $20 million in the second quarter, to $100 million, which could lead to additional loan-loss provisions and a net loss.

For the first quarter, Peoples Heritage reported a loss of $9.8 million, or $1.22 a share.

The holding company said it expected problem assets to amount to 3.5% of total assets in the second quarter, compared with 2.75% in the first quarter.

The company's principal subsidiary, the $1.8 billion-deposit Peoples Heritage Savings Bank, is the largest thrift in Maine.

As a result of this increase and a related increase in loan chargeoffs, Peoples Heritage said it was considering establishing additional provisions "which would reduce net income" or otherwise profitable quarter."

"The company continues to be affected by the generally adverse real estate market in New England," said Weston Bonney, president and chief executive officer. "As a result, the company will continue its historical approach to establishing provisions for loan losses and will be carefully evaluating whether a change in the company's dividend policy is appropriate."

— Reuters

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Greenspan's Tip On Rate Policy Raises Eyebrows

By JED HOROWITZ

NEW YORK — When Federal Reserve Board Chairman Alan Greenspan tipped his hand on interest rate policy in his congressional testimony on Thursday, he gave Fed watchers and other tea-leaf readers a whole new set of questions to ponder.

First, what really prompted him to give the markets such an unusually blunt signal that Fed policy would ease? The question arises because the hint comes at a time when the Bush administration is calling more strongly than ever for exactly what Mr. Greenspan now says the Fed will do.

ANALYSIS: *Follow-up on the news*

Yet there are few signs that the economy is slowing. And his ostensible reason for moving off the dime — to relieve a regulatory-induced credit crunch — conflicts with his assessment only three weeks earlier that this was not a problem.

The other question that arises is how Mr. Greenspan expects lower interest rates to leap the economy rolling in the face of his alert to banks that they face tighter capital standards. Raising capital standards, after all, would give banks even less to lend, thus possibly exacerbating a credit crunch that would weaken the economy.

Greenspan's Reasoning

Mr. Greenspan dealt with this seeming contradiction in his testimony. While he said that higher capital would "reduce the availability of credit from insured institutions to riskier borrowers," he noted that "it is just such financing . . . that has caused so many of the current difficulties."

Without further written comment on the matter, it appears that Mr. Greenspan does not expect his plans for tougher capital standards to have any further untoward impact on bank lending.

The motivating factor for the push toward higher capital standards is not as unclear as his nod toward lower interest rates, however. Clearly, Mr. Greenspan is under pressure to ensure that the banking industry will not meet the same politically charged fate as the thrift industry. In other words, taxpayers' money must not be used to bail out banks and their depositors.

Mr. Greenspan acknowledged as much in his testimony before the Senate banking committee. The stronger risk-based capital ratios the Fed plans to propose will "create a large buffer be-

See **GREENSPAN** *back page*

INSIDE NEWS

WASHINGTON



T. TIMOTHY RYAN and the Office of Thrift Supervision are coming under fire for not providing timely data on the status of the nation's S&Ls. *Page 8*

FINANCE

BANK STOCKS turned in one of their strongest days in months on Friday as news of credit easing by the Federal Reserve Bank overshadowed its statements about the prospects for increased capital ratios. *Page 20*

TECHNOLOGY

MANUFACTURERS Hanover and several other banks are planning to introduce telephonelike devices over the next year to give a boost to their home banking programs. *Page 3*

CONSUMER

ECONOMISTS EXPECT consumers to be cautious borrowers in the months ahead, despite an unanticipated increase reported last week in consumer credit. *Page 6*

REGULATORS have surprised some foreign-owned banks by cracking down on Community Reinvestment Act compliance. *Page 6*

INTERNATIONAL

BRAZIL WILL TAKE a tough stand in upcoming debt negotiations, according to Economy Minister Zelia Cardoso de Mello. *Page 12*

COMMENT

THE PRESS can be counted on to ignore the good news in banking, says Paul Nadler. *Page 4*

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Acting Fast on Chief's Talk, Fed Cuts Funds Rate to 8%

By KELLEY HOLLAND

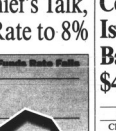
For the first time in seven months, the Federal Reserve on Friday moved to reduce interest rates, pushing the federal funds rate down a quarter point, to 8%.

The move came a day after Federal Reserve Chairman Alan Greenspan said some easing of rates might be advisable to alleviate a credit crunch that could hamper economic growth.

Will Banks Respond?

However, several economists said more easing may be necessary before banks will step up lending.

"If this is only a response to what the Fed perceives as a tightness in credit, I don't think the response is likely to be all that enthusiastic in terms of new lending," said Henry R. Engler,



a vice president and economist at Chemical Banking Corp. "A quarter of a point move is very,

See **BANKS** *back page*

Continental Is Doubling Bad Loans, to $455 Million

By NANINE ALEXANDER

CHICAGO — Barely two weeks after announcing a $50 million restructuring chargeoff for the second quarter, Continental Bank Corp. said it would nearly double its domestic nonperforming loans to $455 million.

Analysts said the move could force the bank company to increase its reserves, which would result in a loss greater than the $40 million to $50 million that was expected because of the restructuring charge. Continental, which is expected to report its earnings Wednesday, declined to comment.

Market Not Disturbed

The increase in nonperforming loans was announced after the stock market closed Thursday and investors took the disclosure in stride. Continental's stock closed Friday at $13, unchanged.

Continental declined to disclose details of its problem credits, but analysts speculated they largely involved highly leveraged transactions. The company said its domestic nonperforming loans represent about 3% of its domestic loan portfolio.

Continental said about 40% of the newly classified nonperforming loans were current and meeting interest payments. The action was seen as being in an-

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OTS Rescinds Controversial Rule

By ROBERT M. GARSSON

WASHINGTON — The Office of Thrift Supervision has backed down from a policy requiring significantly higher capital at thrifts that service pools of mortgages guaranteed by the Department of Veterans Affairs.

The rule, which became effective in June, generated a storm of protest from thrifts struggling to comply with the net-worth requirements of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

If the OTS left the rule in place, hundreds of thrifts might have been forced to sell mortgage-servicing rights at a loss in an effort to meet capital standards.

The policy affected Government National Mortgage Association (Ginnie Mae) pools containing VA mortgages that institutions service but do not own. A company that services loans processes payments on behalf of investors.

Stiff Increase Averted

On Ginnie Mae pools consisting of at least 20% of VA loans, the OTS wanted thrifts to maintain capital behind the entire VA loan amounts, less the 25% that the veterans' agency typically

See **OTS** *page* **10**

LaWare Rules Game of Bank Reform



Silvio Redinger

BIG PLAYER: John LaWare of the Fed Reserve Board holds a strong hand.

By ROBERT TRIGAUX

WASHINGTON — With two years under his belt at the Federal Reserve Board, John LaWare is emerging as the central bank's key player in bank regulatory issues.

The Fed governor, who spent 35 years in banking, has established himself as an advocate for reform. Mr. LaWare thinks commercial and investment banking should not be separated, as they are by the Glass-Steagall Act. He also advocates the elimination of the McFadden Act, which prohibits banks from branching nationwide.

The Top Controversy

He is also encouraging debate on what is perhaps the most controversial issue in the banking industry: whether it should be legal for banks and nonfinancial corporations to be jointly owned. That question has split the ranks of U.S. banks and is fueling a tug of war within the Federal Reserve System.

Mr. LaWare, 62, will probably have a big say in how these issues are resolved. The former chairman of Boston-based Shawmut National

See **LaWARE** *page* **17**

PEOPLE *in the news*

Lawyer Leads Fight to Put A Lid on Lender Liability

By ROBERT M. GARSION

WASHINGTON — Lender liability is one of the hottest legislative issues for the banking industry today, and it was Alfred Pollard, Security Pacific Corp.'s inquisitive and tireless lobbyist, who first fanned the flames.

Mr. Pollard, 38, began organizing lenders, borrowers, and lawyers back in April 1989, and the network he developed has provided much of the momentum for two bills on the issue.

His group, now known as the Environmental Lender Liability Group, scored an impressive victory last month when Rep. John J. LaFalce, D-N.Y., announced that a majority of his House colleagues had signed as cosponsors of his bill to limit lender liability.

The measure faces an uphill fight: With elections ahead, lawmakers are paring all but essential items from the legislative agenda. But the list of cosponsors gives Mr. Pollard hope that a law can still be enacted to limit banks' exposure to the costs of cleaning hazardous waste sites they inherit from defaulted borrowers.

"I think there is a chance to get these bills enacted this year," Mr. Pollard said. "The borrower groups can't wait another year, because they can't get loans."

Mr. Pollard first came upon the issue while doing research in 1988 to update a book he edited on issues of banking law. His interest was further piqued the next April, when Mr. LaFalce introduced his first lender liability bill. (A second version was introduced a year later.)


Alfred Pollard

"It was the kind of thing where I pulled a few people together for a meeting and at they end they would say, 'When do we meet next?' "

Casting a Net for Support

He began casting a wider net, bringing in trade groups representing home builders, farmers — anybody worried that credit might tighten if lenders grew too leery of environmental liability.

He also served as an informal clearinghouse, faxing or mailing updates and position papers each week — sometimes daily.

"It's really been his show," said Martin Farmer, lobbyist for Barnett Banks Inc., Jacksonville, Fla. "To his everlasting credit, he was the one who got the borrowers together. He set up a lawyers committee, a lenders committee. And he set up what I would say were the original meetings with LaFalce."

'A Professional Student'

In Washington, Mr. Pollard is looked upon as a lobbyist of a different sort: a bit of a gadfly and a man of diverse interests.

"He is a professional student," said Mr. Farmer. "He has more degrees than anyone else in town."

After putting in a stint on Capitol Hill in the office of Sen. Sam Ervin, D-N.C. — best known for his work as chairman of the Senate's Watergate committee — Mr. Pollard returned to school. The lawyer earned a doctorate in foreign affairs from the University of Virginia and then worked briefly for the Tobacco Institute. He joined Security Pacific nine years ago.

In addition to writing — he is updating his book, "Banking Law in the United States," and he recently assembled a long paper critiquing bank "firewalls" — he teaches a course on undergraduate business law at Georgetown University. He is a father of three children and is an amateur photographer. □

NEWS *briefs*

Fixed Mortgage Rates Up

WASHINGTON — The average interest rate on a 30-year fixed-rate mortgages rose last week to 10.11%, from 10.07% a week earlier, the Federal Home Loan Mortgage Corp. said. The average adjustable-rate mortgage was off slightly to 8.45%, from 8.46%.

OTS Clears Hawaii Merger

HONOLULU — Bancorp Hawaii said it had received Office of Thrift Supervision approval to proceed with its previously announced acquisition of FirstFed America Inc., parent of the $800 million-asset First Federal Savings and Loan Association. Bancorp Hawaii, the largest bank holding company in the state, is still awaiting Federal Reserve Board approval for the merger.

Synovus Plans Acquisition

COLUMBUS, Ga. — Synovus Financial Corp. has signed a letter of intent to acquire Citizens Federal Savings and Loan Association, Rome, Ga.

Synovus plans to convert the $130 million-asset thrift from mutual to stock form and purchase all the outstanding stock. Account holders of Citizens Federal will have an opportunity to purchase Synovus stock.

The $2.7 billion-asset Synovus owns Columbus (Ga.) Bank and Trust Co. and 19 other banks in Georgia, Florida, and Alabama. □

Sovran, Raising Loss Fund, Expects 60% Drop in Profit

By KENNETH CLINE

ATLANTA — Sovran Financial Corp. increased third-quarter profit to fall about 60% after quadrupling its loan loss provision to $74 million.

Meanwhile, Signet Banking Corp., Richmond, Va., announced Friday that its second-quarter profits fell 91% to $2.5 million, after it increased its loan provision by 197% to $50.5 million, from $17 million in the first quarter.

Sovran and Signet recently underwent exams by the Office of the Comptroller of the Currency.

Bad Assets Surge

Norfolk-based Sovran said it expected nonperforming assets to rise 91% to $250 million from the $131 million reported at March 31. Included in this category are $39 million in loans where principal and interest payments are still being met, the bank said.

Sovran also announced Friday it had sold about $60 million in rescheduled or problem loans to lesser-developed countries, which it said accounted for $28 million of its $74 million increase in loan loss provision. It said $33 million of loans classified as nonperforming are in the Washington, D.C., area.

The company expects to report its earnings Tuesday.

Sovran said it expected to report second-quarter earnings in the range of $21 million and $22.2 million, down from $66.6 million in the period a year earlier. It said its reserves for problem loans would rise to $265 million from $198 million, accounting for 1.5% of total loans outstanding.

Problem Assets Small

Analysts said Sovran fared better through its OCC exam than most of its competitors because its problem assets comprise only 1% of its entire loan portfolio.

"The underwriting function at Sovran is functioning effectively despite a deteriorating market," said Gerard J. O'Meara, with Robinson-Humphrey Co. in Atlanta.

Despite Sovran's lower second-quarter earnings, the company indicated it still expects to complete its merger with Atlanta-based Citizens and Southern Corp. in the third quarter, forming a new holding company called Avantor Financial Corp.

Fed May Raise Limit on Deals Made Overseas

By LINDA CORMAN

WASHINGTON — Responding to demands from U.S. banks active internationally, the Federal Reserve Board is likely to propose today an easing of its limitations on securities dealings overseas.

International banking lawyers and other observers say the central bank's intent is to improve American banks' competitiveness in underwriting and dealing in foreign debt and equity securities.

U.S. banks' exposure in any one deal cannot exceed $2 million. Sources said they did not know by how much the Fed would increase that ceiling, but they expect a significant change in the $2 million limit that has been in force for 11 years.

Change May Have Cost

But what the Fed gives with one hand, it may take away with the other. The higher investment

See FED page 18

Corrections

In the July 13 issue, the Analysis ("This Is Friday, So Expect Tales of a Big Seizure," page 1) wrongly stated the company affiliation of Nancy Bush, a bank stock analyst. She is an assistant manager at Brown Brothers Harriman & Co. in New York. ■

The Stocks column of July 13 incorrectly stated the timing of expected dividend cuts at money-center banks. The column should have said that an analyst at C.J. Lawrence, Morgan Grenfell predicted there would be dividend cuts within the next 12 months.

Bleakley Resigns as Paper's Editor

NEW YORK — Fred R. Bleakley has resigned as editor of the *American Banker*.

Mr. Bleakley joined the paper in April 1989 and oversaw a redesign of the publication's format and an expansion of its coverage.

In resigning, Mr. Bleakley cited a disagreement with management over his proposal to report directly to the company's president and a desire to pursue other opportunities. He has not announced his plans.

Allan Priauls, the paper's publisher, expressed regret at Mr. Bleakley's decision. "He's done an excellent job with the *American Banker*, particularly in creating and implementing the redesign," Mr. Priauls said.

A successor has not been announced. Thomas J. Ferris, managing editor, will be acting editor of the newspaper while a decision is made, Mr. Priauls said.

A note to readers from Mr. Bleakley appears on page 4.

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

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TECHNOLOGY NEWS

Bank-by-Phone Competition Rising

Hanover Group Seeks Device a Cut Above Citicorp's

By KAREN GULLO

NEW YORK — Move over, Citicorp: Manufacturers Hanover Trust Co. and several other banks are planning to introduce telephone-banking devices over the next year to give a jolt to their home-banking programs.

The move marks a definite shift away from personal computers for home banking, a service that many banks have dropped because of low profit margins. It also indicates that banks believe they must keep up with Citicorp, which announced in March that it had developed a modified telephone for consumers to bank from home.

Sources say Manufacturers has asked several equipment suppliers to submit proposals for a telephone device that would allow customers to pay bills, transfer funds, and conduct other routine banking business from home.

Unlike Citicorp's initial offering, the proposed Manufacturers device could also deliver advanced telephone services such as voice messaging and caller identification and information services like stock quotations.

BankAmerica Leads the Pack

The Excel home banking program by Manufacturers Hanover is the fourth-largest in the country, with an estimated 7,200 customers in 1989. BankAmerica Corp., Citicorp, and Chase Manhattan Bank hold the top three spots.

In contacting suppliers, Manufacturers said, it is acting as the lead bank for an informal consortium of some dozen banks that want to offer a telephone device but cannot afford to develop their own. Most of the banks working with Manufacturers already offer home banking through the personal-computer-based videotex service known as Prodigy and use Manufacturers' software and back-office processing for home-banking transactions.

Prodigy Services Inc., a joint venture of International Business Machines Corp. and Sears, Roebuck and Co., delivers information services such as home banking, reservations, and shopping via personal computers. The service is available in 42 cities and has 425,000 subscribers, though only a small portion of those use it for banking from home.

Manufacturers does processing for CoreStates Financial Corp.'s Philadelphia National Bank, Comerica Bank-Detroit, First Interstate Bancorp's First Interstate Bank of Denver, Wells Fargo Bank, and several banks in the MAC automated teller network.

Secret Plans

Executives at these banks are reluctant to reveal their plans for a telephone home-banking device. "We don't want to tip off the competition," said a Wells Fargo executive.

Sources expect Manufacturers to offer the telephone device to banks as part of its home-banking processing service. The banks would then rent the phones to customers for a monthly fee.

"The banks that we've had discussions with feel that an enhanced telephone is the way to go," said James Bauer, vice president of electronic banking at Manufacturers. "The interest is being driven by two factors. Banks want to position themselves because they feel threatened by Citibank. They also feel that the market is not right for PCs."

Availability Undetermined

Mr. Bauer acknowledged that Manufacturers is talking to equipment suppliers and other banks, but he declined to say which companies might make the device. He also said it was too early to say when such a device would be available or how it would be distributed.

Citicorp announced its Enhanced Telephone, or ET, in March. The bank leases the telephone for a one-time fee of $49.95 plus $9.95 a month. The product is made by Philips International, a Dutch company.

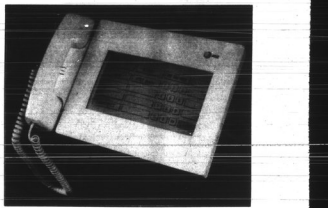
A few hundred ETs are being tested with customers of two Manhattan branches of Citicorp. The ET can be used for home banking, making calls, storing phone numbers, and automatic dialling.

"A dedicated stand-alone banking device won't fly," Mr. Bauer said. The device, he said, must marry features of a computer terminal to a telephone and be able to take advantage of advanced services, called class services, by the phone company. Class services include voice messaging, automatic electronic directories, and caller identification, a feature that delivers the telephone number of the calling party when the phone rings.

Several companies have or are developing such devices. American Telephone & Telegraph Co. recently announced a new telephone that incorporates a small touch screen. Called Smart-Phone, the device can be programmed to make and receive phone calls with the push of a button. AT&T hopes to distribute the phone through regional telephone companies.

"Banking services is one of the primary applications of the phone," said Michael Grisham, manager of strategic planning at AT&T Network Systems.

Mr. Bauer declined to comment on whether Manufacturers is considering the SmartPhone. He did say that bankers may be reluctant to make deals with AT&T because of tension between the two groups ever since AT&T introduced its Universal credit card, which competes with cards issued by banks. □



ADVANCED FEATURES: AT&T's SmartPhone, combining some features of a computer terminal and a home telephone, may be the type of device that Manufacturers Hanover Trust will consider for its latest home-banking initiative.

Norwest Corp. Sells Data-Processing Unit to Fiserv

By JEANNE IIDA

NEW YORK — Fiserv Inc. said Friday it bought a data processing company that had only recently been acquired by Norwest Corp., Minneapolis.

In the cash transaction, Fiserv paid an undisclosed amount for a subsidiary of First Interstate Management Services of Wisconsin Inc., which Norwest acquired in April.

Norwest will continue to perform data-processing services for banks, thrifts, and credit unions through another subsidiary, Norwest Technical Services, which uses an International Business Machines Corp. environment.

"We considered converting the FIMS customers to the Norwest systems, but since FIMS and Fiserv are both Unisys processing environments, this was the most cost-effective and least disruptive for the FIMS customers," said Kim Meier, senior vice president, information services at Norwest Technical.

Data-processing services increasingly are being consolidated in the hands of companies like Fiserv, West Allis, Wis., a few big banks.

Fiserv, which has been aggressively snapping up data-processing companies, said recently that merger talks had broken off with an unnamed suitor.

The newest addition, First Interstate Management Services of Sheboygan, Wis., processes 400,000 customer accounts for institutions in Wisconsin and Minnesota. □

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COMMENT/ *By Paul S. Nadler*

A Normal Day Isn't News At Ol' Schmidlap National



The most important events at Schmidlap National Bank last week were these:

- People requested 1,500 loans, all of which were acted on within a week of the request; some were approved, some rejected.
- The bank handled 168,000 transactions with only 267 errors, all of which were corrected with one phone call each.
- The tellers called 78% of the customers by name.

Did any of this make the newspapers? Of course not. That's not news.

The Squeaky Wheel Syndrome

If any news story appeared about Schmidlap last week, it probably involved an individual who was turned down for a loan and complained that he should have been given it or someone who told the press that the bank's service charges were higher than other banks' charges or that the bank refused to cash checks of dubious origin for people the bank did not know.

Now, that's news!

And if the bank happens to have had some nonperforming loans and has had to build up reserves and write down profits, that's headline news.

The reason for this is obvious. The routine is not news. The exception is. And reporters are always looking for the exception. It is a never-ending struggle.

Creating Misimpressions

The problem, however, is that in their efforts to make stories more exciting than they really are, the news media can create misimpressions.

As recently as late spring, a run developed on a Colorado savings and loan that forced it to be closed earlier than officials wanted because a television station built up a routine report by regulatory officials.

And we have had throughout this year such bad publicity on banks that few investors will touch bank stocks.

Without question, the heavy pressure put on banks and thrifts by the media is a basic reason why the public is gravitating to larger institutions, hoping that regulators will treat them as "too big to fail." This movement is at the expense of smaller institutions that may actually be far sounder.

But this is to be expected.

And you may bet that – when conditions turn and many banks earn healthy profits from recapture of reserves set aside now to satisfy overzealous regulators – instead of crowing that the banks are now healthier and recovering their forgone profits, the news media will say: "Bank profits are too high – they are milking the public."

What can banks do about this? Precious little. But bankers can turn inward and recognize what these reports really mean and what motivates them.

For just as bankers can believe their own press clippings and develop swelled heads when journalists write laudatory articles – because this makes the bankers more interesting than articles with less hype in them – bankers can also get in trouble when they read adverse press comments. They'll get in trouble, that is, if they begin to believe they cannot do the job that must be done.

In sum, bankers must remember that today's news is tomorrow's fish wrapper – and not even that much if it went out on the airwaves.

Most important, bankers must remember that what is not news to the media is still the most important news of banking to people who want loans, want to correct their statements, and want to be treated civilly when they visit the bank. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at Rutgers University's Graduate School of Management.

A Note to Readers

Dear Reader:

Over the past 15 months I have occasionally used this space to keep you apprised of changes in the *American Banker's* editorial content. Many of those changes came about because of the willingness of many of you to let us know what is most important to help bankers understand and react to such a challenging environment.

This is the last issue of the paper that I will edit, and I wanted to take this opportunity to thank you for your support in the redesign of the paper that took place earlier this year. I am also grateful to the management of the *American Banker;* its owner, The Thomson Corp.; and such a hard-working, talented staff of reporters and editors for helping me make the most of this unique opportunity.

Sincerely,
Fred R. Bleakley,
Editor

AMERICAN BANKER

Established 1836
One State Street Plaza, New York, N.Y. 10004
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"SOUND OFF"

California bank branch offices are closing at an unprecedented rate, spurred on by acquisitions, merger mania, and the anticipation of interstate banking, scheduled for 1991. The *American Banker's* Los Angeles bureau chief, Teresa Carson, asked the following people:

***Q** How many financial institution branches do you think will be closed in California in the next three to five years?*

■ John J. Keating
President and CEO
Lincoln Bancorp.



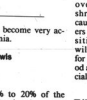
About one-third to one-half the branches in California are likely to close.

There are several forces going on here. The big California banks are buying smaller banks and consolidating them into their operations in anticipation of [interstate banking in] 1991. You don't hear a lot of action on interstate banking from the big Eastern banks yet; so far, most of the activity is by California banks.

Also, many savings and loans will be acquired, either from the government or as independent entities. That will mean more consolidation. And there are mergers among smaller banks, which will also produce branch closures.

The only thing that will throw off this estimate is if the big Eastern banks become very active in California.

■ Donald J. Lewis
Audit Partner
Arthur Andersen



I think 10% to 20% of the branches will be closed over the next few years.

Although there will be acquisitions and mergers, my estimate is low because many of these offices continue to operate after they are acquired. If there is overlap, an acquiring institution might sell off the branches. Many of the failed thrifts that will be up for sale – like Santa Barbara Savings, and others – have very attractive branch networks.

Basically, though, a branch network is still the most cost-effective way to gather deposits. Although more and more customers are dependent on ATMs, a branch office is the only way to attract new customers. In the future, branches may be smaller without full services, but we will still have the branches.

■ Richard M. Rosenberg
Chairman and CEO
BankAmerica Corp.



The financial services industry is characterized by considerable overcapacity. Although each



day we see the overcapacity shrinking because of mergers and acquisitions, this will continue for a long period and will produce its own special set of competitive stresses.

■ W. Dean Cannon
President
California League of Savings Institutions



I can only speak to the savings and loans. The California savings and loans peaked at 212 companies with 3,400 offices during the middle 1980s. I expect by year-end we will have only 150 independently operating savings and loans because

we will see branch closures and the numbers of companies will shrink. That will continue over the next two or three years and that will take another 50 companies off the roster of 150. More savings and loan offices will be closed and we will be left with about 2,500 total.

■ Michael B. Abrahams
Vice president
Bateman Eichler, Hill Richards Inc.

As interstate banking grows, greater consolidation in banking is to be expected. Thus, it is only natural that the number of branches decline. In California, my guess is that the nearly 3,100 savings and loan offices and the 3,025 commercial bank offices will probably decline by 25% to 35% over the next decade.

Probably the most obvious reason to expect declining branch levels is the sale or liquidation of the troubled S&Ls; while some branches will remain open under a new owner, I expect that many will be consolidated into the acquirers' nearby branches. It would be very surprising, for example, if Security Pacific kept all of Gibraltar's branches open.

Secondly, the arrival of interstate banking in California next January is likely to accelerate the consolidation now occurring. I would be very surprised if the number of banks and savings and loans did not drop sharply from the current level of 700 by the end of the decade.

Finally, the large and growing ATM network makes branch offices less necessary for retail customers while improved information systems may make branch consolidation more efficient. □



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COMMUNITY RELATIONS

Tighter Enforcement Stuns Some Foreign-Owned Banks

By LINDA CORMAN

Regulators have taken some foreign-owned banks by surprise in cracking down on Community Reinvestment Act compliance.

Some of the institutions, after operating for years under the mistaken belief that they were exempt from CRA requirements, have recently been handed poor evaluations, banking sources said.

Rules that took effect July 1, bankers said, have prompted regulators to step up enforcement of the 13-year-old law that calls for banks to invest in low- and moderate-income communities. The rules require banks to disclose to the public the results of their CRA evaluations.

"Some [foreign-owned banks] may not understand the regulatory or political environment they're dealing with."
Daniel M. Leibsohn
Low Income Housing Fund

Bankers have said that regulators, worried about being criticized for lax supervision, have toughened their exams.

The rule changes have not altered which banks are subject to the law. Foreign-owned banks with deposits covered by the Federal Deposit Insurance Corp. have always been subject to CRA requirements, according to a Federal Reserve lawyer.

But recent events indicate that at least some foreign banks have been lax on compliance and that they are now feeling the hot breath of regulators pressing them to put their houses in order.

Patrick C. Gatins, vice president, deputy counsel, and CRA compliance officer for the Bank of Tokyo in New York, said he knew of only one other foreign-owned bank with a CRA compliance officer. And that officer was named only recently by a bank that had thought it was exempt from the law, he said.

A Lonely Figure at CRA Conferences

Mr. Gatins, who said his bank has had a compliance officer nearly as long as there's been a CRA, also said he was virtually the only officer from a foreign-owned bank at the recent spate of conferences and meetings on CRA issues. In recent months, however, a number of bankers, suddenly aware of their CRA responsibilities, have called him for pointers, he said.

And Daniel M. Leibsohn, a community organizer in California, said many foreign banks, after traditionally having done little CRA lending, recently are among the most active.

Executives of foreign-owned banks may have been more prone to think they were exempt than did those at U.S.-owned banks, Mr. Leibsohn said, because CRA is so American. "Some may not understand the regulatory or political environment they're dealing with," he said. "There isn't anything like this where they're from."

Low Income Housing Fund Borrows Money for Projects

Mr. Leibsohn is president of the Low Income Housing Fund, which obtains low-interest loans from financial institutions and re-loans the funds to organizations for low-cost housing projects.

Most foreign-owned institutions primarily offer wholesale services. Recently, wholesale banks – both domestic and foreign-owned – have been put on notice they are subject to the CRA, several sources said. Many wholesale banks had not considered themselves subject to the law because their products do not lend themselves to community investments, bankers said.

At least one organization representing foreign banks in the United States said it was unaware of its members' encountering more zealous enforcement of the CRA. These banks "have been subject to the same amount of [CRA] supervision and regulations as domestic banks," said Paul Pilecki, a partner in the Washington law firm of Shaw, Pittman, Potts & Trowbridge, which represents the Institute of International Bankers, a New York based group.

Making the Retail-Wholesale Distinction

For retail banks that take deposits and make loans, it seemed natural that some of those loans would be required to be made in the communities from which the deposits came, as CRA specifies. But wholesale banks, whose primary product is loans to corporations with facilities nationwide or worldwide, have no local community to serve, bankers said.

If wholesale banks did not actually consider themselves exempt, they often felt they had fulfilled their responsibilities by giving to nonprofit corporations like YMCAs, symphony orchestras, and museums. But now, wholesale banks have been told explicitly that their lending must meet CRA guidelines, said one banker.

And if foreign-owned banks have been more truant than domestically owned banks on CRA compliance, Mr. Leibsohn said, consumer activist groups should accept part of the blame.

"We weren't even going to them," he said. "We were scratching our heads," trying to figure out how to get them involved. "We didn't try. We wrote a few letters and never got responses" and did not follow up. □

Economists See Tight Reins on Borrowing

By YVETTE D. KANTROW

NEW YORK — Despite reports last week of an unanticipated increase in consumer credit, economists expect consumers to be cautious borrowers in the months ahead.

Some economists said the Federal Reserve's latest report, which showed that consumers took on 10 times more debt in May than they did in April, was a statistical aberration. Even though those observers expect consumer borrowing to decrease in the months ahead, they said the May results are a significant bright spot in an otherwise bleak economic picture.

"It's challenged the consensus view that the economy is weak," said John E. Silvia, a vice president and economist at Kemper Financial Services Inc., Chicago. "It stopped people in their tracks when forecasting a downturn."

Consumer spending habits have taken on heightened importance at banks. As the profitability of lending to big corporations declined, many institutions restructured their balance sheets, emphasizing personal loans.

But some in the industry have expressed concern that banks are stepping up their retail lending activities at a time when consumers, feeling overburdened by debt, are in a saving rather than a borrowing mode.

Consumers seem in a saving rather than a borrowing mode.

"They're walking into a phase of the economy where the creditworthy seem to not be the ones who want to borrow," said Gary Ciminero, chief economist at Fleet/Norstar Financial Group Inc. "So it's a tougher sell."

Mr. Ciminero predicted that consumer credit figures for June will show negative growth. "Slow months are often followed by fast months and fast months by slow months," he said.

Grounds for Positive Outlook

Still, bankers are confident that their consumer lending businesses will remain strong, even as Americans become more cautious borrowers. Banks today are applying stricter underwriting standards to their retail portfolios. As long as they approach expansion cautiously, bankers say, their outlook will remain positive.

"We are seeing a slackening in demand, and things are slow for us," said Patrick M. McQueen, a senior vice president at Manufacturers National Bank in Detroit. "But we're still optimistic about the next year or so."

The bank, which Mr. McQueen said has a small retail loan portfolio compared with other regionals its size, is now expanding its reach and entering the Chicago market. The move,

See **RESTRAINT** *page* 10

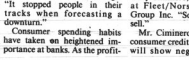
AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index

Retail and Jumbo CDs

Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 largest banks and thrifts in each of the nation's 10 largest markets on July 11. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Eight-Week Rate Trend



Retail Yields

	6-month	1-year	5-year
New York	7.99%	8.21%	8.49%
Los Angeles	8.05	8.38	8.60
Chicago	7.74	7.91	8.20
San Francisco	8.04	8.30	8.27
Philadelphia	7.97	8.13	8.17
Detroit	7.81	7.97	8.07
Boston	8.21	8.31	8.32
Houston	7.54	7.62	7.73
Dallas	7.54	7.68	7.86
Washington	8.33	8.48	8.46
BRM NATIONAL AVERAGE	7.90	8.09	8.16

Jumbo Rates

	6-month	1-year	5-year
New York	7.94%	7.99%	8.24%
Los Angeles	7.98	8.04	7.86
Chicago	7.83	7.88	8.34
San Francisco	8.03	8.11	8.02
Philadelphia	8.03	8.01	8.06
Detroit	8.04	8.04	8.13
Boston	8.13	8.13	8.16
Houston	7.63	7.71	7.76
Dallas	7.88	7.72	7.84
Washington	8.16	8.21	8.43
BRM NATIONAL AVERAGE	7.94	7.98	8.11

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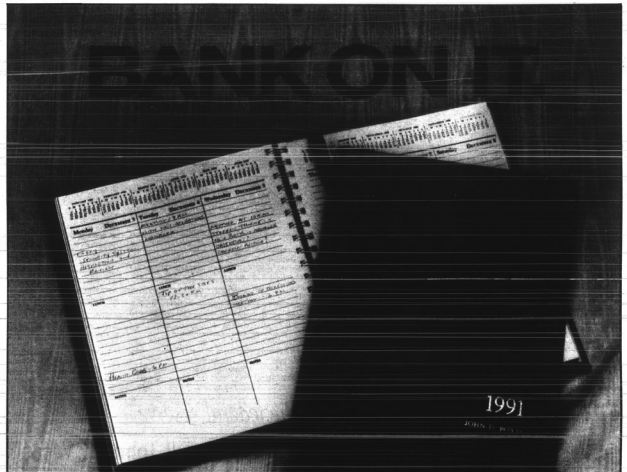

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Dearth of Numbers from OTS Makes Thrift Picture Hazy

By DEBRA COPE

WASHINGTON — Where have all the numbers gone?

The past four months have been a dry season for analysts of the monthly and quarterly data that the Office of Thrift Supervision collects on the condition of the thrift industry.

Congressional budget analysts say an information drought is making it difficult to measure the progress of thrift industry rescue efforts and assess the Resolution Trust Corp.'s financial needs.

No statistics culled from monthly thrift financial reports have been published by the OTS since March 7, when it released a thrift activity report for December 1989.

"It's an absolute shame not to be providing information on a timely basis when we're confronted with such a serious problem," said James R. Barth, an Auburn University finance professor who was chief economist at the OTS until last November.

The OTS appeared to be in the midst of revising its policy on disclosing monthly thrift activity reports when the *American Banker* placed calls last Thursday.

Some Data Due This Week

The agency has decided to release data for January and February sometime this week, spokesman William Fulwider said on Friday. Thereafter, it will publish the monthly data on a quarterly basis, but will provide the monthly numbers as they are calculated upon request, he said.

A senior OTS official insisted the agency is not withholding the data it collects month by month. The agency is still working the bugs out of a new computer system, and thrifts are struggling with a congressionally mandated switch to new consolidated reports of their financial condition, this source said.

"If there is a real or perceived need for folks to continue to get monthly data, I don't think anyone has a problem. It's not a hard-and-fast decision," this official added.

Monthly reports provide information on the composition of the thrift industry's portfolio, its



James R. Barth
Former OTS economist

capital position, and rates offered on deposits. Income data, though collected monthly, have been released only quarterly.

Congressional budget analysts said the monthly data provide intermediate indicators of where thrift industry problems lie. "During last year's deposit outflows, the monthly numbers really helped us understand that they were caused by downsizing, not by depositor runs," said one analyst.

"We don't know how many thrifts are likely to survive the current strains, and we don't know where the groups that were marginal are headed," said a Senate Banking Committee staff member. Getting adequate data has been such a problem for the committee staff that Chairman Donald W. Riegle, D-Mich., summoned OTS Director T. Timothy Ryan Jr. to his office to explain delays.

Congressional sources said the OTS's office of the chief economist is in disarray and has had trouble gathering data from the agency's 12 district offices, which are being reorganized.

"The districts don't feel like reporting the latest numbers because they know there is going to be a consolidation of field offices," one source said.

Deputy chief economist James Freund has been managing the office since last November. Mr. Ryan said recently that he has narrowed the search for a new chief economist.

"Given the public policy concerns, it is highly inappropriate to reduce the flow of data at a time when it ought to be increasing," said Bert Ely, a consultant in Alexandria, Va.

"Why should the public be denied that information?" Mr. Barth asked. "They ought to release it all or explain to Congress why they should not."

Prospective investors also want aggregate information on the thrift industry. "If you want to ascertain the health of specific institutions, you have to have a frame of reference," said Milton R. Joseph, a financial analyst for UBS Securities Inc., a New York subsidiary of Union Bank of Switzerland. "To acquire a thrift, you have to understand its balance sheet. How would a foreign investor have any idea what a thrift was supposed to look like if he didn't know what the industry looks like?"

"I can make some judgments about investments without relying heavily on aggregate industry data," said David Hochstein, a thrift analyst for Bear, Stearns & Co. who said he has "learned to function without as much industry data."

However, Mr. Hochstein added, "I don't know how you can look at the industry as a whole without data." □

THE WEEK *ahead*

MONDAY, JULY 16

The Federal Reserve Board meets in open session at 9:30 a.m. to discuss suggested revisions to Regulation K, which governs international banking operations. 202-452-3204

The House Banking subcommittee on oversight and investigations holds a hearing in Hartford, Conn. to examine reports that a credit crunch in New England is leading to an economic slowdown. 202-225-2828

TUESDAY, JULY 17

A House Banking Committee task force exploring the competitiveness of U.S. financial institutions will hold a hearing on progress in the development of a financial services agreement in the ongoing Uruguay Round of trade talks. The task force, headed by Rep. John J. LaFalce, D-N.Y., will also explore the issue of whether "financial dumping" – foreign financial firms selling services in the United States below cost – is taking place. 202-255-5821

The Senate Banking Committee has tentatively scheduled a vote on a number of items, including money laundering legislation, the Truth in Savings and Investment bill, and the Fair Lending Enforcement bill. 202-224-7391

The National Credit Union Administration will present an update on the Central Liquidity Fund and the Insurance Fund at an open board meeting in Nashville, Tenn. 202-682-9600

WEDNESDAY, JULY 18

The Oversight Board of the Resolution Trust Corp. will hold its fourth open meeting at 2:30 p.m. to discuss the investigation and prosecution of financial institution fraud and the enforcement efforts the RTC has made. There will also be a general status report on the activities of the board. 202-786-9672

The National Association of Federal Credit Unions begins a four-day conference in Nashville to discuss key issues affecting the nation's credit union industry. About 1,600 credit union officials are expected to attend. Speakers include Sen. Jim Sasser, D-Tenn.; Robert Krukovich, a business news correspondent for "CBS This Morning," and Roger Jepsen, chairman of the National Credit Union Administration Board. 703-522-4770

Federal Reserve Board Chairman Alan Greenspan will testify at 10 a.m. before the Senate Banking Committee, in the Fed's semiannual Humphrey-Hawkins report, on monetary policy. 202-224-7391

Mary Bush, executive director of the Federal Housing Finance Board, speaks to reporters at the National Press Club. 202-662-7500

THURSDAY, JULY 19

Securities and Exchange Commission Chairman Richard Breeden appears before the Senate Banking Committee to discuss restructuring the financial services industry.

FRIDAY, JULY 20

No significant events are scheduled.

INSIDE *the federal reserve*

Long Wait Seen to Fill Johnson Vacancy

By LINDA COREAN

WASHINGTON — It looks like it may be another extended wait, rivaling the year-long stretch between the resignation of Robert Heller and the ascension of his successor, David Mullins, before outgoing Vice Chairman Manuel Johnson's seat is filled at the Fed.

Council of Economic Advisers Chairman Michael Boskin, Treasury Secretary Nicholas F. Brady, and White House Chief of Staff John Sununu are working on the nomination, but they are pondering a list of eight to 10 names, said an administration source. The list has not yet been winnowed to one or two names.

"They're putting a lot of time and effort into it," but the administration has been caught up in the economic and budget summits, the source said. Not to mention the thrift crisis.

The Likely Nominee

The nominee will probably be a banker, a chief executive officer, or business person because that is what Secretary Brady is after, rather than an academic or government insider, the source said.

That scratches one rumored candidate from the list, David Mulford, Treasury undersecretary for international affairs.

But not necessarily Council of Economic Advisers member John B. Taylor, one of the names most frequently mentioned, said the source.

"Taylor would certainly be a top contender if a CEO type is not chosen," said the source.



Manuel Johnson
Departing vice chairman

As to timing, even if a nomination were to be made this week (highly implausible), it is unlikely Congress could confirm before it adjourns. Since there are six sitting governors, an emergency could hardly be declared to keep Congress on the job to finish the work. Only four governors are needed for a quorum. So, it is quite possible there will be no one to replace the vice chairman until next year.

And, despite the source's insistence that the Administration is on the case, as several observers noted, there seems to be no sense of urgency.

In the past, nominations have been made quickly if the missing governor was the chairman or if a new administration wanted to replace the opposite party's nominees with his own, said Steven Roberts, partner at KPMG Peat Marwick and a former assistant to Paul Volcker.

But, none of this applies this time around.

Meanwhile, Vice Chairman Johnson's days at C and 20th Street are dwindling to a precious few. His last day at work will be Aug. 3.

"He's in a cooling-off period," said Joseph R. Coyne, assistant to the board.

The vice chairman has not only absented himself from the Federal Open Market Committee meetings the first week of this month, which he is required to attend; he is also not participating in discussions on applications or regulatory issues, Mr. Coyne said.

"He said he felt uncomfortable," discussing regulatory issues, Mr. Coyne said.

Last weekend and early last week the vice chairman attended his final meeting of the Bank for International Settlements in Basel, Switzerland. After a few extra days on the continent he was to arrive Friday to Washington, when he was expected to get down to cleaning out his office.

He plans to take the month of August off to vacation with his family. His new life as the G-7 Council, a nonprofit organization he helped start this spring, and George Mason University, begins after Labor Day, said the Fed staff member.

While most of the governors have emerged from their reticence induced by the open-market committee meeting, newly installed Governor David W. Mullins is still refusing press interviews. Mr. Coyne predicts the silence will end in the next few weeks. □



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OTS Rescinds Capital Requirement on VA Loan Servicing

Continued from *page 1*

would cover in a default. On a $100,000 serviced loan, the thrifts' risk-based capital requirement would equal 4% of $75,000, or $3,000.

In the past, thrifts with servicing rights to Ginnie Mae pools had to have capital backing only for the value of the servicing rights, typically 1.5% of the loan amount. A loan for $100,000 would have a servicing value of $1,500; 8% total capital on that smaller amount would equal only $120.

In opposing the greater capital requirement, thrift executives had an ally at the Department of Veterans Affairs, which warned that the OTS rule would have limited the availability of mortgages for military veterans.

The issue will now be evaluated by the Federal Financial Institutions Examination Council, a coordinating body of bank and thrift regulators. The council is currently seeking public comment on capital requirements for recourse arrangements, which would include treatment of servicing rights for VA loans.

Final Rule by Yearend

The examinations council has targeted the end of the year as the effective date for any changes in the rules on recourse.

The OTS rules were implemented last month without fanfare as a reinterpretation of the agency's risk-based capital guidelines. OTS has been criticized not only for the substance of the policy but the way in which the agency promulgated it – without putting it out for public comment.

Notice of the change came in a letter from Jonathan L. Fiechter, principal senior deputy OTS director, to the director of the agency's Cincinnati district office. The first disclosure came after a copy was obtained by the *American Banker*.

A number of observers, including officials at the VA department, argued that OTS should have published the rule and sought public comment.

"There was absolutely no opportunity for comment or discussion," said Peter Knight, vice president for mortgage finance at the National Council of Savings Institutions. "For something that would have affected as large a market as this, it's wise to have public comment."

Concern Over 'No-Bid' Option

OTS said it acted out of concern that VA's "no-bid option" puts servicers at risk when loans go bad. Under the option, when a loan goes into default, the veterans agency can pay off its guarantee and turn the loan over to the institution with the servicing rights. In areas with depressed real estate markets, the agency's typical 25% share may not be enough to cover losses, the OTS argued.

Industry groups argued that the OTS overstated the risk of VA mortgages. "We just don't think the risks are anything close to what their rule suggests they are," said Curt Uhre, president of the Coalition for Affordable Home Finance, a thrift industry group.

Mr. Uhre welcomed the agency's decision. He had predicted that the OTS rule might have required the thrift industry to add $3 billion or more in new capital.

Although bank and thrift regulators could still adopt similar rules once the examinations council concludes its review, Mr. Uhre and others said the opportunity for public comment on the regulation should lead to a more modest capital requirement.

"To my knowledge, neither OTS nor the bank regulatory agencies even have precise data" on the composition of outstanding Ginnie Mae pools, Mr. Uhre said.

The OTS's Mr. Fiechter had said that VA loans account for more than 20% of only a very few pools, but he acknowledged that he did not have precise data.

Thrift executives were trying to find out how the rules would affect them. □

Restraint Seen In Borrowing By Consumers

Continued from *page 6*

he said, is part of a strategy designed to keep consumer credit growth strong at the bank.

At the end of 1989, Manufacturers National Bank had approximately $1.3 billion in consumer receivables outstanding, representing 24% of its total assets. It was the 92d-largest bank lender to consumers, according to an *American Banker* ranking.

"Banks that have made strategic decisions to jump into new markets have suffered," Mr. McQueen said. "We will be moving carefully and deliberately."

Weighted by Credit Card Debt

According to the most recent consumer credit figures from the Fed, Americans took out $3.9 billion more debt in May than they paid off, resulting in a seasonally adjusted annual growth rate of 6.5%. The increase – which represented the highest annual rate of growth since October – gained notice, as net new debt in April had totaled only $390 million.

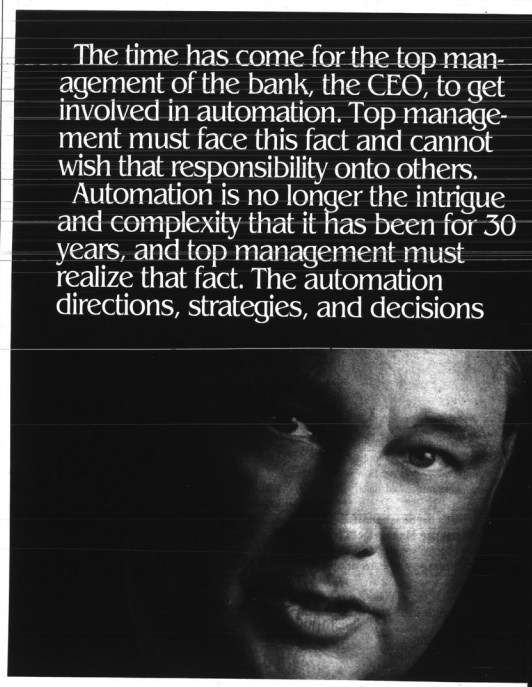
The surge in May was heavily weighted by credit card debt, which grew $3.1 billion, representing an annual rate of 18.5%. But economists expect June's figures to show slower growth, as consumers show more restraint.

Retail sales results for June, as reported by major retailers Thursday, also indicate that consumers are pulling in their horns. Sears, Roebuck and Co., the nation's largest retailer, posted an unimpressive increase in sales of 3.5% for June. □

The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others.

Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.



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EXECUTIVE *changes*

Bank of Vermont Taps John Ewing To Be President

John T. Ewing has been elected president of Bank of Vermont, Burlington, a subsidiary of **Bank of Boston Corp.**

Mr. Ewing succeeds Paul R. McConnell, who, after a short transition period, will move on to head private banking in Massachusetts for the parent corporation.

Mr. Ewing has been serving as executive vice president and director of Bank of Vermont. He was also in charge of the bank's retail financial services group and will continue in this capacity as president.

A leader in initiating dialogue between bankers and community reinvestment interests, Mr. Ewing played a key role in the formation of the Burlington Community Banking Council, which includes representatives from community groups. The council is particularly interested in formulating plans to make affordable housing and banking services available for people of low or moderate income. As president Mr. Ewing will be actively involved in community affairs.

A graduate of Amherst College and Yale Law School, Mr. Ewing was admitted to the Vermont Bar Association in 1957. He was in private practice until he joined Bank of Vermont as general counsel in 1973.

— **Franklin Smith**

NEW ENGLAND

Vermont Bankers Association, Montpelier, has elected **Richard C. White** president of the association for the 1990-91 term. He is president of **Community National Bank** in Derby.

Richard L. Noel, president of **First Vermont Bank and Trust Co.**, Brattleboro, is first vice chairman, and **G. William Ellis**, president of **Northfield Savings Bank** in Northfield is second vice chairman.

Newly elected to the association's nine-member board were **John D. Hashagen Jr.**, president of **Vermont National Bank** in Brattleboro; **Kathryn Boardman**, executive vice president of the **Merchants Bank** in Burlington; and **J. Hayes Stagner**, president of **Bellows Falls Trust Co.**, Bellows Falls.

MIDDLE ATLANTIC

New York State Bankers Association, New York, elected **Robert F. Wallace** to head the group for the 1990-91 term. Mr. Wallace is president of **National Westminster Bancorp**, New York.



Robert F. Wallace

Elected first vice president of the association was **Richard S. Simmons**, vice chairman of **Chemical Banking Corp.**, and its principal subsidiary, Chemical Bank, New York.

John A. Kanas has been elected second vice president of the association. He is chairman, president, and chief executive officer of the **North Fork Bancorp**, Mattituck, and of its principal subsidiary, North Fork Bank & Trust Co.

Kenneth D. Philbrick, president and chief executive officer of **Steuben Trust Co.**, Hornell, has been elected treasurer of the association.

U.S. Trust Corp., New York, said **Maureen Scannell Bateman** has joined the corporation as senior vice president and general counsel.

Mrs. Bateman previously was vice president and counsel at Bankers Trust Co., New York.

Kansallis-Osake-Pankki, said **John Birch**, senior vice president of its New York branch, has been appointed managing director of Kansallis International Bank in Luxembourg. In addition, Mr. Birch will assume the duties of general manager of the Kansallis-Osake-Pankki branch in Luxembourg. He will succeed **Matti Mankki**.

His appointment is effective Sept. 1.

Hudson Valley National Bank, Yonkers, N.Y., appointed **John P. Gilligan** vice president in charge of business development in Yonkers.

He was formerly with National Westminster Bank USA.

MIDWEST

First Colonial Bankshares Corp., Chicago, said **William G. Hoskins** was named chairman of First Colonial Bank of Lake County in Vernon Hills. He will also continue as president of the unit.

Boatmen's National Bank of St. Louis, Mo., elected **Jay D. Justice, Joseph H. Hempen, William F. Sommer,** and **Daniel Callahan** senior vice presidents.

Mr. Justice directs the human resources division for the bank; Mr. Hempen is group manager of trading/institutional sales; Mr. Sommer is manager of treasury/investment operations in the investment banking division; and Mr. Callahan is senior credit officer for the South Region.

SOUTHEAST

The **Virginia Bankers Association**, Richmond, elected **William F. Shumadine Jr.** president. Mr. Shumadine is president of the **Central Fidelity Bank**.

He succeeds **John H. Clements**, chairman, president, and chief executive officer of the **Bank of Southside Virginia**, Carson.



William Shumadine

President-elect of the association is **Douglas D. Monroe Jr.**, chairman and chief executive officer of **Chesapeake National Bank**, Kilmarnock.

SOUTHWEST

Western Capital Investment Corp., Denver, named **Scott Crosby** chief financial officer, replacing **Richard Green** who resigned.

Mr. Crosby will also continue as chief financial officer at Bank Western, the company's principal subsidiary. □

GLOBAL *dispatches...*

Venezuela Predicts 100% Participation in Debt Plan

By JOE ORTIZ
Reuters

Venezuela expects all its creditor banks to participate in its debt reduction plan, said Pedro Tinoco, president of the central bank.

"The deal is not dependent on 100% participation, although we firmly believe 100% of the banks will make a choice of an option or combination of options," Mr. Tinoco said in a London interview.

The plan would restructure about $20 billion of the country's foreign obligations, which total around $32 billion.

Mr. Tinoco and other Venezuelan officials were in London for meetings with commercial bankers, the Bank of England, and the British Treasury. They have already visited Washington, New York, Frankfurt, Paris, and Rome.

"We've received an encouraging reception," Mr. Tinoco said. "The financing plan has the full endorsement of the banks, and through our meetings we have been able to clarify and explain further."

Full participation is expected because the menu of options in the deal was developed with the full cooperation of the bank advisory committee and is highly market-oriented, Mr. Tinoco said. "It's a balanced menu," he said. "We expect a balanced answer."

The deal would give the banks five options, including lending new money equivalent to 20% of their current exposure, rate reduction for five years, and a buyback at 45% of face value.

Thirty-year interest reduction bonds and 30-year principal reduction bonds backed by 30-year U.S. Treasury zero coupon bonds and a 14-month interest guarantee would also be available.

Carlos Hernandez Delfino, Venezuela's chief debt negotiator, said preliminary discussions have taken place with the U.S. Treasury on its participation. Only when it becomes clear which options the banks will take can agreement be reached, he said.

Mr. Hernandez said the deal would require a pool of about $4.3 billion, some $1.5 billion of which would come from the central bank's reserves.

The rest would come from the International Monetary Fund, the World Bank, and Japan's Eximbank, which is expected to provide about $600 million to help reduce the principal.

... by country

UNITED KINGDOM

Bank of England Governor Robin Leigh-Pemberton said Trade Secretary Nicholas Ridley's criticism of West Germany will not harden European Community attitudes toward British proposals on European economic union.

"I don't think it will be very damaging," Mr. Leigh-Pemberton told British Broadcasting Corporation Television in London. "I think it will be seen to have been a simple outburst."

He called Mr. Ridley's comments that West Germany is trying to take over Europe "exaggerated and extreme."

Mr. Leigh-Pemberton said he does not think Britain's proposal for a "hard" Ecu as a common European currency existing alongside existing national currencies is doomed.

Any attempt by France, West Germany, or others to move directly and independently toward economic and monetary union would be "a premature and impatient move, and it will have the disadvantage of creating a two-speed Europe," he said.
— Reuters

JAPAN

Japan's Finance Ministry is likely to ask an unofficial advisory panel to resume debate soon on the timing and procedures for decontrolling interest rates on demand deposits, a ministry official said.

The panel plans to hold its first session July 26 and issue a report in the first half of 1991, the official said in Tokyo. Meetings will probably be held once or twice a month, he added.

In May The panel finished discussions on liberalization of time deposits with a proposal to fully deregulate interest rates on them in three years.

The United States wants Japan to free demand deposit rates in a year.
— Reuters

Japanese banks are ready to resume full operations in China now that Tokyo has formally pledged to reopen official lending to Beijing, a top Japanese banker said.

"Japanese commercial banks can now resume their activities in mainland China," said Tetsuo Horie, president of Long-Term Credit Bank of Japan Ltd., at a press luncheon in Tokyo.

Prime Minister Toshiki Kaifu told reporters in Houston last Wednesday that Japan may start lending to China again before the Asian Games start in Beijing in September.

In June 1989, to protest China's violent crackdown on dissent, Japan froze an official loan package of $5.4 billion. Japanese commercial banks followed suit, suspending their loans.

Mr. Horie also said he sees little need for the Bank of Japan to raise the official discount rate, even if the U.S. Federal Reserve lowers interest rates. "If, for instance, U.S. interest rates were to go down, there would be no necessity [for] the Bank of Japan to increase its rate," he said.
— Reuters

Brazil Expecting Tough Debt Talks

Sees a Negotiating Edge from Writedowns by Banks

Reuters

BRASILIA — Economy Minister Zelia Cardoso de Mello predicted that Brazil's forthcoming talks with creditors over its $114 billion foreign debt would be tough.

Talks about the debt, she said, would have to be conducted within the framework of Brazil's radical economic reforms, which have halted galloping inflation and should produce a budget surplus this year – the first in many years.

"The success of this internal adjustment depends on the numbers being maintained," Mrs. Cardoso said. "Any modification would involve too great a risk, and we are not prepared to take it."

"There are two loaded pistols pointing at each other."

Zelia Cardoso de Mello
Brazil's economy minister

A Tougher Stance

Bankers and analysts said they expected Brazil to take a tougher stand in debt negotiations after U.S. regulators last week ordered banks to write down 20% of some $10 billion in medium- and long-term loans to the country.

They added that the regulators' decision effectively acknowledged that Brazil was unlikely to resume payments soon on its foreign debt. They said this would prompt Brazil to demand that banks forgive a large portion of their loans.

"It's made the banks' negotiating position with Brazil difficult," said Mark Gross, a banking analyst with IBCA Inc. in New York.

Mrs. Cardoso was scheduled to travel to Europe over the weekend to meet government and business leaders in Britain, France, West Germany, and Italy. She has said, however, that debt negotiation was not the main aim of the trip.

Mrs. Cardoso reiterated the government position that internal adjustment had to take priority over the foreign debt.

"All negotiations about the debt will have to be subordinated to [internal adjustment], and we will stick to that line rigorously," she told reporters.

"It is going to be a very hard negotiation. There are two loaded pistols pointing at each other. We are going to see who has the greater capacity of persuasion," she added.

Brazil suspended all interest payments on its $72 billion commercial bank debt in July 1989 and has accumulated arrears of $8 billion since, according to the Economy Ministry.

Brazil's full debt service obligations amount to about $10 billion a year, but on taking office in March President Fernando Collor de Mello pledged to pay no more than half that.

Ability Called Limited

Mrs. Cardoso did not give specific numbers for debt payments this year, saying only that "our ability to pay will be very small."

While agreeing that the forthcoming IMF negotiations were crucial for talks afterward with other creditors, she added:

"I don't think we're going to ask [the IMF] for a guarantee for our program. The situation has changed. Before, the debt question influenced everything. Now, for us, the main axis is internal adjustment. Debt should be discussed in that context." □

Crisis and Rates Burden Canadian Stocks

By JAMES R. KRAUS

NEW YORK — A constitutional crisis, high interest rates, and low share prices are giving Canadian banks little to cheer about these days.

Their share prices have fallen almost 10% since the beginning of the year amid concerns over the country's political and economic future. The uncertainty is cited as a cause of the overall weakness of the Toronto Stock Exchange's composite index of 300 stocks, which was down 9.41% last Friday morning.

Bankers and analysts said several factors contributed to the downward pressures. Canada has been in political turmoil since last month, when the provinces of Manitoba and Newfoundland balked at ratifying a controversial constitutional amendment.

The amendment, known as the Meech Lake accord, would have given the French-speaking province of Quebec extensive powers to promote its owns interests. Concerns were expressed that the province would leave the Canadian confederation if the amendment were not ratified.

Tough anti-inflation policies by the Bank of Canada have driven Canada's prime lending rate, on which many other lending rates are based, to 14.75%, from 13.5% at the end of last year. That compares with a prime rate of 10% in the United States.

Analysts held out little hope that interest rates would soon go down, sparking fears that a recession is imminent.

"I think it's clear that the concerns that Meech Lake raised have somewhat limited the options of the central bank," to bring down interest rates, said J. Arthur English, general manager for Toronto-Dominion Bank in New York.

"We'll have a made-in-Canada recession if we're not able to bring rates down."

Still, some believe that the constitutional crisis may bring some longer-term benefits.

Stephen Blank, director of the Institute for U.S.-Canadian Business Studies at Pace University in New York, predicted that the crisis would increase regionalization, decentralize the Canadian economy, and ultimately give banks bigger business opportunities.

"I don't forget that Canadian financial deregulation came about as a result of competition among provinces to build better markets and has been good for banks in many ways." □

Key International Rates

	Day-to-day money		Sixty days		Ninety days		Six months		One year		Discount rate		Prime equivalent	
	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask
United States	8.25	8.31	8.31	8.19	8.31	8.37	8.25	8.31	8.37	7.00	7.00	10.00	10.00	10.00
Japan	7.50	7.37	7.25	7.69	7.56	7.62	7.75	7.69	7.69	5.50	5.50	8.25	7.15	7.15
Canada	13.75	14.00	13.37	13.50	13.62	13.50	13.37	13.50	13.25	13.73	13.73	13.75	14.75	14.75
U.K.	15.63	15.50	15.12	15.69	15.50	15.69	15.00	14.88	15.06	14.38	14.38	14.38	15.00	15.00
West Germany	8.50	8.25	8.31	8.37	8.25	8.19	8.00	8.62	8.50	6.00	6.00	6.00	10.50	10.50
Switzerland	6.75	6.50	6.25	6.00	6.00	6.19	5.87	6.00	6.00	6.00	6.00	6.00	11.38	10.39
France	10.12	10.43	9.93	10.25	10.25	10.06	10.31	10.37	10.18	9.50	9.50	9.50	10.00	10.00
Italy	11.62	11.87	11.87	11.75	11.87	11.75	11.87	11.62	11.37	12.00	12.00	12.00	13.00	13.00

Forward Rate Agreements

3 to 6 months	8.00	8.06
6 to 9 months	8.00	8.06
9 to 12 months	7.94	8.00
12 to 18 months	7.88	7.94
18 to 24 months	7.81	7.88

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Auction Notices

E.F. Fazio Auct'r Lic #798972 Sells on 07/31/90 9 AM At 431 West 203rd St NYC '72 Mazda #ST122A103542 Rr: E. J. Hernandez; 9:30 AM At 1828 Webster Ave Bx '79 Buick #4X69XH9445897 Rr: T. Matmdez, Nissan #2N1HT21S9JT139682 Rr: L. Byrnes, '81 Honda #1HMSH3426BC097198 Rr: E. Vargas, '83 Volvo #VVID6404D1032384 Rr: H. A. Jordan, '80 Volvo #VC264694A0191084 Rr: S. Lawrence '86 Ford #2FABP4GXGKX140028 Rr: Nicki Bruce Corp., '82 Chevy #2G1AW19R0C1421468 Rr: W. S. Kersey; 10 AM at 1135 Webster Ave Bx '82 Chevy #2G1AW19R2C1401972 Rr: C. Baez, '78 BMW #5453352 Rr: A. R. Daley; 10:30 AM at 670 Southern Blvd Bx '79 Dodge #3B7HC13K6FJ106842 Rr: Merlin, IND. Inc., '79 Ford #9FH2J139072 Rr: J. Spano; 11 AM at 131-41 Sanford Ave Qns '86 Lincoln #1LNBP97F3GY814466 Rr: J. Donofrio, '79 Dodge #9NL41D8F168727 Rr: A.A.Y. Stokes, '81 Olds #1G3AR69N4BM850305 Rr: S. N. Carlos, '85 Mercury #1MEBP7939FF602646 Rr: C. Munoz &/or R. Garcia; 11:30 AM at 250-21 Northern Blvd Qns '87 Olds #2G3GR11T4H9326109 Rr: S. Bonavita; 12 PM at 103-02 Rockaway Blvd Qns '68 Chevy #11338A183681 Rr: M. Torres, '79 Pontiac #2F19Y9150648 Rr: L. Figueroa, '89 Chevy #3B1BC51T2KT536511 Rr: V. Rivera Buick #4S1535Y9H222969 Rr: A. Matos, '82 Lincoln #1M8HP9945CK042660 Rr: D. J. Wade, '84 Buick #1G4AS27P8EK439886 Rr: O.D. Grant, '82 Jeep #JGDJ17NN031663 Rr: J. & T. Henry; 1 PM at 865 Livonia Ave Bklyn '79 Mercury #9H93H169753 Rr: D. Rubin Jr.; 1:30 PM at 501 Evergreen Ave Bklyn, '83 Lincoln #1M8BP9945DY926238 Rr: C. Vaby; 2 PM at 259 58th St Bklyn, '83 Chevy #1G1AK69C9D7185203 Rr: J. Isaac; 2:30 PM at 592 Pacific St Bklyn '80 BMW #2181866 Rr: M. Mitchell, '93 Kawasaki #JKAZX44A0PA016536 Rr: J. Best Jr.; 3 PM at 2796 E. Tremont Ave Bx '89 Buick #1G4AJ53A1CH137034 Rr: S. H. Rivv &/or A. Ahmed; 3:30 PM at 270 3rd Ave '85 Honda #JHMAD1HU1SX074693 Rr: L. Anderson; 4 PM at 516 West 27th St NYC '89 Chevy #1GCCS14E3K8139978 Rr: Z. Smith; 4:30 PM at 609 11th Ave NYC '86 Buick #1G4HG11E2GH903409 Rr: G. Henries. Published 07/16 & 07/23/90.

C. LAUDISI & ASSOCS., INC auct'rs sell July 31, 1990 at 9:30 A.M. at 96-14 Northern Blvd., Qns 1989 Honda #1HGCA15221KA023021 Auct., T.O. Webb and/or J.A. Webb; 10 AM at 97-07 100th St., Qns 1984 Chevrolet #1G1AE27P0E7140416 Auct., S.S. Lapenna; 1985 Isuzu #JAABL144A4F072182 Auct., F. Abreu, Jr.; 12 Noon at 70-11 50th Ave., Qns 1978 Ford #E34HBB12724 Auct., P.M. Frey; 1 PM at 57-11 79th Ave., Qns 1989 Chevrolet #1GJCR31148J108001 Auct., D.L. Peterson Trust; 1 PM at 29 Lewis Ave., Bklyn 1981 Chevrolet #1G1AZ37R0BH309779 Auct., G. Kirkland. Published July 16 & 23, 1990.

E.F. Fazio Auct'r Lic #798972 Sells on 07/24/90 9:30 AM at Rms 59 & 17 Hillsboro '83 Pontiac #1G2AS87J3DN225862 Rr: W. R. &/or L.L. Powell; 10 AM at 3645 Dyre Ave Bx '89 Hyundai #KM4FLF216KU367447 Rr: I. Mollison, '84 Chevy #1G1AP81H8EL131527 Rr: S. Excell; 10:30 AM at 1499 Bruckner Blvd Bx '56 Chevy #VB56T205155 Rr: G. St. Sauveur Inocencio; 11 AM at 670 Southern Blvd Bx '83 Dodge # 2B7HB23T4DK328673 Rr: Floid Cond, '85 Ford #1FABP3196FT215060 Rr: L.V. Taylor, '83 Datsun #JN1HJ71J3DU710092 Rr: Dam. '86 Buick #1G4NJ27U3GM159967 Rr: D. C. Rhodia, 11:30 AM at 30-15 Newtown Ave Qns '88 Pontiac #1G2AE15R3JT213138 Rr: Agency Rent A Car; 12 PM at 14-34 110th St Qns '71 Trupac 23 Ft. #NY13911EP Rr: D. Diakakis &/or L. Sancimino; 12:30 PM at 131-41 Sanford Ave Qns '81 Ford #1FTDE14E7BHA99354 Rr: A. Dena, '88 Buick #4E353AAG130870 Rr: W.H. Vergara; 1 PM at 250-21 Northern Blvd Qns '84 Chevy #2G1AW19X5E1124861 Rr: E. Mishkin; 1:30 PM at 1255 Hempstead Tpke Elmont '79 Chevy #CKL189F208310 Rr: J. M. Schreiner; 2 PM at 117-01 Atlantic Ave Qns '81 Pontiac #1G2AB75JG7514613 Rr: M. Powers. Pontiac #1G2NV69U4CC521459 Rr: H. F. Reid, 2:30 PM at 5714 Clarendon Rd Bklyn '84 BMW #WBAAK7402E8611506 Rr: E. A. Almodo Var; 3 PM at 2018 Union Ave Bklyn '87 Mazda #JM1FC3311H0534885 Rr: M. G. Poffo; 3:30 PM at 259 58th St Bklyn '84 BMW #WBAAK7402E9029940 Rr: EBC; 4 PM at 276 5th Ave NYC '82 Nissan #2N1SU05S2CX005819 Rr: M. Powers. Published 07/09 & 07/16/90.

R. A. Felder Lic Auctr #793917 sells on 7/25/90 10:30 AM at 12 Woodrow Dr, Nesconset, '86 Ford #2FTJSENG3GCB Rr: T. & G. Cobb; 11:30 AM at 164 Jefferson Hts, Catskill, '84 American #1AMDC93311EK209127 Rr: W. Gill; sells 12 PM at 4811 Transit Rd, Wmsville, '83 Olds #1G3AM27RXD3302046 Rr: D. Roth; sells 7/26/90 at W. Main St, Amenia '85 Pont #1G2PG3798FP261378 Rr: M. & B. Tomah; 11 AM at 238 W. Lincoln Ave, Mt. Vernon, '88 Dodge #1B3CA44K2JF382300 Rr: S. Brown; sells 12 PM at 3049 Grand Isl Blvd, Grand Isl, ??? MFG #NV4647498 Rr: R. & J. Morrison. Published 7/9 & 7/16/90.

G. Delsevo sells R/T/T 7/27/90 12 Noon at 1702 E. 233rd St. Bx, '80 Mazda #6A22C592209 Rr: E. Swensen, '85 Olds #1G3AM19EBFG389760 Rr: A. Kallergis, '74 Ford. Truck #F37YEU213144 Rr: McKane Operating, '82 Volvo #YV1BX0945C1127672 Rr: P. Robinson, '86 Nissan #N1HJM00S5GX017205 Rr: K. Thompson, '75 Ford #X83GF229536 Rr: J. Gonzales. Published 7/9 & 7/16/90.

J.L.M. AUTO Will Sell on 7/28/90 at 9 AM at 415 W. 54th St NYC a '1974 Cadi #6D4T0E4S529826 Rr: Tommy Demaio & Judy Sleed. Published 7/9 & 7/16/1990.

Citation Notices

C.K.O.
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Citation Notices

File No. 2261-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT, TO the heirs at law, next of kin and distributees of Paulette Goddard Remarque, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator of the County of New York Attorney General of the State of New York A petition having been duly filed by Richard L. Kay and S. Andrew Schaffer, who is domiciled at 40 East 88 Street, New York, NY 10128 and 14 Washington Mews, New York, NY 10003. YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street, New York, on August 15, 1990, at 10:00 a.m., why a decree should not be made in the estate of Paulette Goddard Remarque, lately domiciled in Casa Remarque Via Porto Ronco Ronco Switzerland, admitting to probate as a will of real and personal property a paper dated July 24, 1986, (a copy of which is attached), and relating that Letters of Testamentary issue to Richard L. Kay and S. Andrew Schaffer (State any further relief sought). Dated, Attested and Sealed, June 29, 1990. (L.S.) HON. Renee R. Roth Surrogate, County of New York Robert M. Reeves, Clerk of the Surrogate's Court Name of Attorney Pryor Cashman Sherman & Flynn Telephone Number (212) 421-4100 Address of Attorney 410 Park Avenue, New York, N.Y. 10022. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

File No. 2123/90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT, TO The heirs at law, next of kin and distributees of CARRIE E. HUTTELMEYER whose names and whereabouts are unknown and, after due diligence, cannot be ascertained, if they be living; or if they died subsequent to the decedent herein, to their heirs at law, distributees, executors, administrators, creditors, assignees and successors in interest Public Administrator of the County of New York A petition having been duly filed by JOHN F. KELLY, who is domiciled at 65 East Main Street (P.O. Box 632), Fonda, New York 12068 THEREFORE YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street, New York, on August 15, 1990, at 10:00 a.m., why a decree should not be made in the estate of CARRIE E. VOTTELER, lately domiciled at 1 Sutton Square Oval, New York, New York 10009 In the County of New York, admitting to probate as a will of real and personal property a paper dated November 14, 1988, (a copy of which) and Letters of Testamentary issue to JOHN F. KELLY and Letters of Testamentary granted by this Court to JOHN F. KELLY on May 14, 1990, be revoked. Dated, Attested and Sealed, July 10, 1990. (L.S.) HON. Renee R. Roth, Surrogate, County of New York Robert M. Reeves Clerk of the Surrogate's Court Name of Attorney: Richard Van Steenbergh Telephone Number (212) 840-1681 Address of Attorney: 19 West 44th Street, New York, New York 10036. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

Continental Doubles Nonperforming Loans

Continued from page 1

tication of pressure from regulators, who have been reclassifying current loans that could become problems in the future.

No Effect from Mandate

At the same time Continental said it will not be affected by last week's regulatory order requiring banks to writedown their loans to Argentina and Brazil by 10%. The banking company said it already has written down its loans to those two countries well below the required amounts.

Analysts said they were not certain whether Continental would raise its loan loss reserves beyond the $25 million that was already expected.

Felice M. Gelman, analyst for Dillon Read & Co., said she had expected an increase in bad loans in her estimate of a $40 million loss. Mrs. Gelman said she expected total reserves of about $229 million, or about 50% coverage for nonperforming loans. Other large regional banks experiencing credit-quality problems are about 60% to 65% reserved against bad loans, she said. But Continental appares favorably to money-center banks, which are less well reserved, she said.

While an increase in domestic loan loss reserves could change the earnings picture, she thought the company might be reluctant to raise it.

Reasoning that Continental has said it would like to buy back the 25% stake held by the Federal Deposit Insurance Corp. since the bank's 1984 bailout, Mrs. Gelman said she thought the company would want to keep some cash available to buy the shares and retire them.

Christoph M. Kotowski, an analyst at Oppenheimer & Co., said he had been looking for a loss of this size. He added a $120 million to $150 million increase in nonperforming loans. "But given the state of flux in the industry, negative surprises are no surprise."

His projections included a $50 million pretax charge for a restructuring that will cut 900 from the payroll and eliminate some lines of business, including back-the-trades traded futures and options. □

Herrick Named to Banking Board

NEW YORK — Peter Herrick, vice chairman of the Bank of New York Co., has been named to represent money-center banks on the New York State Banking Board.

Mr. Herrick, 63, takes the seat vacated almost two years ago by John Torell 3d after his resignation as president of Manufacturers Hanover Trust Co. and a $120 million to $150 million increase in nonperforming loans. "But given the state of flux in the industry, negative surprises are no surprise."

His projections included a $50 million pretax charge for a restructuring that will cut 900 from the payroll and eliminate some lines of business, including back-the-trades traded futures and options. □

Mr. Herrick is a former director and president of the New York State Bankers Association, a director of MasterCard International, and a member of the Association of Reserve City Bankers.

He was one of four new members of the banking board announced by its chairman, New York State Banking Superintendent Jill M. Considine. The board oversees banking department policies and consists of Ms. Considine, eight bank and thrift executives, and eight public representatives.

The other new members are Salvatore Marranca, 43, president and chief executive officer of Cattaraugus County Bank, Little Valley; Jose T. Moscoso, an attorney in the New York law firm of Baker & McKenzie; and John B. Robinson Jr., executive vice president of Fleet/Norstar Financial Group. □

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Auction Notices

DEFAULT In Security Agreement Made By Ramon Garcia to Ende Store Equipment Corp. & Mar Investors of Conn. Inc. I Will Sell On July 17, 1990 At 2:15 P.M. at 1023 Avenue Saint John, Bronx, N.Y. All Right, Title & Internst In & .In .Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

DEFAULT In Security Agreement Made By Elagio Hidalgo to Super Laundry Equipment Corp. I Will Sell On July 17, 1990 At 10 A.M. at 548 W. 163rd St., N.Y.C. All Right, Title & Internst In & To Machinery Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

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Hal Zakow Auct'r Sells 7/23/90 at 5:30 PM at 4634 3rd Avenue, Bxs NY. '90 Ford Var #1FTCA34U4LT28408 Re: Layni Bonaparte, '80 Audi #43A0115608 Re: Lawrence A. Livingston/Clover Communication Corp., '87 Chevy Van #1GDDM15240 Re: Ursitasy Sanchez, '80 Toyota #TE720451599 Re: Francisco Perez/Roberto Burgos. Published 7/9 & 7/16/90.

DEFAULT In Security Agreement Made By Henry C. Sneed, Sr. to Super Laundry Equipment Corp. I Will Sell On July 17, 1990 At 11:30 A.M. At 61 Decatur St., Bklyn, N.Y. All Right, Title & Internst In & To Machinery Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 684 411 Sell July 31, 1990 1:00 P.M. 386 Main St Port Richelle 1980 Jaguar 4 Dr Sdn SAJJCAL4CC432390 Re: J. Hiscock/Term Leasing. Metropolitan Auctioneers Inc. Published July 16, 1990 & July 24, 1990.

LIEN SALE: July 30, 1990 In Bklyn., N.Y. At 4:30 P.M. At 5927 Strickland Ave. A 1977 Sportcraft w/Johnston o/board #HN#SCR051240577 Re: Raymond Pincus. B. Zurrow, Auct'r.

J.L.M. AUTO Will Sell on 7/28/90 at 9 AM at 415 W. 54th St NYC a 1985 Mazda #JM1FB331/0F0887151/ Re: Lois Torres. Published 7/9 & 7/16/1990.

Partnership Notices

Substance of Certificate of Limited Partnership filed in New York County Clerk's office 6/13/90 of ANDERSON REHAB ASSOCIATES, principal office c/o Lenic & Wolff, Inc., 175 Sherman Ave., NY, NY. Business: acquire and develop certain real property in Bronx, NY and related activities. Term: until Dec. 31, 2040 or earlier per Partnership Agreement. Limited Partners (GPs): HAF Development Corporation, c/o Lenic & Wolff, Inc., 175 Sherman Ave., NY, NY; Bernard I. Carr, 601 Pelham Pkwy, Bronx, NY. Original Limited Partner (LP): HAF Development Corporation c/o Lenic & Wolff, Inc., 175 Sherman Ave., NY, NY. Cash contribution $100.00, share of profits 93%. Original LP's contribution returned per PA. LP may not assign interest except as provided in PA. Additional LPs may be admitted per PA. No priority among LPs as to contributions or compensation by way of income. Right to continue business upon death, retirement or insanity of a GP or sale remaining GP provided he is a LP. No LP may demand and receive property, other than cash in return for his contribution.

Substance of Certificate of Limited Partnership filed in New York County Clerk's office 6/27/90 of ANDERSON-DUFFY-ASSOCIATES, principal office 333 E. 52nd St., NY, NY. Business: purchase and lease of memberships on nationally-licensed stock and option exchanges. Term: to Dec. 31, 1991 or earlier per Partnership Agreement, year to year thereafter. General Partner (GP): Noe Duffy, 353 E. 52 St., NY, NY. Limited Partner (LP): The Merchants Bank & Trust Company as Trustee for Mark M. Duffy IRA Rollover, 59 Mall St., Norwalk, CT., cash contribution $112,000., share of net profits 99%. LP has not agreed to make additional contributions. LP's contribution returned per PA. LP may not assign interest without consent of GP except per PA. No provision for additional LPs. No priority among LPs as to contributions or compensation by way of income. No right given to continue business upon death, retirement or insanity of GP. LP may not demand and receive property other than cash in return for contribution.

Foundation Notice

NOTICE

The annual report of THE MARVIN & ELEANOR WINTER CHARITABLE FOUNDATION for the calendar year ended December 31, 1989 is available at its principal office located at 641 Lexington Avenue, New York, NY 10167, (212) 935-5252 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Marvin Winter.

Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX Sholom Nathanson and Shorehaven Associates Inc., Pension Trust, Plaintiff against Art Realty Development Corp., et al Defendant(s) Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezzanine, on the 26th day of July, 1990, at 10:00 A.M., premises briefly described. Lots 1, 80, 91, 97, 124, 175, 98 and 23 In Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint, Approximate amount of lien $920,347.82 with interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 16590/88 Dated: July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, N.Y. 10007.

SUPREME COURT - COUNTY OF BRONX—Joseph—Nathanson and Shorehaven Associates Inc., Pension Trust, Plaintiff against Art Realty Development Corp. et al Defendant(s), Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezzanine, on the 23rd day of July, 1990, at 10:00 A.M. premises briefly described. Lots 1, 80, 91, 97, 124, 175, 98 and 23 In Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint, Approximate amount of lien $920,347.82 with interest and costs. Promises will be sold subject to provisions of filed judgment, Index Number 16590/88 Dated: July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, N.Y. 10007.

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LaWare Plumps for Bank Reform at Fed

Continued from page 1

Corp. now heads the central bank's powerful committee on supervision and regulation. That panel decides which proposed bank holding company regulations eventually get sent to the full board of governors for consideration as final rules.

The positions adopted by the Fed on these issues, particularly the question of bank ownership, will carry a lot of weight with Congress when it considers major reforms of the banking industry next year.

"LaWare is emerging as the point man of the Federal Reserve System on all matters relating to regulatory reform and deposit insurance," said Kenneth Guenther, a former Fed staff member who is now executive vice president of the Independent Bankers Association of America, a trade group representing many small commercial banks.

Small Banks Nervous

Mr. LaWare's stirring of the controversy with Mr. Greenspan has pleased some in the industry but has made others anxious.

"I don't think small banks are encouraged by what LaWare has said on McFadden, Glass-Steagall, or the separation of banking and commerce," said Mr. Guenther. Those changes would tend to favor large banks over smaller banks but leave smaller institutions more susceptible to being acquired.

One major issue Mr. LaWare has not weighed in on is deposit insurance reform, which Congress is expected to consider next year. Small banks fear that

> **"I don't think small banks are encouraged by what LaWare has said."**
>
> **Kenneth Guenther**
> *Independent Bankers Association of America*

any cutback on deposit insurance would put them at a competitive disadvantage in making it harder to attract deposits.

"Our hope is we will have a godfather in John LaWare in the deposit insurance reforms," said Mr. Guenther. "If not, [small banks] will weep and rebel."

In his role as point man on banking issues, Mr. LaWare has testified before Congress numerous times recently on various controversies. He has argued before a small-business commission that there is no evidence of an examiner-inspired credit crunch, and he defended the Fed against hostile banking committee accusations that regulators failed to police banks on mortgage discrimination.

Mr. LaWare accepts the anecdotal indications of a credit crunch, but maintains that the empirical evidence of a crunch has yet to appear.

"You hear a story about someone who has gotten good attention from this bank in New England," he say, and all of a sudden he finds he has his credit lines reviewed," said Mr. LaWare. "Most of the comments already broken the barrier with banks."

> **Mr. LaWare sees no empirical evidence of a credit crunch. "You have a declining economy, and some people who might have been good customers in the past now show things in their balance sheet . . . that would make the banks justifiably cautious."**

tary does not stop to ask, Has his picture changed? The assumption is the bank has changed. But you have a declining economy, and some people who might have been good customers in the past now show things in their balance sheet and the P and L [profit and loss] statement that would make the banks justifiably cautious in their approach."

The image is growing at a slower pace than in past years, Mr. LaWare said, but so is the economy, and those figures do not indicate that businesses are having difficulty getting credit.

"We have to look at the numbers," Mr. LaWare said. "It takes some time for the effect of changed policies and changed attitudes to wash through into the numbers that are available to us to make those judgments."

Changes in International Arena

Much of Mr. LaWare's upcoming power in the regulatory arena emanates from from his role on the Fed panel. The committee, for example, is busy supervising an overhaul of Regulation K, which governs the international activities of U.S. banking companies. Without elaboration, Mr. LaWare promises that some "interesting" changes will be forwarded to the board by the end of the year.

Behind the scenes, Mr. LaWare is also part of the Fed's secretive "F9" group, a recently assembled six-member panel of Fed governors and Federal Reserve district bank presidents that is embroiled in an internal struggle to determine the Fed's role in the rapidly changing financial services industry.

Mr. LaWare acknowledged that the group exists, but declined further comment. "That is all I care to say about this at the moment," he said in a recent interview in his corner office in the Eccles building. "It is for our internal purposes to let the Fed board consider options intelligently."

Restructuring the System

For the future of U.S. banks, no more pressing question for the F6 and the Fed to resolve is whether banking and commerce – separated by law for more than 50 years – should be reunited

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July 13, 1990

DEALS

UAL Unions, Noncontract Workers to Try Again for Crucial Pact

By WILLIAM GOODWIN

Representatives of UAL Corp.'s noncontract workers will meet this week for what could prove to be a decisive round of negotiations with the union-led group seeking to buy the airline holding company.

The two sides have so far been unable to resolve differences over wage concessions and related issues that stand in the way of the noncontract employees' support of the $4.4 billion union buyout effort.

Opposition by the noncontract employees to the deal could scare off Japanese banks, whose participation in the financing is considered critical by U.S. bankers.

Major Issues Unresolved

Negotiators met last week, but all of the major issues remain unresolved, sources familiar with the talks said.

"We've made progress, but we're not there," one of the negotiators said Friday.

UAL's 26,000 noncontract employees represent about one-third of the company's total work force.

Even more so than their U.S. counterparts, the Japanese banks are especially sensitive to worker harmony, bankers have noted.

Aversion to Union Discord

Union discord was one reason why the Japanese banks didn't support UAL's failed $6.8 billion UAL buyout effort last year by the company's pilots union and senior management.

As part of the new deal, the union-led buyout group is seeking first-year wage concessions from the noncontract employees totaling about $50 million.

In return, the noncontract workers would get a 14.2% stake in UAL, with the airline's three unions collectively holding the remaining interest in what would be a 100% employee-owned company.

However, there is still no agreement on the exact level of wage concessions from the noncontract employees, the timing of future wage increases, or on changes to their pension plan.

Written Assurances Sought

The noncontract employees also want written assurances that the financial terms of their agreement with the unions will not be changed down the road.

Last week's talks were described by a source as "constructive," while one participant said he was "neither upbeat nor downbeat" about the ultimate outcome of the negotiations.

The unions now have a little more than three weeks to line up financing for the deal before the Aug. 9 deadline.

While five New York money-center banks have agreed to serve as cosagents, a number of elements must fall into place before the banks will actually commit to provide funds.

Quest for Outside Equity

The banks do not want to be the sole source of financing for the buyout but, as of last Friday afternoon, there was no sign that the union buyout group had yet lined up outside investors.

"It's fair to say the deal will not get done" without an outside investor, an official at one of the five coagent banks said.

The coagents are the banking units of Chase Manhattan Corp., Chemical Banking Corp., Manufacturers Hanover Corp., Citicorp, and Bankers Trust New York Corp.

Officials at some of the five banks have also said they want to expand the group to include at least one Japanese bank.

Bankers say they need Japanese participation in the bank underwriting group to attract other Japanese banks when the loan goes to general syndication.

The buyout group needs to raise a total of about $4 billion in financing. □

OTS Restricts Savings Bank

UPPER DARBY, Pa. — Bell Savings Holdings Inc. said the Office of Thrift Supervision has imposed a cease-and-desist order on its Bell Savings Bank unit, limiting its lending and deposit growth and requiring tighter administrative and regulatory compliance procedures.

The $900 million-asset Bell Savings will add $12 million to loan-loss reserves, which, along with an increase in nonaccruing loans, will result in a net second-quarter loss of $12 million, the holding company said. □

Fed May Raise Foreign Limits

Continued from page 2

ment limit may come at the cost of erecting "firewalls" to insulate banking operations from the volatility of securities activities.

Despite pushing for the higher investment limit, banks may find them unworkable if firewalls are imposed, said Gary M. Welsh, partner in the Washington law firm of Prather, Seeger, Doolittle & Farmer, which represents the Bankers Association for Foreign Trade.

The Fed action will follow a staff review over the past several months of Regulation K, the rules that govern international activities of U.S. banks.

Review Is Required

The International Banking Act of 1978 mandates a review every five years of Regulation K. The current review is expected to produce major changes because of the diminished standing of U.S. banks overseas. Bankers have argued that they need new powers to regain lost ground.

Federal Reserve officials last week declined to discuss the details of its recommendations. But William Ryback, deputy associate director of bank supervision, said investment limits and equities-related powers were the major issues addressed in the proposed revisions.

Since 1979, the last time Regulation K was significantly overhauled, U.S. banks overseas have been held to the $2.5 million underwriting ceiling. The limit has prevented U.S. banks from being lead underwriters or taking major positions in overseas syndicates, U.S. bankers have argued.

Restricted at home to a limited range of securities activities through affiliates, commercial U.S. banks have more latitude overseas, where they can directly underwrite issues.

Firewalls between the securities and banking operations overseas would offset the advantages of the broader powers, Mr. Welsh said.

While Mr. Welsh expected a firewall treadoff, Karen Shaw, president of the Institute for Strategy Development, said it would be inconsistent of the Fed to go that route.

She cited Fed Chairman Alan Greenspan's statement at a Senate Banking Committee hearing last week that firewalls were not necessary or effective in protecting the safety and soundness of banking operations. □

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Refcorp Calms Bond Market Fear With Strong Sale of 30-Year Bonds

By TABASSUM ZAKARIA
Reuters

NEW YORK — The results of an auction last week of $5 billion in Resolution Funding Corp. 30-year bonds eased market jitters about whether the agency created to finance the thrift bailout would overcome negative reaction to its earlier 40-year issues.

"The market's just more familiar with the behavior of a 30-year than a 40-year" bond, said Joseph Liro, vice president at S.G. Warburg & Co.

Gratifying Numbers

The auction of 30-year Refcorp bonds produced an 8.93% average and high yield, with bids clustered in a very narrow range around the average; 38% of the bids at the high rate were accepted. The ratio of bids submitted to those accepted was a strong 3.08 to 1.

The results were much better than had been expected before the Tuesday bidding deadline, when some dealers were predicting a large spread between the average and high yields. Strong interest in the nearly 9% yield developed among domestic pension funds and Japanese investors, traders said.

The relatively high yield also attracted nondomestic investors, as shown by the $208 million in noncompetitive bids.

Demand for Stripping

Refcorp's 40-year bonds attracted poor initial demand but were fairly successful after stripping – the practice of selling the coupon and principal separately.

Last Monday, dealers said demand for stripping would not emerge unless the Refcorp bond sold at 40 basis points or more above the yield of the 30-year Treasury bond. After bids were submitted last Thursday, a 38-basis-point spread would prompt enough demand from dealers wanting to strip the Refcorp bonds.

Highlights for Friday, July 13

TOP 10 GAINERS %

Northern Trust Corporation	7.8
Midlantic Corporation	7.6
Bank of Granite Corporation	7.5
Central Jersey Banccorp	7.4
Riggs National Corporation	5.3
Mid-America Bancorp	5.1
Affiliated Bankshares of Co.	5.0
Shawmut National Corporation	4.8
First Financial Bancorp	4.0
Union Bank	3.8

TOP 10 LOSERS %

Cal Rep Bancorp	-7.7
Premier Bancorp, Inc.	-7.1
UJB Financial Corp.	-7.0
Northeast Bancorp, Inc.	-6.1
Trust Company of Louisiana	-5.6
First National Bancorp	-5.5
Hibernia Corporation	-5.2
Key Centurion Bancshares, Inc.	-5.0
Banknorth Group, Inc.	-4.8
Bank of New England Corp.	-4.4

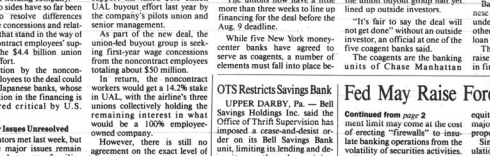
MOST SHARES TRADED

Citicorp	2475800
Chase Manhattan Corporation	1313300
BankAmerica Corporation	862800
Shawmut National Corporation	860100
J.P. Morgan & Co. Incorporated	600600

VOLUME AS % OF AVERAGE

CNB Bancshares, Inc.	1362.0
First Commercial Corporation	748.0
Sumitomo	747.5
Chemical Financial Corporation	741.8
Wilmington Trust Company	569.8

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

1/3/89=100

Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.35	2.59	1.72	0.57	-0.27	-9.27	0.86	1.34	-5.66

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE to Mkt	Mkt Cap.	Chg.	Chg.
27¼	20¼	MercantileBkshr MD	8.5	126.5	20¼	-¼
30¾	20	MercantileBkshr NY	11.8	186.4	20	+¼
32	21¼	MerchantsNatl IN	10.6	95.4	24	+¼
25¼	20¼	MeritBankCorp PA	7.0	86.6	19¾	-¼
57¾	32	MichiganNatCorp MI	2.7	65.5	57¾	+¼
23¾	18¾	MidAmericaIN	10.0	100.2	19¾	+¼
23¾	18¾	MidAm.Inc. OH	9.7	145.7	19	+¼
47¾	42¾	MidlandBancorp IL	3.8	36.8	44¾	1
25½	10	MidStateA MA	5.2	47.4	10	…
25¾	20¾	MNB Bancorp MI	9.2	133.3	25¾	+¼
54¾	34¾	NCNB CorpNC	7.1	125.0	34¾	¼
41¾	33¾	NCalCommBancp CA	14.4	154.7	38	…
41½	33¾	NationalCityCp OH	8.4	144.1	36¾	-¼
18	14	NationalHarbor MD	11.3	20.3	16	-¾
30¾	25¾	NatBancorpIndyA IN	9.5	113.2	29¾	…
25¾	20¾	NatCommunityIN	10.0	174.4	24¾	+¼
34¾	18¾	NatCommunity NJ	6.2	85.9	18¾	…
24¾	19¾	NBD Bancorp MI	8.2	90.7	24¾	…
30¾	24¾	NBD Bancorp OH	9.6	94.7	29¾	1¼
35¾	27¾	NorthernTrust IL	10.7	147.4	35¾	+¼
27¾	21¾	NorwestCorp MN	8.2	147.9	25¾	+¼
32¾	23	OhioBancorp OH	7.0	95.3	…	…
24¾	20¾	OldKentBcp MI	8.3	114.5	24¾	…
28¼	24¾	OldNatBancorp IN	13.5	183.8	25¼	+¼
28¾	23¾	OneWestBancorp WA	7.3	85.3	25¾	…
48¾	29¾	PNC FinCorp PA	9.0	107.3	30¾	…
28¼	24	PacificBkshr CA	11.3	185.3	27	…
13¾	9¾	PacificWestern CA	9.2	182.0	11	…
25¾	19¾	PeoplesBancorp OH	9.1	123.9	25¾	…
27	26	PlanetNatl NY	10.0	129.0	27	…
25¾	19¾	PremierBancorp LA	9.7	185.1	22¾	+¼
6¾	3	PremierBancorp LA	18.1	53.5	3¾	-¼
27	22	ProvidentBanc OH	9.0	127.7	22	…
14	8¾	ProvidentBkshrs MD	22.0	43.4	8¾	…
27¾	19¾	PugetSoundBncp WA	12.2	118.0	23¾	+¼
52¾	42¾	RepublicNYCorp NY	305.0	134.9	48¾	…
27¾	21¾	RepublicSecurity FL	8.3	39.9	21¾	…
33¾	20¾	RiverFoxed IL	13.0	266.5	28¼	…
31¾	24¾	SanantonioBancCA	11.4	215.6	28¾	…
23¾	17¾	SecurityBancorp MI	8.3	142.8	18¾	…
23¾	17¾	SecurityPacific CA	5.6	100.2	18¾	…
28¾	15¾	ShawmutNatCorp MA	NM	58.4	11	+½
28¾	23¾	SignetBanking VA	9.3	94.3	23¾	…
28¾	28¾	SocietyCorp OH	7.0	114.2	30¼	+¼
30¾	17¾	SouthernNatCp SC	6.7	92.6	18¾	+¼
31¾	23¾	SouthernNatl SC	NM	39.1	31¾	+¼
19¾	11¾	SouthernNatCorp VA	9.9	138.2	12	…
25¾	19¾	SouthTrstCorp GA	6.9	92.6	17¾	…
43¾	30¾	SouthTrstCorp SC	5.8	95.7	39¾	…
28¾	18¾	Star Banc Corp OH	9.4	121.3	20¼	…
43¾	32¾	StateStBosCorp MA	14.9	249.7	39¾	…
20¾	6¾	StatewideBancp AZ	NM	47.0	6¾	…
31¾	24¾	SunBanksInc FL	11.3	82.1	24¾	…
34¾	25	SunTrustBanks GA	6.3	96.2	28	-¼
29¾	23¾	SymmonsPr	6.3	76.6	24¾	…
21¾	14¾	SummitBancorp NJ	7.1	108.8	15	…
28¾	20	SunTrustBanks GA	8.1	213.8	27¾	…
14¾	10	SunwestFinSvcs NM	75.0	73.7	15¾	…
31¾	25¾	SuquehannaBcpsPA	7.8	103.1	28½	+¼
19	14¾	SymmetryBncpCA	16.8	270.6	17¾	…
19¾	14¾	SymmetryBncpCA	9.1	270.6	17¾	…
33	25½	TrustCoBancCorp NJ	8.2	162.6	30	+½
31¾	23¾	TrustCoBancCorp NY	9.8	151.2	30¾	…
28¾	19¾	TrustmarkCorp MS	6.6	78.2	28¾	…
29¾	23¾	UJB Financial NJ	5.1	105.4	26¾	-1¾
42¾	32¾	U.S.BancCorp OR	12.6	198.6	37	…
32¾	25¾	UST Corp MA	8.1	76.8	28¾	-¼
32	25¾	UST Corp CT	5.3	99.1	31¼	…
15¾	7¼	UnitedBancorp AZ	5.3	88.3	15¼	…
15¾	7¼	UnitedBancorp FL	NM	64.5	8¾	…
23¾	19¾	UnitedBankCorpCO	20.8	82.6	21¾	-¼
14	12	UnitedBkNew MI	8.3	98.4	12¾	…
17¾	13	UnitedCarolinaNC	7.6	105.8	13¾	-¼
62	52	UnitedCorpNC	5.1	101.5	52¾	…
32¾	28	UnitedMissouriMD	9.4	112.2	29	¾
27¾	22	UtdNyBancorp MI	9.2	118.1	23	…
36	22¼	ValleyCapCorp NY	7.9	147.8	24¾	…
28¾	19¾	ValleyNatBancA	7.9	151.6	21	…
30¾	11¾	ValleyNatlCorp AZ	NM	70.3	15¾	+¼
87¾	64¾	VirginiaBkshrsCp VA	8.8	108.7	64¾	…
33	26¾	WestcornNY	8.7	103.0	30¾	¼
28¾	20¾	WestcornNY	8.7	103.0	30¾	¼
25¼	17¼	WesternResBncpCA	14.7	186.7	23¾	…
45¾	38	WestSecurityFL	9.1	282.2	42¼	+¼
13½	9¾	WorthenBancpAR	10.8	133.4	12¾	¼
30¾	25	ZionsBancorp UT	7.6	99.0	28	…

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE to Mkt	Mkt Cap.	Chg.	Chg.
24¾	19¾	Home Fed CA	10.1	106.6	22	¼
45¾	30¾	HomeFed Corp SD	4.5	30.1	41¾	…
18¾	15	HomeFed Inc IA	10.1	15.2	15	…
55¾	40¼	HomeSecurity CA	12.3	75.5	49¾	¾
24¾	20¾	HomeStateHoldings IA	10.7	55.1	20¾	…
17¾	5¾	HomeStreetBkHI	NM	21.1	6	…
34	19¾	HorseheadBancp NJ	11.4	139.1	33¾	…
10.9	137.5	37¾	¼
27	18¼	HowardSavings NJ	10.9	137.5	18¾	…
21¼	12	FedTechBkCo MD	6.6	35.0	14	…
19¾	13¾	HUBFed MO	6.3	51.4	13¾	…
24¾	17¾	GoldenWestFin CA	11.4	177.8	20¾	…
20.3	120.2	18¼	…
14¾	1¾	GtAmericanBank CA	NM	25.1	3¾	…
47¾	35.0	47¾	…
21¾	13¾	HomeSvgBkAm NY	14.2	100.2	20¼	-¼
19¾	15¾	FirstNiagara Fin NY	10.7	55.1	18¾	…
10¾	6	People's Bank CT	8.3	40.7	6	…
13¾	9¾	PeoplesSvgFinCp FL	11.4	139.1	13¾	…
23	9	SocialtyPrivSgsCT	2.6	40.3	9	¼
12¾	8¾	StandardFed MI	6.3	59.9	8¾	-¼
12¾	7½	StandardFedBk MI	6.3	59.9	8¾	-¼
30¾	15¾	WashingtonFed MA	14.6	72.6	30¾	…
31¾	23¾	WashingtonFedSL WA	10.1	202.9	29	¼
19¾	14	WestcornFinSvcs CA	9.1	96.0	19	…

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and for the 50 largest publicly traded thrifts as measured by the market value of all common shares outstanding. As of March 30, 1990, the market value of banks in the banks was $69.6 bil. and for thrifts $121.45 bil.) 52 Wk Hi (as the moving average of the last two years for banks, 52 for thrifts) Lo: Price ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. NM, for bank: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Mkt Cap: Market value in millions of announced earnings and dividends. Chg.: The price at which the stock traded, or the change from the previous day's closing price. Last Chg.: The net change in weighted average of the top 250 banks in the Keefe Bank Index from the previous day's closing quotation. Highlights show each week's largest gainers and losers, and the two year indicators most shares traded and today's volume as a percentage of the previous 30-day average of shares traded.

DATA SOURCE: SNL SECURITIES, Charlottesville, VA, 804/977-1600, produced the tables, Financial News Network, Vienna, VA, provides SNL with the daily prices.

Key Rates

(July 13, 1990)

	7/13	7/12	7/06
Federal Funds-domestic range:	8¼-8⅜	8¼-8⅜	8¼-8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit[1]			
3 Month Posted	7.80	7.85	7.90
6 Month Posted	7.80	7.90	8.00
1 Year Posted	7.90	8.00	8.10
Eurodollar deposits[2]			
3 Month	8⅛	8¼	8¼
6 Month	8⅛	8¼	8¼
1 Year	8¼	8⅜	8⅜
LIBOR[3]			
3 Month	8⅛	8⅛	8⅛
6 Month	8¼	8⅛	8⅛
1 Year	8⅜	8⅜	8⅜

Mid-afternoon quotes, New York market. (1)– Largest offering rates at selected NYC banks (2)– Late London bid (3)— Annualized money market basis - source: Manufacturers Hanover Tr.

New Bank and Thrift Securities

Most recent offerings

Issuer	Offer Amount ($ mil.)	Manager	Offer Price (Current)	Offer Yield (Current)	Maturity Date
Great Lakes Bancorp	6/29/90	$15.0	DP	10.00	Adjust
Mfrs. C. Nmes.					
Mitsubishi Bk LTD,Ny Branch	6/29/90	$30.0	PL	100.00	Idex 6/30/93
Mfrs. C. Nmes.					
Manufacturers Hanover	7/02/90	$100.0	PS	25.00	10.96
Merrill Lynch Capital Market					
Bancorp Hawaii	7/03/90	$75.4	COM	50.25	
Montgomery Securities					

Most recent SEC Filings

Issuer	Filing ($ Mil.)	Amount	Sec. Type	Book Manager
Pioneer Federal Bancorp	5/04/90	22.0	COM	Shearson Lehman Hutton
Evergreen Bancorp	4/03/90	10.0	SD	Ryan - Beck
Financial Center Bancorp	3/21/90	8.0	COM	Keefe, Bruyette & Woods
FED Financial	3/19/90	14.0	COM	Blunt, Ellis & Loewe

Sec. Type: Type of security issued: **CSD**— convertible subordinated debt and **COM**— common shares. **Current** current prices or yields are shown in parentheses. Current yield, is provided by the manager. **DP**— Depositary Pfd. **PS**— Preferred Shares. **PL**— Perls. **SN**- subordinated Notes
Data Source: Securities Data Company, Newark, N.J. (201) 622-3100

STOCKS

Bank Issues Get Lift from Move To Lower Rates

By FRED VOGELSTEIN

Bank stocks turned in one of their strongest days in months on Friday as news of credit easing by the Federal Reserve Bank overshadowed its statements about the prospects for increased capital ratios.

The overall stock market and the bond market also were buoyed by the news. The Dow Jones industrial average broke 3,000 for the first time, before settling down to 2,980.20, up 10.40. The yield on the 30-year bond dropped from 8.58% to 8.48% and the yield on two-year Treasury bills fell to 8.18%.

"I think Greenspan's remarks are one of several positive signs for banks in the past week," said Mark Alpert, an analyst for Bear Stearns & Co. He also pointed to the fact that banks had pledged to finance the UAL Corp. leveraged buyout and the fact that RJR Nabisco Inc.'s $2.25 billion refinancing deal received $7 billion in commitments.

Positive Signs

"There is some sign that easier values have stopped their decline and that banks are more willing to step up to the plate and get involved," he said.

A number of analysts had said earlier on Friday that the market would overlook Mr. Greenspan's remarks about easing and focus on the more negative news about increased capital ratios, but it seemed that word of credit easing ruled the day.

Northern Trust Co. led the way, rising $2.125 to $29.50, on news of record trust fees, growth in net interest income, higher cash management fees, and a lower provision for credit losses.

Most money-center banks, which were off sharply on Thursday, rose strongly on the credit easing news. J.P. Morgan & Co. was up $7.5 cents to $35.75, and Bankers Trust New York Corp. was up 62.5 cents to $40.125

Chase Manhattan Corp., however, was down $1.25 to $21.25. It traded more than one million shares for the second day in a row. Analysts and the company said they could not explain the activity. Analysts at C.J. Lawrence, Morgan Grenfell on Thursday said they predicted that money-center banks would cut their dividends within 12 months and that Chase probably would be the first.

Among regionals, NBD Bancorp rose 75 cents to $32.375, and Wells Fargo & Co. rose 75 cents to $77.875.

First Wachovia Corp., which reported increased earnings last Thursday, was up 87.5 cents to $42.375.

U.B Financial Corp. led losers, falling $1.125 to $14.875. Lacy Shockley, an analyst at Smith Barney, Harris Upham & Co., said that, after talking to the company, she suspected one seller was dumping the stock but that there was no fundamental reason for the decline.

Bad News for Near Term

Regardless of market activity on Friday, most analysts said Mr. Greenspan's comments about the prospects for increasing bank capital requirements would overshadow the prospects for credit easing and, in the near term, would not be good news for bank stocks.

"It's like they just finished running a race [to get to the current capital levels] and now people are talking about having them run another one," said Robert Alberston, an analyst at Goldman, Sachs & Co.

He said that if Mr. Greenspan continues along his current course of tightening capital requirements, he will drastically hinder banks' willingness to lend money and hurt their profitability.

Other analysts said long-term benefits will outweigh short-run problems.

"Long term, it will inject market discipline into the commercial banking industry, which is long overdue. I basically applaud the move," said Thomas Hanley, an analyst at Salomon Brothers Inc.

Ronald Mandle, an analyst at Sanford C. Bernstein & Co., said higher capital requirements also could force more bank mergers, which would be good for shareholders.

Most analysts said they expect few surprises in the coming week of earnings, and as a result expect little additional deterioration in most stocks because of them.

Still, most see more bad news on the horizon. Although next week's earnings releases may not have a big impact on bank stocks, continued deterioration in asset quality will. Most feel those problems will persist through the end of the year and say they seem to be broadening into previously unaffected regions. □

Greenspan's Tip on Interest Rate Policy Raises Eyebrows

Continued from page 1

tween the mistakes of bank owners and managers and the need to draw on the deposit insurance fund," Mr. Greenspan said.

No Compelling Reason Seen

Bankers could find no compelling reason for Mr. Greenspan's indication to lower interest rates in response to banks' tightened lending policies.

They note that the June producer price index released last Friday showed a much stronger than expected rise of 0.6%, confirming past Fed assertions that the economy is not showing noticeable signs of slowing. Retail sales figures released the same day showed a sluggish but steady rise of 0.5%.

To be sure, the link between Mr. Greenspan's interest rate statements and his plan for more capital are not necessarily intertwined.

"The easing of interest rates is a short-term economic fact, and the increase of capital is a long-term plan," said Karen Shaw, president of the Institute for Strategy Development, a Washington-based bank consulting firm. "The capital proposal is of major significance and has created considerably unsettled reaction at banks."

Ms. Shaw and others also rejected the notion that Mr. Greenspan's crusade for more capital was motivated by political expected rise of 0.6%, confirming past Fed assertions that the economy is not showing noticeable signs of slowing. Retail sales figures released the same day showed a sluggish but steady rise of 0.5%.

To be sure, the link between Mr. Greenspan's interest rate statements and his plan for more capital are not necessarily intertwined.

Mr. Greenspan offered few specifics about the planned capital standards. But it is understood they will go beyond the 8% capital-to-assets risk-based ratio that is now being phased in for banks around the world. Many U.S. banks currently meet those standards, which go into effect at the end of 1992, and a few would be close to the stronger standards now being considered, according to Washington sources.

The new standards probably would carry the same risk adjustment weightings as the 1992 standards, Washington sources said. But the Fed is considering major rewards for banks with "exceptionally high capital" above the new minimums, they added.

Mr. Greenspan spoke of "more flexibility in supervisory treatment," but others said that new powers – such as the ability to underwrite equity without restrictions – could be tied directly to the amount of excess capital a bank company keeps in its coffers.

Nevertheless, some observers said the call for more capital could not have come at a worst time. Later that day, Ms. Shaw said, the Federal Deposit Insurance Corp. will undoubtedly raise its assessment rate back to a level of perhaps 20% and may apply the assessment to currently unassessed liabilities, such as overseas deposits.

"You're changing the rules at the worst possible time," said Robert Albertson, an analyst at Goldman, Sachs & Co. "[Greenspan] has just put a bombshell underneath the credit creation mechanism of banks. I can assure you bankers are in a state of stunned disbelief."

Fred Vogelstein contributed to this article.

CAPITAL

Banks' Response to Small Cut Problematic

Continued from page 1

very small. I'm not sure it will have that big an impact on bank behavior."

Darwin L. Beck, a vice president and money market economist at First Boston Corp., agreed. "Marginally, this easing will work in the direction of what [Mr. Greenspan] wants to accomplish," he said, but "this doesn't preclude another step in this direction."

More easing may not be in the offing, however, because the evidence is not uniform that the economy is slowing.

Sign of Economic Strength

For example, a bond market rally ended Friday morning after the Producer Price Index for June increased an unexpectedly high 0.6%. And one banker pointed out that banks had committed to sizable loans to both UAL Corp. and RJR Nabisco Inc. in recent weeks.

"For the Fed to follow through with a series of easings, they would have to have data showing a slowing down in economic interest," said Lawrence J. Lane, a vice president and head of Fed funds trading at Bankers Trust New York Corp. "I don't think more than a quarter of a point is in the cards right now."

Economists said the Fed was unlikely to cut the discount rate along with its apparent easing on Fed funds, the relationship between discount window borrowing and the fed funds rate has become less regular in recent years because banks, worried about liquidity questions, are keeping more excess reserves and going to the discount window less often.

Fed's Intervention

The Fed added temporary reserves to the Treasury market Friday morning by executing system repurchase agreements. System repos, as they are commonly used by the Fed to boost the supply of funds, thereby forcing down rates.

And the stop-out rate, the minimum the Fed will pay dealers who enter system repurchase agreements, was a scant 8.03%, one market observer said. Fed funds traders said a system repurchase agreement with a stop-out rate below 8.15% would signal the Fed's intent to ease.

"Yesterday, Greenspan said he'd ease. Today, he followed his words with action," said F. Ward McCarthy, a managing director at Stone & McCarthy Research Associates. "This year, the fireworks happened after the Fourth of July."

The Treasury yield curve steepened dramatically Thursday afternoon and Friday morning as word spread of Mr. Greenspan's remarks to the Senate Banking Committee. The difference in yield between one-year Treasury notes and 30-year Treasury bonds – just 19 basis points late Thursday morning – widened to 27 basis points less than an hour after the Fed chairman spoke and was at 34 basis points by noon Friday.

But yields fell for all maturities.

The yield on the 30-year bond dropped from 8.58% Thursday morning to 8.48% after the Fed executed its system repos, and the yield on two-year Treasury notes fell from 8.39% to 8.14% after the intervention.

The overnight fed funds rate finished the day Thursday virtually unchanged from the close a day earlier, at just over the Fed's then-apparent target rate of 8.25%. Traders in the very short-term markets were uncertain about the precise timing of any easing. But after the Fed intervened Friday, the rate dropped almost immediately to 8%.

Eurodollar deposit rates dropped sharply on the prospect of lower interest rates. Overnight deposits were at 8.31% Wednesday evening, but after the Fed intervened Friday morning, they hit 7.93%.

The steeper yield curve will help banks that have been funding assets with shorter-term liabilities, according to one money-center banker. And the decline in short-term rates will also help those banks who built up their holdings of bonds and money market instruments. A Fed funds trader at one bank said he had been busily lending fed funds for several days, in anticipation of lower rates.

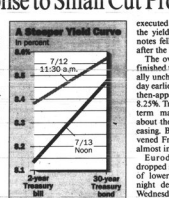
* * *

MARKET MONITOR

Standard & Poor's Corp. has been aggressively reducing ratings on bank holding companies since late 1989. But the trend has picked up slightly in the second quarter.

The rating agency cut ratings on 23 holding companies in the quarter and upgraded only one, Manufacturers Hanover Corp. That compares with downgradings of 16 holding companies in the first quarter and an upgrading of one, Trustcorp Inc.

The agency said it expects the emphasis on downgrading to continue for a few quarters, as concerns remain about asset quality, reduced profitability, and banks' risk-adjusted capital levels. □



AMERICAN BANKER
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Appraisers Balk At Fed Board's Real Estate Rule

By LINDA CORMAN

WASHINGTON — Bankers and real estate appraisers are nearing a showdown over rules established by the Federal Reserve Board to govern the use of certified appraisers in mortgage transactions.

The two constituencies, which work together to complete many mortgages and real estate transactions, are on opposite sides of a year-long controversy over appraisal requirements in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

To implement that law, the Federal Reserve Board issued a regulation on June 28 to toughen appraisal standards. The rule is to take effect Aug. 9, the anniversary of the Fire Bailout law.

But the final version of the Fed regulation will require the use of certified appraisers only on transactions valued at $100,000 or above. It was a turnabout from earlier proposals that would have mandated appraisers on transactions valued at $15,000 or more.

Caught by Surprise

The banking and real estate industries favored the higher threshold as a way to guard against losses from abuses – such as inflated assessments – in the large transactions where there most often occur.

The appraisal industry was caught by surprise when the Fed put forward the $100,000 proposal and is working feverishly to roll it back.

The Fed's final regulation is a radical departure from what had been expected, said Donald E. Kelly, vice president and director of Washington operations for the Society of Real Estate Appraisers, which represents about 20,000 appraisers nationwide.

"We hope our concerns will be heard by the appropriate and that the Fed will reconsider," Mr. Kelly said. His group is reviewing options for administrative relief, he said, and may request a formal review of the Fed's action.

Most Agencies Agree

The staff papers accompanying the Fed's final rules said all regulators except for the Office of Thrift Supervision were in basic agreement on the final regulations. The OTS planned to

See APPRAISERS page 6

INSIDE NEWS

INTERNATIONAL

THE FED proposed to raise the limits on U.S. banks' underwriting of securities overseas but impose new restraints on portfolio investments. *Page 2*

RUMORED proposals by the Bank for International Settlements to further tighten capital standards have caused considerable consternation in Japan. *Page 8*

CONSUMER

MASTERCARD says it faces fierce fights against fraud, especially in the Far East, despite last year's decrease in fraud as a portion of transaction volume. *Page 14*

MILITARY BASE closings and cuts in defense spending could put the squeeze on credit unions associated with the armed services. *Page 14*

FINANCE

AS FUNDING COSTS drop with the Fed's recent move to lower short-term interest rates, bank debt issuance could pick up in the second half of the year. *Page 24*

REAL ESTATE

WHILE MOST BANKS are regretting the big plunge into commercial real estate lending in the late 1980s, insurance companies are beginning to stick a toe back in the water. *Page 16*

TECHNOLOGY

THE CO-OPERATIVE Bank of Great Britain is installing a credit card management system from First Bankcard, in an attempt to reduce bad debts and increase productivity. *Page 3*

OTHER NEWS

L. WILLIAM SEIDMAN said the Bank Insurance Fund could face more losses next year if the nation is thrown into a long and deep recession. *Page 20*

COMMENT

LACKING a full understanding of both direct and indirect costs, banks often misprice their products, says Sanford Rose. *Page 4*

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Donald W. Riegle
Senate Banking Committee

Riegle Questions Insurance Sales

By ROBERT M. GARSSON

WASHINGTON — Taking aim at a Delaware law that allows banks to underwrite and sell insurance, Senate Banking Committee Chairman Donald W. Riegle, D-Mich., has urged federal bank regulators to study whether restrictions should be placed on those activities.

In letters to the chairmen of the Federal Reserve Board and Federal Deposit Insurance Corp., Mr. Riegle asked for prompt rulings on whether the insurance powers are permissible under the Bank Holding Company Act or might pose a threat to the bank insurance fund unless certain safeguards

See RIEGLE page 7

Chase's Profits Fall 62%; Pressure on Dividend Seen

1st Chicago Off 35%; Midlantic Posts Loss

By JED HOROWITZ

Chase Manhattan Corp. reported Monday that its second-quarter profits plummeted 62%, to $52 million, because of problem real estate loans, intensifying speculation the banking company will be forced to cut or eliminate its quarterly dividend.

Credit woes also continue to plague First Chicago Corp., which announced its profits declined 35%, to $87.4 million, and Midlantic Corp., which reported a $24.8 million loss.

Meanwhile, NCNB Corp. announced that its profits soared 50%, to $137.4 million, because of the inclusion of its Texas unit; Security Pacific Corp. reported its profits rose 6%, to $195.2 million; and J.P. Morgan & Co. said its profit was flat, at $207 million.

The mixed earnings picture sent some bank stocks up nearly 5%, but most money-center bank saw their share prices drop. (See story, page-24.)

Chase Manhattan's stock fell 50 cents, to $20.75, and First Chicago fell $1, to $27.625. J.P. Morgan closed at $37.875, up $2.125; NCNB at $36.50, up $1.75; and Midlantic at $14.75, up 62.5 cents. Security Pacific fell 12.5 cents, to $36.25.

Chase's earnings of 24 cents per share were well below the 62 cents needed each quarter to cover its common stock dividend. However, Chase said management would recommend to its board Wednesday that the dividend be maintained at its current level.

Earnings at a Glance
Dollars in millions

Chase	$52	62
First Chicago	$87.4	35
J.P. Morgan	$207	Flat
Midlantic	-$24.8	NA*
NCNB	$137.4	50%
Security Pacific	$195.2	6%

*Not applicable

The slide resulted in part from a $225 million addition to the bank's provision for possible credit losses but did not include expenses related to a restructuring the bank has promised to undertake. The yearnings to eliminate $300 million of expenses.

"It's a pretty dismal quarter," said Judah Kraushaar, an analyst at Merrill Lynch & Co.

See WEAK page 17



Highly Leveraged Lending Rebounds

By STEVEN LIPIN

Highly leveraged lending is back.

While the spigot is not wide open, the trickle of deals seen six months ago has recently turned into a more steady flow.

As acquirers find banks willing to commit funds, bankers and syndicate officials are busier than they have been in months, doing deals with high fees and plenty of equity.

When financing fell through for last year's management-led buyout of UAL Corp., both commercial and investment bankers were shaken, and deal flow dropped precipitously. After a lull, bankers reassessed the market and began to establish new standards for the structure of leveraged deals.

"Everyone assumed the business was finished," said Dominick Baione, managing director at Manufacturers Hanover Trust Co.; which has been lead bank for some of this year's largest deals.

But, Mr. Baione said,

See HIGHLY page 22

Big Banks Aim To Streamline Disaster Plans

By JEANNE IDA

NEW YORK — A handful of money-center banks are making big investments in disaster recovery with the aim of dramatically reducing the amount of time it would take them to restore operations in case of a system failure.

The change, to same-day recovery from overnight recovery, is taking place initially in banks with big funds transfer businesses, including Manufacturers Hanover Trust Co. and Chemical Bank. Encouraged by regulators and clearing houses, the change will allow banks to better assess their financial position.

Picks Up Where Bank Left Off

With the new system, the bank would not have to return to start-of-day balances when operations are restored after a major systems failure, earthquake, or fire. Instead the bank would be able to resume business

See RECOVERY page 3

PEOPLE *in the news*

McEntee Brings Fed Lore To Clearing House Post

By JEANNE IIDA

Elliott C. McEntee is not your typical computer guru. In college, he studied labor relations. Afterward, he took a job at the Federal Reserve Bank and wound up managing an overburdened wire transfer department.

The unit had severe labor problems and 75% turnover, but Mr. McEntee proceeded to smooth out the difficulties.

As president and chief executive of the National Automated Clearing House Association, Mr. McEntee is now drawing on lessons learned in his 20 years at the Fed to guide the group into the era of all-electronic payments. For the next few years, he will focus on aggressively marketing such services as electronic data interchange and direct deposit payments.

His knowledge of the Fed's inner workings will come in handy. As the clearing house is transformed from a vehicle for small-dollar transfers to the primary means for corporations to make payments to each other, the Fed is more concerned about risk in the system.

About 1.1 billion transactions took place last year on the ACH system, a mere drop in the bucket compared with the 50 billion checks that were processed by the Fed. But ACH volume is growing faster than check volume. ACH transaction volume rose 25% to 30% last year, while check volume grew about 4%.

The average dollar size of ACH transactions is also rising.

"As we begin to understand risk in the ACH, it's important to have a president like Elliott who can appreciate the goals and direction of the Federal Reserve System," said David Kvederis, chairman of the board of the national clearing house and senior vice president of Wells Fargo Bank, San Francisco.



Elliott C. McEntee

Mr. McEntee, 46, joined Nacha in November 1988, three years after the organization separated from the American Bankers Association in an effort to become more focused and more professional. William Maroney, Mr. McEntee's predecessor, is credited with initiating the cultural shift, but Mr. McEntee's appointment was viewed as working for "the long haul," Mr. Kvederis said.

Well Known from His Days at the Fed

Mr. McEntee was already well known by the ACH organizations from his work at the Fed, where he headed operations.

"He'd been respected in the industry for a number of years," said Michel Paulette, executive officer of cash management at Sovran Bank, Richmond. "He brought to the scene a lot of expertise in payment systems and a good management style with humor."

Colleagues say one of Mr. McEntee's biggest contributions so far is his proposal to simplify ACH processing schedules so that many more corporations will be able to offer direct deposit services to their employees. The current system forces companies to run off their processing a couple of days in advance of the payment date.

Mr. McEntee relished the move from the Fed to the private sector.

"The biggest change is that in the private sector you can get things done much faster," said Mr. McEntee. "I go to a lot fewer meetings now."

After Air Force, Sojourn in California

Born in Brooklyn, Mr. McEntee joined the Air Force in 1965 and was stationed in California. He stayed on to go to the University of California at San Jose.

His first job out of college was working for the New York Federal Reserve Bank, which rotates staff members. When Mr. McEntee moved from employee relations to the wire transfer area, he was expected to help work out a solution for the problem-plagued department.

"In 1969 [at the Fed], employees were working under impossible conditions," he said. Wire transfers were done in an overcrowded, hot part of the bank, without air conditioning, on a system built to handle half the number of transactions that it was processing.

System Relied on Human Switches

Individuals acted as the switches on the system, picking up a paper tape produced by the computer, reading the tape to find out which bank the transfer was destined for, and walking it over to a computer terminal.

The problems were resolved partly by management gaining an understanding of the employees' hardships and partly by greater automation. Mr. McEntee ended up heading wire transfers at the New York Fed for five years.

Mr. McEntee and his wife, Katren J. Bopp, a deputy general counsel at the Federal National Mortgage Association, devote much of their free time to a two-year-old daughter. The baby "has changed my priorities," he said.

Mr. McEntee keeps a Japanese garden with a waterfall and fish pond stocked with brightly colored carp. "I was fascinated by the look and feel of Japanese gardens," said Mr. McEntee, who spent five years achieving the effect. □

Fed Review of Regulation K Results in a Mixed Proposal

By LINDA CORMAN

WASHINGTON — The Federal Reserve Board proposed Monday to raise the limits on the underwriting of securities overseas by U.S. banks but impose new restraints on portfolio investments.

The two actions prompted one Fed member, Wayne D. Angell, to criticize the board majority for taking a muddled approach to overseas bank powers.

In a lone dissent on the moves, Mr. Angell said the proposed revisions in Fed Regulation K failed to chart a clear direction for U.S. banking operations overseas.

Rules Issued for Comment

The regulation governs the international activities of U.S. banks, and the U.S. operations of foreign banks. As part of a review of Regulation K that takes place every five years, the Federal Reserve Board voted Monday to issue the securities-related changes for a 60-day comment period.

The Fed offered to raise the limit on underwriting – the cumulative total of a bank's total subsidiaries in any one deal – from $15 million to $60 million.

The Fed is also proposing that a bank may hold up to 40% of the equity of a company, so long as its value does not exceed $25 million. If the total does exceed $25 million, a bank may hold no more than 24.9% of the total equity of a company.

Clarification Included

Currently, banks as investors are limited to owning 20% of nonvoting shares, with the total value subject to approval by the Fed on a case-by-case basis. In effect, the new rule liberalizes the small investments banks may make and clarifies the large investments they may make, according to Fed staff members.

Mr. Angell said the board was waffling to avoid being either blamed for inhibiting the competitiveness of U.S. banks overseas, or granting them powers far beyond what domestic banks have.

But the other governors said the central bank's conflicting mandates to enhance the competitiveness of U.S. banks overseas and to protect their safety and soundness dictated their approach.

Governor David W. Mullins said a more clear-cut approach would have to wait until the domestic banking system was overhauled.

"This is buying time until we rethink U.S. banking regulations," he said.

Despite Mr. Angell's reservations, advocates of banks operating overseas welcomed the changes.

The increases in underwriting limits represented a "substantial liberalization," according to Gary M. Welsh, a partner of Prather Seeger Doolittle & Farmer, which represents the Bankers' Association for Foreign Trade.

Problem Seen in Restraints

But the new restraints on portfolio investment, "may be a problem," he said.

Mr. Welsh also welcomed the board's decision not to ask for firewalls between the securities and banking activities of overseas banks. Unlike banks operating domestically, securities and banking activities may be conducted by the same overseas subsidiary of a U.S. bank.

Proposals to construct firewalls had been expected because Fed Vice Chairman Manuel H. Johnson, the board's authority on international affairs, had been a strong advocate of them.

But Mr. Johnson, who has resigned from the board effective Aug. 6, was absent from Monday's meeting, generating speculation that he was angered by the direction the board was taking on Regulation K. He could not be reached for comment. □

RTC Cleared To Finance Bulk Sales

By DEBRA COPE

WASHINGTON — The Resolution Trust Corp. Oversight Board granted the RTC authority on Monday to finance up to $2 billion in bulk sales of commercial loans and real estate.

By easing strict limits on the RTC's ability to finance sales from its $142 billion portfolio, the Oversight Board sought to accelerate its program by removing a major obstacle for investors interested in buying assets in $500 million chunks.

In the trial program, the RTC will be able to tailor financing to the needs of the institutional investors who are the likeliest bidders.

"They're dealing with market realities to what makes the [RTC sales] program more workable," said John Dyss, partner, Goldman, Sachs & Co., New York. "Clearly, it's a step in the right direction."

Terms Up to Five Years

The RTC has been limited to offer loans of up to five years to investors making a 15% down payment. Previously, the RTC could extend financing only if no other loan were available.

Bulk financings will be exempt from the requirement for the RTC to structure loans for sale to the general market within one year, and from a $1 billion ceiling on the total amount of seller financing outstanding.

"This pilot program will provide us with a good opportunity to test the market for bulk sales of commercial properties and loans, which are among the RTC's most difficult assets to move and sell," said Peter H. Monroe, president of the Oversight Board. The Oversight Board will review the program once the RTC has reached its $2 billion commitment ceiling. □

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TECHNOLOGY NEWS

New Systems Ease Recovery Of Bank Data After Disaster

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ness from the time the disaster occurred, whether it was 9 a.m. or 3 p.m.

The Federal Reserve Bank of New York has begun urging its members to adopt such recovery standards. And the New York Clearing House Association will require similar speed by June 1991. Clearing house members that average $20 billion in funds transfers daily will need equipment that allows them to send and receive wire transfers within six hours of a disaster.

"The ability to manage your books and to close your books at the end of the business cycle is completely dependent on computers," said Dennis Forand, senior vice president and general manager of cash management services at Chemical Bank.

"We're a major player in funds transfer, and we're dependent on large financial institutions to close and open accurately," said Michael J. Pasiecki, senior vice president in wholesale computing services at Manufacturers Hanover. "If a bank's key services suffer a major disruption, that ability is impaired."

Usual Method Loses Data

In the traditional form of disaster recovery, a bank makes a copy of its business at the end of the day and sends that copy to a remote site. If affected bank computer systems go down, the bank uses the copy of the previous business day to resume business from the start of the day when the trouble occurred.

But some banks that process huge volumes of transactions say they cannot afford to lose the data accumulated since the start of the business day.

Those banks are investing hundreds of thousands of dollars in telecommunications technology that will allow them to keep a copy of transactions as they occur – at a remote site where they can be called on if needed.

For many banks, disaster recovery is no longer seen as a data processing problem, but as an enterprise-wide problem. Even the name, disaster recovery, is giving way to a new term: business recovery.

Most Banks Lack a System

While banks such as Manufacturers Hanover and Chemical Bank are forging ahead, many banks have no disaster recovery capabilities at all. Only 35% to 40% of the top 3,000 commercial banks have some kind of disaster recovery plan in place, according to Cato Carpenter, a software analyst with Alex. Brown & Sons, Baltimore.

Manufacturers Hanover, which sends and receives 35,000 funds transfers a day, has invested $1 million annually over and above its normal recovery budget to implement same-day recovery.

"This gives us a competitive edge," said Anthony Catania, a vice president in funds transfer operations.

The bank will dedicate 5% to 6% of its $60 million computer operating expenses to business recovery in 1990-91. That 5% figure includes the $1 million for same-day recovery.

Manufacturers Hanover is buying the disaster recovery service from Comdisco Computing Services Corp., Carlstadt, N.J. Eventually, the bank plans to handle most backup operations in-house.

Moving in that direction, the bank expects to open a data center in Wilmington, Del., by the first quarter of next year. That site eventually will perform many of the disaster recovery functions currently contracted from Comdisco.

"The trend is toward same-day recovery" in all lines of business, said Michael J. Pasiecki, senior vice president of wholesale computing services at Cos-Serve, the processing arm of Manufacturers Hanover.

Last year, only the funds transfer business had same-day recovery; this year the bank is evaluating moving check processing and securities processing to same-day recovery. Other business units are also asking to upgrade to same-day recovery.

Since May, Chemical Bank has had same-day recovery through a contract with Comdisco. Upgrading the system has caused the bank to increase its disaster recovery budget by only 1%, Chemical said.

Chemical, which has a smaller funds transfer business than Manufacturers Hanover, says it has been able to keep costs down by not purchasing dedicated access to a mainframe.

The funds transfer operation receives and sends a continuous stream of messages, from customers, the Fedwire System, the Swift system, and the proprietary cash management services offered by other banks. In many banks, this information is automatically linked with payments systems, allowing banks to initiate transactions.

On-line transaction processing systems, such as those offered by Tandem Computers Inc., keep a copy of all the transactions sent and received. If a system goes down, the computers continue to send and receive information.

But these recovery systems do not apply to back-office functions, when transactions are applied to customer files. Banks have found it too expensive to store in duplicate the vast quantities of data generated.

The Comdisco service, the first of its kind on the market, gives an on-line backup system that allows a bank to copy a "snapshot" of a transaction to a remote site.

Sungard Data Systems Inc., Wayne, Pa., plans to add the service, called remote journaling, later this year. □



Co-Op Bank In U.K. Buys Card System

By RICHARD LAYNE

NEW YORK — In an attempt to reduce bad debts and increase productivity, a British bank is installing a credit-card management system from First Bankcard Systems.

The Co-operative Bank of Great Britain has purchased two software products from First Bankcard, which counts Chase Manhattan Corp. and First Wachovia Corp. among its domestic clients.

The Co-Operative Bank is the second British institution to purchase software from Atlanta-based First Bankcard, which has clients on Europe's mainland and in Canada as well as the United States. Barclays Bank of Britain bought a First Bankcard system in 1988, partly to offer both MasterCard and Visa cards to customers.

Expansion Expected

The Co-Operative Bank bought a delinquency management system, which runs on a mainframe computer. The system will initially process collections for all credit card and loan products. The bank plans to expand the system to handle personal banking products.

The second product is a system to manage credit transactions. The system processes transactions, applications, authorizations, and customer accounting for bank card and other credit products.

The bank is installing the collection system and plans to have the credit-processing system operations in 1991.

The Co-Operative Bank, which is based in Manchester, operates 110 branches and 4,000 facilities within retail stores. □

ANOTHER

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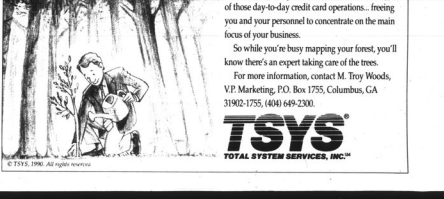

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COMMENT/ *By Sanford Rose*

Know Thy Costs

In order to understand how to price retail products, banks must self-evidently know their costs. Many banks have an excellent handle on the variable costs involved in administering deposit and loan products. Where they fall down is in calculating the full extent of branch and corporate overhead, which in many cases may account for as much as two-thirds of the total expenses of product administration.

Lacking a full understanding of both direct and indirect costs, banks often misprice their products.

The classic example is that of the garden-variety CD. Many banks think that the CD is a cheap product because the variable cost of generating it is nugatory – say $10 to $15. But if we add in the back office and, more importantly, the expenses of advertising and those of training the people who sell the product, the all-in cost of a CD at a regional bank with between $5 billion and $10 billion in retail deposits balloons to some $90 a year per account, calculates Booz-Allen & Hamilton.

Lowering Bank Value

Hence, the CD is not an especially cheap product. In fact, its total cost approximates that of a passbook savings account, which has higher variable costs (an estimated $25 versus that $10 to $15) but requires proportionately less overhead.

If a bank bases its prices on variable costs, it will end up underpricing CDs. And, indeed, many banks have launched CD promotion campaigns based on an incomplete expense analysis. In consequence, they are often unable to earn enough on the fully costed new money to provide an adequate rate of return to their shareholders. Thus, the failure to cost properly contributes to a marketing decision that ends up lowering rather than enhancing the value of the bank.

Banks that know their all-in costs understand that low-dollar-balance CDs may not pay their way. Since the cost of administering large CDs is no higher than that of handling the low-balance accounts, such banks will often pay more interest on the former and correspondingly much less interest on the latter.

A Table of Costs

Booz-Allen has constructed a cost table for various checking, savings, investment, and retail loan products. Because branch, back-office, and even corporate-overhead expenses vary with the scale of operations, the following cost figures are approximately valid only for the aforementioned regional bank – that is, one with between $5 billion and $10 billion in retail deposits. Smaller banks should have higher expenses, while bigger banks should enjoy lower costs.

The cost per year of administering a basic demand deposit account amounts to around $200, some $80 in variable expenses and the remainder in branch and corporate overhead. That for administering an interest checking account totals around $180.



'Pricing retail deposits based on variable costs alone can be disastrous.'

Money-market savings products cost $125. Statement savings accounts run around $85, while the expenses of administering passbook accounts amount to a total of $90 a year.

As noted, CDs also cost about $90. The expenses of handling IRAs, another advertising-intensive product, amount to about $75, with only about $10 in variable costs but some $45 in corporate overhead.

Cheap, But Unprofitable

Among loan products, the costliest is the direct installment loan, with an annual charge of $175, followed by the home-equity loan, which costs about $165. Indirect installment loans carry a $125 price tag, while student loans are the cheapest, with expenses of only about $70 per year. Unfortunately, student loans have increasingly thin spreads, which make them unattractive to many banks, despite their modest noninterest expense.

Of course, larger banks can materially trim these costs of administration. Some idea of the feasible savings can be gleaned from a glance at what are called scale factors.

A scale factor measures the possible reduction in unit costs for a doubling in volume. Thus the scale factor in branch operations is about 75%, which means that a doubling of branch deposits would reduce the branch cost per deposit by about a quarter.

The Twin Imperative

Similar economies are available in back-office operations. A doubling in volume will reduce the unit costs of check processing by around 20% and those of deposit support by some 30%.

So banks face a twin imperative: They must obviously calculate the fully loaded expenses of product administration. But, having done so, most will find that these expenses are too high in relation to what can be charged in markets that are becoming increasingly competitive.

Long-term survival, therefore, depends on having larger branches, bigger back offices, and a much higher volume of loan originations than is possible for, say, our midsize regional. In short, as price umbrellas disappear, survival will depend to an increasing extent on aggressive in-market mergers. □

CRIME BLOTTER/ *By Tom Leander*

Working for a Living Is Easier

Even bank robbers have lousy days.

Consider 27-year-old Alexander Hatfield, who allegedly walked into a branch of Homefed Bank in San Diego, and handed a note to a teller demanding all the cash in the drawer.

The teller forked over $331, according to the *Los Angeles Times*. The robber went to the bank's parking lot, where a traffic tie-up at the exit stalled his escape. Employees of the bank had ample time to notify police of the car's license number.

When Mr. Hatfield was finally able to drive away from the bank, a patrol car was almost immediately in pursuit.

A short chase ended abruptly when Mr. Hatfield rammed into a tractor trailer. Although the car was a total loss, Mr. Hatfield emerged unscathed from the accident and was promptly arrested.

* * *

Money-Laundering Admitted

First Bank of Georgia, East Point, faces fines of up to $770,000 after pleading guilty to federal money-laundering charges for its role in hiding funds for one of Atlanta's biggest cocaine traffickers.

The bank admitted that three of its former officers – president S. Carlton Hays, vice president Gordon Burdette, and assistant vice president Barbara Herskowitz – arranged a series of loans to launder the money.

The loans concealed the origin of $385,000 used to post bail for convicted cocaine trafficker Walter Lee Freeman last June.

The plea, signed by current bank president Charles M. Barnes, also admitted that the three former officers lied to federal agents during the investigation.

Mr. Barnes replaced Mr. Hays after he was fired in February. Sentencing is set for Aug. 28.

* * *

Indictment in Loan Fraud

A grand jury in Providence, R.I., has indicted a man who posed as an eye doctor on charges that he swindled a total of $1.2 million from Fleet National Bank and Hospital Trust Bank, both based in Providence.

The robber fled to the bank's parking lot, where a traffic tie-up stalled his escape.

Federal authorities are still seeking Cyrus Panah, who is known to use several aliases, said assistant U.S. attorney Charles A. Tamuleviz.

In October 1986, Mr. Panah asked Hospital Trust Bank for a loan and a line of credit, the indictment said.

He allegedly told a bank official he was an eye surgeon planning to move his practice from Worcester, Mass., to Providence. He allegedly submitted false income tax returns for six years.

The bank gave Mr. Panah loans and credit for $995,000. He defaulted on the loan, and returned to hospital Trust in June 1989 asking the bank to double his $50,000 line of credit.

In the same month, Mr. Panah allegedly asked the Fleet/Norstar Financial Group unit for a loan and allegedly submitted false individual and corporate income tax returns. He also defaulted on his $510,000 loan from Fleet National.

* * *

Wells Swindlers Sentenced

Four members of a team that hatched a scheme to defraud San Francisco-based Wells Fargo Bank of $1.5 million were sentenced last week.

The lead participants in the scam, Jeffrey Borer and Terrance Quinn, drew six-month prison terms and were ordered to pay a total of $200,000 in restitution.

The defendants were convicted of participating in an elaborate fraud scheme in 1984 and 1985. They borrowed $3 million from Wells Fargo Bank in Los Angeles to buy aircraft that had been appraised by Mr. Borer at twice its actual value.

The loans were made to so-called "straw buyers," individuals recruited and paid by the defendants to submit phony tax returns and financial statements to the bank.

The loans all went into default in 1985. Because the aircraft were worth much less than the amount that had been loaned to them, the bank lost nearly $1.5 million.

Edward Stein was ordered to serve 30 days in jail. Jay Klein received a two-year probation sentence.

Another defendant, Casey Duggan, was sentenced last spring to three years probation.

The final defendant, Patricia Stanley, will be sentenced this week. □

Reader Forum

The *American Banker* welcomes points of view on issues of interest and importance to the banking industry.

Please direct them to Jeffrey Kutler, assistant managing editor, American Banker, One State Street Plaza, New York, N.Y. 10004, and include a daytime telephone number. Letters may be edited for space for a Letters to the Editor column or published separately as commentary.

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COPY EDITORS
Martin Barolsky (assistant-chief), Christine Araza, Terry Burmann, Edward Kulkosky, Robert Paul Molay, Jane Sandford

ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
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Appraisers Seek Rollback of Fed's New Rule on Mortgages

Continued from *page 1*

keep the $15,000 minimum. While all the financial agencies are working toward a coordinated rule, heavy lobbying by the affected industries has made that goal difficult to attain.

The Fed's rule will apply to real estate transactions of the institutions it regulates: bank holding companies, their nonbank subsidiaries, and state-chartered member banks. Others writing rules for their jurisdictions are the OTS, the Office of the Comptroller of the Currency, Federal Deposit Insurance Corp., National Credit Union Administration, and the Resolution Trust Corp.

Peter S. Barash, political consultant to the American Society of Appraisers, said the Fed regulation changed dramatically under pressure from real estate and banking interests, while the appraisers were content with the original proposal.

"We assumed at most there would be fine-tuning of the regulations," said Mr. Barash. "Instead, they tore down the house."

The appraisal groups are arguing that the higher limit raises concerns about safety and soundness of the banking system.

"If you look at the median price of homes, it is in the low $90,000s," said Mr. Kelly. "That means that more than half needn't have appraisals – or, at most, need not have a licensed appraiser."

But banking groups say the higher ceiling would put a brake on escalating costs, particularly for small borrowers. They also say licensed – rather than certified – appraisers are capable of doing the job.

The American Bankers Association said it had not determined the difference in cost between a certified and uncertified appraiser, but Mr. Kelly estimated it would be $25 to $50 on a typical $250 to $375 appraisal bill.

In allying itself with bankers, the real estate industry warns that mandatory use of certified appraisers will create long delays in completing transactions because of a scarcity of these professionals.

According to Stephen Driesler, senior vice president for government affairs at the National Association of Realtors, there are currently no states that have appraiser-certification programs. Once they do, it will take a long time for them to issue proper credentials, he said.

"Most states are many months away from issuing licenses," Mr. Driesler said. "There are over four million residential property transactions a year. That does not include commercial, home equity loans," and other transactions that already require certified appraisers. "Many we've talked with in state regulatory bodies tell us they can't meet the deadlines."

To persuade other agencies not to follow the Fed's lead, the appraisers are providing new information to document their position that there will be no appraiser shortage. By Mr. Barash's estimate, 30,000 full-time appraisers are needed to do $1 billion in annual residential appraisals; the eight appraisal industry associations have total membership of about 60,000.

> **"We assumed at most there would be fine-tuning of the regulations. Instead, they tore down the house."**
>
> **Peter S. Barash**
> *Consultant to the American Society of Appraisers*

Question of Complexity

The appraisers also object to the Fed's shift away from requiring certified appraisers on what are known as "complex transactions" for residential properties above $100,000.

The final rules presume that a transaction up to $1 million is not complex unless lenders decide otherwise. The preliminary rules presumed that any transaction above $100,000 was complex.

A complex transaction is one which is "atypical," according to the Fed, because of "the age or extent of improvements, architectural styles, size of a lot, environmental-hazard liability, leasehold interests, or other reasons."

"We were hoping they would retain the 'complex' distinction," said Mr. Kelly. "They've now turned that on its head."

A third concern of the appraisers is the Fed's shift from requiring certified appraisers for all nonresidential transactions to those valued at $250,000 or more.

Appraisers "want an act of Congress mandating they be used," commented James D. McLaughlin, director of agency relations for the American Bankers Association. □

Northeast Savings Posts Quarterly Profit

NEW YORK — Northeast Federal Corp. said its Northeast Savings unit earned $1.2 million in the quarter ended June 30, compared with a loss of $780,000 a year earlier.

The Hartford, Conn.-based thrift, with $4.9 billion in assets, was helped by increased net interest income, lower general and administrative expenses, and lower goodwill amortization expenses.

The earnings announcement came one week after the company reported that it had achieved compliance with the capital requirements of the thrift-bailout law. — **Phil Roosevelt**



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Appraisal Standard Said to Hobble RTC

By ANDREW REINBACH

NEW YORK — A congressional requirement that the Resolution Trust Corp. not sell failed thrifts' properties for less than 80% of their appraised value has handicapped the sales effort and left the agency open to criticism that it is lagging, an RTC regional director said last week.

William Dudley, head of the RTC's Region 1 said, "We're being pushed and tugged on this issue. On the one hand, we're told that we sell too low and, on the other, that we hold on to properties too long."

Region 1 consists of 16 eastern and and northeastern states and the District of Columbia.

Mr. Dudley said he would prefer a bidding system to set prices, rather than the appraisal-based system mandated by the 1989 thrift-reform legislation.

The 80% requirement, he said, sometimes means he must hold onto a property long enough to create uncertainty in a local market. But a short holding period may mean getting a price that is below the appraisal.

In the absence of instructions to the contrary, he said, he must use appraisals as the basis of determining value.

The requirement is bogging the RTC in liquidating its property portfolio, said Robert B. O'Brien Jr., chairman of Carteret Savings Bank, Morristown, N.J., a subsidiary of Carteret Bancorp. "The RTC should do business as business and not with an eye to future congressional hearings," he said.

Mr. O'Brien said the current RTC structure is creating "too much oversight and not enough business decisions." He suggested tax breaks for properties sold by the RTC. That would help the New Jersey real estate market, he said, which is "almost as soft as Texas and New England, especially in the residential area." □

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER

Riegle's Request for Fast Decision On Insurance Sales Seen as Signal

Continued from *page 1*

are imposed.

FDIC Chairman L. William Seidman already has launched such an inquiry, but Sen. Riegle wants answers by July 31.

Although Sen. Riegle's letters ask only for information, insurance groups interpreted them as warning shots in preparation for a legislative battle. Some observers saw them as an indication that Sen. Riegle will go to bat for insurance interests who oppose banks' entry into their industry.

Sen. Riegle has placed much of the blame for the savings and loan crisis on some states' overly ambitious expansion of banks' powers, and he has indicated that he is eager to avoid having such problems spread to the Federal Deposit Insurance Corp.'s bank insurance fund.

"These letters show he is serious," said Robert Rusbuldt, the chief Capitol Hill lobbyist for the Independent Insurance Agents of America.

Concern Is Reported

"We have talked to a number of senators and congressmen, and because of the S&L bailout, they are concerned about this," Mr. Rusbuldt added.

"Sen. Riegle has a long-standing concern about states' taking actions and the FDIC picking up the tab," said Karen Shaw, executive vice president for the Institute for Strategy Development, Washington. "If they get around to legislation, he would probably want to rein in these kinds of powers."

Last year, Sen. Riegle wrote language into the thrift bailout law that generally restricted state-chartered savings associations from exercising powers not granted to federal S&Ls.

Fast Ruling Urged

In a July 9 letter to Alan Greenspan, chairman of the Federal Reserve Board, Mr. Riegle said the central bank should rule as quickly as possible on a petition filed by the Independent Insurance Agents that asks the Fed to determine whether insurance activities conducted by Delaware bank subsidiaries are permissible under the Bank Holding Company Act.

That decision could be pivotal, since the Fed previously stopped Citicorp from taking advantage of a South Dakota law that allowed banks chartered in that state to market insurance nationwide.

"The Delaware law is basically the same as South Dakota," said Mr. Rusbuldt. "And substantively, nothing has changed."

Differences Noted

Edward L. Yingling, executive vice president of the American Bankers Association, disagreed. He said the Fed's was opposed to banks in South Dakota chartered primarily as marketing vehicles for insurance products. In Delaware, he said, the institutions would be doingbroader banking activities, with no more than 25% of their capital allocated to insurance.

The Delaware law, enacted this year, gives many of the nation's largest bank holding companies entry into the insurance business through existing credit card and wholesale banking subsidiaries.

Sen. Riegle's other letter of July 9, to Mr. Seidman, asked what that agency was doing to "ensure that the activities permitted by the new Delaware legislation do not endanger the deposit insurance fund." □

Opinions and insights
Management
in Thursday's
AMERICAN BANKER

INTERNATIONAL NEWS

LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Merrill Lynch Capital Markets

	7/11 Bid	7/11 Offer	6/27 Bid	6/27 Offer
Algeria	80.00	82.00	80.00	82.00
Argentina	13.63	14.25	14.38	14.63
Bolivia	11.00	12.00	11.00	12.00
Brazil	23.88	24.50	23.50	24.00
Chile	66.75	67.25	66.25	67.00
Colombia	63.25	66.00	63.25	66.00
Costa Rica series A	37.00	39.00	40.00	42.00
Costa Rica series B	31.50	32.00	31.50	32.00
Dominican Republic	17.00	18.00	17.00	18.00
Ecuador	16.50	17.00	16.50	17.00
Honduras	18.00	20.00	18.00	20.00
Ivory Coast	6.00	8.00	6.00	8.00
Jamaica	40.00	42.00	40.00	42.00
Mexico (par)	44.00	44.63	43.50	44.00
Mexico (discount)	67.00	67.50	65.38	65.88
Morocco	43.00	44.00	45.25	45.75
Nicaragua	4.00	6.00	4.00	6.00
Nigeria	28.25	28.75	28.25	28.75
Panama	12.00	13.00	14.25	15.25
Peru	4.75	6.00	4.75	6.00
Philippines	52.88	53.25	51.25	52.00
Poland	14.25	15.25	14.25	15.25
Senegal	36.00	38.00	36.00	38.00
South Africa	69.00	71.00	69.00	71.00
Sudan	4.00	6.00	4.00	6.00
Uruguay	49.50	50.25	49.50	50.25
Venezuela	46.25	46.75	45.50	46.00
Yugoslavia	63.25	63.63	62.50	63.00
Zaire	19.00	21.00	19.00	21.00

Source: *LDC Debt Report*

Salomon Forms Latin Fund To Invest in Government Debt

Salomon Brothers Inc. is the latest investment banking firm to throw its hat into the ring of new funds that will invest in Latin American debt instruments.

Salomon recently announced the opening of a five-million-share, $75 million fund – called the Latin America Fund Investment Fund Inc. – that will invest in sovereign debt instruments primarily of Mexico, Brazil, and Chile.

The fund is unique in that it will invest in both debt and equity, and Salomon is touting it as the first to capitalize on opportunities in LDC debt trading, debt-equity conversions and privatizations, as well as traditional equities.

Up to 30% of the fund's investments may be made in Latin American external debt instruments, and 25% of the fund may be invested in unlisted equities, including investments in new companies.

Donaldson, Lufkin & Jenrette Inc. and Smith Barney, Harris Upham & Co. are co-lead managers with Salomon.

The fund will be co-managed by BEA Associates Inc. and Salomon Brothers Asset Management Inc., with BEA advising on equity and domestic investments, and Salomon advising on sovereign debt investment.

The fund will also be able to invest in other Latin American countries.

Two other debt funds have already been launched. Citicorp Investment Bank and Lazard Freres & Co. offered the First Mexico Income Fund last month, and Merrill Lynch Capital Markets launched a similar debt fund last December.

Five million shares will be offered at $15 per share; 3.75 million will be issued in the United States and Canada; 1.25 million are being sold in Europe and Japan.

Shares will be traded on the New York Stock Exchange and will be offered internationally through a syndicate led by Salomon Brothers. □

Capital Standards May Get Stricter

Japanese Say the Definition of Assets Could Change

By BRIAN ROBINS
International Banking Regulator

TOKYO — Japanese bankers have expressed considerable consternation over rumored proposals for tighter capital-adequacy standards as of 1993. The proposals were reportedly circulating at the recent meeting of governors of the Bank for International Settlements, but details are sketchy.

According to preliminary details reaching Tokyo, the BIS is planning to introduce standards forcing banks to add their holdings of foreign exchange, stocks and bonds to their total asset figure.

The aim is to tighten capital adequacy ratios by ensuring that foreign exchange risk as well as exposure to investments in securities will be kept in check.

Given the substantial stock and also bond holdings of most Japanese banks, such an expansion of the definition of bank assets would force them to strengthen their capital even further.

The inclusion of foreign exchange holdings as part of overall bank assets is already a part of the tighter BIS capital adequacy standards to be introduced as of 1991. Holdings of stocks and bonds are not.

Already there are fears among some banks in Japan that, in the wake of the slowdown in capital markets, they will find it difficult to meet the minimum capital adequacy standard of 8% by 1991.

A proposed new rule would require that securities holdings be counted in assets.

Help from Ministry

Recently, the Ministry of Finance has given banks access to the subordinated debt market, and the first debt securitization deals have also been concluded.

In both instances, however, deals have been little more than preliminary, partly because of the reluctance of Japan's institutional shareholders to put their funds into such paper, even though interest rates have been pegged at the long-term prime rate.

The latest proposals are likely to meet with the opposition of Japanese officials, but most are waiting until more information is available before passing judgment. While Japanese banks would be hit hard by any such expansion of the definition of bank assets, so too would German banks, which also have extensive securities and bond holdings.

U.S. and Canadian banks would be relatively unaffected by such a move, however, given legislative restraints on extensive securities holdings.

With difficulties of raising fresh, and cheap, capital through domestic capital markets, this is forcing many of Japan's bigger banks to rethink their strategies, and is likely to lead to a drastic slowing in the international growth strategies of some of the bigger banks, at least until they can get their asset ratios well clear of the existing BIS capital standards.

International Banking Regulator is an *American Banker* newsletter.

Hongkong Tightens Control Over Marine

By JAMES R. KRAUS

NEW YORK — Further tightening its control over Marine Midland Bank Inc., the Hongkong and Shanghai Banking Corp. has acquired an 80% stake in Marinvest, Marine's asset management unit.

The acquisition, carried out earlier this month through an internal share restructuring, turns Marinvest into a subsidiary of Wardley Investment Services Ltd., Hongkong and Shanghai's international asset management unit.

Marinvest gives Wardley a vital new link in its international network, which is still mainly based in Asia and Europe.

Completing the Picture

"The U.S. was the missing piece in the puzzle for us," said Nigel S. Tulloch, Wardley's chief executive.

He added that the acquisition will enable Wardley to expand its international fund management faster than it could have otherwise.

Wardley has around $6.5 billion in assets under management and Marinvest $3.2 billion. Both units manage investments mainly on behalf of institutional customers.

A Marketing Plan

Wardley plans to use Marinvest to market European and Asian investments to U.S. customers and to manage U.S. investments for foreign institutions.

According to Kenneth W. Ostrowski, director of marketing at Marinvest, the U.S. unit will shortly introduce a European equities fund and a European/Asian equities fund to its U.S. customers and will distribute a fixed income U.S. fund through Wardley to investors overseas. Foreign banks have been actively chasing after U.S. fund management business as U.S. institutions have increased their international investments.

Since 1980, international investments by U.S. pension funds alone has climbed from $5 billion, or around 1.5% of total investments, to $70 billion, or around 4% of the total.

The growth has been slower than in other countries and bankers believe that the big opportunities for providing international asset management to U.S. customers still lie ahead.

Mr. Tulloch added that opportunities for asset management are also growing quickly in Asia.

The acquisition of Marinvest is the latest in a series of moves by Hong Kong-based Hongkong and Shanghai to take over Marine's operations as profits at the U.S. bank have sagged because of its Third World and real estate loans. □

Key International Rates*

	Day-to-day money		3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/16	7/13	7/16	7/13	7/6	7/16	7/13	7/6	7/16	7/13	7/6	7/16	7/13	7/6
United States	8.06	8.25	8.43	8.18	8.18	8.37	8.25	8.25	8.43	7.00	7.00	10.00	10.00	10.00
Japan	7.50	7.50	7.37	7.68	7.68	7.62	7.75	7.75	7.68	5.25	5.25	7.13	7.13	7.13
Canada	13.87	13.75	13.37	13.50	13.50	13.50	13.37	13.37	13.25	13.87	13.87	13.73	14.75	14.75
U.K.	15.00	15.00	15.00	15.00	15.06	15.00	14.87	15.00	15.00	14.38	14.38	14.33	15.00	15.00
West Germany	8.18	8.25	8.18	8.31	8.37	8.31	8.50	8.50	8.56	6.00	6.00	6.00	10.50	10.50
Switzerland	8.12	8.75	9.37	8.93	9.00	9.18	8.81	8.87	9.00	6.00	6.00	6.00	11.38	10.38
France	10.06	10.12	10.00	10.16	10.25	10.12	10.25	10.31	10.25	9.50	9.50	9.50	10.50	10.50
Italy	11.62	11.62	10.62	11.25	11.25	11.12	11.37	11.37	11.37	12.50	12.50	12.50	13.00	13.00

Forward Rate Agreements

	U.S. dollars		Sterling		West German marks		Swiss francs		Yen	
3 to 6 months	8.09		14.27		8.45		8.60		7.95	
6 to 12 months	8.19		13.30		8.68		9.00		7.99	
12 to 24 months	8.04		12.05		8.85		7.40		7.91	

* Middle quotes in the New York market

Source: Akzonet, Antlia & Reuter Inc., New York

EXECUTIVE *changes*

NCNB Names Lewis to Lead General Bank

NCNB Corp., Charlotte, N.C., named **Kenneth Lewis** president of its General Bank, a new post to oversee an organization combining the company's 936 branches with consumer and commercial banking activities.

Mr. Lewis will report to NCNB chairman Hugh McColl. His responsibilities cover Texas, Florida, North Carolina, South Carolina, Georgia, Maryland, and Virginia. **William Middlemas**, president of Southeast banking, and **Robert Lane**, General Bank executive in Texas, will report to Mr. Lewis.

"This is another move to best serve NCNB's customers regardless of where they are," said Mr. McColl. "Combining oversight responsibilities for NCNB's branch network, its consumer banking, and its commercial banking means our organization is shaped around the customer and not shaped by geographical boundaries across the areas where we do business."

James Sommers retains responsibility for NCNB's national trust, private banking, and securities businesses and will report to Mr. Lewis. **Brad Iversen** will report to Mr. Lewis and moves to General Bank marketing executive.

Catherine Bessant assumes Community Reinvestment Act responsibilities for the General Bank. **Ralph Carestio**, specialized lending executive, and **Joseph Musolino**, Dallas vice chairman, will continue to report to Mr. Lewis. He is to move to Charlotte by Jan. 1. All other officers and employees will remain in their current locations.

Since August 1988, Mr. Lewis has been president of NCNB Texas. He has been responsible for all its consumer, commercial, real estate, and energy banking activities.

Savings Group Elects Officers

James F. McConnell, president and chief executive officer of **Flushing Savings Bank**, was elected chairman of the **Savings Banks Association of New York State.**



James F. McConnell

Paul E. Proske, chairman and chief executive officer of **Northfield Savings Bank**, Staten Island, was elected vice chairman.

The association represents 83 savings banks with about $140 billion in assets; the state's industry employs 35,000 people in 1,000 branches, offices, and subsidiaries.

Mr. McConnell was elected CEO of Flushing Savings last December and has been president since 1981. He has been on the association's board of directors since 1987.

Caldwell Joins PNC Trust Unit

PNC Financial Corp., Pittsburgh, hired **Richard C. Caldwell** as executive vice president, effective Monday.

Mr. Caldwell was also elected executive vice president of the holding company's Provident National Bank unit, Philadelphia. He will direct trust and money management operations of both the holding company and Provident.

He is relocating to the Pittsburgh area from Chicago, where he was executive vice president and manager of the trust division at Harris Trust & Savings Bank.

Mr. Caldwell joined Harris in 1975 and managed corporate trust, corporate trust employee benefits, and institutional investments and trust sales, as well as marketing for the institutional department. He also managed personal trust.

— **Franklin Smith**

NEW ENGLAND

New England Bank & Trust Co., Windsor, Conn., named **Michael B. Paparella**, vice president, to head its private banking group. His responsibilities include developing and maintaining relationships with personal and business customers in north-central Connecticut.

The **Massachusetts Bankers Association**, Boston, elected **Elliott G. Carr** 1990-91 chairman of the board. He is president of **Cape Cod Five Cents Savings Bank**, Orleans.

Alan R. Morse Jr., chairman of **U.S. Trust Co.**, Boston, was elected the association's first vice chairman. **John H. Pramberg Jr.**, president of **Institution for Savings**, Newburyport, was elected second vice chairman, and **Jane C. Walsh**, president of **Northmark Bank**, North Andover, was elected treasurer.

Peterborough Savings Bank, Peterborough, N.H., elected **Marcia Tripp** to its board of trustees. She is president and chief executive officer of Pawprints Inc., Jaffrey, N.H.

Newly elected corporators are **John Falby** of the Brighton, Fernald, Taft and Falby law firm, and **David Jordan**, president of Crotched Mountain Foundation and Center.

MIDDLE ATLANTIC

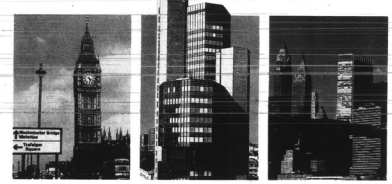
Dun & Bradstreet Corp., New York, named **Richard H. deMoll** executive vice president of its Dun & Bradstreet Business Credit Services division. He will be responsible for the division's Receivable Recovery Systems and American Credit Indemnity units.

Princeton Bank & Trust Co., Morristown, N.J., hired **Barbara W. Schlicher** as vice president with investment portfolio and equity research analysis responsibilities.

Before joining this private banking affiliate of the banking unit of **Chemical Banking Corp.**, New York, Mrs.

See **EXECUTIVE** *next page*

Well equipped for the future



For Hessische Landesbank, 1989 was yet another successful year, marked by moderate growth in business and income and an expansion of its equity base.

The balance sheet total rose 1.6% to DM 76 billion. The business volume also increased 1.6% to DM 78.1 billion. As in previous years, the emphasis in lending was on long-term fixed-rate credits which advanced to DM 35.3 billion from DM 34.8 billion.

The Bank's own mortgage and municipal bonds outstanding reached a volume of DM 31.2 billion.

After extensive risk provisions and taxes on income and assets, the Bank posted a profit of DM 26 million which will be used to distribute an unchanged dividend of 5% to shareholders.

Following the issue of participation certificates worth DM 265 million, Hessische Landesbank's liable funds, including an unchanged capital of DM 530 million, now amount to DM 1.7 billion.

Financial Highlights	1987	1988 DM million Dec. 31	1989
Business volume	73,606	76,835	**78,085**
Balance sheet total	71,532	74,761	**75,964**
Total credit volume	54,778	56,109	**56,799**
Short-term assets	18,589	20,627	**21,398**
Due from banks	13,490	15,742	**16,386**
Due from customers	5,099	4,885	**5,012**
Long-term loans	33,717	34,818	**35,323**
Loans to banks	6,928	7,700	**8,653**
Loans to customers	26,789	27,118	**26,670**
(Municipal loans)	(17,405)	(17,503)	**(16,851)**
Short-term liabilities	17,765	20,104	**22,206**
Long-term liabilities	5,672	6,158	**6,314**
Bonds issued	32,702	32,799	**31,239**
Capital and reserves	1,396	1,426	**1,691**
Net income	26	26	**26**

Helaba Frankfurt
Hessische Landesbank -Girozentrale-

Head Office: Junghofstrasse 38 - 26 · D - 6000 Frankfurt/Main · Telephone (069) 132 - 01 · Telex 413 791 · 0
New York Branch: 499, Park Avenue · New York · New York 10022 · Telephone (212) 319 2700 · Telex 234426
London Branch: 8, Moorgate · London EC 2R 6DD · Telephone (071) 334 0500 · Telex 916 7 - 2
Luxembourg Subsidiary: Helaba Luxembourg · Hessische Landesbank International S. A. · 9, Place de Paris · Telephone (352) 499 401 · Telex 3295 helaba

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EXECUTIVE *changes*

Continued from *page 9*

Schlicher was vice president at Midlantic National Bank, where she had similar investment responsibilities.

Prospect Park Savings Bank, West Paterson, N.J., promoted **Denise Cohen Vontobel** to senior vice president-director of marketing, and **Chester A. Weyant** was named senior vice president-chief financial officer and treasurer for **Prospect Park Financial Corp.**, the bank's holding company.

Fidelity Bank, Philadelphia, a subsidiary of **First Fidelity Bancorp.**, Newark, N.J., promoted the following to vice president:

Robin M. Kahn, head of the audit secured lending unit in wholesale banking; **Ruth E. Leone**, commercial lender in the communications division of wholesale banking; **William J. McMenamin**, unit manager in database administration, information systems, and technology; **Anne E. Merklin**, business development officer in personal trust; **Suzanne K. Schad**, lender in commercial asset sales, wholesale banking; and **Carole A. Zatz**, division manager in information services, information systems, and technology.

The **Tokai Bank Ltd.**, Nagoya, Japan, elected **Eiichi Kimata** – general manager of the New York branch office – a director.

United National Bank of Washington, a subsidiary of the Washington-based bank holding company **James Madison Ltd.**, elected president and chief executive officer Joseph L. Aston Sr. to the additional post of chairman of the board.



Joseph L. Aston Sr.

He joined the bank in February 1988 after having become president and chief executive officer of New World National Bank, Pittsburgh, in 1987.

The flagship bank subsidiary of **Chase Manhattan Corp.**, New York, appointed the following vice presidents:

Jorge Alonso and **Federico L. Amadeo**, Western Hemisphere corporate finance; **Jack Davis**, metropolitan community bank; **Mary Downey**, domestic institutional banking; **Gregory Fitzgerald**, metropolitan community bank; **Lai Ching Fong**, Asia-Pacific corporate finance; **Al Gherlarducci**, metropolitan community bank; **John E. Gott**, real estate finance; **James Koo**, corporate controller; **Robin Lander**, institutional banking; **John Lizzi**, administration services; **Sonia Marbarak**, Western Hemisphere corporate finance; **Debra McKnight**, corporate controller; **Paul M. Morris**, Chase Investors Management Corp.; **Alexander Svarnos**, direct response; **Douglas Turnbull**, Western Hemisphere corporate finance; **Peter R. Valone**, administration services; **Pablo de Vescovi**, Western Hemisphere corporate finance; and **Mark Zussman**, real estate finance.

MIDWEST

NBD Bancorp, Detroit, appointed executive vice president **Louis Betanzos** chief financial officer, succeeding **D. Dean Kaylor**, who took early retirement.

Mr. Betanzos will continue as corporate treasurer. He formerly was executive vice president and head of the investment division at the company's flagship NBD Bank.

To replace Mr. Betanzos, **Joseph M. Grace Jr.** was elected first vice president and head of the investment division.

Marquette Bank Minneapolis, a subsidiary of **Bank Shares Inc.**, appointed **Larry Anderson** president of Marquette Bank New Hope to replace **Dennis Williams**, who became president of Marquette Bank Rochester.

The Minneapolis bank also named **Jeri Slinger** president of Marquette Bank Apple Valley, replacing **Joe Nordlund**, who was named president of the Lake Street office.

Huntington Bancshares Inc., Columbus, Ohio, promoted **Leslie P. Rideout Jr.**, from vice president of compensation and benefits at Huntington National Bank to senior vice president, director of human resources, of the parent company.

SOUTHEAST

Miami-based Barnett Bank of South Florida, largest affiliate of **Barnett Banks Inc.**, Jacksonville, Fla., promoted **Orlando** M. Gelpi from senior vice president and manager of its Museum Tower office to senior vice president and area executive.

Mr. Gelpi will oversee lending and operations at eight branches in downtown Miami, as well as those in Coral Gables and Miami Beach.

WEST

The lead banking subsidiary of **BankAmerica Corp.**, San Francisco, named senior vice president **Barbara L. Rambo** to manage its New York-based Northeast-Southeast institutional group.

Ms. Rambo has been acting head of the group for three months, with responsibility for corporate relationships in the regions. She succeeds senior vice president **Bruce W. Mitchell**, who now manages European transactional services.

San Diego Trust & Savings Bank, a subsidiary of **San Diego Financial Corp.**, elected **Gene Trepte**, a director for more than 20 years, chairman of the board.

He is president of Trepte Investment Co., an asset management and development company.

Silicon Valley Bank, Santa Clara, Calif., a subsidiary of **Silicon Valley Bancshares**, hired **Sherry Stevens** as vice president, corporate banking, in the commercial division.

Ms. Stevens is developing a portfolio of middle-market companies in the bank's downtown San Jose, Calif., office. She formerly held a similar post at Plaza Bank of Commerce, San Jose. □

"THERE IS NO SUCH AS A COM

THING
MODITY."

PROF. THEODORE LEVITT
Harvard Business Review

INDEX *of top stories*

The following is a selected index of the top stories that appeared in the *American Banker* last week, arranged by subject. The date on which the article appeared precedes each item. This column was compiled by Matt Barthel.

COMMENTARY

7/9 In the brave new world of banking, number crunchers are in and partygoers are out, writes Paul Nadler. *Page 4*

7/10 Facts seem to indicate that large regional banks are much more at risk than the true superregionals, writes consultant Anat Bird. *Page 4*

7/11 Market leadership is invariably associated today with those firms that managed their cost profiles with the greatest finesse and foresight, write Charles H. Nobs and Eleni Istavridis. *Page 4*

7/12 Marketing costs can be rationalized on the basis of analysis of the economic value of various loan products, writes Sanford Rose. *Page 4*

7/13 New avenues have opened to banks seeking enhanced revenues and customer relationships through insurance products and services, writes Philip S. Corwin. *Page 4*

COMMERCIAL REAL ESTATE

7/10 Falling birthrates and vast property surpluses have created a structural problem in the real estate industry, not just a cyclical downturn, many experts say. *Page 10*

COMMUNITY RELATIONS

7/9 Even before the fires that destroyed more than 600 homes in Southern California were under control, the state's financial institutions had begun creating programs to aid victims of the disaster. *Page 1*

CONSUMER SERVICES

7/9 MasterCard and Visa have filed a multimillion-dollar lawsuit in what they say is the largest telemarketing fraud operation they have ever uncovered. *Page 6*

7/10 The financial needs of the American consumer are changing inexorably, creating both problems and opportunities for the country's banking institutions. *Page 1*

7/10 The best service in America is provided by banks, according to a recent consumer survey in *U.S. News and World Report*. Banks were rated tops among seven business categories. *Page 8*

7/11 Prescreening mailing lists of credit prospects has proven controversial. Opponents cite loss of privacy, but advocates say credit opportunities are enhanced. *Page 8*

7/12 Citicorp is promoting travel packages for the first time, sparking speculation about its long-term goals in the travel business. *Page 6*

7/13 Close scrutiny of small businesses, with judicious use of data bases, can help lenders choose the best prospective customers. *Page 6*

CREDIT CARDS

POINT OF SALE

7/13 Visa is renewing its corporate sponsorship of the Olympic Games – a strategy that in 1988 proved to be one of the most successful in its history. *Page 1*

DEPOSIT INSURANCE

7/9 The Federal Deposit Insurance Corp. is reeling from a series of recent court decisions that found it had abused its authority in provoking the failures of dozens of Texas banks: *Page 1*

EARNINGS

7/13 Adding to investor fears about the Middle Atlantic commercial real estate market, MNC Financial Inc. announced that its problem loans would more than double and that it would report a $75 million loss for the second quarter. *Page 1*

FINANCE

7/9 In the strongest indication yet that UAL Corp.'s leveraged buyout is on track, five U.S. money-center banks have agreed to serve as cosagents for the $4.4 billion proposed bid, bankers in the deal confirmed. *Page 1*

7/9 MNC Financial was a darling of stock analysts a year ago. Today, with the real estate market in the Washington-Baltimore area souring, the company is more a subject of concern than of praise. *Page 16*

7/10 Shawmut National Corp., whose stock recently tumbled to a 10-year low, scotched rumors of a huge increase in nonperforming assets. Shawmut said it would report an increase closer to $200 million than the rumored $500 million. *Page 24*

7/10 If the proposed leveraged buyout of UAL Corp. goes through and the RJR Nabisco refinancing closes, major banks will see a payday of at least $300 million in up-front fees, bankers and observers believe. *Page 1*

7/11 What soured the 1987 merger of First Fidelity with Fidelcor Inc.? Though analysts gave the combination rave reviews, chief executive officer Harold Pote was forced to resign just 16 months later. *Page 25*

7/11 With most investors running away from bank stocks these days, it sometimes seems that the only buyers willing to step forward are the banks' own officers and directors. And they have been active buyers, indeed. *Page 1*

7/12 Citytrust Bancorp shares have been rising in a down market for bank stocks, and analysts are hard pressed to explain the strength. *Page 20*

7/13 Adding to investor fears about the Middle Atlantic commercial real estate market, MNC Financial Inc. announced that its problem loans would more than double and that it would report a $75 million loss for the second quarter. *Page 1*

7/13 Meritor Savings Bank, continuing a drive to shrink assets and improve capital ratios, announced a series of moves

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that will result in a second-quarter loss of $138 million and a substantial increase in primary capital. *Page 20*

HOME MORTGAGES

7/13 Commercial banks, as part of their broad push in home mortgage finance, have been posting big gains in the business of servicing mortgages for investors, an *American Banker* survey shows. *Page 8*

INSURANCE

7/13 New avenues have opened to banks seeking enhanced revenues and customer relationships through insurance products and services, writes Philip S. Corwin. *Page 4*

INTERNATIONAL

7/9 British economic policymakers are blaming the nation's hefty inflation and persistent trade deficit on the aggressive marketing of consumer credit by financial institutions. *Page 10*

7/10 Bargain thrifts in the United States are the targets of Canadian financial institutions shopping for acquisitions to help them expand south of the border. *Page 14*

7/11 A real estate recession that is starting to plague Britain also threatens to mire U.S. and other bank lenders. *Page 18*

7/12 Amsterdam-Rotterdam Bank cut its last links with Belgium's Generale Bank, paving the way for Amro's merger with another Dutch bank, Algemene Bank Nederland. *Page 12*

7/12 Regulators ordered U.S. banks to write down their medium- and long-term loans to Argentina and Brazil by 20% in the third quarter. *Page 1*

7/12 U.S. banks are tightening their grip on the international loan-syndication market this year, a British magazine survey shows. *Page 1*

7/13 U.S. banks are unlikely to replenish soon reserves depleted by mandated writedowns on their Brazilian and Argentine loans. *Page 12*

INTERSTATE BANKING

7/12 In a little-noticed decision that further erodes prohibitions against interstate branch banking, Utah authorities have allowed BankAmerica Corp. to operate a Salt Lake City office as a unit of its Arizona-chartered bank. *Page 1*

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7/9 Susan F. Krause has been named senior deputy comptroller for bank supervision policy, a position that puts her squarely in the middle of the debate over whether national bank examination standards have become too harsh. *Page 1*

7/9 Bankers are hopeful that they will get some relief from the toughest penalties of the RICO law. *Page 8*

7/10 In the latest flare-up of tensions between federal and state regulators, the Office of Thrift Supervision has sued the Utah commissioner of financial institutions for permitting a thrift to become a commercial bank without OTS approval. *Page 1*

7/11 For savings and loan executives looking for temporary relief from tough new limits on loans to one borrower, the regulation issued by the Office of Thrift Supervision came as a disappointment. *Page 1*

7/11 Moving ahead with a plan to sell troubled thrifts before they become unattractive to potential acquirers, the Resolution Trust Corp. Oversight Board authorized the Office of Thrift Supervision to line up buyers before seizing the institutions. *Page 1*

7/12 Richard Breeden, chairman of the Securities and Exchange Commission, called for radical reforms in banking laws, including a dismantling of the barrier separating banking from commerce. *Page 2*

7/12 In a little-noticed decision that further erodes prohibitions against interstate branch banking, Utah authorities have allowed BankAmerica Corp. to operate a Salt Lake City office as a unit of its Arizona-chartered bank. *Page 1*

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7/13 Every Friday – the day the Federal Deposit Insurance Corp. usually seizes troubled financial institutions – whispers abound in Boston that Bank of New England may be targeted for takeover. *Page 1*

MANAGEMENT / HUMAN RESOURCES

7/12 Many airlines, hotels, and car rental firms are offering price breaks to banks that can guarantee some flow of travel dollars. *Page 8*

7/12 Commercial banks' cost-control drive, increasingly visible in recent weeks, has only just begun. *Page 1*

7/13 The Federal Reserve Board is working on a proposal to require increases in bank capital levels well above the risk-based standards that regulators are phasing in over the next two years, Chairman Alan Greenspan said. *Page 1*

MARKET FORCES

7/10 Massive consolidation of the banking industry may be inevitable, say the experts, but few bankers seem to be doing much to make it happen. *Page 1*

7/10 Recapitalized leveraged buyout of UAL Corp. goes through and the RJR Nabisco refinancing closes, major banks will see a payday of at least $300 million in up-front fees, bankers and observers believe. *Page 1*

7/11 Norwest Corp. and United Banks of Colorado Inc. announced that they were discussing a possible merger. *Page 1*

7/13 In a bid to lead the global market for automated teller machines, Diebold Inc. and International Business Machines Corp. have agreed to form a joint company to manufacture and market self-service banking devices worldwide. *Page 1*

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7/9 In the strongest indication yet that UAL Corp.'s leveraged buyout is on track, five U.S. money-center banks have

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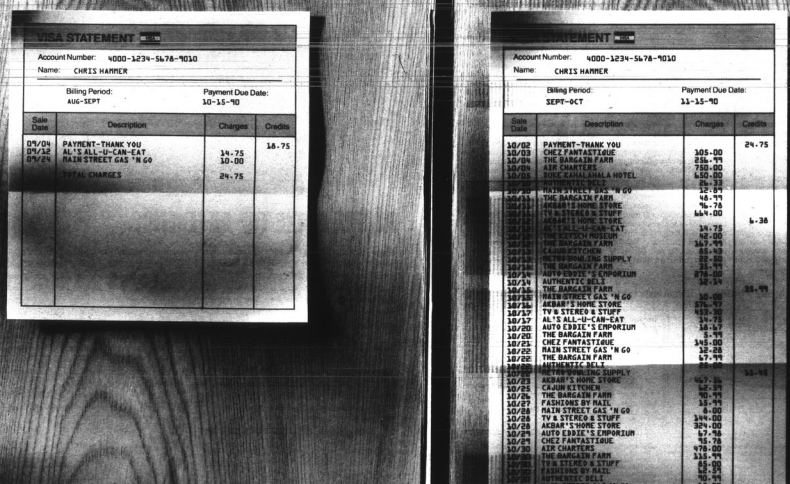
A lot of interesting things happen when people think someone else might pick up the tab.



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7/9 Susan F. Krause has been named senior deputy comptroller for bank supervision policy, a position that puts her squarely in the middle of the debate over whether national bank examination standards have become too harsh. *Page 1*

7/11 Being top cop of the Justice Department's special task force on bank and thrift fraud has thrust James G. Richmond into the spotlight of national outrage over the savings and loan crisis, which was partly caused by fraud. *Page 2*

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7/9 Portable computers are becoming standard issue for employees in diverse banking posts. *Page 1*

7/10 Small-ticket businesses such as fast food outlets, supermarkets, and movie theaters are to be served by a three-second authorization service that MasterCard International has started offering in alliance with Viata Corp. *Page 3*

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7/12 In a dragnet that could eventually snare the son of President George Bush, federal investigators have filed more than 500 lawsuits against former directors and officers of failed banks and thrifts. *Page 1* □

Regulator Says Credit Adequate

WASHINGTON — The U.S. deputy comptroller of the currency for the Northeast District said that although credit has contracted in some localities, the effect is not as severe as it is often portrayed.

Karen Wilson, in testimony before a congressional subcommittee, said the reduction consists in part of a decline of credit extended for activities in geographic areas where demand for those activities is declining.

In addition, there has been an increase in collateral and guarantee requirements for loans that are particularly sensitive to changes in economic conditions.

She told the subcommittee, "We haven't told bankers not to make loans, and we haven't told them to cut off credit to good customers." But she said the regulator has told them to take care in making loans, and where necessary, has required banks to recognize weaknesses in their portfolios and management systems.

— **Reuters**

CREDIT UNIONS

Defense-Related Groups Plan Survival in Age of Cutbacks

By BILL ATKINSON

WASHINGTON — Military base closings, cuts in defense spending, and new warmth in the United States' relationship with the Soviet Union could squeeze credit unions associated with the armed forces.

The nation's 345 defense credit unions, with nine million members and $30 billion in assets, have prospered over the years as military budgets bulged.

But 36 domestic military installations are targeted to close beginning this year, and the congressional armed services committees are pushing to cut more than $20 billion from the administration's military budget for 1991.

"I think there are some credit unions that are going to get hurt," said Angel Lopez, president and chief executive of Credit Union 1, Rantoul, Ill., whose sponsor, Chanute Air Force Base, is slated to close in 1994. "There are some credit unions that have never gone outside the fence. I don't think anybody ever anticipated *perestroika*," he said.

Credit Union 1 scaled the fence in the late 1970s when it found out Chanute was doomed. The institution immediately diversified its membership field to include people who work for the State of Illinois, a veritable gold mine with 250,000 employees; Eastern Illinois University; the University of Illinois at Chicago, and other groups.



"Everybody apparently has at least one plan."

James Rowe
Defense Credit Union Council

"The state is a growth industry and so are the universities," Mr. Lopez said.

Some of the largest defense credit unions are not sure how the cuts will affect their business. Unlike Credit Union 1, most have no immediate plans to expand their fields of membership. In the short term, some plan to close branches, some plan to shrink, and most are beginning to plot long-term strategies.

"It remains to be seen how it is going to affect us," said a spokesman for Navy Federal Credit Union in Merrifield, Va., which is the largest credit union in the nation. "We are looking at the long-term implications," he said.

Navy Federal, which has $4 billion in assets, plans to close a branch in Greece and is reviewing as many as 11 other branches for possible closing or consolidation.

The spokesman said the credit union will address defense cutbacks and base closings at a strategic planning conference this fall. He expects the impact to be minimal because naval forces are modest and important to the country's defense.

The Pentagon Federal Credit Union in Alexandria, Va., the fourth largest in the nation, also believes it will weather cutbacks in U.S. military spending.

"I think the rate of growth will slow down a little bit, but we will continue to support the military and that is our mission," said Gordon J. Levine, executive assistant for planning and corporate relations. Acknowledging that cuts in the armed forces reduces potential membership, he said the credit union does not plan to have to cut back staff.

"I think we are well positioned," Mr. Levine said. "We are well capitalized, we have been building reserves, so economically we are okay."

Pentagon Federal, which has $1.3 billion in assets and 391,000 members, plans to close one of its 20 branches. The targeted branch is in San Francisco, where the Presidio will close.

Groups Said to Be Unfazed by Events

The military credit unions are not panic stricken, said James W. Rowe, president and chief executive of Defense Credit Union Council, a trade group representing military credit unions. "They are going to handle it," he said. "Everybody apparently has at least one plan."

The Norton Credit Union of San Bernadino, Calif., plans to stick with its Air Force membership, known as "blue suiters." But because Norton Air Force Base will be closed, the credit union is planning to open a branch to tap Air Force retirees.

"We have not gone into a survival mode," said David Raley, chief executive of the $75 million-asset institution. "We continue to serve the people who work on Norton Air Force Base."

Mr. Raley expects a decline in membership, now at 16,000, once the base is shut. But he is optimistic that the credit union will survive. In the 1960s, cutbacks left Norton Air Force with just 400 people on base, and the credit union pulled through.

Mr. Raley also expects companies like Lockheed to move operations to the base. "I think the base will eventually become a major industrial complex," he said. □

MasterCard Saw Fraud Drop in '89

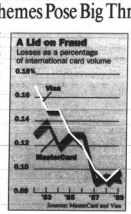
But Criminal Schemes Pose Big Threat in the Far East

By ELLEN MEMMELAAR

NEW YORK — In spite of a decrease last year in fraud as a percentage of transaction volume, MasterCard officials say they still face fierce battles, especially in the Far East.

Credit card fraud fell to 0.093% of MasterCard's gross dollar volume in 1989 from 0.095% in 1988, said Joel Lisker, vice president of security and fraud control at MasterCard International.

Visa International reported a slight increase to 0.10% from 0.09%. The association lost $259 million to fraud last year, up from $189 million in 1988.



Lost, Stolen Cards Take Big Toll

In sheer dollars, fraud at MasterCard rose 19% to $151.1 million, while sales volume advanced 20% to $162.7 billion. According to MasterCard, lost and stolen cards remain the biggest problems, accounting for 67% of the association's fraud.

The cost of fraud to banks is not easy to determine because the losses take many forms, such as personal bankruptcies and merchants' refusals to make payment, said Mr. Lisker. But the losses are indeed large, he said.

The overall trend for the past eight years at both card associations has been a decline in fraud as a portion of transaction dollars. The associations attributed the drop to efforts to contain counterfeiting.

But the decline in domestic counterfeiting has coincided with a burst of such activity abroad. The fraud category with the most rapid growth at MasterCard was counterfeiting, largely because of a 71% increase in such activity in the Asia-Pacific region.

The burgeoning markets of Malaysia, Thailand, and Singapore are hotbeds of fraud, Mr. Lisker said. Some Hong Kong residents who want to leave the colony before China takes control are using credit card schemes to obtain the money, he said.

Although countries around Hong Kong are experiencing rapid development as people and companies shift their assets out of the colony, their crucial infrastructures are still inadequate, Mr. Lisker said. "From the standpoint of their economy, there is tremendous expansion," he said. Because the infrastructure cannot handle some technological methods of card verification, fraud is easier in some of these countries.

Visa International has also experienced a growth spurt in counterfeiting in the Asia-Pacific region, said William Neumann, senior vice president in charge of the risk management services division. To prevent cards from being duplicated, the association has introduced a counterfeit-protection strip on the magnetic stripe. Called a CVV, the strip is encoded with an algorithm that indicates the card is authentic.

Telemarketing Not Counted

Both associations exclude telemarketing losses from their fraud figures. In addition to the $130 million that Visa lost to fraud last year, the card associations together lost $150 million to $200 million because of telemarketing schemes internationally, Mr. Neumann said.

Visa is working with MasterCard and the law firm of Morrison & Foerster, Washington, to publicize a bill in Senate and House committees that would make it a federal crime to launder credit card slips. "We are very optimistic about the bill," said Mr. Neumann. □

NCNB Encourages Volunteerism on Company Time

NCNB Corp. is increasing its commitment to education with perhaps the best gift of all – employees' time.

Under a program called Education Initiative, the Charlotte, N.C., banking company is allowing employees to spend two hours of paid time each week supporting school activities, as long as they receive supervisors' approval.

The company is encouraging employees to volunteer as tutors, coaches, mentors, administrative assistants, and leaders in groups such as the Parent-Teacher Association.

And, emphasizing family values, NCNB is permitting parent-teacher conferences during paid working hours, if that's necessary.

Schools Termed Essential

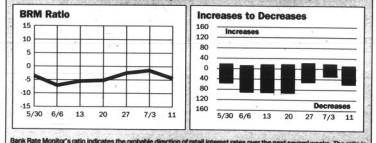
"Our pledge to support excellence in education will improve the quality of life in our communities," said Robert Lane, president of NCNB Texas. "Enhancing our schools and our workfamily environment are essential elements for supporting that goal."

The bank is also expanding its Matching Gifts for Education program to include secondary schools, a spokeswoman said. Through the program, employees and the bank contributed $65,000 to colleges and universities last year.

Among the company's other provisions that reinforce family life are extended leaves of absence, flexible working hours, and modified schedules for parents. — Ellen Memmelaar

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index Latest rate trend: Down Pattern resumes



Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it usually signals the beginning of the end of a cycle. The graph shows how the ratio has moved over the past 8 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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With Bankers in Retreat, Insurers Advancing Cautiously

By ANDREW REINBACH

Just when most banks are regretting the big plunge they took into commercial real estate lending in the late 1980s, insurance companies are beginning to stick a toe back in the water.

"The insurance companies dropped out of the market, and the pipeline broke down," said Robert Arvinides, a senior vice president at Conning & Co., an insurance industry consulting firm in Hartford, Conn.

Now, with the banks out of the real estate lending market, big insurance companies are beginning to take their place in the construction loan and takeout business. The chief financial officer of a major national developer said these include the Travelers Corp., Hartford, Conn., Prudential Insurance Company of America, Newark, N.J.; and Metropolitan Life Insurance Co. and Equitable Life Assurance Society of the United States, both in New York.

Prudential Insurance approved a $61 million deal like this in California last week, according to Frank B MacDougal, president of Prudential Mortgage Capital Corp. And John Somers, senior vice president of Teachers Insurance and Annuity Association of America/College Retirement Equities Fund, New York, said his organization just lent $75 million to a California developer to expand a shopping center.

But this is a very new business for the insurers, who have traditionally concentrated on long-term lending. They're being cautious. Mr. MacDougal's deal is a fully leased, custom-built project and is 80% leased. Mr. Somers said he expects to write only three or four similar deals this year.

The problem for the banks is not just the amount of their real estate lending but also the character of the loans they made and the prospects of asset recovery in a workout.

Essentially, banks vastly increased their loan volumes and market share by making uncovered construction loans, or construction loans with takeout commitments, as the credit quality of the commercial real estate markets deteriorated in the late 1980s. Then they locked themselves into the loans by fixing the coupon with an interest rate swap.

Since banks cannot get out of swapped loans — and workout prospects will be dimmed by an expected combination of low population growth and high vacancy rates in the 1990s – banks will be losing money on these loans for years.

Insurance companies, meanwhile, cut back on their activities, and by 1989 they had cleaned out of the market almost entirely.

Real Estate Exposure in Two Industries

Commercial real estate loans outstanding, in billions of dollars



Signals from the Oil Patch

Why? "It became apparent to us that with the Oil Patch out of the picture, what had appeared to be healthy markets were dead, and the credit quality of the asset pool was dead, so the traditional lenders tightened up their criteria" said Mr. Somers.

The following data illustrate this dramatically: From 1986 to 1988, national banks increased their market share of commercial real estate loans to 63.2% from 59.7% – and then proceeded to take 92.8% of the market in 1989.

Insurance companies, meanwhile, could produce market share from 32.4% in 1986 to 29.5% in 1988 – and then took a free fall to 11.3% in 1989. What makes these data even more dramatic is that aggregate loan volume dropped from $61 billion in 1988 to $43.8 billion in 1989.

Starting from a similar asset base in 1980, bank real estate assets grew 347.6% by 1989 – from $76.8 billion to $343.8 billion. Insurance company real estate loans, meanwhile, rose a mere 160.1% – from $73.6 billion to $191.4 billion.

But while nonperforming real estate assets grew 40.9% for insurance companies, from $4.4 billion in the first quarter of 1988 to 6.2 billion in the first period of 1990, and nonperforming real estate assets among national banks grew 36.8%, from $19 billion to $26 billion, those percentages are not really comparable. The total exposure by banks is obviously greater.

Banks Did It to Themselves

The worst of the mess for banks is that they did it to themselves. "The banks had made these loans, and they wanted to keep them on the books, so they did what they could to keep their competitors from getting them by rolling their construction loans into 'miniperms' [three- to five-year fixed-rate mortgages]," said Arthur I. Sonnenblick, vice chairman of Sonnenblick-Goldman Corp., a New York-based mortgage broker.

Also, the happy workout experience of the 1970s probably won't be repeated in the 1990s. "My sense is that the '90s are unlikely to resemble the late '70s, said John A. Koskinen, president of Pulmieri Co., Washington. "The problem is that with a standard recession and a standard expansion, you won't see great values in workouts."

Even inflation may not bail out real estate workouts in the 1990s, many experts believe. They say the shortage of new workers will keep a lid on inflation on the one hand, but it will also keep demand for office space – and rents – low.

The problems that real estate lending created for banks may, however, be just beginning, according to Robert Litan, a senior fellow at the Brookings Institution in Washington. He said nonperforming assets will double after the examination teams sent to safety-and-sound banks by the Comptroller of the Currency return home with their findings, and that most of those will be real estate assets. □

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DEALMAKERS

Opening Seen for Realty Investment Bank

By ANDREW REINBACH

Although he believes the salad days of real estate investment banking are over, Bradford Klatt is starting a real estate investment bank for Wertheim Schroder & Co., New York, which he joined seven weeks ago as a managing director.

Gone are the days when an investment bank could create such exotic financing deals as a construction loan rolling into a 10-year, fixed-rate permanent mortgage through a staged series of commercial paper offerings, replete with a series of rate options that fixed the interest rate coupon.

Complicated Deals Are Out

Mr. Klatt's former employer, Goldman, Sachs & Co., did just such a deal for the Beacon Companies, a Boston developer, in 1986.

"There just wasn't much of a market for that sort of deal; it was a product people were trying to sell," he said. "Today's deals are very straightforward; you've got to be much simpler with both the credit and the equity."

That being the case, it might not seem the best of times to start a new real estate investment bank. But Mr. Klatt, 38, thinks otherwise. He said he sees significant opportunity in what he calls the "chaos in order" business – working with properties from the Resolution Trust



Bradford Klatt
Wertheim Schroder & Co.

Corp., for instance, or from big, publicly traded real estate companies.

A 'Reality' Play

A typical deal, he said, is one he's now working on for a publicly traded land development company. With asset value of about $400 million, it has decided to cash in on its portfolio.

The market timing might seem questionable, especially since the portfolio is all raw land in the Southeast. But Mr. Klatt is exploiting the difference between marketplace reality, which values factors like how surrounding development and regulatory approvals affect price appreciation, and accounting reality, which forces companies to carry real estate on their books at depreciated cost.

"The public market has traded down the value of all real estate," Mr. Klatt said, "so it's especially discounted the real values of open-space land as to way below the true asset values."

Market Value 'Hidden'

His client's company has a number of sites – all "landlocked," or surrounded by development – in urban or suburban locations, said Mr. Klatt. All have full regulatory approvals. The result is a market value, reflected by either stock price or accounting treatment."

As a result, he has been able to arrange and finance a series of short-term joint ventures.

Some deals have been with owners of abutting properties that want to expand; others, with nontraditional buyers, including foreign construction firms and, in one case, a foreign elevator company. The latter, he explained, want to penetrate the U.S. market and see investing in these projects as a way in.

Mr. Klatt left Goldman Sachs in 1987 to start his own firm, Metropolis Equities Inc., which will be folded into Wertheim Schroder. Among Metropolis' deals was an operating partnership with two private investors, Claude Ballard and Robert Marcy, who acquired what became a large warehouse portfolio in Dallas. □

Weak Chase Profit Won't Cover Payout, but No Trim Planned

Continued from *page 1*

"Even without the restructuring charge, they managed to have clearly disappointing earnings. The general sense is that there is no way the company can say there is an end in sight."

Analysts also said that the earnings almost certainly point to a dividend cut.

"This is the second quarter in which they failed to cover the dividend on an operating basis," said Raphael Soifer, an analyst at Brown Brothers Harriman & Co. The dividend yield on Chase's stock is hovering near an unsupportable 12%, he said.

"Every time they pay a dividend, they kill the company a little more," said an investment banker who asked not to be named.

"Our dividend requirement is $95 million [of earnings per quarter], and we are at $44 million," Mehdi Esposito, Chase's chief financial officer, said after first-quarter earnings were released. "We can't play that game forever."

Nevertheless, Mr. Esposito said in an interview last month that he is confident the bank will earn its dividend this year.

The nation's second-largest banking company repeated that its loan-loss reserves are adequate to continue at high levels "if economic conditions in domestic commercial real estate markets continue to be adverse."

On the plus side, Chase's net interest revenue increased for the second quarter from the year-earlier period, principally reflecting higher spreads and volumes on consumer banking assets. Revenue was up, but the margin fell from 3.48% to 3.44%.

Also, fee and commission revenue from consumer and investment banking rose 15% from the second quarter of 1989.

However, those increases were offset by declines in a number of operating lines. Trading revenue fell from the year-earlier quarter, led by a 36% drop in foreign exchange revenue, to $49 million, from the year-earlier quarter.

Analysts expressed skepticism over Chase's ability to realize benefits quickly from its planned restructuring and change in top management that the bank announced last month. "The fact that there is no restructuring charge reemphasizes our questions about whether this company has thought through a detailed restructuring plan under the new management," Mr. Kraushaar said.

Reactions Vary to 1st Chicago

Analysts' reactions to First Chicago results were mixed. Some were cheered that no appreciable jump had occurred in nonperforming real estate loans, but others saw an underlying weakness in earnings.

"Total domestic nonperforming loans aren't up by too much, and real estate didn't show much change, so given the current environment, that's pretty good," said Richard A. Mueller, analyst for Chicago-based Duff & Phelps Inc.

Expressing concern about how quickly the company could generate revenue to offset its higher expenses, James J. McDermott, executive vice president for research at Keefe, Bruyette & Woods Inc. in New York, said he would reduce his previous 1990 earnings estimate of $5 a share to about $4.50.

Total noninterest expense rose to $397.7 million, from $354.3 million; salaries and benefits accounted for more than one-third of the increase.

A First Chicago spokeswoman said the higher operating costs reflected the company's decision to expand its capital markets and merchant banking businesses. "It's an area where we think we can make money," she said.

Real Estate's Impact

Midlantic Corp., the real-estate battered New Jersey bank, reported a loss of $24.8 million for the quarter after adding $186 million to its provision for loan-loss reserves.

The number could have been even worse if Midlantic had not booked $68 million of gains from selling its credit card portfolio and securitizing many of its consumer loans, investment bankers said. In the year-earlier period, Midlantic earned $61.6 million, or $1.57 per share.

The Edison, N.J.-based bank company's loss came as examiners from the Office of the Comptroller of the Currency began scrutinizing its real estate portfolio. Analysts said the $24.2 billion-asset bank's decision to add $186 million to its provision for possible loan losses was thus a prudent move.

"Everybody's expecting the worst anyway, so they might as well take as much of it as they can afford now," said Michael Plodwick, an analyst at C.J. Lawrence, Morgan Grenfell. He said that Midlantic's earnings report, which translated to a loss of 67 cents per common share, was generally in line with expectations.

The bank company, which has long specialized in real estate lending, is considered the most vulnerable of all New Jersey banks to the decline in property values. For the first six months of 1990, the bank reported a loss of $23.4 million, compared with a gain of $121.1 million in the first half of 1989.

Midlantic's reserve for possible loan losses stood at $550 million, or 76% of its $725 million of nonperforming loans, at the end of the second quarter. The bank also charged off $77 million of loans in the quarter, up from $48 million in the first quarter and $27 million in the year-earlier period.

Midlantic last month declared a special dividend, which at the close of trading Friday yielded 13.3%, the highest among all bank holding companies tracked by Wasserstein, Perella & Co.

The bank company, which last quarter said it would restructure its balance sheet through the sale of assets, booked $68 million of gains in the quarter from selling its credit card accounts and receivables and securitizing some autoscale bills and home-equity loans.

Loan-Loss Provision Raised

Security Pacific increased its provision for problem loans by

See **WEAK** *page 20*

CHASE MANHATTAN CORP.
New York
(– Dollar amounts in millions (except per shares) –)

Second Quarter	2Q '90	2Q '89
Net income	$52.0	$37.0
Per share	0.24	1.31
Net interest income (tax. equiv.)	835.0	791.0
Margin	3.44%	3.48%
ROA	0.19%	0.54%
ROE	2.8%	11.1%
Noninterest income	490.0	491.0
Noninterest expense	594.0	569.0
Loss provision	225.0	150.0
Net charge-offs	163.0	104.0

First Half	1990	1989
Net income	$96.0	$289.0
Per share	0.44	2.99
Net interest income (tax. equiv.)	1,649.0	1,620.0
Margin	3.42%	3.56%
ROA	0.18%	0.54%
ROE	2.6%	11.1%
Noninterest income	967.0	911.0
Noninterest expense	1,167.0	1,175.0

Balance Sheet	6/30/90	6/30/89
Assets	$102,371.0	$104,149.0
Deposits	70,143.0	69,600.0
Loans	75,809.0	73,014.0
Shareholder equity	4,394.0	4,040.0
Loss reserve	2,654.0	2,623
Reserve/loans ratio	3.50%	3.59%
Nonperf. loans	4,095.0	4,108.0
Nonperf. loans/loans	5.40%	5.63%
Primary capital ratio	8.17%	8.07%

FIRST CHICAGO CORP.
Chicago
(Dollar amounts in millions (except per shares) –)

Second Quarter	2Q '90	2Q '89
Net income	$87.4	$134.4
Per share	1.19	1.92
Net interest income (tax. equiv.)	332.6	333.6
Spread	2.97%	3.29%
ROA	0.67%	1.15%
ROE	13.7%	24.2%
Noninterest income	295.0	272.5
Noninterest expense	397.7	354.3
Loss provision	85.0	60.0
Net charge-offs	280.0	134.0

First Half	1990	1989
Net income	$186.0	$262.0
Per share	2.11	3.71
Net interest income (tax. equiv.)	659.6	665.8
Spread	3.02%	3.33%
ROA	0.82%	1.13%
ROE	12.6%	24.1%
Noninterest income	594.5	522.0
Noninterest expense	774.6	697.5

Balance Sheet	6/30/90	6/30/89
Assets	$103,361.0	$ 96,207.0
Deposits	34,653.0	33,802.0
Loans	30,143.0	29,360.0
Shareholder equity	2,784.0	2,594.0
Loss reserve	889.0	1,298.0
Reserve/loans ratio	2.9%	4.2%
Nonperf. loans	871.0	825.0
Nonperf. loans/loans	2.9%	2.8%
Primary capital ratio	7.80%	8.40%

J.P. MORGAN & CO.
New York
(– Dollar amounts in millions (except per shares) –)

Second Quarter	2Q '90	2Q '89
Net income	$237.0	$206.0
Per share	1.06	1.09
Net interest income (tax. equiv.)	286.0	316.0
Spread	1.49%	1.63%
ROA	0.82%	0.81%
ROE	10.21%	14.22%
Noninterest revenue	528.0	485.0
Noninterest expense	680.0	489.0
Loss provision	10.0	35.0
Net charge-offs	244.0	191.0

First Half	1990	1989
Net income	$606.0	$386.0
Per share	3.16	2.05
Net interest income (tax. equiv.)	552.0	615.0
Margin	1.46%	1.63%
ROA	0.72%	0.77%
ROE	27.56%	13.53%
Noninterest revenue	988.0	979.0
Noninterest expense	1,359.0	1,055.0

Balance Sheet	6/30/90	6/30/89
Assets	$83,103.0	$89,973.0
Deposits	41,786.0	45,878.0
Loans	26,290.0	28,974.0
Shareholder equity	4,861.0	6,066.0
Loss reserve	2,090.0	1,382.0
Reserve/loans ratio	7.94%	4.77%
Nonperf. loans	876.0	1,900.0
Nonperf. loans/loans	3.33%	6.21%
Primary capital ratio	9.1%	9.2%

SECURITY PACIFIC CORP.
Los Angeles
(– Dollar amounts in millions (except per shares) –)

Second Quarter	2Q '90	2Q '89
Net income	$195.2	$184.5
Per share	1.56	1.96
Net interest income (tax. equiv.)	758.7	732.2
Spread	3.90%	4.07%
ROA	0.89%	0.91%
ROE	17.4%	19.2%
Noninterest income	502.6	449.7
Noninterest expense	781.3	619.1
Loss provision	160.7	111.6
Net charge-offs	185.2	110.0

First Half	1990	1989
Net income	$383.6	$363.8
Per share	3.13	3.87
Net interest income (tax. equiv.)	1,505.3	1,466.0
Spread	3.92%	4.11%
ROA	0.86%	0.90%
ROE	17.3%	19.3%
Noninterest income	982.2	881.3
Noninterest expense	1,559.2	1,520.5

Balance Sheet	6/30/90	6/30/89
Assets	$94,510.0	$84,201.0
Deposits	58,980.0	48,656.0
Loans	64,800.0	61,000.0
Shareholder equity	4,905.0	4,168.0
Loss reserve	1,160.0	1,143.0
Reserve/loans ratio	1.80%	1.90%
Nonperf. loans	1,869.0	1,635.0
Nonperf. loans/loans	2.89%	2.68%
Primary capital ratio	7.31%	7.00%

NCNB CORP.
Charlotte
(– Dollar amounts in millions (except per shares) –)

Second Quarter	2Q '90	2Q '89
Net income	$137.4	$91.5
Per share	1.26	1.07
Net interest income (tax. equiv.)	469.6	436.5
Spread	3.36%	3.50%
ROA	0.89%	0.91%
ROE	17.4%	19.2%
Noninterest income	228.2	195.8
Noninterest expense	402.9	419.8
Loss provision	84.1	46.3
Net charge-offs	57.4	41.0

First Half	1990	1989
Net income	$277.5	$167.2
Per share	2.54	1.77
Net interest income (tax. equiv.)	897.8	882.4
Spread	3.29%	3.61%
ROA	0.90%	0.84%
ROE	19.33%	18.33%
Noninterest expense	807.0	820.2

Balance Sheet	6/30/90	6/30/89
Assets	$65,188	$62,258
Deposits	48,908	43,162
Loans	35,882	32,903
Shareholder equity	3,180	2,972
Loss reserve	525.4	394.0
Reserve/loans ratio	1.46%	1.20%
Nonperf. loans	553.7	276.6
Nonperf. loans/loans	1.54%	0.84%
Primary capital ratio	6.65%	6.21%

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Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX Joseph Nathanson and Shorehaven Associates Inc., Pension Trust, Plaintiff against Ark Realty Development Corp. et al Defendant(s) Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezzanine, on the 26th day of July, 1990, at 10:00 A.M., premises briefly described: Lots 1, 80, 91, 92, 124, 175, 98 and 23 in Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint. Approximate amount of lien $920,347.82 with interest and costs. Premises will be sold subject to provisions of filed judgment. Index Number 16590/88 Dated: July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, N.Y. 10007.

SUPREME COURT - COUNTY OF BRONX Joseph Nathanson and Shorehaven Associates Inc., Pension Trust, Plaintiff against Ark Realty Development Corp. et al Defendant(s) Pursuant to a judgment of foreclosure and sale, entered herein and dated March 2nd, 1989, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezzanine, on the 23rd day of July, 1990, at 10:00 A.M., premises briefly described: Lots 1, 80, 91, 97, 124, 175, 98 and 23 in Block 5633 on the Tax Map of the City of New York, Bronx County and more fully described in Complaint. Approximate amount of lien $920,347.82 with interest and costs. Premises will be sold subject to provisions of filed judgment. Index Number 16590/88 Dated: July 2, 1990 Donald J. Sullivan, Referee ISAAC ANOLIC Attorney(s) for Plaintiff 20 Vesey Street, New York, N.Y. 10007.

Foundation Notices

NOTICE

The annual report of THE EUBIE BLAKE SCHOLARSHIP FUND, U/W JAMES HUBERT BLAKE for the fiscal year ended March 31, 1990 is available at its principal office located at 99 Park Avenue, Suite 1600, New York, NY 10016, (212) 490-0400 for inspection during regular business hours by any citizen who requests in writing within 180 days. The Principal Manager of the Foundation is Elliot L. Hoffman

NOTICE

The annual report of THE EUBIE BLAKE SCHOLARSHIP FUND, U/W MARION TYLER BLAKE for the fiscal year ended March 31, 1990 is available at its principal office located at 99 Park Avenue, Suite 1600, New York, NY 10016, (212) 490-0400 for inspection during regular business hours by any citizen who requests in writing within 180 days. The Principal Manager of the Foundation is Elliot L. Hoffman

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The annual report of the ROSS E. TRAPHAGEN JR., FUND for the fiscal year ended March 31, 1990 is available at its principal office located at 85 Broad Street New York, NY 10004, (212) 902-6934 for inspection during regular business hours by any citizen who requests in writing within 180 days. The Principal Manager of the Foundation is Stephen R. Goldenberg.

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The annual report of THE GOLDENBERG FOUNDATION for the fiscal year ended April 30, 1990 is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6934 for inspection during regular business hours by any citizen who requests it within 5 years hereof. The Principal Manager of the Foundation is Stephen R. Goldenberg.

Net Interest Margin at Morgan Increases for 2d Quarter in a Row

Continued from page 17

$160.7 million, or 15%, from the $139.7 million set aside in the first quarter.

Nonperforming loans totaled $1.87 billion, up 14% from $1.63 billion a year ago and up 7% from $1.74 billion in the first quarter. The increase was mostly overseas, Security Pacific's announcement said; domestic nonperforming loans were essentially flat. Problems centered in the United Kingdom and in Australia's slumping economy.

Since most of the increase in problem loans was in foreign credits, analysts were not ringing alarm bells over other loan categories. "This certainly didn't raise any new concerns about real estate," said Donald Crowley, San Francisco-based bank analyst with Keefe, Bruyette & Woods.

Expenses Tightly Controlled

The news on bad loans was offset by gains realized from tight expense control.

"I am very impressed with their control of staff costs," said Mr. Crowley. Noninterest expense in the second quarter totaled $781.3 million, up only 2% from the year earlier. Staff expense declined 3%, to $390.5 million.

Security Pacific took $159.6 million in net credit losses in the quarter ended June 30. That is up from $108.8 million in the year-ago quarter.

Noninterest income was stronger than some analysts anticipated, at $502.6 million, up 12%. For the six months, net income was $383.6 million, up 5% from the $363.8 million earned in the first six months of 1989.

Trading Gains at Morgan

Morgan's results were boosted by trading gains of $234 million, up 55% from the year-earlier period and 9% from the first quarter.

Though foreign-exchange trading profits were down 9% from the first quarter, to $64 million, Morgan said its revenues from trading swaps, Third World debt, and bonds were up significantly.

"The trading results were very impressive, and the fact that Morgan delivered them for the second quarter in a row diminishes somewhat investor fears that this is a flash-in-the pan performance," said Mr. Kraushaar of Merrill Lynch.

Morgan also showed a small gain over the first quarter in its net interest margin, the amount by which interest it collects on loans and other assets exceeds what it pays to fund them.

Investors tend to watch the interest revenue and returns at Morgan more closely than at most banks because of its heavy reliance on playing yield-curve spreads to fund longer-term loans on a short-term basis. Analysts speculated that most of the quarter-to-quarter interest yield gain – from 1.43% to 1.49% – was captured in June and predicted that third-quarter earnings could continue on the upswing if the yield curve continues to steepen.

Net interest revenue declined 30% from the year-earlier quarter, to $286 million.

Kenneth Cline in Atlanta, Teresa Carson in Los Angeles, and Nanthiz Alexander in Chicago contributed to this article.

Recession Effect on Insurance Fund Cited

By BILL ATKINSON

WASHINGTON — Having slumped to its lowest level relative to total deposits, the Federal Deposit Insurance Corp.'s bank insurance fund could face more losses next year if the nation is thrown into a long and deep recession, said L. William Seidman, agency chairman.

Mr. Seidman's comments last weekend reveal an ever-increasing concern over the soundness of the banking industry and its insurance fund as the nation reels from the crisis in the savings and loan system.

Appearing Sunday on the CBS News program "Face The Nation," Mr. Seidman said the bank fund is "under considerable stress."

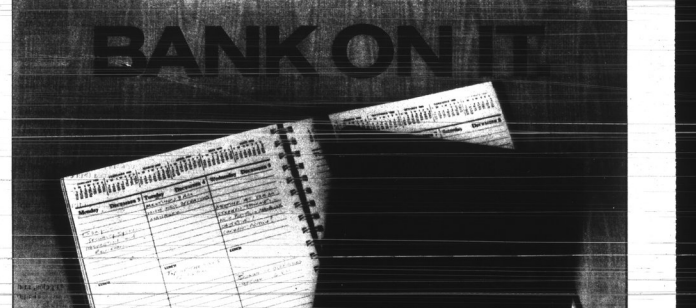
"It's at a low point in history, as a percentage of what it's insuring," Mr. Seidman said. "And we can handle anything we can foresee right now. But if there are things [that] come along, major failures that we're not able to foresee at this time, that would be another story."

The $13.2 billion bank fund insured 13,239 banks at Dec. 31 and held 70 cents for every $100 dollars in deposits. The fund held 80 cents in reserves for every $100 in assets in 1988 and $1.10 in 1987.

In a worst-case scenario, the fund could lose as much as $2 billion this year, according to John F. Bovenzi, deputy to Mr. Seidman. Such a loss would drag the fund balance down to $11.2 billion.

Industry critics said Mr. Seidman is showing candor in trying to address the banking industry's problems rather than sweeping them out of sight.

"He is recognizing reality," said Robert Litan, a senior fellow at the Brookings Institution, a Washington-based think tank. "The only quarrel I would have with what he said is that even a mild recession could put the fund under. I think [the fund] is skating on a thin edge."



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NOTICE OF FORECLOSURE AND SALE. PLEASE TAKE NOTICE, pursuant to Section 9-504 of the Uniform Commercial Code, and the terms of those certain Collateral Assignments of Mortgage and Security Agreements (collectively, the "Agreements") listed on Schedule A attached hereto by and between Mortgage Facilities Corporation ("MFC") and The Bank of Tokyo Trust Company ("Lender"), duly filed and recorded, the following collateral will be sold, by reason of MFC's default under the Agreements, at a public sale on July 23, 1990 at 10:00 A.M. at the offices of Jones, Day, Reavis & Pogue, 599 Lexington Avenue, 32nd Floor, Conference Room 31B, New York, New York 10022. Lender reserves the right to buy by bidding in all or part of MFC's debts to Lender: 1) Mortgage Agreement securing the consolidated principal amount of $440,000.00 dated November 15, 1988 between 184-86 BRADHURST AVENUE ASSOCIATES, as mortgagor, and MFC, as mortgagee. 2) Mortgage Agreement securing the consolidated principal amount of $460,000.00 dated November 15, 1988 between 452 WEST 164TH STREET ASSOCIATES, as mortgagor, and MFC, as mortgagee. 3) Mortgage securing the principal amount of $567,000.00 dated November 29, 1988 by 591 EAST 165TH STREET ASSOCIATES, as mortgagor, to MFC, as mortgagee. 4) Mortgage Agreement securing the consolidated principal amount of $1,050,000.00 dated December 5, 1988 between 111-15 WEST 141 STREET ASSOCIATES, as mortgagor, and MFC, as mortgagee. 5) Mortgage Agreement securing the consolidated principal amount of $1,333,000.00 dated December 8, 1988 between 2500-04 SEVENTH AVENUE ASSOCIATES, as mortgagor, and MFC, as mortgagee. 6) Mortgage Agreement securing the consolidated principal amount of $1,323,000.00 dated December 13, 1988 between LONGWOOD 850 AVENUE ASSOCIATES, as mortgagor, and MFC, as mortgagee. 7) Mortgage Agreement and Consolidation Agreement securing the consolidated principal amount of $987,000.00 dated December 23, 1988 between EAST STREET-166TH 118TH ASSOCIATES, as mortgagor, and MFC, as mortgagee. 8) Mortgage Agreement securing the consolidated principal amount of $630,000.00 dated January 11, 1989 between 270 W. 133 ASSOCIATES, as mortgagor and MFC, as mortgagee. 9) Mortgage Agreement securing the principal amount of $2,412,000.00 dated February 2, 1989 between 445 WEST 125TH STREET ASSOCIATES AND 449 WEST 125TH STREET ASSOCIATES, collectively, as mortgagor, and MFC, as mortgagee. 10) Mortgage Agreement securing the consolidated principal amount of $1,468,000.00 dated February 8, 1989 between MONTEREY AVENUE 2022 ASSOCIATES, as mortgagor, and MFC, as mortgagee. 11) Mortgage securing the principal amount of $375,000.00 dated January 22, 1990 between 1500 AMSTERDAM AVENUE, INC., as mortgagor, and MFC, as mortgagee. THE BANK OF TOKYO TRUST COMPANY,- Secured Party-1271 Avenue of the Americas New York, New York 10020 Attention: Mr. Lawrence Kneip (212) 766-5355 JONES, DAY, REAVIS & POGUE Attorneys for Secured Party-599 Lexington Avenue New York, New York 10022 Attention: Leonard C. Pomata, Esq. Stephen L. Rabinowitz, Esq. (212) 326-3939 SCHEDULE A COLLATERAL ASSIGNMENTS OF MORTGAGE AND SECURITY AGREEMENTS BY MORTGAGE FACILITIES CORPORATION TO THE BANK OF TOKYO COMPANY

1. Collateral Assignment of Mortgage dated November 15, 1988 and recorded on December 5, 1988 in Reel 1497 Page 2364 in the Office of the City Register of New York County. 2. Collateral Assignment of Mortgage dated November 15, 1988 and recorded December 21, 1988 in Reel 1498 Page 2364 in the Office of the City Register of New York County. 3. Collateral Assignment of Mortgage dated November 29, 1988 and recorded on April 23, 1989 in Reel 915 Page 601 in the Office of the City Register of Bronx County. 4. Collateral Assignment of Mortgage dated December 5, 1988 and recorded on March 3, 1989 in Reel 1542 Page 1878 in the Office of the City Register of New York County. 5. Collateral Assignment of Mortgage dated December 8, 1988 and recorded on December 23, 1988 in Reel 1511 Page 2381 in the Office of the City Register of New York County. 6. Collateral Assignment of Mortgage dated December 13, 1988 and recorded on December 20, 1988 in Reel 888 Page 906 in the Office of the City Register of Bronx County. 7. Collateral Assignment of Mortgage dated December 23, 1988 and recorded on January 17, 1989 in Reel 1520 Page 2014 in the Office of the City Register of New York County. 8. Collateral Assignment of Mortgage Dated January 11, 1989 and recorded on January 26, 1989 in Reel 1527 Page 1727 in the Office of the City Register of New York County. 9. Collateral Assignment of Mortgage dated February 2, 1989 and recorded on February 21, 1989 in Reel 1537 Page 1993 in the Office of the City Register of New York County. 10. Collateral Assignment of Mortgage dated February 8, 1989 and recorded on February 14, 1989 in Reel 900 Page 179 in the Office of the City Register of Bronx County. 11. Collateral Assignment of Mortgage dated January 22, 1990 and recorded on February 5, 1990 in Reel 1664 Page 844 in the Office of the City Register of New York County.

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DEALS

Highly Leveraged Lending Rebounds from the Doldrums of Late 1989

Continued from *page 1*

"There's business to be done and profits to be made. We're going to have a barn-burner of a year."

Data Indicate Upward Trend

While others say that prognosis might be a bit optimistic, the lending data appear to bear out anecdotal evidence that acquisition-type lending is rebounding.

Total deal flow tracked by Loan Pricing Corp. – including both HLTs and non-HLTS - has picked up from its lows. Volume dropped from $18.3 billion in February to $13.8 billion in March to $11.9 billion in April.

But in May, deal flow began turning around; rising to $12.2 billion. June's figure is expected to increase as well, an official at Loan Pricing said.

Not only has the total value of deals picked up, but the percentage of all commercial loans that qualify as HLTs has increased considerably since the winter.

When the management-led buyout of UAL Corp. failed in October, 60.7% of loans tracked by Loan Pricing Corp. were HLTs, falling to 47.8% by January and 44.6% by February.

However, that figure jumped to 50% in March, over 50.5% in April, and 51.8% in March. While it dipped back down to 49.2% in May, a Loan Pricing official said the figures for May and June were understated because of the lag time in collecting data.

Number of Deals Rebounding

While the dollar value of mergers and acquisitions has not yet returned to the level of last October, the number of deals has begun to rebound. From a low of 1,061 deals announced in the first quarter, the second-quarter figure shows volume increasing to 1,245 deals announced, according to Securities Data Co.

And cross-border merger and acquisition volume was actually up 3% over last year's first half, according to Securities Data. This has been a factor for banks because foreign buyers often use U.S. banks for funding the transactions, such as the $900 million bank facility for Siebe Inc.'s acquisition of Foxboro Co.

In recent months, merger and acquisition activity "has definitely picked up," said Eduardo Mestre, cohead of mergers and acquisitions at Salomon Brothers Inc. Both investment and commercial bankers agreed that deal flow was put on hold as acquirers and commercial banks reassessed the ability to finance and syndicate deals.

Acquirers Step Up Activity

But after sitting on the sidelines, banks are willing to fund deals – albeit with different criteria – acquirers began pursuing deals, industry, investment bankers say.

"The strategic types are active, and there's a big appetite on the cross-border." In addition, he noted that certain industries such as telecommunications have been seeing increased activity.

The recast market, though, clearly looks much different than highly leveraged transactions done before the collapse of the first UAL deal and the bankruptcy filing of Campeau Corp.

"We're starting to see more activity, but in deals with new capital structures" than last year, said James Lee, managing director and head of structured finance at Chemical Bank. "We're playing ball in a new park."

With the near-fatal injury to the junk bond market, banks are the only game in town for any leveraged lending greater than a few hundred million.

Equity Cushion Is Also Thicker

Rather than replacing the subordinated junk debt with bank debt, as some expected, corporate acquirers and investors have been forced to find deals with a much higher cushion of equity, often at lower multiples.

The Chemical Banking Corp. unit has jumped in the rankings of loan originations. Mr. Lee noted that banks want plenty of capital below the senior bank level, even if acquirers must fund the deals with 40% in equity or more.

"Banks are not any less selective. What's changing is the underlying structure of buyouts," Mr. Lee said.

"There's plenty of money available for good deals – the trick is figuring out what's a good deal," said the head of syndication at a top money-center bank.

Strategic Investors Adjust

Strategic investors have clearly been more active than financial buyers that are active must lower potential returns from the lofty 50% returns seen in earlier transactions.

In the acquisition of Mayfield by Wasserstein, Perella & Co., over 50% of the capitalization was equity. Or the buyout's purchase of Foxboro Co., the acquisition loan was not considered an HLT because of the high equity levels.

Both financial and strategic buyers "started to adjust to the new set of circumstances," said Mr. Lee of Chemical. "The trend is a different capital structure, a lower price, and higher fees" for banks.

RJR Nabisco Inc.'s $2.25 billion new loan, in which over $7 billion in commitments was received, is the most obvious example of the willingness of banks to fund leveraged transactions. Fees on the deal were a high 3.5% to 4%.

Other large transactions include Hanson Industries' $2.6 billion deal, Saks Fifth Avenue's $750 million loan, and the $1.15 billion deal for the proposed leveraged buyout of General Instrument Corp.

"I'm feeling a whole lot better than I was three months ago," said the money-center syndication head. "I'm not euphoric, but there is more deal flow. . . It's not robust, but it's better than the first and second quarters."

Of course, the proposed $4.4 billion buyout of UAL Corp. by an employee-led group will likely be the toughest test yet of the new climate, because the capital structure does not appear to pass the new rules of the game without additional equity.

While some pointed to RJR's $7 billion as an indication that banks are more aggressive, many bankers disagred. Once the $2.25 billion was syndicated, it became apparent that banks "lobbed in high numbers knowing the[y'd get cut back," said one lender involved in the deal.

Jumping In with Large Numbers

Because the fee structure was based on commitments as well as allocations, many banks jumped in with large numbers knowing they would not have to put up that much money, but would nevertheless receive fees based on the higher fee structure.

"It wouldn't read too much into the $7 billion," said one of RJR's Japanese lenders.

Knowing that they'd likely be cut back, banks flexed their muscles for Kohlberg Kravis Roberts & Co., one the largest borrowers in the history of leveraged lending.

Late last week, as allocations were set, most banks were cut back to roughly one-third of their commitment levels, bankers in the deal said. □

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Moran Resigns Posts at Fortune

CLEARWATER, Fla. — Fortune Financial Group Inc. said Friday that John Moran, its chairman, president, and chief executive officer, had resigned to pave the way for obtaining regulatory approval to double his company's ownership stake in Fortune.

A day earlier, Fortune announced the appointment of John Torell Jr., a former top executive of Manufacturers Hanover Corp. and CalFed Inc., as chairman. Rausey Mason, a Fortune executive vice president, was promoted to president and CEO.

The Office of Thrift Supervision required Mr. Moran to give up his executive duties at Fortune as a condition for his other company, Dyson-Kissner-Moran Corp. of New York, to buy up to 20% of Fortune's stock. That would double its current holding of 9.97%.

Fortune Financial is the holding company for the $3 billion-asset Fortune Savings Bank, Clearwater. Mr. Moran remains a director of both. — **Reuters**

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Highlights for Monday, July 16

Top 10 Gainers %

Hibernia Corporation	6.0
J.P. Morgan & Co. Incorporated	5.9
Bancorp of Mississippi, Inc.	5.6
Key Centurion Bancshares, Inc.	5.2
Bankvermont Group, Inc.	5.1
Bancorp Hawaii Inc.	5.0
Equimark Corporation	4.6
Midlantic Corporation	4.4
Ohio Bancorp	4.6
MNC Financial, Inc.	4.3

Top 10 Losers %

First City Bancorporation	-7.6
Central Jersey Bancorp	-6.9
Jefferson Bankshares, Inc.	-6.5
First Financial Bancorp	-6.0
Banks of Mid-America, Inc.	-5.3
Emerald Bankcorp System Corp.	-5.1
Hawkeye Bancorporation	-5.0
Fidelcor, Incorporated	-4.7
Bank of New York Company	-4.6
Bank of New England Corp.	-4.5

Most Shares Traded

Chase Manhattan Corporation	2419300
Citicorp	1265500
BankAmerica Corporation	939600
J.P.Morgan & Co. Incorporated	730600
Valley National Corporation	596900

Volume as % of Average

First Citizens Bancshares Inc.	3331.9
Merchants Bank of New York	986.6
Hanover Bancorp, Inc.	749.7
United Banks of Colorado, Inc.	689.9
Fifth Third Bancorp	583.9

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts 1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.66	2.94	2.44	0.56	0.23	6.68	1.56	2.67	3.07

Top 225 Banks (4 PM Prices)

52 Wk. Hi	Lo	Name	PE	Mkt Bid	Clo.	Chg.
23¾	18¾	1stSourceCorp nH	6.7	91.3	19¾	-¼
14¼	10¼	1stUnionCorp nH	6.7	14.8	13¾	-¼
28⅜	20	AmSouthBancorp AL	8.4	92.1	21¾	-¼
19¾	13⅜	AmeribankInc nH	7.2	16.5	14¼	-¼
29	17	AmeritrustCorp OH	18.3	101.1	17¾	-¼
22¾	18¾	AtlSouthBkCp FL	9.4	100.0	20	-¼
24¼	18	BB&T FinGrp NC	8.0	110.8	18¾	-¼
55¼	49¾	BalBancorporation	8.8	64.3	12¾	-¼
48¾	36¼	BancFlorida FL	31.4	150.9	46¼	-1
33¼	26	BancOne Corp OH	7.6	149.3	41¾	-¼
26	18¾	BancoPopular PR	6.3	96.2	19¾	-¼
56¾	47	BancorpHawaii HI	10.2	172.1	52	—
23¾	18	BancorpOhio MS	13.5	92.4	19	1
36¾	23¾	BancorpSouth MS	7.2	113.3	29	-¼
24	17¾	BankGrandeCorp PR	5.3	67.6	13	-¼
28¾	11¾	BankBostonMA	154.7	46.3	12¾	-¼
55	39¾	BankNY NY	114.5	81.7	39¾	-¼
12	9	BankAtlantic FL	25.0	53.4	9	-¼
82	66¼	BankersNew A	11.7	112.6	70	-¼
39¾	29¾	BankersTrustNY	10.1	118.6	33¾	-¼
41	13¾	BayBanksMA	9.0	45.0	15¾	-¼
39¾	29	BeaNor Midwin MO	8.5	101.2	32¾	-¼
26	15¾	BostonedBancL	15.1	97.3	15¾	—
18¾	12¾	BrenhamExchTX	7.5	102.8	14	—
43¾	33¾	CCB FinCorp KY	8.7	118.6	34	—
22¾	17¾	CCNB Corp PA	7.5	103.7	17¾	—
22¾	18¾	CNB Bancshares IN	10.6	129.2	22	—
27	20¼	CPB Inc. nH	11.3	118.3	20¾	-¼
28	12¾	CVB FinCorp CA	10.2	234.3	14¾	-¼
33¾	21	CalFedBancCA	8.4	152.5	21	—
18¼	12¾	CentralBcshs KS	7.5	100.0	14¾	—
34¼	26¾	CentralSoftgTX	8.8	97.1	26¾	-¼
27	15¾	CitizBkMidwy NJ	6.8	91.0	19¾	-¼
44¾	29¾	CitizensBkDE	NM	91.0	29¾	-¼
41¾	22¾	CmmlBkshsCorp KS	7.8	70.3	24¾	-¼
35	30¾	CmmlFedBcpMD	9.0	160.0	31	—
35¼	21¾	CmmlFedCp VA	120.1	100.0	21¾	-¼
39¾	27¾	CmmlNtlBancorp MO	8.1	100.0	37¾	-¼
29¼	23¼	CmmlSouthBkshs	9.0	100.0	23¼	—
24¾	17¾	CmmlwthBkshsVA	6.3	104.1	19¼	-¼
20¾	15¼	Commonwealth PA	7.6	95.1	18¼	—
37¼	19¾	CommunityBkshs	7.6	97.1	19¾	-¼
20¾	13	ContinentalIL	7.8	54.3	13¾	-¼
41¾	38¾	CoreStatesFinCp PA	8.3	100.0	40¼	-¼
30¾	24	CrestarFinCorp IN	7.7	92.8	25¼	-¼
18¾	14¾	CrestmarkBcpCA	6.3	104.1	15¼	-¼
37¾	29¾	DauphinDeposit PA	9.0	134.2	31¼	-¼
32¾	23¾	DepositGuarantyMS	6.6	74.8	24¼	-¼
32¾	12¾	DominionBkshs VA	9.1	83.8	13¾	-¼
18	5	EquimarkCorp PA	NM	38.6	5¾	—
21¼	12	EvergreenBancsNY	6.4	97.4	13¾	—
15¾	12¼	F & M NatlCorp VA	10.1	100.5	12¾	-¼
14¼	12¼	FNB Corp PA	8.9	106.8	12¾	—
26	18¼	FNH Bancorp IL	10.2	168.6	22	—
29	28	FarmersCapital KY	12.0	110.5	26	—
39¾	30¾	FidelityBkshs FL	9.9	107.4	30¾	-¼
38¾	33	FinancialTrustPA	9.3	140.0	33	—
39¼	30¼	FirstFedFinMI	9.6	102.7	30¾	-¼
19¾	15¼	FirstAlabamaAL	9.5	118.8	17¾	-¼
26¼	11¾	FirstAmerCorp TN	8.5	100.0	11¾	-¼
28¾	23¾	FirstBancorp NC	8.5	100.0	23¾	-¼
26¼	11¾	FirstAmerCorp TN	NM	68.7	11¾	-¼
30¾	24¾	FirstBancorp PR	8.3	99.3	27	-¼
26¾	12¾	FirstBankSyst MN	NM	116.8	14¾	-¼
28¾	27¾	FirstBancorp OH	7.8	91.4	27¾	-¼
29¼	24	FirstCitizens NC	8.6	100.0	25¼	-¼
29¼	21¼	FirstCitizens VA	8.2	98.2	21¾	-¼
18¾	13	FirstColonial IL	9.9	128.8	13	-¼
14¾	11¾	FirstCommerce LA	NM	98.5	13¾	-¼
29	21½	FirstCommerce NE	8.6	91.0	28¼	—
27¾	17¾	FirstCommercial AL	7.7	100.0	17¾	-¼
21¼	18	FirstCommercial AR	8.1	117.2	18¼	—
21¾	14¼	FirstCommerceFL	7.2	133.7	16¼	—
35¼	21½	FirstEasternPA	7.9	102.9	22¼	—
72	60¼	FirstFinancial IN	10.7	221.2	24	—
33¾	17¼	FirstFidelityPA	10.1	72.3	17¼	-¼
50	40¾	FirstFinCorp DE	7.9	103.8	48¾	-¼
34¾	19¼	FirstFlorida FL	9.9	79.1	20¼	—
28¾	19¾	FirstHawaiianHI	10.7	220.2	20¾	—
14¾	10¾	FirstIllinois IL	10.5	183.9	8	—
32	27¾	FirstIndependCorp IN	8.6	100.0	27¾	—
7	5¾	FirstInterstateCA	7.8	107.8	6¼	—
28¾	14¼	FirstInterBancpAZ	7.6	120.3	15¼	-¼
24¾	19¾	FirstKentkyCorp KY	10.4	146.5	19¾	—
26¾	19¾	FirstMarblehdCorp	8.4	100.0	20¾	-¼
44	26¾	FirstPeoplesNJ	6.1	96.5	26¼	—
19¾	13¾	FirstSecurityCorp	7.6	100.0	14¼	-¼
18	14	FirstSecurityNC	13.5	182.0	15	—
19¾	13¾	FirstSouthBcpNC	7.1	97.2	14¼	-¼
28¾	21¾	FirstTennessee TN	8.1	96.8	23¾	—
28¾	18¾	FirstVaBancCorp VA	7.9	94.0	21¾	—
35¾	24¾	FirstVirginia VA	7.9	111.0	24¾	-¼
36¾	27¾	FirstWachovia NC	7.7	111.2	29¾	-¼
35	27½	FirstarCorp WI	7.3	115.9	28¾	-¼
30¾	17	FirstbancorpPR	8.0	101.2	18¾	-¼
30¾	42½	FirstbancorpNC	8.1	100.5	42¾	-¼
30¾	24¾	FirstbancorpOH	8.2	100.0	24¾	-¼
30¾	28¾	FirstmarkBcpFL	8.3	100.0	29¼	-¼
29¾	25¾	FourthFinCorpOK	12.4	109.3	34¾	-¼
19¾	14	FultonFinCorpPA	8.5	100.0	14¾	-¼
24¾	18¾	GBC BancorpCA	8.4	106.3	18¾	-¼
14¾	9¾	GreatAmBcpHI	13.8	89.4	9¾	—
29¾	19¾	HawkeyeBancorpIA	4.0	117.2	7¾	—
27¼	18¾	HeritageBancsCA	9.4	120.5	18¾	-¼
24¾	16¼	HibernaCorp LA	10.8	115.2	15¾	-¼
14¾	12¾	HuntingtonBancsOH	14.1	114.5	13¾	—
32¾	23	IBERCO Corp	8.9	97.5	23¼	-¼
27¼	18¾	IngramBancorp LA	7.9	114.7	18¾	—
26¾	18	IndependenceBcpPA	11.3	95.6	17	-¼
24¾	18¾	IntegraBcpIN	14.1	97.6	23¾	-¼
48	37¼	InvestmntBkshs IN	9.7	140.4	38¼	—
48	33	J.P. MorganNY	9.3	104.1	44¼	2¼
26¼	18	JeffersonBkshs VA	7.6	91.1	18	-¼
15¾	12	KeyCentCorp WV	8.2	100.0	12¾	-¼
29¾	23½	KeyCorp NY	8.2	118.1	27¼	-¼
28	21¾	KeystoneFinPA	8.2	100.0	21¾	-¼
35¾	29	KeystoneHeritgPA	10.0	151.5	29	—
24¾	19¾	LaSalleNational	8.5	100.0	19¾	-¼
29¾	22	LakeShpreL	16.1	198.2	22¼	—
18	11¾	LeumiBkCorp NY	6.8	64.6	11¾	-¼
30¾	24¾	LibertyNatBkcp KY	18.1	112.8	25¼	—
27	20¾	LincolnFinCorp IN	6.9	88.3	20¾	—
23¾	11¾	MNC FinancialMD	4.5	69.9	12¼	—
18	14¾	MagnaGrp NY	9.3	104.1	14¾	-¼
60	41¾	ManufacturNatMI	6.5	101.5	44¼	-¼
44¾	28¾	ManufacturersNY	NM	73.9	30¾	-¼
21¾	18¾	MarineCorp IL	12.0	129.9	19¾	-¼
25¾	15	MarTrustBancpFL	8.1	100.0	15¾	-¼
37¾	30¾	MarshallBkshs WI	8.4	112.8	30¾	-¼
28¾	23¾	MassBancorp MA	8.3	100.0	23¾	-¼
28¾	23½	MercantileBkshs MD	190.4	97.1	24¾	-¼

52 Wk. Hi	Lo	Name	PE	Mkt Bid	Clo.	Chg.
28	19¾	MercantileStoresNJ	8.6	130.0	20¾	-¼
90¾	50	MerchantsBankNY	11.9	190.3	50½	-½
32	21¼	MerchantsNatlIN	10.3	93.4	23½	-¼
26¼	15¼	MetroBancorpPA	7.0	86.6	15¾	—
24¾	18¾	MichiganNatlMI	8.7	98.1	19¾	-¼
24¾	14¾	MidAmericanCorp	9.7	144.5	15¾	-¼
23¾	18¾	MidAm.Inc.OH	9.7	146.5	19¾	-¼
17¾	13¾	MidlanticCorpNJ	4.0	38.4	14¾	-¼
20¼	10	MultibankFlaL	5.3	48.0	10¾	-¼
39¾	29¾	NBD BancorpMI	8.9	130.3	31¾	-¼
54¾	34¾	NCNB CorpNC	7.5	131.3	36½	-1¼
26¾	18¼	NatCityBancpsOH	8.4	144.7	19¾	-¼
25¼	13¾	NationalCityCp OH	8.4	144.1	38¾	—
24¾	18¾	NationalPenn PA	11.3	201.5	18¾	-¼
31	25¼	NatlBancorpHI AK	9.9	119.8	31	1¼
30¾	20¾	NatlCommBcpAR	10.2	177.1	23¾	-¼
44¾	18¾	NatlCommunity NJ	6.2	85.9	18¾	—
29¾	11	NorthFinancialWA	5.4	69.7	11¾	—
72	18	NorthwestBancpPA	NM	56.8	20	—
30¾	20¾	NorthernTrustIL	9.8	185.4	30¾	-¼
23¾	17¾	NorwestCorp MN	8.2	148.8	21	-¼
32¾	23¾	OhioBancorp OH	7.3	99.5	24	1
29¾	24	OldKentFinCorp MI	8.2	112.8	24¾	-¼
24¾	18¾	OldNatlBancorp IN	13.2	160.9	23	-¼
29¼	19	OneNetBancWA	7.4	87.5	20¾	-¼
49¾	29¾	PNC FinCorp PA	8.9	106.4	30¾	-¼
28¼	24	PacificBancsCA	11.3	155.3	27	—
24¾	17¾	PacificNorthwestCo	9.2	182.0	11	—
16¾	14¾	PeoplesBancorpNC	9.1	123.9	15¾	—
27¾	20	PhiladelphiaNJ	10.0	129.0	27	—
15¾	15	PiedmontCorpVA	9.3	177.5	11¾	-¼
9¾	3	PremierBancorpLA	18.8	55.6	3¾	-¼
27	22	PrivateBancCorp	9.0	127.7	22	—
23¾	18¾	ProvidentBkshsMD	22.0	43.4	19¾	—
27¾	19¾	PugetSoundBancWA	12.3	119.4	21¾	-¼
42¾	32¾	RepublicNYCorp NY	126.7	135.4	41¾	-¼
37¾	14¼	RiggsNatlCorpDC	8.4	80.0	15¾	-¼
24¾	20¾	RoyalBancshsPA	13.0	296.5	20¾	-¼
43¾	23¾	SantaBarbraBancCA	11.6	215.6	35¼	—
23¾	17¾	SecurityBancorpKY	8.4	144.7	19	-¼
54¼	34¾	SecurityPacific CA	5.8	99.8	36¼	-¼
28¾	10¾	ShawmutNatlCorp MA	NM	57.7	10¾	-¼
42¾	18¾	SignetBanking VA	5.5	96.2	19¾	—
28¾	19¾	SocietyCorp OH	8.6	144.2	20¾	-¼
27¼	17¾	SouthCarolinaBcpSC	8.5	98.8	17¾	-¼
28¾	19¾	SoutheastBcpCorp FL	NM	39.5	19¾	-¼
15¾	11¼	SouthernNatlCp NC	9.9	136.4	12	—
30¾	24¾	SouthernNatlCorp FL	8.5	100.0	24¾	-¼
43¾	29¾	SovranFinancialCp GA	8.3	99.3	27	-¼
24¾	17¾	SpartanBkshsCorp NH	8.3	100.0	17¾	-¼
30¾	24¾	StandardBancshsOH	8.3	100.0	24¾	-¼
28¾	16	StandardFederalMI	NM	87.5	16¼	—
16¾	11¾	SunBancorpNJ	11.3	82.1	12¾	-¼
34¾	25	SunBanksGA GA	6.3	96.2	28	—
15¾	11¾	SunTrustBcpNJ	9.0	91.1	13	—
21¾	14¾	SummitBancpNJ	7.0	107.8	14¾	-¼
29¾	21¾	SunBanksFL	8.1	126.0	23¾	-¼
29¾	14¾	SunwestFinSvcs NM	76.2	74.9	18	-¼
27¾	17¾	SusquehannaBcpPA	7.9	103.8	18¾	-¼
19	14¾	SynovusFinCorp GA	16.6	270.8	17¾	—
30¾	24¾	TCF FinancialCorp MI	9.3	127.1	30¾	-¼
15¾	9¾	TrustCoBancpNY	9.0	160.0	29¾	-¼
30¾	24¾	TrustCorpBcpRI	8.3	100.0	24¾	-¼
24	19¾	TrustmarkCorpMS	8.7	79.2	19	—
25¾	20¾	U.S. BancorpOR	9.2	137.0	20¾	-¼
43	33¾	U.S.TrustCorp AT	12.8	192.4	37¼	—
23¾	18¾	UJB FinancialNJ	5.8	75.3	18¾	-¼
18¾	9¼	USF Corp MA	5.3	89.1	11¼	—
32¾	24¾	UnionBkshs VT	5.9	95.9	24¾	-¼
19¾	14¾	UnionPlanters TN	NM	65.5	8¼	-¼

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Stock Dividends

Largest price and volume changes at banks and thrifts during the week ended July 14

LARGEST PRICE GAINERS*	% change	7/07/90	7/14/90
Howard Sngs Bk Liveng NJ	18.75%	$ 4.00	$ 4.75
United Bks of Colorado	17.45	10.03	11.80
Union Bank	12.21	21.50	24.13
First Commerce Bancsh	10.64	16.90	18.70
Affiliated BkShs of Colorado	10.64	11.75	13.00
LARGEST PRICE LOSERS*	**% change**	**7/07/90**	**7/14/90**
Bank New England Corp	-12.50%	$ 3.13	$ 2.75
Chase Manhattan Corp	-10.00	23.63	21.25
Homefed Corp	-8.05	15.38	17.63
First City Banc	-6.91	25.25	23.50
Lab Fort Corp	-6.46	17.25	16.13
LARGEST CHANGES IN VOLUME†	**Multiple**	**Average**	**Last week**
United Bks of Colorado	6.17	184.4	1,053,700
Chemical Fin'l Corp	4.40	3,000	13,600
Affiliated Bkshs of Colorado	4.06	21,963	373,000
Colorado Nat'l Bankshares	3.52	172,688	608,300
St Paul Bancorp Inc	3.44	180,100	627,800

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gains and losses, the largest price increases, and the five with largest increases in trading volume for the previous week are displayed. (*)—Percentage change calculated by dividing last week's close by the previous week's close. (†)— The multiple of last week's trading volume to the average weekly volume over the previous 13 months.

Data Source: *Salomon Brothers Inc., New York.*

Top 25 Thrifts (4 PM Prices)

52 Wk. Hi	Lo	Name	PE	Mkt Bid	Clo.	Chg.
23¾	18¾	UnitedBancsCalCO	21.3	84.5	22¾	-¼
14	12	UnitedBkshsWV	8.2	97.4	12	-¼
18¾	12¾	UnitedCarolinaNC	8.3	100.0	13¾	-¼
62	52	UnitedCountiesNJ	7.1	105.0	52	—
18¾	13¾	UnitedJerseyBcpNJ	7.6	100.3	18¾	-¼
27¾	23	UnitedVirginiaVA	8.2	97.6	23¾	-¼
26	22¾	ValleyCapCorpVA	7.9	147.2	24¾	—
39¾	29¾	WashingtonMutInc	8.2	100.0	29¾	-¼
30¾	11¾	WellsFargoCA	NM	73.0	18¼	-¼
28¾	23¾	WestBancorpRI	8.3	100.0	23¾	-¼
33	26¾	WestmanBcpNH	8.7	103.0	30¾	—
29¾	23¾	WestAmBancorpOR	8.3	100.0	23¾	-¼
25¾	17¾	WestamericaBancCA	14.7	185.8	23	-¼
18¾	15	WilmingtonTrustDE	8.3	100.0	15	1
13¾	9¾	WorthenBankingAR	10.8	133.4	12¾	—
32¾	25	ZionsBancorpUT	7.8	99.0	28	—

Top 25 Thrifts (4 PM Prices)

52 Wk. Hi	Lo	Name	PE	Mkt Bid	Clo.	Chg.
24¾	18¾	AlmanacorpCA	10.2	107.3	22¾	-¼
25¾	20¾	AppletreeBancsNY	8.4	73.4	21	-¼
28¾	15	CalFedInc CA	4.8	28.9	15¾	-¼
40¾	24¾	CharterMacpCA	12.3	75.1	40¼	-¼
20¼	5¾	CoastSavingsTxTX	NM	42.9	6¼	—
17¾	12¾	DimeBancNY	8.2	100.0	6	—
24	14¾	DomesSavingsCA	49.7	124.7	17¾	—
38	24¾	FirstFederalMI	10.9	137.9	38	—
27	18¾	FirstFedFinCpCA	8.2	128.8	22¾	—
23¾	12	FirstNtlBkNJ	8.2	95.0	14	—
25¾	11¾	GLENFED CA	3.3	31.8	12¾	-¼
23¾	12¾	GoldenWestFnCA	11.8	186.2	21¾	-¼
24¾	15¾	GreatWesternFnCA	21.0	124.3	19¾	-¼
24¾	17¾	HomeFedBkSvgCA	NM	21.7	18¾	-¼
47¾	17¾	HomeFdSvgCp CA	3.8	38.5	19¾	1¼
20¾	15¾	HorizonFinancial	8.3	100.0	15¾	—
18½	11	H

STOCKS
Mixed Signals And Earnings Roil the Market

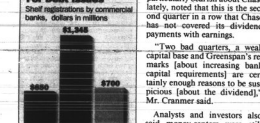
By FRED VOGELSTEIN

A wave of mixed earnings reports from some of the larger banks and conflicting signals from the Federal Reserve Board created a volatile day for bank stocks.

NCNB Corp. and J.P. Morgan & Co. surged nearly 5%, while Chase Manhattan Corp. and other money-center banks fell near or below their yearly lows.

"Where the earnings have come in higher-than-anticipated for banks, the market has re-

Banks Gear Up For Debt Issues
Shelf registrations by commercial banks, dollars in millions



*As of 7/13/90
Source: Securities Data Co., American Banker

warded them. Away from these exceptions, however, the pressures caused by poor asset quality continue," said James McDermott, executive vice president and director of research at Keefe, Bruyette and Woods.

Two Indexes Rise

The Dow rose 19.55 points, to 2999.75, while the *American Banker* index of 225 banks was up a mere 0.5%.

J.P.Morgan & Co. climbed substantially, rising $2.125, to $37.875, while NCNB jumped $1.75 to $36.50. Both reported better-than-expected second-quarter earnings.

Security Pacific Corp.also reported higher earnings but closed down 12.5 cents to $36.25.

Bankers Trust New York Corp. rose $1.25 to $41.375 in sympathy with Morgan's move. Mark Alpert, an analyst at Bear Stearns & Co., said many investors "think the fundamentals that drive Morgan are similar to those that drive Bankers and since Morgan had a great second quarter, perhaps some are thinking the same will happen to Bankers."

Northern Trust Climbs

Among other leaders, Northern Trust Co. also gained for the second day, rising 75 cents $30.25. It was up $2.125 Friday on news of record trust fees and lower provisions for loan losses.

Most of the money-center banks declined, however. In addition to disappointing earnings figures from Chase, analysts and investors said it was clear that Fed Chairman Alan Greenspan's remarks last Thursday about the prospects for increasing bank capital requirements were having their expected negative effect. That overshadowing his comments about easing interest rates.

"People are coming to their senses" that interest-rate easing is not as important as the need for additional capital, said Charles Cranmer, an analyst at Shearson Lehman Brothers Holdings Inc.

Chase Stays Active

Chase, which traded more than 2.42 million shares – and topped 1.4 million for the third day in a row – was off 50 cents to $20.75, reaching a 52-week low on news of lower second-quarter earnings.

Analysts, who have become particularly bearish about Chase lately, noted that this is the second quarter in a row that Chase has not covered its dividend payments with earnings.

"Two bad quarters, a weak capital base and Greenspan's remarks [about increasing bank capital requirements] are certainly enough reasons to be suspicious [about the dividend]," Mr. Cranmer said.

Analysts and investors also said money-centers were still reeling from a very negative report by C.J. Lawrence, Morgan Grenfell Inc. It stated that dividends at a number of money-center banks could be in jeopardy within the next 12 months.

"The C.J. Lawrence piece put a lot of fear in people," said Thomas J. Tisch, president of F.L.F. Associates, an investment partnership including holdings of CBS chief executive Lawrence A. Tisch and family.

Mr. Tisch is a large investor in bank stocks. His holdings include a 6.6% stake in Bank of Boston and positions in Chemical Banking Corp. and Chase Manhattan Corp. □

CAPITAL
Rate Cuts May Eventually Spur Debt Issues

By KELLEY HOLLAND

As funding costs drop with the Federal Reserve Board's recent move to lower short-term interest rates, bank debt issuers could pick up in the second half of 1990, according to analysts and capital markets specialists.

Any additional capital requirements demanded by the Fed could also spur debt issuance, experts say.

But in the near term, bank debt deals are not expected to flood the market at least until second-quarter earnings have been released.

"U.S. banks are going to try and pick their spots," said William J. Downes, a vice president at Keefe, Bruyette & Woods.

Quick Results

The Fed's effort to lower interest rates last Friday immediately pushed short-term yields down, prompting some bank treasurers to hope long-term rates would soon fall as well. In fact, long rates have dipped around five basis points since the Fed action.

Mr. Downes predicted that if they can keep all-in financing costs below 10%, banks could easily issue $3 billion in new debt during the second half.

A likely increase in Yankee bond issuance could induce American banks to issue debt quickly. Sumitomo Bank International Finance NV issued $500 million in subordinated debt in the Yankee market last week, and rumors abound as to which Japanese bank will be next.

American banks concerned about the limited demand for U.S. investors could try to issue securities before other Japanese banks come to market, according to capital markets specialists.

Aside from market-timing reasons, Federal Reserve Chairman Alan Greenspan's comments that capital requirements for banks could be raised may also propel banks into the market, analysts said.

Almost all the nation's largest banks have more than enough capital already to meet the 1992 risk-based requirements of an 8% total capital ratio.

But a 50% increase in capital requirements is now plausible, according to Ann L. Robinson, a vice president at Donaldson, Lufkin & Jenrette. And if that happens, she said, a number of institutions could find themselves planning new issues.

"Already a growing number of banks are preparing for new debt issues. Shelf registrations for bank debt exceeded $1.3 billion in the second quarter, according to Securities Data Co.

And in the early weeks of the third quarter, Fleet/Norstar Financial Group has already filed a registration for $700 million in debt.

Fleet's treasurer, Richard R. Pannone, said his bank has no plans to issue subordinated debt this year. But lower rates could change his view.

"If we have a significant decrease in rates, issuing become much more attractive," he said.

Several factors, however, are working against new debt issuance in the immediate future. For one thing, banks are leery of issuing debt while second quarter earnings are still being released.

Concern over Secondary Market

Banks are concerned about their securities being pummeled in the secondary market as banks announce disappointing quarterly results, according to Andrew J. Cooley, a managing director at Merrill Lynch Capital Markets. "There may be some bank bashing in the market," he said. "That may push some of this [issuance] off until things settle down."

Also, banks are waiting to see if the 25-basis-point downturn in short-term rates will be paralleled by lower long-term rates. Since the Fed move, 10-year Treasury securities have dipped from 8.50% to 8.45%.

The banks most likely to come to market will probably be those with the least immediate need for capital, Ms. Robinson said. That's because investors remain deeply concerned about credit quality. Banks with the greatest need for new capital are the ones who might find the market unaccommodating, according to Ms. Robinson.

"The Darwinian theory is playing out," she said.

* * *

MARKET MONITOR

The decline of banks reporting disappointing earnings were pounded in the market Monday. Chase Manhattan Corp.'s 10% bonds due in 1999, which had been trading at 200 basis points over 10-year Treasuries at the end of June, traded at 255 basis points over Monday afternoon. There were no bids at all for Midlantic Corp.'s 9¾% bonds due in 1999. □

Most Bank Stocks Still Sliding
Percentage change





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Superregional Dilemma: How Long a Leash?

By KENNETH CLINE

ATLANTA — In announcing this month that it was reorganizing its consumer and commercial operations along functional rather than geographic lines, NCNB Corp. indicated that it was grappling with a dilemma faced by other superregional banks: How much autonomy should they grant managers at the state and local levels?

As their empires expand, many are modifying the drive to decentralize that swept the industry in the 1970s and 1980s, and exerting more control from headquarters.

Under NCNB's new structure, all consumer and commercial banking through the company's 936 branches in seven states will be combined in a General Bank headed by president Kenneth Lewis.

The practical effect of the move was to integrate NCNB Texas National Bank, previously a more autonomous entity, into the rest of the company's southeastern operations, covering Florida, Georgia, Virginia, Maryland, and the Carolinas.

Using Its Size

"What NCNB is realizing is, if it really wants to take advantage of its growing size, it's necessary to centralize more activities and move away from a geographical structure," said Stephen J. Kohn, national director of international banking activities for Ernst & Young in New York.

With assets of $64 billion, Charlotte, N.C.-based NCNB has grown quickly into the largest banking company in the Southeast and ninth largest in the nation. Industry experts view centralization as an inevitable byproduct of such growth.

"The banks that have grown from regionals and superregionals into really national banks may shift from trying to have a decentralized area and state appearance of autonomy to more centralized controls," Mr. Kohn said.

Autonomy on Pricing

NCNB, though, is hedging its bets by leaving some autonomy at the state level, particularly in matters of pricing. The new General Bank will include a central marketing organization, which will develop standardized products and a common advertising theme, but line managers in each state will set prices.

"What we're trying to do is get standardized products, drive down costs, and have people fo-

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INSIDE NEWS

WASHINGTON



HOUSING SECRETARY Jack Kemp announced the first $47.5 million in industry grants to an affordable housing program mandated by the S&L bailout law. *Page 2*

FINANCE

CHASE MANHATTAN stock was traded heavily on Tuesday by investors concerned about the safety of the dividend and long-term profitability. *Page 24*

CONSUMER

VISA INTERNATIONAL said first-quarter sales of its travelers checks were well ahead of projections, which had been termed optimistic by many in the industry. *Page 6*

INTERNATIONAL

MIDLAND BANK closed its Midland Montagu Securities unit in New York, becoming the third big British bank to pull out of the U.S. Treasury bond market. *Page 14*

TECHNOLOGY

SECURITY PACIFIC is installing a $10 million system to help its capital markets area manage risk and package new products. *Page 3*

GENE BEDELL, head of a joint venture between IBM and First Boston to sell financial software and computer-aided software engineering, advises banks to proceed cautiously with Case technology. *Page 10*

COMMENT

HAZARDOUS WASTE poses a threat not only to the environment but also to banks, which could be liable for cleaning up messes they didn't create, warns Brian W. Smith. *Page 4*

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ANALYSIS: *Follow-up on the news*

Panel Rejects Extra Day for Local Checks

By ROBERT M. GARSON

WASHINGTON — The Senate Banking Committee on Tuesday narrowly rejected a proposal to give banks and thrifts a partial reprieve from tighter check-clearing schedules that take effect on Sept. 1.

The committee voted 11 to 10 to turn back an attempt by Sen. Jake Garn, R-Utah, to add a day to the funds-availability timetable on deposited checks. He wanted to attach the measure at the last minute to a comprehensive package of banking-related legislation that included anti-money-laundering and truth-in-savings provisions.

Concern over Fraud

The Sept. 1 changes in funds-availability schedules were mandated by Congress in 1987 and became known as Regulation CC. But Mr. Garn said he has received a letter from Fed Chairman Alan Greenspan expressing concern that fraud will increase if banks do not have enough time to verify checks are backed by sufficient funds.

With Mr. Greenspan and other Fed officials lobbying for his proposal, Mr. Garn sought to give banks two business days to cash checks drawn on other

See SENATE page 8

Wells Buys Branches From Great American

By TERESA CARSON

LOS ANGELES — In a bold move to expand its reach in Southern California, Wells Fargo & Co. announced Tuesday that it will buy 130 branches from the ailing Great American Bank in San Diego.

San Francisco-based Wells will pay $492 million for the branches, $6.4 billion in deposits, and $5.9 billion in assets.

"It looks like a hell of a deal" for Wells Fargo, says Arthur P. Soter, bank analyst at Morgan Stanley & Co., New York.

No. 1 in San Diego Market

The purchase will increase Wells' branch network in California to 616. And it will boost Wells from sixth to first in the rich San Diego market, with about a 16% share of deposits. Wells currently has 24 branches in San Diego and will add 64 there from Great American.

"This is a very valuable franchise," said Clyde W. Ostler, a Wells vice chairman, in a press conference.

The price tag works out to a premium of 5.8% to 6.15% on deposits. Although analysts characterized the premium as possibly a little high, they pointed out that this was a unique opportunity. "This is a significant share of a significant market," says J. Richard Fredericks, partner, Montgomery Securities, San Francisco. "This is an opportunity that passes only once."

Top Branch Networks in California

Bank of America	857
Security Pacific	645
Wells Fargo Bank	616*
First Interstate	332
Great Western	213
Home Savings	173

*Includes 130 Great American branches
Source: American Banker

Servicing Rights Included

The assets Wells will assume include $3.3 billion of single-family mortgage loans, $1.8 billion of income property, construction and business loans, and $625 million of consumer loans. Wells will also acquire servicing rights on $8.7 billion of single-family mortgages, including $3.4 billion of loans serviced for others.

Great American, plagued by problems mostly from its Arizona operations, was required by regulators to raise $350 million in capital by yearend or face

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Realty Woes Depress Net at Citi, Chemical

Mellon, Banc One, And Wells Post Gains

By GORDON MATTHEWS

NEW YORK — Faster economic growth and slower growth in problem assets helped superregional bank companies outshine their money-center counterparts in the second quarter.

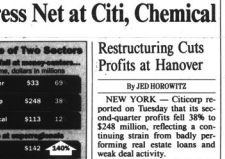
Leading the pack was Pittsburgh-based Mellon Bank Corp., which increased its profits soared 140% to $142 million because of a $74 million special gain from the sale of its consumer finance unit. Even without the gain, Mellon's profits rose 15% to $68 million.

Sale of Unit Helps Wells

Wells Fargo & Co. reported that its profits rose 58% to $232.4 million, largely because of a one-time gain from the sale of a securities unit. Excluding the gain, Wells' profits were up 11% to $163.8 million.

Also reporting a gain in profits were Columbus-based Banc One Corp., up 14% to $104 million and Minneapolis-based Norwest

A Tale of Two Sectors
Profits fell at money-centers...
Net income, dollars in millions



Corp., up 12% to $70 million. Citizens and Southern Corp. reported its profits were virtually unchanged at $57.7 million.

In most cases, investors responded by handing out gains in share prices. Mellon's stock rose 37.5 cents, to $25.875, while Wells Fargo gained $1.50, to $80.125, and Citizens gained $1, reaching $23.625.

Meanwhile, Banc One edged ahead 12.5 cents, to $29.125, but

See REGIONAL page 17

Restructuring Cuts Profits at Hanover

By JED HOROWITZ

NEW YORK — Citicorp reported on Tuesday that its second-quarter profits fell 38% to $248 million, reflecting a continuing strain from badly performing real estate loans and weak deal activity.

Two other big New York banks also announced lower second-quarter profits. Chemical Banking Corp. said its earnings declined 12% to $113.1 million, plagued by an increase in nonperforming real estate and highly leveraged transaction loans.

Manufacturers Hanover Corp.'s income plummeted 69% to $33 million, largely because of a one-time pretax restructuring charge of $100 million.

Excluding the charge, earnings would have been $93 million, compared with $106 million in the second quarter of 1989.

Cracow

Earnings of 64 cents per share – versus $1.11 per share a year

See NET page 17

PEOPLE *in the news*

Rutland Models Northeast On Big California Thrifts

By PHIL ROOSEVELT

NEW YORK — George P. Rutland is trying to work some California magic on a big New England thrift.

For two years, he has been recasting the once-faltering Northeast Savings, Hartford, Conn., in the image of the strong and profitable California thrifts. Specifically, he said, his model is World Savings, Oakland, Calif. – a widely admired thrift.

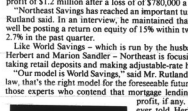
Mr. Rutland, himself a veteran of the California thrift scene, has a long way to go with Northeast. But he is clearly making headway.

Last week, the $4.9 billion-asset Northeast announced it had met capital requirements of the thrift-bailout law. And this week, Northeast reported improved earnings in the second quarter, a modest profit of $1.2 million after a loss of of $780,000 a year earlier.

"Northeast Savings has reached an important turning point," Mr. Rutland said. In an interview, he maintained that the thrift could well be posting a return on equity of 15% within two years, up from 2.7% in the past quarter.

Like World Savings – which is run by the husband-wife team of Herbert and Marion Sandler – Northeast is focusing on the basics, taking retail deposits and making adjustable-rate home mortgages.

"Our model is World Savings," said Mr. Rutland. "Given the new law, that's the right model for the foreseeable future." He scoffed at those experts who contend that mortgage lending produces little profit, if any. "I guess nobody ever told Herb Sandler that," he said. The key, he added, is aggressive cost control.



George P. Rutland

Mr. Rutland, 57, knows plenty about the ways of West Coast thrifts. He formerly was president and chief executive officer of CalFed Inc., Los Angeles, the nation's fourth-largest thrift company. He resigned in May 1988 when he was passed over for the chairmanship.

Mr. Rutland joined Northeast in July 1988 as chairman and chief executive. The thrift – formed in 1982 when Schoenecktady Savings Bank, Schenectady, N.Y., acquired troubled thrifts in Hartford, Boston, and Worcester, Mass. – had suffered from weak profits.

Seeking to boost performance and comply with the bailout law's capital requirements, Northeast has reduced assets from $8.2 billion at the end of 1988 to the current $5 billion, mainly by selling mortgage-backed securities. And Mr. Rutland has cut about 450 jobs, or 30% of the total, eliminating entire levels of management.

"If there is any big thrift that has done what it could to meet both the spirit and the letter of [the bailout law], it is Northeast," said Don Kauth, an analyst at First Albany Co.

Despite those efforts, Northeast's capital remained negative until this month, when it formed a holding company. About $100 million of cumulative preferred stock, which cannot be counted as capital, was shifted to the holding company and replaced by the holding company's investment in the thrift. That investment is recorded as common equity.

Meanwhile, Northeast is suing the government, claiming unfairness in the bailout law's provision that disqualifies the type of capital Northeast took on through government-assisted acquisitions of troubled thrifts.

"That is arbitrary taking of property without due process," Mr. Rutland declared. He said victory in the suit would boost Northeast's capital by $200 million. □

NEWS *briefs*

Ranieri's Thrift Completes Purchase of Loan Offices

HOUSTON — United Savings Association of the Southwest, a thrift headed by mortgage-securities pioneer Lewis S. Ranieri, completed its purchase of the loan production operations of Commonwealth Mortgage of America.

The transaction brings United 45 offices in 15 states.

World Bank Plans Big Cut In Loan Margin to 3d World

NEW YORK — The World Bank plans to cut its loan margin, now at 50 basis points or one-half of 1%, to help Third World borrowers improve their cash flow, according to the World Bank's senior vice president, Ernest Stern.

The lending margin could be cut to as little as 20 basis points, Mr. Stern said. But bank officials rejected debt forgiveness.

Attleboro Sells Deposits From 3 Branches to Fleet

PROVIDENCE, R.I. — Fleet-/Norstar Financial Group said it agreed to buy the deposits of three branches of Attleboro Pawtucket Savings Bank and to assume the lease on one of the offices.

Attleboro will be left with 17 offices in Rhode Island and Massachusetts.

$47 Million for Low-Cost Housing

Kemp Kicks Off Program Mandated by Thrift Law

By STEPHEN KLEEGE

NEW YORK — Thrift institutions, working with local housing agencies, will distribute $47.2 million of industry money in the first phase of a new affordable housing program mandated by the 1989 thrift-bailout legislation, the Federal Housing Finance Board announced Monday.

The money, to be distributed on the basis of proposals submitted by lenders and housing groups, will go toward the development of 13,706 residential units at a total cost of $669 million.

"I am particularly pleased with the diversity of the housing developments – from new rental units for very-low-income people and the homeless, to rehabilitated multifamily properties for the elderly and handicapped, to interest buy-downs to help low-income families," said Jack Kemp, secretary of housing and urban development, who also serves as chairman of the finance board.

Home Loan Banks Made Choices

The projects were selected by the 12 Federal Federal Home Loan Banks. The Financial Institutions Reform, Recovery, and Enforcement Act required the district banks to contribute a percentage of annual income to the programs, beginning at 5% this year and rising to 10% on $100 million, whichever is greater, in 1993.

In the first phase of this year's program, 193 projects were selected from 433 applications, mostly from institutions.

The $4.4 million of "subsidy funds provided by this bank are a charge against earnings," said Brian Dittenhafer, president of the New York Home Loan Bank. "Those funds would otherwise be paid out as dividends to our stockholders, the home-financing institutions of the district."

U.S. League Lauds Participants

The U.S. League of Savings Institutions, whose members fought the affordable housing provisions in the bailout legislation, issued a statement by its president, Frederick Webber, saying the league is "proud of the savings institutions business's enthusiastic response to the AHP."

An aide to Rep. Henry B. Gonzalez, D-Tex., chairman of the House Banking Committee who pushed to include the affordable housing language in the legislation, said that the program had "a difficult birth," but that once it was enacted, the savings industry responded well.

The district banks got more applications than even the most optimistic would have expected," the aide said.

First Nationwide Bank, San Francisco, a unit of Ahmor Co. subsidiary, had 18 applications; 16 won grants.

The First Nationwide projects will cost a total of $106.2 million, with the thrift contributing $26.8 million in loans, the district bank subsidy amounting to only $4.2 million, and most of the rest coming from other government sources, a thrift spokewoman said.

Those projects range from bridge loans for tax-advantaged, low-income housing in Cleveland to an acquisition and rehabilitation project with World California Housing Corp.

Squall Homes in South Bronx

A typical project using funds from the Federal Home Loan Bank of New York, entails the construction of 196 small homes for low-income families in the South Bronx. The Home Loan bank funds will be used for a low-interest construction loan, with additional subsidies coming from New York City and State and long-term financing by the New York City Housing Development Corp.

Also among the recipients of grants were four multilender groups, including Samco, a Santa Clara, Calif., group of 23 institutions that received $1.2 million to subsidize $33 million of developments.

In all, Samco is expected to develop 1,200 housing units, including 240 for very low income residents. The group announced on Monday that it has approved two loans – for 20 apartments in Morgan Hill, Calif., and 84 housing units in San Jose.

The rest of the total of $78.7 million for 1990 will be awarded by the end of the year. □

Hartford Bank Hires Florida Exec

BOSTON — Bank of New England Corp. said it has recruited Florida banker William E. Moeller to become president and chief operating officer of its Hartford-based subsidiary, Connecticut Bank & Trust Co.

Mr. Moeller, 48, had been executive vice president in charge of institutional and south Florida banking at Southeast Bank, principal subsidiary of Southeast Banking Corp., Miami. He began at Southeast in 1988 after stints at First Chicago Corp. and Citicorp in a career dating from 1966.

Lawrence B. Fish, chairman and chief executive officer of the $25 billion-asset Bank of New England, said Mr. Moeller has "an outstanding record of success in highly competitive banking environments." Mr. Moeller succeeds James F. McNally, who announced his retirement in May. □

COMPANY *index*

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CoreStates Continues Drive To Expand Card Processing

By RICHARD LAYNE

NEW YORK — Acting to increase fee income, CoreStates Financial Corp. has acquired its second processing business in four weeks.

CoreStates, which aims to join the ranks of the biggest merchant bank card processors, has purchased the merchant processing portfolio of Equibank, a subsidiary of Equimark Corp., Pittsburgh, for an undisclosed price.

The acquisition gives CoreStates entree into the Pittsburgh market for transaction processing and electronic funds transfer services. Equibank had 1,318 merchants and annual volume of about $60 million.

The Equibank merchants can now accept the Mac debit card for point-of-sale payments, an important step in the growth of debit cards for CoreStates, which runs the Mac network.

A Key Acquisition

In June, CoreStates bought the Amherst Group, the biggest point-of-sale processor in New England. The acquisition made CoreStates into a leading bank provider of POS services. Stock analysts have predicted that CoreStates will continue to increase its electronic payments services through acquisitions.

"We are in the the transaction processing business," said T. Gage Lightner Jr., a vice president of Philadelphia-based Bank, the CoreStates unit that operates the merchant processing service. "We subscribe to the theory that this is where the future of banking is."

Earnings Not Disclosed

CoreStates does not make public its earnings from transaction processing, which includes the Mac electronic funds transfer business.

Even with the acquisition, CoreStates remains a long way from the top 10 merchant processors. CoreStates processes $1.25 billion a year from 26,000 merchants through its Card Linx service.

According to *The Nilson Report*, an industry newsletter, National Processing Co. does $18 billion in merchant volume, followed by Citicorp, with $17.7 billion. Before the Equibank acquisition, CoreStates ranked 36th among processors in *The Nilson Report*.

> **"We subscribe to the theory that this is where the future of banking is."**
>
> **T. Gage Lightner Jr.**
> *Philadelphia National Bank*

As in many processing businesses, nonbank companies predominate. Citibank, the top processor among banks, is said to be eager to acquire enough portfolios to take the overall lead.

Commitment Noted

"Many banks are getting out, but we are committed," said Mr. Lightner. CoreStates plans to purchase additional merchant processing portfolios, which provide fast growth, instead of developing the business merchant by merchant, he said.

Until the recent acquisition, CoreStates merchant processing business was centered on Philadelphia, with few customers in western Pennsylvania, where it has a substantial number of Mac cardholders. "It was important to be in that market," said Mr. Lightner. "It is a strong debit area for us." □

$10 Million Capital Markets System

Security Pacific Buys Help to Manage Risk, Products

By JEANNE IIDA

NEW YORK — Security Pacific Corp. is installing a $10 million system to help its capital markets group manage risk and package new products.

The Los Angeles-based bank is one of the first to use relational data base technology, which lets a bank organize data more efficiently than through sequential data organization.

Its system will allow a trader to see on a single screen consolidated information about a customer's transactions, including swaps, foreign exchange, treasury bonds, and options.

Sections Join System

Domestic funding operations at Security Pacific have been using the system since February. The foreign exchange area will switch in the next two months. And the company is evaluating addition of money dealers, the third part of the capital markets group, to the system.

The system is "providing the lowest cost on a product and managing risk," said Richard J. Harmel, first vice president of facilities and technology at Security Pacific.

Citicorp, Chase Manhattan Corp., and BankAmerica Corp. are also working to apply relational data base technology to capital markets. BankAmerica's system will be installed in North and South America in mid-1991, said Richard Griffith, executive vice president.

Minimizing Costs

"You can't run a profitable business without a precise link between funding." Mr. Griffith said. "These projects are aimed at minimizing the cost of funds" business.

Security Pacific said its system will bring together information from disparate networks around the world, allowing the company to craft new capital markets products more quickly and more cheaply. The savings will be passed on to customers, the company said.

The international environment will let the bank categorize transactions as fed funds, for-

> **"You can't run a profitable business without a precise link between funding. These projects are aimed at minimizing the cost of funds" business.**
>
> **Richard Griffith**
> *BankAmerica Corp.*

eign exchange, or swaps; process them; and then present them as part of a consolidated trading position.

Funds Areas Cross-Fertilize

It will also be easier to package new products quickly, Mr. Harmel said. "We're beginning to see a cross-fertilization" of capital markets businesses, he said. "I believe one day we'll see a generic trader of sorts."

The system streamlines flow of transaction data to the back office and helps manage risk.

In the past, traders wrote up their own tickets after a transaction. The tickets would then be entered into the back-office system, creating margin for error.

Dealers Enter Trades

With the new system, a dealer enters the trade at his desk. The customer's master file is automatically updated on the global trading system. "It gets shot off to back-office systems for confirmation," said Mr. Harmel, and the payment is initiated.

Systems used by most banks make it cumbersome to create new capital markets products. Data typically must be extracted from one data base and entered into another system. It takes considerable time to build the product and even longer to change it.

Mr. Harmel said the bank will assess the system's success by looking at the capital markets group's profitability. The system should give Security Pacific "a better flow of information, the ability to transact in higher volumes, and the ability to respond more quickly to market dynamics," he said.

Old Networks Linked

The company is tying together data from an old network in Asia, composed of midrange computers from International Business Machines Corp., and other networks in Europe and the United States, which use Digital Equipment Corp. computers.

In its capital markets project, BankAmerica will keep foreign exchange operations separate from the new data system. Instead, foreign exchange will be included in the San Francisco company's $300 million global banking system.

A capital markets system should be more flexible than a system for foreign exchange transactions, said Mr. Griffith of BankAmerica.

BankAmerica views foreign exchange as a more stable type of transaction than other capital markets transactions. "In capital markets, the derivative products are much more technology-driven," Mr. Griffith said. □

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COMPUTROL

COMMENT/ *By Brian W. Smith*

Cleanup Law Hazardous To Banks with Deep Pockets

Cowed by CEBA and battered by FIRREA, many financial institutions should be wary of CERCLA, an increasingly important entry in the lender's lexicon of legislative acronyms.

In the wake of the 20th anniversary of Earth Day and the "greening" of the national consciousness, lenders that are perceived to have deep pockets may find that, although they did not create the mess, it may cost them dearly to clean it up.

Environmental contamination presents several kinds of problems for financial institutions and is attracting the attention of federal banking regulators.

Appraisals Don't Tell Story

In lending situations, contamination reduces property values, but is rarely reflected in appraisals. Contamination imposes substantial encumbrances on the proposed collateral and gives rise to the real possibility that the lender may be subject to cleanup claims.

Collateral for existing loans may not be as creditworthy or as secure as bank records indicate.

Contamination may have substantially eroded the value of real property or corporate assets. Property managed for personal trusts and in collective funds or investment pools can have similar problems.

The decline in the value of the trust assets due to contamination can be made even more onerous by the bank's fiduciary relationship to such property.

Problems associated with the management of troubled assets in workout and foreclosure are substantially compounded by the existence of contamination.

Purpose of the Law

The Comprehensive Environmental Response, Compensation, and Liability Act, also known as the Superfund law, was enacted in 1980 to establish a mechanism for the expeditious cleanup of inactive or abandoned waste sites.

CERCLA was substantially changed in 1986 by the Superfund Amendments and Reauthorization Act.

CERCLA has three principal elements: First, the law permits the federal government to enter onto property where hazardous substances are found and respond to an emergency by removing the hazardous material or taking other actions to abate the dangerous condition.

Mr. Smith is chairman of the Financial Institutions Group of the law firm Stroock & Stroock & Lavan. He is based in Washington.

"Collateral for existing loans may not be as . . . secure as bank records indicate."

Second, the law establishes the Hazardous Substance Response Trust Fund (the Superfund) to pay for such cleanup actions. Initially, the Superfund was set at $1.6 billion to cover the first five years of operation. The fund was increased to $8.5 billion under the 1986 amendments.

How Mostly Is Raised

Money for the Superfund is raised by special taxes on industry, including taxes on petroleum and chemicals, and a broad excise tax. The law also requires that private parties responsible for contaminating the site reimburse the fund for expenses incurred by the Superfund.

Third, the law imposes liability on private parties identified as having contributed to the contamination of a particular site. These parties are called potentially responsible parties (PRPs) and they include: present owners and operators of any facility where a hazardous substance is located; owners and operators of any facility at the time of disposal of a hazardous substance; any offsite entity that generated or arranged for disposal or treatment of hazardous substances ultimately disposed of at the site; and transporters who brought hazardous substances to the site.

Under the law, in addition to being empowered to perform the remedial action itself, the government can issue orders to potentially responsible parties requiring that they perform the remedial work.

Frequently, however, the Environmental Protection Agency will negotiate judicial consent orders with the parties in which they agree to reimburse the Superfund for any money already spent and to conduct and finance future remedial work at the sites.

Under the statute, the potentially responsible parties may be liable not only for the costs of removal or remedial action incurred by the federal government or private parties, but also for damages or injury to, destruction of, or loss of natural resources, and the costs of health assessments performed by state

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Managing Editor: Thomas J. Ferris
Asst. Managing Editor: Jeffrey Kisker
Washington Bureau Chief: Robert Trigaux
Bureau Chief, Boston: Dan O'Kelley, Eve M. Kahtenau
Features Editor: Patricia Stundza
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GRAPEVINE/ *By Jed Horowitz*

Money-Center Cuts. Some analysts are disappointed that Chase Manhattan Corp. did not bite the bullet and take a big restructuring charge in the second quarter, but the bank is signaling that the restructuring is ready to roll.

In addition to previously mentioned sales of real estate and other assets, bank executives are saying that some product lines will be dropped. Analysts speculate that most of the businesses to be dropped will come from what was formerly known as the institutional banking sector, which was run by vice chairman Robert R. Douglas. Prime candidates for severance are the money management business and some leasing businesses, one analyst speculated.

Chase last month dissolved its tripartite institutional/individual/global bank structure and removed Mr. Douglas and Richard J. Boyle, vice chairman in charge of corporate banking, from line responsibilities.

At Manufacturers Hanover Corp., meanwhile, president Thomas S. Johnson reportedly has cast a cold eye on the first round of proposed budget cuts offered by his senior managers. Mr. Johnson sent the proposals back to the managers, saying they had not gone far enough, according to one bank source. Hanover yesterday announced a second-quarter restructuring charge that it said would save operating expenses of $125 million annually.

* * *

Morgan Sees Equity. It is unclear how much equity business is out there, but J.P. Morgan & Co. should be the first bank company to get a crack at it.

Regulators from the Federal Reserve Board have been inside J.P. Morgan Securities since the end of June — reviewing policies, procedures, and capital requirements — in preparation for granting Morgan final approval to underwrite equities, bank sources said. They are expected to be out by the end of July, and have told Morgan officials to expect a final ruling in September.

Morgan and securities subsidiaries of Bankers Trust New York Co., Citicorp and Chase Manhattan Corp. last year won the right to underwrite corporate debt to a limited extent. The Fed granted equity underwriting powers at the same time. However, it said it would wait about a year before reviewing supervisory and other policies to ensure that the riskiness of the equity activities do not spill over to the insured bank affiliate of the securities units.

Regulators from the Federal Reserve have been inside J.P. Morgan Securities since the end of June in preparation for granting Morgan final approval to underwrite equities.

Separately, Morgan is transferring the head of its futures brokerage subsidiary, Gary D. Lawrence, to become its senior corporate officer in Hong Kong in September. Mr. Lawrence, who also oversaw the equities department of J.P. Morgan Securities, replaces David W. Hudson, who is returning from Hong Kong to head corporate finance in New York. Mr. Lawrence's futures post will be assumed by Jared A. Chase, who will move to New York from his London post as a managing director of the securities subsidiary.

* * *

Swap Stabs. Rumors have been circulating among swaps traders for several weeks that one or two money-center banks suffered big losses in their overseas swaps or swap options portfolios.

Most prevalent is talk that Citibank lost more than $100 million yesterday because of swap mismatches in Asia. The talk intensified after *International Financing Review* last week published a ranking of earnings by foreign banks operating in Japan. Citibank galloped into prominence as the biggest money loser for the fiscal year that ended in March, reporting an ordinary loss of 29.7 billion yen (about $200 million at current exchange rates). Runners-up, with loses 4.3 billion yen and 3.6 billion yen respectively, were Bank of America and Continental Bank.

A Citibank spokesman said the loss stemmed from differences between Japanese and U.S. accounting practices for swaps as well as from expansion of retail services. If U.S. mark-to-market accounting were used, Citibank's fiscal year loss in Japan would have been 4.1 billion yen, the spokesman said. Citibank, a spokeswoman added, "is quite satisfied with its performance in the Asian swaps markets."

The Japanese results were reflected in Citicorp's first-quarter earnings, the spokesman said.

Chemical Banking Corp., which last year suffered a large hit in options trading and has reduced its presence in the market, also is believed to be booking losses as it closes out mismatched positions, traders said. A Chemical spokeswoman said she is unaware of any major losses related to swaps.

* * *

There's No Business. . . A division of publishing company Pennsylvania for the past four years has sponsored a well-attended seminar for bankers and bank lawyers titled "Current Issues in Commercial Bank Financing." The agenda for this year's session seemed hot. It would focus on "loan default remedies and protection" and "protection against market risk for new financing arrangements," according to a brochure.

In a telling sign of current issues in banking, the seminar was canceled last month because of insufficient interest. "If we could find some new financing deals," one lender said, "we might be interested in protection against market risk." □

LETTERS *to the editor*

Official Says OCC Seeks Out Qualified People

To the Editor:

I would like to respond to Peter Edwards' letter to the editor published on June 12 ("Hire Bankers for Regulatory Jobs, Consultant Urges," page 5). Let me assure Mr. Edwards and other readers that the Office of the Comptroller of the Currency does have a policy to hire experienced people.

The OCC implemented an experienced-hire program several years ago to supplement its entry-level recruitment efforts. The program specifically targets people with experience in the financial services industry. Our recruitment efforts include advertisements in professional magazines and major newspapers, recruitment literature for experienced candidates, and training programs.

Our experienced-hire program is successful primarily because OCC managers strongly support the idea of hiring candidates who have relevant work experience. Last year, 40% of the OCC's newly hired examiners had such experience. Candidates for the program can contact me at 202-447-1543 for more information or a brochure.

Rebecca J. Minton
National recruitment coordinator
Office of the Comptroller of the Currency

A Cheer for U.S. Banking System

To the Editor:

Included in your June 25 analysis article ("Pressure Mounts to Allow Banks Free Branching," page 1) was the usual line about the inability of U.S. banks to compete internationally because of lack of size.

A few questions, please:

Has not the American banking system always been considered to be among the world's finest?

Has not that banking system contributed substantially to one of the world's highest standards of living?

Was not our financial system given some credit for our ability to quickly mobilize for World War II?

Why, oh why, are we so determined to change our banking system so as to pattern it after other banking systems?

Thomas F. Bolger
President
McHenry State Bank
McHenry, Ill.

The Details of Postal Discount

To the Editor:

I would like to make a clarification in a June 18 story ("Banks Using Less First-Class Mail," page 3).

The discount which would result in payments as low as 24.3 cents is included in the rate proposal requesting a 30-cent first-class stamp. These rates, if approved, are scheduled to go into effect in early 1991.

Currently, the lowest discount available to mailers for presorting and pre bar coding mail is a 5-cent reduction from the current 25-cent rate for first-class mail.

Anthony M. Frank
Postmaster general
U.S. Postal Service
Washington

Chief of Bank Of New England Notes Progress

To the Editor:

I and my colleagues at Bank of New England Corp. are disappointed and surprised over last Friday's *American Banker* "Analysis" of rumors about us.

As we move forward with factual steps toward recovery, we are disappointed in the decision by our industry's leading trade journal to breathe life into rumors. And we are upset because of the serious, significant effects of such rumors has on employee morale.

As we pointed out recently to our shareholders and to *American Banker*, we are making slow, steady, measurable progress toward recovery, a fact shared with the various federal regulators with whom we have a close and cooperative relationship.

We have made major additions to our outstanding management team. Our national and regional deposit campaign is working, significantly ahead of earlier liquidity pressures. We are getting control of our credit area. And we have been successful in our strategic asset disposition campaign.

All of these facts have enabled us to restore confidence to some two million customers whose faith in us was sorely tested by a daily dose of bad news last winter.

Our progress is measured in steps, our full recovery is not some way off, and our rebuilding will take some time. But on Monday, July 16, as all could see, we were open for business. And that's a fact.

Lawrence K. Fish
Chairman and chief executive officer
Bank of New England Corp.
Boston

Editor's Note: When rumors are so widespread that they affect how a company is being perceived in a marketplace, that is worthy of news analysis. In our judgment, the rumors about Bank of New England had reached that level. □

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✓ Tax Advantages
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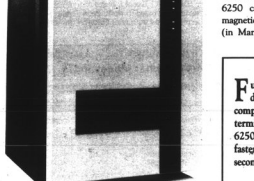
PRODUCT ANNOUNCEMENT
MITRON STD 6250

MITRON Systems Corporation of Columbia, Maryland has added a new magnetic tape data communications terminal to its product line which will process 6250 bpi high-density formats. In service since January 1989, the STD 6250 provides an efficient, cost-effective method for sending and receiving data off-line without the need for a computer.

With the STD 6250, any requirement to ship tapes between offices via courier service or mail can be eliminated. Tape data generated in either 1600 bpi or 6250 bpi format can be transferred in either mode via dial up, private line or digital networks.

The STD 6250 requires no software for its operation and accurately transfers data at speeds up to 256KB. This versatile off-line data communications terminal provides reliable and timely data exchanges while communicating with remotely located MITRON terminals or other manufacturers' bisynchronous terminals and computers.

MITRON offers several lease and purchase programs.



Since 1969, Mitron's magnetic tape systems have been used in a wide variety of data communication applications. For more information on how the Mitron STD 6250 can be used to send or receive magnetic tape data files, call 800 638-9665 (in Maryland, 301 992-7700).

Future announcements will describe an STD 3480 cartridge-compatible data communications terminal and a higher speed STD 6250. Both terminals will operate faster than T1's 1.544 mega-bit per second data rate.

MITRON Systems Corporation
2000 CENTURY PLAZA
COLUMBIA, MARYLAND 21044
301 992-7700 800 638-9665

PRIVATE BANKING

Southeast Banking Boosts Its Efforts to Lure Clients

By MAUREEN NEVIN DUFFY
Special to the American Banker

Private bank units, because of their entry requirements, frequently serve the most stable, lucrative clients of the institution. The strength and profitability of these operations has never been more apparent than in the Florida market, where real estate losses have depressed other banking businesses.

Southeast Banking Corp., which has suffered from dramatic increases in nonperforming real estate loans, is aggressively marketing its private banking services. The Miami holding company reported a first-quarter loss following a Comptroller's exam, and anticipates further losses for both the second quarter and the year. In his March 27 report, J.S. Kraushaar, an analyst for Merrill Lynch, said Southeast's expenses are "likely to rise to over 76% of revenues before leveling off in 1991."

"We have not at this point experienced any negative trends in the private bank or trust area due to the negative earnings of the bank," said Samuel W. Gentry Jr., senior vice president of both the domestic and international private bank operations. "Private banking and trust services are the real bright spot. My challenge is to keep people motivated about what we are doing for the client base."

To gain an edge in Florida, where a combination of retirees from the North and new wealth makes for a competitive market, Southeast began a marketing program for its private bank in January.

> **"Private banking and trust services are the real bright spot."**
>
> **Samuel W. Gentry Jr.**, *Southeast Banking Corp.*

The program, designed by Neil S. Fox, president of Fox/MMJM Direct, a New York-based promotion firm, is the first marketing effort since the private bank and trust services areas were integrated in 1987-88. During that period, Southeast acquired the high-net-worth clients of First National Bank of Palm Beach. Until then, most clients with high net worth dealt directly with the bank president, Mr. Gentry said. Now there are so many of these clients, "they would get lost within the system," he said.

Ad Campaign Stresses Elitism

Advertisements appearing in *The Wall Street Journal's* Florida edition, *South Florida Business Journal*, and playbills refer to the "Inner Circle," an elite group of private bankers, each with a minimum of 20 years of experience. Services advertised include trust, estate planning, custom credit lines, custody services, and high-yield investment options. The goal of the campaign is to attract clients who have at least $500,000 in liquid assets.

In addition to advertising, Mr. Gentry is hosting a weekly classical radio show in Miami, featuring the Philharmonic Orchestra of Florida. Southeast is also sponsoring sports events, ballet and art productions, and charity benefits.

"At this point, we are helping the rest of the bank out because of the earning stream we are providing," Mr. Gentry said. He declined to give figures on assets under management or quantify their growth, except to say that he expects to exceed his profit plan for the year.

No Defaults on Loans

Despite the depressed Florida real estate market, Mr. Gentry said, the private bank has had no defaults on loans. Real estate loans are not handled in the private bank, except for jumbo loans or other unusual requests.

Its private clients are diversified so that sour real estate investments would not adversely affect clients' total wealth, he said.

Southeast considers its major competitors for private bank services to be the Florida unit of Chicago-based Northern Trust Corp. (with $6 billion in trust assets under management in the state), Barnett Banks Inc., and the Florida units of SunTrust Banks Inc., Atlanta.

Among the major New York private banks that Southeast competes with in Florida are Bankers Trust, Morgan Guaranty, Bessemer Trust, and U.S. Trust.

Fla. Client Has Lower Net Worth

While the Florida market is profitable, the average private-banking client in the state has a lower net worth than private banking customers nationwide, according to one research company.

PSI, a Tampa-based financial services, research, and consulting firm, estimates that $4,300 people use private bank services in the state, with an average income of $128,000 and average net worth of $471,000.

Nationwide, private-banking customers have an average income of $153,000 and an average net worth of $835,000. The private banking household generates $8,936 a year in financial services revenues, according to PSI senior vice president John J. DeMarco.

Florida also has a disproportionately small share of U.S. private banking households, according to the PSI data. The state has 5.4% of the nation's households, but only about 2% of private banking households, the company found.

Ms. Duffy is a freelance banking reporter based in New York.

Visa Travelers Checks Surge 17%

Group's Sales Rocket 40% in the Asia-Pacific Region

By ELLEN MEMMELAAR

NEW YORK — Visa International says first-quarter sales of its travelers checks were well ahead of projections, which had been termed optimistic by many in the industry.

Worldwide, Visa sold $2.8 billion in travelers checks in the period that ended March 31, for a 17% increase over the comparable period in 1989, the association said.

Foreign Sales Total $2.1 Billion

Sales outside the United States totaled $2.1 billion.

The Asia-Pacific region led in increases, with 40%. The second-largest gain was in Canada, where sales climbed 29%, the spokesman said.

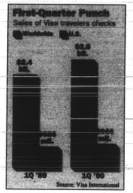
Competitors Post Fewer Gains

Visa's sales gains far surpassed those of its competitors. American Express Travel Related Services Co. reported international sales of $5.2 billion, up 3% from the year-earlier period. MasterCard sales jumped 7.5% to $1.75 billion in the quarter.

For the full year, Visa has projected a sales increase of 11.6% to $13 billion, from $11.5 billion in 1989.

The card association appears well on its way to meeting that goal. The first-quarter gains were solid, and the period is traditionally a slow one for travelers checks sales globally.

The increase in domestic sales was less startling, at 13.6% to $644 million, from $556 million in the first quarter of 1989. The association does not make predictions for domestic travelers check activity, but Jean-Jacques Desbons , executive vice president for consumer products, said Visa is expecting solid growth in the United States.



> **"The Asia-Pacific region is where the growth is."**
>
> **Jean-Jacques Desbons**, *Visa International*

Dennis Stevens, vice president of marketing at American Express Travelers Cheque group, believes Visa's emphasis on foreign markets is designed to cover the lack of growth in domestic sales.

"Since the early 1980s, when Visa first introduced a travelers check product in the U.S., Visa sales here have hardly grown at all, while American Express travelers checks in the U.S. have grown by almost $7 billion," Mr. Stevens said.

Large Gains Abroad

Mr. Desbons points to the gains abroad and the future gains from the addition of Rome-based Banca Nazionale del Lavoro and Singapore-based Overseas Chinese Banking Corp. both of which will come on board in the fourth quarter.

Visa travelers checks will be the leading brand abroad by 1991, he predicted.

MasterCard claims to lead in sales abroad, primarily because of its affiliation with Thomas Cook Inc.

'Where the Growth Is'

"The Asia-Pacific region is where the growth is," Mr. Desbons said.

The association's biggest focus is the Japanese market, but markets in Thailand, Taiwan, Korea, and India are poised for significant growth over the next year, he said. Singapore, Australia, and Hong Kong are boasting solid sales, he added. □

Arizonans Have Worst Consumer Credit Records

NEW YORK — Residents of Arizona, Alaska, and Louisiana have the worst consumer credit records in the nation, according to a study by SMR Research Corp.

Hawaii, Delaware, and Wisconsin have the most conscientious consumers, the survey found.

29,600 Institutions Surveyed

The Budd Lake, N.J.-based research firm based its findings on a survey of 14,000 credit unions, 13,000 banks, and 2,600 thrifts in 1989. The firm asked institutions for information on delinquencies and chargeoffs in three areas – real estate, home mortgages, and consumer loans – as well as personal bankruptcies.

Areas with booming real estate markets, like Hawaii, tended to fare better than states with sagging markets, like Arizona. "The local real estate market is a function of the local economy," said Mark Kamm, spokesman for SMR.

Hawaii had a bankruptcy rate of 0.7 for every 1,000 residents in 1989, the best in the nation. The national average was 2.5 bankruptcies per 1,000 people, and Arizona had the most, 3.96 for every 1,000 residents.

The research firm also listed metropolitan statistical areas by creditworthiness. Wausau and Milwaukee, Wis., ranked as the best; Shreveport, La., was at the bottom of the heap.

— **Ellen Memmelaar**

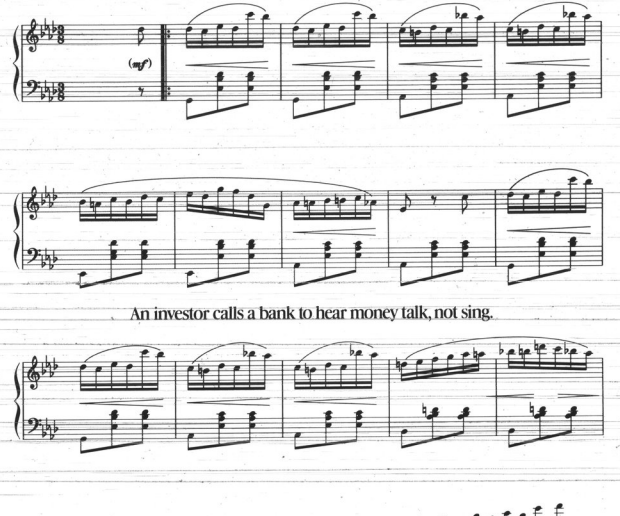
AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index — **Corporate Money Market Accounts**

Here are the rates and account details that some of the nation's largest bank and thrifts were offering on July 17 for corporate money market accounts. The items in the fees and details column refer to all tiers offered by each institution unless otherwise noted.

Institution	Rate	Balance	Cmpd	Charges	Fees/details
Comerica Bank Detroit	4.75% 5.35	$0-2,499 2,500-up	Monthly	Weekly	$12 Monthly
Fidelity Bank Philadelphia	5.45 7.05 7.51 5.46	$0-24,999 25,000-49,999 50,000-249,999 250,000-up	Daily	Weekly	$20 monthly $5 /transaction over MMA limits
Michigan Nat'l Bank Farmington Hills	4.75% 5.00	$0-4,999 5,000+	Simple	Weekly	Varies with customer relationship
Shawmut Bank Boston	6.65%	$0-up	Daily	Weekly	None
Anchor Savings Bank New York	6.30%	$5,000-100,000	Daily	Daily	$6 Monthly if bal.<$499 $3 Monthly if bal. falls between $500-$999
Atlantic Financial Federal Bala Cynwyd, Pa.	7.75% 8.02	$5,000-29,999 30,000-up	Monthly	Weekly	$10 Monthly if bal. <$5,000

Data Source: Bank Rate Monitor, N. Palm Beach, 33408



An investor calls a bank to hear money talk, not sing.

Being put on hold for three minutes of Chopin's Waltz in A♭ is enough to make anyone see red. And a bank can't afford to make its customers angry.

That's why Norstar Bank, N.A. invested in the new AT&T DEFINITY® Communications System. Now, by handling calls efficiently, they save time and frustration for their customers. And because the system helps them maximize their ETN network, the bank has also saved $300,000 this year alone. Not only is the system's modular architecture technically advanced to speed traffic handling, but it can grow with every advance. Plus, as a member of the System 75/85 Users Group, Norstar can share knowledge with other users that will not only enhance their voice network and simplify features, but also give them input into AT&T product development for the future. That makes the AT&T DEFINITY System worth banking on. And does wonders for their customers' listening pleasure. For details, call your AT&T Account Executive or 1 800 247-1212, Ext. 361. In Canada, call 1 800 387-6100.

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Senate Panel Rejects an Extra Day to Clear Local Checks

Continued from *page 1*

banks in their local areas. He wants the three-day deadline to be permanent and not cut to two days, as scheduled, on Sept. 1.

Mr. Garn would not change the funds-availability schedule on most nonlocal checks, currently seven business days and falling to five days on Sept. 1.

May Go to Senate Floor

Losing by only one vote in committee, Mr. Garn may be able to push his funds-availability amendment on the Senate floor. Several Democrats on the banking committee said they might be willing to support the amendment if they receive more information.

Sen. Alan Dixon, D-Ill., who led the opposition to the Garn amendment, said he did not "have any real strong feelings" about it but objected to revamping a package that involved weeks of delicate negotiations. Following are some of the areas covered in the wide-ranging package that cleared the banking committee.

• Money laundering. The bill permits regulators to revoke an institution's charter or terminate its deposit insurance if senior management, directors, or the institution itself is convicted on money-laundering charges. It also requires the Treasury Department to promulgate regulations governing international wire transfers.

• Truth in savings. The legislation sets uniform standards for disclosure of rates on savings accounts. Depository institutions would be permitted to advertise only one type of return – an annual percentage yield based on a formula determined by the Federal Reserve that takes into account the interest rate, frequency of compounding, and a 365-day period.

• ATM deposits. On another funds-availability issue, the bill would delay for four years, until September 1994, a provision in existing law that would require depository institutions to handle checks deposited in shared automated teller machines in the same way as checks deposited in local branches.

The panel also approved, as a separate measure, the Fair Lending Enforcement Act of 1990, which would require bank, thrift, and credit union regulators to establish separate consumer compliance divisions with specially trained examiners to monitor consumer protection laws.

That bill would require regulatory agencies to refer to the Attorney General any violations of the "pattern or practice" section of the Equal Credit Opportunity Act. Individual cases of suspected discrimination would be referred to the Department of Housing and Urban Development.

Both bills now go to the Senate floor, where they face an uncertain future. The larger package, which includes the money-laundering, funds-availability, and truth-in-savings provisions, could be broken into smaller parts.

In this congressional election year, the money-laundering bill is regarded as close to a sure thing, and anything attached to it is likely to be enacted as well. As a consequence, even though the ATM deposit amendment is part of two other bills, including truth in savings, Sen. John Heinz, R-Pa., asked that it be attached to the money-laundering measure as a safeguard.

The panel also approved a separate measure that would require bank, thrift, and credit union regulators to establish separate consumer compliance divisions.

More uncertain is whether Sen. Howard Metzenbaum, D-Ohio, will try to attach a bill he has sponsored, requiring banks and thrifts to cash government checks presented by noncustomers, to the truth in savings or any other part of the package.

Sen. Alan Dixon, D-Ill., and Sen. Christopher Bond, R-Mo., did not offer a scaled-back version of the Metzenbaum amendment, as they were reportedly considering a few weeks ago.

The Garn amendment on funds availability may have failed because of its last-minute nature.

Sen. Terry Sanford, D-N.C., voted against the check-holding amendment but said that if he receives more information he may change his vote by the time the measure gets to the floor. A number of lobbyists said the issue came up only in the past few days. One said he was not even asked to contact his senator until the afternoon before the committee vote. □

Synovus Completes Branch Acquisitions

COLUMBUS, Ga. — Synovus Financial Corp. said it completed the previously announced acquisition of branches of Phenix Federal Savings and Loan Association in Phenix City and Opp, Ala.

The Opp branch will operate as a branch of Fort Rucker National Bank, a Synovus affiliate in Fort Rucker, Ala. The Phenix City branch will operate as a branch of CB&T Bank of Russell County, Ala., another Synovus unit.

The $2.6 billion-asset Synovus owns 14 banks in Georgia, four in Florida, and two in Alabama. It also controls Total System Services Inc., a leading processor of bank credit card transactions. □

It's everywhere you want to be.

Highest consumer preference.

Highest number of cardholders.

Highest sales volume.

Highest level of outstandings.

Highest growth rate.

Highest standard of service.



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Donation by Partner of Neil Bush Is Termed 'Hush Money'

By LOUIS GERHARDSTEIN

WASHINGTON — The chairman of a House Banking subcommittee said last week that a political contribution from a business partner of President Bush's son Neil, made less than a week before the 1988 presidential election, could be considered "hush money."

Rep. Frank Annunzio, D-Ill., cited reports filed with the Federal Election Commission that Kenneth M. Good, a business partner of Neil Bush's, donated $10,000 to the Republican National Committee on Nov. 2, 1988.

The younger Mr. Bush is a former director of Denver-based Silverado Banking, Savings and Loan Association, which thrift regulators seized in December 1988. Mr. Annunzio and other critics have accused regulators of being too slow to close Silverado and crack down on alleged unsafe practices.

Annunzio cited reports to the Federal Election Commission that Kenneth M. Good, a business partner of Neil Bush's, donated $10,000 to the Republican National Committee.

Timing Called Suspect

Asked at a press conference about the timing of Mr. Good's donation, Mr. Annunzio replied: "Hush money. He apparently felt he could do himself some good."

Mr. Annunzio said that, at recent House hearings, the Office of Thrift Supervision revealed that it had referred five matters regarding Silverado to the Justice Department for possible criminal prosecution. Mr. Annunzio said the OTS initially agreed to provide the names and dates of the referrals but later declined at the insistence of the Justice Department.

At a press conference, Mr. Annunzio suggested that one Silverado referral might have dealt with Mr. Good.

The congressman released a letter he had sent to Attorney General Richard L. Thornburgh, requesting that the Justice Department disclose the five Silverado referrals to the House Banking subcommittee on financial institutions, of which Mr. Annunzio is chairman.

Mr. Annunzio's questions about possible Justice Department improprieties come when Mr. Annunzio himself is being scrutinized for accepting campaign contributions from savings and loan interests during the 1980s.

Common Cause, the self-styled citizens lobby, said Mr. Annunzio had accepted $51,620 from individuals and political action committees associated with savings and loans from January 1981 to April 1990. That placed him eighth among current House recipients of such contributions.

Mr. Gerhardstein writes for Medill News Service.

Superregional Dilemma: How Long a Leash?

Continued from *page 1*

cus on customer needs," said Mr. Lewis, who was formerly president of NCNB Texas. "But at this point, we do not want to lose sight of the fact that there are regional differences we need to respond to."

As Mr. Lewis suggested, centralization is driven by the need to reduce costs and take advantage of economies of scale, particularly in the use of technology. The trick is to centralize while retaining the ability to respond to local market forces.

"While we operate in several markets, usually our competition is just operating in that one market," Mr. Lewis said.

Analysts said other large banks are facing similar questions as the economy cools and the pace of interstate acquisitions subsides.

Turning Inward for Profits

"Organization is a hot topic right now because banks are increasingly emphasizing profitability as opposed to growth," said John Karr, a managing associate at Coopers & Lybrand in New York. "And whenever you get banks emphasizing profitability instead of growth, they tend to look inwardly rather than externally."

In the wake of accumulating real estate problems, for example, the large New England banking companies have tightened controls over their regional subsidiaries, Mr. Karr said.

Banks also tend to centralize gradually after acquisitions, leaving acquired units alone temporarily to soothe ruffled egos.

'A Delaying Tactic'

"In some sense, autonomy is a delaying tactic until you figure out what you want to do," said Anthony Santomero, finance professor at the Wharton School of the University of Pennsylvania.

Given NCNB's history of centralization, analysts said, it was inevitable that the Texas operations would eventually be integrated into that structure. The announcement came two years after NCNB ventured into Texas by taking over the bankrupt First RepublicBank Corp. □

AN INTERVIEW WITH GENE BEDELL

Jump Cautiously on the Case Bandwagon, Expert Advises

Three months ago, International Business Machines Corp. and First Boston Corp. formed SEER Technologies Inc. to sell financial software and computer-aided software engineering (Case).

The chief executive's job went to Gene Bedell, 47, who had been managing director and chief information officer at the First Boston Corp. He now projects more than $5 million in 1990 revenue for the new company.

Case technology, which is almost five years old, promises to make computer programmers more productive by automating the tedious writing of code.

In a study by two professors, SEER's Case tool, called High Productivity Systems, improved productivity by 100 times. The SEER tool is unusual in that it creates code that supports cooperative processing. Some major banks are moving to this type of data processing, in which mainframe computers and personal computers run a program simultaneously.

American Banker *reporter Richard Layne recently spoke with Mr. Bedell in his office in New York:*



"You want to use 1990s productivity to develop 1990s systems."

Gene Bedell
SEER Technologies Inc.

Q.: Why all the ballyhoo about Case?

BEDELL: There is a tendency for some data-processing people to latch onto one technology and assume it will solve productivity problems. We've gone through data-base management systems, personal computers, fourth-generation languages, and now Case.

Case is one technology in a series of technologies that is useful for improving productivity.

Q.: What is Case?

BEDELL: The technology consists of two parts. Upper Case uses high-resolution graphics for data modeling and strategic planning. In lower Case, programmers use a computer to do many of the code-production tasks formerly done by hand.

Our belief is that it is as dangerous to get on the Case bandwagon as any other technology. Our product is a combination of technologies, including a Case tool and object-oriented programming.

Q.: What's wrong with the Case software available now?

BEDELL: All those technologies are 1990 technology. But companies use them to build the same kind of systems that were built in the 1960s and 1970s. They produce standard batch or even on-line systems that don't make full use of the processing capabilities of workstations and of high-resolution graphics.

You want to use 1990s productivity to develop 1990s systems: cooperative processing, high-resolution graphics, workstations, relational data-base management systems.

Q.: How many banks have cooperative processing?

BEDELL: It's more an issue of how many have discovered it and are moving toward it. The reasonably large, forward-looking banks are moving this way. That's much different from three years ago.

By and large, banks do not want new systems to be driven by nonprogrammable workstations. They want a mix of PCs and nonprogrammable terminals.

The problem is, using conventional tools, you can't develop systems that utilize PCs.

It's one thing to use a PC as a stand-alone computer, to run a Lotus spreadsheet or do word processing. But it is another to use a PC as a integral part of the processing, as in cooperative processing. To handle, for example, the front-end processing for a major system that is running a relational data base on a mainframe.

Q.: How does Case software write those kinds of systems?

BEDELL: You write a program to help you buy a stock – you don't have to say on what computer the program will run. The program you are writing that process for is turned into what is called a rule.

With our Case tool, you give that rule an attribute. An attribute is what platform – mainframe, minicomputer, PC – you want to run that part of the program on. Part of the Case software generates the code to run on the platform, whether it is in C for a PC or Cobol for a mainframe. It's not magic by any means.

No one else generates code for cooperative processing architecture. A lot of people say they are doing it. No one else has delivered code that is running cooperative processing systems. We run systems with millions of lines of code of cooperative processing.

Q.: Case manufacturers are now claiming extremely big productivity gains for their software. But you claim that High Productivity Systems increased productivity 100 times, much more than anyone else. Why?

BEDELL: You can get productivity using conventional Case techniques. But we don't just use Case. We combine the available technologies – object-oriented programming with heavy reuse of the code, information engineering, relational data-base management systems.

It's not just that you could build systems faster. You couldn't do a large cooperative system without this kind of tool set. At First Boston, we would never finish our own project without this.

It's one thing to hire an elite tool-development team. It's another to have to hire 100 or so developers who know all the technologies.

Q.: How did First Boston get into the Case business?

BEDELL: Changes in the financial market after 1979 brought on global trading and multicurrency accounting and made obsolete the old system.

We started to build a new system then, a $100 million project. We discovered after five years that you can't get there from here.

My team came up with the idea for a Case tool to help us build the system. We knew we wanted cooperative processing, but it is impractical to build.

You need people with skills on mainframe, minis, personal computers. It's like having three data-processing departments.

We thought we needed a Case technology that would insulate the developers from the different and disparate technologies. We had no intention of building a Case tool. We bought a lot of stuff. We ended up building it.

Q.: Do you see more competitors entering the field?

BEDELL: It is getting difficult now to become a competitor. The cost of developing the tool is enormous. It can't be done by five guys in a garage with a six-pack and a PC.

The firms that have been in this have been at it for five years. They've put in a lot of money. □

ISSUES: *mergers*
Savings from Big Combinations Only So-So, Survey Finds

By KAREN GULLO

NEW YORK — Consultants are urging bankers to get realistic when projecting the savings from big mergers and acquisitions.

According to a study conducted earlier this year by Ernst & Young and Keefe, Bruyette & Woods Inc., banks in big mergers rarely reduce technology costs as much as expected. They err by extrapolating from the effects of small acquisitions, the consultants said.

The survey, of 34 large institutions across the country, found that most banks expect to reduce data-center and operating expenses by 50% or more when they announce a merger. Actual savings averaged only 35%, the study showed.

Only six of the 34 banks surveyed achieved savings of 50% or more. Three banks realized no savings through consolidation.

Undelivered Promises

The results are significant, given the fact that many mergers and acquisitions are justified to regulators and shareholders by the economies promised from such consolidations.

Citing other consultants and studies by the Federal Reserve Board and universities, Ernst & Young and Keefe Bruyette concluded in their report that financial returns and operational advantages from mergers are mediocre at best.

Ernst & Young and Keefe Bruyette report that financial returns and operational advantages from mergers are mediocre at best.

Banks are also slow to establish a standard set of software systems to support operations. Running multiple software programs is costly and often botches the best-laid plans for saving money.

"Banker's estimates are uninformed because they base them on historical success of achieving economies of smaller institution acquisitions," said Brendan O'Sullivan, a banking specialist and partner at Ernst & Young, the accounting and consulting firm.

Unrealistic Expectations

"Banks can reduce data-processing costs by 75% in small acquisitions because they can move processing from closed branches into their existing computer operations," said Mr. O'Sullivan. "But when you apply that experience to a merger of equals, that's where expectations fall short."

Bankers that have gone through mergers say that technology cost estimates are inaccurate because they are often made not by technology executives but by people managing mergers and acquisitions. They also point out that as banks grow, it is more difficult to achieve economies of scale in technology.

Instead of projecting a 50% decrease in technology expenditures, banks can realistically anticipate savings of 15%, said Brian Whitehead, banking specialist and senior manager at Ernst & Young.

If two large banks merge and form a $50 billion organization, technology expenses of the merged entity might run $400 million. Mr. Whitehead said that annual savings of $50 million to $75 million would be a realistic estimate.

"When estimating savings, bankers should set significantly lower savings targets and longer time frames for mergers than acquisitions," Mr. Whitehead said.

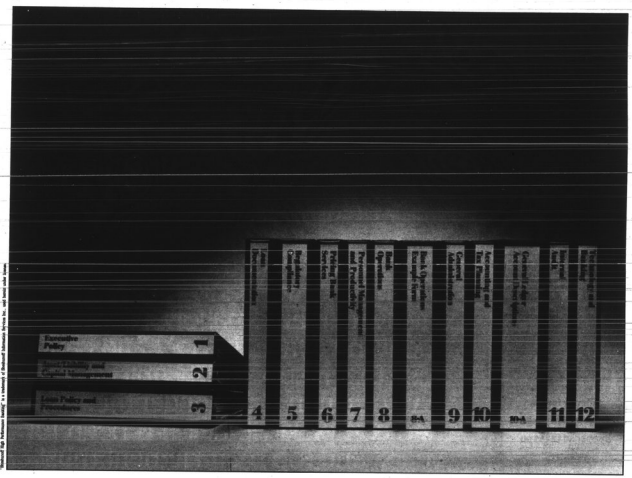
Standard Software a Priority

Management should develop a standard set of software programs for bank operations within nine to 12 months after a merger, and they should consolidate data centers within two years, the consultants said. A tight timetable will improve the banks' chances of realizing cost-cutting goals, they said.

The chief technology officer of a bank should deliver realistic savings goals to management and not buckle under pressure to inflate cost-reduction figures to appease superiors, they added.

Many banks reduce costs quickly by laying off workers, but the consultants said technology managers should take care to retain programmers who are key to developing standard software.

"If they leave in the first year, then you haven't got the knowledge base to be able to efficiently and quickly maintain and reduce the number of applications," Mr. Whitehead said. □



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COMMENT

Continued from *page 4*

or federal agencies to determine the potential risk to human health posed by the contaminated site.

Standards of Liability

The law imposes strict liability, or liability without fault. The statute prescribes three limited defenses to the otherwise absolute liability. To avoid liability, the potentially responsible party must establish that the release of hazardous substances to the environment and the resulting damages were caused solely by an act of God, and act of war, or an act or omission of a third party, other than an employee or agent of the potentially responsible party, provided that the potentially responsible party exercised due care with respect to the hazardous substance and took precautions against foreseeable acts or omissions of such third party.

Because the law imposes strict liability on the present owner or operator of a contaminated facility – even if that owner did not contribute to the contamination – potentially responsible parties who had not owned or operated the property at the time it was originally contaminated sought to avoid liability by asserting the "acts of a third party" defense, i.e., that the contamination was caused by a prior owner or operator.

"Money for the Superfund is raised by special taxes on industry."

An unrelated third party could not be a party whose act or omission occurred with a contractual relationship existing directly or indirectly, with the owner. For example, under this disclaimer, a purchaser or lessee of a property would be liable and unable to claim exception since the sale contract or lease were sufficient to establish a "contractual relationship."

'Innocent Purchaser Defense'

To clarify the applicability of this defense, Congress included in the amendments a provision commonly known as the "innocent purchaser defense." The amendments narrowed the definition of contractual relationship by excluding "land contracts," deeds, and other instruments transferring title or possession.

This provision states that the defense may only be asserted by a current owner who acquired the property after the disposal or placement of the hazardous substance at the site if:

- At the time the property was acquired, the potentially responsible party "did not know and had no reason to know" that any hazardous substance which is the subject of the release was disposed of at the site; and
- That the PRP undertook at the time of the acquisition "all appropriate inquiry into the previous ownership and uses of the property consistent with good commercial or customary practice in an effort to minimize liability."

The standards enunciated in the amendments and subsequent amplification of these standards in EPA guidance documents, have created a standard of care for all parties who are involved in the acquisition of real property.

Lender Liability Issues

The legal issues in the hazardous waste/contaminated property arena are different from those that financial institutions normally encounter. Under federal law there is a "security interest" exclusion generally available to banks.

The definition of "owner and operator" excludes "a person, who, without participating in the management of a . . . facility holds indicia of the ownership primarily to protect his security interest . . ."

According to this definition, a lender who merely holds the mortgage is not an owner or operator. A lender who forecloses on the mortgage, however, may thereby become an owner or operator of the hazardous waste site and consequently may be liable for cleanup costs.

"The law imposes liability on private parties identified as having contributed to the contamination of a particular site."

The leading cases on this issue – United States v. Mirabile, 15 Envt'l L. Rep. 20994 (E.D. Pa., 1985), United States v. Fleet Factors Corp., (11th Circuit, May 23, 1990), and United States v. Maryland Bank & Trust Co., 632 F. Supp. 573 (D. Md., 1986) – have not definitively settled when a lender becomes an owner or operator for purposes of hazardous waste liability.

In the Mirabile case, three financial institutions became defendants in an action for the costs of cleaning up a paint manufacturing site. The first creditor, American Bank and Trust Co. was the high bidder at the foreclosure sale.

After the sale and after the facility's operations had ceased, the bank told the sheriff it intended to take title but continued to show the property to potential purchasers.

Shortly thereafter, the bank assigned its bid to Mellon Bank. The court granted ABT's summary judgment motion, finding that "before a secured creditor such as ABT may be held liable, it must, at a minimum, participate in the day-to-day operational aspects of the site."

Type of Involvement Crucial

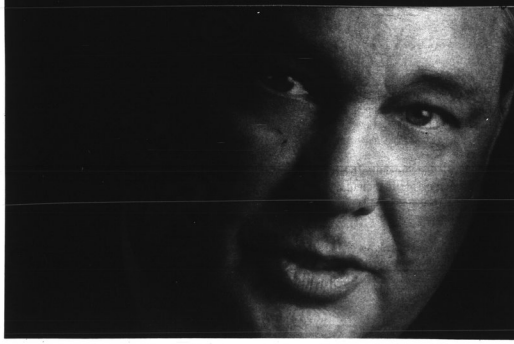
The court found it crucial that the bank's involvement in management was limited to participation in financial decisions. Although there was some disagreement whether ABT acquired legal or equitable title, the court found it unnecessary to decide the nature of the title received by ABT at the foreclosure sale.

The court also granted sum-

See COMMENT *next page*

The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others.

Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions



must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.

Ken Kirchman

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COMMENT

Continued from *page 12*

mary judgment to a second creditor, the Small Business Administration. The court ruled that the SBA's involvement in the operations was limited to financial aspects (it had a loan agreement with the company) and was an insufficient basis for liability.

The court refused to dismiss the complaint against a third defendant, Mellon, finding that it was debatable whether Mellon's participation in operations, inter alia, placing a bank officer on the company's advisory board, would bring Mellon within the scope of liability.

In the Maryland Bank case, the court held that a bank which had held a mortgage on the property, and then acquired the site through foreclosure and held legal title at the time of the EPA cleanup, was an owner within the meaning of the law. In so holding, the court refused to distinguish a bank that purchases at foreclosure from any other purchasers at a foreclosure sale.

Security Interest Exclusion

The Fleet Factors decision has narrowed the "security interest exclusion." It holds that a lender may be directly liable for costs of cleanup when it participates "in the financial management of a facility to a degree indicating a capability to influence the corporation's treatment of hazardous waste."

This decision broadens the "active involvement in manage-

"A lender who forecloses on the mortgage . . . may thereby become an owner or operator of the hazardous waste site and consequently may be liable for cleanup costs."

ment decisions" standard, which has been considered the prerequisite for establishing direct liability.

Increased due diligence respecting hazardous waste at lending and during loan administration is expected by the Fleet Factors court. The court indicates that its decision "should encourage potential creditors to investigate thoroughly the waste treatment systems and policies of potential debtors."

Banks are encouraged to "insist upon compliance with acceptable treatment standards as a prerequisite to continued and future financial support."

Clearly, the courts are setting a standard for lenders that will require extensive reexamination of many practices.

In order to minimize liability for cleanup costs, an institution must recognize that "compliance with laws" is not the determinant by which environmental liability arises. The physical condition of the property or of the assets is of direct concern, not merely whether it exists in "compliance with law."

There are methods for addressing potential contamination and ensuing liability. These can be divided into four phases. First, a financial institutional must establish an internal environmental policy, consisting of uniform guidelines that address the potential risk of environmental liability.

The framework has a twofold purpose. Lenders will be able to assess potential environmental liability that may affect the borrower s creditworthiness. On the other hand, the lender will be able to factor environmental risk as an element of credit risk into the valuation of the collateral.

Second, environmental liability can be minimized in loan documentation through the use of contractual clauses that allocate environmental risk.

Third, before closing a transaction, an environmental assessment of the property should be performed that encompasses not only present ownership and use and its compliance with federal and state law, but past ownership and use as well.

This due diligence is valuable primarily to develop data on which prudent decisions can be made. It is also valuable in demonstrating the prudence of the institution's management, should it become necessary to do so in the event of a Superfund action.

"Financial institutions cannot afford not to protect themselves."

Fourth, after the transaction has closed, the financial institutions should develop a mechanism that will provide periodic assurances regarding continuing compliance with environmental laws and, in the event that financial difficulties determine whether to participate in a workout or to foreclose on the property, thus incurring liability under Maryland Bank and Mirabile as discussed above.

Under Superfund, the government can and does require cleanup from the party that is most identifiable or that has the deepest pocket available. In order to avoid environmental liability that may run to millions of dollars, financial institutions cannot afford not to protect themselves by policing individual transactions and organizing and managing their affairs to account for these concerns. □

Citicorp Completes 1st California Deal

SUNNYVALE, Calif. — De Anza Holding Corp. said it has completed a definitive agreement to become the first commercial bank acquired by Citicorp in California.

The final agreement came June 29, two months after the companies announced a letter of intent. New York-based Citicorp, which owns the $7.4 billion-asset Citibank, San Francisco, will take over the $35 million-asset De Anza and its principal subsidiary, De Anza Bank of Sunnyvale. □

GLOBAL *dispatches...*

Portuguese Bank Plans Sale Of Equity Issue in the U.S.

By JAMES R. KRAUS

NEW YORK — Aiming to raise its profile among U.S. investors, Banco Commercial Portugues plans to bring a secondary issue of shares to the market here in the form of American Depositary Receipts, banking sources have reported.

This will be the first U.S. issue by a Portuguese company and is intended to help acquaint American investors with the bank and the Portuguese stock market.

The shares will be traded over the counter. J.P. Morgan & Co. will act as depositary.

Popularity Grows

American depositary receipts, or ADRs, are negotiable certificates representing ownership of shares in a non-U.S. company and are traded in dollars. They are have been growing in popularity among U.S. investors over the past few years as an easy way to buy and sell shares in foreign companies.

Banco Commercial is Portugal's eighth-largest bank, with $4.3 billion in assets. It has $733 million in shareholder equity, well in excess of international capital requirements.

Sources estimated that foreign investors had already purchased about 10% of the bank's shares on the Lisbon stock exchange. Banco Commercial's shares currently trade at about $18 a share.

Competition Stiffening

Competition from domestic and foreign banks has been increasing in Portugal in advance of financial market integration in the European Community after 1992.

Sources said Banco Commercial was strengthening its operations in Portugal by increasing the number of its branches to 100 from 67 and by developing into a full-service bank with operations in insurance, factoring, leasing, asset management and brokerage.

The bank, set up as a retail banking institution in 1985, also plans to set-up joint ventures and strike selective alliances with foreign banks to develop its international network.

In a related move, Banco Commercial became last year the first Portuguese bank to set up a unit in the newly created offshore banking center in Madeira.

... by country

JAPAN

Barber Conable, president of the World Bank, told Japan's finance minister, Ryutaro Hashimoto, that he welcomed Tokyo's decision to resume lending to China.

"I appreciate Japan's efforts," Mr. Conable was quoted by a Japanese finance ministry official as telling Mr. Hashimoto.

During their 20-minute talk, Mr. Conable said the move would allow the World Bank to start lending to Beijing in such fields as environmental protection and economic reforms.

Prime Minister Toshiki Kaifu of Japan said at the Group of Seven economic summit in Houston, Texas, last week that Tokyo would resume part of a $5.5 billion, five-year loan package to China.

Japan, in concert with most Western nations and institutions, suspended all official credits to China after a military crackdown on pro-democracy protesters in Beijing last year.

Mr. Conable was in Tokyo to attend a meeting of international financial organizations including the Asian Development Bank, Inter-American Development Bank and the World Bank.

Meanwhile, China's foreign minister thanked Japan for promising to resume the $5.5 billion loan but warned Western powers against continuing sanctions against Beijing.

Japanese sources said China's Qian Qichen made the remarks to Japanese deputy foreign minister Hisashi Owada, in China for a three-day visit to brief Chinese leaders on the recent G-7 summit in Houston. — **Reuters**

BRAZIL

The **Bank of New England** is closing its representative office in Brazil at the end of July, Richard Hayes, vice president and representative, said in Sao Paolo.

The office is being closed for because of problems in the United States, not Brazil, he said.

The Bank of New England in recent months has reported restructuring in the wake of problem loans in real estate in the Northeastern United States.

"They don't want to hear of Brazil," said Mr. Hayes, who is continuing as an independent financial consultant. — **Reuters**

AUSTRALIA

The **State Bank of Victoria** has cut back its foreign exchange operations in New York and London, according to its international treasurer, Peter McLean.

"We have come out of direct market operations but we will still have an on-going presence," he said by telephone from Melbourne.

He said the New York staff of five and the London staff of six had each been cut by two.

"It is a small rationalization more suited to our ongoing business structure," he said.

The bank will maintain its Melbourne, Hong Kong and Sydney operations, he said. — **Reuters**

Midland Shuts NY Securities Unit

3d British Bank to Quit U.S. Treasury Bond Market

By JOHN EVANS

LONDON — Midland Bank on Tuesday closed its Midland Montagu Securities Inc. unit in New York, becoming the third British bank to pull out of the U.S. Treasury bond market. The closedown will result in the loss of about 140 jobs.

It is part of a reorganization that will enable Midland Montagu, the bank's investment banking arm, to focus its U.S. resources on more strategic businesses, Midland said.

Other Dealerships Closed

Two other banks, National Westminster Bank Plc and Lloyds Bank Plc, closed their U.S. primary dealerships last year. Both cited overcapacity in U.S. government securities trading and the failure to achieve a sufficient return on capital.

Midland, in a statement, said while Midland Montagu Securities is profitable, it is "one of the smaller players in the highly competitive" U.S. government securities market.

The bank's U.S. activities will now be centered on cross border corporate and investment banking as well as treasury and foreign exchange, it added.

In reactions, Allen Broutbon, analyst at Morgan Stanley International in London, said Midland's strategic decision looked "correct."

Barclays Stays Put

Barclays Bank, through its Barclay's de Zoete Wedd investing banking arm, is the only big British bank to maintain a primary dealership in New York, after receiving Federal Reserve authorization last December.

BZW chief executive David Band said: "We remain committed to our dealership as a key part of our worldwide securities and related operations. U.S. government securities are still the benchmark for world interest rates."

Mr. Band noted that a dealership is also an important element in a bank-owned securities firm's overall investment banking and fixed-income activities in the United States, under Treasury regulations.

BZW employs around 70 at its dealership in New York.

Tie to Hongkong Bank

Meantime, industry speculation suggests that the Midland closure may be connected with the overall cooperative pact it has concluded with Hongkong & Shanghai Banking Corp., which operates the Carroll McEntee and McGinley Inc. primary dealership.

Hongkong Bank owns 14.9% of Midland and analysts expect some form of merger when their current agreement, which currently places a limit on that stockholding, expires at the end of 1990.

Morgan Stanley's Mr. Brouthon, however, doubted that such strategic considerations played a part in the closure, arguing that the British bank is looking for ways to allocate its capital more effectively.

Electronic Systems Linked

Separately, Midland announced a further cooperation step with Hongkong Bank through the linkage of their electronic banking and cash management systems. This will allow their customers to receive balance information and to make payments and transfers over their accounts held at either bank.

The system used is Telepath, Midland's electronic banking network, and Hexagon, the Hongkong Bank's counterpart system. The link will provide instant access to accounts in the 28 countries where the facility is available, Midland said.

Last month the two banks linked their worldwide automated teller machine networks. □

Citing Problems, Gorbachev Seeks Rescheduled Debt

Reuters

MINERALNYE VODY — Soviet President Mikhail Gorbachev said Moscow wanted to reschedule some debt on better terms because of the difficulties it was having reforming its economy.

Gorbachev told journalists earlier in the week after two days of talks with Chancellor Helmut Kohl he did not want a Western aid package the West German leader supported to be a "handout or a favor."

'Prolonging Repayment'

"We want to make very deep changes," Gorbachev said, in reference to the economic reform plan Bonn officials expected him to draw up by October. "The issue is only prolonging the repayment of our debts a bit at more suitable conditions."

Gorbachev, who with Kohl announced a deal including Soviet support for a united Germany in NATO, did not mention any figures for the amount of debt he wanted rescheduled.

$2.26 Billion Late

According to Deutsche Bank, Moscow is $900 million behind in payment of its debts to West German firms and $2.28 billion late in payments on total Western debt.

Bonn guaranteed a $3 billion credit to Moscow last month to help it meet payments deadlines to West German firms.

According to Bonn officials, Gorbachev said the Soviet economy was suffering heavily from the drop in world prices for oil, one of its main export commodities.

Expense of Chernobyl, War

Gorbachev told the visiting West Germans the 1986 Chernobyl nuclear accident had cost the Soviet economy $24 billion while the 1979-1988 war in Afghanistan had eaten six to seven billion rubles, they said.

Even Gorbachev's unpopular anti-alcohol campaign, which he introduced soon after taking power in 1985 but later relaxed, carried a price tag he declined to reveal, they added.

The officials, who asked not to be named, said Kohl offered no new funds to win Soviet acceptance of German membership in NATO. □

Key International Rates *

	Day-to-day money			3-mo. interbank			1-mo. interbank			Discount rate			Prime rate		
	7/17	7/16	7/15	7/17	7/16	7/15	7/17	7/16	7/15	7/17	7/16	7/15	7/17	7/16	7/15
United States	8.12	8.06	8.43	8.18	8.18	8.37	8.25	8.25	8.43	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.43	7.50	7.25	7.75	7.68	7.85	7.75	7.75	7.71	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.87	13.87	13.37	13.50	13.50	13.50	13.37	13.37	13.25	13.07	13.07	13.07	14.75	14.75	14.75
U.K.	15.06	15.00	14.87	15.00	15.00	14.93	14.87	14.87	14.87	14.30	14.30	14.30	15.00	15.00	15.00
West Germany	8.18	8.18	8.31	8.37	8.31	8.37	8.50	8.50	8.56	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.25	8.12	9.37	9.00	8.93	9.25	8.93	9.00	9.00	6.00	6.00	6.00	11.38	11.38	10.38
France	9.93	10.06	10.00	10.12	10.18	10.12	10.25	10.25	10.25	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.62	11.62	10.62	11.25	11.25	11.25	11.37	11.37	11.37	12.50	12.50	12.50	13.00	13.00	13.00

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* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

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Net Income Declines at Citicorp, Chemical, and Hanover

Continued from page 1

earlier – were boosted by nonrecurring events such as a large $80 million gain from cashing in part of its venture capital portfolio. Citicorp recorded just $6 million of revenue gains from the portfolio one year ago, and $54 million in its first quarter.

"I see little that worked right for them this quarter except for the consumer sector," said Richard Bove, an analyst at Dean Witter Reynolds Inc.

The bank's earnings from its credit card, branch system, and private banking businesses increased 28% to $266 million while its local-currency lending and trading activities in lesser-developed countries rose $44 million to $138 million.

Its corporate and investment banking activities in Japan, Europe, and North America, however, fell 69% to a flabby $42 million. The head of Citicorp's North American global finance unit, George Davis, left the bank earlier this month, and the bank is expected to announce a restructuring in the area soon. The company would not comment on rumors circulating this week that staff cuts of 6,000 people may be announced soon.

Citicorp's other business line – information services, which includes its Quotron stock information unit – continued to show losses. It lost $54 million in the second quarter, compared with $37 million a year earlier.

Citicorp also reported losses of $82 million in its cross-border portfolio, largely because Argentina and Brazil are not paying interest. It also wrote off $631 million of Brazilian medium- and long-term debt. The company said, however, that it will participate in two Argentine debt-for-equity conversions involving about $500 million, which will be booked in future quarters.

Excluding its third-world debt portfolio, Citicorp wrote off $92 million of commercial loans – including $42 million of real estate loans and $52 million of leveraged buyout loans – and recovered $2 million that were previously written off. The writeoffs compare with $29 million taken in last year's second quarter and $136 million in this year's first quarter.

CHEMICAL

Earnings of $113.1 million, or $1.02 per share, at the nation's sixth-largest bank company exceeded most analysts' expectations, though they were down from the year-earlier income of $128.6 million, or $1.65 per share, on fewer shares outstanding.

"Expenses were very tightly controlled, and interest revenue was up," said Ronald Mandle, an analyst at Sanford C. Bernstein & Co., who noted that Chemical did not disguise its operating results with nonrecurring earnings.

Analysts were impressed with continuing progress at Chemical's Texas Commerce Bancshares subsidiary, which earned $24.1 million, versus $3.2 million one year ago, and reduced its level of nonperforming assets to $984 million, the eighth straight quarter of decline. Analysts also applauded a 4% rise in Chemical's net interest income over the first quarter and noninterest expenses of $635.9 million that were unchanged from the first quarter and 3% lower than in the 1989 quarter.

Counterbalancing Chemical's improved interest spreads was a rise in nonperforming real estate loans and highly leveraged transaction loans. Nonperforming real estate loans at Chemical's New Jersey subsidiary now stand at $171 million, Mr. DeSantis, said close to the $200 million ceiling that the bank predicted.

Chemical charged off $73.7

See NET page 19

CITICORP
New York
Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$248.0	395.0
Per share	0.64	1.11
Net interest income (tax equiv.)	1,824.0	1,844.0
Spread	3.55%	3.85%
ROA	0.43%	0.73%
ROE	10.3%	18.8%
Noninterest income	1,730.0	1,475.0
Noninterest expense	2,992.0	2,319.0
Loss provision	473.0	329.0
Net chargeoffs	1,074.0	534.0

First Half	1990	1989
Net income	$479.0	$924.0
Per share	1.24	2.63
Net interest income (tax equiv.)	16,474.0	14,497.0
Spread	3.53%	3.85%
ROA	0.42%	0.86%
ROE	10.0%	20.4%
Noninterest income	5,403.0	5,135.0
Noninterest expense	5,166.0	4,564.0

Balance Sheet	6/30/90	6/30/89
Assets	$227,800.0	$221,300.0
Deposits	146,253.0	128,416.0
Loans	158,391.0	146,837.0
Shareholder equity	10,302.0	10,456.0
Loss reserve	3,567.0	3,342.0
Reserve/loans ratio	2.5%	2.6%
Nonperf. loans	7,409.0	7,204.0
Nonperf. loans/loans	4.6%	4.9%
Primary capital ratio	7.6%	7.9%

BANK OF NEW YORK CO.
New York
Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$70.4	$114.3
Per share	0.90	1.55
Net interest income (tax equiv.)	346.0	327.0
Spread	2.57%	1.91%
ROA	0.57%	0.94%
ROE	10.35%	16.82%
Noninterest income	243.0	237.0
Noninterest expense	370.0	326.0
Loss provision	54.0	48.0
Net chargeoffs	71.0	42.5

First Half	1990	1989
Net income	$171.0	$210.0
Per share	2.27	2.92
Net interest income (tax equiv.)	697.0	655.0
Spread	2.06%	1.93%
ROA	0.71%	0.89%
ROE	13.18%	16.19%
Noninterest income	479.0	470.0
Noninterest expense	705.5	668.7

Balance Sheet	6/30/90	6/30/89
Assets	$48,063.5	$40,582.0
Deposits	33,241.9	34,770.2
Loans	35,913.8	35,489.0
Shareholder equity	2,466.7	2,668.8
Loss reserve	340.0	NA
Reserve/loans ratio	2.62%	2.59%
Nonperf. loans	1,338.0	NA
Nonperf. loans/loans	3.7%	NA
Primary capital ratio	8.51%	8.43%

Regional Banks Report Strong Earnings for Second Quarter

Continued from page 1

Norwest Corp. eased 12.5 cents to $20.875.

Reflecting on what he termed "Super Tuesday for bank earnings," James J. McDermott Jr., research director at Keefe, Bruyette & Woods Inc., said most superregional banks posted results within expectations, while money-center banks by comparison came in "on the light side."

Meeting expectations, these days, he explained, means to stay in a predictable earnings range and not suffering "from material or unmanaged deterioration in asset quality."

For the money-center banks, on the other hand, he noted, "the elements affecting their balance sheets are slow growth and deteriorating asset quality, and it's tough when both those demons are working you over."

MELLON BANK

Frank V. Cahouet, Mellon's chairman, president, and chief executive officer, said the company's core businesses – retail banking, wholesale banking, and service products – performed well in the second quarter.

The quarter's results reflected increases in loan-loss-fee income and other revenue that offset a decrease in net interest revenue and a reduction in trading revenue as well as increases in the provision for credit losses and operating expenses.

Service-fee revenue in the second quarter, a major item for Mellon, moved up to $165 million, against $162 million a year earlier.

Other noninterest revenue was $124 million, compared with $16 million, reflecting the gain on the sale of the consumer finance company, as well as $26 million in cash dividends from the corporation's investment in the senior preferred stock of Grant Street National Bank.

Grant Street is an independent bank formed in 1988 as part of Mellon's asset restructuring program. The other income category also reflects $18 million in fees paid by the smaller bank to Mellon for collection services.

Net interest revenue was $207 million in the second quarter of 1990, compared with $209 million a year earlier.

Excluding the effect of a $7 million decrease in receipts on Brazilian nonperforming loans, net interest revenue increased $5 million, reflecting the acquisition of 54 branches from Meridor Savings Bank, Philadelphia.

Compared with the second quarter of 1989, operating expenses increased by $7 million, to $288 million, resulting from the acquisition of banking offices in the Philadelphia area from Meritor.

WELLS FARGO

Wells said it increased its provision for problem loans by $75 million, unchanged from the first quarter. Problem loans, including foreclosed real estate, increased 9% in the first quarter to $1.268 billion or 2.8% of total loans.

Analysts were heartened by the results because they were reported following examinations by regulators. They pointed out that regulators did not force Wells to increase its provision for problem loans over the first quarter period.

"They had their exam and California did not fall off the face of the earth," says J. Richard Fredericks, partner at Montgomery Securities, San Francisco. Earnings were about what analysts had expected.

The second quarter results include $116.5 million pretax gain that resulted from the sale of 50% of Wells Fargo's index fund business to Nikko Securities Co., Tokyo. The new joint venture is called Wells Fargo-Nikko Investment Advisers.

Wells, known for its tight expense control, reported that expenses were up 8% to $416.4 million in the second quarter, from $385 million a year ago.

For the six months ended June 30 Wells earned $392.2 million, up 36% from the $288.9 million Wells earned in the 1989 period.

BANC ONE

Columbus-based Banc One said it increased its provisions for problem loans by 17% or $61 million. However, the provision was offset by the inclusion of its Texas unit for the first time during the period, which added $12.5 million to its earnings for the period.

A 23% increase in nonperforming loans since the first quarter came chiefly from Midwestern real estate. The lone loan category was up 34% from the year earlier.

Results were in line with the expectations of analysts, who had been looking for Banc One Texas to offset slower loan growth and weakening credits in the Midwest. The increase in nonperforming loans had been announced earlier.

"This quarter really underlines the Texas contribution," said Felice M. Gelman, an analyst at Dillon Read & Co., "proving their [Banc One's] point that Texas is where the opportunity is."

CITIZENS AND SOUTHERN

Although its net income fell 1% from $58.6 million reported the previous year, Citizens recovered sharply from the first quarter, when it earned $41.6 million following a regulatory examination.

The Citizens board Tuesday voted to increase the company's third quarter dividend 11% to 39 cents per share, from 35 cents per share, payable Sept. 15.

In the second quarter, Citizens, which is held by Citizens and Southern Corp., announced a $30.9 million loan-loss provision, down 44% from $54.8 million reported in the first quarter, when the bank underwent a targeted real estate examination by the Office of the Comptroller of the Currency.

On June 30, Citizens' nonperforming assets totaled $251.3 million, or 1.59% of total loans and other real estate owned. □

Teresa Carson in Los Angeles, Nanine Alexander in Chicago, and Kenneth Cline in Atlanta contributed to this article.

WELLS FARGO & CO.
San Francisco
Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$232.4	$147.4
Per share	4.40	2.88
Net interest income (tax. equiv.)	669.2	527.0
Spread	5.03%	5.05%
ROA	1.92%	1.26%
ROE	23.7%	21.7%
Noninterest income	358.3	274.5
Noninterest expense	416.4	385.0
Loss provision	75.0	30.0
Net chargeoffs	18.4	42.7

First Half	1990	1989
Net income	$392.2	$288.9
Per share	7.45	5.24
Net interest income (tax. equiv.)	1,318.6	1,062.1
Spread	5.00%	5.14%
ROA	1.58%	1.25%
ROE	20.5%	24.4%
Noninterest income	508.8	397.1
Noninterest expense	827.4	771.5

Balance Sheet	6/30/90	6/30/89
Assets	$51,712.5	$47,825.3
Deposits	37,282.8	31,938.1
Loans	44,316.8	39,407.5
Shareholder equity	3,156.0	2,660.0
Loss reserve	813.0	664.0
Reserve/loans ratio	1.83%	1.68%
Nonperf. loans	841.2	880.9
Nonperf. loans/loans	1.90%	2.23%
Primary capital ratio	8.12%	8.00%

MELLON BANK CORP.
Pittsburgh
Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$142.0	89.0
Per share	2.80	1.16
Net interest income (tax. equiv.)	215.0	220.0
Spread	3.04%	3.05%
ROA	1.83%	0.79%
ROE	30.64%	18.64%
Noninterest income	291.0	186.0
Noninterest expense	288.0	281.0
Loss provision	60.0	10.0
Net chargeoffs	36.0	127.0

First Half	1990	1989
Net income	$287.0	112.0
Per share	4.07	2.31
Net interest income (tax. equiv.)	423.0	443.0
Spread	3.02%	3.07%
ROA	0.88%	0.75%
ROE	17.58%	19.25%
Noninterest income	474.0	354.0
Noninterest expense	564.0	564.0

Balance Sheet	6/30/90	6/30/89
Assets	$31,670.0	$31,526.0
Deposits	29,724.0	29,822.0
Loans	18,766.0	17,368.0
Shareholder equity	1,852.0	1,516.0
Loss reserve	434.0	803.0
Reserve/loans ratio	2.26%	4.40%
Nonperf. loans	444.0	750.0
Nonperf. loans/loans	3.11%	5.08%
Primary capital ratio	7.06%	8.22%

BANC ONE CORP.
Columbus, Ohio
Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$104.0	91.3
Per share	0.70	0.64
Net interest income (tax. equiv.)	311.9	302.3
Spread	5.14%	5.36%
ROA	1.52%	1.46%
ROE	17.28%	17.20%
Noninterest income	156.7	124.7
Noninterest expense	288.5	240.4
Loss provision	61.2	45.8
Net chargeoffs	53.6	41.0

First Half	1990	1989
Net income	$205.8	$178.5
Per share	1.40	1.24
Net interest income (tax. equiv.)	627.9	603.4
Spread	5.28%	5.42%
ROA	1.56%	1.45%
ROE	17.60%	17.14%
Noninterest income	291.1	225.6
Noninterest expense	576.9	479.5

Balance Sheet	6/30/90	6/30/89
Assets	$27,321.0	$25,154.0
Deposits	21,077.0	19,980.0
Loans	19,174.0	17,745.0
Shareholder equity	2,402.7	2,268.4
Loss reserve	273.0	245.4
Reserve/loans ratio	1.42%	1.40%
Nonperf. loans	339.7	254.4
Nonperf. loans/loans	1.77%	1.45
Primary capital ratio	10.59%	8.91%

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Net Income Declines at Citicorp, Chemical, and Hanover

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million of non-LDC debt and $281.4 million of Third World loans, mostly to Brazil and Argentina. It added $82 million to its loan-loss reserve, down from $90.9 million in the year-earlier quarter. Its allowance for loan losses at the end of the quarter was $2.1 billion, or 4.8% of all loans, compared with $2 billion, or 4.4%, a year earlier.

MANUFACTURERS HANOVER

As expected, the nation's eighth-largest bank took a substantial restructuring charge of $100 million, or $60 million after tax. About $40 million of the pretax charge will cover layoffs of some 1,400 people, the bank said in its earnings release, with the remainder of the charge covering lease obligations and the discontinuation of various business activities.

The bank predicted that the restructuring would save $125 million a year pretax from operating expenses.

Net income for the second quarter was $33 million, or 31 cents a share, against $106 million, or $1.87 a share, in the 1989 quarter. Excluding the restructuring charge, earnings would have been $91 million, or $1.15 a share.

They also said that the bank's addition of $84 million of nonperforming loans during the quarter was below expectations, given Hanover's earlier disclosure that it would put its loans to developer Donald Trump on a nonperforming basis.

A bank spokesman explained that if it were not for the bank's $153 million of nonperforming Trump loans, the level of nonperforming loans would have declined during the quarter to $762 million, indicating a relatively healthy real-estate and leveraged debt portfolio.

Total nonperforming loans at June 30 stood at $2.5 billion, down from $3.0 billion a year ago and $2.9 billion at the end of the first quarter.

BANK OF NEW YORK

Meanwhile, Bank of New York Co. announced late Monday that its second-quarter profit declined 39% from a year ago to $70 million because of an increased loan-loss provision. Nonperforming assets rose to 3.7% of total loans on June 30, from 3.4% at the end of the first quarter on March 31. The bank said the rise came from the addition of $160 million of real estate and $115 million of loans on highly leveraged transaction.

The loan-loss provision was increased by $94 million in the second quarter, of which $71 million was consumed in the writeoff of bad loans and $23 million was added to the reserve against loan losses. The reserve totaled $940 million on June 30, or 2.62% of all loans. □

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G. Delnevo sells R/T/I 7/28/90 12 Noon at 1702 E. 233rd St, Bx, '89 Mercury #2MEBM7545KX36890 Re: Downs, '83 Chevy #1G1AZ37H9DR283256 Re: V. Bonilla, '81 Cadi #1G6AB6995B9200389 Re: I. Wistreich, '73 Dynahoe #D19OCD2052E Re: ABC, '84 Dodge P/U #1B7FD14H8ES139019 Re: M. Pereira. Published 7/11 & 7/18/90.

R. A. Felder Lic Auctr #793917 sells on 8/2/90 10 AM at 960 Hiawatha Blvd West, Syr, '78 Buick #4A37J5EB111193 Re: D. Rieke. Published 7/18 & 7/25/90.

Foundation Notice

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The annual report of the MARX FOUNDATION, INC. for the fiscal year ended March 31, 1990 is available at its principal office located at 1407 Broadway, 6th Floor, New York, NY 10018, (212) 930-3999 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Lawrence Marx, Jr.

Hal Zakow auct'rs sells on 8/1/90 at 5 PM at 3051 Bronx Blvd, Bx, '81 Ford VIN #WVWFB9165FW338944 Re: Jairo A. Morales. Published 7/18/90 & 7/23/90.

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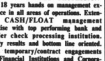

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COMMENT/MERGERS

Most Active Acquirers Have Taken Advantage of Federal Assistance

By REID NAGLE
President
SNL Securities

Successful banks in the 1980s stuck to the businesses they knew best, avoided nonresidential real estate lending and highly leveraged transactions, watched costs, successfully employed technology, and accumulated capital.

The same strategies will prove successful in the 1990s, with one additional opportunity: For banks having adequate capital or the ability to tap the capital markets effectively, consolidation will present unprecedented opportunities for profitable, nondilutive expansion.

Recent consolidation experiences point the way.

Common Threads

An examination of the 10 most active acquirers in the 18 months ended June 30, 1990, reveals a common history of successful operation and a willingness to take advantage of government-sponsored consolidation in banking markets. Only one of the 10 most active acquirers, Union Planters, failed to make an acquisition through the RTC or FDIC in the past year and a half.

The lure of government-assisted transactions has reduced the flow of private-sector bank acquisitions to a trickle.

With the possible exception of the ninth and 10th most active acquirers, Union Planters Corp. and Citicorp, respectively, the active bank acquirers in this group have consistently outperformed their geographical asset-size peers. In general, their superior financial performance has enabled them either to accumulate sufficient capital or to have access to the capital markets sufficient to support their active acquisition programs.

Two other characteristics dominate this group of active acquirers. Seven of the 10 have acquired failed banks and thrifts in the Texas market. Further, many of those that have made government-assisted acquisitions in the past 18 months are concerned that a growing supply of bidders for the RTC and FDIC caseload is driving up the cost of acquisitions to an unattractive level.

As Ron Steinhart, chief executive officer of the recently created Team Bank, noted, "the market has heated up for savings and loans" in Texas, making many acquisitions unattractive.

Indeed, the number of RTC resolutions has risen dramatically with 25 thrifts being sold in Texas during the second quarter of 1990, compared with just 12 Texas resolutions for the previous two and one half quarters.

The second quarter also saw the number of high-cost acquisitions rise, as 25% of the resolutions involved premiums of over 1% of core deposits. Only 16% of the previous deals received premiums of over 1% of core deposits.

The following summaries describe briefly the acquisition strategies of three of the six institutions whose expansion has focused primarily in Texas. Next week's merger column will examine the strategies of four others whose acquisition activity has been partially or exclusively concentrated outside of Texas.

NCNB

NCNB Corp. became the trendsetter in today's era of government-assisted bank consolidation with its 1987 acquisition of First RepublicBank Corp. While others waited on the sideline, NCNB enjoyed the advantages of being the first to negotiate a large transaction with the FDIC in the current pricing climate and shareholders have enjoyed the bounty.

Largely as the result of the FDIC's largesse and NCNB's willingness to seize the opportunity, earnings per share have more than doubled in two years – to $4.44 in 1989 from $2.03 a share in 1987. While that trend will slow down, or partially reverse, the cause is primarily NCNB's real estate exposure in the Southeast and not its expansion into Texas.

In the past six weeks, NCNB's expansion in Texas appears to have slowed down in response to rising prices commanded by the most attractive franchises in RTC and FDIC auctions. The company has strictly adhered to pricing standards that unambiguously reward shareholders.

In pricing terms, NCNB has generally paid up to 1% of core deposits for failed thrifts, and 2% to 3% more for core deposits of failed banks. As the number of Texas transactions involving premiums above NCNB's 1% ceiling have increased, NCNB has slowed down its acquisition program.

Hibernia

Hibernia Corp., a $7.2 billion bank holding company with operations in Louisiana and Texas, defied the odds by remaining continuously profitable throughout the '80s. Only during the first quarter of 1990, when it added $57 million to reserves, did it record a loss.

Since August 1989, Hibernia has moved aggressively into Texas, completing 17 government-assisted bank and thrift acquisitions in the Dallas, Houston, San Antonio, and Austin markets. As of June 30, Hibernia National Bank of Texas had $785 million in assets.

While Hibernia's Texas chairman and president, Larry McIntosh, readily admits that the bank "won't be one of the major players [in Texas] for an extended period of time," Hibernia expanded into Texas at the right time and at a price lower than could be achieved in today's market.

Unlike some other Texas interlopers, Mr. McIntosh claims that Hibernia "puts every dollar back into Texas" that it generates from deposits. Without specifically confirming a price that Hibernia is willing to pay for detractive franchises were still low.

Buoyed by success, Team Bank negotiated to acquire the failed Texas American Banks from the FDIC, and in the process went to market with a third private placement of $175 million. That issue, comanaged by Goldman Sachs and Allen & Co., sold out almost exclusively to investors in the earlier offering, and was actually oversubscribed by $25 million. Today's investor profile includes a 4.9% ownership interest by Goldman.

Texas American combined with Deposit Guaranty in January 1990 to form Team Bank, an institution with 49 offices and close to $5 billion of assets. Team Bank's business strategy revolves around serving upscale individuals and the middle market, defined by Mr. Steinhart as businesses with credit needs ranging from $1 million to $25 million.

Unlike First City Bancorporation of Texas, a large competitor, Team Bank does not invest in HLTs or go much beyond Texas. These parameters mean that for Team Bank, "the biggest challenge is loan growth." As for the future, Team Bank will continue to explore opportunities in Texas, including both banks and thrifts.

Mr. Steinhart notes that Team Bank, with excess capital provided by the latest private placement, plans to "stay within Texas" looking at opportunities that include both "failed and healthy institutions." So far, all of Team Bank's acquisitions have been banks, although the bank did submit a losing bid on Plano Savings, won by Ron Perelman's First Gibraltar Savings at a 1.22% premium to core deposits. ☐

SNL Securities is a publishing and data-base company specializing in banks and thrifts. This article is excerpted from an article in the August issue of *Bank Mergers and Acquisitions,* which explores the acquisition strategies of the 25 most active bank acquirers in the past 18 months.

10 Most Active Bank Acquirers
Jan. 1, 1989, to June 30, 1990

Acquiring Institution	Announced transactions: Total	Private	RTC/FDIC	Total assets acquired ($)
NCNB	22	1	21	8,886.4
Hibernia	21	0	21	1,600.7
Security Pacific	9	4	5	6,954.9
Banc One*	9	3	6	3,813.1
Kilgore Federal	8	0	8	1,100.6
First City	8	0	8	606.5
Team Bank	7	0	7	4,100.00
Comerica	7	2	5	925.7
Union Planters*	6	0	0	783.2
Citicorp	6	2	4	397.4
Top 10 Aggregate	103	18	85	29,,930.9

Assets acquired defined as total assets for private deals and total deposits.
* Includes certain transactions that were subsequently terminated.
Source: SNL Securities

Acquisitions of Healthy Banks and Thrifts
An endangered species?
1989 - 1990

Year/quarter	Number of deals	Aggregate assets of target institutions ($ billions)	Price to tangible bv	Median price to earnings multiple	Tangible prem. to deposits
1989: 1st	29	26,105	1.40	16.5	2.91
1989: 2d	24	11,301	1.40	16.1	3.64
1989: 3d	51	48,433	1.86	18.7	7.59
1989: 4th	54	15,300	1.50	18.4	4.61
1990: 1st	41	15,134	1.28	21.5	2.97
1990: 2d	37	18, 649	1.44	14.5	4.47
———	236	134,922	1.48	16.7	4.61

Source: SNL Securities

Dime Posts 102% Rise in Profits, Cites Hefty Net Interest Income

By GORDON MATTHEWS

NEW YORK — The Dime Savings Bank of New York on Tuesday reported a 102% rise in second-quarter profits compared with the same period last year and 8% higher than a year ago.

The company reported net income of $10.1 million, compared with $5 million earned in the same period of 1989. The earnings translated to 44 cents a share, versus 22 cents a year earlier.

Dime Savings is the nation's 13th-largest thrift institution in assets and the 11th largest in deposits, according to industry rankings published by the *American Banker.*

The thrift said its second-quarter net interest income increased by $17.9 million, or 38.5%, to $46.4 million. Partially offsetting this increase was a $4.8 million increase in the loan-loss provision and a $6.4 million rise in other operating expenses.

The thrift reported that nonperforming assets were $754.8 million, or 6.45% of assets, on June 30. That compares with the nonperforming ratio of 3.26% at the same point a year ago and 4.72% at yearend 1989.

Co-Op Loans Improve

Richard D. Parsons, president and chief executive officer, said that "the increase in one- to four-family and cooperative apartment nonperforming assets of $62.2 million during the second quarter."

But nonperforming commercial real estate and multifamily assets rose $31.6 million in the quarter. ☐

Government-Assisted Acquisitions July 9-16

Resolved institution	City/State	RTC/ FDIC	Deposits ($ in millions)	Acquiror	Premium %* (% Borrowed)
Permanent Savings Bank	Niagara Falls, NY	FDIC	$319	KeyCorp	5%
American Nat'l Bank of Greenville	Greenville, Tex	FDIC	28	Bolivar Synagro State Bank	530
Iredell State Bank	Iredell, Tex	FDIC	10	First Security State Bank	2

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source: SNL Securities

DEALS

Citibank Backs United Telecommunications Bid to Own All of US Sprint

By STEVEN LIPIN

United Telecommunications Inc. has raised $550 million through Citibank that is earmarked for the acquisition of GTE Corp.'s stake in US Sprint Communications Co., according to a source at the bank.

But United Telecommunications, based in Westwood, Kan., said Tuesday that it was not on the verge of buying the 19.9% stake, which would give it full ownership of US Sprint.

A spokesman for United Telecommunications said the acquisition was contingent upon US Sprint's operating income. He did acknowledge, however, that United Telecom president William Esrey has said that it could occur in 1990.

"Nothing is happening," the spokesman said.

Earmarked for Acquisition

Citicorp's Citibank unit, nevertheless, has agreed to provide a $550 million revolving credit bridge loan explicitly for the acquisition, a bank source said.

United Telecommunications confirmed that the company has raised the cash, but said this move was "to be ready." Analysts said it was doubtful the company would raise the bridge loan without plans to use it.

"It's an indication that there's interest in doing it," said Timothy Cain, a vice president at Fitch Investors Service.

United Telecommunications and GTE each owned 50% of US Sprint until last year, when United purchased an additional 30.1% for $600 million. US Sprint was formed in 1986 when the two companies merged their long-distance and data-communications subsidiaries.

Options to Buy and Sell

Under the terms of last year's agreement, United has the option to purchase the remaining 19.9% until Dec. 31, 1995, at book value at the time of exercise. At the same time, GTE has the option to require United Telecom to purchase its remaining interest – essentially a put – at any time between Dec. 31, 1991, and Dec. 31, 1995.

But there is an incentive for United to purchase the stake because book value is expected to increase, analysts said. That suggests "an interest in purchasing it sooner rather than later," Mr. Cain said.

A spokesperson for GTE, which itself is in the midst of a merger with Contel Corp., said the put has not been exercised and that United Telecom has not contacted GTE regarding the sale. "There's been no formal notice," she said.

She added that the Contel merger does not require GTE to sell its stake in US Sprint. "The two are totally separate," she said.

US Sprint has performed solidly, given the increased competition from MCI Communications Corp. and American Telephone & Telegraph Corp., Mr. Cain said. But the growth in US Sprint's revenues and profits are expected to slow.

"AT&T and MCI have been more aggressive in retaining market share. US Sprint's revenues will grow because the market's growing, but growth will be restrained," Fitch's Mr. Cain noted.

In the first quarter, Sprint had operating income of $85 million on net operating revenues of $1.2 billion. □

Wells Fargo Buys Branches From Great American Bank

Continued from page 3

seizure.

After this sale, Great American will still have 81 branches in Arizona, Washington, and Colorado. It plans to continue to originate mortgages on single-family homes in California through about 20 offices. But it will not gather deposits in the state, according to chairman and chief executive officer Robert L. Kemper, who was appointed just three weeks ago.

Fuel for a Buying Binge

Analysts say Wells' bold move will fuel the buying binge of the big California financial institutions. "It is going to accelerate the scramble to stake out positions in California," says Mr. Neier. There has been particularly keen interest in the San Diego market.

Just two weeks ago Security Pacific Corp. won the bidding for the 82 branches of the failed Gibraltar Savings of Simi Valley, Calif. That brings Security Pacific's California branches to 645.

Analysts say it is certain that Wells will close branches, lay off employees, and slash costs as it did with its purchase of Crocker National Corp. Mr. Oster declined to be specific about cost-cutting but said Wells would probably keep 80% of the branches open. Head-office operations are "problematic," he said.

Further Erosion of Capital

Great American also announced that it will take an additional $176 million of loan-loss provisions in the second quarter, further eroding its weakened capital position.

The sale of Great American's California operations will be completed in two phases. The first involves Great American's 52 branches and $4.6 billion in deposits in San Diego, Orange, and Riverside counties plus Great American's operations center in National City and the mortgage-servicing unit there. The $2.4 billion of loans will be included in phase 1, scheduled to be completed in late 1990.

Phase 2, to be completed in mid-1991, will include the remaining 38 California branches. Great American's statement said phase 2 might not be completed, depending on the availability of cash and other assets to Great American.

The transaction is subject to necessary regulatory approvals and the shareholders of Great American. □

Security Sets Gibraltar Target

LOS ANGELES — Security Pacific Corp. hopes to complete in the third quarter its review of Gibraltar Savings assets and liabilities acquired June 29 from the Resolution Trust Corp., said John Kessler senior vice president and chief financial officer.

Under an agreement with the RTC, Security Pacific already has returned a significant portion of the $5.1 billion in assets acquired with the failed thrift.

"We've already put back some of the assets, and some others we plan to sell quickly," Mr. Kooken said. "We haven't made all our determinations at this time, but we hope to in the third quarter."

Security Pacific assumed the $5.1 billion in assets and acquired $4.98 billion in deposits, paying a premium of $141 million for the deposit base.

In addition to the deposit premium, Security Pacific paid $3 million for the option to acquire up to $1 billion of loan assets. The latter figure does not include $17 million in loans on one- to four-family homes that it intends to retain. — Reuters

For Bankers Who Mean Business
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AMERICAN BANKER

Mum's the Word for UAL Buyout Banks

By WILLIAM GOODWIN

Even as they canvass the banking community for interest, the five money-center banks leading the financing effort for the proposed union buyout of UAL Corp. are being unusually taciturn with potential members of the general bank syndicate, banking sources said.

"They must be under instructions not to say anything," said one midwestern banker, who met last week with senior syndication officials at several of the five banks.

"Everyone was very tightlipped," he added.

The banks' reagents are the banking units of Manufacturers Hanover Corp., Citicorp, Chase Manhattan Corp., Chemical Banking Corp., and Bankers Trust New York Corp.

The midwestern banker, who asked not to be named, said his institution is interested in committing $25 million to the proposed $4.4 billion UAL buyout.

Who's in Charge?

After three days of meetings in New York last week, the banker said he came away frustrated by a lack of information about the deal from the lead banks, and a sense that no one is in charge.

"We don't know who's running the deal," the midwesterner complained.

Some officials from the syndicate group, however, noted that there are few details because even calling it a "deal" is premature, and specifics are still being ironed out.

"I can understand the frustration," a syndication official at one of the money-center banks said. "But if there were things to talk about, there's nothing to talk about."

The syndication official stressed that there is still no deal on the table.

"We're pretty far away from that point, " he added.

"Testing the market always goes on," without terms being set, another source within the bank group added.

Still Seeking Equity

Apart from the specific loan amount, interest rates, and fees, the lead banks are also said to reach a consensus on a number of other issues, including amortization schedules, and whether the bank loans will be paid back from cash flow or asset sales, the syndication official said.

The banks are also waiting for the buyout group to come up with an outside investor to contribute a portion of the necessary financing.

At the same time, the five banks want to expand the core underwriting group, bankers say.

A Bank of America official declined comment on rumors that the BankAmerica Corp. unit might join the lead bank group.

Aug. 9 Deadline

The union buyout group faces a deadline of Aug. 9 to raise approximately $4 billion in financing for the proposed UAL acquisition.

With the deal being viewed as a bellwether of the LBO market, the five lead banks are understandably cautious, said the portfolio manager of a major bank-loan fund.

"If I were running the syndicate, this would be done perfectly by the book – I'd say this until the deal is out," he said. Still, he expressed surprise that he has not even been contacted by the lead banks.

"We are kind of important to the market. I would have thought we'd be polled," the portfolio manager said.

The banks, however, would not have liked his response: "I'm not going to do the deal," the portfolio manager said.

He said his fund already has enough exposure to the airline industry through its participation in the financing of last year's $3.65 billion buyout of NWA Inc.

Also, the structure of the UAL deal is going to be a "thorny" issue because it lacks the sizable equity component that the market has come to expect, the portfolio manager said. □

Hanover Beats Drum for Forstmann Little Syndicate

By WILLIAM GOODWIN

Manufacturers Hanover Trust Co. will hold a bank meeting Thursday for prospective syndicate members interested in participating in a $1.165 billion loan to Forstmann Little & Co.

The loan will help finance a buyout firm's recently announced offer to buy General Instrument Corp. for $1.6 billion in cash.

As agent bank on the deal, Manufacturers Hanover is offering up-front fees of 0.625% for commitments of $25 million, and 0.875% for $50 million or more.

In addition, the agent is offering a "dollar amount incentive fee for a certain number of commitments in excess of $75 million," a Hanover official said. He would not specify the dollar amounts.

The deadline for commitments is three weeks away.

Bank of Nova Scotia has signed on as a fourth cosagent, joining Continental Bank, Chemical Banking Corp.'s Chemical Bank, and Nippon Credit Bank.

Manufacturers Hanover's commitment now stands at about $350 million, with each of four cosagents committing about $200 million.

Before the additional cosagents were brought in on the deal, Manufacturers Hanover and Cont'nental had committed $700 million and $300 million, respectively.

About 75 institutions were invited to attend Thursday's bank meeting. So far, "the interest looks very, very strong," the Manufacturers Hanover official said.

The loan package, which includes funds for working capital, is priced at prime plus 150 basis points. □

Highlights for Tuesday, July 17

TOP 10 GAINERS %

FNW Bancorp, Inc.	9.1
Pacific Western Bancshares	8.0
Sovran Financial Corporation	6.5
Boulevard Bancorp, Inc.	6.5
Fifth Third Bancorp	5.2
Valley Capital Corporation	4.6
Citizens and Southern Corp	4.4
CVB Financial Corp	4.4
First American Corporation	4.3
MNC Financial, Inc.	4.1

TOP 10 LOSERS %

Summit Bancorporation	-10.2
Southeast Banking Corp.	-7.6
Midlantic Corporation	-6.8
Bank of New England Corp.	-4.8
Northeast Bancorp, Inc.	-4.4
Equimark Corporation	-4.4
Plaza Commercee Bancorp	-4.3
Bank of New York Company	-3.9
Bankworth Group, Inc.	-3.9
State Street Boston Corp.	-3.8

MOST SHARES TRADED

Chase Manhattan Corporation	5383900
Citicorp	1515000
First Union Corporation	1001600
BankAmerica Corporation	833900
Southeast Banking Corp.	801700

VOLUME AS % OF AVERAGE

Commerce Bancshares, Inc.	1551.5
Chase Manhattan Corporation	707.9
South Carolina National Corp.	626.8
First Union Corporation	605.8
Pacific Western Bancshares	584.8

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

1/3/89=100

Percentage Changes

Computed from the indices reported 1-, 5-, and 21-days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.00	3.48	2.17	0.32	1.52	-6.13	-0.38	3.13	-3.31

TOP 225 BANKS (4 PM PRICES)

52 Wk		Name	PE	Mkt	Chg.	Chg.
Hi	Lo			to bk		
27¾	19¼	1stSouthernCorp+N	6.7	95.3	19¾	--
14¼	10¾	AFSBancshares-O	17.7	73.7	12%	-¼
29⅝	20	AmeriFirstBk-A	9.8	92.1	20	-¼
19¾	13¾	AmoreFed.	8.1	80.5	14¼	--
21	17	AmSouthBncp	11.8	102.8	18	--
22¼	15¾	AssociatedBanc-M	9.4	129.3	20	--
24¼	18	BB&T FinCorp-NC	7.9	109.3	18¾	-¼
15¼	9¾	BaltimoreBanc-MD	8.9	84.9	12¼	-¼
48¾	36¾	BancOne-OH	7.1	90.2	39¾	-¼
33½	28	BancOneCorp-OH	11.2	182.4	29¾	-¼
28¾	20	BancoPopular-PR	8.3	85.5	21	-¼
56⅜	42	BancorpHawaii-HI	10.3	173.0	52¾	-¼
23¼	18	BancorpSouth-MS	7.1	90.2	20	--
36¾	33¾	BankAmericaCorp-CA	5.8	118.8	28¾	--
21¾	17¾	BankAtlantic-A-FL	5.4	61.2	18¾	-¼
22¾	2¾	BankNewEngCorp-MA	150.0	18.3	12	-¼
28¾	21¾	BankSouthCorp-GA	8.4	45.5	24¾	-¼
37¾	25¾	BankersTrustNY	6.2	102.5	41	--
82	68¾	BanksofIowa-IA	11.9	115.0	71½	-1½
39¾	28¾	BarnettBanks-FL	9.1	118.1	33¾	-¼
41	33¾	BayBanks-MA	9.1	45.7	36	--
39¾	29	BeneficialNatBanc-MD	8.5	109.9	32	--
26	15½	BoulevardBanc-IL	16.0	103.6	18¾	--
18¾	12¾	BoatmensBncp-IL	7.3	99.3	14	--
43¾	33¾	CCB FinCorp-NC	8.6	114.9	33½	-½
27¾	17¾	CalFed-CA	8.2	100.2	17¾	-¼
22¾	18¾	CNB Bancshares-IN	10.5	126.3	21¾	--
27	20¼	CPB Inc-IN	9.1	106.8	20¾	--
28	12¾	CVB FinCorp-CA	10.6	244.6	14¾	--
18¾	13	CalFederal-A	8.4	152.5	21	--
18¾	12¾	CentralBcshs-KS	7.2	96.6	14¼	--
34½	26¾	CentralFidelity-VA	7.8	111.1	28¼	--
27	13¾	CentralJersey-NJ	6.9	92.7	13¾	--
45¾	34¾	CharterMacAmer-NJ	9.6	60.9	37¾	--
41¾	22¾	ChemicalBanking-NY	NM	70.6	24¼	--
35	30¾	CitizensBcp-MD	9.8	99.6	34¾	--
35¼	21¾	Citicorp-NY	12.5	86.6	21¾	--
29¾	21¾	CitizensBancorp-MD	8.2	100.2	27¾	--
29¾	21¼	CitizensBanking-MI	7.4	71.1	21½	--
15½	9¾	CitizensBcp-MI	8.1	106.8	15¾	--
34¾	21¾	CitizensSouthn-SC	6.9	106.9	23¾	--
27¼	17¾	CityNational-CA	9.8	208.1	19¼	--
22¾	12¾	ColonialAmBkn-CO	45.2	86.6	15¾	--
58¾	39¼	CommerceBncp-NJ	9.4	110.2	44	--
29¾	22¾	CommercialBcshs-MO	7.5	105.0	23¾	--
35¾	15½	CommercialFed-NE	7.4	92.2	16¾	--
37¼	13¾	ConsolidatedInt-NJ	5.3	45.8	13¾	--
26¾	13	ContinentalBk-A-TN	5.4	54.3	13¾	--
49¾	36¾	CoreStatesFinCp-PA	8.2	152.5	40¼	-¼
18	10¾	CrestarFinancial-GA	7.4	92.2	15¾	--
18¾	7¾	CullenFrost-TX	37.5	52.2	10¾	-¼
37¾	29¼	DauphinDeposit-PA	8.6	138.2	30¾	--
32¾	23½	DepositGuaranty-MS	6.4	74.1	24¼	--
25½	12¾	DominionBkshs-VA	8.9	81.4	12¾	-¼
18	5	EquimarkCp-PA	NM	37.2	5¼	--
21¼	12	EvergreenBcp-NY	6.4	97.4	13¾	--
15¾	12¼	F & M NatlCorp-VA	10.3	158.1	12¾	--
14¾	12¼	FNB CorpVA	8.9	106.8	12¾	--
26	18¼	FNW Bancorp-IL	11.1	183.9	24	2
29	28	FarmersCapital-KY	12.0	119.5	28	--
39¾	30¼	FifthThirdBncp-OH	11.5	176.0	33¼	-¼
31¾	25¾	FirstAlabamaBk-AL	8.7	145.3	26¾	-¼
51¾	38¼	FirstFedFin-MI	9.8	102.7	38¼	--
19¼	15¼	FirstHawaiian-HI	9.4	117.8	17¾	-¼

52 Wk		Name	PE	Mkt	Chg.	Chg.
Hi	Lo			to bk		
39¾	31¼	FirstInterNorthn-TN	NM	91.7	11⅜	-½
34½	24½	FirstMaryCorp-OH	8.2	98.8	24¾	-¼
23¾	14¾	FirstMichigan-MI	7.2	64.3	15¾	--
49¾	27¾	FirstChicagoB.	8.4	78.0	28	⅛
19¾	15¾	FirstCommerceBncp-LA	10.0	102.7	15¾	--
39½	21¼	FirstCtyBcrpTX	3.1	59.0	21⅜	--
23¾	14¾	FirstCommerce-GA	8.3	93.8	23¾	--
23¾	18½	FirstCommerce-LA	8.4	95.2	18¾	-¼
22¾	17¾	FirstCommerce-NC	8.5	90.0	18¾	--
22	17¾	FirstCommerce-OK	8.9	109.8	18	-¼
23¾	14¾	FirstCommerce-TN	8.1	113.7	15¾	--
24¾	18¾	FirstCommerce-VA	11.1	110.2	20¾	--
19¾	11¾	FirstCommerce-WV	8.1	101.2	15¾	--
33¾	17	FirstFidelity-NJ	9.6	71.3	17	--
33¾	17	FirstFidelity-NJ	9.6	71.3	17	--
24¾	18¾	FirstFinCorp-DE	8.1	124.8	24¾	--
34½	19¾	FirstFinGrp-FL	9.7	78.2	20¼	-¼
24¾	16¾	FirstFinancial-IN	10.3	108.6	20¾	--
13	7¾	FirstIllinois-IL	10.4	181.0	7¾	--
24¾	18¾	FirstIndianaCorp-IN	8.2	102.2	24¾	--
24¾	20¼	FirstKeystone-NJ	6.1	98.5	20¼	--
24¾	18¾	FirstMidAmCp-IL	8.1	122.2	24¾	--
18	14	FirstSecurityNC	13.4	180.5	14¾	--
24¾	18¾	FirstSecurityTN	8.4	86.0	24¾	--
28¾	21¾	FirstTennessee-TN	8.2	97.8	23¾	-¼
24¾	20¼	FirstVirginia-VA	8.1	97.1	20¾	--
35¾	24¾	FirstVirginia-W	7.9	111.6	25	--
45¾	37¾	FirstWachovia-NC	10.8	182.2	40¾	-¼
35	27¾	FirstarCorp-WI	7.4	118.4	28¼	-¼
30¾	17	FirstbankInc-MI	8.7	108.0	18	--
55¾	42½	FirstofAmerica-MI	8.1	103.9	47¾	-¼
28¾	19¾	FleetNorstar-RI	12.2	103.0	20¾	--
25	19¾	FortWayneNatCp-IN	8.5	106.7	20	--
24¾	18¾	FortWayneNatl-IN	8.5	106.7	20	--
21¾	16	FultonFinCorp-PA	7.9	123.7	16¾	--
24¾	18¾	GBC Bancorp-CA	8.2	202.3	18¾	--
9¾	9	GrenadaSunburstMS	13.4	67.9	9	-¼
19¾	9¾	HarlemBancorp-A	4.1	58.7	9¾	--
21¾	14¾	HeritageFinSvc-IL	9.7	127.8	17	-¾
24¼	16¼	HiberniaCorp-LA	17.9	111.2	19¾	--
20½	15	HuntingtonBancs-OH	7.8	114.5	15	--
24¾	18¾	HutchFed-KS	9.1	95.3	18¾	--
27¾	18¾	ImperialBancorp-CA	7.9	114.7	19¾	--
24¾	18¾	IndianaFedCorp-IN	11.3	95.6	21	--
30¾	21	IntegraFinCp-PA	14.5	94.7	21	-¼
9¾	7¾	InterNorthInc-NE	9.7	146.4	8¾	--
48	33	J.P. MorganNY	NM	158.5	39¼	-¾
21¾	16	JeffersonBkshs-VA	8.8	93.6	16¾	--
15¾	12	KeyCorporation-NY	10.4	108.5	12¾	-¼
24¾	18¾	KeyCorp-IN	8.2	108.5	20¾	--
26	21½	KeystoneFin-PA	8.9	127.6	22¾	--
30¾	29	KeystoneHldgsPA	10.0	151.2	29¾	--
14¾	8¾	LaSalleBancorp-IA	18.6	246.8	13¾	-¼
24¾	18¾	LancasterBancs-MO	8.8	64.6	18¾	--
18	11¼	LandmarkBancs-MO	8.8	64.6	11¼	--
30¾	24¾	LibertyNatBncp-KY	10.3	113.9	26	--
27	20	LincolnFinCorp-IN	7.0	87.4	20¼	-¼
29¾	13¾	MBC FinancialCp-IN	8.7	72.4	13¾	--
18	14	MagnaGroup-IL	9.0	100.5	14	-¼
24¾	18¾	ManufacturersBcp-IA	7.8	93.6	24¼	-¼
44½	28¼	ManufacturersNY	NM	75.7	31¾	-¾
21	16¾	MarineCorp-IL	12.0	129.9	19¾	--
20½	15	MarkTwainBancsMO	7.9	102.9	15	--
24¾	18¾	MarquetteBkshs-MN	8.7	113.3	20¾	--
37¾	24¾	MellonBankCorpPA	9.5	93.2	25¾	-¾
40¾	33¾	MercantileBancpMO	8.6	120.3	35¾	-¼
90¾	50	MercharileBank-NY	11.9	190.3	50½	-½
24¾	18¾	MercharileBank-IN	10.1	91.5	23	--
28¼	15¾	MeritBankBancp-PA	7.0	85.8	15¾	-¼
27¾	21¾	MichiganNatCorp-MI	2.6	63.3	21¾	-¼
18¾	14¾	MidAmericaNY	9.8	98.6	15¼	--
20¾	16¾	MidAm.Inc.-OH	9.7	145.7	19	--
47¾	13¾	MidlanticCorp-NJ	9.2	96.8	13¾	-¼
25¾	19¾	MidwestBk-MI	5.2	47.4	19	-¼
25¾	20¼	NBD Bancorp-MI	9.2	133.3	32¾	-¼
34¾	24¾	NCNB CorpNC	7.3	131.7	27¾	-¼
26	18¼	NCallCBancshsCA	14.2	152.7	18¾	-¼
23¾	17¾	NationalCityCp-OH	8.4	141.8	20¾	-¼
51	38	NationalPenn-PA	11.3	201.7	39	--
25¾	18¾	NatlBancorpMD-AK	9.6	115.7	20	-1
25¾	20¼	NatlCommerce-TN	9.9	171.5	23	--
25¾	20¼	NatlCommerce-AR	9.1	163.6	18¾	-¼
20¾	11	NorthFortBenc-WI	5.3	68.9	11	-¼
17	10	NortheastBancp-NY	NM	54.3	13¾	-¼
35½	27¾	NorthernTrust-IL	9.9	185.7	30¼	--
25¾	17¾	NorwestCorp-MN	8.2	147.9	20¾	-¼
32¾	23	OhioBancorp-OH	7.2	98.4	23¾	-¼
24¾	20¼	OldNatlFinCorp-KY	8.2	112.8	24¾	--
26¾	24¾	OldNatlBancorp-IN	13.2	160.6	25	--
29¾	21¾	OneWestBancWA-WA	7.2	84.3	29¾	-¼
48¾	29¼	PNC FinCorp-PA	8.9	106.0	30¼	-¼
24¾	18¾	PeoplesBancs-CA	11.3	155.3	27	--
15¾	9¾	PeoplesNetwork-CO	10.6	174.8	11¾	-¼
24¾	18¾	PeoplesBancorp-NC	9.0	122.9	19¾	--
27	26	PioneerBankHQ	10.0	129.0	27	--
27¾	18¾	PioneerBancorp-IA	8.9	189.8	11¼	-¼
27¾	18¾	PioneerBancorp-IA	18.8	55.8	3¾	--
24¾	22	PioneerBancorp-IA	9.3	127.7	22	--
24¾	18¾	PioneerBancorp-IA	8.2	147.9	20¾	--
27¾	19¾	PugetSoundBanc-WA	12.2	118.0	21¼	-¼
30¾	17¾	PugetSoundCorp-WA	20.7	137.7	19¾	-¼
27¾	14¼	RiggsNatlCorpDC	8.3	56.9	15	--
24¾	18¾	RiverFinCorp-IL	13.0	287.1	19	--
35¾	23¾	SantaAnnaBancFA-IL	11.5	213.7	25	--
43¾	17¾	SecurityBancorp-IA	8.3	142.8	18¾	--
54¾	34¾	SecurityPacific-CA	5.8	96.9	39¼	--
25¾	19¾	SilveradoSecCorp-MN	NM	57.7	19¾	--
42¾	18¾	SignetBanking-VA	5.5	66.0	18¾	--
28¾	18¾	SimiValCorp-CA	7.0	110.4	20¾	-¼
27¼	16¾	SouthCarolNatCp-SC	6.3	86.2	16¾	-¼
24¾	18¾	SouthEastBnkCp-FL	NM	36.5	7¾	-¼
15¾	11¼	SouthNatlCp-NC	9.7	133.9	11¼	-¼
24¾	18¾	SouthTrustCorp-AL	8.9	92.6	17¾	--
43¾	26¾	SovranFinCp-VA	6.3	104.3	28¾	-1¼
24¾	18¾	Star Bank Corp.-OH	9.0	158.9	18¾	-¼
42¾	32½	StateStBosCorp-MA	14.4	249.7	40¾	-1¼
24¾	18¾	SterlingBancs-NJ	NM	47.0	8¾	-¼
26	18	SuburbanBancorp-IL	11.3	82.1	18¼	--
24¾	18¾	SunBanksInc-FL	6.3	96.2	18¾	--
22¾	15¾	SumcorpFin-PA	8.0	91.3	18	--
15¾	9¾	SunwestBancorp-AZ	5.3	98.1	13¾	-1¼
20¾	20	SunTrustBanks-GA	8.0	123.6	21¾	-¼
24¾	14¾	SuquehannaBancs-PA	76.2	74.9	16	--
22¾	17¼	SusquehannaBncsPA	8.0	104.5	18¾	-¼
24¾	18¾	SynovusFinCorp-GA	12.2	264.8	17	--
18¾	13	ThePlanters Corp-NC	9.3	127.1	15¾	--
24¾	18¾	TheTrustCoofGeorgia-GA	9.0	159.9	18¾	-¼
43¾	31¾	TrustcompanyNJ-A	8.8	151.6	35¼	-½
24¾	18¾	TrustmarkCorp-MS	7.2	79.7	19	--
32¾	25¾	U.S. BancorpOR	9.0	133.7	30¼	-¼
24¾	18¾	U.S.TrustCorp-NY	12.7	193.6	24¾	--
28¾	13¾	UJB Financial-NJ	5.9	76.6	14¾	-¼
24¾	18¾	UST Corp.-MA	5.4	91.1	19¾	--
32	21¼	UnionBank-CA	6.0	96.9	24¼	-¼
15¾	7¾	UnionPlanters-TN	NM	65.5	8¾	--

52 Wk		Name	PE	Mkt	Chg.	Chg.
Hi	Lo			to bk		
24¾	18¾	UnitedBanksCorp-CO	21.0	83.1	22	-¼
14	12	UnitedStatesWy	8.2	97.4	12	--
17½	13	UnitedCarolina-NC	7.5	103.8	13¾	-¼
62	52	UnitedCounties-NJ	7.1	101.0	52	--
32¾	28	UnitedMidAmCorp-GA	8.6	113.3	28¾	--
27¾	22	ValleyBancorp-NJ	9.2	115.1	23	-¼
24¾	20¼	ValleyCapCorp-VA	8.3	148.0	20¾	-¼
28¾	19¾	ValleyNatlBncp-AZ	8.0	150.1	21¼	-¼
28¾	21¾	ValleyNatlBncp-NJ	7.4	114.1	28¾	-¼
87¾	64¾	WellsFargoCo-CA	7.0	160.0	80	1¾
24¾	18¾	WestAmBncp-CA	7.3	131.7	20¾	--
27¾	21¾	WestCoastBancorp-OR	8.6	107.5	24¾	-¼
24¾	18¾	WestCoastBncp-NM	8.4	141.6	20¾	-¼
49	35¾	WilmingtonTrust-DE	12.4	288.8	43¾	--
24¾	18¾	WisBankcorpMD-AK	10.7	152.1	20¾	-¼
32¾	25	ZionsBancorp-UT	7.7	99.9	28¼	-¼

TOP 25 THRIFTS (4 PM PRICES)

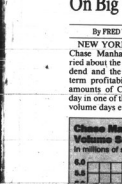
52 Wk		Name	PE	Mkt	Chg.	Chg.
Hi	Lo			to bk		
24¾	18¾	AmericanCo-CA	10.1	106.0	22	-¼
45¾	30¾	AppleSavcorp-NY	8.0	73.8	41¼	-¼
28¾	21¾	CalFed-Inc-CA	8.2	100.2	17¾	-¼
55¾	40¼	CitatelHldgsCo-A	12.3	75.1	48¾	-¼
27¾	18¾	CityFed-Inc-FL	7.2	42.2	18¾	--
17½	6¾	CrossLandSv-NY	NM	22.5	6¾	-½
24¾	18¾	FedFinancialHld-FL	63.3	113.9	20¾	-¼
38	24¾	FirstFedAmerica-MI	10.8	136.8	37¾	-¼
27¾	18¾	FirstFedMichigan-MI	8.4	132.5	22¾	-¼
21¾	12	FirstFedMichCp-MI	8.5	34.4	13¾	-¼
24¾	18¾	FirstFinancial-IL	8.3	91.4	20¾	-¼
34¾	22¾	GoldenWestFn-CA	11.3	178.0	32¾	-¼
24¾	18¾	GreatAmericanFd-CA	20.0	125.6	20¾	-¼
24¾	18¾	GreatAmericanCo-AK	NM	4.2	18¾	-¼
47¾	31¾	HomeFedCorp-CA	8.1	53.7	32¾	-¼
24¾	18¾	HomeFedInc-IA	14.1	99.2	19¾	-¼
16¾	11	HBB Bancorp-MD	10.8	52.1	12

STOCKS

Investors Bid Up Chase's Shares On Big Volume

By FRED VOGELSTEIN

NEW YORK — Investors in Chase Manhattan Corp., worried about the safety of the dividend and the company's long-term profitability, traded huge amounts of Chase stock Tuesday in one of the stock's greatest volume days ever.



But so-called bottom fishing and a buy recommendation from a banking analyst sent the stock up 37.5 cents, to $21.125, at the close.

Other bank stocks, meanwhile, had another volatile day as second-quarter earnings continued to rule the market.

The big movers were NCNB Corp. and Wells Fargo & Co., both up considerably, and the Bank of New York Co., which slipped more than $1 a share. Citicorp was up more than $1 before sliding back to a 12.5-cent gain.

The overall market was flat in active trading as many companies released earnings. The Dow Jones Industrial Average was unchanged, at 2,999.75, after soaring nearly 60 points in the preceding two trading days.

Volume in Chase stock was more than 5.3 million shares, the greatest one-day volume since February 1987 when about 8 million shares were traded, a company spokesman said.

Chase's volume has exceeded 1.3 million shares for the past four trading days; Monday's total was 2.42 million shares. The stock had fallen 12% in six trading days through Monday, from $23.625 July 9 to $20.75, a 52-week low.

The Chase board is expected to decide today whether to pay its regular quarterly dividend. Although management has said it would recommend the dividend be paid, experts said many investors were worried, nonetheless.

"There is controversy on whether the dividend is sustainable and what the board will do," said Ronald I. Mandle, an analyst at Sanford C. Bernstein & Co. He said he thinks the dividend is sustainable.

In fact, despite lower than expected second-quarter earnings at Chase, Mr. Mandle said, he is raising his rating on the stock from mildly positive to a buy. "They have enough retained earnings to meet the regulatory requirements [for the dividend] and enough capital," Mr. Mandle said.

Also, he said, a clear implication emerged in the company's recently announced restructuring that earnings will improve significantly by 1991. Bernstein is Chase's largest stockholder, with roughly 6% of the shares outstanding.

Speculation that the dividend cut could come as early as today developed Monday after Chase, for the second quarter in a row, did not cover its dividend payout with earnings.

* * *

TUESDAY'S MARKET

Wells Fargo & Co., closed up $1.50 a share, at $80.50; NCNB Corp. closed up $1.375, at $37.875; and Citicorp closed up 12.5 cents, at $21.875. Bank of New York closed down $1.125 a share, at $27.50.

Wells and Citicorp reported earnings in line with or better than expectations. Wells also announced it was acquiring Great American First Savings Bank for $500 million. NCNB reported better than expected earnings Monday.

Bank of New York reported lower than expected earnings after the close of trading Monday. □

CAPITAL

Worries Over Japanese Debt Issues Wane

By KELLEY HOLLAND

Contrary to initial concern that Japanese bank debt issuance would overwhelm the U.S. market, the banks are not expected to crowd out their U.S. counterparts in the domestic debt markets, capital markets officials say.

When Sumitomo Bank International Finance announced last month it would issue $500 million in subordinated bonds in the United States, domestic bank treasurers worried that a series of offerings from overseas would siphon demand for their own bonds.

Buyers Outside U.S.

But now that the Sumitomo offering has come to market, it is apparent that about 60% of the offering has been sold to investors outside the United States, said an official at Goldman, Sachs & Co., sole underwriter of the deal. Thus, concerns over crowding out appear excessive, or at least premature.

"I don't really see a crowding-out effect," said Raymond D. Warner, a vice president at Salomon Brothers Inc. "A lot of the Yankee product has always traded overseas, and that will probably continue to be the case."

About $300 million of the deal was sold to foreign investors, half in London and half in Japan, according to Jon Winkelried, a vice president in charge of new issues at Goldman. American investors bought only about $200 million, no more than they would have bought of a typical domestic offering.

Other Issues Likely

To be sure, other Japanese banks are likely to try to follow Sumitomo's lead. Two city banks are reported to be "very hot to do something," one capital markets specialist said, and other banks there are considering similar moves.

"I think you could expect to see a substantial amount" of Japanese deals, said Nicholas B. Paumgarten, a managing director at First Boston Corp. "Once these things are done, lots of others may follow."

Mr. Paumgarten estimated that Japanese banks could issue more than $2 billion in subordinated debt this year if the Ministry of Finance continues to allow them to issue bonds to raise new capital.

Ministry Gives Approval

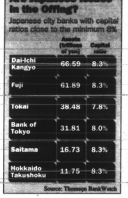
The ministry gave Japanese banks the authority last month to issue subordinated loans, but said the decision to allow subordinated bonds would be made on a case-by-case basis. The Sumitomo bond offering was the first to be approved after the pronouncement.

Like the Japanese, European banks may also try to issue debt in the United States. "The success of the Sumitomo deal may draw some of them in," said another capital markets pro.

Moreover, investment banks are likely to work hard to increase debt issuance by foreign banks. U.S. banks have been slow to come to market this year, and takeover activity has also been light, so investment bankers have had little activity from which to reap fees.

Sumitomo's issue, priced last Wednesday at 102 basis points over comparable Treasuries, was all sold Wednesday afternoon following the pricing. The bonds have not traded actively since then, but market sources said they were holding firm at their initial spread over 10-year Treasuries.

* * *



MARKET MONITOR

Moody's Investors Service reduced its ratings on debt of Midlantic Corp. Monday, citing weakening asset quality.

Midlantic's senior debt rating was cut to Ba3 from Ba1 and its subordinated debt rating to B1 from Ba2. Bank subsidiaries' ratings on long term deposits were downgraded to Baa2 from Baa2, on LOC-backed long term issues to Ba2 from Baa3, and on LOC-backed short term issues to Not Prime from Prime-3.

* * *

Standard & Poor's Corp. reduced ratings on several New Jersey banks, citing weak asset quality and a deteriorating commercial real estate market.

Summit Bancorp's senior debt rating was cut to BBB+ from A; UJB Financial's preferred stock rating was lowered to BBB- from BBB, and Central Jersey Bancorp's subordinated debt rating was cut to BB+ from BBB. □

FINANCIAL TECHNOLOGY UPDATE

The NCR Financial Tower Thrift System with Starcom interface automates a range of teller and platform services to improve handling of deposits, window posting, new account processing and loan processing.

The Financial Plus® teller platform from Systems Concepts, Inc. and the Cross Sell Manager™ platform application are combined with the NCR 5067/5267 Financial Workstations and interfaced via a Local Branch Network (LBN) through an NCR TMX Tower branch processor to the NCR data center. This combination delivers the versatility and flexibility to speed transaction processing and reduce long service lines…which allows for more concentration on customer satisfaction.

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The NCR 5682 is the next step in self-service. Account service transactions are integrated to the platform via the NCR 5682. Your customers can perform a wide range of financial transactions without the assistance of a customer service representative. Plus, unequaled custom graphics and VGA videodisc capabilities attract customers and promote services.

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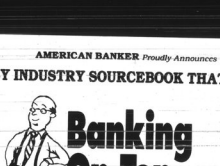

Banking On Top Bankers-1990

THE INDEX FOR THE 90'S

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TOP 150 BANKS RANKED BY TRUST ASSETS
Tables begin on page 6

AMERICAN BANKER

VOL. CLV NO. 140 — Thursday, July 19, 1990 — 155th year

Illinois Opening Leaves Acquirers Unenthusiastic

By NANINE ALEXANDER

CHICAGO — Illinois will open its doors to full interstate banking on Dec. 1, but so far no acquirers are waiting in line.

As the trigger date nears, banks from outside the Midwest have yet to stake any claims in the Land of Lincoln. Stocks of Illinois-based banks are rallying less than expected in anticipation of potential acquisitions.

Analysts attributed the lack of activity mainly to the high price expectations of Illinois bankers and the preoccupations of potential buyers with their own asset quality and battered share prices.

ANALYSIS: *Follow-up on the news*

Illinois banks "all have this notion of selling for three times book," said Stuart I. Greenbaum, banking professor at Northwestern University's Kellogg Graduate School of Management. "They all need a reality transplant," Mr. Greenbaum said.

"Either premiums are going to come down or there's going to be a lot less activity than anticipated," said Henry C. Dickson of McDonald & Company Securities, Cleveland.

Regulatory Inhibitions

Price are not the only factors keeping merger activity dormant, said Joseph F. LaManna, bank analyst for William Blair & Co., Chicago. The current regulatory climate has made acquirers reluctant to buy anything that has not been throughly scrutinized by bank examiners.

The thrift alternative may also be discouraging some potential bank mergers, said David D. Olson, senior vice president and an investment banker for Donaldson, Lufkin & Jenrette Inc., based in Chicago. Banks that already have a presence in Illinois and wish to expand may find it more attractive to acquire a thrift with federal assistance, gaining clean assets, market share, and deposits for a modest premium.

Sooner or later, though, banking companies with nationwide aspirations are expected to enter the Illinois market – particularly Chicago.

"If you're going to have a national franchise, you can't ignore Chicago," said Michael Milunovich, analyst with Robert W. Baird & Co., Milwaukee.

Easy Market to Enter

Illinois is a relatively easy market to enter. No banking

See **ILLINOIS** page 7

INSIDE NEWS

MANAGMENT



EDWARD FURASH, head of a Washington consulting firm, says bankers should return to "Camelot:" capital, assets, management, earnings, and liquidity. *Page 14*

EARNINGS

FIRST INTERSTATE Bancorp profits fell 8% in the second quarter from a year ago. PNC Financial's fell 13%, Fleet/Norstar's 33%, Continental Bank Corp. lost $57 million. *Page 2*

CONSUMER

COVERDELL & CO., Atlanta, has developed a program that will allow Delaware banks to market their own insurance products without heavy backoffice investment. *Page 6*

TECHNOLOGY

SOME VICTORIES against planned postal increases are forecast by the American Bankers Association. *Page 3*

FINANCE

LEAD BANKS on a $1.75 billion loan for Lin Broadcasting's cellular phone operations have syndicated almost all the credit ahead of deadline by offering rich upfront fees. *Page 30*

INTERNATIONAL

CITICORP, Creditanstalt Bankverein of Austria, and Barclays Bank and Midland Bank of Britain won initial approval for full-fledged banking operations in Poland. *Page 20*

COMMENT

THE FED'S recent easing represents no lessening of its effort to limit inflation, writes Stephen H. Axilrod. *Page 4*

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House Chiefs Ask Stiff S&L Crime Terms

By ROBERT M. GARSSON

WASHINGTON — The House Democratic leadership rallied Wednesday behind legislation that would stiffen penalties for bank-related crimes and establish a national commission to investigate what caused the savings and loan crisis.

The legislation, sponsored by Rep. Charles E. Schumer, D-N.Y., was to be offered late Wednesday or early today as an amendment to the crime bill now before the House Judiciary Committee. The bill could be on the House floor as early as next week.

Foley, Gephardt Backing

Mr. Schumer's package gained the backing of House Speaker Thomas S. Foley, D-Wash., and Majority Leader Richard Gephardt, D-Mo., who appeared at a press conference to demonstrate Democratic solidarity. The initiative is the party's effort to recapture the moral high ground as Congress and the Republican administration jockey over who is doing the most to resolve the S&L crisis.

Recently, President Bush held what amounted to a pep talk for U.S. attorneys he pledged new resources to prosecute crimes against S&Ls. The Senate followed last week with legislation that would permit life sentences for the worst offenders, the so-called S&L kingpins.

Mr. Schumer said the 30-year prison terms mandated in his bill are "plenty tough."

In a thinly veiled criticism of the Senate provision, Mr.

See **STIFF** page 18

Greenspan Hints Fed May Cut Rates Again

By LINDA CORMAN

WASHINGTON — The tightening of bank credit that prompted the Federal Reserve to reduce short-term interest rates last week is likely to continue, and may lead to further easing by the central bank, Fed Chairman Alan Greenspan said Wednesday.

In his most detailed assessment of the purported credit crunch and the recent effort to counteract it in monetary policy, Mr. Greenspan said the drop in the overnight fed funds rate may not have been sufficient to overcome the perception of tight credit.

More 'Scrutiny' Ahead

"The process of credit restraint may not have reached completion, and some of its effects may not yet have been

See **GREENSPAN** page 26



Greenspan's Main Points

- Banks in recent weeks may have "slipped over the line to overly restrictive lending standards."
- Bank lending may get tighter before easing.
- There is "no real basis" to expect a repeat of the S&L crisis in commercial banking.
- Economic slowdown remains unlikely, but there has been "a shade tilt toward a recession."

Yields Rise on Bank Debt

By KELLEY HOLLAND

NEW YORK — A spate of disappointing second-quarter earnings figures sent the yields on bank debt rising in recent days, continuing their upward trend of the past two weeks.

The increase in yields could mean a rise in cost of funds for many large banks, a looming problem at a time when regulatory pressure could warrant additional capital requirements beyond the 1992 risk-based capital guidelines.

"As things stand now, the risk for all banks is that getting capital is going to be increasingly expensive going forward," said Andrew J. Cooley, a managing director at Merrill Lynch Capital Markets. "As loan quality suffers, so do bond prices in the marketplace."

Market May Be Unfriendly

Admittedly, the change has no immediate effect on banks' funding costs. But in light of Federal Reserve Chairman Alan Greenspan's comments last week and again on Wednesday in which he advocated higher capital requirements, banks may be forced to step back into a po-

See **POOR** back page

Trust Areas Gained Some Glitter in '89

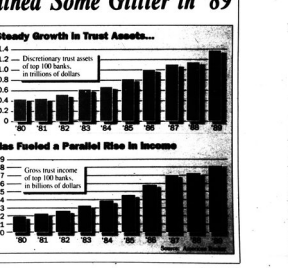
By RICHARD LAYNE

NEW YORK — Growth in large U.S. banks' trust income and assets bounced back last year after sputtering in 1988, indicating that the leading institutions are succeeding in their search for profits from the once sleepy function.

The 1989 increases – 12.4% in income and 19.3% in discretionary assets at the 100 largest trust banks – marked a return to the growth rates of the mid-1980s, according to the *American Banker*'s annual trust survey. The industry recovered from 1988 growth rates of about 4% for both assets and income that occurred in the aftermath of the 1987 stock market crash.

Growth in the market value of trust assets was 30% or more at

See **TRUST** page 9



PEOPLE *in the news*

Consultant Alden Toevs Sees a Dangerous Stampede

By KELLEY HOLLAND

NEW YORK — Seeing a herd mentality at work can bother a Westerner, and Alden L. Toevs, a native Oregonian and First Manhattan Consulting Group's newest partner, is no exception.

Banks are rushing into fee-based activities, he said, and right now too many of them are chasing too few lines of business. That means there could soon be excessive competition in those businesses, and banks will be entering markets that could be unprofitable by the time they get there.



Alden L. Toevs

"Too many people chase the same fees," he said. "It's a herd instinct into a boxed canyon."

Mr. Toevs should know. He spent the past seven years advising banks on strategic issues, such as risk management, while a principal at Morgan Stanley & Co. Since Monday, he has been working on the same issues from his new post as a managing vice president in the capital strategy and risk management practices at First Manhattan, a New York-based financial services consultancy.

Mr. Toevs also helps banks on questions of asset/liability management. Just as he wishes banks would take a broader look at fee-based businesses, he would like to see them exchange asset/liability management for a more integrated focus on capital management.

"Often, the way banks approach asset/liability management is to look at the interest rate sensitivity of assets, then of liabilities, and then net them," he said. "They should just start looking at the interest rate risk of capital."

Regulatory scrutiny is one reason banks should give more and more attention to their capital strength relative to the interest rate risk in their balance sheets, Mr. Toevs said.

"Capital management has been given a big push by the whole regulatory focus on capital and on having capital adequate to the interest rate risk inherent in the business," he said.

Taking a Closer Look at Mortgage-Backeds

One way banks can more accurately measure and manage their interest rate risk is to better analyze their mortgage-backed securities portfolios, Mr. Toevs said. He is one of the original developers of option-adjusted spread analysis, a widely used system of valuing the embedded options in mortgages and corporate securities.

Banks have been investing billions of dollars in mortgage-backed securities, particularly since thrifts began selling their holdings last year, so valuing those instruments is more important than ever.

Mr. Toevs taught at the University of Oregon before joining Morgan Stanley. While there, he was granted a visiting scholar to the Federal Reserve Bank of San Francisco in 1982 and, the following year, the Federal Home Loan Bank of San Francisco. He has a Ph.D. in economics from Tulane University and has done post-doctoral work at the Massachusetts Institute of Technology.

He serves on the editorial boards of several publications, including *The Financial Analysts Journal* and *The Journal of Securities Markets*.

Mr. Toevs lives in Manhattan with his wife and describes himself as an aggressive cyclist who is avidly rooting for Greg LeMond, the American competing in the Tour de France. □

1st Interstate Profit Off 8%; Realty Hurts Fleet and PNC

First Interstate Bancorp. announced Wednesday that its second quarter profits fell 8% from the year-earlier level, to $95 million, but the company reported continued improvement in reducing its heavy load of nonperforming assets.

Meanwhile, problem real estate loans continue to plague Fleet/Norstar Financial Group Inc. and PNC Financial Corp. Fleet, based in Providence, R.I., said its profits fell 33% to $60 million, and PNC said its earnings declined 13% to $108.9 million.

Also reporting Wednesday was Continental Bank Corp., which announced a $57 million loss and First Bank System Inc., which announced a 43% drop in earnings to $29.9 million.

Wednesday's earnings announcements were in line with analysts' expectations and most of the bank stocks settled around pre-announcement levels. First Interstate was unchanged at $39.875; Fleet was unchanged at $18.875; PNC was unchanged at $43.25; Continental was unchanged at $13.375. First Bank was down 12.5 cents to $14.875.

Despite the dip in earnings, First Interstate's new chairman and chief executive, Edward M. Carson, touted the company's "steady progress" in cleaning up its operations. The Los Angeles bank is suffering from continued problems in Arizona and Texas.

"We are paying particular attention to improving the quality of our loan portfolio, and this effort is reflected in the fact that the level of nonperforming assets decreased significantly during the first half of the year," Mr. Carson said in a statement.

FIRST INTERSTATE

Bulk sales of nonperforming loans as well as more traditional workout methods have helped pare down First Interstate's problem loans. Nonperforming assets totaled $1.88 billion, down from $2.047 billion at the end of the first quarter.

First Interstate Bank of Arizona lost $3.5 million in the second quarter, and First Interstate Bank of Texas reported a $14 million profit.

First Interstate set aside $117.7 million for possible loan losses, compared with $166.5 million in the second quarter a year earlier and $91.8 million in the first quarter ended March 31, 1990.

Despite strict cost cutting, First Interstate's expenses were up 5.8% to $626.9 million in the second quarter. This was mostly due to expenses related to the maintenance and disposition of problem real estate.

For the first six months of 1990, First Interstate earned $222.3 million , off 6% from the $235.3 million earned in the first six months of 1990.

FLEET/NORSTAR

Fleet's lower earnings were largely due to a $90 million loanloss provision, only partially offset by a special $35 million gain from the sale of a portion of its credit card portfolio and a change in its investment plan. In contrast, the company took a $425 million loan-loss provision in first quarter, which led it to report a $98 million loss.

"These problem real estate loans are not going to be gotten rid of any time soon," said analyst Christoph Kotowski of Oppenheimer & Co., New York. "We're going to be lugging those

See **EARNINGS** *page* **29**

7 States Agree To Share Data On Foreign Banks

By ROBERT TRIGAUX

WASHINGTON — Responding to the expansion of foreign banks in the United States, regulators in seven large states said Wednesday they have agreed to coordinate the supervision of international banks in their jurisdictions.

The pact means that any problems uncovered at a foreign bank branch or agency by one state supervisor will be shared with the six other regulators.

State agencies also will share basic data on foreign banks' financial conditions, examination ratings, business practices, compliance records, and relationships with parent companies and foreign supervisors.

State coordination of foreign bank activities is part of a larger push by state banking agencies to develop an efficient system for supervising any multistate banking operation.

National Networks Eyed

Observers on Wednesday applauded the initial plan to share data on foreign bank operations, but they said states eventually will have to come to terms with the supervision of banks – domestic or foreign – that have nationwide branch networks. State banking departments, through the Conference of State Bank Supervisors, have begun work on this plan.

The arrangement to share information on foreign banks will expand upon the sharing of information between state supervisors and the Federal Reserve Board, which helps regulate foreign bank activities in the United States.

"What we do with the Federal

See **7 STATES** *page* **22**

NEWS *briefs*

Seidman Acknowledges Weakness in Bank Fund

WASHINGTON — In the latest of a series of television appearances, L. William Seidman, chairman of the Federal Deposit Insurance Corp., acknowledged that the insurance system is "under stress" and "might not be able to handle" a deep recession.
— Reuters

Anchor Savings to Unload Its Deposits in Georgia

ATLANTA — Anchor Savings Bank, New York, said it signed a definitive agreement to transfer $400 million in deposits at 18 offices in six Georgia counties to nearby branches of Trust Company Bank. □

U.S. Bancorp Plans to Buy HeartFed Financial Corp.

PORTLAND, Ore. — U.S. Bancorp said it reached a definitive agreement to acquire HeartFed Financial Corp., Auburn, Calif., in an exchange of stock likely to be valued at about $108 million. The deal is not expected to close until the second quarter of 1991.

OTS Disapproves Plan Submitted by Comfed Unit

LOWELL, Mass. — Comfed Bancorp said the Office of Thrift Supervision disapproved the capital plan filed by its wholly owned subsidiary, Comfed Savings Bank early this year.

The $1.4 billion-asset Comfed said it is negotiating a proposed consent agreement with the OTS, which would limit certain of its activities but would not affect basic retail banking and mortgage lending. □

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

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TECHNOLOGY/OPERATIONS NEWS

Visa Beefing Up Software That Tracks Business Usage

By RICHARD LAYNE

NEW YORK — In an effort to gain share in the corporate card market, Visa International said Wednesday it would begin offering new systems for its business cards.

The new software, which will be available in August, provides corporate managers with more detailed reports on the travel and entertainment expenses of employees, including airline travel and international spending. Managers rely on the reports to set budgets and negotiate discounts with frequently used hotels and airlines.

Banks that belong to the card association pay a annual fee to run the software on their own systems.

American Expressis Leads

Visa launched its business card product a year and a half ago to assist member financial institutions in penetrating the $135 billion business travel and expense market. American Express Co. dominates the market, although it does not release figures on corporate cards in circulation. MasterCard U.S.A. and Diners Club also have a strong presence.

MasterCard does not offer airline reports and international spending reports, said Stephen Schapp, senior vice president at Visa. American Express, he said, does not offer an international spending report.

Corporate cards tend to be less profitable for banks than mature personal credit cards, Mr. Schapp said. But corporate cards are typically issued en masse, making it cheaper to acquire new business customers than personal credit customers. For some banks, offering a business card to customers strengthens the relationship with them.

Room for Growth

Mr. Schapp estimated that seven million corporate cards are in circulation, but there is significant room for growth. The market could could top off at 15 million cards, he said. For Visa, the potential for growth in business cards rivals that of gold cards.

"The majority of purchasers in this market are with personally held cards," said Mr. Schapp. "We see opportunities to tap those personally owned cards and to convert them to business cards." □

ABA Sees Some Postage Victories

Group Takes Heart in Deluge of Written Testimony

By JEANNE IDDA

NEW YORK — Based on the flood of written testimony presented to the Postal Rate Commission on Monday, the American Bankers Association believes it can look forward to some modest victories in its fight against proposed rate increases.

"I do not feel certain we will win all the points raised, although I think they are all justified," said Perry D. Quick, a principal with law firm Quick, Finan & Associates in Washington, who is representing the ABA in the rate case. "I think we should win some specific victories."

Mr. Quick said the bankers could win higher discounts for presorting and bar coding their mail and the elimination of an accounting fee the Postal Service has proposed that would effectively raise the cost of business reply mail.

Accounting Criticized

The cost-changing written critique of the Postal Service's plan to raise $48 billion a year in revenue, the ABA attacked the service's cost-accounting methods. The point of greatest contention is a proposed 5-cent hike in rates for first-class mail that bankers say would put a disproportionate burden on first-class mailers.

As the largest users of first-class mail, bankers sided the increase could cost the industry $250 million a year.

In its testimony, the ABA said an increase to 30 cents was unjustified and that at most a 4-cent increase should be granted. Each penny saved in first-class rates represents $50 million a year for the industry, according to the ABA.

> **"I agree in general that the Postal Service is asking for more money than is absolutely necessary."**
> **Stephen Gold** *U.S. Postal Service*

Accusation by ABA

The ABA also argued that the Postal Service was taking advantage of its monopoly over first-class service to cut increases in other areas where it faces competition, such as in third-class bulk mailing.

"The U.S. Postal Service spent many months putting together this rate case, and we stand by the numbers," said Robert Hoobing, a spokesman for the Postal Service.

The Postal Rate Commission's Office of the Consumer Advocate has until June to review the testimony submitted by more than 100 witnesses, representing interests ranging from third-class bulk mailers to Federal Express Corp.

Agreement by Unit

"I agree in general that the Postal Service is asking for more money than is absolutely necessary," said Stephen Gold, director of the consumer office.

"They have a number of items in their request that give them more money" than their expenses, Mr. Gold said. The Postal Service is not allowed to make a profit.

The prepared texts will be reviewed and evaluated by the Postal Rate Commission over the next few months. In September, witnesses will present oral testimony, with rebuttals scheduled for October and the commission's decision due Jan. 4.

An Earlier Victory

In 1987, during the last rate case, the Rate Commission granted several of the ABA's requests, including a reduction in business reply mail and discounts.

The Post Office breaks down its revenue-raising proposal by each class of mail.

Among other complaints, the ABA has criticized the Postal Service's proposed 2-cent discounting mail that banks have presorted or bar coded. The proposed discounts are not enough to reflect the Post Office's savings, the group argues.

"The Post Office is appropriating the cost savings," said Mr. Quick. "Based on detailed assessments of the Postal Service's cost structure, we have enough information to compare the costs of a presorted letter with a non-presorted letter."

Mr. Quick said that the Post Office saves 5 cents to 10 cents for each presorted letter, but is suggesting only a 2-cent discount for most presorted mail. "We say at a minimum [the discount] should be 5 cents," he said. □

Harris Trust Offering Electronic Account Statements

By RICHARD LAYNE

NEW YORK — Harris Trust and Savings Bank has joined a handful of cash management providers that offer electronic statements to customers.

The Chicago bank, a subsidiary of Bankmont Financial Corp., transmits electronic statements to customers' personal computers or mainframes via a communications technology called electronic data interchange. Harris began a pilot program in January with three customers of its electronic account analysis service.

Corporations that use cash management services have long complained that bank bills are difficult to read and compare with their own information.

Format Being Developed

The National Corporate Cash Management Association developed a standard format for bills last year. American National Standards Industry, an independent standard-setting organization that has representatives from many industries, is turning that paper format into an electronic format but is months away from being done.

Harris is part of a small group of banks, including the flagship subsidiary of Chase Manhattan Corp., making the service available before electronic formats are standardized.

"Our customers are asking for this service now, so we are offering it now," said Donald Zyck, a Harris vice president. "At a large company, it saves days and weeks of their time," he said, because managers no longer have to check paper records against each other. □

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"When Citicorp Information Resources told us Resource Manager would let us lower our costs and increase productivity in the same operation, we believed it.

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"The biggest thing we've got from Citicorp is time. Time to do the things we've always wanted to do, but never had the time for. Time to plan for the future. Time to be proactive instead of reactive.

CITICORP INFORMATION RESOURCES
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COMMENT/ *By Stephen H. Axilrod*

Fed, Despite Recent Easing, Keeps Brakes on Inflation

The Federal Reserve Board has eased monetary policy a notch in an effort to offset credit tightening at banks and other depository institutions. That was the clear implication of Fed Chairman Alan Greenspan's testimony last week at the Senate Banking Committee hearing on bank capital, confirmed at Wednesday's monetary policy hearing.

As indicated in last month's column, the weakness of money supply over the past few months suggested that the Fed might in practice – given the change in institutional lending attitudes – have restrained the bank reserve base, and hence the money supply, more than it intended. In that case, it would be quite natural to provide more reserves and let the money market ease a bit further.

The expected result would be more accommodative market conditions and more liquidity in the hands of the public, helping to offset the reduced accommodation and greater desire for liquidity at banks.

Mr. Axilrod is vice chairman of Nikko Securities Co., New York.

The recent easing does not represent any lessening in the Fed's continuing effort to constrain inflation. So long as the money supply (particularly the M2 version) is not running high in the Fed's longer-run target ranges, the Fed remains on a rather restrictive course.

Elusive Money Trends

Such a statement about the money supply sounds more unequivocal than it should. Money trends in the aggregate are fiendishly difficult to interpret, as everyone knows by now. They cannot be judged without also looking at the velocity of money, which itself depends on interest rates (representing the cost of investment alternatives to money) and also on public attitudes independent of interest rates.

If velocity showed an independent tendency to rise sharply, that could indicate an increase in inflationary expectations and a flight away from money. If turnover showed an independent tendency to decline sharply, that could indicate the public wants a lot more liquidity for cautionary reasons (as occurred temporarily after



the October 1987 market crash).

In current conditions – with velocity not showing unusual independent tendencies – it seems reasonable to interpret sluggish growth in money as indicating that monetary policy had become a little tighter than intended. That is by no means a reversion to the monetary targeting of the early '80s, but it does suggest that money cannot be, and is not being, entirely ignored in monetary policy operations.

This recent episode also brings up the vexing question of the relationship between regulatory and monetary policies. Ideally, they should be quite separate. That is, the economic objectives of monetary policy should not be influenced by regulatory policies to assure the soundness of individual institutions and the banking system.

But the implementation of monetary policy has to take into account how banks are responding within an existing economic and regulatory environment.

Regulatory decisions affecting the conduct of banking should be based on the nation's goals for a competitive, safe banking system – not on the needs of monetary policy. The U.S. banking system is clearly in need of more, not less, scope for operations in light of the evident globalization of finance.

I do not necessarily mean that the banks should be charging into the securities business, where competition is already fierce and profit opportunities limited. Nor do I mean that bank capital standards here are too high. Given the loan experience of the past several years, they surely are not.

U.S. banks are at a disadvantage in size. They cannot accumulate capital and deposits to compete effectively against the truly nationwide banks of other major countries.

Limitations on interstate banking here are eroding, but it would be a great help if they were eased, with a little congressional push. The European Community's banking directive will let banks chartered in one country operate in other countries of the community.

It should not be beyond the wit of the more culturally integrated United States, which already has national banking authority, to move more rapidly toward nationwide banking – before all the good international markets are gobbled up by the growing banks of Europe and Asia. □

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THE LOBBYISTS

Kennedy Bill Would Tax the Wealthy To Fund S&L Bailout

The **Financial Democracy Campaign,** a loose coalition of labor, consumer, church, and organizations, begins lobbying today for a bill that would tax the wealthy to pay for the savings and loan cleanup.

The coalition formed last year in response to the mounting cost of the S&L bailout to U.S. taxpayers. Among its victories was an amendment sponsored by **Rep. Joseph P. Kennedy 2d,** D-Mass., that beefed up anti-redlining laws. Another, sponsored by **Rep. Henry B. Gonzalez,** D-Tex., created industry-financed low-income housing.

A defeat came on a separate Kennedy proposal to finance the bailout with a special tax. This year, however, the coalition believes a new effort, also led by Rep. Kennedy, has a shot at making it to the President's desk.

"The environment has really changed," said **Steve Kest,** executive director of the **Association of Community Organizations for Reform Now,** or Acorn, which took a lead in forming the Financial Democracy Campaign. "People are extremely angry over the cost of the bailout."

Rep. Kennedy was scheduled to announce his new initiative this morning, at a press conference attended by representatives of the Financial Democracy Campaign and consumer advocate **Ralph Nader.**

Acorn is known for its confrontational tactics. Earlier this week, the group demonstrated outside the Chicago headquarters of the U.S. **League of Savings Institutions.** After U.S. League president **Frederick Webber** finally invited representatives up to talk, Mr. Kest presented him with a bill for $1.4 trillion – his estimate of the cost of the bailout.

* * *

Housing Groups Fight FHA Overhaul

An omnibus housing bill advancing to the House floor as early as today has mortgage insurers and housing industry groups squaring off over a Bush administration plan to revamp the government's flagship home-ownership program.

Girding themselves for battle with the **Mortgage Insurance Companies of America,** home builders, mortgage bankers, and Realtors have lined up support for an alternative Federal Housing Administration reform proposal to be offered by **Rep. Bruce Vento,** D.-Minn., **and Rep. Thomas Ridge,** R.-Pa.

Growing losses are consuming the capital of FHA's mutual mortgage insurance fund, prompting Housing and Urban Development Secretary **Jack Kemp** to warn that the fund backing nearly $300 billion of single-family mortgages could be broke by the end of the decade. Now all the players are picking through a report by **Price-Waterhouse,** the accounting firm that examined ways to restore the FHA program to financial health, for clues on how to stop the fund's slide.

A plan was assembled by the Bush administration to levy risk-based mortgage insurance premiums and end financing of most closing costs. Approved by the Senate in late June, it would increase the FHA's current 3.8% mortgage insurance premium on principal to as much as 7.6% for borrowers who put down less than 5% on a home. The borrowers would pay supplemental annual premiums for up to 15 years.

Mortgage insurers – still smarting over a measure enacted last year that raised the FHA single-family loan limit to $124,875 – favor the plan, saying it would ward off foreclosures. "This isn't a matter of just putting people into homes; you have to keep them there," said **Suzanne Hutchinson,** executive vice president of the mortgage insurers' group.



S. Hutchinson

The **Mortgage Bankers Association,** the **National Association of Home Builders,** and the **National Association of Realtors** disagree. They say the plan would put home ownership out of reach for up to 100,000 families a year. They endorse the Vento-Ridge alternative, which drops the initial premium to 1.35% but requires all borrowers to pay an extra 0.5% annual premium.

And now **Consumers Union** has taken up their cause. "The Vento-Ridge proposal shows that we can save the program without killing the dreams of first-time homebuyers in the process," said **Michelle Meier,** government affairs counsel.

The housing industry groups asked Price Waterhouse to reassess the fund's health using cheerier assumptions. Price Waterhouse acknowledged that interest rate, unemployment, house appreciation, and inflation scenarios and policy initiatives suggested by the groups add up to a more robust FHA.

* * *

IRS Proposal Would Tax S&Ls' Bad-Debt Reserves

Healthy thrifts that back away from real estate lending or switch to commercial bank charters, beware: A tax-hungry Internal Revenue Service is eyeing your bad-debt reserves.

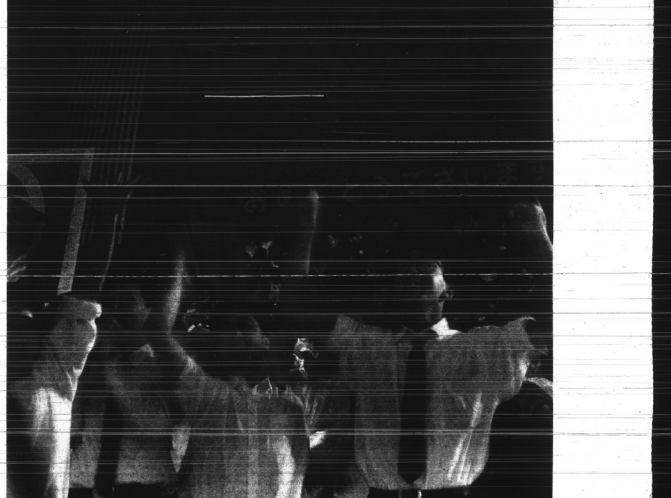
The **National Council of Savings Institutions** warns that some thrifts may be taxed into insolvency by an IRS ruling that could drain them of more than 30% of capital. **Mark Riedy,** the trade group's president, and **James O'Connor,** its vice president for tax, will take on the IRS position at a briefing Tuesday.



Mark Riedy

For decades, the government has stimulated mortgage lending by permitting thrifts to cushion themselves against future loan losses by deducting bad-debt reserves from income. Now the IRS is tightening the rules that trigger a recapture of the subsidy, pulling into its revenue stream the bad-debt reserves of thrifts that obtain commercial bank charters or whose residential mortgage lending drops below 60%, the National Council of Savings Institutions says.

— **Robert M. Garsson and Debra Cope**



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MARKETING/ADVERTISING



LOBBY OR SALESROOM? Ford is displaying two redesigned auto models in lobbies of its subsidiary First Nationwide Bank as part of a cross-selling campaign for the thrift's checking accounts.

Ford and Affiliate Thrift Pitch Each Other's Wares

By SAM ZUCKERMAN

SAN FRANCISCO — Call it the ultimate cross-selling campaign.

First Nationwide Bank, San Francisco, is pitching the cars of corporate parent Ford Motor Co., and Ford is promoting First Nationwide checking accounts. The campaign is running seven weeks, highlighted by "The Drive to Win" sweepstakes at 28 First Nationwide branches in Northern California. Grand prizes in the contest are new Ford and Mercury autos.

The campaign was made possible by a provision of last year's thrift-bailout law that repealed a ban on joint marketing ventures between a thrift institution and its nondepository affiliates. Experts said they know of no other such joint promotion.

Thrifts "many times have participated in joint promotions with [unaffiliated] auto dealers," said Douglas Adamson, executive vice president of the Bank Marketing Association. "But I'm not aware of nonfinancial affiliates promoting in branches."

Several thrifts are owned by insurance companies; only a handful are affiliated with nonfinancial companies.

But restrictions will be relaxed on thrift ownership, and many companies will want to carry out joint marketing campaigns with their deposit-taking subsidiaries, said Samuel J. Baptista, director of the Financial Services Council, a Washington trade group lobbying to remove limits on ownership of financial services companies.

Goal Is to Gain 3,000 Checking Accounts

First Nationwide aims to add 3,000 checking accounts in Northern California. The nation's third-largest thrift, with $29.1 billion in assets, it also wants to accentuate its ties to rock-solid Ford, which presumably would help distinguish it from some of its shakier industry colleagues. And Ford foresees access to potential car buyers.

The two grand prizes in the sweepstakes are a 1991 Ford Escort GT and a 1991 Mercury Tracer LTS. "These two particular models are very important to Ford," said Robert E. Lackovic, the thrift's chairman and chief executive. "We were asked to help."

Deals Trying to Increase Sales of Two Models

Ford has called first-half sales disappointing and this week announced dealer incentives for the Escort and Tracer. Ford also plans to increase ad spending in July and August in an effort to increase sales and reduce inventories.

The redesigned Escorts and Tracers will be displayed inside 12 First Nationwide branches during the campaign. First Nationwide wanted to put cars in all participating branches but settled on those with doors wide enough to let a vehicle through.

Five other winners in the thrift sweepstakes will each get $1,000 certificates of deposit, savings accounts, or travelers checks. The "second prize" is six months of free checking at First Nationwide, and "everybody is going to get a second prize," Mr. Lackovic said.

The campaign has been designed to exploit cross-selling opportunities. The sweepstakes will use a scratch-off game card, which consumers can get through First Nationwide branches, direct mail, or Ford and Lincoln-Mercury dealers.

More than 100,000 cards will be sent to two groups: households, that are current customers but do not have checking accounts with First Nationwide and noncustomers who live near its branches.

Competitors Are Skeptical

Direct-mail packages will include brochures on Escorts and Tracers and coupons good for an extra 0.25% on the interest rate of a First Nationwide certificate of deposit of at least $1,000.

To learn whether they have won a prize, sweepstakes players must take their cards into First Nationwide branches.

Competitors are skeptical about the campaign's possibilities. "I can't envision that marketing or sales opportunities would extend beyond cross-solicitations," said Ralph W. Burke, marketing administrator for SFFed Corp., parent of San Francisco Federal Savings and Loan Association. □

Easing the Way for Insurance Sales

Firm Offers Back-Office Services to Delaware Banks

By YVETTE D. KANTROW

NEW YORK — Coverdell & Co. is offering to help banks take advantage of a controversial Delaware law that allows state-chartered banks to sell insurance nationwide.

The Atlanta-based firm has developed a program that will allow Delaware banks to market insurance products under their own private label without heavy back-office investment. Coverdell will handle the issuance of policies, customer service, premium billing, claims review, and other essential functions.

"It gives banks the appearance of operating a full-blown business without making the investment," said Michael Levison, Coverdell's president. "Down the road, banks can take over the business when they are ready."

Significant Powers

The Delaware law, enacted in May, is seen as one of the most significant expansions of bank insurance powers to date. It allows banks chartered in the state – which include the credit card and wholesale units of many of the country's largest institutions – to underwrite and sell insurance nationwide.

But the law has sparked debate among bankers, the insurance industry, legislators, and regulators. The Federal Deposit Insurance Corp. launched an inquiry several weeks ago to determine how the law affects bank safety and soundness.

Senate Banking Committee Chairman Donald W. Riegle, D-Mich., has asked both the FDIC and the Federal Reserve Board to decide whether the insurance powers granted by Delaware are permissible under the Bank Holding Company Act.

"A lot of banks are waiting and seeing what shakes down before they proceed," said Michael P. Bucci, a consultant at Wyatt Co., Washington.

Citicorp, Chase to Act

Other than Citicorp and Chase Manhattan Corp., which have publicly stated their intent to enter the insurance business, few banks with operations in the state have acted.

"There's no question that a lot of banks are waiting to see how much [of the law] will stand up," agreed Mr. Levison of Coverdell. "No prudent banker will run full speed ahead."

But that is what makes Coverdell's package attractive, he said. Banks can test the insurance market with little risk.

For banks that want to take advantage of the underwriting powers granted by the Delaware law, Coverdell will set up special reinsurance participation arrangements.

Building a Customer Base

Mr. Levison said Coverdell has relationships with a variety of insurance carriers, enabling banks to sell many products. All banks that sign up for the service will be allowed to take over the insurance business when they are ready. "We'll enable them to build a large policyholder base that will be important in the long term," he said.

Coverdell hopes to sign up its first banking client by yearend.

"We don't need 50 banks to be successful," Mr. Levison said. "Two or three hits, and it's a success."

Despite the inquiry into the Delaware insurance law, observers expect many of its basic provisions to survive. "If they overhaul one section of the law, parts of it will stand," said Mr. Bucci of the Wyatt Co. His firm offers advice to banks that want to enter the insurance business. □

Growth Expected in Tally of Banks that Sell Annuities

By ELLEN MEMMELAAR

NEW YORK — Companies that provide annuities and other insurance products to banks are anticipating a flurry of activity in the next two years.

"Over the next 24 months, there is going to be an explosion of this," said Alan Blank, chairman of Pamco Securities, which distributes insurance and securities products to banks and other institutions.

In the latest example, National City Corp., a large bank holding company based in Cleveland, recently signed a contract with Pamco to acquire the ability to offer annuities.

Kevin Crowe, chairman and chief executive officer of the Essex Corp., another insurance product distributor, said a cluster of small state-chartered banks in the Midwest and a large New York City bank will soon announce their entry into the insurance market.

More than 100 commercial banks, each with deposits of at least $750 million, now offer annuities, according to a survey by Kenneth Kehrer Associates, Princeton, N.J. The total is rising, Kehrer said, as states ease restrictions and defer to the Comptroller of the Currency's February statement encouraging national banks to sell annuities.

Intramarket competition will force banks to offer insurance and securities, Mr. Blank said, and they will use these products to increase fee income and halt disintermediation.

Ohio Citizens Bank, a National City subsidiary in Toledo, this month began offering Pamco's fixed-rate annuities. The holding company plans to make annuities available at other bank units as well, said Susan Burns, senior vice president and branch administration.

Widening the Product Range

National City also is considering selling other types of annuities and possibly other insurance products, Ms. Burns said.

Banks' expansion into the insurance market has been relatively slow, she said. "As bankers, we tend to be very cautious. If we offer a product, we want to make sure that it is safe." □

AMERICAN BANKER /Bank Rate Monitor™

Consumer Money Index — **Auto, personal and credit card rates**

Market	CD/MM rates 7/11/90	CD/MM rates 7/18/90	Change	Auto rates 7/11/90	Auto rates 7/18/90
New York	19.29	19.29	18.71	18.71	13.79	13.79
Los Angeles	19.16	19.16	20.06	20.06	13.58	13.58
Chicago	18.85	18.85	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	20.06	20.06	12.80	12.80
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Detroit	18.00	18.00	15.00	15.00	12.00	12.00
Boston	17.36	17.36	17.56	17.56	12.93	12.93
Houston	18.12	18.12	15.56	15.56	11.63	11.63
Dallas	18.17	18.17	16.87	16.87	11.37	11.51
Washington D.C.	18.71	18.71	16.59	16.59	11.46	11.46
BBB Index	18.64	18.64	17.29	17.29	12.28	12.29

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered by banks in each market. Auto loan rates are for a $10,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or gross periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES	7/11/90
First Pennsylvania, Philadelphia	12.49%
Philadelphia Nat'l Bank, Philadelphia	12.49
Benedict Sups Sk, Philadelphia	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank Of America, San Francisco	21.25
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.50
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Savs, Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Sngs, Houston	15.90
HIGHEST CREDIT CARD RATES	
World Sav., Oakland, Calif.	20.00%
Homestead Savings, San Francisco	20.00
Regis Nat'l Bank, Waukegan	19.80

Illinois' Dec. 1 Interstate Opening Leaves Acquirers Cold

Continued from page 1

companies have a major statewide presence, an legacy of the state's prior insistence on unit banking. Illinois has allowed multibank holding companies only since 1982. And competition in most parts of the state is not as intense as in other regions of the country.

First Chicago Corp., with $50 billion in assets, and Continental Bank Corp., with $29 billion in assets, are considered too large to be acquired at this stage of the banking consolidation movement.

The only midsize bank holding company is the $11 billion-asset Northern Trust Corp. With its strong trust business accounting for more than 50% of earnings, Northern could be an attractive candidate, analysts said.

Bevy of Smaller Companies

Myriad smaller Illinois bank holding companies all have less than $3 billion in assets. Very few banks in the state have assets of $2 billion or more. Industry experts disagree over the ideal asset size for a takeover candidate.

Many potential targets are virtually unknown outside the state, according to Mr. LaManna of William Blair. The analyst has identified 36 Illinois bank holding companies with assets of $350 million to $3 billion, only 15 of which are listed on the three major exchanges.

Mr. Milunovich is recommending stocks of 10 banking companies – including Northern Trust – to Baird's clients; eight are in Chicago and nearby suburbs, and two are the state capital, Springfield. Baird expects most acquisition interest to center in Chicago and Springfield.

All but two of Mr. Milunovich's recommendations have assets in excess of $1 billion.

Piecemeal Franchises

Out-of-state banks that are keen to enter the market may have to stitch together a franchise by acquiring more than one bank holding company.

Several superregionals and at least one money-center bank are interested in Illinois. Norwest Corp., Minneapolis, would have been likely to make the first move until it recently began merger discussions with United Banks of Colorado Inc.

Norwest very recently became an indirect presence in the state by purchasing First Interstate Corporation of Wisconsin, which had just acquired First Illini Bancorp of Galesburg, on the western side of Illinois.

A semaphore of interest was waved by Norwest executive president Leslie S. Biller, when he told the Illinois Bankers Association that Norwest wants to be a big player in the state.

First Chicago Corp., with $50 billion in assets, and Continental Bank Corp., with $29 billion in assets, are considered too large to be acquired at this stage of banking consolidation.

NBD Bancorp., Detroit, entered Illinois in 1987 by purchasing USAmerihares the after the state opened to regional interstate banking in 1986. NBD is expected to expand its franchise. And Citicorp., which acquired First Federal Savings and Loan Association of Chicago in 1983, is also likely to make bank acquisitions.

Once Illinois opens to full nationwide interstate banking, other logical entrants are Banc One Corp., Columbus, Ohio; PNC Financial Corp., Pittsburgh. But both companies will be preoccupied for a while with asset-quality concerns, and Banc One needs time to absorb the big acquisition it made in Texas last year.

Only First Chicago and Northern Trust are considered large enough to expand outside the state. Continental will not be in the running, since it has refocused itself as a business bank.

Richard Thomas, a vice president at First Chicago, said the bank is interested in neighboring states, but has no immediate acquisition plans. The option of moving into neighboring states has been open since 1986, First Chicago has not made the move.

The forces keeping the brakes on merger activity will let up eventually. "Sooner or later bank prices will rebound," said Mr. LaManna. "And the preoccupied banks will clean up their balance sheets." □

12 Consumer Bankers Plan to Advise Soviets

WASHINGTON — Several U.S. consumer bankers will visit the Soviet Union next month to offer tips and explore other means of helping their Soviet counterparts reform the banking system.

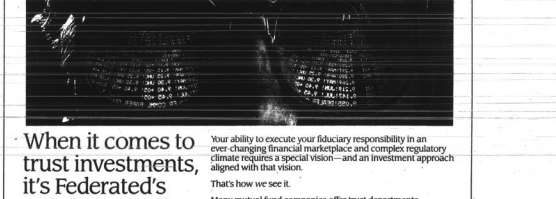
Joe Belew, president of the Consumer Bankers Association, will lead the 12-member delegation to Moscow, Leningrad, and Kiev from Aug. 18 through 31.

The group will meet with Soviet economists and officials from the Ministry of Finance and from Soviet banks. Their discussions will cover personal financial services, electronic funds transfer, mortgage lending, affordable housing, agricultural lending, checking account systems, credit and debit cards, and convertibility of the ruble.

The Citizen Ambassador Program, a private exchange organization based in Spokane, Wash., arranged the trip.

— Linda Corman

Through the eye of the fiduciary.



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TRUST BANKING

Top 100 Firms in Discretionary Trust Assets

Banks and non-deposit trust companies ranked in order of 1989 market value of assets under management

Rank 1989		Market Value of Discretionary Assets 1989	1988	Rank 1988	Gain in Rank	Trust Inc. Rank 1989	Asset Rank 1989
1	Bankers Trust New York Corp. (M)	104,300,000,000	80,600,000,000	1		3	10
2	J.P. Morgan & Co., Inc., New York (M)	82,200,000,000	69,400,000,000	2		2	4
3	Wells Fargo & Co., San Francisco (C)	80,042,439,000	67,454,107,000	3		11	12
4	Mellon Bank Corp., Pittsburgh (M)	67,338,000,000	58,166,000,000	4		7	18
5	State Street Boston Corp. (C)	55,948,011,000	36,400,000,000	6	+3	6	60
6	PNC Financial Corp., Pittsburgh (M)	51,807,616,000	41,177,000,000	5		10	14
7	Citicorp, New York (M)	45,696,919,000	38,772,277,000	7		1	1
8	Chase Manhattan Corp., New York (M)	40,540,000,000	39,324,000,000	8		4	2
9	Northern Trust Corp., Chicago (M)	35,921,547,966	28,958,906,000	10	+1	8	55
10	Bank of New York Co., Inc. (M,e)	33,814,653,000	15,007,800,000	23	+ 13	5	11
11	Chemical Banking Corp., New York (M)	33,691,969,000	29,990,606,000	9		9	6
12	Capital Guardian Trust Co., Los Angeles (T)	27,428,513,000	26,008,137,000*	13	+1	36	
13	Boatmen's Bancshares Inc., St. Louis, Mo. (M)	25,238,386,000	22,573,529,000	12		22	42
14	First Chicago Corp. (M)	23,691,000,000	27,354,497,000	11		23	13
15	NCNB Corp., Charlotte, N.C. (M,b)	23,300,000,000	7,886,614,000	43	+ 28	14	
16	BanTrust Banks, Inc., Atlanta (M)	23,290,390,000	19,876,798,000	15		15	19
17	Wilmington Trust Co., Del. (B)	23,278,536,000	20,521,141,000	14		44	
18	Security Pacific Corp., Los Angeles (M)	23,135,725,000	19,115,817,000	16		12	5
19	First Interstate Bancorp., Los Angeles (M)	22,452,730,000	20,176,726,000	13		19	9
20	Fiduciary Trust International, New York (B)	18,766,576,000	16,708,322,000	19		40	
21	National City Corp., Cleveland (M)	18,703,821,000	16,137,257,000	22	+2	25	34
22	Harris Bancorp., Inc., Chicago (M)	18,625,244,000	17,842,804,000	17		21	46
23	U.S. Trust Corp., New York (B)	18,020,629,000	17,054,000,000	18		13	145
24	Manufacturers National Corp., Detroit (M)	16,921,696,000	14,882,506,000	24	+1	47	56
25	Boston Safe Deposit & Trust Co. (B)	14,504,407,000	4,288,691,000	60	+ 36	32	
26	Cleveland Trust Company, (M,c)	14,300,000,000	12,330,887,000	28	+3	30	54
27	NBD Bancorp., Inc., Detroit (M)	13,736,673,000	12,578,728,000	27		26	27
28	First Bank System, Minneapolis (M)	13,167,527,000	10,386,000,000	25		24	36
29	Bank of New England Corp., Boston (M)	12,897,718,000	12,198,886,000	29		20	21
30	Continental Bank Corp., Chicago (D)	12,446,888,000	11,797,000,000	31	+1	33	22
31	Shawmut National Corp., Hartford, Conn. (M)	12,318,885,000	11,591,591,000	32	+1	27	29
32	Banc One Corp., Columbus, Ohio (M)	11,850,022,000	10,728,126,000	33	+1	37	26
33	First Fidelity Bancorporation, Lawrenceville, N.J. (M)	11,700,000,000	11,801,488,000	30		29	20
34	Manufacturers Hanover Corp., New York (M)	11,501,700,000	7,987,276,000	41	+7	18	8
35	Fidelity Management Trust Co., Boston (T)	11,176,000,000				43	
36	Bank of Boston Corp. (M)	10,982,000,000	13,734,700,000	26		17	15
37	First Wachovia Corp., Winston-Salem, N.C. (M)	10,563,182,000	9,313,716,000	35		35	31
38	First Pennsylvania Corp., Philadelphia (C,d)	10,567,884,000	9,091,828,000	37		56	77
39	CoreStates Financial Corp., Philadelphia (M,d)	10,359,587,000	9,345,111,000	34		51	39
40	Hambrecht & Quist Financial Group, Inc., Providence, R.I. (M)	10,352,018,000	9,254,322,000	36		34	16
41	Norwest Corp., Minneapolis (M)	9,139,000,000	7,846,300,000	44	+3	31	30
42	Sovran Financial Corp., Norfolk, Va. (M)	9,047,600,000	8,360,490,000	38		39	29
43	Mercantile Bancorp., Inc., St. Louis, Mo. (M)	8,887,761,000	8,117,078,000	39		61	74
44	MNC Financial, Inc., Baltimore (M,e,f)	7,837,000,000	7,264,820,000	46	+2	50	37
45	First Union Corp., Charlotte, N.C. (M,g)	7,814,158,000	7,078,327,000	47	+2	37	17
46	Citizens & Southern Corp., Atlanta (M)	6,150,613,000	7,659,145,000	45		41	33
47	Firstar Corp., Milwaukee (B)	5,876,473,000	4,091,162,000	51	+4	42	62
48	BankAmerica Corp., San Francisco (M)	5,283,775,000	5,953,117,000	48		35	3
49	Trust Services of America, Inc., Los Angeles (T)	5,242,000,000	6,162,000,000	50	+1	57	
50	Mercantile Bankshares Corp., Baltimore (M)	5,201,921,000				64	105
51	Midlantic Corp., Edison, N.J. (M)	5,026,994,000	5,502,042,000	52	+1	48	32
52	Bessemer Group, Inc., Woodbridge, N.J. (M,h)	5,888,798,000				45	
53	MCorp, Dallas (M,i)	5,863,398,835	7,967,767,924	42		38	134
54	Crestar Financial Corp., Richmond (M)	5,841,076,000	6,194,043,000	49		54	53
55	Comerica Inc., Detroit (B)	5,070,473,000	5,473,040,000	53		53	48
56	Fifth Third Bancorp., Cincinnati (M)	5,761,000,000	4,365,428,000*	59	+3	65	72
57	Marine Midland Banks, Inc., Buffalo, N.Y. (M)	5,536,906,000	4,734,048,000*	58	+1	49	25
58	Society Corp., Cleveland (M,j)	5,514,710,000	4,927,880,000	55		55	56
59	Trustcorp, Inc., Toledo, Ohio (M,j)	5,431,527,000	4,855,487,000	56		79	91
60	Glenmede Trust Co., Philadelphia (T)	5,400,000,000	3,910,988,645	64	+4	89	
61	INB Financial Corp., Indianapolis (M)	5,312,193,000	5,007,266,000	54		81	82
62	United Missouri Bancshares Inc., Kansas City (M)	5,152,052,000	4,492,175,000	57		69	103
63	BanCal Tri-State Corp., San Francisco (C)	5,089,199,000	3,786,645,000	65	+2	46	66
64	First of America Bank Corp., Kalamazoo, Mich. (M)	4,972,640,000	3,133,416,000	70	+6	52	44
65	Old Kent Financial Corp., Grand Rapids, Mich. (M)	4,931,350,000	4,305,697,000*	62		62	65
66	United Banks of Colorado, Denver (M)	4,849,714,000	4,011,926,000	61		70	81
67	Barnett Banks, Inc., Jacksonville, Fla. (M)	4,779,984,000	3,920,883,000	63		67	33
68	Meridian Bancorp., Inc., Reading, Pa. (M)	4,582,000,000	4,205,000,000	67		74	49
69	AmSouth Bancorp., Birmingham, Ala. (M)	4,493,044,000	4,794,992,000	52		71	63
70	KeyCorp, Albany, N.Y. (M)	4,295,574,000	3,171,411,677	69		68	41
71	Marshall & Ilsley Corp., Milwaukee (M)	4,105,944,000	3,404,925,000	68		58	71
72	Integra Financial Corp., Pittsburgh (M)	4,010,513,000	3,708,000,000*	67*		77	75
73	Bancorp Hawaii, Inc., Honolulu (B)	3,900,061,000	2,375,894,000	92	+19	76	64
74	First City Bancorporation of Texas, Inc., Houston (M)	3,493,462,000	2,782,804,000	74		59	43
75	Southeast Banking Corp., Miami (M)	3,290,000,000	3,035,751,000	71		67	40
76	U.S. Bancorp., Portland, Ore. (M)	3,229,036,000	3,159,645,000	69		60	38
77	Affiliated Bankshares of Colorado, Inc., Denver (M)	3,100,000,000	N.A.			117	141
78	Riggs National Corp., Washington, D.C. (M)	3,094,980,000	2,662,441,000	78		85	69
79	Star Banc Corp., Cincinnati (M)	3,013,800,000	2,758,945,000	75		73	83
80	Valley National Corp., Phoenix, Ariz. (M)	2,883,467,000	2,597,211,000	80		75	57
81	Hibernia Corp., New Orleans, La. (M)	2,855,366,000	2,609,649,000	79		109	76
82	Merchants National Corp., Indianapolis (M)	2,840,637,000	N.A.			95	87
83	La Salle National Corp., Chicago (M)	2,813,955,000	1,687,187,000	99	+ 16	72	116
84	First American Corp., Nashville, Tenn. (M)	2,666,000,000	2,666,800,000	77		94	73
85	Commerce Bancshares Inc., Kansas City, Mo. (M)	2,491,740,000	1,939,965,000	93	+7	90	84
86	Banks of Mid-America, Inc., Oklahoma City (B)	2,421,582,000	2,200,000,000	85		97	
87	BancOklahoma Corp., Tulsa (M)	2,363,780,000	2,129,204,000	87		101	
88	First Tennessee National Corp., Memphis (M)	2,335,360,000	1,983,270,000	91	+3	96	78
89	Liberty National Bancorp, Inc., Louisville, Ky. (M)	2,318,109,000	2,218,519,000	84		111	112
90	South Carolina National Corp., Columbia (S)	2,298,041,000	1,902,713,000	94	+4	84	80
91	Union Bank, San Francisco (B)	2,213,736,000	2,073,583,000	88		66	
92	Florida National Banks of Florida, Jacksonville (M,g)	2,200,478,000	1,984,606,000	90		83	67
93	Firstier Inc., Omaha, Neb. (C)	2,166,566,000	1,962,139,000	92		92	138
94	Cullen/Frost Bankers Inc., San Antonio (M)	2,060,488,970	2,298,356,988	82		86	113
95	First American Bankshares, Washington, D.C. (M)	1,907,324,000	1,725,899,000	97	+2	87	51
96	Valley Capital Corp., Las Vegas, Nev. (M)	1,893,912,000	1,729,995,000	96			
97	NorPlease Bancorp., Inc., New Haven, Conn. (M)	1,892,030,000	1,661,853,000	100	+3	93	114
98	First Security Corp., Salt Lake City, Utah (M)	1,891,911,000	1,551,495,000	103	+5	100	85
99	Huntington Bancshares Inc., Columbus, Ohio (M)	1,872,942,000	1,699,640,36	98		78	50
100	Premier Bancorp, Inc., Baton Rouge, La. (C)	1,782,805,000	2,058,795,000	89		112	102
	TOTALS FOR THE TOP 100 FIRMS	$1,375.8 Bil.	$1,153.1 Bil.	+19.3%			

Data Source: American Banker survey of the largest commercial banking organizations and trust companies in the nation. **Discretionary assets** are assets of accounts over which a firm is authorized to make investment decisions. Includes assets in accounts that pay fees based on performance but does not state investments. Also excluded are assets of accounts where the firm shares investment power **Trust Inc. Rank:** the rank based on gross trust and custodian income for 1989 **Asset rank 1989:** The rank based on the total assets of the commercial holding company as of 12/31/89 **(a)**— Data are for Wilmington Trade Invsg Bank Corp., acquired 10/89 **(b)**— 1989 data include NCNB Texas National Bank, and the 1988 data do not **(c)**— Data are for Cleveland Trust Company, a unit of Ameritrust Corp. **(d)**— ranked 21st in 1988 with $16.3 billion in assets **(e)**— The 1988 data does not include MVestment Corp., which was acquired from MCorp. MVestment Corp — now called Ameritrust Texas— had $6.9 billion in managed assets last year, ranking MCorp 53d in this year's listing. Had the consolidation taken place at yearend, Ameritrust Corp. would have ranked 21st with $29.2 billion in assets. **(f)**— On March 5, CoreStates acquired First Pennsylvania. Had the merger taken place at yearend, CoreStates would have ranked 21st with $29.2 billion in assets. **(g)**— The trust activities are performed by Security Trust Co. NA, Washington, D.C. **(h)**— MNC acquired Equitable Bancorp., Baltimore, on Jan. 16. Had the merger taken place on yearend, MNC would have ranked 36th with $9.7 billion in assets. **(i)**— On Jan. 29, First Union Corp. acquired Florida National Banks of Florida. Had the merger taken place on Dec. 31, First Union would rank 39th with $10.4 billion in assets. **(j)**— Became a holding company in 1989. In 1988, data for two group members were reported: Bessemer Trust Co. NA, New York ranked 72d with $3 billion in assets and Bessemer Trust Co. Woodbridge, N.J. ranked 86th with $2.1 billion in assets. **(k)**— Data are for Mvestment Corp. MCorp sold MVestment Corp., its trust subsidiary, to Ameritrust Corp. for $195 million in cash and $15 million in a 5-year, interest-bearing note. **(l)**— Society Corp. acquired Trustcorp on Jan. 5. Had the merger taken place at yearend, Society would have ranked 37th with $10.95 billion in managed assets. **(m)**— Revised since publication on 6/27/89. **(n)**— Rank firm would have ranked 39th with $9.9 billion in assets. **(o)**— Data are for 1988. Firm's rank are pro forma. Company was formed 1/2,/89. **(*)**— The 1988 data for the top 100 firms that year. **(#)**— Bank not controlled by a U.S. bank holding company. **(##)**— A multibank holding company. **(###)**— A one-bank holding company. **(T)**— Trust company not contolled by a U.S. bank holding company

Compiled by American Banker, Copr ™ 1990.

Trust Business Emerged From Doldrums Last Year

Continued from *page 1*

some of the top banks, reflecting a shakeout similar to that in other businesses such as credit cards and mortgage servicing.

According to the *American Banker* trust ranking, Bankers Trust New York Corp., the perennial leader in discretionary trust assets, remained on top, with a 29% increase to $104 billion on Dec. 31. (See tables beginning on page 8.)

Citicorp displaced J.P. Morgan & Co. as the leader in total trust income, jumping 6% to $477 million while Morgan declined 2% to $446 million.

The Bank of New York Co. and NCNB Corp. made big gains in the top 100 rankings in terms of both assets and income as they consolidated the activities of acquired banks.

At many of the largest banks, trust income is increasing as a percentage of total operating income. Meanwhile, they find themselves in an increasingly competitive market, particularly in personal trust, in which their investment management must outperform brokerage companies and insurance companies.

Some Becoming Selective

Price slashing and consolidation are causing the big to get bigger, and some banks are becoming selective by exiting some aspects of corporate trust and personal trust.

Citicorp rose to the top spot in trust income – it was seventh in assets with $45.7 billion – even though it dropped two trust businesses two years ago.

One of the beneficiaries of consolidation is Bankers Trust, which has acquired significant trust businesses in the past three years from Bank of California, European American Bank, and Wells Fargo & Co. Last year, Bankers Trust became the first bank to surpass $1 billion in the market value of discretionary assets.

"We are getting requests for proposals to acquire other businesses," said B.J. Kingdon, senior vice president at Bankers Trust. "Some of the players in this field are looking to drop out. Either you are in it in a big way or you are just another player."

"We expect that consolidation will continue, as it will in all areas of U.S. banking," said John S. Sutfin, executive vice president of Northern Trust, which ranked ninth in assets and eighth in income.

Top Tier Rate Internationally

Bankers and industry observers say there is room for competition on a regional level, but not on the national and international level where the top tier of banks dominate and have the required investment in technology is enormous.

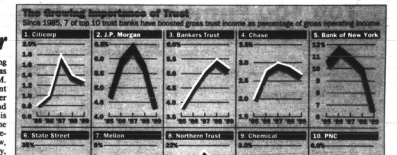
Seven of this year's top 10 trust providers earned a higher percentage of their income from trust fees in 1989 than in 1985, according the *American Banker* statistics. That growth is evidence that trust departments are meeting bankers' expectations in generating fees to offset the dwindling returns from commercial lending.

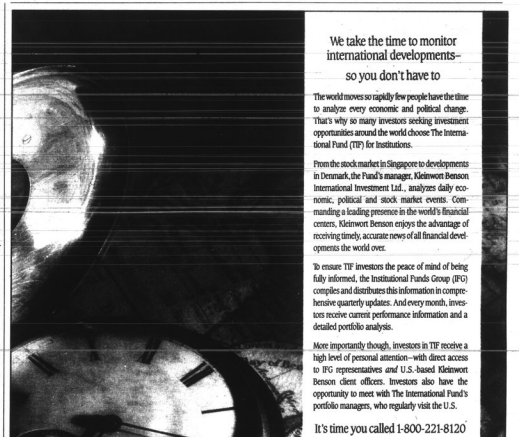
"We are seeing the resurgence of a business that in the darling days of commercial lending was yesterday's act," said Robert M. Boykes, executive vice president at Mellon Bank Corp., another of the top 10 trust banks. Behind that resurgence, bankers say, is the fundamental strength of the trust business: No capital reserves are needed, risk is low, and earnings growth is steady, although computer and communications expenditures can be substantial.

No Room at the Top

Those fundamentals may seem attractive to many banks,

See **TRUST** *page 11*





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TRUST BANKING

Top 100 Firms in Discretionary Trust Assets

Listed geographically and within states by managed trust assets on Dec. 31, 1989 (millions of dollars)

1989		Trust Assets 12/31/89	No. of Subs.	Affil. Inv. Adv. Subs.
	ALABAMA			
89	AmSouth Bancorp., Birmingham	4,493	1	No
	ARIZONA			
80	Valley National Corp., Phoenix	2,883	2	No
	CALIFORNIA			
3	Wells Fargo & Co., San Francisco	80,041	2	Yes
13	Capital Guardian Trust Co., Los Angeles	27,429	0	No
18	Security Pacific Corp., Los Angeles	23,136	16	Yes
19	First Interstate Bancorp., Los Angeles	22,452	21	No
48	BankAmerica Corp., San Francisco	7,264	2	No
49	Trust Services of America Inc., Los Angeles	7,240	0	No
63	BanCal Tri-State Corp., San Francisco	5,082	1	No
91	Union Bank, San Francisco	2,214	0	0
	COLORADO			
66	United Banks of Colorado, Denver	4,850	8	No
77	Affiliated Bancshares of Colorado, Inc., Denver	3,100	N.A.	N.A.
	CONNECTICUT			
31	Shawmut National Corp., Hartford	12,319	11	Yes
97	Northeast Bancorp., Inc., New Haven	1,892	1	No
	DELAWARE			
17	Wilmington Trust Co.	23,279	0	No
	DISTRICT OF COLUMBIA			
78	Riggs National Corp., Washington, D.C.	3,085	4	Yes
95	First American Bankshares, Washington, D.C.	1,907	5	No
	FLORIDA			
67	Barnett Banks, Inc., Jacksonville	4,779	1	No
75	Southeast Banking Corp., Miami	3,290	N.A.	N.A.
92	Florida National Banks of Florida, Jacksonville	2,200	2	Yes
	GEORGIA			
16	SunTrust Banks, Inc., Atlanta	23,290	N.A.	N.A.
46	Citizens & Southern Corp., Atlanta	8,151	7	Yes
	HAWAII			
73	Bancorp Hawaii, Inc., Honolulu	3,800	1	No
	ILLINOIS			
5	Northern Trust Corp., Chicago	35,502	9	Yes
14	First Chicago Corp.	27,681	17	No
22	Harris Bankcorp, Inc., Chicago	18,829	10	Yes
30	Continental Bank Corp., Chicago	12,449	3	Yes
83	La Salle National Corp., Chicago	2,814	1	0
	INDIANA			
61	INB Financial Corp., Indianapolis	5,313	3	0
82	Merchants National Corp., Indianapolis	2,850	N.A.	N.A.
	KENTUCKY			
59	Liberty National Bancorp, Inc., Louisville	2,318	N.A.	N.A.
	LOUISIANA			
81	Hibernia Corp., New Orleans	2,855	1	0
100	Premier Bancorp, Inc., Baton Rouge	1,783	1	Yes
	MARYLAND			
44	MNC Financial, Inc., Baltimore	8,637	5	Yes
50	Mercantile Bankshares Corp., Baltimore	7,202	N.A.	N.A.
	MASSACHUSETTS			
9	State Street Boston Corp.	55,948	1	No
25	Boston Safe Deposit & Trust Co.	14,504	0	No
29	Bank of New England Corp., Boston	12,898	10	Yes
35	Fidelity Management Trust Co., Boston	11,176	1	No
36	Bank of Boston Corp.	10,992	15	No
	MICHIGAN			
24	Manufacturers National Corp., Detroit	16,322	4	Yes
27	NBD Bancorp., Inc., Detroit	13,739	N.A.	N.A.
55	Comerica Inc., Detroit	6,070	10	Yes
64	First of America Bank Corp., Kalamazoo	4,973	N.A.	N.A.
65	Old Kent Financial Corp., Grand Rapids	4,931	3	No
	MINNESOTA			
26	First Bank System, Minneapolis	13,105	10	No
41	Norwest Corp., Minneapolis	9,140	13	Yes
	MISSOURI			
13	Boatmen's Bancshares Inc., St. Louis	25,238	14	No
43	Mercantile Bancorp., Inc., St. Louis	8,862	10	Yes
62	United Missouri Bancshares Inc., Kansas City	5,152	2	No
85	Commerce Bancshares Inc., Kansas City	2,492	N.A.	N.A.

1989		Trust Assets 12/31/89	No. of Subs.	Affil. Inv. Adv. Subs.
	NEBRASKA			
93	First Bar Inc., Omaha	2,167	3	No
	NEVADA			
96	Valley Capital Corp., Las Vegas	1,894	1	No
	NEW JERSEY			
33	First Fidelity Bancorporation, Lawrenceville	11,700	6	No
51	Midlantic Corp., Edison	6,926	9	0
52	Bessemer Group, Inc., Woodbridge	6,889	4	No
	NEW YORK			
1	Bankers Trust New York Corp.	104,300	15	Yes
2	J.P. Morgan & Co., Inc., New York	82,300	N.A.	N.A.
7	Citicorp, New York	45,667	52	Yes
8	Chase Manhattan Corp., New York	40,540	8	Yes
10	Bank of New York Co., Inc.	33,815	N.A.	N.A.
11	Chemical Banking Corp., New York	33,682	31	Yes
20	Fiduciary Trust International, New York	18,767	0	0
23	U.S. Trust Corp., New York	16,021	N.A.	N.A.
34	Manufacturers Hanover Corp., New York	11,502	11	Yes
57	Marine Midland Banks, Inc., Buffalo	5,537	2	Yes
70	KeyCorp, Albany	4,296	9	Yes
	NORTH CAROLINA			
15	NCNB Corp., Charlotte	23,300	4	No
37	First Wachovia Corp., Winston-Salem	10,583	2	No
45	First Union Corp., Charlotte	8,214	4	No
	OHIO			
21	National City Corp., Cleveland	18,704	13	No
28	Ameritrust Corp., Cleveland	14,000	N.A.	N.A.
38	Banc One Corp., Columbus	11,662	13	Yes
56	Fifth Third Bancorp., Cincinnati	5,761	14	Yes
58	Society Corp., Cleveland	5,515	4	No
69	Trustcorp, Inc., Toledo	5,431	N.A.	N.A.
79	The Star Banc Corp., Cincinnati	3,014	8	No
99	Huntington Bancshares Inc., Columbus	1,873	5	No
	OKLAHOMA			
86	Banks of Mid-America, Inc., Oklahoma City	2,422	N.A.	N.A.
87	BancOklahoma Corp., Tulsa	2,384	2	No
	OREGON			
76	U.S. Bancorp., Portland	3,229	3	Yes
	PENNSYLVANIA			
4	Mellon Bank Corp., Pittsburgh	67,539	11	Yes
6	PNC Financial Corp., Pittsburgh	51,808	16	Yes
39	First Pennsylvania Corp., Philadelphia	10,568	3	Yes
40	CoreStates Financial Corp., Philadelphia	10,360	5	Yes
60	Glenmede Trust Co., Philadelphia	5,400	0	No
74	Meridian Bancorp, Inc., Reading	4,062	2	No
72	Integra Financial Corp., Pittsburgh	4,011	7	No
	RHODE ISLAND			
60	Fleet/Norstar Fin'l Group, Inc., Providence	10,352	7	Yes
	SOUTH CAROLINA			
90	South Carolina National Corp., Columbia	2,298	1	Yes
	TENNESSEE			
54	First American Corp., Nashville	2,656	N.A.	N.A.
88	First Tennessee National Corp., Memphis	2,335	1	Yes
	TEXAS			
53	MCorp, Dallas	6,863	1	No
74	First City Bancorporation of Texas, Inc., Houston	3,483	13	No
94	Cullen/Frost Bankers Inc., San Antonio	2,060	4	No
	UTAH			
98	First Security Corp., Salt Lake City	1,892	2	No
	VIRGINIA			
42	Sovran Financial Corp., Norfolk	9,048	4	Yes
54	Crestar Financial Corp., Richmond	6,841	4	Yes
	WISCONSIN			
47	First Corp., Milwaukee	7,378	9	No
71	Marshall & Ilsley Corp., Milwaukee	4,106	5	Yes

Data Source: American Banker survey questionnaires mailed to the largest trust firms in the nation. **Number of subsidiaries engaged in trust activity:** American Banker asked respondents to indicate the number of commercial bank subsidiaries, nondeposit trust companies affiliated investment adviser subsidiaries, and all other subsidiaries engaged in trust activities in 1989.

The number shown is the sum of all these subsidiaries. **Affiliated Investment Adviser Subsidiaries:** Number of subsidiaries that are not the bank or trust company's investment adviser subsidiary or subsidiaries. "N.A." indicates the firm has such a subsidiary and "No" indicates it does not. If a firm did not respond to the *American Banker* questionnaire, it was sent a mailgram version of the survey questionnaire. The mailgram did not ask for the number of subsidiaries engaged in trust activities. Thus, for these firms the data are not available. **(1)**— Sold First Chicago Investment Advisors in 1989. **(2)**— In addition, the Boston Co. has four affiliated investment advisers managing $16.2 billion in trust assets.

Compiled by American Banker, Copyright 1990

The 10 Largest Gains in Trust Assets Among Top 100 Firms in Assets

		Trust Assets 1989	Trust Assets 1988	Percent Increase	Asset Rank
1	Boston Safe Deposit & Trust Co.	14,504,407,000	4,288,691,000	238.20	25
2	NCNB Corp., Charlotte, N.C.	23,300,000,000	7,886,614,000	195.44	15
3	Bank of New York Co., Inc.	33,814,653,000	15,027,980,000	125.31	10
4	La Salle National Corp., Chicago	2,813,965,000	1,697,187,000	65.78	83
5	Bancorp Hawaii, Inc., Honolulu	3,800,061,000	2,375,850,000	59.95	73
6	First of America Bank Corp., Kalamazoo	4,972,640,000	3,133,415,000	58.70	64
7	State Street Boston Corp.	55,948,011,000	38,400,000,000	45.70	5
8	Manufacturers Hanover Corp., New York	11,501,700,000	7,997,276,000	44.00	34
9	Glenmede Trust Co., Philadelphia	5,400,000,000	3,910,988,645	38.07	60
10	KeyCorp, Albany, N.Y.	4,296,574,000	3,171,611,677	35.45	70

The Largest Losses in Trust Assets

		Trust Assets 1989	Trust Assets 1988	Percent Decline	Asset Rank
1	Bank of Boston Corp.	10,992,000,000	13,734,700,000	19.97	36
2	MCorp, Dallas	6,863,398,835	7,967,797,924	13.86	53
3	Premier Bancorp, Inc., Baton Rouge	1,782,805,000	2,058,795,000	13.41	100
4	First Chicago Corp.	23,681,000,000	27,364,497,000	13.39	14
5	Cullen/Frost Bankers Inc., San Antonio	2,060,488,970	2,298,356,988	10.35	94

Consolidation Helps Big Banks Reap Profits from Trust Area

Continued from page 9

but the chance of reaching the top rung of global corporate and institutional trust providers is slim. The best chances for growth are at banks that are concentrating in personal trust and on regional markets, say industry observers.

"Are we going to compete with Bankers Trust?" asked Steven D. Pooh, senior vice president at NCNB. "No, instead of calling on the Fortune 500, we will drop down to the corporate 2,000."

"We see more interest [in trust] on the part of banks, but the top-tier competitors remain the same," said Mr. Sutfin of Northern Trust. The Chicago institution gets 55% of total revenues from fees, and 90% of the fees stem from its trust business. Discretionary assets rose 32% at Northern Trust in 1989.

Other major trust banks such as State Street Boston Corp., which increased assets 44% last year, and Wells Fargo, which was No. 3 on the asset list, derive most if not all of their trust income from corporate and institutional customers.

Technology Commitment

Entering and staying in the elite requires a major commitment to technology and personnel. Some trust banks are committing upward of $40 million to build new computer systems. Mellon, for example, is investing $30 million to upgrade its systems. NCNB executives have committed $22 million to build a new trust system.

A study by the consulting company Greenwich Associates found that new business is tough to come by: More than 80% of corporate pension funds use a master trust, and seven of eight winners of master trust accounts were replacing previous master trustees. In a mature trust market, banks are cutting prices to attract business from competitors.

Some banks see growth opportunity in defined contribution plans such as the 401(k), in which employers and employees contribute to open-ended accounts. According to the Employee Benefit Research Institute in Washington, defined contribution funds totaled $460 billion last year. In 1982, these were 32% of all pension funds. In 1989, they grew to 38%.

Some bankers see the personal trust business as another likely source of growth.

"The opportunities for growth through fee increases are nonexistent on the institutional side," said Mr. Boyles of Mellon. "But there are still opportunities for banks on the personal side."

In trust departments, where past efforts to garner new business largely consisted of reading obituaries, recruiting personal trust clients is now a top priority.

Bankers say that more people are wealthier at a younger age now, creating demand for investment management and a more sophisticated array of investment products. In trust departments, where past efforts to garner new business largely consisted of reading obituaries, recruiting personal trust clients is now a top priority.

Banks have hired more professional investment managers to compete with investment advisers, Wall Street companies, and insurance companies.

Focus on Personal Trust

Even the major corporate trust banks are looking to attract more personal trust customers.

"Personal trust is now more of a focus for us," said Mr. Sutfin. Northern Trust opened offices in California and Florida to pursue personal accounts.

How do banks perform as investment managers? A recent study by CDA Investment Technologies Inc. for the American Bankers Association showed that investment managers at banks outperformed their nonbanking competition in some measures of return on equity and fixed-income investments.

Over a three-year period, banks had a 16.1% annualized rate of return on equities, slightly ahead of investment advisers at 16.0%, insurance companies at 15.9%, and mutual funds at 13.8%. Over a five-year period, insurance companies and investment advisers did better than banks.

In the fixed-income arena over three years, insurance companies led the field, with an 8.2% annual return. Banks had a 7.7% return, and mutual funds 5.9%. □

Thrift in Houston Taps George Bender

NEW YORK — George R. Bender, formerly chief executive officer of Comtrust Bank's mortgage unit, has been tapped to head the mortgage operations of United Savings Association of the Southwest, Houston.

That thrift, led by mortgage-securities pioneer Lewis S. Ranieri, has been expanding rapidly in the home-loan field.

Last week, it completed purchasing the 15-state origination network of Commonwealth Mortgage of America L.P.

Mr. Bender's previous company was Centrust Mortgage Corp., Deerfield Beach, Fla. The parent thrift, which is based in Miami, was seized by the federal government in February. □

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TRUST BANKING

Top 100 Firms in Trust Income

Banks and non-deposit trust companies ranked in order of 1989 gross operating trust revenues

Rank 1989		Total Trust Income 1989	1988	Rank Change	Total Operating Income 1989	Trust Income As % of Oper. Income	1989 Market Value Of Trust Assets
1	Citicorp, New York (M)	477,153,000	450,286,000	2	+1	37,970,000,000	1.3	956,882,910,000
2	J.P. Morgan & Co., Inc., New York (M)	446,000,000	453,300,000	1		10,394,000,000	4.3	537,410,140,000
3	Bankers Trust New York Corp. (M)	380,021,000	321,542,000	4	+1	7,258,233,000	5.2	1,021,000,000,000
4	Chase Manhattan Corp., New York (M)	378,000,000	358,819,000	3		13,994,000,000	2.7	296,596,000,000
5	Bank of New York Co., Inc. (M,a)	359,880,000	263,286,000	6	+1	5,496,747,000	6.5	436,962,956,000
6	State Street Boston Corp. (C)	336,277,000	282,800,000	5		1,091,988,000	30.8	861,564,000,000
7	Mellon Bank Corp., Pittsburgh (M)	280,000,000	261,000,000	7		3,607,000,000	7.8	248,354,000,000
8	Northern Trust Corp., Chicago (M)	237,300,000	206,800,000	8		1,229,800,000	19.3	246,354,000,000
9	Chemical Banking Corp., New York (M)	197,000,000	182,900,000	9		8,297,100,000	2.5	215,928,465,000
10	PNC Financial Corp., Pittsburgh (M)	196,883,000	173,313,000	10		4,645,078,000	4.2	92,875,900,000
11	Wells Fargo & Co., San Francisco (C)	192,400,000	153,700,000	11	+2	5,648,900,000	3.4	99,023,738,000
12	Security Pacific Corp., Los Angeles (M)	185,900,000	153,800,000	12		10,118,000,000	1.9	348,706,700,000
13	U.S. Trust Corp., New York (C)	177,500,000	150,186,000	11		997,520,000	44.5	143,691,475,000
14	NCNB Corp., Charlotte, N.C. (M,b)	169,405,000	60,852,000	36	+22	6,152,446,000	2.8	77,000,000,000
15	First Chicago Corp., (M)	162,800,000	126,500,000	18	+3	5,611,300,000	2.9	113,868,000,000
16	SunTrust Banks, Inc., Atlanta (M)	156,374,000	134,664,000	17	+1	3,296,682,000	4.7	30,369,190,000
17	Bank of Boston Corp. (M)	153,667,000	140,290,000	16		6,844,025,000	2.2	77,000,000,000
18	Manufacturers Hanover Corp., New York (M)	150,000,000	144,000,000	14		8,435,000,000	1.8	66,875,000,000
19	First Interstate Bancorp., Los Angeles (M)	149,777,000	143,910,000	15		6,534,582,000	2.3	99,350,407,000
20	Bank of New England Corp., Boston (M)	121,145,000	119,152,000	19		3,478,184,000	3.5	66,179,818,000
21	Harris Bankcorp., Inc., Chicago (M)	108,971,000	100,842,000	20		1,937,836,000	8.1	90,132,574,000
22	Shawmut National Corp., Hartford, Conn. (M)	105,216,000	97,386,000	21		3,020,431,000	3.5	27,947,000,000
23	Boatmen's Bancshares Inc., St. Louis, Mo. (M)	94,420,000	80,078,000	24	+1	1,476,302,000	6.4	42,648,680,000
24	First Bank System, Minneapolis (M)	91,300,000	84,900,000	23		2,930,000,000	3.1	47,000,000,000
25	National City Corp., Cleveland (M)	84,531,000	78,484,000	25		2,539,780,000	3.3	45,416,136,000
26	First Wachovia Corp., Winston-Salem, N.C. (M)	84,232,000	72,921,000	28	+2	2,433,372,000	3.5	58,085,106,000
27	Banc One Corp., Columbus, Ohio (M)	80,347,000	74,719,000	27		3,162,962,000	2.5	52,376,697,000
28	NBD Bancorp., Inc., Detroit (M)	79,554,000	70,378,000	30	+2	2,541,859,000	3.1	64,114,331,000
29	First Fidelity Bancorporation, Lawrenceville, N.J. (M)	77,624,000	73,538,000	27		4,104,183,000	1.8	67,606,000,000
30	Ameritrust Corp., Cleveland (M,c)	74,000,000	68,963,000	31	+1	1,226,000,000	6.0	31,300,000,000
31	Norwest Corp., Minneapolis (M)	73,000,000	65,500,000	32	+2	2,929,900,000	2.5	39,227,000,000
32	Boston Safe Deposit & Trust Co. (B)	72,371,000	60,668,000	35	+3	1,336,225,000	5.4	215,789,704,000
33	Continental Bank Corp., Chicago (C)	71,600,000	68,900,000	29		3,202,800,000	2.2	103,297,360,000
34	Fleet/Norstar Financial Group, Inc., Providence, R.I. (M)	70,474,000	63,191,000	34		3,657,877,000	1.9	17,070,530,000
35	BankAmerica Corp., San Francisco (M)	67,947,000	70,986,000	26		11,369,000,000	0.6	97,362,481,000
36	Capital Guardian Trust Co., Los Angeles (T)	66,334,000	52,174,000	40	+4	68,803,000	96.4	30,690,377,000
37	First Union Corp., Charlotte, N.C. (M,d)	64,838,000	60,496,000	37		3,313,247,000	2.0	41,040,160,000
38	MCorp, Dallas (M,e)	60,431,916	52,538,943	39		81,286,824	98.6	16,180,081,632
39	Sovran Financial Corp., Norfolk, Va. (M)	60,208,000	54,372,000	38		2,683,198,000	2.1	35,364,563,000
40	Fiduciary Trust International, New York (B)	59,988,000	50,884,029	41		71,991,000	83.1	7,606,107,000
41	Citizens & Southern Corp., Atlanta (M)	57,864,185	50,474,966	42		67,531,105	85.4	38,383,429,000
42	Firstar Corp., Milwaukee (M)	55,035,000	49,350,000	44	+2	923,377,000	6.0	27,987,340,000
43	Fidelity Management Trust Co., Boston (T)	53,815,000				58,397,000	92.3	N.A.
44	Wilmington Trust Co., Del. (B)	53,373,000	50,208,000	43		376,761,000	14.1	105,618,300,000
45	Bessemer Group, Inc., Woodbridge, N.J. (M,f)	52,480,000				71,932,000	73.3	8,897,009,000
46	BanCal Tri-State Corp., San Francisco (C)	51,496,000	38,400,000	48	+3	811,056,000	6.3	29,076,758,000
47	Manufacturers National Corp., Detroit (M)	50,121,000	44,119,000	45		1,099,122,000	4.6	41,575,824,000
48	Midlantic Corp., Edison, N.J. (M)	47,765,000	36,411,000	49		2,319,577,000	2.1	14,911,857,000
49	Marine Midland Banks, Inc., Buffalo, N.Y. (M)	44,803,000	41,075,000	46		3,168,228,000	1.4	53,775,000,000
50	PNC Financial, Inc., Baltimore (M,g,h)	43,076,000	36,097,000	50		2,416,780,000	1.8	19,609,000,000
51	Constitution Financial Corp., Philadelphia (M)	43,075,000	36,353,000	55	+4	1,888,416,000	2.3	72,584,201,000
52	First of America Bank Corp., Kalamazoo, Mich. (M)	41,573,000	25,984,000	67	+15	1,305,546,000	3.2	21,766,731,000
53	Comerica Inc., Detroit (M)	40,846,000	39,046,000	47		1,299,381,000	3.3	10,480,713,000
54	Crestar Financial Corp., Richmond (M)	40,695,000	37,153,000	51		1,177,309,000	3.5	23,082,281,000
55	Society Corp., Cleveland (M,i)	38,835,000	35,281,000	57	+2	1,148,567,000	3.4	9,185,542,000
56	First Pennsylvania Corp., Philadelphia (C,j)	38,356,000	36,412,000	53		707,771,000	5.4	60,315,213,000
57	Bernell Banks, Inc., Jacksonville, Fla. (M)	38,153,289	36,640,000	52		3,697,981,000	1.1	6,681,211,000
58	Marshall & Ilsley Corp., Milwaukee (M)	37,938,000	35,325,000	54		782,706,000	4.8	10,718,417,000
59	First City Bancorporation of Texas, Inc., Houston (M)	35,677,000	32,721,000	60	+1	1,458,247,000	2.4	16,714,526,000
60	U.S. Bancorp, Portland, Ore. (M)	35,143,000	35,317,000	56		1,672,033,000	2.1	7,811,862,000
61	Mercantile Bancorp., Inc., St. Louis, Mo. (M)	34,283,000	31,334,000	61		745,133,000	4.6	10,968,324,000
62	Old Kent Financial Corp., Grand Rapids, Mich. (M)	34,113,000	29,760,000†	63‡	+1	863,076,000	4.0	15,172,353,000
63	Trust Services of America, Inc., Los Angeles (T)	33,353,000	32,792,000	59		35,237,000	94.6	10,430,000,000
64	Mercantile Bancshares Corp., Baltimore (M)	31,842,000	29,132,000	63		432,861,000	7.4	21,027,455,000
65	Fifth Third Bancorp., Cincinnati (M)	28,750,000	22,271,000	72	+7	788,256,000	4.1	17,438,000,000
66	Union Bank, San Francisco (B)	31,106,000	16,880,000	84	+18	1,890,241,000	1.9	8,815,144,000
67	Southeast Banking Corp., Miami (M)	29,695,000	27,725,000	64		1,706,394,000	1.7	7,506,000,000
68	KeyCorp, Albany, N.Y. (M)	29,156,000	27,174,000	65		1,882,443,000	1.6	13,230,000,000
69	United Missouri Bancshares Inc., Kansas City (M)	28,750,000	22,725,000	71	+2	394,942,000	7.5	87,056,678,000
70	United Banks of Colorado, Denver (M)	27,436,000	27,117,000	66		625,094,000	4.4	9,181,831,000
71	AmSouth Bancorp., Birmingham, Ala. (M)	27,310,000	30,057,000	62		889,795,000	3.1	10,395,064,000
72	La Salle National Corp., Chicago (M)	27,088,000	22,845,000	70		164,409,000	16.5	7,983,799,000
73	Star Banc Corp., Cincinnati (M)	26,510,000	21,544,000	75	+2	636,082,000	4.2	9,740,897,000
74	Meridian Bancorp, Inc., Reading, Pa. (M)	26,411,000	24,080,000	69		1,172,816,000	2.3	15,536,000,000
75	Valley National Corp., Phoenix, Ariz. (M)	26,160,000	25,050,000	68		1,201,298,000	2.2	5,029,101,000
76	Bancorp Hawaii, Inc., Honolulu (M)	23,940,000	19,914,000	78	+2	761,536,000	3.1	5,881,370,000
77	Integra Financial Corp., Pittsburgh(M)	23,485,000	21,685,000•	75•		727,643,000	3.2	5,057,546,000
78	Huntington Bancshares Inc., Columbus, Ohio (M)	22,970,000	21,192,000	76		1,159,656,000	2.0	10,511,140,000
79	Trustcorp, Inc., Toledo, Ohio (M,j)	22,379,000	22,085,000	73		611,018,000	3.7	N.A.
80	Bank of Tokyo Trust Co., New York (B)	22,077,000	21,079,000	74		534,971,000	4.1	42,800,722,000
81	INB Financial Corp., Indianapolis (M)	21,390,000	19,428,000	79		644,610,000	3.3	20,070,586,000
82	Riggs National Corp., Washington, D.C. (M)	19,574,000	17,543,000	83	+1	694,821,000	2.8	25,786,502,000
83	Florida National Banks of Florida, Jacksonville (M,d)	19,566,000	18,161,000	82		781,409,000	2.5	8,837,391,000
84	South Carolina National Corp., Columbia (C)	19,540,000	15,038,000	86	+2	539,250,000	3.6	5,020,399,000
85	IBJ Schroder Bank & Trust Co., New York (B)	16,397,000	14,946,000	87	+2	708,922,000	1.9	3,851,771,000
86	Cullen/Frost Bankers Inc., San Antonio (M)	16,211,000	13,912,000	93	+7	389,839,000	4.2	1,195,680,000
87	First American Bankshares, Washington, D.C. (M)	15,895,000	13,967,000	92	+5	349,946,000	4.6	8,010,164,971
88	Banca Bank California, San Francisco (B)	15,797,000	14,926,000	88		1,126,678,000	1.4	1,790,242,000
89	Glenmede Trust Co., Philadelphia (T)	15,730,000	14,926,000	88		718,096,000	2.2	N.A.
90	Commerce Bancshares Inc., Kansas City, Mo. (M)	15,730,000	9,592,040	114	+25	17,464,582	90.1	5,700,000,000
91	National Westminster Bancorp, Inc., New York (M)	15,691,000	14,872,000	89		568,056,000	2.8	6,694,366,000
92	Frazier Inc., Omaha, Neb. (C)	14,971,000	13,837,000	94	+3	2,201,264,000	0.7	89,426,084,000
93	Northeast Bancorp, Inc., New Haven, Conn. (M)	14,791,000	15,797,000	85		256,720,000	5.8	7,058,164,000
94	First American Corp., Nashville, Tenn. (M)	14,261,000	11,716,000	103	+10	378,449,000	3.8	3,191,272,000
95	Mercantile National Corp., Indianapolis (M)	14,155,000	12,703,000	98	+4	750,693,000	1.9	3,418,000,000
96	First Tennessee National Corp., Memphis(M)	14,063,000	12,808,000	96	+1	539,250,000	2.6	5,020,399,000
97	Banks of Mid-America, Inc., Oklahoma City (M)	13,641,628	12,731,847	97	+1	708,922,000	1.9	8,587,362,000
98	BayBanks, Inc., Boston (M)	13,507,000	12,858,000	95		207,412,000	6.5	3,707,239,000
99	Signet Banking Corp., Richmond (M)	13,330,000	12,551,000	99	+1	1,007,435,000	1.3	7,897,697,000
100	UJB Financial Corp., Princeton, N.J. (M)	13,215,000	14,651,600	90		1,399,460,000	0.9	7,949,525,000
	TOTALS FOR TOP 100 FIRMS:	12,944,000	11,923,000	102	+2	1,399,460,000	0.9	7,949,525,000
		6,231.4	$7,321.3 MM	↑ +12.4%				

Data Sources: American Banker survey, annual reports. Federal Reserve Board Y-9 data for bank holding companies, and the federal regulatory report of income for banks. **Gross operating income** of the trust department includes income from all types of fiduciary services but excludes all non-operating credits. **Market value of all trust assets** includes discretionary assets, nondiscretionary assets, and accounts of a strictly custodial nature. Corporate trust accounts are excluded. **(a)**—The 1989 data include Irving Trust Co., which was acquired from Mellon Bank Corp. — The 1989 data include NCNB Texas National Bank, and the 1988 data do not. NCNB Texas — which became a subsidiary of the NCNB Corp. in Aug. 1988 — had trust assets of $92 million in trust income. **(c)**—The 1989 data do not include Ameritrust Corp., which was acquired from MCorp. MNvestment Corp — now called Ameritrust Texas— had $60.4 million in trust income in 1989, ranking MCorp 36th in this year's listing. Had the consolidation taken place at year-end 1988, Ameritrust would have had $128.4 million in trust income. **(d)**—On Jan. 29, First Union Corp. acquired Florida National Banks. Had merger taken place on Dec. 31, First Union would rank 27th with $84.8 million in trust income. **(e)**—Data are for MNvestment Corp. **(f)**—Became a holding company in 1989. In 1988, data for two group members were reported: Bessemer Trust Co. NA, New York ranked 58th with $33 million in income and Bessemer Trust Co., Woodbridge, N.J. ranked 80th with $18.5 million. **(g)**—All trust activities were consolidated in PNC Trust Co. NA, Washington, D.C. **(h)**—MNC acquired Equitable Bancorp., Baltimore, on Jan. 19. Had the merger taken place at yearend, MNC would have ranked 46th with $51.6 million in income. **(i)**—On March 5, CoreStates acquired First Pennsylvania Corp. Had the merger taken place at yearend, CoreStates would have ranked 28th with $61.3 million in income. **(j)**—Society Corp. acquired Trustcorp on Jan. 5. Had the merger taken place at yearend, Society would have ranked 26th with $61.2 million in income. **(†)**—Revised since publication on 6/27/89. **(‡)**—Rank claims would have held, if revised data had been received earlier. **(•)**—Data for 1988 and 1989 are not fully comparable. **(↑)**—Change. **(T)**—The 1989 total is for the top 100 firms that year. **(B)**—Bank not controlled by a U.S. bank holding company. **(C)**—A multibank holding company. **(M)**—A U.S. bank holding company. **(T)**—Trust company not controlled by a U.S. bank holding company.

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Profit Up 51% At No. 1 U.S. Thrift Company

By TERESA CARSON

LOS ANGELES — H.F. Ahmanson & Co. on Wednesday announced a 51% increase in second-quarter earnings, despite a big jump in the amount set aside for possible problems in its real estate loan portfolio.

Ahmanson, parent of Home Savings of America, the nation's largest thrift, reported net income of $60.1 million, or 61 cents per share, in the quarter ended June 30, compared with $39.6 million, or 40 cents per share, in the year-earlier quarter. For the first six months of 1990, Ahmanson earned $121.8 million, up 54% from the $78.8 million profit in 1989's first half.

The gains came despite a $61.6 million increase in Ahmanson's loan-loss reserve, which was more than twice the $25.2 million set aside in the first quarter.

Nonperforming assets totaled $596.9 million at June 30, up 9% from the prior quarter and up 59% from the $375 million of a year ago. Nonperforming assets are 1.25% of total assets.

Other thrifts have also announced hefty earnings. Great Western Financial Corp., Beverly Hills, Calif., reported second-quarter net earnings of $78.2 million, or 60 cents per share, up 51% from the year-earlier quarter. And San Francisco-based Golden West Financial Corp. earned $49 million, or 75 cents per share, up 22%. □

1st Interstate Finishes Nova Financial's Sale

LOS ANGELES — First Interstate Bancorp. says it has completed the previously announced sale of its consumer finance subsidiary, First Interstate Financial Services, to Transamerica Finance Group Inc. for about $111.9 million in cash.

The Transamerica Corp. subsidiary is adding Nova's 71 offices in California, Colorado, and Hawaii to its network of 428 lending offices in 30 states.

The price was about $4 million higher than the estimate given June 8, when First Interstate announced the sale and said it would yield a pretax gain of $90 million in the third quarter. The Los Angeles-based holding company put Nova on the block in March, saying it would concentrate on relationship-oriented consumer banking and middle-market lending. □

Fargo Report On California

SAN FRANCISCO — Wells Fargo & Co. said the California economy is exercising mixed signals. High technology, defense, and construction are current weak spots, while the service and agribusiness sectors are strong.

"With U.S. inflation moderating and economic growth stagnating, the Federal Reserve is likely to ease credit conditions within the next several months," stated Wells Fargo's California Economic Monitor report for July.

The report predicts that "Once interest rates move lower, the economy should pick up from its current levels."

Business activity in California continues to increase at a moderate pace, according to the report. There is growing evidence, however, that the pace of retail sales have flattened out in recent months.

Information in the report shows bank loan volume, excluding real estate, up 2.5% in June, from a year ago. At the same time, corporate profits remain disappointing, a result of slow sales and competitive pressures. In housing, production remains spotty in the face of tight credit and high interest rates. □

Bank South Delays Report on Earnings

ATLANTA — Bank South Corp. announced Wednesday that it will delay a report on second quarter earnings until an examination of the company's commercial real estate loans has been completed by the Office of the Comptroller of the Currency.

The $5.4 billion-asset bank said it expects to release its report on second quarter earnings before the end of the month.

Analysts took the news in stride because other banks have delayed release of earnings reports ever since the Comptroller's examiners began scrutinizing Southeastern real estate portfolios in January.

"The delay itself doesn't automatically mean something negative," said Kathryn H. Bissette, who is with Interstate/Johnson Lane in Atlanta.

Ms. Bissette declined to speculate on how the OCC exam will affect Bank South's second quarter earnings. Bank South earned $10.8 million, or 32 cents per share, in the second quarter of 1989.

In the first quarter, Bank South classified 2.79% of its loans as nonperforming, including those 90 days past due and accruing. That figure is in the upper end of the range for regional Southeastern banks.

— Kenneth Cline

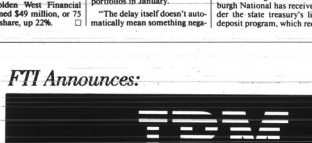
Pittsburgh National In Development Deal

PITTSBURGH — Pittsburgh National Bank, a subsidiary of PNC Financial Corp., said it had received a $1 million state deposit as part of a business-development program.

It is the largest sum that Pittsburgh National has received under the state treasury's linked-deposit program, which requires that the funds go toward creating and retaining jobs. The money will be lent to Jovijo Inc. to purchase, renovate, and expand a retail store in Jeannette, Pa.

State Treasurer Catherine Baker Knoll said the $1 million loan would preserve 50 jobs at the Jeannette Shop 'n Save in Westmoreland County. □

FTI Announces:



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AN INTERVIEW WITH ED FURASH

As Banking Changes, Managers Are Advised to Stick to Basics

The risks bank managers face leading their organizations have rarely been so great as in today's troubled industry. Yet the opportunities are just as mind-boggling, says Ed Furash, a 30-year veteran of the banking business and now president of Washington-based Furash & Co., a consulting company. In a recent question-and-answer session with American Banker *editors, Mr. Furash discussed many topics, including the personality traits characteristic of top industry managers.*

Q: Is it difficult being a bank manager today?

FURASH: I've never seen a more trying – if not impossible – time to be a chief executive officer of a bank. I've also never seen a time in which there was such great opportunity for a CEO who knows what he's doing, who focuses well, and who can find his way through these problems.

But there are no tried-and-true formulas on how to make it work. The ground is shifting underneath bankers all the time. Last month's hero is this month's goat.

Q: Are there any ground rules that a CEO can follow?

FURASH: Run a bank according to the "Cannon" rules – capital, assets, management, earnings, liquidity, and, of course, all those other things.

Q: What are the most important personality traits found in successful banking managers?

FURASH: First of all, stamina. I cannot emphasize the degree to which physical and intellectual stamina are necessary for being a leader today.

We're in the middle of the changing of the guard in the management industry. A lot of people are getting out of the business because they're just tired. And I can't blame them.

Another necessary trait is an intellectual curiosity that is tied to a bottom-line orientation. In other words, good managers have to be very curious about where the industry is going. They have to have a vision. And they must then be able to translate a big-picture vision into a strategy and get people to carry it through. They have to have the capacity to break the big picture down into digestible chunks so that lower level employees can apply it to their jobs.

Third, a successful manager has to be persistent and consistent. To lead an organization that's in great turmoil, managers have to say the same things to people every day, day after day, the same way. If a manager gets bored with the message, so will the employees.

Fairness is terribly important. And courage. By courage, I mean the courage to delegate, to believe in the employees' ability to get the job done. And with that courage comes the courage to bring people up short – to act quickly when you see something going wrong. To be decisive.

Q: What specific skills does a manager need today?

FURASH: One of the most important characteristics of a good manager is knowing how to ask the right questions. If you don't ask the right question, you may never get to the issue at hand.

Then you have to know how to diagnose the situation, to use your staff effectively to give you the proper briefings and the materials you need.

The third characteristic for managers of the '90s is, they have to be incredibly focused. They can not be distracted. The CEO today is marching through unknown territory. He needs to focus on those businesses that will maximize revenues and profitability.

Q: But how good are most banks at measuring that profitability?

FURASH: In general, most banks do not have the analytical techniques in place to measure profitability. However, they have the data. Now they need to collect it and put it together. And banks are getting a little better at it.

Q: How can bankers learn to be better marketers?

FURASH: The era in which managers can wing it in banking is over. They need to accept the fact that they must make decisions based on facts, not opinions or hunches.

They need specific knowledge of their customers, of what's going on in the market, and how they are going to behave.

Most banks have minimal management information systems to do what they need to do. Yet they are highly reluctant to spend the money they need to spend to understand their own customers.

The greatest threat to a U.S. bank is a competitor who goes out and listens to what customers want.

Q: Why are bankers so reluctant to do this?

FURASH: Cost. Bankers are simply under so much pressure to earn money that any expense that doesn't look like it's producing a sale is under question.

Q: With marketing taking on a greater role in the banking industry, should the industry search other businesses for marketing-oriented managers?

FURASH: There are numerous managerial skills that are not present in banking that must be brought in. Banking has companies get larger and larger, the . . . traditional CEO – who has usually risen through the commercial lending route with a lot of hands-on experience – fails when he tries to control and manage people.

Q: Are there ways a manager can gain better access to what is going on in a large organization?

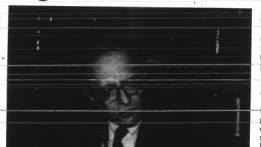
FURASH: The system needs to be managed so that employees volunteer the information managers need to know.

Q: How can a manager enhance that communication?

FURASH: The most obvious strategy is the simplest: Adopt a system in which employees know what is expected of them.

Q: Can bankers learn any lessons from managers abroad?

FURASH: While the U.S. banking industry may be missing the boat in terms of some of its management talents, the skills they are learning are nothing compared to banks overseas. There is a lot that U.S. banks can bring to these managers. □



Peggy Turbett

ED FURASH: "The CEO today is marching through unknown territory. He needs to focus on businesses that will maximize" profits.

COST CONTROL

Workers' Suggestions Bring Double Payout – to Them and Florida Thrift

By JUDY FERRING
Special to the American Banker

An aggressive program to find new ways to save money at Florida Federal Savings Bank in St. Petersburg has put more than $500,000 in employees' pockets, cut operating costs roughly five times that amount, and boosted both customer satisfaction and employee morale.

The head of the program lies in an innovative employee suggestion plan adopted in 1987.

Up to $20,000 Reward

Employees are paid 20% of the first year's savings, up to $20,000, for productivity-boosting ideas that are incorporated into bank policy. If cost savings cannot be quantified – for instance, if an idea calls for a change in a form – an arbitrary sum (usually $25) is awarded.

Suggestions that duplicate changes already under way do not qualify for the bonus, said Joe Davis, senior vice president in charge of planning and productivity analysis at the bank.

Mr. Davis' department researches the feasibility of each suggestion and recommends approval or disapproval. Research on each suggestion includes a review by the department that would be responsible for carrying it out.

Most Departments Affected

Few departments of the bank have been left untouched.

Among the suggestions that have eased branch employees' workloads were elimination of redundant activity logs for the automated teller machines run by the bank in area supermarkets, getting rid of self-duplicating tapes for the branches' adding machines (employees had to strip away the extra layer of paper), renting smaller bulk trash bins for branches that generate less trash than average, using both sides of a sheet of paper when documents are duplicated, and using lower-wattage light bulbs in exit signs.

Customer service has often been the target of suggestions, said Sharon Quigley, the bank's employee relations specialist.

A Redundant Form

Among changes that benefited holders of the bank's certificates of deposit was elimination of a rollover form sent to CD holders. They had been sent both a rollover and a transfer form for signature when the accounts matured. Branch employees said signing just the transfer form accomplished both tasks.

The monetary rewards for these kinds of suggestions are minimal. The employee who suggested eliminating the self-duplicating adding machine tape was awarded part of the savings from buying single-layer tape instead – not a large amount. Likewise, 20% of the savings on a year's supply of low-power light bulbs for all the bank's exit signs is not a lot.

By contrast, ideas like changing how the interest on variable-rate mortgages is computed or programming software to generate in-house reports can win bigger awards.

But not all the big rewards are for technological suggestions, Mr. Davis said.

For example, he said, one employee suggested that the bank sell its 800 number. The original number, it turned out, spelled out a name that another company wanted to use in advertising. Florida Federal gave up its right to the number for $200,000 and got a new number in its place. □

Proven Ways to Cut Costs Sought for New Column

Bankers are looking everywhere for ways to control their cost of doing business. To provide readers with cost-cutting tips, the *American Banker* has begun a column that will appear Thursdays on the management page.

We invite readers to let us know about methods they have found successful in trimming expenses. Please get in touch with Patricia Stundza, features editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004; phone 212-943-5733 or fax 212-943-2984.

COMMENT/ *By Polly DiGiovacchino*

Fresh Approach to Managing Needed in Competitive Age



In recent years, as the dollar plunged and the deficit grew, U.S. companies asked themselves some hard questions: Are we not as productive as other countries? Are our products not as good? Are our prices not as competitive?

The answers to these questions caused a flurry of mergers, layoffs, restructuring, and streamlining in a desperate attempt to cut costs and survive. Companies invested heavily in the latest technology. Last year alone, they added $17 billion worth of computers and new equipment.

On the surface, it looks as though these tactics are working. Labor productivity in goods-producing industries has surged, pushing the annual growth rate to an average 3.5% for the past decade. That is up from the 1.4% of 1973-79.

Productivity Higher Overseas

So, why the concern? Because, although the United States is boosting productivity, competitive nations are boosting theirs higher than we are. The more

"The United States has used up its bag of tricks and is still in fourth place."

corporate America has tried to boost productivity, the more elusive that goal has become. In 1983, productivity topped 5%. Since then, it has slowed to 3%. Experts worry that it is unsustainable and in danger of falling further.

That is the paradox: Despite all of these investments and cuts in labor costs, the United States still lags behind such nations as Japan, Britain, and France in productivity growth. The United States has used up its bag of tricks and is still in fourth place.

The financial services industry is not exempt from the productivity paradox. Many of us have experienced the slash and burn techniques used to increase productivity – the layoffs, the restructurings, the mergers – and then experienced the paradox of failures in spite of the changes.

As managers in the financial services industry, it is time that we study the national environment, credit the predictions for the future, and take action to bring about positive changes that will enable our companies to overcome the productivity paradox.

At the basic level, productivity is defined as the ratio of inputs to outputs. Inputs include all the resources a firm uses to manufacture its products or services – materials, capital, energy, and labor. Labor and capital are the two key factors of production. When they are most productive, the economy is getting the most for its money – the most output, whether it be goods or services, for a given level of input.

Success in productivity can be reduced to a simple formula: maintaining control of expenses while producing steady income and finding new ways to generate additional income.

Traditionally, efforts to increase productivity have focused on the first half of the equation – cutting costs and investing in technology. But the most recent productivity numbers verify that the benefits of cost cutting and restructuring are running out. There is overwhelming evidence that people, not machines, are the driving force behind economic growth.

From 1948 to 1982, the nation's gross national product increased at an annual rate of 3.2%. Edward Dennison, an expert in growth economics, found that one-third of that gain was caused by the increase in the education level of the U.S. work force. About half the growth was the result of technological innovation and increased knowhow, which also depend on education. But just 15% of the total increase was the result of more capital equipment.

Technology's Value Questioned

In practice, the promise that technology will increase productivity has been proved false. It is a paradox that stands to a very obvious question: What can be done to circumvent the paradox? How can we revive productivity in America?

The often overlooked factor in this formula is people. In the book "Megatrends," John Naisbitt describes the new workplace. He outlines three major forces driving the changes in American business: increased competition, the impact of technology on business, and a scarcity of qualified workers.

The dearth of such workers is probably the "megatrend" that will affect our industry the most. Let's look at some important demographics:

- Overall, the labor force will grow only 1.2% a year between 1988 and 2000. This is down from 2.2% for the period 1972 to 1985.
- The youth work force will decline by 0.2% a year, while the older work force will grow by 0.2% a year.
- Women will account for two-thirds of all new workers and represent 47% of all workers by 2000, up from 39% in 1972.
- Hispanics will account for 29% of all new workers.
- Blacks will account for 19%

See **MEETING** *next page*

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Ms. DiGiovacchino is president of Financial Women International, an organization based in Chicago.

COMMENT
Meeting Needs Of Employees

Continued from *page 15*

of all new workers during the rest of the century.

With the Bureau of Labor Statistics predicting that nearly all new jobs created in the United States between now and the year 2000 will be in the service industries, as managers we must be prepared to deal with this new work force.

A Call for Change

To begin with, human resource management must become an important element of corporate strategy. It is estimated that one out of five people switch jobs each year and one in 10 switch careers. These facts prove that we must meet our employees' needs in order to retain them.

Although we don't have a crystal ball, we can tell you that a new concept of work is emerging in the minds of employees. To be truly productive and satisfied with their work life, employees must work for themselves.

As managers we must be prepared to alter the nature of the traditional contract between employee and employer. We must develop a new form of partnership with the individual employee in which both parties share in the risks, costs, and rewards of pursuing new ventures.

"People, not machines, are the driving force behind economic growth."

Management styles focusing on participative management, emphasizing the needs of employees, must become widely accepted. Employee-centered management has already been applied in America with spectacular success by such organizations as IBM and Hewlett Packard.

Innovative management practices such as quality circles, decision-making consensus, removal of communication barriers, emphasis on personal contact, and concern for individual employee needs and goals have been the common threads in increasing worker productivity and job satisfaction in a handful of companies.

Care for Dependents

Research links employees' concerns for the care of children or elderly relatives with productivity losses. Factors include increased absences, tardiness, stress on the job, and time wasters such as excessive use of the phone. This holds true for men in dual-career marriages as well as for single fathers.

More than half of all mothers work. Those with children under six make up the fastest-growing segment of the work force. A recent Financial Women International survey showed that women in the financial services industry who have children under the age of 10 spend up to 12.5% of the work week dealing with child care.

According to Mercer-Meidinger-Hansen, an employee benefits firm, about 40% of workers over the age of 40 already provide care for parents. And about 12% of women who care for aging parents must quit their jobs to do so. As the work force continues to age, workers' responsibilities will continue to grow and become more apparent.

Whether companies offer on-site care or a flexible benefits plan that includes care incentives, it is a fact of life that must be accommodated if the work force is going to be productive.

Make Leave Policy Flexible

With more women in the work force, companies are realizing that they are losing productivity and money by training new employees instead of developing a leave policy that encourages valuable employees to return to work.

Some financial institutions have already made changes to accommodate the new work force, such as flexible work schedules, whether a four-day work week or daily work hours that are not nine to five.

The scarcity of workers and the aging of the work force are also forcing companies to be flexible in meeting staffing requirements. They must look at new ways to fill positions.

One bank in Minneapolis has helped college students and mothers with children solve their scheduling problems with job sharing. One staff position in the government relations department is filled by two people who split the responsibilities and the time right down the middle.

The Oklahoma Bank in Oklahoma City uses the vast knowledge and skills of individuals

"The promise that technology will increase productivity has been proved false."

that might otherwise go untapped. For example, a 75-year-old man works as a paying and receiving teller on the weekends. Although he works limited hours, those are shifts that are difficult to fill and he is both dependable and accurate.

Barnett Bank of South Florida in Miami has introduced "swing tellers," full-time employees who have been trained as tellers and are called upon as needed. Bank personnel are used more effectively and the customer is better served.

Companies must also change benefits to attract the new type of staffer. By 2003 the National Center for Health Statistics predict life expectancies at birth will be 84 years for women and 74 for men. Today the 58-year-old who takes early retirement is essentially middle aged. Companies must explore new benefits, such as portable pensions, that will erase disincentives for middle-aged workers to move on.

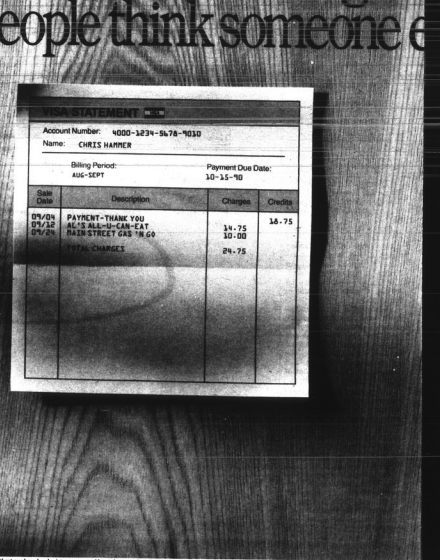
Focus on Education

The most important productivity factor in relation to the changing work force is that educational levels will not keep pace with the requirements of the available jobs.

A brief look at history teaches an important lesson about edu-

See **MEETING** *next page*

A little carelessness happens when people think someone else might pick up the tab.



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COMMENT
Meeting Needs Of Work Force

Continued from *page 16*

cation and its impact on productivity. In 1851 Britain was the dominant world power. The United States was No. 2 in industry and catching up fast. British businessmen came here and marveled at American-made products.

The British-industrialists' research to find the secrets of our success uncovered that it was due in large part to a highly educated work force. Americans had a literacy rate of 90% among the free population. In contrast, just two-thirds of the people in Britain were literate.

Today, the United States is the dominant world power, and Japan is No. 2 and catching up fast. Americans are awed at the quality of Japanese products. Now it's our turn to do the research. And our research has given us the same answers the British found in 1851: The success is due in large part to a better-educated work force. Today, Japan's functional literacy rate is better than 95%. In America it is down to about 80%.

America's failure to make education a top priority is already causing problems for businesses today. Chemical Bank in New York reports that it must interview 40 applicants to find one who can be successfully trained as a teller.

Corporations must work with the government to make a new national commitment to America's future by investing in its

"We [managers] must develop a new form of partnership with the individual employee in which both parties share in the risks, costs, and rewards of pursuing new ventures."

people. Together we must develop programs to combat illiteracy, lower the dropout rate, and raise the level of education in our schools. As corporate leaders, parents, and citizens we need to support and participate in educational reform.

But it is not just children who need better education.

Retraining the Work Force

Several forces are combining to produce a leap in the skills the economy will require. First, technology is upgrading the work required in most jobs that demand high reading and math capabilities. Millions of jobs go unfilled while the army of unskilled remains unemployed.

Second, job growth will be fastest in high-skill occupations and most of these jobs will be in the service sector. This kind of work now requires knowledge that was not necessary 20 years ago.

Third, the way in which work is now being organized requires a completely new set of skills. As companies shift from the old models of assembly-line production to Japanese-style work teams, employees will have to sharpen their abilities to communicate.

A report from the Hudson Institute compared the new jobs that the economy will create in the next 10 years with the level of skills needed to perform the jobs and the number of people in the work force who will have those skills. They found that most new jobs will require workers who have solid reading and writing skills, but fewer than one in five new employees will be able to function at the needed level.

Search for Good Managers

The task of finding quality managers in the financial services industry will be even harder. Many of the jobs we will need to fill will require employees to read journals and manuals, write reports, and understand complex terminology. Just 5% of the new employees will be able to do that.

As many as 51 million workers may have to be trained or retrained in the next 11 years. Of those, 21 million will be new entrants and 30 million will be current employees.

George Gallup's book "Forecast 2000" examines the impact

"Women will account for two-thirds of new workers" between now and the year 2000.

that the shift to service industries will have. Mr. Gallup emphasizes that companies must remain market sensitive, at all times stressing customer service. Customer service is, in fact, the theme of some of the most successful companies in America today.

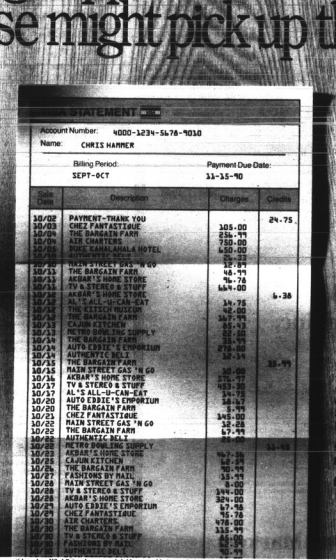
By structuring a personnel management program that rewards exceptional employee performance, financial institutions will be able to retain quality employees who emphasize customer service and contribute to the increased productivity, profitability, and growth of the industry.

More and more, financial services institutions are becoming aware of the importance of bonus incentives in motivating employees. Employee referral fees, sales incentive trips, installment loan production incentives, and the like are becoming common practice.

Recently, Barnett Bank of South Florida in Miami began a MasterCard campaign. For every approved credit card application referred by an employee, he or she would be rewarded with $10. After the first 30 days of the campaign, one person had earned $1,000. Incentives do work.

All of these forces are leading us to look for a new type of manager. The leaders of tomorrow will be creative, innovative risk takers. The successful managers will anticipate change, will develop, motivate, and inspire their people, and will have new answers to old questions. Problems must become opportuni-

See **MEETING** *page 19*



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CalFed to Buy $75 Million of Empire Deposits

LOS ANGELES — California Federal Bank said it will purchase about $75 million in deposits from three branches of Empire Federal Savings Bank of America, Buffalo, effective July 20.

The principal subsidiary of Los Angeles-based CalFed Inc. said it will also convert Empire's Castro Street office in San Francisco into a California Federal branch.

The Castro Street location will be the 200th in California Federal's branch network. It is the nation's fourth-largest thrift, with $23 billion in assets. Empire Federal of America, the fourth-largest thrift based in New York State, was taken over by the Resolution Trust Corp. in January and placed into receivership on Feb. 28. □

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Stiff S&L Crime Penalties Get House Chiefs' Backing

Continued from page 1

Schumer said the House "tried to be tough on penalties without going off the deep end just for show, if you know what I mean."

Lobbyists See Witch Hunt

In recent days, financial institution lobbyists have begun referring to legislation dealing with S&L crime as part of a witch hunt. They have asked whether the tougher penalties hanging over officers and directors might make it more difficult to recruit board members.

"The mood in this town is ugly," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America. "In terms of preventing a future S&L crisis, these bills don't solve that problem. But they provide what is always necessary in situations like this – a public flogging or a public hanging."

The National Commission

The national commission proposed in the Schumer bill would be a step toward writing an official history of the S&L crisis, and would likely touch upon a number of sensitive and controversial areas, such as the role played by lawmakers and regulators.

2 States of Commissioners

The 12-member commission would include six White House appointees and six congressional appointees, Mr. Schumer said.

Other provisions in Mr. Schumer's amendment would:

- Make it a crime to conceal assets of an insured institution from a conservator or receiver or to impede an examination of a financial institution. Violations could be punished by prison terms of up to five years and fines of up to $250,000 for individuals and $500,000 for institutions.
- Bar persons convicted of crimes against a financial institution from working for a bank, thrift, or credit union for at least 10 years. After that, the consent of the appropriate federal agency would be required.

"These bills don't solve th[e] problem. But they provide what is always necessary in situations like this – a public flogging or a public hanging."

Kenneth Guenther
Independent Bankers Association

- Bring a number of bank-related crimes under the Racketeer Influenced and Corrupt Organizations Act, or Rico, which would facilitate prosecutions.
- Permit the Federal Deposit Insurance Corp. to limit the use by banks or thrifts of the extravagant severance packages known as "golden parachutes."
- Give regulators the ability to prevent the dissipation or disposition of property acquired as a result of banking law violations.
- Make it easier for regulators to seek restitution from individuals who contributed to the downfall of a bank or thrift.

"We tried to be tough...but fair," said Mr. Schumer, who added that under current law some who contributed to the downfall of the thrift industry may never be punished. Among them, he said, is William L. Walters, a Denver businessman who borrowed but failed to repay more than $100 million to the failed Silverado Banking, Savings and Loan Association.

No Law Against It

"There is no law in the land that prevents that son of a gun from living a fat life while the taxpayers pay" to clean up Silverado, Mr. Schumer said.

In unveiling the package, the Democrats pledged to work with Republicans but criticized as inadequate the administration's efforts to prosecute S&L crimes. They also took note of public anger over the S&L fraud and corruption that has required an increasingly costly bailout.

"The public wants answers," said Mr. Foley.

"We are sending a clear signal to the perpetrators and the public," added Mr. Gephardt. "The crimes and the cause must cease. Taxpayers and depositors must be protected. The savings and loan crisis must be attacked head-on." □

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COMMENT/ *By David L. Glass*

Cross-Guarantee Is Seen as Risk to Holding Companies

Last Aug. 9, President Bush signed into law the Financial Institutions Reform, Recovery, and Enforcement Act, a complex of regulatory reforms aimed at resolving the thrift crisis and strengthening the hand of the regulators to prevent future crises.

A major provision of Firrea imposes liability on "sister" insured banks and thrifts for losses incurred by the Federal Deposit Insurance Corp. in liquidating or assisting affiliated banks and thrifts under "common control" – typically, those that belong to the same holding company system.

This "cross-guarantee" provision was sought by the FDIC in response to its costly multibank holding company transactions in Texas – with MCorp, First RepublicBank Corp., and First City Bancorp.

Particularly at MCorp, the bad banks were liquidated at public expense while healthier subsidiaries remained untouched.

Branch Equivalence

Cross-guarantee was initially envisioned by the FDIC as converting the subsidiary banks of a holding company system into the equivalent of branches, contingently liable for one another.

Intensive lobbying by bank holding companies, including behind-the-scenes negotiations with regulators, ultimately led to a considerable softening of the original cross-guarantee design.

Nonetheless, it poses new concerns to creditors and shareholders of holding company banks, as well as to holding companies themselves.

In essence, cross-guarantee makes any "sister" insured bank or thrift liable for losses incurred by the FDIC to a commonly controlled bank or thrift "in danger of default." The FDIC may in good faith estimate the amount of the loss; allocate the loss among sister banks and thrifts, where more than one is involved, and either establish a schedule for reimbursement or require immediate payment upon written notice.

Though FDIC is required to consult with the appropriate federal or state banking agency for each institution so assessed, it has the final say regarding liability and payment schedule.

Exemptions and Waivers

Among the provisions added to soften the final language was exemption for banks insured by the Bank Insurance Fund (BIF) from cross-guaranteeing an affiliate insured by the Savings Association Insurance Fund, and vice versa, if the affiliate had been acquired before last Aug. 9. (The SAIF is successor to the Federal Savings and Loan Insurance Corp.)

The purpose of this provision was to avoid penalizing, in the typical case, a bank holding company that had acquired a troubled FSLIC-insured thrift. But this exemption will phase out in five years.

In addition, the FDIC may, in its discretion, exempt any insured bank or thrift from cross-guarantee liability if the agency determines that exemption is in the best interests of BIF or SAIF.

Quid Pro Quo

The quid pro quo of the exemption is that the exempt institution and all its affiliates are subject to Section 23A of the

See RISKS page 24

COMMENT
Meeting Needs Of Employees

Continued from page 17

ties and decisions, choices.

Middle managers are the keys to the future for our organizations. They implement the strategy decided at the top. What they think and how they feel is critical to the corporation's heart and soul. Companies must learn to manage with more delegation and less control. In essence, as the evolution of organizations takes place, middle managers must have a new role as partners with top management in making the United States more competitive.

"The leaders of tomorrow will be creative, innovative risk takers."

These are all wonderful ideas, but what will make a company adopt some of these changes? The bottom line. These ideaswill reduce employee turnover, reduce absenteeism, lift morale, increase loyalty, and improve productivity.

The emphasis on raising productivity and increasing international competitiveness is transforming the debate over social equity into a discussion about economic growth. The realization that this is not just a social issue, but a bottom-line issue, has hit us right in our pocketbooks.

Simply put, the productivity paradox is going to push companies to tailor the work force for the new employee if they expect to recruit, and more important, retain the best and the brightest. □

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GLOBAL *dispatches...*

GE Capital Buys Packager Of Stores' Cards in Britain

By JOHN EVANS

LONDON — GE Capital announced Wednesday it had acquired Burton Group Financial Services, Europe's largest private-label packager of credit cards for retail stores, for $329 million in cash.

Industry sources in Britain said that GE was also eying Club 24, the financial services unit of the Next PLC retailing group. The prospective purchase price for the unit, which has more than 1.5 million store card accounts, is reportedly about $65 million.

GE Capital is a unit General Electric Co. A spokeswoman at the conglomerate's Stamford, Conn., headquarters declined to comment. A Next spokesman was unavailable.

Support for Expansion

Ray Nide, GE Capital's director of European business development, said that the company "will be looking at a lot of retailers' financial services business over the next few years" to support its expansion.

The Burton purchase involves the store credit cards it handles across Europe, totaling three million accounts for more than 20 retailers besides itself.

GE, as the largest provider of private label retail credit cards in the United States, considers the British buy a "perfect build" for the same type of capability in Europe, the spokeswoman said.

The combination with GE Capital "creates a powerful new force in the credit card market," GE said in its announcement. Apart from cards, Burton Financial offers a range of financial consumer lending and insurance products. It also operates the First Personal Bank, a consumer lending operation.

Activities Are Broadened

GE Capital's Mr. Nide said consumer lending added to other activities the company is building in Europe, including commercial real estate financing, leasing, and leveraged acquisition finance. However, GE does not plan a conventional commercial banking presence in Europe.

"We are doing many of the things a bank carries out, but we don't have the same types of regulatory constraints. There are also no plans to open bank-type branches in Europe," Mr. Nide said.

Meantime, Burton Financial's existing senior management team, headed by chairman and chief executive David Legg, will stay on. The company has some 1,500 employees in three main locations in Britain.

... by country

THE NETHERLANDS

Nippon Life Insurance Co. has completed market purchases of stock in **Amsterdam-Rotterdam Bank** amounting to about 1% of the bank's outstanding stock. The insurer says its aim is to have a relationship with a major bank in each of the European Community member countries. — **TFW**

VENEZUELA

A Venezuelan delegation explained to the 20 Japanese banks holding some $4 billion of Venezuelan debt the details of its five-point menu for a Brady plan restructuring. The Japanese banks will be taking the interest rate and capital reduction options, but their reaction to the idea of new lending to the country is described as "extremely cautious." — **TFW**

BRAZIL

Brazil's special secretary for economic policy, Antonio Kandir, is traveling to Washington to seek a date for an International Monetary Fund mission to come to Brazil, an Economy Ministry spokesman said.

The mission will negotiate an economic adjustment program between the IMF and Brazil. A pact with the fund would pave the way for negotiations with Paris Club creditors and international commercial banks.

Mr. Kandir will meet with IMF managing director Michel Camdessus today to set the date for the mission's visit, he said.

Mr. Kandir was also expected to meet with David Mulford, under secretary for international affairs for the U.S. Treasury, the spokesman in Brasilia said.

Brazil's negotiations with foreign creditors have been slow getting off the mark. In May, Economy Minister Zelia Cardoso de Mello said the IMF mission would come to Brazil in early June with a view to signing a pact by September. Now a deal is not expected before October.

Private bank creditors, meanwhile, have been expressing exasperation about the lack of interest payments on most medium-term and long-term debt for one year. — **Reuters**

JAPAN

The previously announced easing of regulations on Japanese individual and corporate foreign savings will go into effect on July 30. The revision also includes the lifting of the ban on buying and selling foreign securities. — **TFW**

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Cumiline International Corp., Cupertino, Calif.

Poland Gives Nod to 4 Foreign Banks

Preliminary Approval for Full-Fledged Operations

By JAMES R. KRAUS

NEW YORK — Poland has granted Citicorp, Austria's Creditanstalt Bankverein, and Britain's Barclays Bank PLC and Midland Bank PLC preliminary approval to open full-fledged banking operations.

Within weeks the four banks will submit formal applications to open branches or subsidiaries, said Gerhard Randa, deputy chairman of Creditanstalt.

Mr. Randa said he expects Polish banking authorities to approve the applications within months and that Creditanstalt will have an operating unit in Warsaw by yearend.

Comment Is Sparse

Spokesmen for Midland in London and Citicorp in New York declined to comment. A spokesman said Barclays plans to open representative offices in Czechoslovakia, Hungary, and Poland, but he would not comment on other plans.

Two weeks ago, Citicorp opened representative offices in Prague and Warsaw.

Citicorp said it planned to use the offices to help corporate customers find local business partners, help establish joint ventures, and arrange investment-related financings, provide trade finance, and help privatize government-owned companies.

A decision to let foreign banks remit all profits cleared the last obstacles, said Gerhard Randa of Creditanstalt.

Citicorp said at the end of June that it expected to have a "broader participation in Czechoslovakia's and Poland's banking and finance systems as regulatory arrangements evolve in the two countries."

Citicorp's other main operation in Eastern Europe is in Budapest, where it owns 80% of a local bank, Citicorp Rt.

Creditanstalt has been rapidly expanding in Eastern Europe.

In May, Creditanstalt opened a commercial bank in Hungary in partnership with Budapest. It plans to open a bank in Czechoslovakia as soon as that country revises its bank regulations to allow foreign ownership.

The Austrian bank plans to take local deposits and provide commercial loans, trade finance, and investment banking services in Poland, Mr. Randa said.

He agreed with estimates that $4 billion to $5 billion in foreign currency was being hoarded privately in Poland. Foreign banks stand to collect much of that in deposits because of their better "reputation," he said.

Creditanstalt is also working on arranging debt for equity swaps in Poland.

Around 30 such swaps are now being reviewed by the Polish government, according to Mr. Randa.

Mr. Randa said that the bank decided to apply for a banking license in Poland after obtaining preliminary approval from the Polish government.

A recent decision by the Polish government to allow foreign banks to freely remit all profits had cleared the last remaining obstacles to doing banking business in Poland, he added. □

World Bank Balks at Forgiving Some Debt

By JAMES R. KRAUS

NEW YORK — "What's good for the goose is not necessarily good for the gander" might serve as a motto for the World Bank these days.

This week, officials of the multilateral lending agency rejected bankers' demands that it join commercial banks in forgiving a portion of its loans to Third World countries.

'No Plans to Participate'

"The World Bank has no plans to participate in debt reduction," said Robert Wood, its vice president for financial policy and risk management, at a press briefing Tuesday.

Last year, Treasury Secretary Nicholas F. Brady called on commercial banks to forgive a portion of their loans to Third World countries. Five agreements to do so have been reached – with Mexico, Venezuela, Costa Rica, Morocco, and the Philippines.

In a related move, President Bush announced last month that the United States would write off a portion of some $7 billion in loans to Latin American countries and will sell, at a discount, a portion of $5 billion or so in markets-rate loans. The aim is to facilate debt-for-equity and "debt-for-nature" swaps.

The President's announcement triggered speculation that the World Bank and other international lending agencies, such as the International Monetary Fund, might follow suit.

Position Is Defended

However, Mr. Wood said that there is no justification for calling on the World Bank to forgive any of its loans since, unlike commercial banks, it has continued to supply new loans to support economic reform in developing countries.

He added that loan forgiveness would lower the World Bank's triple-A rating and raise its own borrowing costs as well as those of the Third World countries.

In a concession to debt relief, however, the World Bank has reduced its 0.75% commitment fee and has said that this year it plans to cut its loan margin, now 0.5%, to help Third World borrowers improve their cash flow.

The Washington-based bank, officially the International Bank for Reconstruction and Development, lends to countries around the world, mainly for long-term economic investment. It has 162 member countries.

7 Countries in Arrears

The bank has about $90 billion in loans outstanding, $35 billion to $40 billion to developing countries. Peru, Zambia, Syria, Guatemala, Liberia, Sierra Leone, and Panama are in arrears on around $3 billion in loans. □

Key International Rates*

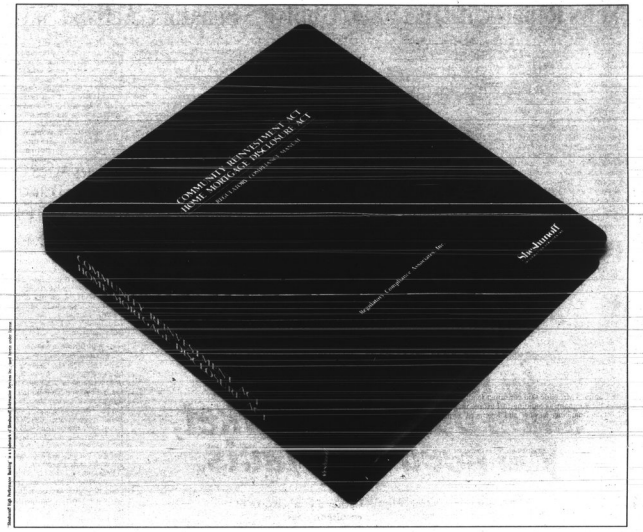
	Day-to-day money			Sixty days			Sixty days			Six months			Three years		
	7/18	7/17	7/11	7/18	7/17	7/11	7/18	7/17	7/11	7/18	7/17	7/11	7/18	7/17	7/11
United States	8.06	8.12	8.37	8.18	8.18	8.37	8.18	8.25	8.43	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.43	7.43	7.31	7.71	7.75	7.65	7.75	7.75	7.67	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.75	13.87	14.12	13.50	13.50	13.62	13.37	13.37	13.37	13.67	13.67	13.73	14.75	14.75	14.75
U.K.	15.00	15.06	15.00	14.93	15.00	15.00	14.81	14.87	14.93	14.25	14.38	14.38	15.00	15.00	15.00
West Germany	8.12	8.18	8.31	8.31	8.37	8.37	8.50	8.50	8.56	6.00	6.00	6.00	10.00	10.00	10.00
Switzerland	6.37	6.25	9.00	9.00	9.00	9.00	9.00	8.93	8.87	6.00	6.00	6.00	11.25	11.38	10.56
France	9.87	9.93	10.12	9.93	10.12	10.18	10.06	10.25	10.31	9.00	9.00	9.00	10.00	10.00	10.00
Italy	10.50	11.62	11.62	11.12	11.25	11.25	11.25	11.37	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.07	14.37	8.44	8.65	7.72
6 to 12 months	8.17	13.40	8.63	8.67	7.59
12 to 24 months	8.62	12.64	8.86	7.40	7.39

*Midday quotes in the New York market

Source: Nikoran, Astley & Pearce Inc., New York.



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News Reports, if True, Show Guilt of 5 Senators, Activist Says

Reuters

WASHINGTON — If five senators tried to intervene with regulators on behalf of savings and loan executive Charles H. Keating Jr., as news media have reported, then they violated ethics rules, the watchdog group Common Cause says.

Common Cause filed a legal brief with the Senate Ethics Committee, which is investigating the senators' contacts with the former chairman of the failed Lincoln Savings and Loan Association, Irvine, Calif., a subsidiary of American Continental Corp., Phoenix.

The committee is investigating whether the legislators tried to pressure regulators not to scrutinize or seize Lincoln. The legislators, known as the Keating Five, are Alan Cranston of California, Dennis DeConcini of Arizona, John Glenn of Ohio, and Donald Riegle of Michigan, all Democrats, and John McCain, an Arizona Republican.

Mr. Riegle is chairman of the Senate Banking Committee.

The senators' campaign funds or political organizations they controlled received a total of more than $1 million from Mr. Keating as well as free transportation for themselves or family members. The five have denied wrongdoing and said they were providing a normal constituent service.

> **"A senator's assurance . . . is irrelevant."**
>
> **Archibald Cox**
> *Common Cause*

Their motivation is not an issue for the ethics panel, contends the brief that Common Cause filed with the committee.

Archibald Cox, chairman of Common Cause and a special prosecutor in the 1970s Watergate scandal, wrote in the brief, "A senator's assurance that he was not influenced by the extraordinary benefits is irrelevant."

"No one truly knows the effect of such large favors upon his thinking," Mr. Cox added. "The appearance of influence damages public confidence in the impartiality and integrity of both individual senators and the Senate."

Mr. Cox said the ethics committee's job is to decide whether the published reports are substantially true. If so, he said, the situation is far different from one in which a senator makes a straightforward inquiry on behalf of a campaign contributor or constituent.

Gifts 'Substantially Larger'

Here, the benefits conferred by Keating were substantially larger in all five instances," Mr. Cox wrote. "Given all these circumstances, no one can seriously deny that reasonable persons might draw the conclusion that the senators' intercession was influenced by Keating's favors."

Violations of ethics rules could bring mild or more serious censures from the Senate committee and could damage a senator's chances for reelection or his standing in the Senate. □

7 States Agree To Share Data On Foreign Banks

Continued from *page 2*

Reserve now, we will do with other states," said Harold Doyle, deputy superintendent of banks in California, who served on a task force that developed the plan to share information.

"We want the quality of foreign bank assets to be safe and sound," he added. "We do not want foreign banks to ship assets from one state to another state."

$700 Billion in Assets

The states involved thus far – California, Florida, Georgia, Illinois, Michigan, New York, and Washington – account for the bulk of the $700 billion of foreign bank assets in the United States. The Conference of State Bank Supervisors, the trade group for state banking departments that helped to develop the foreign bank plan, said 94% of foreign bank-controlled assets are under state regulation.

Speaking on behalf of foreign banks in the United States, Lawrence R. Uhlick, executive director and counsel at the Institute of International Bankers, said his group supports the effort to create a more efficient system of supervising foreign banks here. State regulators said such coordination would benefit foreign banks by providing greater consistency of supervision and coordinated timing of examinations by state banking departments.

U.S. Charters Unaffected

Most branches and agencies of foreign banks are state-licensed. The state data-sharing affects only the branches and agencies of foreign banks and does not extend to the full-service banks chartered in the United States but owned by foreign companies.

State regulators said they expected the confidential sharing of data on foreign banks to be expanded to other states as foreign banks spread geographically. One regulator said he expected Texas, because of its large market, to be an area of particular interest for foreign banks. □



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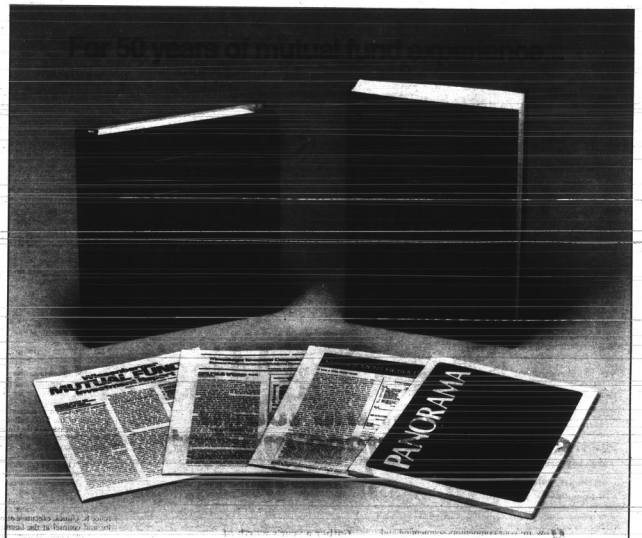

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COMMENT
Risks Are Seen In Cross-Guarantee

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Federal Reserve Act.

This section limits an insured bank's transactions with an affiliate to 10% of capital and requires that all loans or extensions of credit to an affiliate (including, for example, a stand-by letter of credit) be fully collateralized. (Since 1982, affiliated banks have been exempt from these provisions.)

The purpose of the waiver privilege is, of course, to assist the FDIC to find buyers for failing banks and thrifts.

Priorities of Payment

As originally proposed, the cross-guarantee liability would have had priority over most categories of claims against the bank, other than deposits.

As adopted, however, the priority of cross-guarantee claims has been considerably reduced.

Superior Claims

Thus the FDIC's claim now outranks only two other categories:

- Any obligation to shareholders – that is, the parent holding company and its shareholders and creditors (as well as direct minority shareholders).

"The FDIC may exempt any insured bank or thrift from cross-guarantee liability."

- All obligations to affiliates, including secured obligations (unless the security arrangement was in place on May 1, 1989).

The good news, relatively speaking, is that cross-guarantee liability is expressly subordinate to:

- Any deposit (except a deposit of an affiliate).
- Any secured obligation of an unaffiliated party.
- Any other general liability, senior or subordinate, other than those to affiliates and shareholders.

The latter category apparently would include, for example, lessors and trade creditors. Counterparties on swaps, repos, and other "qualified financial contracts" are generally protected under Firrea and apparently would not be precluded from exercising their rights, notwithstanding a cross-guarantee assessment.

A Worry for Bank Creditors?

The modified law has much less effect on creditors of banks and thrifts than the original proposal would have had.

In particular, the upgrading of unaffiliated subordinated creditors from a position of subordination to one of priority over the FDIC prevents what could have been a major chilling effect on the ability of healthy sister banks and thrifts to maintain and build funding.

Nonetheless, there are areas of concern.

'Source of Strength' Doctrine

Firstly, though the law is directed at insured bank and thrift subsidiaries, it has the potential for stripping the parent holding company of cash flow.

But the Federal Reserve Board's "source of strength" doctrine requires holding companies to act as a source of strength – including funding – for their insured bank subsidiaries.

Stripping the parent of cash flow calls this doctrine into question, particularly in crises for which it was designed.

The FDIC is not the only challenge to "source-of-strength." Last summer, the bankruptcy court dealing with MCorp ruled that bankruptcy laws and procedures override the doctrine, at least where the holding company is already in bankruptcy proceedings.

A second area of concern is the priority of the cross-guarantee liability over all claims of the parent holding company on its subsidiaries.

"As originally proposed, the cross-guarantee liability would have had priority over most claims against the bank. As adopted, the priority has been considerably reduced."

This priority weakens the position of creditors and shareholders of holding companies and will make it harder for such companies to raise capital.

From a lender's perspective, it becomes preferable to make a subordinated capital loan to the insured bank than to its parent. In effect, the new law treats the parent holding company as the weakest link in the chain of entities constituting a bank holding company system.

A third area of concern for creditors is the law's ban on payment of dividends by a healthy holding company bank if default or FDIC assistance is occurring elsewhere in the company's system.

The same prohibition applies to the payment of interest on capital notes of debentures if by their terms they are payable only out of profits. These prohibitions remain in force as long as any assessment due the FDIC is in default.

Therefore, the payment of dividends to the parent holding company – for purposes of debt servicing and paying dividends to its shareholders – is totally cut off once FDIC has given notice of a cross-guarantee. The dividends stay at zero until the claim has been paid in full.

Possible Response

A possible response by holding companies might be for them to accumulate financial assets from dividends paid by the subsidiaries.

This money would enhance the parent's creditworthiness by increasing a cash cushion to be used in the event of a cross-guarantee claim.

Incentive Seen as Illusive

A fourth area of concern relates to the incentive that cross-guarantee might at first glance

See **RISKS** *next page*

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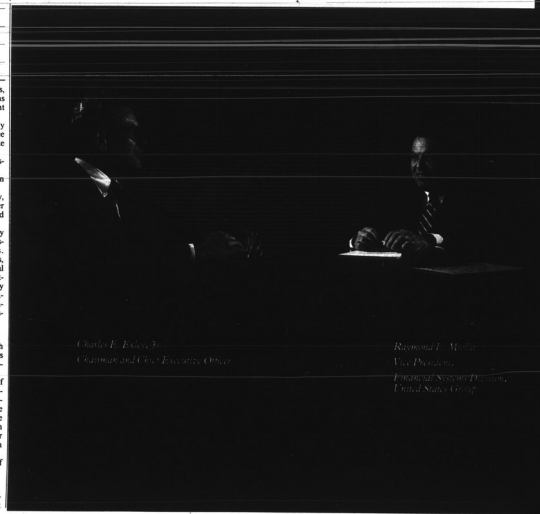

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COMMENT
Risks Are Seen In Cross-Guarantee

Continued from *page 24*

seem to create for redistributing weak assets among the banks of a holding company system.

The concern incentive arises because cross-guarantee effectively eliminates the ability of a bank holding company to preserve the stronger banks while allowing the weaker to default.

But Section 23A effective prohibits insured banks from purchasing low-quality assets from affiliates. Though sales of assets among affiliated banks are generally exempt from 23A, transfers of low-quality assets – principally loans criticized by the bank examiners and other restructured or nonperforming loans – are expressly forbidden.

On balance, then, creditors of healthy banks need not fear that their better assets will be stripped and replaced with weaker ones.

Constitutional Issue

A number of matters regarding cross-guarantee remain unresolved.

Perhaps the most fundamental is the legality of the doctrine itself. Some observers have questioned whether the concept of compelling one corporate entity to cover the losses of an independent though "sister" corporation might not be an unconstitutional taking of property. This remains to be tested in an appropriate case.

Another open area is the treatment of minority shareholders of an insured holding company bank.

"Cross-guarantee does not pose a major additional risk to extant creditors of an insured bank, since cross-guarantee claims by the FDIC are subordinated to essentially all claims of unaffiliated parties."

If one insured bank is assessed to cover the losses of its sister bank, arguably the majority shareholder – the holding company – is no worse off, over all.

But what about a minority shareholder of the bank so assessed? Does cross-guarantee amount to a taking of the shareholder's property without due process and just compensation?

Or would a court determine that the risk of such regulatory action comes with the territory?

It also should be emphasized that cross-guarantee does not take effect unless there either has been a default or the FDIC has provided assistance to an institution deemed to be in danger of default.

One condition of a default is that there must have been a receiver or conservator appointed. But the law also allows appointment of a conservator on grounds other than insolvency; a recent prominent example is that of Franklin Savings Association of Kansas. Cross-guarantee apparently would not take effect in such as case.

All or Nothing?

Finally, it is not clear whether cross-guarantee is an all-or-nothing proposition.

True, the FDIC has discretion to impose liability based upon the actual or estimated loss to the insurance fund. But it also has discretion to waive that liability if to do so would be in the best interests of the insurance funds.

One reason to waive would be to tempt a buyer for a healthy property. Another reason might be to prevent the undermining of an otherwise healthy institution.

Does this mean that the FDIC has discretion partially to waive liability? May it require only a partial payment in order to avoid fatally weakening a healthy sister bank or thrift? Or will it hold to the view that preserving the health of sister holding company banks at public expense only invites a repetition of the MCorp scenario?

The agency is understood to be preparing a policy statement for eventual publication. Perhaps this clarify some of these uncertainties.

"The new law is a significant potential risk to holding company creditors."

A Selective Risk

Cross-guarantee does not pose a major additional risk to extant creditors of an insured bank, since cross-guarantee claims by the FDIC are subordinated to essentially all claims of unaffiliated parties.

But the funding power of the same banks after the exercise of "cross-guarantee" is apt to be impaired.

In addition, the new law is a significant potential risk to holding company creditors, since all their claims on the insured bank subsidiaries are expressly subordinate to cross-guarantee liability.

It also appears to be a threat to minority shareholders of insured banks and thrifts that are part of a holding company system. □

Bankers Trust Aiding Math Centers in NY

NEW YORK — Bankers Trust New York Corp. is underwriting a program to help improve students' mathematics performance in the city's public schools.

The bank is providing a $115,000 leadership grant to expand one of the school system's three existing Mathematics Resource Centers.

The centers offer training workshops, demonstration lessons, and resource materials for teachers, supervisors, students, and parents. □

Greenspan Says Credit Crunch May Spur Further Easing

Continued from *page 1*

felt," Mr. Greenspan told the Senate Banking Committee. "Hence, it will require continued scrutiny."

On bank credit policies, he said, "It is hard to discern the dividing line between lending standards that are still healthy and those that are so restrictive as to be inconsistent with the borrower's status and the best interest of the lender in the long run.

"In recent weeks, we may have slipped over that line."

Correction Called One-Time

That perception by the central bank led it to ease interest rates for the first time this year, dropping the fed funds rate last week to 8% from 8.25% in what Mr. Greenspan originally characterized as a one-time correction.

"If we had done nothing, we would have increased the likelihood of the credit system beginning to crush economic growth," Mr. Greenspan said in his semiannual report to Congress. He left the door open to further easing.

"The Federal Reserve must remain alert to the possibility that an adjustment to its posture in reserve markets might be needed to maintain stable overall financial conditions," he said.

No New Crisis Seen

The Fed chairman also said he did not see the banking industry falling victim to a crisis of the magnitude faced by savings and loan institutions. And he saw a "shade" more risk of the economy's tipping towards recession in the near future.

He noted that while there had been a sharp inflationary surge in the first quarter of this year, inflation had moderated and he expected it to begin to fall. But he added, "the likelihood of a near-term recession seems low."

The Fed chairman said he did not see the banking industry falling victim to a crisis of the magnitude faced by thrift institutions.

While not committing to quid pro quos, Mr. Greenspan indicated the Federal Reserve would further ease interest rates if an accord were reached in Washington to reduce the budget deficit by $50 billion to $60 billion or more.

Role of Economy Stressed

Mr. Greenspan attributed the credit tightening not to monetary policy but to an independent increase in interest rates and a decrease in monetary aggregates. Higher interest rates were propelled by a stronger-than-expected economy and higher Treasury bill rates, reflecting the large issues needed to fund the Resolution Trust Corp.'s role in the thrift bailout.

Declines in monetary aggregates, in turn, stemmed from a run-up in market interest rates and to the savings and loan crisis. Because of the large deposits taken over and in some cases sold by the federal government, surviving institutions had less need to raise rates to attract new funding, said Mr. Greenspan.

Meanwhile, savers shifted their deposits from banking institutions to stock and bond mutual funds.

The S&L crisis contributed to a diminution of the money supply in part because the RTC, in taking over S&L's, placed many of those institutions' assets on the government's balance sheet. As a result, the funds needed by the depository system decreased.

No Recession Seen

Although more growth would be desirable on balance, "things are not too bad" in the economy, Mr. Greenspan said.

The Fed chairman said the economy was unlikely to slip into recession any time soon and that the gross national product should grow 1.5% to 2% this year and 1.75% to 2.5% in 1991. He said the Fed may have to respond with credit adjustments if there are big cuts in the budget deficit or if the credit crunch at commercial banks persists.

Committee members repeatedly asked Mr. Greenspan why the Fed had shifted from its insistence earlier this year that there was no "credit crunch."

Mr. Greenspan explained that signs early this year that commercial banks were concerned about their capital levels and were contemplating increasing margins were inconclusive.

Only recently have there been sufficient signs of widespread concern and accompanying action by the banks to lead the Fed to conclude credit was tightening significantly. Signs of banks increasing margins combined with a sharp drop in monetary aggregates in May precipitated last week's action, Mr. Greenspan said. □

Canadian Bank to Buy Trust

Reuters

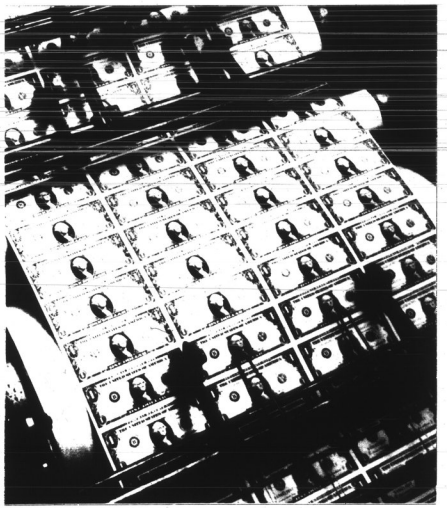
TORONTO — The Royal Bank of Canada said it has signed a binding agreement to buy International Trustco Inc., a Toronto-based trust company with $3 billion in assets and 80 employees at yearend 1989.

Royal Bank, which is also based in Toronto, did not disclose the price. It made the deal in anticipation of proposed changes in the national Bank Act that would blur distinctions among commercial banks, brokerage firms, and other financial service providers.

Trust companies are deposit-taking institutions similar to thrifts in the United States. International Trust specializes in corporate and institutional fiduciary business.

"International Trust is an ideal choice," said W.A.R. MacDonald, senior executive vice president for strategic development at Royal Bank, which is Canada's largest commercial bank. "It will provide us with much faster access to the trust/-business market, when permitted, than would be possible on a de novo basis."

Kathryn Humber, a banking analyst at Richardson Greenshields of Canada Ltd., said Royal Bank's move is "an indication of their confidence that regulatory reform will allow them expanded powers." □



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Earnings of Large Banks Show Declines in Second Quarter

Continued from page 2

nonperformers for some time."

Fleet's nonperforming loans increased to $756 million from $653 million. This amount includes $355 million in so-called performing/nonperforming loans that are either current or less than 90 days past due.

Foreclosed real estate assets increased to $291 million from $275 million.

The company's loan-loss reserves increased to $618 million from $595 million at March 31.

Fleet's financial services group buffered the company in second quarter, with $31.2 million in profits, up 31% from a year ago.

Where Fleet stands out from the pack is where they have these other businesses, but that's not going to prevent them from suffering the same loan-loss troubles experienced by others in their New England peer group," said Gerard Cassidy, an analyst for Tucker, Anthony & R.L. Day Inc. in Portland, Maine.

Jack Flynn, Fleet's chief financial officer predicted that the company would remain profitable in the third quarter.

CONTINENTAL BANK

Chicago-based Continental's loss resulted from a $48 million restructuring charge and a doubling of domestic nonperforming loans to $455 million. It also reported a $21 million loss on the sale of government securities, partially offset by a $15 million gain on sale of real estate.

Continental's provision for loan losses was 25% greater than in the first quarter. Net interest income declined 15% and fee revenues dropped 23% compared with first-quarter 1989.

Last month, Continental dropped a bombshell, saying it would cut 900 jobs, or 13%, after reassessing its product lines.

Continental said its operating expenses rose 9% in that the company expects the cutbacks to save $25 million in the second half and about $75 million a year beginning next year.

PNC FINANCIAL

PNC's decline in earnings was mostly due to a $70.7 million chargeoff related to loans to developing countries and a $40.1 million chargeoff related to real estate, the bank said.

The company earned $74.5 million in net income in the first quarter and $125.5 million in second-quarter 1989.

"We have substantial LDC debt and are aggressively writing down real estate values to dispose of these properties as quickly as possible," said chairman Thomas H. O'Brien in a prepared statement. Analysts said that the real estate portion of the chargeoff was higher than expected.

FIRST INTERSTATE BANCORP
Los Angeles

– Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$85.1	$102.1
Per share	1.42	2.02
Net interest income		
(tax equiv.)	591.4	581.6
Margin	3.42%	4.16%
ROA	0.70%	0.73%
ROE	15.0%	15.2%
Nonperforming assets	269	272.3
Nonperformance loans	224.3	192.4
Loss provision	117	166.5
Net charge-offs	226.4	231.9

First Half	1990	1989
Net income	$222.3	$235.3
Per share	3.65	4.63
Net interest income		
(tax equiv.)	1,173.0	1,260.6
Spread	4.09%	5.18%
ROA	0.86%	1.03%
ROE	19.9%	22.1%
Loss provision	415.6	320.0
Nonperformance loans	242.0	1,197.1

BALANCE SHEET

	6/30/90	6/30/89
Assets	$55,082.0	$58,361.1
Deposits	44,664.9	43,977.8
Loans	34,350.7	36,824.4
Shareholder equity	2,170.0	2,063.7
Loss reserve	1,186.4	1,113.3
Reserve/loans ratio	3.34%	2.76%
Nonperf. loans	1,009.0	1,643.0
Nonperf. loans/loans	2.64%	4.30%
Primary capital ratio	7.48%	6.93%

FIRST HAWAIIAN BANCORP
Los Angeles

– Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$28.1	$102.1
Per share	1.42	2.02
Net interest income		
(tax equiv.)	591.4	581.6
Margin	3.42%	4.16%
ROA	0.70%	0.73%
ROE	15.0%	15.2%
Nonperformance loans	269	272.3
Nonperformance loans	224.3	192.4
Loss provision	117	166.5
Net charge-offs	226.4	231.9

First Half	1990	1989
Net income	$222.3	$235.3
Per share	3.65	4.63
Net interest income		
(tax equiv.)	1,173.0	1,260.6
Spread	4.09%	5.18%
ROA	0.86%	1.03%
ROE	19.9%	22.1%
Loss provision	415.6	320.0
Nonperformance loans	242.0	1,197.1

BALANCE SHEET

	6/30/90	6/30/89
Assets	$55,082.0	$58,361.1
Deposits	44,664.9	43,977.8
Loans	34,350.7	36,824.4
Shareholder equity	2,170.0	2,063.7
Loss reserve	1,186.4	1,113.3
Reserve/loans ratio	3.34%	2.76%
Nonperf. loans	1,009.0	1,643.0
Nonperf. loans/loans	2.64%	4.30%
Primary capital ratio	7.48%	6.93%

PNC FINANCIAL CORP.
Pittsburgh

– Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	$128.9	$125.5
Per share	1.14	1.30
Net interest income		
(tax equiv.)	336.8	377.5
Margin	3.42%	3.70%
ROA	94%	1.21%
ROE	15.76%	16.18%
Nonperformance loans	166.8	136.5
Nonperformance loans	326.9	258.4
Loss provision	73.8	30.3
Net charge-offs	98.3	34.1

First Half	1990	1989
Net income	$183.4	$249.1
Per share	1.91	2.59
Net interest income		
(tax equiv.)	732.0	754.9
Margin	3.42%	3.70%
ROA	1.01%	1.19%
ROE	13.44%	18.69%
Loss provision	347.7	57.1
Nonperformance loans	582.2	515.3

BALANCE SHEET

	6/30/90	6/30/89
Assets	$47,822.9	$41,694.0
Deposits	31,040.1	28,223.4
Loans	27,924.9	26,360.5
Shareholder equity	2,182.2	2,012.9
Loss reserve	522.5	508.5
Reserve/loans ratio	1.87%	1.93%
Nonperf. assets	857.9	NA
Nonperf. loans/loans	2.98%	2.13%
Primary capital ratio	6.97%	8.0%

CONTINENTAL BANK CORP.
Chicago

– Dollar amounts in millions (except per share)

Second Quarter	2Q '90	2Q '89
Net income	($36.7)	$64.1
Per share	(1.36)	1.01
Net interest income		
(tax equiv.)	113.5	133.6
Margin	1.77%	2.07%
ROA	(0.61%)	1.06%
ROE	NA	21.86%
Nonperformance loans	85.5	111.7
Nonperformance loans	321.1	261.9
Loss provision	25.0	4.0
Net charge-offs	33	116.0

First Half	1990	1989
Net income	($.046)	$139.7
Per share	(0.41)	2.25
Net interest income		
(tax equiv.)	242.3	277.5
Spread	1.88%	2.19%
ROA	(0.03%)	1.19%
ROE	(0.39%)	24.82%
Loss provision	205.0	209.0
Nonperformance loans	405.1	309.4

BALANCE SHEET

	6/30/90	6/30/89
Assets	$29,532.0	$29,258.0
Deposits	16,562.0	17,513.0
Loans	15,499.0	16,195.0
Shareholder equity	1,087.0	1,703.0
Loss reserve	291.0	328.0
Reserve/loans ratio	1.88%	2.11%
Nonperf. loans	673.0	1,064.0
Nonperf. loans/loans	4.34%	6.57%
Primary capital ratio	NA	NA

Tom Leander in New York, Teresa Carson in Los Angeles, and Nadine Cohodas in Washington contributed to this report.

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Correction Notice

CORRECTED NOTICE FRED REISNER INC. Auct'r Lic #732421 Sold July 12, 1990 At 8:30 A.M. At 1709 Jerome Ave., Bronx, N.Y. 1984 Buick, Vin #GAA T69PXEK812433 Auct Jane M. Carini.

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Auction Notices

C. LAUDISI & ASSOCS., INC. auct'rs sell July 27, 1990 at 9AM at 226-12 Jamaica Ave., Qns 1981 Cadillac #1G6AD6991B1158815 Auct., K. Gildotso; 10 AM at 109-14 98th St., Qns 1987 Nissan #1N4HB21S5HC781975 Auct., P.E. Naudus; 11 AM at 70-11 50th Ave., Qns 1988 Nissan #1N8HD16YXBW032840 Auct., Y. Ramirez; 1987 Lincoln #1LNBM81F2HY638340 Auct., S.M. Kim; 1988 Nissan #JNIHT21S1JT142155 Auct., F. Abreau; 1988 v/w #WVWFB91G0WW311695 Auct., L.S. Bonar, 12 Noon 108-09 Northern Blvd., Qns 1983 Chevrolet #2GAFG5351AD1127526 Auct., Marie Transportation Inc. and/or Farkas Motors Inc.; 1978 GMC #TCE28EY571465 Auct., J.F. Murphy; 1 PM at 100-35 Atlantic Ave., Qns 1983 Oldsmobile #1G3AX37Y0DM805248 Auct., M. Murphy; 2PM at 1236 Grand St., Bklyn 1986 Dodge #2B7KB31W6GK196966 Auct., Access Delivery Servic, Inc.; 4 PM at 6320 Bronx Blvd., Bronx 1986 Buick #WBAAE6406GJ700670 Auct., K. Daniels. Published July 12 & 19, 1990.

ADJOURNED SALE: DEFAULT In Security Agreement Made By 913 Manhattan Food Corp. to Sea Crest Trading of Connecticut, Inc. 1 Will Sell On 7/20/90 At 11:30 AM At 913 Manhattan Ave., Bklyn, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

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NOTICE

The annual report of the INSTITUTE FOR CLINICAL ANTHROPOLOGY, INC. for the fiscal year ended November 30, 1989 is available at its principal office located at c/o Allen S. Greenspan, 512 Seventh Avenue, New York, New York, NY 10018. (212) 354-4115 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Dr. Stanley Diamond.

NOTICE

The annual report of the ARMOUR FAMILY FOUNDATION for the fiscal year ended March 31, 1990 is available at the office of the Foundation's accounts, R. D. Hunter Co., One Main Center Port Jervaise, NJ 07652 for Inspection during regular business hours by any citizen who requests it within 180 days from the date hereof. The Principal Manager of the Foundation is Robert N. Armour.

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DEALS: Syndication of Lin Broadcasting Loan Proceeds Smoothly

By WILLIAM GOODWIN

The lead banks on a $1.75 billion loan for Lin Broadcasting Corp.'s cellular telephone operations have syndicated almost the entire amount before the final deadline for commitments, offering rich up-front fees as high as 325 basis points.

A total of 14 banks, including the three lead banks, ponied up $1.7 billion by Tuesday's deadline for early commitments.

Additional commitments of up to $700 million are expected by the July 24 final deadline, said William Hoglund, a managing director at Morgan Guaranty Trust Co., one of the three lead banks.

In addition to the J.P. Morgan & Co. unit, the other lead banks on the credit are the banking unit of Citicorp and Toronto Dominion Bank.

Participating banks are being rewarded with unusually high fees in recognition of the fact that there is virtually no secondary market for cellular loans, even high-quality cellular paper like the Lin credit, bankers said.

Secondary sales of a $3 billion loan to McCaw Cellular Communications have been essentially nonexistent, bankers say.

The Lin facility "is quite possibly the best cellular financing in terms of pricing and structure that the bank community is likely to see for some time to come," said an official at one of the banks participating in the credit.

Proceeds from the loans will be used in part to cover the cash portion of Lin's purchase of certain cellular properties of Metromedia Co.

Each of the three lead banks committed $200 million to the cellular facility. Before the loan was marketed, the lead banks committed to arrangement commitments totaling $675 million.

Barclays Bank PLC and Bank of Nova Scotia each committed $200 million, Kansallis-Osake-Pankki of Finland committed $125 million, Bank of New York committed $100 million, and Bank of Montreal provided $50 million, Mr. Hoglund of Morgan said.

That left only $475 million of the $1.75 billion credit to be raised from the general bank syndicate.

A companion credit of $350 million for Lin's broadcast operations was fully underwritten by the three lead banks and Bank of New York Corp.

Fees on the broadcast facility, which is also expected to be oversubscribed, are substantially lower than the cellular facility, even though the underlying transactions for both credits are considered highly leveraged.

In contrast to the cellular credit, the maximum fee on the broadcast facility is 137.5 basis points.

Fees on the cellular facility range from 325 basis points for commitments of $200 million to a record 175 basis points for commitments of $25 million.

As an incentive to sign up early, banks that committed by July 17 will receive a portion of their fees based on their actual commitments, rather than their allocated amount if the credit is oversubscribed.

The interest rate on the loans is set initially at 250 basis points over the London interbank offered rate, but the rate will decline as the company's ratio of debt to cash flow improves, Morgan's Mr. Hoglund said. □

Nonunion Group Agrees To Back UAL Buyout Bid

By WILLIAM GOODWIN

Representatives of UAL Corp.'s nonunion workers said Wednesday they will support the proposed $4.4 billion buyout of the airline company after reaching agreement with the unions on wage concessions and related issues.

Failure of the noncontract workers to support the buyout effort would have dealt a serious blow to the deal.

The noncontract workers agreed to wage and cost concessions of about $50.5 million and modifications of pension and other benefits.

In return, UAL's 26,000 noncontract employees, who represent about a third of the company's total work force, will hold 14.26% of UAL if the buyout succeeds. The three unions would own the rest of the company.

Terms of the noncontract workers' pact with the unions must be inserted as amendment to the merger agreement between the buyout group and the UAL board. The amendment would amount to a contract within the merger agreement, an adviser to the noncontract workers said.

The noncontract employees were represented by First Chicago Corp.'s First National Bank of Chicago and Fried, Frank, Harris, Shriver & Jacobson.

Negotiations between the noncontract workers and the union buyout group ended last week without agreement on any of the major issues. Those talks were followed by phone conversations between the two on Tuesday.

The agreement was announced Wednesday morning by the noncontract workers' advisers.

A spokesman for the union buyout group had no immediate comment on the agreement. □

Thrift to Repay U.S. $18 Million It Bilked

WASHINGTON — Florida Federal Savings Bank of St. Petersburg has agreed to repay $18 million to the federal government to settle charges that it falsely billed the Department of Education for student loans.

The Justice Department said the savings bank will repay the money by agreeing not to accept legitimate reimbursements from the government for student loans.

— Reuters

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THE PREMIER ATM NETWORK

Highlights for Wednesday, July 18

TOP 10 GAINERS

Southeast Banking Corp.	11.7
Premier Bancorp, Inc.	11.1
Lake Shore Bancorp., Inc.	6.7
First American Corporation	6.3
First Commercial Bancorp, Inc.	6.1
Sumitomo Bank of California	5.4
Sunwest Financial Services	4.7
Keystone Heritage Group, Inc.	3.5
First Eastern Corp.	3.3
Collective Bancshares	3.3

TOP 10 LOSERS

Northeast Bancorp, Inc.	-8.5
Trustcompany Bancorporation	-7.0
BayBanks, Inc.	-6.3
Provident Bankshares Corp.	-6.1
Independence Bancorp	-5.5
Bank South Corporation	-5.4
Bank of New England Corp.	-5.0
Dominion Bankshares Corp.	-4.9
Banks of Iowa, Inc.	-4.9
First Citizens Bancshares Inc.	-4.9

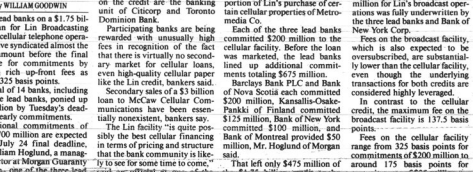
MOST SHARES TRADED

Chase Manhattan Corporation	1421900
Citicorp	1231200
BankAmerica Corporation	1149700
First Hawaiian, Inc.	652000
Southeast Banking Corp.	476400

VOLUME AS % OF AVERAGE

First Hawaiian, Inc.	1897.5
Lake Shore Bancorp., Inc.	1361.6
One Valley Bancorp of WV, Inc.	752.6
United Banks of Colorado, Inc.	695.5
Amcore Financial, Inc.	609.9

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts 1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.60	1.67	3.45	-0.60	0.54	-4.60	-0.63	1.79	

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	Bid	Mkt to bk	Cls.	Chg.
22¾	18¾	1stSourceCorp/In	6.6	88.9	19	-¼
14¼	10¼	AFBBanksInc/GA	13.7	72.7	12¾	
38¾	20	AmeribankInc/NC	8.7	99.2	22¾	
19¾	13¾	AmsouthBcs.A	8.4	82.6	14¾	¾
29	17	AmeriTrust/Cap/OH	19.0	99.7	17¾	-¼
22¾	19¾	AssociatedBanc-WI	9.5	130.9	20¾	
24¼	18	BB&T Fin/NC	9.5	113.3	19	
15¾	9¾	BaltimoreBancshMD	9.0	85.6	12¾	¼
48¾	36½	BanPonce/PR	30.7	147.7	45½	
39¾	26	BankOne/Corp/OH	11.1	171.9	29½	¾
26	18¾	BancoPonce/PR	6.4	96.8	19¾	
56¾	42	BancorpHawaii/HI	10.2	171.3	51¾	-¾
23¾	18	BancorpOhio-Ms-MS	7.1	90.2	19	
36¾	23⅞	BankAmerica/Corp/CA	5.5	113.7	27⅝	-1⅛
24	17⅜	BankBoston/Corp/MT	13.5	238.6	22	
29¾	2¾	BankNewEngland/ARA	NM	43.3	2¾	-¼
14¼	8¾	BancSouth/Corp/GA	6.0	90.3	8¾	-¼
57¾	35½	BankersTrust/NY	NM	146.6	40⅝	-¾
21½	12¾	BarnettBanks/FL	8.1	85.6	12½	
29¾	11¾	BankofBoston-MA	150.0	45.1	12	
14¼	8¾	BancSouth/Corp/GA	6.0	90.3	8¾	-¼
57¾	35½	BankersTrust/NY	NM	146.6	40⅝	-¾
21½	12¾	BarnettBanks/FL	8.1	85.6	12½	
29¾	11¾	BankofBoston-MA	150.0	45.1	12	
14¼	8¾	BancSouth/Corp/GA	6.0	90.3	8¾	-¼
12	9	BanksMid-AmerOK	225.0	53.4	9	
82	68	BankAmerica/CA	12.4	108.4	68	-3¼
38¾	28¾	BarnettBanksInc/FL	10.1	118.1	32½	-¼
40¼	13¾	BayBanks/MA	8.6	42.9	15	-¾
39¾	29	BeaMont/Bncshrs-MD	8.5	99.1	31¾	-¼
26	15¾	BeaMont/Bancs.A	8.5	105.2	18¾	-¼
18⅞	12½	Brenton/BankN.A	7.3	99.3	14	
43¾	30¼	CCB Fin/NC	8.6	114.0	33¾	-¼
22¾	17⅜	CCNB Corp/PA	7.3	100.8	17¾	-¼
22⅝	18⅜	CPB Inc/Indiana-IN	10.5	127.0	22	
27	20¼	CPB Inc.-W	11.3	156.0	22¾	
28	12⅜	CNB Fin/Corp/CA	10.6	244.6	14⅜	
33¾	20¼	CalFed/plan-CA	8.2	148.9	20¼	-¼
16¼	12¾	CentralBancshs.A	7.3	87.5	14⅜	-¼
34½	26¾	CentralFidelity-IN	7.8	111.1	28½	
27	13	CentralJersey-NJ	7.7	87.5	13	-¼
44¾	25¾	ChaseManhattan-NY	NM	61.3	31¼	-¼
41¼	22⅝	CharterBancshares-NY	NM	72.4	24¾	
35	30¾	ChemicalNY/Corp-MI	9.1	98.6	31¼	
36¾	27¾	Chemical/NY	9.1	98.6	31¼	-¼
25¾	17¼	Citizens&Sthrn-MD	8.2	103.0	17¾	-¼
27¾	17¾	CitizensBancshs-MI	7.4	70.7	21¾	-¼
19¾	9¾	CitizensFid-A	8.2	105.4	9¾	-¼
34¾	21¼	CitizensSouthn-GA	6.9	103.1	23¾	-¼
27¼	17¾	CityNat/Corp/CA	10.8	354.1	19¾	-¼
22¼	12¾	ColoradoNatBksh-CO	39.7	88.1	15¾	-¼
30¾	24¾	CommerceBcshs-MO	7.5	110.2	28	
29¼	22¾	CommercBcshs-MO	7.6	102.5	23¾	
15½	10¾	CommunityBk-PA	6.9	106.8	12¾	
37¼	13¾	ConsolidatedNo.Aj	5.3	45.8	13¾	
29¾	13	CoreStates/Fin/PA	8.3	54.3	17¾	-¼
49¾	36¾	CoreStates/Fin/PA	8.3	147.4	39¾	-¼
21¾	15¾	CrestarFinancial/GA	8.2	100.0	17¾	-¼
18¼	7¾	CullenFrost-TX	39.8	51.5	10¾	-¼
37¼	29¾	DauphinDeposit-PA	8.8	129.4	30¾	-¼
32¼	23½	DepositGuaranty-MS	6.4	74.1	24¼	
25¼	12¾	DimondBancshs-A	8.9	71.9	12¾	-¼
16	5	EquimarkCorp-IN	NM	37.2	5½	
21¼	12	EvergreenBancs-WI	6.3	95.6	13¾	-¼
15⅜	12¼	F & M Nat/Corp-VA	10.3	196.1	12¾	
14½	12¾	FNB Corp-PA	6.9	106.8	12¾	
26	18¼	FNH Bancorp-IL	11.1	163.9	24	
29	27¾	FarmersCapital-KY	11.9	118.4	27¾	
39¾	30¼	FifthThirdBncp-OH	11.8	180.7	34	
38¾	33	FinancialTrust-IN	9.6	144.2	34	
51¼	38¼	FirstTenn/Nat-NE	9.8	104.0	39	
19¼	15¾	FirstAlabama-AL	9.4	117.8	17¾	

52 Wk Hi	Lo	Name	Bid	Mkt to bk	Cls.	Chg.
39¼	31¾	FirstAmCorp/TN	NM	76.2	33¾	-¼
34¼	24¼	FirstBancorp-OH	8.1	97.3	24½	-¼
20¾	12¾	FirstBancSystem-MS	7.6	116.3	14¾	-¼
49¾	27¾	FirstChicago/IL	5.3	77.0	27¾	-¼
29½	24	FirstCmwlth-PA	8.0	92.3	24¾	-¼
39¼	21¼	FirstCtyBncrTX	3.1	59.3	25¾	-¼
18¾	13	FirstCmwlt/IL	9.7	106.3	13¾	
23⅜	18¼	FirstCommerce-LA	8.6	96.5	18¾	-¼
29	21¼	FirstCommerce-AR	8.0	104.5	21¾	
22	17¾	FirstCommercial-AL	9.9	109.8	18	
21¼	18	FirstCommercial-NE	7.8	113.6	20¾	
19¼	14¼	FirstCommunity-IL	11.7	130.4	15¾	
35¼	21¼	FirstEastern-PA	8.6	104.5	23¾	
72	60¾	FirstEmpire-NY	8.4	99.8	63¾	-¾
33¾	17	FirstFidelity-NJ	9.9	73.2	17	
50	40¾	FirstFtrBancrp-OH	14.2	199.7	43¾	-¼
14¼	10¼	FirstFtrbksh.S.	10.1	77.7	10¾	-¼
29¾	19¾	FirstHawaiian-HI	15.6	218.9	23¾	-¼
24¼	19	FirstIllBcshs.A	10.8	152.3	19¾	-¼
29¼	19	FirstNatBancorp-GA	8.1	124.8	19¾	
24¼	19¾	FirstPonce/PR	6.1	96.5	20¾	
19¼	13¾	FirstSecurity-KY	12.2	112.2	14¾	
18¼	14	FirstSecurity/NH	12.8	173.6	14¼	-¼
33¾	28¾	FirstSecurity-UT	8.3	86.5	28¾	
28¼	21¼	FirstSecurities/TN	8.2	97.6	23¾	
26¼	16¾	FirstUnion/Corp-NC	8.0	95.2	19¼	-¼
35¾	24¾	FirstVirg/Bnk-VA	7.9	111.2	25	
45¾	37¼	FirstWachovia-NC	10.7	165.2	42¾	
35	27¾	FirstWisconsin	7.2	121.2	28¾	-¼
20¼	17¼	FirstbancNC-A	8.0	114.1	17¾	
50¾	28¾	FleetBoston/MA	9.0	104.4	47¾	-¼
29¼	19¾	FortWayneNat/Cp/IN	8.2	102.7	19¾	
28	20¾	FourthFin/Corp-KS	13.4	139.1	24¾	
21¾	18	FulbrightCorp-PA	7.8	122.8	18¾	
34¼	18¾	GBC Bancorp-CA	8.4	204.3	18¾	
15¾	9	GreenvilleSunburnt-MS	13.8	68.9	9¼	-¼
9¼	5¾	HamiltonBancorp-FL	4.1	121.3	6¾	
21¼	14¾	HeritageFin/Sec.A	9.5	125.9	18¾	-¼
26	14¼	HiberniaCorp-LA	17.8	111.2	15¾	
20¼	14¼	HuntingtonBcshs-OH	7.7	113.6	14¾	-¼
30¾	23	IBERIA Corp-N	8.9	97.5	23¾	
27¼	17¾	ImperialBancorp-CA	7.7	112.4	17¾	-¼
39¾	16	IndependenceBcs-PA	11.4	97.5	17¼	-¼
30¾	21	IntegraFin/Cp-PA	14.5	95.2	21¼	
29¾	11¾	InvestBnk/Bancshs-IA	9.5	138.8	18	
48	33	J.P. Morgan/NY	NM	159.6	38¼	
29¼	18	JeffersonBancsh-NC	7.8	99.1	18	
15¾	12	KeyCentral/com-WV	10.4	108.5	12¼	
19¾	15¾	KeyCorp-NY	7.8	111.9	16¾	
26	21¼	KeystoneFin-PA	8.9	127.6	22¾	
35¾	29	KeystoneHeritage/GA	10.3	156.7	30	
14¾	8¼	LaSalleBancorp-CA	16.8	246.8	13¾	
29¾	22	LakeShore/Inc	18.9	306.5	24	
18	11¼	LandmarkBcshs-MO	6.8	64.6	11¼	
20¼	14¾	LibertyNatBank-KY	18.1	112.6	20¼	
27	19¾	LincolnFin/Corp-IN	6.8	85.2	19¾	
29¾	11¾	MBC Financial-MO	4.7	72.8	12¾	
18	14	MagnaGroup-IL	9.0	100.5	14	
60	41¾	ManufacturersNat-MI	6.5	95.3	44½	-¼
44¾	28¼	Manufacturers-NY	NM	78.5	32¾	
21	16¼	MarineCorp-IL	12.3	135.2	20¼	-¼
20¼	15	MartinBancshares-MO	7.8	102.9	15	
39¾	33	MarshallIsl/Bcshs-MI	8.7	133.5	39¾	
37¾	24¾	MellonBank/Corp-PA	5.2	84.6	25¾	
28¾	23¾	MercantileBancsh-MO	38.3	92.4	24	

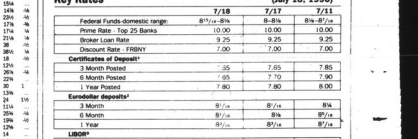
52 Wk Hi	Lo	Name	Bid	Mkt to bk	Cls.	Chg.
22¾	17¾	SusquehannaBcsh-PA	7.8	102.4	18¾	
19¾	13¾	TCF Financial-MN	10.3	182.9	16¾	-¼
13	7¾	TheMoneyCorp-NC	9.4	129.2	15¼	
25¼	20¾	TheWestCorp-CA	8.9	105.1	20¾	
43¾	31¾	TrustcompanyNJ	8.2	141.0	33	-2¼
24¼	18¾	TrustmarkBnk-MS	6.8	82.3	19¾	
32¾	25¼	U.S. Bancorp-OR	8.8	130.9	29¼	-¼
43	33¾	U.S.TrustCorp-NY	12.5	181.0	36¾	
28¾	13¾	UB Financial-IN	7.3	74.6	14	-¼
15¾	8¾	UST Corp.-MA	5.3	89.1	11¾	-¼
21¼	14¾	UnionBancCa.	5.7	90.4	23¾	-¼
29¾	19¾	UnionPlanters-TN	8.1	96.2	20¾	

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the dollar value of their common stock outstanding on December 30, 1989. Also listed are value ratios — the market to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Cls. The price at which the last stock last traded. If no trades for the day, the latest bid. All Bank and Thrift Indices: A weighted average of the top 250 banks or market value and the top 50 thrifts in market value, respectively. Highlights show largest percent gainers/losers in price, and two volume indicators most shares traded and today's volume as a percentage of average shares traded over the past 65 days.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides 246, with the daily prices.

Libor Swap Yield Curve

Wednesday, July 18, 1990



Data source: Manufacturers Hanover Trust Co., New York

Description of table: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used by active participants when arranging the exchange of fixed and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates

(July 18, 1990)

	7/18	7/17	7/11
Federal Funds-domestic range:	8¹³/₁₆–8¾	8–8¼	8¼–8⁷/₁₆
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.65	7.65	7.85
6 Month Posted	7.65	7.70	7.90
1 Year Posted	7.80	7.80	8.00
Eurodollar deposits²			
3 Month	8¹/₁₆–8¼	8¼	8¼
6 Month	8¹/₁₆–8¼	8¼	8⁵/₁₆–8⅜
1 Year	8¹/₁₆–8¼	8¼	8⁵/₁₆–8⅜
LIBOR³			
3 Month	8¹/₁₆–8¼	8¼	8⅜
6 Month	8¹/₁₆–8¼	8¼	8⁵/₁₆–8⅜
1 Year	8¹/₁₆–8¼	8¼	8⁵/₁₆–8⅜

Mid-afternoon quotes, New York market. (1)— Largest offering rates at selected NYC banks (2)— Late London bid (3)— Annualized money market basis - source: Manufacturers Hanover Tr.

Top 25 Thrifts (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23⅝	18¼	AmeranaInc-CA	10.0	106.0	21⅜	-¼
45¾	30¾	AppleSavings-NY	8.0	73.6	41¼	
28¼	15	CalFed/Inc-CA	8.4	85.3	20¼	
55¾	40¼	CitizensNtlCp-CA	12.3	75.3	46¼	-¼
7¾	4	CoastSavings/Pr-CA	NM	43.2	4	
17¾	8¾	ZiondsBcp-UT	NM	20.0	8¾	
18¾	13¾	FedSavBk/Nev-NV	40.0	123.0	17¾	
38	24¾	FirstNorthAmer-NV	10.4	133.8	37¼	
27	18¼	FirstFed/Mich-MI	7.1	131.5	22¾	
21¼	12	FedFin/Bk/Cp-CA	6.5	34.1	13¾	-¼
35¾	11¾	GLENFED-CA	5.3	30.6	12¾	
34¾	22¾	GoldenWest-CA	11.3	177.3	32	
24¾	15¾	GreatWestern-CA	20.5	121.0	18¾	
14¾	1¾	GtAmerBancs-CA	NM	12.9	2	-¼
47¾	17¼	HomeFed/Cp-CA	3.7	37.7	19	-¼
21¾	13¾	HomeSbg/Bancs-WI	14.1	99.8	20	-¼
18½	11	NBB Bancorp-CA	6.1	68.1	11¾	
10¾	7¾	People's Bank-CT	9.0	94.0	9¾	
18¾	11	PeoplesHeritage-ME	7.2	46.2	11	
22¾	8¼	SocietyFin/Sage-CT	2.5	39.4	8¾	-¼
19¾	9¾	SPSavBancorp-IL	NM	61.8	10¾	
12¾	7¼	StandardFed-Bs-MI	6.0	56.4	8¼	-¼
20¾	15¼	WashingtonFed-WA	12.8	72.6	20¼	
31¾	23¾	WashingtonRlEs-MD	10.3	208.4	29¾	
11¼	6¾	WesconCo-A	13.2	103.8	8¾	

STOCKS

Barnett Stages Partial Rebound From Its Slump

By GORDON MATTHEWS

NEW YORK — Shares of Barnett Banks Inc. have recovered some ground after a disappointing second-quarter earnings report jolted nervous investors and led some analysts to slice forecasts for the well-regarded Florida superregional banking company.

While the stock is not back to its pre-announcement levels and some observers remain skeptical, analysts point to a decline in nonperforming loans, convincing some that it's attractive at current levels.

Barnett last week announced a 9% decline in quarterly earnings to 93 cents a share, significantly below many analysts' estimates, and bolstered its loan loss reserve.

Drop in Nonperforming Assets

The stock simultaneously fell to $30.50, a level more than 10% below its price of just two weeks earlier. By Wednesday, it had recovered to $32.50, but was off 12.5 cents on the day and remained well under its $34 price of mid-June.

The weakness in the stock has occurred despite a drop in nonperforming assets at Barnett in the second quarter, to 1.89% of loans from 1.91%.

Moreover, the chargeoff ratio improved to 0.58% of average loans from 0.84% in the first quarter. While the declines were modest, they reversed the trend of higher problem assets at many banks and thrifts.

A Nervous Market

"It shows just how much on pins and needles the market is for these stocks that a bank can show this and still get hurt," commented one New York analyst who follows superregional banks in the southeastern states.

Even while cutting estimates, many analysts have continued to laud Barnett as a well-run company with a commanding 23% market share in a state with an expanding population and economy. But they see little reason for short-term optimism on a market-valuation basis.

At its recent low of $30.50, the stock still sold at 7.4 times the 1991 earnings of $4.10 per share recently estimated by Salomon Brothers analyst Thomas H. Hanley. "Until real estate market conditions improve, we see little upside potential in the stock," he said.

But while Mr. Hanley retained his investment opinion on Barnett's stock, others are gloomier. Norman Jaffe, a bank analyst for Fox-Pitt Kelton Inc., issued a sell recommendation on the stock after the earnings announcement.

Mr. Jaffe said "several sizable positive transactions in nonperformers camouflaged a disconcerting potential trend."

* * *

WEDNESDAY'S MARKET

Most major bank and thrift stocks headed down on Wednesday as the stock market in general retreated. The Dow was off 20.54 at midafternoon in a sharp pullback from the 3000 barrier it has recently neared.

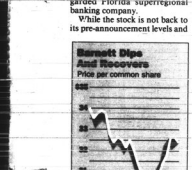
Nervous anticipation by investors characterized the action in several bank and thrift equities.

Shares of Chase Manhattan Corp. slipped 12.5 cents, to $21, as the market awaited a late afternoon board meeting there. Directors were to consider the dividend at the money-center institution, whose earnings have not covered its payout during the past two quarters.

Meanwhile, shares of in HomeFed Bank, San Diego, had declined $1.375, to $19.375, at midafternoon in anticipation of a weak second-quarter earnings report later in the day by the nation's seventh-largest thrift.

"Everyone seems to be fantasizing about this after what happened last month," said Gary Gordon, the thrift analyst at PaineWebber Inc.

On June 13, HomeFed disclosed a rise in nonperforming real estate loans and its stock plunged $8.25. Before that announcement, its stock was at $33.25. □



CAPITAL

Poor Earnings Push Up Bank Debt Yields

Continued from *page 1*

tentially unfriendly subordinated debt market.

Mr. Gorman reiterated on Wednesday that the capital cushion for banks was "too low." Some analysts believe as much as a 50% increase in capital requirements is plausible.

If the spreads remain wide on outstanding bank bonds, institutions in need of capital will be forced to swallow potentially expensive funding costs – or face the risk of new downgradings by rating agencies concerned about capital adequacy.

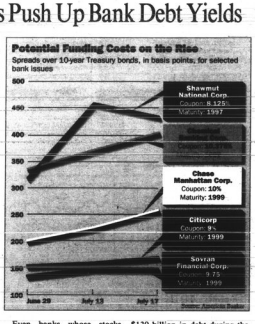
"Banks are just going to have to adjust their expectations," said an analyst at a large mutual fund company. "I think we won't see any meaningful tightening until maybe the end of this year."

Spreads Begin to Widen

Spreads on bank debt relative to Treasuries began widening last week in anticipation of mediocre second-quarter earnings. Since the end of June, spreads have widened as much as 70 basis points. The yield on Chase Manhattan Corp.'s 10% of 1999 have widened from 200 basis points over 10-year Treasuries at June's end to 260 over Treasuries. In that period, longer-term Treasury yields barely moved.

The yield on Citicorp's 9% bonds due in 1999 have widened from 155 basis points over Treasuries to 170 over. And the yield on Chemical Banking Corp.'s 10 3/8% of 1999 has widened from 335 basis points over Treasuries to 405 over.

Shawmut National Corp. has actually enjoyed a tightening in the spreads on its bonds in the past several days. But that move follows a widening of nearly 150 basis points in the first two weeks of July as the bank announced that nonperforming assets would increase nearly 20% in the second quarter.



Even banks whose stocks have risen because of actual or anticipated earnings announcements have not seen improvement in their bonds' performance.

For example, Bankers Trust New York Corp., which has yet to report earnings but whose stock has traded in sympathy with that of J.P. Morgan & Co., since that bank reported earnings, has seen its stock rise $0.75 since July 13. But its 9.2% bonds due in 1999 have been trading at 128 basis points over 10-year Treasuries since the end of June.

"Right now, there seem to be more sellers than buyers," said one bank bond trader.

* * *

MARKET MONITOR

Moody's Investors Service announced it downgraded a total of 80 financial institutions with $130 billion in debt during the first half of 1990.

Only 10 financial institutions, with $13 billion in debt, had their ratings raised during the period.

Commercial real estate was the primary reason for most of the downgrades. But John Lonski, a senior economist at Moody's, said "the inability of some banks to readily meet stricter capital requirements also helped spur downgrades."

Overall, corporate downgrades outpaced upgrades by a factor of 4.2 to 1, compared with a pace of 2.5 to 1 in 1989.

Separately, Moody's confirmed its ratings on securities of Wells Fargo & Co. and subsidiaries. A review was undertaken after Wells Fargo announced it would purchase the retail branch network of Great American Bank. □

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AMERICAN BANKER
VOL. CLV NO. 141 Friday, July 20, 1990 155th year

Citicorp Admits Need to Revamp Finance Business

By JED HORWITZ

Citicorp appeared to swallow some humble pie this week when it acknowledged the need to reorganize its corporate finance businesses in Japan, Europe, and the United States.

For months, the nation's biggest bank company had denied that it would follow the path of Chase Manhattan Corp., Manufacturers Hanover Corp., and other big banks that promised to slim down their wholesale banking sectors in the face of weak deal flow, deteriorating credit portfolios, and flaccid earnings.

At an analysts' meeting on Wednesday, Citicorp officials not only joined their competitors in signaling that cost-cutting action must be taken, but also conceded that the company's program to sell assets on a specific schedule and

ANALYSIS: *Follow-up on the news*

that its deteriorating $13 billion portfolio of domestic commercial real estate loans will not improve soon.

Units Employ 15,000

Although Citicorp officials continue to shun the word reorganization, they made it clear that something must be done to reduce expenses and increase revenues from their corporate finance units in the recession-ridden world, which employ about 15,000 people.

"We don't have many excuses," said Thomas Jones, executive vice president for financial control. "Expenses are going up too much for the level of activities today, and we will get that into balance. We recognize the problem and we are going to do something about it."

Mr. Jones said that Citicorp will not be making specific projections about layoffs or potential annual cost savings as Chase, Hanover, and Bankers Trust New York Co. have done. "We hope we can make an intelligent statement about the way we measure and manage the business," Mr. Jones said, leading some analysts to predict that Citicorp will engage in a series of "mini-restructurings" within its global finance business sector and relate each to its program to build capital.

In the past year, Citicorp has bowed out of the British brokerage and securities markets and slashed its participation in the municipal bond market. Rumors circulated on Wednesday that Citicorp, along with other big banks, may soon give up their primary dealer status in

See **CITICORP** *page 15*

INSIDE NEWS

MORTGAGES

FELIX M. BECK, chief executive of Margaretten & Co., says the mortgage company is expanding its wholesale business in an effort to increase the size and geographic diversity of its servicing portfolio. *Page 8*

CONSUMER

COMFED BANCORP, a troubled New England housing lender, is offering a government-insured mortgage with a low down payment. The "Low Down" is aimed at first-time homebuyers who feel locked out of the market. *Page 6*

INTERNATIONAL

YUKO OANA, senior managing director for international planning at Daiichi Kangyo in Japan, will return to the United States to head the CIT Group and the company's California unit. *Page 10*

FINANCE

LANCER INDUSTRIES refinanced a $130 million bridge loan that matures next month with a combination of new bank credits and subordinated debt. *Page 18*

TECHNOLOGY

SMALL AND MIDSIZE banks are regrouping big telecommunications savings from the use of a high-speed digital technology known as T-1. Until recently, only money-centers and superregionals could afford the systems. *Page 3*

COMMENT

REGULATORS have mandated higher capital levels but are not easing the way for banks to meet them, writes Donald S. Rice. *Page 4*

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Bank and Thrift Stocks	19

HomeFed's Stock Falls 25% As Bad Realty Loans Soar

Worries Spread to Other California Institutions

By FRED VOGELSTEIN

NEW YORK — HomeFed Corp.'s stock plunged 25% Thursday after the San Diego thrift company announced an unexpectedly large increase in bad real estate loans. The fallout spread to other California banks with real estate exposure.

HomeFed closed Thursday at $14.25, down $4.75. The drop, which came after HomeFed posted a $108.2 million second-quarter loss, was the second major jolt to the company's stock in a few weeks.

The stock had been trading at $33.25 just six weeks ago, before HomeFed began indicating its problem loans were on the rise.

The turnaround in fortunes of what was considered one of the nation's best-run thrifts has surprised analysts and investors.

The $5.04-a-share loss, announced late Wednesday afternoon, stemmed from a $234 million provision for loan losses. HomeFed increased its nonperforming assets by 56%, to $708 million.

Magnitude Surprised Analysts

Analysts had been expecting large increases because the thrift had already disclosed that nonperforming assets would increase at least $125 million.

But most said that they had not expected twice what had already been disclosed. Nonperforming assets, the bulk of which is real estate loans, now represent 3.73% of total assets, more than the 1% to 2% of most California banks and thrifts.

"Everyone thought they'd trash the quarter, but [a] $5 [a share loss] is a lot," said David Treadway, an analyst at Smith Barney, Harris Upham & Co.

HomeFed's stock began trading almost three hours late Thursday morning because of



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See **LOSS** *back page*

SEC Chief: Depositors Should Pay For Insurance

By ROBERT M. GARSSON

WASHINGTON — Richard C. Breeden, chairman of the Securities and Exchange Commission, told Congress Thursday that the government should consider selling deposit insurance to consumers at a market rate.

Mr. Breeden, who is expected to play a key role in formulating the administration's position on financial modernization, said such a system would help reduce the federal deficit and allow consumers to decide how much insurance they want to pay for.

Reaction Likely to Be Divided

Mr. Breeden's comments are likely to cheer larger institutions, which are looking for a way to add market discipline to deposit insurance. But they may come as bad news for community banks, which fear that they will be at a competitive disadvantage if deposit insurance coverage is scaled back.

It is widely assumed that Congress will take up deposit insurance reform next year as part of a broader look at the financial services industry.

"We do have a budget deficit of considerable proportions, and

See **BREEDEN** *page 12*

DC Bank Says Further Losses Push It to Brink

By BILL ATKINSON

WASHINGTON — With its losses mounting from bad real estate loans, Washington Bancorp.'s ability to continue operating is in doubt," John J. Mason, the company's recently appointed chairman, said.

The holding company of the National Bank of Washington reported a $60 million loss for the second quarter, bringing its six-month deficit to $86 million.

Program Is Aborted

The earnings announcement on Wednesday came with a statement from Mr. Mason that the company could not complete a previously announced $45 million recapitalization program and was contemplating significant asset sales and restructuring.

Washington Bancorp. has already reduced its assets to $1.8 billion on June 30, from $2.1 billion at yearend. It is weighing bids for acquire its banking sub-

See **DC BANK** *page 17*

RTC Plan to Resolve 77 Cases Includes Empire and Merabank

By DEBRA COPE

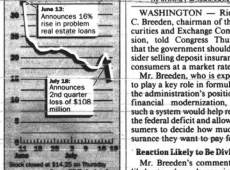
WASHINGTON — The Resolution Trust Corp. will devote its energies in the next few months to selling or liquidating 77 institutions with total assets of $48 billion.

Under an operating plan approved Thursday by the RTC Oversight Board, the agency will put several large thrifts on the auction block before Sept. 30. They include Empire Federal Savings Bank, Buffalo; Merabank, Phoenix; and Benjamin Franklin Federal Savings and Loan Association, Portland, Ore.

In concentrating on institution sales, the RTC will give a lower priority to lowering the cost of funds at the thrifts under its control. Many troubled thrifts have paid high interest rates to attract deposits.

Although the number of cases the RTC intends to resolve in the current quarter is well below the 155 handled in the three months ended June 30, the amount of assets involved is about the same.

The plan gives the RTC $41



billion for its operations this quarter. The bulk of the total – $34 billion – will be in the form of working capital borrowed through the Federal Financing Bank.

An additional $2 billion will come from dividends collected on assets in receivership, and $5 billion more will come from Resolution Funding Corp.,

See **RTC** *back page*

PEOPLE *in the news*

Norwest's Leslie Biller Puts His Reputation on the Line

By NANINE ALEXANDER

Safety is the byword for Leslie S. Biller, Norwest Corp.'s point man on acquisitions: He has earned his reputation for doing conservative, in-market deals.

His image may change if discussions with the $6.1 billion-asset United Banks of Colorado Inc. — disclosed last week – result in an acquisition agreement. He will be deemed brilliant if this strategy works, bungling if it flops.

Mr. Biller declined to comment on any specifics of the United Banks talks. But he agreed with observers any combination of Norwest with the $26.8 billion-asset United Banks would be an ambitious undertaking. "We would want to focus on those challenges until we felt we had adequately addressed them," he said in a telephone interview.

A marriage with United Banks would leapfrog Norwest into the top 20 banking companies. Such a move would set a new standard of sophistication for the bank's acquisition strategy.

A United Banks deal, said Ben B. Crabtree, analyst at Dain Bosworth Inc., makes several big assumptions, not the least of which is that the Colorado economy has ended its decade-long slide.

A stock deal with United Banks would dilute earnings as much as 5%, a consequence of acquisitions that Norwest has consistently avoided. But a successful combination could also yield a 20% cost savings.

Analysts predict that any dilution Norwest accepted in the first year of pairing with United Banks would be earned back by the second.

"Biller understands the D-word [dilution] very well," said Steven R. Schroll, analyst at Piper Jaffray & Hopwood Inc., Minneapolis.

"We take the position that we represent both shareholder groups," said Mr. Biller, "buyers and sellers – and dilution penalizes both groups."



Leslie S. Biller

A Colorado agreement is a long way from being in the bag. And fresh in Mr. Biller's memory are some near misses on other big deals, including last year's bid to the Federal Deposit Insurance Corp. for Texas American Bancshares and National Bancshares Corp. of Texas.

"Les steered us around some rocky shoals in that deal," said Norwest spokesman John R. Kerr. The FDIC passed over Norwest in favor of Deposit Guaranty Bank of Dallas for Texas American.

The bid of Equimark, Pittsburgh, for National Bancshares foundered last April.

Referring to Norwest's bid on the Texas package, Mr. Biller said Norwest took full account of the risks: "We were looking at the competition" from Banc One Corp. and others.

A Background in Consumer Banking

The 42-year-old banker who has steered Norwest's acquisition strategy for the past three years has a background in consumer banking at Bank of America for two years, and 12 years at Citicorp.

Most of his tenure with Citicorp was spent in Milan (he is fluent in Italian) and in London, where he rubbed shoulders with Richard Kovacevich, then chief of international operations. Mr. Kovacevich, now president of Norwest, is a likely successor to chief executive officer Lloyd P. Johnson.

Mr. Kovacevich brought his former Citicorp colleague to Norwest as acquisition strategist, observing that Mr. Biller "understands how difficult it is to make money, so [he] won't spend it unwisely." □

NEWS *briefs*

2d Quarter Income Is Flat At American Express Co.

NEW YORK — American Express Co. reported net income of $320 million for the second quarter, up 1% from $316 million a year ago. The share figure was unchanged at 73 cents.

The travel-related services subsidiary contributed $249 million of profit, with the number of cards outstanding rising by 8% to 36 million and travelers check sales rising 4% to $6.6 billion.

The troubled Shearson Lehman Hutton subsidiary returned to profitability, netting $51 million, and American Express Bank's earnings fell $3 million to $32 million.

Ruding of IMF Is Named To the Board of Citicorp

NEW YORK — H. Onno Ruding, a former finance minister of the Netherlands and chairman of the interim committee of the International Monetary Fund, has been named a director of Citicorp.

An economist by training, Mr. Ruding, 50, also served as a managing director of Amsterdam-Rotterdam Bank in 1981 and 1982, an executive director of the IMF from 1977 to 1980, and joint general manager of Amsterdam-Rotterdam Bank from 1971 to 1976. □

Profits Dip 12% at BankAmerica

Total Is $267 Million After Writeoff for Nonperformers

By TERESA CARSON

LOS ANGELES — BankAmerica Corp. announced Thursday that its profits fell 12% to $267 million in the second quarter as it charged off $580 million in nonperforming loans.

Last year the company benefited from a one-time $44 million after-tax gain from payments on Brazilian debt that had been on nonaccrual status. Excluding the special gain a year earlier, this year's second quarter profit was up 2.6%.

'An Excellent Quarter'

"It was an excellent quarter," says San Francisco-based bank analyst Donald Crowley of the New York firm of Keefe Bruyette & Woods Inc.

Richard M. Rosenberg, chairman and chief executive, said BankAmerica has enjoyed a half-dozen experienced good growth in deposits, loans and core deposits and a big drop in sour loans. The results were about what most analysts had predicted.

For the six months, BankAmerica earned $545 million, down 6% from $579 million in the corresponding period a year earlier. Excluding from the comparison $82 million in Brazilian payments last year, first half earnings actually increased 16%.

Bad Loans Pared Down

Like many other banks, BankAmerica has been working hard to pare down a hefty burden of bad loans. Nonaccrual assets were $3.1 billion at the end of the second quarter, down from $4 billion in the first quarter and $4.1 billion a year earlier.

The company set aside $210 million in the second quarter for possible problems in the loan portfolio, 13% more than the first quarter's $185 million. As it reduced the problem loans, BankAmerica also let its reserves-against-credit problems slip by June 30 to 3.56% of total loans, from 4.39% in the first quarter. □

BANKAMERICA CORP.
San Francisco

(Dollar amounts in millions (except per share))

SECOND QUARTER	2Q '90	2Q '89
Net income	$267.0	$304.0
Per share	1.17	1.50
Net interest income (tax. equiv.)	1,015.0	1,036.0
Spread	4.24%	4.74%
ROA	1.01%	1.28%
ROE	19.5%	29.8%
Noninterest income	466.0	453.0
Noninterest expense	947.0	980.0
Loss provision	210.0	170.0
Net chargeoffs	512.0	159.0

FIRST HALF	1990	1989
Net income	$545.0	$579.0
Per share	2.41	2.88
Net interest income (tax. equiv.)	2,008.0	2,015.0
Spread	4.28%	4.67%
ROA	1.08%	1.27%
ROE	20.64	29.08
Noninterest income	1,016.0	899.0
Noninterest expense	1,914.0	1,882.0

BALANCE SHEET	6/30/90	6/30/89
Assets	$103,980.0	$98,290.0
Deposits	85,693.0	79,114.0
Loans	80,576.0	70,644.0
Shareholder equity	5,391.0	4,961.0
Loss reserve	2,866.0	3,494.0
Reserve/loans ratio	3.56%	4.93%
Nonperf. loans	3,107.0	NA
Nonperf. loans/ loans	3.86%	1.80%
Primary capital ratio	NA	NA

First Fidelity Bancorp. Posts a $150 Million Loss

By TOM LEANDER

NEW YORK — First Fidelity Bancorp. announced Thursday that it had lost $150.4 million in the second quarter after taking an expected $300 million provision for possible credit losses.

The Lawrenceville, N.J.-based company said nonperforming loans increased 24%, to $731.9 million, including "a major real estate/casino credit."

No Comment on Trump

A First Fidelity spokesman declined to comment on analysts' speculation that the problem credits include a $75 million loan to developer Donald Trump.

Manufacturers Hanover Corp. last month acknowledged that it had put more than $50 million in loans to Mr. Trump on nonperforming status.

First Fidelity disclosed in May that its nonperforming loans could rise as much as 40% in the second quarter, and its loss was in line with Wall Street's expectations. First Fidelity shares were off 25 cents to $16.75 in late afternoon trading Thursday.

Analysts said the results reflect regional economic woes experienced by most major banks in the Northeast; they said a lack of surprises was good news in itself.

"The question, of course, remains: Does this take care of the problem? Right now nobody has the answer," said Nancy Bush,

See **$150** *page* **11**

Corrections

In an article Thursday ("ABA Sees Some Postage Victories," page 3), the attribution for a highlighted quotation gave an incorrect affiliation for the speaker, Stephen Gold. He directs the Postal Rate Commission's office of the consumer.

■

A June 27 article ("Canadian Bank Goes PC Route," page 3) misstated the number of teller transactions at Royal Bank of Canada. The bank handles 1.9 million teller transactions a day.

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Nynex Builds Software Role With Agreement to Buy SSI

By RICHARD LAYNE

NEW YORK — Nynex Corp. said Thursday it had reached a definitive agreement to acquire Stockholder Systems Inc., which will give the regional phone company another inroad into the attractive market for banking software.

The stock transaction, which follows a letter of agreement signed in April, could be completed as early as September, Nynex said.

With an emphasis on financial-service clients in the United States and Britain, Nynex's software companies generated about $500 million in revenue in 1989, putting the phone company among the ranks of major software providers. The company's long-term plan calls for those revenues to triple in the next five years.

Valuation Explained

In what the companies describe as a tax-free purchase, Norcross, Ga.-based SSI will become part of AGS Computers Inc., a unit of Nynex Information Solutions Group. In the stock transaction, Stockholder Systems' shares will be valued $15 for each. The total amount is based on the average price of Nynex's common stock before the transaction is completed.

For Nynex, the acquisition fits into its plans to concentrate on providing technology to financial services companies. Nynex and other regional phone operating companies have targeted financial services as a key market for their expansion into information services.

Regulated telephone services accounted for some 85% of Nynex's $13.2 billion revenue in 1989, but Nynex executives believe that the growth potential of unrelated businesses is greater.

Nynex owns two software companies: AGS Computers, which specializes in trading-room software; and the BIS Group, a British company purchased in 1978. These two companies were responsible for most of the $500 million in revenue last year for the Information Solutions Group.

Stockholder Systems will provide only a small increase in revenue but a broad range of software offerings. The company, which sells IBM and compatible computers, reported $22.1 million in 1989 revenue. Its products perform check processing, electronic funds transfer and loan recovery. The company said it has 1,200 banking customers.

As with past acquisitions, Nynex is expected to leave Stockholder Systems' product line unchanged.

Stockholder Systems acquired four software companies in the past three years as part of its strategic growth plan. The company was unsuccessful in its bid to acquire Systeme Corp., a Maitland, Fla., company that sells branch networking technology.

Larry A. Dean, chairman of Stockholder Systems, said Nynex could provide resources to grow. The acquisition, he said in April, would allow the company's shareholders to "realize a value for their investment that has not been recognized by the current market." □

For Nynex, the acquisition fits into its plans to concentrate on financial-service technology.

Saving on Telecommunications

Small and Midsize Banks Join the T-1 Bandwagon

By JEANNE IIDA and KIM ANN ZIMMERMAN

NEW YORK — Small and midsize banks are reporting big savings in telecommunications costs from a technology that until recently only money-center banks and superregionals could afford.

The high-speed digital telecommunications technology, called T-1, allows a bank to send the equivalent of 24 voice and data lines over a single line. By funneling voice and data traffic onto a single line, banks can replace their multiple and costly telecommunications lines.

Banks can also automatically switch communications traffic to a different route if a problem develops on one part of the T-1 network.

Internal Control

First Security Corp., a $6 billion-asset bank based in Salt Lake City, is expanding an existing T-1 line so it can control the network internally instead of relying on a carrier. The bank says it has reduced its telecommunications costs 40% in some parts of the bank and expects still greater savings. With the decline in T-1 costs, the bank is saving as much as $10,000 over its costs several years ago on some parts of the network. Albert Pino, vice president and corporate telecommunications manager of First Security, said, "The percentage of savings is becoming a lot more dramatic" as the network cost drops.

As banking by telephone becomes more popular, some institutions see T-1 as a way to cut the cost of handling large volumes of customer service calls. Crossland Savings Bank, New York, installed a T-1 network in the spring for this purpose.

Prices on T-1 services have fallen 40% to 200% over the past three years, said Daniel Briere, president of Telecheck Inc., a consulting firm in Stamford, Conn. Prices are greatly because carriers usually cut individual deals with customers. Many carriers offer discounts of up to 60% if a customer makes a commitment of several years.

Besides saving money, the T-1 network will help First Security's 182 branches offer better customer service, gives faster loan approvals, and process new account information more quickly, Mr. Pino said. First Security is using equipment from Newbridge Networks Inc., Herndon, Va.

While the benefits filter down to smaller banks, derivative services are springing up. Some big banks are turning to a technology that provides three times the capacity of a T-1, called T-3.

Carriers in some parts of the country are also offering slices of a T-1 line, which costs less than an entire line.

Avoiding Frozen Lines

Citicorp Information Resources, a service bureau for small and midsize banks, is installing a T-1 network that will give its customers the ability to switch traffic automatically to other lines if a problem develops on the network.

The network is already being used by some customers, and Citicorp expects to complete the project by yearend, said Jack Frey, CIR's data processing director. The service would not result in higher costs, he said.

"The biggest advantage to this is improved customer service," said Robert Cochrane, vice president of Commercial Federal Corp., a $6 billion-asset thrift in Omaha.

"It really wasn't economically feasible to have two lines set up in case one line failed," he said.

If the volume of transmissions gets too high, Citicorp's network will be able to spill them over to a second line. □

Crestar Unit Migrates to PCs for Loan Production

NEW YORK — Crestar Mortgage Corp. plans to install software that will enable personal computers to run loan-production software, a step toward establishing a national network of mortgage bankers.

Crestar Mortgage, a unit of Crestar Bank and a midsize originator, is testing new software from Lomas Information Systems, a subsidiary of Lomas Financial Corp. The software, called distributed processing option, allows Lomas's mainframe-based software for mortgage processing to run on personal computers in branches.

Rinne Abbitt, assistant vice president of Crestar, said the system may provide the necessary support for the recently announced MortgageWright program. Under that program, Crestar plans to form a national franchise of up to 200 independent mortgage bankers.

Crestar originated $425 million in loans last year in Virginia, Maryland, and Washington. It services $3.1 billion of mortgages. Crestar plans to finish testing the Lomas software in September.

— **Richard Layne**

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COMMENT/ *By Donald S. Rice*

Regulators Have Put Banks In Double Bind on Capital



"There are opportunities for banks to build capital in special situations."

Not a day passes without front-page stories about the savings debacle, the growing cost of the S&L bailout, and the catastrophic erosion of commercial bank capital due to losses from lesser-developed country, leveraged buyout, and real estate loans.

Surprisingly, the financial press and bank stock analysts have been given extra fuel for their fire by bank regulators who are apparently eager to antiseptate future exposure or, more likely, to avoid criticism for not predicting "the next Texas."

It is not surprising, however, that the sometimes sanctimonious pronouncements made by regulators about real estate exposure in New England and LBO loans, coupled with examinations of a new rigor and dismal earnings reports, have led to a daily trashing of bank stocks. A recent rally was short-lived.

Public Confidence Jeopardized

The regulatory may have forgotten their duty to maintain public confidence in the nation's banking system, and inadvertently contributed to a loss of confidence in banks and consequent reduction in liquidity and capital values.

The solution proposed for this national disaster is more stringent capital requirements, presumably coupled with a beadier regulatory eye. This is not just an ad hoc response to the crisis in the U.S. banking system, but rather a concordat hammered out in Basel, Switzerland, by representatives of the central banks and supervisory authorities of Western nations and Japan.

Banking organizations will be required by the end of 1992 to meet a minimum 8% ratio of capital to risk-weighted assets. At least 50% of such capital must be core capital consisting principally of common and noncumulative perpetual preferred stock. Goodwill and certain intangible assets will be deducted. In addition, U.S. requirements may include a separate minimum leverage ratio of 3% of core capital to total assets.

Most banking institutions will have to raise substantial additional capital to meet these requirements as well as to continue to pay dividends at current high rates, replenish former intangible asset capital eliminated by the regulators, cover losses on LDC, LBO, and real estate loans, and expand by acquiring failed banks from the Resolution Trust Corp.

Raising Capital in Adversity

How can banks raise capital in these parlous times when bank stocks are selling at deep discounts from book value, reflecting a suspicion regarding real book values, capital, and earnings power? A simple mathematical exercise illustrates the problem.

Well-run (and lucky) banks do very well to earn an average net after-tax return on assets of 1% per year, and most earn significantly less. If, given the risk weighting of its assets, a bank must effectively maintain minimum capital of 6% of total assets, and it has an ROA of 0.6%, it would realize a 10% return on equity — a marginal equity return at best.

Hence, its stock might sell at a substantial discount from book value, making it dilutive to raise equity by selling additional common shares. And preferred stock or subordinated debt might be unattractive or unavailing, given current market conditions.

There are opportunities, however, for banks to build capital in special situations. Two recent examples demonstrate how strongly capitalized institutions may combine in a manner to strengthen the capital of the acquiring institution.

In a bidding transaction, the Bowery Savings Bank subsidiary of H.F. Ahmanson & Co. would acquire Home Savings Bank, one of New York's best-capitalized thrifts, with capital of about 15% of assets. It has been reported that the transaction would involve a swap of Ahmanson common stock for Home common stock at an exchange ratio that would have the effect of significantly increasing Ahmanson's pro forma capital.

Republic New York Deal

Recently, Republic New York Corp. built substantial additional capital by acquiring the Manhattan Savings Bank in a so-called merger-conversion. Manhattan Savings, a mutual institution with substantial capital, converted to stock form and merged into Republic's Williamsburgh Savings Bank subsidiary, which changed its name to Manhattan Savings.

Republic simultaneously contributed to Manhattan about $170 million of fresh equity capital raised in a rights offering of Republic common stock to Manhattan's depositors and a public offering of unsubscribed shares.

This transaction increased Republic's capital not only by the amount of net proceeds realized from the public offering of its common stock, but also by the amount of Manhattan's capital, which, with certain adjustments required under the purchase method of accounting, will be amortized into Republic's earnings over time.

A third capital-building possibility may exist for the stronger money-center or superregional banks, particularly with the expansion of interstate banking. But it is not for the faint of heart.

A New England Scenario

Consider, for example, a New England bank selling at 50% to 60% of book value based on generally accepted accounted principles and perhaps 75% to 80% of "honest to God" (HTG in in-

See **COMMENT** *page* **11**

Mr. Rice is a partner in Chadbourne & Parke, a New York law firm that assisted Republic New York Corp. with the recent merger-conversion involving the Williamsburgh and Manhattan savings banks.

FUNNY MONEY/ *By Tom Leander*

Licorice-Stick Stickup?

Clarinetist Lisa F. McCallum may have been blowing a few bars of Benny Goodman's classic "Sing, Sing, Sing" up the river if prosecutors get to call the tune.

Last week, Ms. McCallum was arrested as the woman who had walked up to a teller at a Community Banks of Peoria branch in Creve Coeur, Ill., and handed over a note that read, "I have a gun, fill all the money you have in the bag."

The teller handed over an undisclosed sum, and robber bolted from the bank.

When police arrived, about five minutes later, bank employees described the robber, the nondescript case she had said concealed her weapon, and the getaway car.

Creve Coeur Police Chief Jerry Daughters pulled over Ms. McCallum, 32, of East Peoria. But when he gingerly opened the case he discovered a clarinet, not a gun.

Chief Daughters arrested Ms. McCallum and charged her with one count of armed robbery – and, he later quipped, two counts of "possession of a deadly instrument."

* * *

Slim Pickings at the Bar

As the parent agency of the Resolution Trust Corp., the Federal Deposit Insurance Corp. is going after abusers of thrifts with a vengeance, filing hundreds of civil lawsuits against former thrift officers.

But if recent history is a guide, the agency will be lucky if recoveries top the cost of litigation.

In an appeal late last year, the FDIC told Walter Hoffman, senior judge of the U.S. District Court for the Eastern District of Virginia, that agency lawsuits against bank

The judge noted that the FDIC recovered $59 million through lawsuits in 1987 — but spent $54 million.

abusers should take priority over shareholder suits. The FDIC said that would help it replenish the deposit insurance fund.

But the agency's legal prowess was called into question by Judge Hoffman, who noted that the FDIC recovered about $59 million through lawsuits in 1987 — but spent $54 million to litigate the cases.

Judge Hoffman rejected the FDIC's priority argument. — **Steve Klinkerman**

* * *

Cold Feet in Jacksonville

On a steamy Jacksonville, Fla., morning this month, two masked gunmen had the moxie to hold up a narcotics detective and make off with his 1987 Porsche roadster.

They had the nerve to race off and screech to a halt in front of a Florida National Bank branch several blocks away.

And they had the gall to enter the bank and shout "Lie down!" to employees and customers.

But when it came time to steal the cash, they apparently felt some misgivings. They bolted from the bank in terror.

Jacksonville police Sgt. Steve Weintraub can't explain what possessed the two wanna-be bank robbers, who were wearing ski masks and carrying 9-millimeter semi-automatic weapons.

Police found the Porsche abandoned on a roadway outside Jacksonville. The car's stereo, its radar detector, and part of its mobile phone were gone.

The almost robbers are still at-large, police said.

* * *

She's Banking on the Media

Mortgage bankers, who could lose business under a proposal to restrict Federal Housing Administration mortgage insurance, should fight the plan with "skillful use of the local media," says a Mortgage Banks of America officer.

Jacqueline Grumbacher, staff vice president of the trade group, urges lenders to "offer up" to local reporters real, live home-buyers who couldn't qualify for mortgages under the proposal.

"The FHA issue is ready-made for building good rapport with reporters," Ms. Grumbacher wrote in a recent issue of the trade group's weekly newspaper. "It is a solid human-interest story that can be presented to the press with most of the legwork already done."

However, Ms. Grumbacher balefully conceded, "the truth is that very few people in the reading and viewing public care about lenders." □

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Managing Editor: Thomas J. Ferris
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Washington Bureau Chief: Robert Trigaux
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Dallas: Steve Klinkerman (bureau chief), 214-746-5666
Los Angeles: Teresa Carson (bureau chief), 213-627-0953
Northeast: Joel Horowitz (bureau chief), Tom Leander, Franklin Smith, 212-943-6700
San Francisco: Sam Zuckerman (bureau chief), 415-986-8705
Washington: Jim Rubin (bureau chief), 011-44-71-638-5969

COPY EDITORS
Martin Barofsky (assistant chief), Christine Arace, Terry Burnside, Edward Kulkosky, Robert Paul Molay, Jane Sandiford

ART
Dylan Kreuzer (assistant director), Peggy Torbett, Carl Zeichner

FEATURES
Suzanne Christy, Joseph L. McCarthy, Beth Pinkora (assistant editors)

STATISTICS
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Editorial Assistants: Lenore Adams, Jackie Attelitton, Matthew E. Barchel, Rita Kay Meyer, Lee Schwartz

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Debt Issues
January 1, 1989 - June 30, 1989

Rank	Managers	Amount ($Millions)	%	Issues
(1)	Bear Stearns	$7,019.5	14.2	183
(2)	Prudential-Bache	5,918.3	10.0	153
(3)	Salomon Brothers			
(4)	First Boston			
(5)	Goldman, Sachs			
(6)	Kidder, Peabody			
(7)	Merrill Lynch			

MORTGAGE-BACKED SECURITIES
January 1, 1990 - June 30, 1990

Rank	Managers	Amount ($Millions)	%	Issues
				254
(1)	Bear Stearns	$9,162.2	13.5	183
(2)	Goldman Sachs	7,318.0	10.7	267
(3)	Kidder Peabody	6,620.7	9.7	194
(4)	Prudential-Bache	6,610.2	9.7	217
(5)	Merrill Lynch	5,796.5	8.5	188
(6)	First Boston	5,621.0	8.3	
(7)	Salomon Brothers	5,487.8		

Source: IDD Information Services July 9, 1990

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SMALL BUSINESS

Qualitative Data Called Helpful in Boosting Share

By LAURYN FRANZONI
Special to the American Banker

An increasing number of financial institutions are using qualitative research to turn secondary accounts of small-business clients into primary accounts.

Maryland National Bank, Baltimore, says it has boosted market share in core small-business markets "a couple of share points a year" through acquisitions and by focusing on development of businesses with sales of $3 million to $10 million.

Beginning with syndicated research to establish baseline numbers, the bank uses qualitative data to get a handle on what market share numbers mean, said Ed Nazarko, who heads the bank's wholesale marketing support group.

Quantitative syndicated research comes from such groups as Trans Data Corp., the Oxford Group, and Greenwich Associates. Maryland National also uses proprietary quantitative surveys of companies in its marketplace to determine whether the bank is considered first or second tier at that corporation. Companies that use the bank in a secondary manner are targeted.

"We use qualitative research to understand what's behind the numbers," Mr. Nazarko said.

"So many banks are concerned about measuring market share," he said. But share is less important than shifting small businesses into the first tier of bank services from the second tier, he said.

Focus and Quality Cloud Public Sources

"There is a continual compulsion among banks to look at their peers," said market researcher John Barlow in Minneapolis. "It's a very narrow focus. The competition for small business today includes the bank across the street, but it also includes nonbank leasing companies, other lessors, and even brokerage firms on the deposit side."

American National Bank's system is jealously guarded by management because of its strong track record.

In addition to a wide spectrum of competitors, Maryland National is concerned that corporate financial officers may opt out of syndicated research studies, Mr. Nazarko said. "There are so many people out there calling that the CFOs I talk to are tired of answering telephone surveys," he said. This means banks must gather their own data from a large number of contacts or develop attitude surveys to confirm third-party reports.

Mr. Nazarko says a relationship-based quantitative survey conducted by Mr. Barlow for Maryland National did confirm syndicated research. Mr. Barlow's firm measures small-business markets by looking at companies' attitudes toward financial institutions.

Attitudes Measured with In-House System

The Bank of California also draws on attitude research to aid its small-business marketing. The San Francisco bank uses an outside firm to measure business customer behavior relevant to deposits and the way cash is managed. That inform...ion is fed into a relatively sophisticated in-house tracking system, according to Sarah Ellsworth, vice president and marketing manager for small business.

The Bank of California serves small businesses through a 50-branch network across the state. Planners have identified industry segments they would like to do business with and have spent the past year developing a data base to support that marketing effort. "Being a relationship and a niche player, it is essential to know what part of the market we are reaching," Ms. Ellsworth says.

Commitment to developing an accurate data base for use in sales and in strategic planning varies among banks.

A bank with a strong commitment is American National Bank and Trust Co., Chicago. For the past eight years, the bank has risen to the top in serving middle-market businesses in its area while building an internal data base.

Bank spokesmen admit the process is arduous, but the system is jealously guarded by management because of its strong track record. American National's data base began with multiple public sources, but has been augmented by detailed reports from 150 bank calling officers. Every day, the officers update customer and noncustomer files.

In return, the marketing managers use the system to flag certain files and give the sales force reports on prospects and industry developments.

After eight years of development, American National's system is regarded as the best of its kind by outsiders. Insiders, who have learned much about its potential, give it a B-plus and want to continue making incremental improvements.

In all of these cases, the personnel requirements are relatively small. Most banks operating a successful, supportive data base employ two to four individuals dedicated to marketing research and management. The cost of outside surveys varies by marketplace.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

A Lure for First-Time Homebuyers

Comfed Trumpets Low-Down-Payment Mortgage

By YVETTE D. KANTROW

NEW YORK — Comfed Bancorp, a troubled New England housing lender, is offering a government-insured mortgage with a low down payment.

Designed to stimulate activity in sluggish housing markets, the "Low Down" mortgage is aimed at first-time homebuyers who believe they are locked out of the housing market. The mortgage carries an adjustable rate, with increases in interest rates capped at one percentage point a year, up to a maximum of five percentage points over the life of the loan.

Down payment and closing costs amount to less than 5% of the total loan.

FHA Is Cooperating

Comfed is offering the mortgage in conjunction with the Federal Housing Administration. Thrift executives expect other lenders to offer the federally insured product soon.

"A lot of lenders are trying to attract first-time homebuyers," said Gerald Devlin, senior vice president at Comfed Mortgage Co. "We see a joint effort with one of the agencies as a way to do that."

Comfed has long participated in Federal Housing Administration and Veterans Administration lending programs. But the Low Down mortgage program is especially appealing in New England, Comfed said, where the housing market is soft.

> **"It's a real opportunity to get people into the market."**
> **Gerald Devlin**
> *Comfed Mortgage Co.*

"It's a real opportunity to get people into the market," Mr. Devlin said.

Comfed's Troubles Mount

Troubles at Lowell, Mass.-based Comfed increased this week when the Office of Thrift Supervision disapproved a capital plan filed by Comfed Savings Bank. The company has been hurt by credit-quality problems in its home mortgage portfolio.

Comfed is now negotiating a consent agreement with the regulator. That agreement would limit some of the thrift company's activities but not affect its basic retail-banking and mortgage-lending businesses.

According to Mr. Devlin, Comfed Mortgage, which operates 16 offices in five Northeastern states, has been offering the Low Down mortgage for two weeks and has originated $2.5 million of the loans. While the mortgage carries no income restrictions, most of the borrowers have annual incomes ranging from $30,000 to $60,000.

"Four or five years ago, people were running to get adjustable-rate mortgages," Mr. Devlin said. "A couple of years later, they went into payment shock," as interest rates climbed. With the annual limit, the Low Down mortgage is designed to prevent such payment problems.

In 1989, Comfed originated $23 million worth of FHA loans and $35 million worth of VA loans. □

PNC Unit Tries a New Breed of Branch

By ELLEN MEMMELAAR

NEW YORK — Pittsburgh National Bank is constructing a series of financial centers to serve commercial and retail customers in rapidly expanding communities.

The unit of PNC Financial Corp. plans to build seven of the full-service branches across the state, said Susan Bohn, vice president in charge of organizational development. The first branch, in Robinson Town Banking Center, will open on July 31. All the branches will contain a business bank, a consumer bank, and a private bank.

Commercial and retail customers will have access to a range of services, including commercial loans; lease and cash management; private banking, with trust, investment management, and brokerage; mortgage lending; and traditional branch operations.

Others Have Done It

Other banking companies, including Banc One Corp. and Dollar Dry Dock Bank, have built similar full-service branches across the state. The branches of Banc One, Columbus, Ohio, cater to consumers and include everything from travel to financial planning services. Dollar Dry Dock's financial centers in New York offer commercial and consumer banking services and have a similar approach to marketing and design as Pittsburgh National.

Pittsburgh National designed the branch with marketing in mind, Ms. Bohn said. Brochures are available throughout the branch, and posters of the bank's advertisements are displayed: "After all, our brochures are really our product line," said Ms. Bohn.

The interior of the branch is being designed with the communities' demographics in mind, Ms. Bohn said. Because of the number of high-income residents in the area, portions of the branch are being set aside for consumers to receive financial planning and private banking services. The bank is aiming to provide a high degree of privacy, with angled teller windows and glassed-in offices.

Jobs Expected to Surge

Employment in the area now is about 28,780 but is projected to top 60,000 by the year 2000, for a 176% increase. □

AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index — Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on July 18 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns 0 (lowest) to 3 (highest) star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

Six-month

Citytrust, Bridgeport, Conn.		8.84%
Heritage Svgs Bank, Richmond, Va.		8.82
Maine Savings Bank, Portland		8.79
Imperial Fed Svgs, San Diego, Calif.		8.77
Columbia S&L, Irvine, Calif.		8.76

One-year

Citytrust, Bridgeport, Conn.		9.11%
Maine Savings Bank, Portland		9.00
Heritage Svgs Bank, Richmond, Va.		8.99
Imperial Fed Svgs, San Diego, Calif.		8.88
Greenwood Bank/Bethel, Bethel, Conn.	**	8.87

Five-year

Greater NY Svgs, Medford, N.Y.	***	9.00%
NVR Svgs Bank, Mclean, Va.	*	8.80
Fidelity Fed Svgs/ Bank, Glen Allen, Va.	***	8.68
Heritage Svgs Bank, Richmond, Va.		8.68
Trustbank Svgs, Springfield, Va.	*	8.67

Jumbo Rates

Six-month

Home Owners Savings, Burlington, Mass.		8.75%
Westwood Savings & Loan, Westwood, Calif.		8.70
Brookside S&L, Los Angeles		8.70
Columbia S&L, Irvine, Calif.		8.70
First Network Fed Svgs, Los Angeles		8.65

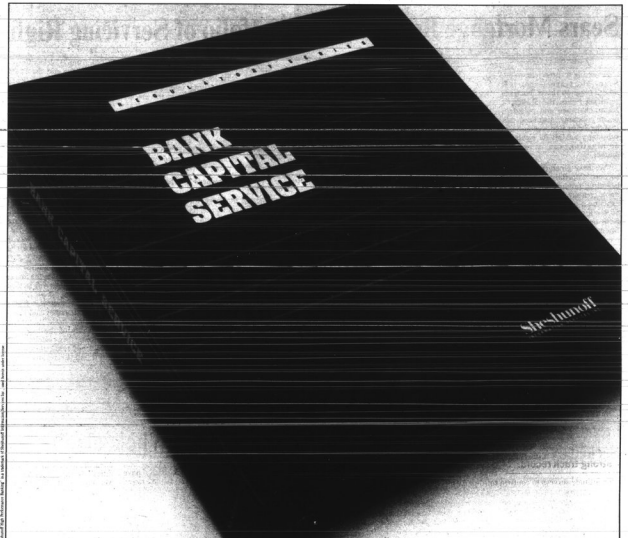
One-year

Calif. Thrift& Loan, Santa Barbara, Calif.	***	8.80%
New Metropolitan Fed S&L, Hialeah, Fla.		8.75
Heritage Svgs Bank, Richmond, Va.		8.70
First S&L, Beverly Hills, Calif.	**	8.65
United Svgs Bank, Vienna, Va.	*	8.65

Five-year

Metropolitan Bank for Svgs, Arlington, Va.	***	9.90%
Am General Fin. Co. Thrift, San Francisco	***	8.90
Bank Hapoalim, Chicago, Ill.		8.69
Brownsville Bank, Brownsville, Tenn.	***	8.75
Equitable Fed Svgs, Wheaton, Md.	*	8.75

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330



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Sears Mortgage Beefs Up Its Portfolio of Servicing Rights

By STEPHEN KLEGE

Reversing a three-year trend, Sears Mortgage Corp. last month began to amass mortgage servicing rights. But Walter C. Klein, chairman and president of the company, dismissed talk that the Sears, Roebuck and Co. subsidiary has set its sights on dominating the servicing market.

"We have emerged from the cocoon, hopefully as a more beautiful, productive, and profitable creature," Mr. Klein said, explaining that the purchase of $6.4 billion of servicing rights from Southeast Banking Corp., Miami, stems from a strategic plan adopted nearly a year ago.

Acquisition Strategy

The five-year business plan calls for carefully chosen acquisitions that will keep the portfolio about five times the size of its annual origination volume, Mr. Klein said. His 5-1 rule of thumb is based on the need to offset the cost of investing in new originations with the "annuity" of the servicing income.

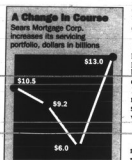
Sears originated $3.1 billion of servicing last year and projects originations of about $4 billion for 1990, suggesting more acquisitions may be in store.

Mr. Klein would say only, "We have not set our sights on [overtaking] Citicorp's $60 billion," referring to the portfolio of Citicorp Mortgage, which is the largest in the nation.

Still, the purchase marks the end of a three-year period in which the unit let its portfolio shrink to just over $6 billion from more than $10 billion. And it comes as some experts suggest that nondepository mortgage companies such as Sears may be positioned to dominate the servicing market.

They note that new capital regulations make it more expensive for thrifts and banks to hold purchased servicing and may spur them to sell servicing at low prices to raise their capital ratios.

Mr. Klein said, however, that when the strategy was adopted at Sears, the mortgage unit was a subsidiary of Sears' thrift unit in Glendale, Calif., and therefore subject to the capital requirements. (The mortgage company has since become an affiliate of the thrift, he said.)



He acknowledged that the decision to pursue servicing is based partly on anticipated lower prices because of portfolios coming on the market through the Resolution Trust Corp. and from depository institutions seeking to boost capital.

"Servicing is offering the best real return it's offered in 10 years," he said.

Mr. Klein's predecessor, Robert D. Horner, now chairman of Citicorp Mortgage, aggressively built up Sears' portfolio in the early 1980s by originating loans.

But rising interest rates in 1987 and a shift in the marketplace to adjustable-rate loans prompted Sears Mortgage to cut back new originations, market observers have said. And in 1988, they said, the retailer's need for cash spurred the sale of some of the mortgage unit's servicing portfolio.

Proceeds from Skyscraper

Sears recently took out a mortgage for more than $800 million on its skyscraper in Chicago, with proceeds reportedly going for stock buybacks and freeing up capital for expenditures within the organization.

Mr. Klein, who stresses that the mortgage company follows "as mundane a strategy as Sears is renowned for," said the reason for the switch from the selling to the buying mode is straightforward. "Sears has sold high and bought low," he said.

In keeping with its conservative approach, Sears looked at several portfolios, including the $12 billion portfolio recently bought by GE Mortgage Capital Corp. from Travelers Corp.

Mr. Klein said the Southeast portfolio fit best with Sears' existing portfolio. It helped balance a high percentage of quickly prepaying California loans with a high percentage of more stable loans in Florida. It also helped increase the proportion of fixed-rate and government loans.

Real Estate Woes at Southeast

Southeast has been plagued by problem real estate loans and is projecting a loss for the year. The company "decided in terms of capital deployment that it wanted to cash in [its servicing]," Mr. Klein said. He was quick to add that it was not a bargain-basement deal for Sears.

Mr. Klein has been notably absent from the bidding for servicing portfolios being marketed by the RTC, referring to them as "fixer-uppers."

But now that the RTC has changed its policy and begun to offer some basic guarantees of the quality of the loans in the portfolio, Mr. Klein said he would not rule out considering such acquisitions in the future. □

SECURITIES

Freddie Mac to Issue Pass-Throughs Backed by Libor Adjustable Loans

By PHIL ROOSEVELT

NEW YORK — The Federal Home Loan Mortgage Corp., or Freddie Mac, said it will issue $250 million of securities backed by adjustable-rate mortgages pegged to the London interbank offered rate.

The action marks the first time a secondary-market agency has issued securities backed by such loans. Freddie Mac will issue the pass-through securities as part of a transaction with Western Federal Savings and Loan Association, Marina del Rey, Calif.

Western Federal will receive the securities in exchange for a like amount of Libor-based adjustables. Ultimately, Western Federal will sell the securities, an official at the thrift said.

The $4.8 billion-asset Western Federal – a unit of an investment group led by former Treasury Secretary William E. Simon – is believed to be the nation's largest originator of Libor adjustables. It says it has originated $1 billion of the loans since October and has sold $600 million of them through Wall Street.

Most adjustable-rate mortgages are pegged to Treasury yields or thrifts' average cost of funds. Proponents of Libor adjustables say the loans could expand the secondary market for adjustables, boosting demand among a range of international investors. That, in turn, could allow lenders to offer relatively low rates to consumers.

But the loans have been slow to catch on, with many lenders fearing that U.S. consumers will be perplexed by the index.

Freddie Mac announced its Libor deal this week in San Francisco at the California League of Savings Institutions' secondary mortgage market conference.

Also at the conference, the Federal National Mortgage Association, or Fannie Mae, unveiled measures aimed at making it easier for lenders to sell their loans for cash rather than for securities. Dennis Godfrey, cohead of cash transactions, said the modifications were the largest since 1986.

While the cash program has been eclipsed in recent years by swaps of loans for securities, a number of smaller lenders still sell their loans for cash. In the first half of this year, such transactions totaled $11 billion, or 19% of Fannie Mae's total volume.

The centerpiece of the modifications is Cash Flex, a pricing program that allows lenders to amass mortgages of differing interest rates and sell them at one time.

Meanwhile, GMAC Residential Funding Corp. – a securitization unit of GMAC Mortgage Co. – said it has filed a shelf registration with the Securities and Exchange Commission to eventually issue $4 billion of mortgage securities. GMAC Residential Funding called the filing the largest of its kind. □

TALKING *markets*

Margaretten to Build Wholesale Presence

By PHIL ROOSEVELT

Margaretten & Co., a leading mortgage company in retail originations, is about to make a major push in the wholesale market.

The Perth Amboy, N.J.-based unit of Primerica Corp. plans to open a wholesale unit in San Ramon, Calif., during the first week of August, becoming one of the last major mortgage companies to enter the wholesale arena.

Margaretten executives expect the unit to purchase about $1 billion of mortgages from other lenders in 1991, generally closing the loans in Margaretten's name. That would make the company one of the nation's top 20 wholesalers, based on a 1989 ranking by Asset-Backed Capital Research Inc., Cleveland.



Felix M. Beck
Margaretten & Co.

Executive Recruited

Margaretten, which hinted of its wholesale plans in January, has recruited F. Ann Papanek to run the new unit. She was chief executive of Home Owners Fed, a well-regarded wholesale unit of Home Owners Savings Bank, Burlington, Mass. The parent thrift was seized by the government earlier this year.

Margaretten also is hiring more than 30 of Ms. Papanek's former colleagues, company officials said.

The purpose of the wholesale effort, said Margaretten's chief executive, Felix M. Beck, is to increase the size and geographic diversity of the company's servicing portfolio; it stood at $2.4 billion at the end of last year.

Mr. Beck said the new unit would not detract from Margaretten's retail originations system, which produces about $3 billion of loans a year. Rather, the wholesale unit is intended to complement, taking in loans from regions not served by the retail network, especially California.

"We will always be a very important part of the retail establishment," Mr. Beck said in an interview.

A number of mortgage companies have plunged into wholesaling in the past few years. But Margaretten has held back until now.

The availability of Ms. Papanek and her team eased many of the fears, Mr. Beck said. "We have found the people who can carry this forward with care," he said. □

Key Interest Rates

	Week ending 7/13/90	Week ending 7/06/90	Year ago 7/14/89
30-year fixed-rate mortgage	10.16	10.13	10.00
1-year adjustable-rate mortgage	8.37	8.38	8.75

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 7/18	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	99-21	0-15	9.60	–0.09	+118	-2
Fannie Mae 9½%	99-16	0-18	9.66	–0.11	+116	-5
Freddie Mac 9½%	99-00	0-18	9.66	–0.11	+115	-5

Yield: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. (*)— Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York



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GLOBAL *dispatches...*

Nigeria Talks Fail to Reach Debt Restructuring Accord

Reuters

Nigeria and its leading foreign creditor banks have concluded two days of negotiations without agreeing a general framework for a new debt restructuring package, Finance Minister Olu Falae said in a London interview.

But Mr. Falae, speaking after more than 10 hours of talks with his country's commercial bank steering committee, said the negotiations yielded an important breakthrough by forging a role for below-market interest rates for the first time.

The two sides are expected to resume negotiations late next month.

Meanwhile, Mr. Falae said, Nigeria's policy of limiting interest payments on outstanding debt to 3% remains in force.

Nigeria and its bank committee agreed in principle that options in any future restructuring package would include a debt buyback and an exchange of loans for bonds paying below-market interest.

But talks on Wednesday brought little progress on what terms would be feasible in an overall scheme.

The two sides also remained apart on collateral for securing interest and principal payments on the below-market bonds. Bankers involved in this week's negotiations said the committee hoped to persuade Nigeria to use foreign currency reserves and credits from the World Bank as collateral for any future debt reduction scheme.

The debt buyback and bonds with below-market interest rates were part of a debt restructuring package the banks proposed to he Lagos government last month.

Nigeria, which has about $32 billion in foreign debt, is seeking to limit debt service payments this year to $2 billion, or 25% of the anticipated $8 billion in hard currency earnings.

Foreign creditor banks hold some $6 billion in medium-term and long-term debt, as well as letters of credit.

Lagos also expects to reopen talks with the Paris Club of government creditors in September.

... *by country*

ARGENTINA

The Central Bank's president, Javier Gonzalez Fraga, will travel next month to Japan and the United States to meet bankers and government officials, a senior member of the Argentine economic team said in Buenos Aires.

Mr. Gonzalez Fraga will visit Washington on Aug. 1 to talk with World Bank officials. The next day in New York he is to meet with commercial bankers.

In Japan he will spend a week meeting government officials and private bankers, said the Argentine official, who asked not to be identified.

In Washington, Mr. Gonzalez Fraga will discuss details of loans for Argentina, which expects about $1.3 billion from the World Bank this year to finance reforms.

In New York he will review the Peronist government's privatizations with private banks, to which Argentina owes $40 billion plus around $6 billion in interest arrears.

The official said Argentina will stand by its strategy of making monthly $40 million payments to commercial creditors as interest on its debt.

— Reuters

MEXICO

Mexico will award $1 billion debt-equity swaps to the developers of 27 projects to improve the country's infrastructure, the finance ministry said.

Finance officials chose the projects from 359 proposals submitted by investors hoping to trade debt for investment in areas including agriculture, tourism, and communications, the ministry said in a statement.

Sealed bids for the swaps were submitted through July 9; officials began to review them Monday.

The ministry did not list the companies or detail the projects that would be carried out, but it said the discount rate for eligible debt had been set at 52.05%.

— Reuters

BRITAIN

Midland Bank PLC, Britain's third-largest bank which has just cut 390 jobs in a new cost-cutting measure, was downgraded Thursday by Standard & Poor's Corp.

The rating agency cited a downturn in Midland's performance in 1989 and the adverse effect on its earnings from heightened competition and high levels of overhead expense compared with that of other big British banks.

Midland's provisioning of around 50% for lesser-developed country debt is below the over-70% level achieved by its major domestic competitors, S&P noted.

As a result, the bank's capital position has deteriorated to well below that of of its peers, the rating agency said.

The latest job cuts, centered in Midland's group operations, chiefly involve the information technology and electronic services areas.

Midland's senior long-term debt was lowered to A-plus from AA-minus.

Its subordinated debt was cut to A from A-plus. About $3.1 billion of Midland debt is affected.

— John Evans

Dai-Ichi Exec in Unexpected Move

Oana, Negotiator of CIT Purchase, Returning to U.S.

JAMES R. KRAUS

NEW YORK — Yuko Oana, senior managing director for international planning at Dai-Ichi Kangyo Bank Ltd. and a driving force behind the bank's recent expansion in the United States, is returning to the United States to take over as chairman of CIT Group, a unit of Dai-Ichi Kangyo Bank of California.

Dai-Ichi Kangyo officials in New York declined to comment on the move, which was announced by the bank earlier this month in Tokyo.

However, Japanese banking sources said that Mr. Oana, who engineered the acquisition of CIT Group from Manufacturers Hanover Trust Co. last December, is being sent back to supervise development of the bank's two U.S. units over the next few years.

Mr. Oana, 58, is scheduled to assume his new functions in September. He served as general manager of Dai-Ichi Kangyo's New York branch for four years until September 1988, when he returned to Tokyo to take over as head of international planning.

He was named chairman of CIT Group last November but was not expected to take an active part in running the unit.

Role in Strategic Planning

Japanese bankers said that Albert R. Gamper Jr., president and chief executive of CIT, will continue to run day-to-day operations at the middle-market lending unit while Mr. Oana will focus on strategic planning.

Mr. Oana will also serve as a liaison with U.S. regulators.

Dai-Ichi Kangyo is the world's largest bank, with $403 billion in assets. Last year it paid $1.4 billion to acquire a 60% stake in CIT from Manufacturers Hanover and a 4.9% stake in the U.S. bank. It was the biggest U.S. acquisition ever by a Japanese bank.

Mr. Oana could not be reached for comment.

Growth in California

However, in an interview last September, Mr. Oana said one of Dai-Ichi Kangyo's top priorities is building up its middle-market lending in California.

He did not exclude the possibility that Dai-Ichi Kangyo might make an additional acquisition to further that goal.

Dai-Ichi Kangyo Bank of California has been rapidly increasing its assets. As of the end of last year, the bank had $53 billion in assets, up 31% from 1988.

However, Dai-Ichi Kangyo's presence in California remains small compared with that of other big Japanese banks, several of which have built up large retail and middle-market banking operations there.

Seen as Liaison to Regulators

Mr. Oana, who will be based in New York, will also serve as a liaison between Dai-Ichi Kangyo and U.S. regulators in Washington, Mr. Gamper said.

Mr. Gamper said that the nomination will not affect management of CIT and will help CIT expand its business with Japanese corporations.

"It really doesn't change the CIT structure, and his great contacts with Japanese corporations will be helpful. He'll be opening doors for us to high-level executives at Japanese companies," Mr. Gamper said. □

Italy Moves to Modernize Banking System

By JOHN EVANS

LONDON — Italy, long considered overbanked but underbranched, is moving to modernize its notoriously inefficient banking industry.

A wave of mergers among Italy's 1,200 banks, many of which are government-owned, should result from measures approved by the parliament in Rome.

Under the legislation, known as the "Amato law" after former Treasury Minister Guiliano Amato, who first sponsored the proposals, state-controlled banks can turn themselves into publicly quoted companies that are free to raise capital from investors through the issue of stock. However, the state will retain 51% of the voting stock.

A total of $1.5 billion has also been set aside for the recapitalization of banks, while tax breaks will be offered as incentives for mergers.

Government officials say the law is designed to increase the efficiency of Italy's banking system and prepare it for the increased competition expected in Europe's single market.

Italy's big banks are not prominent on the world stage. The largest, Banca Nazionale del Lavoro, with $91 billion of assets, ranks as Europe's 15th-biggest.

William Vincent, a securities analyst at the brokerage firm UBS Phillips & Drew , says the reforms "recognize the need to modernize the banking system" as well as the threat that other European banks will "move into Italian market and clean up" after the European unification.

Four Captive Banks

Four of Italy's big banks, Banca Commerciale Italiana, Credito Italiano, Banca di Roma and Banco di Sicvro, are all controlled by the Italian state industrial holding company IRI.

Along with other big state institutions such as Istituto Bancario San Paolo di Torino and Mediobanca, Italian banks have consequently been hampered in finding the resources to build modern branch networks across Italy.

Such growth has also been stunted by Italian regulators, who up to now have protected smaller banks and rural savings institutions by restricting the number of branches that their big counterparts could open.

"The bigger Italian banks have networks which typically number under 600, while someone like National Westminster Bank in Britain has more than 3,000," Mr. Vincent says. □

Key International Rates

	Day-to-day money		7-day interbank		1-month interbank		3-month interbank		6-month interbank		12-month interbank		Interest rate		Prime equivalent	
	7/19	7/20	7/19	7/20	7/19	7/20	7/19	7/20	7/19	7/20	7/19	7/20	7/19	7/20	7/19	7/20
United States	8.00	8.00	8.31	8.19	8.19	8.31	8.19	8.19	8.31	7.00	7.00	7.00	10.00	10.00	10.00	
Japan	7.43	7.43	7.57	7.75	7.71	7.68	7.76	7.75	7.88	5.25	5.25	5.25	7.13	7.13	7.13	
Canada	13.75	13.75	14.00	13.69	13.50	13.62	13.37	13.37	13.50	13.67	13.67	13.73	14.75	14.75	14.75	
U.K.	15.00	15.00	15.00	15.00	14.88	15.00	14.80	14.81	14.69	14.50	14.50	14.50	15.00	15.00	15.00	
West Germany	8.12	8.12	8.25	8.31	8.31	8.37	8.43	8.50	8.62	6.00	6.00	6.00	10.00	10.00	10.00	
Switzerland	8.25	8.37	8.50	8.62	8.62	9.00	8.87	8.93	8.93	6.00	6.00	6.00	11.25	11.25	10.38	
France	8.69	8.87	10.43	10.00	9.93	10.25	10.06	10.06	10.37	9.00	9.00	9.00	10.00	10.00	10.00	
Italy	11.00	10.50	11.62	11.37	11.12	11.37	11.37	11.25	11.50	12.00	12.00	12.00	15.00	15.00	15.00	

Forward Rate Agreements

	U.S. dollars		Sterling		West German marks		Swiss francs	
	Bid	Offered	Bid	Offered	Bid	Offered	Bid	Offered
3 to 6 months	8.06	8.00	14.40	14.30	8.43	8.39	7.74	7.69
6 to 12 months	8.18	8.12	13.42	13.32	8.60	8.56	7.91	7.86
12 to 24 months	8.83		12.60		8.95		7.47	7.66

* Middle quotes in the New York market

$150 Million Loss Reported By 1st Fidelity

Continued from *page 2*

an analyst for Brown Brothers Harriman in New York.

Nonperforming assets exclude the OREO reserve were $854 million on June 30, up 40% from the end of the first quarter.

Excluding the OREO reserve addition, second quarter noninterest expenses of $207 million compare to a fourth quarter core expense rate of $236 million. The company wants to reduce its core operating expenses $95 million by yearend.

$178 Million in Chargeoffs

First Fidelity charged off $178 million in the 1990 second quarter, up from $37 million a year before. The company said $68 million of the chargeoffs were related to troubled real estate, $19 million to sales of lesser-developed country debt, and $10 to restructuring Mexican credits under the Brady plan.

First Fidelity earned $63.2 million in the 1989 second quarter, after taking a $19 million loan loss provision.

Shawmut Profits Plunge

Meanwhile, Shawmut National Corp., with headquarters in Boston and Hartford, reported late Wednesday that profits fell 65%, to $30.2 million, in line with predictions.

The $30 million gain posted by Shawmut included an one-time credit of $5 million arising from the utilization of a net operating loss carryforward, the company said.

The company's nonperforming loans and foreclosed properties totaled $1.3 billion, or 7.72% of all loans, at the end of the quarter. Nonperforming loans and foreclosed properties totaled $1.1 billion.

Analysts said that the $200 million rise in nonperforming loans was in line with predictions. Two weeks ago, speculation had swirled that nonperforming loans would increase by as much as $500 million, but Shawmut basically quashed the rumor by releasing earnings projections. □

FIRST FIDELITY BANCORP.
Lawrenceville, N.J.

Dollar amounts in millions (except per share)		
SECOND QUARTER	**1990**	**3Q '89**
Net income	($150.3)	$22.2
Per share	(2.61%)	1.03%
Net interest income (tax. equiv.)	300.1	264.0
Spread	3.77%	4.13%
ROA	(3.90%)	0.84%
ROE	(98.97%)	14.39%
Nonperforming assets	1,300.0	79.9
Noninterest expense	220.9	228.1
Loss provision	300.0	19.1
Net chargeoffs	178.2	37.9
FIRST HALF	**1990**	**1989**
Net income	($128.2)	$128.2
Per share	(2.31)	2.10
Net interest income (tax. equiv.)	532.7	522.0
Spread	3.84%	4.15%
ROA	(0.86%)	0.91%
ROE	(16.48%)	16.75%
Noninterest income	156.9	150.0
Noninterest expense	469.7	452.7

BALANCE SHEET	**6/30/90**	**6/30/89**
Assets	$20,946.3	$20,667.3
Deposits	22,966.0	21,171.5
Loans	19,083.4	18,354.7
Shareholder equity	1,304.9	1,592.3
Loss reserve	534.8	320.9
Reserve/loans ratio	2.80%	1.75%
Nonperf. loans	731.9	348.0
Nonperf. loans/loans	3.84%	1.90%
Primary capital ratio	7.04%	7.31%

COMMENT
Banks Are Put In Double Bind

Continued from *page 4*

vestment (marketable) book value. A strong bank holding company parent could swap its shares for the New England bank's at an attractive premium to market – but a discount to HTG book – and, like Ahmanson, pick up the difference as capital. Add to this the operating cost efficiencies realized through merger, and the capital building and earnings growth possibilities get very interesting.

A bank whose shares have been beaten down to low levels in the market might decide to pass the hat to its stockholders through a rights offering or perhaps to a private investor. Thus, First Bank System Inc., Minneapolis, recently raised $175 million of capital through a sale of common stock to the private equity Corporate Partners (an affiliate of Lazard Freres) and the Florida state pension fund.

This transaction was reportedly sweetened by a special guarantee arrangement providing for the issuance of additional common stock to the investors if the dividend rate over the next five years should fall below agreed levels over a certain period.

FDIC Can't Give Them Away

The examples above illustrate why the RTC and FDIC are not doing a land-office business selling banks. It is not simply the difficulty in valuing the bad assets, which the FDIC can ameliorate by offering credit protection. Capital is the deterrent. Even if the FDIC delivers a "clean" bank "for free," with the acquirer's only obligation being to contribute fresh cash capital of, say, 6% of total assets, the economics are marginal.

It would be difficult to generate a sufficient equity-level return. And the opportunity to "make it on the back end" through a future sale at a premium over book value is dubious in light of current market conditions and the fact that any premium may be goodwill, which would be excluded from capital.

So the regulatory solution of higher capital levels may be impeding deals that make regulatory and economic sense. If the regulators are serious about getting the benefits of fresh capital, good management, and earnings from acquisitions, it is time to consider priming the capital pump.

Bridging the Gap

For example, if a transaction cannot be closed at required capital levels, the FDIC might bridge the gap – at least as to capital requirements in excess of core – by committing its note in exchange for a matching subordinated note to be paid off after receipt of capital up to required levels.

Some may say this would compromise bedrock capital principles and be a return to phony accounting practices. But sound economic reasons require that this and other alternatives be considered to promote the capital-building process where economic returns on required minimum levels cannot be demonstrated and fresh capital will not otherwise be available. □

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Breeden Suggests U.S. Should Sell Insurance to Depositors

Continued from *page 1*

if we have this valuable product produced by the federal government, maybe we should charge for it," Mr. Breeden said to reporters following his testimony before the Senate Banking Committee.

A Vulnerable Position

Because deposit insurance premiums count toward deficit reduction under the Gramm-Rudman law, bankers have long been nervous that the administration and Congress would mandate increases to help out the budget talks.

But Mr. Breeden cast the issue in a different light, suggesting that the federal government's guarantee – like a triple-A rating – is a commodity that can be priced and sold to the public.

"If the federal government owned a lot of valuable buildings and was giving them away, somebody might suggest that we should sell them for their real value," he said. "We're not giving away insurance, but we're selling it for less than it's worth."

Higher Value Noted

"I don't think anyone is arguing that twelve-and-a-half basis points reflects the true value of the federal guarantee," Mr. Breeden added. Banks now pay 12.5 cents per $100 of deposits for insurance.

Mr. Breeden told the panel that with some $3 trillion in assets "ultimately banked by the U.S. taxpayer," the government was providing "too much deposit insurance."

The system, he added, essentially asks taxpayers "to back losses from every loan decision by every loan officer in the country."

Mr. Breeden said the government's exposure could be limited by reducing the amount of insurance coverage from the current $100,000 level or by limiting the number of insured accounts each person could have.

Depositor's Choice

But he placed most emphasis on a system in which each individual depositor would be permitted to choose what level of insurance they desired and would be charged a rate that reflects the value of the federal government's guaranteed. Mr. Breeden said that rate would be "significantly higher" than the existing premium schedule.

Mr. Breeden also said in comments to reporters that the government might want to limit rates that could be offered on insured accounts by pegging them to a market index.

"Somehow, we have to control this phenomenon of an institution that says, let's bring in an extra $1 billion this morning – and if the market is paying 8%, we'll pay 12%," he said.

Support Is Expected

Noting the growing public anger over the cost of the savings and loan bailout, Mr. Breeden said he expected his ideas would find broad public support.

However, one bank industry representative said Mr. Breeden's suggestion that depositors pay for extra insurance "will be about as popular as the 25 cent fee on deposit accounts" suggested last year in the Bush administration's early discussions of how to pay for the thrift bailout.

"I reject his premise," added Steve Verdier, a lobbyist for the Independent Bankers Association of America. "The federal government is not giving away deposit insurance. In fact, the price has been going up."

In his testimony before the Senate panel, Mr. Breeden also stepped up his attack on the Glass-Steagall Act and the Bank Holding Company Act, contending that the two laws remove "an enormous potential source of badly-needed capital from the banking industry."

A Call for Separation

In a wide-ranging discussion of the financial services industry, Mr. Breeden said there was little evidence to suggest that the long-standing separation of banking and commerce in the United States was necessary.

Large investment banking firms are owned by commercial and industrial concerns, he said, and the parent companies have provided capital for restructuring or liquidity when needed. □

Riegle Suggests Finance Ministry

WASHINGTON — If the United States overhauls the financial services industry, a ministry of finance might be needed at least temporarily to coordinate regulators' efforts, Senate Banking Committee Chairman Donald W. Riegle Jr. said Thursday.

A "brave new world of financial modernization" probably would require the interaction of a plethora of state and federal agencies that oversee banks, thrifts, insurance companies, and securities firms, said the Democrat from Michigan.

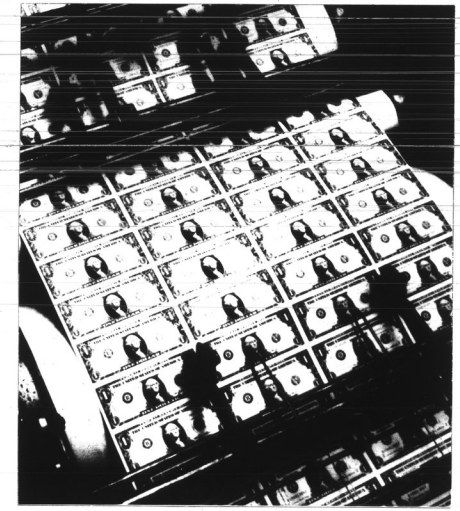
When Securities and Exchange Commission Chairman Richard Breeden alluded to foreign ministries of finance, Mr. Riegle responded by saying, "Why not do that?"

Mr. Riegle also put the Bush administration on notice that a financial modernization or restructuring bill will succeed only if the White House makes it one of its top four or five legislative priorities next year.

The windup to the next presidential election begins next year, Mr. Riegle said, "and normally in the third year of a presidency, careful decisions have to be made about what goes on that short list" of priorities.

"The issues are important, and time is running against us," he added. "With the kind of dynamics we are likely to see in 1991-92, I can see how the issue could be left unresolved."

— **Robert M. Garsson**



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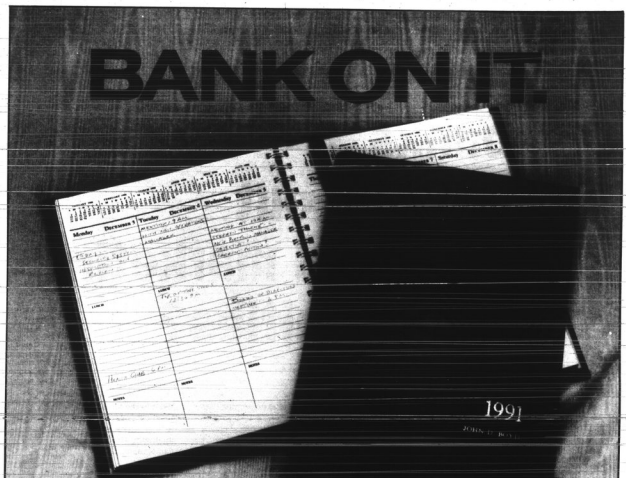

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Citicorp Reluctantly Admits Need to Cut Back Finance Area

Continued from *page 1*

government securities.

Mr. Jones refused to be "glib" about specifics, noting that the global finance sector in Japan, Europe, and North America is a complex amalgam of about 50 different businesses. Considering that the sector returned just 4.6% on equity in the second quarter, however, some major surgery is believed to be in store. Mr. Jones repeated that Citicorp aims to achieve an 18% to 20% return on equity from each of its sectors.

Citicorp insiders said they expected an internal announcement on Thursday or Friday about the latest moves.

Mr. Jones also backed off somewhat from Citicorp's oft-repeated assertion that the company's weak capital ratio will be rebuilt through asset sales, supplemented by retained earnings and asset securitization.

Sale Program Behind Schedule

The asset sale program is a bit behind schedule, the victim of the same weak deal climate that is hurting the corporate finance business. "The problem is that this is not the greatest environment in the world in which to do deals," Mr. Jones said. "It's not as good as we had hoped six months ago. We don't want to get into the trap of doing deals at fires-sale prices."

He nevertheless hinted that Citibank may announce one or two deals soon, and reiterated the bank's intention to restore its common equity-to-assets ratio from its current 3.7% level to between 4% and 4.5%, at a rate of 10 basis points per quarter.

While asset sales were the preferred method of building equity, Citicorp can manage its balance sheet using other methods, Mr. Jones said. That means a continuation of the bank's aggressive program to securitize credit card receivables, and a decision to let thin-margin loans and other assets run off the books, analysts said.

Citicorp officials have said repeatedly that the bank will not dilute shareholders' equity interests by issuing new common stock, though some analysts said a preferred equity offering may be in store within the next year.

Citicorp's risk-based capital ratio is believed to be about 3.4%, well below the 4% standard that regulators will require by the end of 1992. Mr. Jones said Citicorp is not currently negotiating with rating agencies for upgrades to allow issuance of debt to meet the standards. Banks, he added, do not get into trouble because of too little capital; they get into trouble because of bad loans. "Excess capital never saves you," he said.

Mr. Jones, who delivers an analysis after every quarter, noted good-humoredly that there are some quarters that come around too quickly. Asset quality, capital, and revenue streams all were problematic in the second quarter, he said.But he remained optimistic. "Other than those items, everything is in good shape," he quipped.

On other issues, Mr. Jones made the following points:

• The quality of Citicorp's real estate portfolio continues to get worse. "It would be dangerous to say it's plateaued," Mr. Jones said. "We are not in a position to say it's bottomed out. In times of strain, you pay the price." The company declared $324 million of its real estate loans nonperforming in the second quarter and foreclosed on another $366 million worth of property.

• Citicorp wrote off $103 million of leveraged buyout loans this year but is "probably at the end of real problems" with its $14.9 billion leveraged buyout portfolio, Mr. Jones said. The number includes unused commitments.

• He disputed charges that Citicorp's reserves are insufficient to cover nonperforming loans. Citicorp very conservatively puts a large number of loans on nonperforming basis in order to give them closer attention, but has a high rate of recovery on them, he said.

Even without regulatory encouragement, it has put almost $1 billion of loans that are current in principal and interest payments on a cash basis. These so-called nonperforming performers include about $250 million of commercial real estate loans. Citibank recovers about one-third of all its non-LDC writeoffs, and a towering 50% of its real estate writeoffs.

LDC debt reserves have fallen to about 30%, Mr. Jones said, but Citicorp "remains comfortable" with that level.

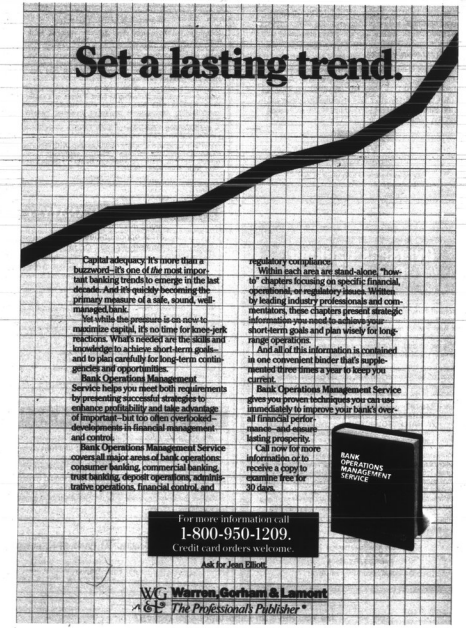
• Citicorp continues to invest in its money-losing information business sector, which has siphoned off $96 million so far this year. It is excited about a new foreign exchange product being tested in its Quotron subsidiary and is spending about $50 million after-tax per year to develop a consumer point-of-sale information business.

• Citicorp spent about $1 for every $1.50 of revenue thus far this year, but is aiming for a revenue-to-expense ratio of 2:1.

• Citicorp is investing heavily in new consumer businesses to combat charges that it is too dependent on credit card revenues. Consumer credit quality declined two out of three months in the second quarter, but the consumer sector returned 23.6% on equity.



Thomas Jones
□ *Citicorp*



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DC Bank Says Losses Push It to the Brink

Continued from page 1

sidiaries in Maryland and Virginia, and has agreed to sell and securitize $75 million of commercial real estate loans.

The holding company's stock was trading Thursday afternoon at $1, a 52-week low and down from $2.75 at Wednesday's close.

Infighting a Problem

The disclosure by Mr. Mason, a Washington lawyer and director who took over as chairman on May 31, is the latest sign of turmoil for a company that has experienced months of upheaval marked by infighting and lawsuits among directors. In May, Washington Bancorp.'s financial problems surfaced when five banks withdrew their lines of credit, preventing the company from covering $25.8 million in maturing commercial paper.

National Bank of Washington then began borrowing from the Federal Reserve discount window, a last-ditch source of liquidity that most banks avoid.

On May 17, the Federal Reserve Bank of Richmond reported that institutions in its district had borrowed $136 million on that day.

Former Washington Bancorp. chairman John M. Toups said the Washington bank was responsible for most of the window borrowing, and it has apparently continued. On July 11, the district reported borrowings of $204 million.

Washington Bancorp.'s second-quarter half-year losses, which compared with profits of $3.5 million and $7.1 million in the comparable 1989 periods, reflected large increases in loan-loss provisions and nonperforming loans.

The company said it is the subject of an inquiry by the Securities and Exchange Commission in connection with sales of the company's commercial paper and other matters, it said.

Mr. Mason could not be reached for comment.

In a written statement, the company said management was forming a plan to raise capital. But given the company's current financial condition, no assurance can be given that holders of commercial paper or other creditors would be repaid in full.

The gloomy picture painted by Mr. Mason could be a move to force creditors to the negotiating table and take big losses on their investment, a former bank official speculated.

Once that is accomplished, Mr. Mason and Wafic Said, a wealthy Saudi Arabian who is the bank's largest stockholder, could recapitalize the institution.

"I just don't see them throwing in the towel," the source said. Mr. Mason "is going to negotiate the creditors as far down as he can. He'll pay [the debt] off, and the Saudis are going to recapitalize." □

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Citation Notice

File No. 0644/1990 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT TO The heirs at law, next of kin and distributees of KATHERINE PACTAR, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator of the County of New York, Petitioner, a domicile of the State of New York. A petition having been duly filed by Peter M.J. Reilly, who is domiciled at 16 Capstans Drive, Islip, New York 11751 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street New York, on August 23, 1990, at 10:00 a.m., why a decree should not be made in the estate of KATHERINE PACTAR, lately domiciled at 250 East 63rd St., Apt. 1102, New York, New York 10021 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 16th, 1982, (a copy of which is attached), and ordering that Letters of Testamentary issue to Peter M.J. Reilly, Dated, Attested and Sealed...June 29...1990. HON. Jerome J. Roth Surrogate, County of New York, Robert M. Reaves Clerk of the Surrogate's Court. Name of Attorney: Philip L. Weyloss Telephone Number 914-948-6084 Address of Attorney: 144 Prospect Avenue, Valhalla, New York 10595. This citation is served upon you as required by Law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.**

File No. 3674 - 1988 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT, TO The heirs at law, next of kin and distributees of IRMA FRANCES HOWE, a/k/a Irma F. Howe, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator of the County of New York Attorney General of the State of New York A petition having been duly filed by Mary Elizabeth Howe, who is domiciled at 1130 N. Jamestown Road, Decatur, Georgia 30033 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street, New York, on August 21, 1990, at 10:00 a.m., why a decree should not be made in the estate of Irma Frances Howe, a/k/a Irma F. Howe, lately domiciled at 262 West 95th Street, in the County of New York, admitting to probate as a will of real and personal property a paper dated August 6, 1986, and ordering that Letters of Testamentary issue to Mary Elizabeth Howe, Dated, Attested and Sealed, July 9th, 1990 (L.S.) HON. RENEE R. ROTH Surrogate, County of New York ROBERT M. REAVES Clerk of the Surrogate's Court Name of Attorney: Vincent E. Cucci Telephone Number (212) 686-8170 Address of Attorney: 276 Fifth Avenue, New York, N.Y. 10001.

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Foundation Notice

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The annual report of THE DOROT FOUNDATION for the fiscal year ended March 31, 1990 is available at its principal office located at 100 Park Avenue, New York, NY 10017, (212) 532-7300 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Benjamin Glowatz.

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DEALS

Bank of America Leads Refinancing of Lancer Industries' Bridge Loan

By WILLIAM GOODWIN

Lancer Industries Inc. refinanced a $130 million bridge loan maturing next month with a combination of new loans from a group led by Bank of America and the issuance of private subordinated debt, the company announced Thursday.

The bridge loan was provided last August by Merrill Lynch Capital Markets to finance the bulk of New York-based Lancer's purchase of Fairfield Manufacturing Co. for $146 million. Lancer contributed $30 million of equity in the transaction.

Many mergers and acquisitions done in the past two years included bridge loans that are coming due this year and next. With the new-issue, high-yield bond market still in tatters, many companies are relying on banks or the private-placement market to refinance the bridge loans.

Senior Debt Plan Scotched

Lancer had originally planned on refinancing much of the bridge loan with senior debt.

The new bank financing comprises an $85 million seven-year term loan and a $20 million revolver.

A Bank of America official said the loan was priced at 150 basis points over the prime rate, and carried fees customary for highly leveraged transactions. He declined to be more specific about the fees, except to say they were "well south" of 300 basis points.

The BankAmerica Corp. unit was the sole underwriter of the bank financing. The syndicate members are General Electric Capital Corp., Gironzentrale of Austria, National Bank of Canada, Mitsui Merritt, and Van Kampen Merritt Inc.

A number of banks bid to arrange the bank financing, but Bank of America offered the best terms, said Yvonne Cliff, vice president of corporate development at Lancer. The other bids were not identified.

A New Relationship

She said Lancer had no previous banking relationship with Bank of America.

The Lancer transaction is one of the few middle-market deals Bank of America has done outside of its home state of California, the Bank of America official in New York said.

Bank of America was attracted to the deal in part because Lancer's Fairfield unit, which is the borrower of record, is the leader in its market by a "factor of two or three," the bank official said.

The Fairfield unit makes custom gears for such applications as mining and road-building equipment.

In addition to the refinancing of the bridge loan, which was set to expire next month, Lancer also said it completed a $25 million financing with Westinghouse Credit Corp. through the issuance of Lancer subordinated notes.

The funds will be used to finance acquisitions, Lancer said.

* * *

Hanover, Clayton-Dubilier Talking About IBM Units

Manufacturers Hanover Corp. and Clayton & Dubilier have discussed bank financing for a possible acquisition of low-technology businesses from International Business Machines Corp. by the New York buyout firm, sources said.

At the same time, though, talks between the buyout group and IBM were described as being in the early stages.

"It's a way off," a source said of the possible deal.

Talks between Clayton & Dubilier and IBM on the possible buyout were first disclosed by *The Wall Street Journal*.

Substantial Equity Expected

One source described the reported price tag of $2.5 billion to $3 billion as accurate.

At the same time, he said it was premature to discuss the structure of the proposed deal, including the amount of bank financing that would be needed.

It is expected that any transaction involving Clayton & Dubilier would involve a substantial equity component.

"If it does happen, it will be clearly a very nice transaction for the banking community," a source said.

IBM Mulling Strategy

IBM declined to comment beyond a statement issued Wednesday that it is "considering many options" to sharpen its strategic focus.

Clayton & Dubilier's spokesman could not be reached for immediate comment.

Manufacturers Hanover has been the sole lead bank on many of the buyout firm's deals, making it likely that the bank would play a similar role in the possible purchase of the IBM business.

Word of the possible deal caught the immediate attention of banks anxious to participate in what would be a "very high-quality deal," a banking industry source said.

"This is probably the only deal that has generated this kind of enthusiasm that is not a deal," the source added.

— William Goodwin

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This announcement appears as a matter of record only.

Yasuda Unit Wins Bidding To Finance Union's Tower

By STEPHEN KLEGE

Yasuda Trust & Banking Co. emerged as the winner in competitive bidding among about 10 banks to provide $100 million for a new headquarters for the nation's largest local union.

Yasuda stepped up after another bidder pulled out, citing the cost of correcting an environmental problem at the New York City construction site.

Developer Edward J. Minskoff denied that the discovery of coal ler during excavation was a factor in the bidding. A report that the lowest bidder dropped out when the environmental problem was discovered "borders on being ludicrous," Mr. Minskoff said.

But James Fitzgerald, head of Yasuda's real estate division, confirmed that another Japanese bank dropped out of the bidding when the problem was discovered at the construction site for the 412,000-square-foot headquarters of the Service Employees International Union, AFL-CIO. The Japanese bank, he said, had not anticipated any problems when its priced its loan. At that point, negotiations with Yasuda — which had made an "above market" bid — were reopened.

Mr. Fitzgerald said Yasuda allowed for contingencies – such as the possible need for environmental cleanup – in calculating its bid. He added that the problem has been cleared up and the building is under construction.

Mr. Fitzgerald declined to detail the loan terms, except to say that the bank had exercised an option to convert to a fixed rate from a variable rate based on a spread over the London interbank offered rate.

Swap for Fixed Rate

He said Yasuda was able to arrange the fixed rate by entering into a series of swap agreements designed to mitigate interest rate risk for the bank.

The construction loan is designed to roll over into a five-year mortgage loan after 18 months, he added. The financing was arranged by Donald Zucker Co., New York.

Mr. Minskoff said coal tar is not uncommon in New York, where many projects are built on landfill. "The foundation is in," he said, arguing that if coal tar had been a problem, the project would have stalled.

Bankers familiar with the project characterized it as a "build to suit," meaning that the union will occupy virtually all of the space, eliminating the risk associated with leasing space in Manhattan's soft office market.

Based on Mr. Minskoff's track record and the financial strength of the union, the other risks are also seen as minimal, one banker said.

Integrated's Creditors Win a Round

Banks seeking the best possible return on their loans to Integrated Resources Inc. won a partial victory in U.S. Bankruptcy Court on Thursday.

U.S. Bankruptcy Judge Howard C. Buschman granted Integrated Resources just under two weeks to finalize an agreement that would sell control of four Integrated mortgage funds to the Krupp Cos., Boston, for $45 million.

Judge Buschman enjoined CRI Insured Mortgage Association from proceeding with litigation against Integrated through Aug. 1.

CRI is trying to make an exchange offer for the funds outside the bankruptcy court. It has sued, claiming that Integrated officials illegally ammended partnership agreements to give themselves control of the funds at the expense of the limited partners.

The court order gave a glimmer of hope of progress in the sale of the assets to Krupp for $38.6 million, plus payments of about $6 million. But attorneys for some of the creditors said the brief time frame could make the victory an hollow one. Allan Pepper, attorney for Integrated, said the next step may be to seek a permanent injuction.

The creditors said the proposed CRI exchange would wrongfully cut in half the value of Integrated's stake in the funds.

When Integrated declared bankruptcy in January, Manufacturers Hanover Corp. was owed the largest sum by Integrated, $55.8 million, followed by Chemical Banking Corp., owed $51.57 million.

Creditors also include the Hongkong and Shanghai Banking Corp. and Columbia Savings and Loan Association.

— Stephen Kleege

Highlights for Thursday, July 19

TOP 10 GAINERS %

Northeast Bancorp, Inc.	10.0
First Citizens Bancshares Inc.	6.2
Shawmut National Corporation	6.0
1st Source Corporation	5.3
National Penn Bancshares, Inc.	5.1
Trustcompany Bancorporation	4.6
United Banks of Colorado, Inc.	4.1
Evergreen Bancorp, Inc.	3.7
First Security Financial Corp.	3.5
Crestar Financial Corporation	3.4

TOP 10 LOSERS %

Iowa National Bankshares Corp	-7.9
First Interstate Bancorp	-7.2
Citizens Banconp	-7.0
Premier Bancorp, Inc.	-6.7
Multibank Financial Corp.	-5.6
Community Bancorp, Inc.	-5.6
Puget Sound Bancorp	-5.7
Banks of Mid-America, Inc.	-5.6
Statewide Bancorp	-5.5
Citizens First Bancorp, Inc.	-5.2

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Chase Manhattan Corporation	996400
Bank of New England Corp.	538300
Wells Fargo & Company	413600

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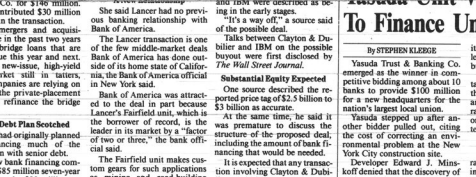
Amcore Financial, Inc.	1147.9
United Banks of Colorado, Inc.	1110.6
First Security Corporation	748.3
First Interstate of Iowa, Inc.	741.3
Fifth Third Bancorp	613.6

Stock Index Trends



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Day	Week	Month	Day	Week	Month	Day	Week	Month
0.41	0.81	3.46	-0.78	0.06	-5.61	-3.27	-1.91	-4.23

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cha.	Chg.	%
27¼	20¼	MercantileBkshsn MD	8.7	131.6	21	-¼	-1%
90¾	50	MercantileBank-NY	11.8	186.4	50	-¼	-1%
22½	20¼	MerchantsNatl IN	10.5	85.3	21¾	-¼	-1%
26¼	15¼	MercBancorp PA	6.8	84.5	15¾	-¼	-1%
17¾	13¾	MichiganNatCorp MI	3.6	60.1	30	-¼	-1%
18¾	14¾	MidAmerica KY	9.8	96.6	15¼	-¼	-1%
14¾	10¾	MidlesexBc, Inc.	9.4	141.9	10¾	-¼	-1%
47¼	13¾	MidlandCoop-NJ	9.0	35.8	13¾	-¼	-1%
35¾	25¾	MidlothianBk	NM	47.6	26¾	-¼	-1%
35¾	28½	MBD Bancorp-MI	9.3	135.4	32¾	-¼	-1%
14¾	9¾	MCNB Corp-OH	7.2	126.9	37¼	-¼	-1%
28	18¾	MidlCommBncp-CA	14.2	152.7	18¾	-¼	-1%
13¾	10¾	NationalChpCp-OH	8.4	142.0	37	-¼	-1%
51	38	NationalPenn-PA	11.9	212.0	41	2	5%
25¾	20¾	NatBancorp/Md-MI	9.6	115.7	30	-¼	-1%
25¾	20¾	NatCommerce-TN	9.9	171.5	23	-¼	-1%
25¾	20¾	NatCommunity-NJ	9.1	83.6	24¾		
20¾	11	NorthFortBancs-WI	5.4	69.7	11¼	-¼	-1%
67¾	50	NorthTrustCorp-IL	14.7	194.1	54¾	-¼	-1%
35½	27¾	NorthernTrust-IL	9.6	182.6	29¾	-¼	-1%
23¾	17¾	NorwestCorp-MN	7.6	136.3	18¾	-¼	-1%
22¾	14	OakBrookBncp-IL	6.9	94.3	22¾	-¼	-1%
24¾	20¾	OldKentFinCp-MI	8.1	112.8	24¾	-¼	-1%
20¾	14¾	OldNatBncp-KY	13.2	180.6	25		
15¾	11¾	OldSecBncp-VA	7.2	84.0	13¾	-¼	-1%
29¾	24¾	PNC Fin'l Cp-PA	9.4	105.0	30¼	-¼	-1%
24¾	21	PacificBncp-CA	14.2	183.3	27		
24¾	19¾	PeoplesBancp-NC	8.9	183.3	19¾	-¼	-1%
18¾	14¾	PeoplesBancp-OH	8.0	152.3	15¾	-¼	-1%
25¾	19	PikeNatBcrp-KY	10.0	129.9	19¾	-¼	-1%
15¾	10	PiocCommerce-CA	8.7	181.9	11¼	-¼	-1%
18¾	13¾	PioneerBncp-IL	10.4	97.7	14¾	-¼	-1%
27	21¼	ProvidentBancCp	9.4	122.6	21¼	-¼	-1%
14	7¾	ProvidentBkshs-MD	NM	41.4	13¾	-¼	-1%
27¾	19¾	PugetSoundBanc-WA	11.5	111.1	20¾	-¼	-1%
52¾	42¾	RepublicNYCorp-NY	15.9	134.6	50¾	-¼	-1%
37¾	14¾	RiggsNatlCorp-DC	8.1	58.4	14¾	-¼	-1%
25¾	20¾	RobinsonHumph	12.6	278.7	20¾	-¼	-1%
43¾	23¾	SantaBarbaraBk-CA	11.5	213.7	25	-¼	-1%
17¾	13¾	SecurityBancorp-MI	8.1	142.8	13¾	-¼	-1%
34¼	34¼	SecurityPacific-CA	5.5	93.1	34¼	-¼	-1%
14¾	10¾	ShenandoahCorp-VA	9.1	96.7	11¾	-¼	-1%
42¾	18¾	SignetBanking-VA	5.5	66.1	18¾	-¼	-1%
24¾	19¾	SimmonsFirst-AR	9.5	98.6	19¾	-¼	-1%
27¾	18¾	SouthCarolinaCp-SC	6.2	85.0	18¾	-¼	-1%
15¾	11¾	SouthtrustBcp-AL	9.4	129.7	11¾	-¼	-1%
15½	11¼	SouthernNatCp-NC	9.4	129.7	11¾	-¼	-1%
25¾	20¾	SouthtrustCorp-AL	9.4	130.0	21¾	-¼	-1%
43¾	29¾	SovereignCorp-PA	7.2	101.5	37¾	-¼	-1%
24¾	19¾	StarBancCorp-OH	9.9	115.3	19¾	-¼	-1%
43¾	32¾	StateStBosCorp-MA	13.0	240.4	40¾	-¼	-1%
25¾	20¾	SunBanks, Inc.	NM	45.3	20¾	-¼	-1%
26	18	SuburbanBancorp-IL	11.8	85.9	17	-¼	-1%
24¾	19¾	SunTrustBanks-GA	9.2	169.7	20¾	-¼	-1%
22¾	15¾	SunwestFin-CA	8.0	88.7	15¾	-¼	-1%
25¾	20¾	SupervalueBncp-PA	7.5	78.0	14¾	-¼	-1%
25¾	20¾	SuquehannaBncPA	7.8	102.4	18¾	-¼	-1%
25¾	20¾	SynovusFinCp-GA	10.4	270.2	24¾	-¼	-1%
18½	13	TheMarineCorp-WI	9.3	127.1	15¼	-¼	-1%
43¾	31¾	TheNorthernTrust-IL	14.7	194.1	32¾	-¼	-1%
43¾	31¾	Trustcompany-NJ	8.8	147.4	34¾	1¼	4%
25¾	20¾	TrustmarkCorp-MS	8.8	131.5	20¾	-¼	-1%
32¾	25¾	U.S.Bancorp-OR	8.8	131.5	29¾	-¼	-1%
43	33¾	U.S.TrustCorp-NY	12.2	187.1	34	-¼	-1%
23¾	18¾	UBI FinancialCp-CA	7.5	78.0	14¾	-¼	-1%
18¾	14¾	UST Corp-MA	5.3	89.1	11¼	-¼	-1%
32	21¼	UnionBncCa-CA	5.5	88.5	23	-¼	-1%
25¾	20¾	UnionBkshs-NJ	NM	66.6	24¾		
27¾	19¾	UnitedBankCol-CO	21.4	85.7	20¼	-¼	-1%
14	11½	UnitedBkshs-WV	7.9	92.9	11¾	-¼	-1%
17¾	13¾	UnitedCarolina-NC	7.8	120.5	13¾	-¼	-1%
62	52	UnitedCorp-NJ	7.1	105.0	52		
32¾	28	UnitedMerchants-NC	8.3	118.5	28¼	-¼	-1%
27¾	22	ValleyBancorp-WI	19.2	118.8	23¾	-¼	-1%
36	22¾	ValleyCapCorp-NV	7.7	141.7	24¼	-¼	-1%
28¼	19¼	ValleyNatlBanc-NJ	7.9	149.2	21¼	-¼	-1%
31¾	24¾	ValleyNatlCorp-AZ	8.5	135.2	24¾	-¼	-1%
87¾	64¾	WellsFargo-CA	5.8	143.7	76¾	2	2%
28¾	24¾	WestAmBncp-MT	8.8	120.8	25	-¼	-1%
27¾	21¾	WestOneBancorp-ID	9.7	104.5	23¾	-¼	-1%
25¾	17¾	WestamericaBncp-CA	13.4	184.2	22¾	-¼	-1%
46	30¾	WilmingtonTrust-DE	12.5	290.5	43¾	-¼	-1%
19¾	14¾	WintrustFinCp-IL	7.8	135.5	18	-¼	-1%
32¾	25¾	ZionsBancorp-UT	7.6	99.0	28		

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cha.	Chg.	%
24¾	18¼	AmvestonCA	8.7	98.3	20¾	-¼	-1%
45¾	30¾	AppleSavings-NY	8.3	71.9	40¾	-¼	-1%
28¼	14½	CalFedInc-CA	3.4	45.2	15¾	-¼	-1%
55¾	40¼	CitadelHldgsCp-CA	12.4	76.2	46¾	-¼	-1%
24¾	20¾	CoastSavingsHC-CA	NM	36.5	24¾	-¼	-1%
17¾	9¾	DimeBcp-Bk-NY	NM	23.8	9¾	-¼	-1%
24	14¾	EmpireFedBncp-NH	4.7	118.8	17	-¼	-1%
38	24¾	FirstNorthernsvl-WI	10.5	134.7	38	-¼	-1%
24¾	18¾	FirstPennFin-PA	7.4	128.6	18¾	-¼	-1%
21¾	12	FstFedMichCp-MI	6.5	34.1	13¾	-¼	-1%
24¾	20¾	FstFedSoCal-CA	6.4	82.5	20¾	-¼	-1%
31¾	24¾	GoldenWestFn-CA	11.0	172.4	31¾	-¼	-1%
24¾	13¾	GreatWestFinCp-CA	8.1	113.3	17¾	-¼	-1%
24¾	17¾	GtmoreBancCp-CA	NM	11.3	1¾	-¼	-1%
47¼	34¾	HomeFedCp-IA	6.1	72.8	34¾	-¼	-1%
24¾	20¾	HomeFinancial-IL	12.6	144.4	20¾	-¼	-1%
18¾	11	MRS BancorpNJ	14.0	99.0	13¾	-¼	-1%
24¾	20¾	NorthSideFinCp-CA	8.1	82.8	20¾	-¼	-1%
18¾	10¾	RochesterCmtyBk-NY	7.1	45.2	15¾	-¼	-1%
24¾	20¾	SecondFinCp-CA	6.4	82.5	20¾	-¼	-1%
19¾	9¾	SPSvcsBancp-IL	NM	81.9	10¾		
24¾	20¾	SouthFinCp-SC	6.4	82.5	20¾	-¼	-1%
29¼	15¼	WashMutualBk-WA	11.8	69.7	17¾	-¼	-1%
24¾	20¾	WestCoastBncp-OR	6.4	82.5	20¾	-¼	-1%
15¼	9¾	WestcorpCa-CA	15.5	105.3	9¾	-¼	-1%

Bank Stock Table Explained: The table lists in alphabetical order daily closing prices for the top 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the total assets reported in their most recent quarterly filing. As of March 30, 1990, the market value cutoff for banks was $42 million, and for thrifts was $30 million. The table is ranked by 52-week high and low prices for the stock. PE: the price-earnings ratio is the current price of the stock divided by the most recent four quarters' earnings per share adjusted for latest announced earnings. Mkt. to bk: the ratio of the current stock price to the latest quarter's book value, expressed as a percentage. Book value is adjusted for recent acquisitions and divestitures. Chg.: the change in which the stock last traded. If no trades for the day, the latest bid. All Bank Stock Table prices are supplied by Interactive Data Corp. Bid-and-market value and the top 50 thrifts in market value, respectively, highlight average spreads between bid and ask prices and set-and-one indications most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produces the Bank Stock Table; Financial News Network, Vienna, VA, provides SNL with the daily prices.

Key Rates

(July 19, 1990)

	7/19	7/18	7/12
Federal Funds-domestic range:	8-⅛/8	8¼/8	8¼-⅜/8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*:			
3 Month Posted	7.65	7.65	7.85
6 Month Posted	7.65	7.65	7.90
1 Year Posted	7.80	7.80	8.00
Eurodollar deposits*			
3 Month	8⅛/-	8⅛/-	8¼
6 Month	8⅛/-	8⅛/-	8¼
1 Year	8⅛/-	8⅛/-	8⅜/-
LIBOR*			
3 Month	8⅛/-	8⅛/-	8⅛/-
6 Month	8⅛/-	8⅛/-	8⅛/-
1 Year	8⅛/-	8⅛/-	8⅜/-

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (-/9— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of July 19, 1990, ($ billion)

Monetary Aggregates*	7/09/90	7/02/90	Change	6/25/90	6/18/90	6/11/90
M1- weekly average	$ 810.2	$ 817.7	-$7.5	$ 809.4	$ 807.5	$ 807.5
M2- weekly average	3274.8	3277.5	-2.7	3271.2	3266.5	3262.8
M3- weekly average	4,061.5	4,058.7	+2.8	4,054.5	4,058.0	4,059.2
M1- annual changes						
Latest 13 weeks	+3.2%					
Latest 26 weeks	+4.1%					
Latest 52 weeks	+3.9%					
Other data	7/11/90	7/03/90	Change	6/27/90	6/20/90	6/13/90
Business Loans*						
9 New York City banks	$ 57.0	$ 56.8	+ $.19	$ 56.7	$ 57.9	$ 57.9
All large banks	321.8	320.2	+1.6	321.6	321.6	321.4
Demand Deposits						
9 New York City banks	$ 45.6	$ 53.6	-8.0	$ 48.0	$ 47.3	$ 48.1
All large banks	248.6	251.4	+27.2	254.5	254.3	224.4
Commercial Paper						
All issuers	538.9	541.1	-2.2	542.6	542.6	550.1
Finance companies	392.0	393.4	-1.4	393.7	398.3	401.5
Non-finance companies	146.9	147.7	-.76	148.9	152.0	148.6

(*)— Seasonally adjusted. (*)— Excludes bankers' acceptances and commercial paper.

STOCKS
Loss Sends HomeFed Plunging

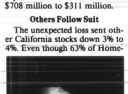
Continued from page 1

an overabundance of sell orders.

The company's stock had fallen 24.8% June 13 when the company announced that it was increasing nonperforming assets $81 million to $125 million for the second quarter. The stock is off roughly 50% since the beginning of June, sending the market capitalization down from about $708 million to $311 million.

Others Follow Suit

The unexpected loss sent other California stocks down 3% to 4%. Even though 63% of Home-



Peggy Turbett

Robert Adelizzi
HomeFed Corp.

Fed's problem real estate loans are out of state, analysts said the fact that 37% are in California, combined with the fact that investors in general are growing more skittish about the real estate market there, hurt other California bank and thrift stocks.

Wells Fargo & Co. fell $1.875 to $76.875, Security Pacific Corp. was off $1.125 to $34.75, BankAmerica Corp. was off $1 to $26.625, First Interstate Bancorp was down $2.875 to $37, H.F. Ahmanson & Co. dropped $1 to $20.875, and Golden West Financial Corp. was off $1 to $31.

Robert Adelizzi, HomeFed's president and chief executive officer, and Thomas Marrie, chief financial officer at First Interstate Bancorp, were quoted by Reuters as saying they were starting to become concerned about the once unflappable California market.

Norman Jaffe, an analyst at Fox Pitt Kelton, said a pending report from Moody's Investors Service about the California real estate market was also contributing to investors' nervousness about banks there.

Analysts said HomeFed's earnings announcement was particularly disturbing because, despite problems with the industry, HomeFed has been fairly healthy. The company has $19 billion in assets.

It earned $28.1 million, or $1.30 a share, in the second quarter of 1989. Until recently, it was one of the top thrifts in market capitalization. Further, analysts said, it has held a dominant position in its market with a 13% share.

However, with such dismal earnings results, with Wells Fargo's acquisition of HomeFed rival Great American Savings Bank knocking it out of the top slot, and with people raising the prospect of souring real estate in California, analysts are becoming less sure of its prospects.

Mr. Adelizzi "may have cleared up his existing problems, but I'm worried about what's going to happen down the road," Mr. Treadway said.

The company said that much of its second-quarter earnings problems were the result of nonperforming loans made out of state. Analysts say that could mean more trouble for HomeFed if the California market does sour.

One analyst said that despite the dismal earnings report, he was encouraged because the bank had increased reserves far beyond what will be necessary to cover current nonperforming assets and therefore probably won't have to write off more loans soon.

"They're very insulated now," said Joseph A. Jolson, an analyst at Montgomery Securities.

R. Michael James, a general partner at Wedge Capital Management that owns about 950,000 HomeFed shares, said the stock is cheap and is a good buy at its current levels.

* * *

THURSDAY'S MARKET

Most bank stocks outside California also were lower in midafternoon trading.

First Fidelity Bancorp and First City Bancorp Texas reported earnings, but they were in line with expectations. First Fidelity was down 37.5 cents to $16.625. First City was up 12.5 cents to $21.75.

The Dow Jones industrial average was up 12.31 to 2993.81 at 4 p.m.

Sarah Carson contributed to this article.

CAPITAL
Bank-Level Debt Looks More Attractive

By KELLEY HOLLAND

Banks seeking to limit their cost of funds for subordinated debt could find it desirable to issue debt at the bank level instead of the more common holding company level, market sources said.

Credit analysts, noting that the credit rating is often higher for bank-level debt, say banks could save 25 basis points or more by issuing debt at bank level.

"In an environment of everhigher capital rules, if you're looking for new capital, why not just do it out of the bank?" said Jay M. Weintraub, a director at Salomon Brothers Inc. "It's cheaper."



Bank-level debt is considered to be higher quality – and therefore lower yielding – because bank-level assets provide the collateral, and bank-level debt is closer to the bank's assets. And subordinated debt issued at the bank level counts as capital on a fully consolidated basis.

Reduction in Flexibility

But bank-level debt can be used only by the bank subsidiary issuing the securities, whereas debt issued at the holding company level can be used by any subsidiary. And that limit on flexibility may prove too costly for some institutions, particularly those looking for ways to fund nonbank subsidiaries.

"It's cheaper, but you have a lot more flexibility issuing out of the holding company," said a funding specialist at a money center bank.

This year, strong West Coast thrifts such as Great Western Bank, a subsidiary of Great Western Financial, have totaled $380 million in the second quarter, up from $25 million in the first three months of the year.

But today, as banks watch their holding company bonds fall further and further out of favor with investors, the capital-raising potential of a note issue is increasingly important, so banks could well start joining their thrift counterparts.

Higher Ratings

Certainly the rating agencies believe bank-level obligations are more creditworthy than holding company debt from the same institution.

For example, at Standard & Poor's Corp., ratings on most investment grade banks are one notch higher for senior bank-level debt than for senior debt at the holding company level, according to Donna M. Dickert, a vice president at S&P.

For banks with ratings below investment grade, she said, "we'll go as much as three notches, depending on the situation."

At Moody's Investors Service, a bank with a senior debt rating of A2 at the holding company level would probably have a subordinated debt rating at the holding company level of A3 and a subordinated debt rating at the bank level of A1, according to J. Michael McMullen, a Moody's vice president.

Higher ratings translate into lower financing costs. Banks could expect to pay as much as 25 basis points less for subordinated bank-level financing than they for subordinated debt at the holding company level, according to an investment banker specializing in bank financing.

What is More Important?

The lower cost could easily induce banks to issue debt at the bank level. But they will also factor in the intangible cost in flexibility, according to one capital markets specialist. That is important because bank subsidiaries can generally fund themselves with deposits.

One analyst at a major mutual fund company says banks put more value on the flexibility they have with holding company funding than on the lower price they have to pay at bank level.

"The rate is important, but not nearly as important as flexibility," he said.

But with lending activity light, Anne McDermott, a vice president at Kidder, Peabody & Co., pointed out that banks could simply stay out of the market. Bank-level issues as well as holding companies will probably remain rarities in the next few quarters, she said. □

* * *

MARKET MONITOR

Bonds of Midlantic Corp. have slid sharply in price since the Edison, New Jersey based bank announced its second quarter results. Midlantic's 9¾% subordinated capital notes due in 1999 were bid Wednesday at 64 cents on the dollar, but Thursday afternoon there was only a small bid for the securities, at 62 cents on the dollar.

"People are beginning to think the problems are deeper than management is willing to admit," one trader said. □

RTC Plan to Resolve 77 Cases Includes Empire, Merabank

Continued from page 1

which raised the money in an bond auction completed July 17.

The RTC will have $31.8 billion for case resolutions in the quarter and $6 billion to cover asset puts – or the options that buyers of RTC assets have to return unwanted holdings to the government.

Another $2 billion was allocated for selling assets in bulk – Secretary known as the accelerated resolution program.

"We have not been able to give the RTC all the money it wants for all the uses it brought forth to us," said Peter H. Monroe, Oversight Board president, at a press briefing Thursday. But the panel, chaired by Treasury Secretary Nicholas F. Brady, did not put constraints on the RTC plan to resolve a large number of institutions in this final quarter of the fiscal year, Mr. Monroe said.

"We have not been able to give the RTC all the money it wants for all the uses it brought forth to us."

Peter H. Monroe
RTC Oversight Board

The Oversight Board slashed the RTC's request for funds to finance conservatorship advances from $13.5 billion to $1 billion. It also granted $6 billion to cover previously granted asset puts, well below the $10.5 billion that the RTC sought.

By continuing an ambitious pace of resolutions through the end of September, the RTC will increase its net obligations to $48.9 billion, just $1.1 billion shy of the $50 billion ceiling imposed by Congress.

At the end of the quarter, the Federal Financing Bank's debt for S&L resolutions will total $60.6 billion, and the government's cumulative net loss will rise to $37.3 billion.

Because the agency is rapidly exhausting the financial resources allocated to it in the 1989 savings and loan rescue law, the Oversight Board is seeking authority from Congress for up to $59 billion in additional funding.

"We have absolutely enough to operate in this quarter, and some funds left for the next quarter," Mr. Monroe said. "But we will, sometime in the next quarter, run out of money."

Looking for more cash flow from a faster liquidation of assets, the Oversight Board asked the RTC to provide a report within 15 days on the outlook for its asset sales.

Also on Thursday, the Treasury Department said it increased its borrowing requirements for the current quarter to between $62 billion and $66 billion to pay for the S&L bailout. Treasury initially had announced plans to borrow $30 billion to $35 billion during July, August, and September. □

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER

S&A
STRATEGIC COMMENTARY
Volume 2, Number 1 Spring, 1990

SERVICE QUALITY IN FINANCIAL INSTITUTIONS: AN UNDERDEVELOPED STRATEGIC WEAPON

While service quality has long been a key factor in most successful financial institutions, the term "service quality" has all too often been treated as a fad in recent years. More has probably been written and discussed about service quality than any other consumer banking issue in recent memory. In reality, however, service quality has been inherent to the banking business since its beginning. This issue focuses on the role of service quality in the context of overall strategic planning and more specifically on its implementation in the current banking environment. The basis for this analysis is a one year, $1 million study S&A completed this Spring on service quality in financial institutions.

As regulations have eased and financial service markets have become more competitive, banks have sought new ways to differentiate themselves. Many have introduced new products, but in doing so have found that new products are easily copied and often do not provide the sustainable long-term competitive advantage necessary to increase profitability or market share. On the other hand, some banks have used pricing to attract market share. Clearly, unless sufficient economies of scale are achieved to support this approach, this is a risky alternative that will not necessarily improve profitability. Likewise, convenient branch locations are a key mechanism by which to compete, but brick and mortar is costly. As a result of the limitations of these strategies and following the lead set by other industries, some financial institutions are turning to service quality as a strategy with which to carve out a competitive niche. The success of these efforts, however, has been limited. **Most financial institution service quality "programs" are still limited to special campaigns and promotions that are not systematic and all-inclusive in their approach.**

It is time to treat service quality in the same manner as strategic planning. Service quality must begin with an analysis of the market environment, progress to a comprehensive internal assessment, and culminate in the preparation of a fully-integrated bankwide strategic service quality plan. Service quality must now be considered as a vital factor in planning for performance improvement in the rapidly changing financial services industry. Treating service quality in this manner dictates that it not be confined to a narrow role in a financial institution's business plan. Service quality is not limited to marketing, to branch banking, nor even to retail banking. It transcends these activities, and must be evaluated and planned with an eye to its universal impact on how business will be done throughout the organization.

As a new decade begins, service quality must take its place alongside more traditional concerns such as credit quality, asset/liability management, retail/wholesale market segmentation, product/delivery system development, and technology management in the integrated planning effort that is so important to achieving long-term success. This will

The S&A Strategic Commentary is a quarterly publication in which Speer & Associates, Inc. (S&A) explores topics of interest to its consulting clients and friends. We would be pleased to receive comments and suggestions; let us know if others in your organization would like to receive future issues.

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occur only when senior management is convinced of a real payback from service quality initiatives.

Senior Management Beliefs About Service Quality

Results	Managers Who See Correlation
Existing Market Share	92%
Stronger Customer Loyalty	92%
More Repeat Business	92%
Profitability	90%
Growth in Market Share	90%
Ability to Charge Higher Prices	82%
Reduced Vulnerability to Price Wars	77%
Lower Marketing Costs	40%

Source: S&A survey of top U.S. 100 commercial banks.

Service Quality: A Business Overview

An extensive examination over the past year of service quality in successful companies outside the financial services industry convinces S&A that banks can achieve tangible improvements in market share, productivity and profitability as well as a sustainable competitive advantage through the application of sound principles and experience. In assessing such firms as Motorola, Walt Disney and Marriott, as well as the writings of noted observers, S&A concludes that the following elements are key to employing service quality in the business environment:

- Establish a service culture -- Successful service quality initiatives come from companies which learned that the development of an effective service environment requires the total orientation of the firm. Foremost is the personal commitment of senior management to the service culture; having this commitment ensures that the cultural re-orientation will progress through the ranks.
- Not a program but a way of life -- Service quality cannot be implemented as a program. It is not a short-term campaign or focus. The cultural change will not occur overnight and the commitment must be ongoing.
- Investment in people -- Successful service quality cultures are based on the adage that a "company's employees are its greatest asset." Recognition, incentives, rewards and morale building must coincide with the sincere commitment to quality of service. Peer pressure will then become an important mechanism.
- Effective two-way communication -- As always, the communication in a service quality culture must move up as well as down. A participative atmosphere must convince employees that they can have an impact on the organization.

With these key business principles in mind, S&A evaluated the current financial services industry regarding service quality.

Current Financial Institution Service Quality Programs

S&A surveyed the top 100 commercial banks in the U.S. to determine their current commitment to service quality and then combined the results of this survey with an extensive review of secondary research and S&A's own experience to develop an overall assessment of the state of the banking industry today. Based on this study, S&A made several observations:

- **Seventy-five percent of banks responding had a formal service quality program in place, although many are currently "token" programs,** and do not reflect a cultural change in their organizations.
- **Many existing service quality programs are only modified customer service programs that are limited in scope.** The efforts of most service quality programs are still focused on specific campaigns and promotions and are not systematic and all-inclusive in their approach.
- **Most financial institutions cannot quantify the results of their service quality program except in broad, general terms** such as reduced customer complaints. A direct link between the program and financial results cannot be made by most institutions. Even though this direct measurement is not being made at this time, most financial institutions believe, as does S&A, that their service quality efforts will pay off in the long run.

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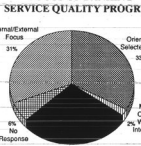
FOCUS OF BANKING SERVICE QUALITY PROGRAM



While identified as a key factor to long-term success and given "lip service", financial institution service quality efforts are still new and underdeveloped compared to other industries. Most efforts are not consistent throughout the organization and few senior managers are truly committed to the concept. Additionally, the tools and techniques available for implementing and managing service quality are not being fully utilized.

Service Quality Assessment

Using the survey results as a basis, S&A evaluated the impact of service quality on the three major areas within financial institutions: retail banking, wholesale banking and operations/data processing/administration. As a result, four fundamental issues were identified:

- Organizational Placement -- **Retail banking, and specifically the marketing department, most often manages service quality in financial institutions.** Even where service quality is managed in a separate function, its scope seldom extends to other corporate areas. Usually staffed with one or two full-time employees, personnel are typically drawn from retail functions often with customer service backgrounds.
- Management Commitment -- **S&A has found, in practice, little senior management involvement in service quality above the vice president level.** This lack of senior management commitment is the best indication of an organization's real support for a service quality culture. In most of the broad-based, successful service quality programs, senior management commitment is primarily responsible for the development and implementation of the overall effort.

PROGRAM MANAGEMENT



- Measurement of Results -- **Measurement of the results of a service quality program continues to be a difficult process.** Actual measurement of tangible criteria is rare, forcing managers to less quantifiable measures of how well things are working. The most common tools for measurement include market share data, customer surveys (open, closed, complaints, etc.), employee surveys, shopping studies and internal quality control measurements.
- Overall Perceptions -- Most major banks believe that their service quality programs are producing positive results, yet management is quick to admit that measurement of concrete results is difficult, if not impossible. S&A, however, believes that the lack of perfect measurement systems should not inhibit financial institutions from implementing service quality programs. **It is evident that any sincere efforts at improving service quality, particularly those efforts with management-wide and organization-wide support, will have a beneficial impact on business retention and will therefore enhance profits in the long-term.**

In general, there appear to be several typical problems with existing quality processes at commercial banks. **These problems include passive leadership, reactive customer service and product development systems, and limited monitoring and measurement.** Moreover, little integration of quality concepts have occurred within most banking organizations evidenced by an absence of performance goal setting, planning and appraisal as related to service efforts. **This partial implementation has unfortunately caused many banks to conclude that service quality is merely a marketing ploy.**

S&A believes that service quality should be an integral part of any high-performing financial institution's overall

strategic business plan and should be dealt with in the same methodology as more traditional banking activities.

As with any strategic planning process, the interaction among participants is often as important as the end product, so the process itself is a key to successful implementation and ongoing management. While there are numerous alternative approaches to developing a service quality strategic plan, S&A believes that the tasks outlined in the following sections must be addressed to achieve measurable results on a timely basis.

Current Service Quality Audit

The first step in developing a service strategy is a service "audit". A service audit is a comprehensive, systematic, independent, and periodic examination of each business unit's service environment, objectives, strategies and activities. The goal is to determine problem areas, identify opportunities and recommend a plan to improve the company's service performance. Three steps are required:

- Establishing the objectives and scope
- Gathering data and performing marketing research
- Preparing and presenting the findings

To effectively judge the extent of commitment and investment to be made in developing a service quality culture, the current assessment or review of each financial institution's service environment is instrumental. This analysis should focus on at least the three major areas - retail banking, wholesale banking and operations/data processing/ administrative support.

S&A strongly believes that a service quality initiative must be market driven. As such, consumers, customers and clients should determine strategy, not internal capabilities or perceptions. Effective consumer segmentation is, therefore, a vital analytical tool for service quality, as are external consumer behavior studies, image evaluations and delivery system assessments. Each institution must determine where it stands in the marketplace in the attitudes and perceptions of the consumer, and how it can change and improve those perceptions, as well as behavior, to the advantage of the institution.

Service quality programs must include features that are of real benefit and importance to the customer, those that can be measured, and those that are within the ability of the bank to deliver on a consistent basis. These features can only be determined through market research, and will likely include many of the following items.

- Prompt answering of telephone lines serving both external and internal customers.
- Determining the correct department to handle a customer inquiry and to refer the customer only once.
- Quick, accurate and friendly resolution of customer complaints and problems.
- Reducing errors in bank statements, operations, etc.
- Setting standards for teller wait times.
- Rendering statements quickly after cut-off dates.
- Prompt loan approval turnaround.
- Special customer service functions for specific market segment needs.
- Mechanisms for routine customer feedback.

The current assessment must provide a means for identifying the underlying factors which are critical for long-term success of the service initiative. The framework must also offer a way of establishing the implications of these factors for the allocation of limited resources within the organization.

Service Quality Strategy Development

Once the current assessment has been completed, the Bank must decide the level of investment in service which is effective and efficient in meeting the institution's short and long-term objectives. Many organizations differ in their definition of service quality. Some define it as customer satisfaction, others take it to the point of providing customer satisfaction to a degree that is measurably better than the competition.

Clearly, the level of investment will be dependent upon each bank's unique situation. Managers must, however, understand the mission and know how much is too much, and what is less than required. The most secure approach to profitability is to dominate the competition on a segment basis. Most broad business areas do break down into a number of segments which have fairly distinct economics. The overall aim of segmentation is the identification of product/market segments which are sufficiently distinct, economically and competitively, to be meaningful in developing service strategy for each segment individually. The segmentation process must also identify clearly the service basis on which a superior cost/revenue position can be developed in the segment to enable competitive strategy to be developed properly.

Retail Banking

From a retail banking perspective, for a service quality strategy to be effective it should meet two criteria:

- **It must provide a benefit that the customer wants and have an implicit or explicit value to the customer.**
- **It must differentiate the bank in some meaningful way in the eyes of the customer.**

As a result, a service strategy should be based upon a **market driven approach.** Historically, many banks defined their business in terms of what they sold, - "our business is loans." Many of these financial institutions have found that when products and technologies become obsolete, their mission is no longer relevant. Therefore, a more enduring way of defining the service mission is an external rather than an internal focus.

The success of any service initiative hinges on how well the organization can identify consumer service desires and organize its resources to satisfy them profitably. Thus, a critical element of the service initiative is understanding what service is required to satisfy customers.

The external service assessment examines the bank's knowledge of the customer, overall customer service systems, responsiveness, and its ability to meet customer requirements and expectations. Also examined are current levels and trends in customer satisfaction.

S&A bases its approach on three steps:

- Development of a customer segmentation framework and strategy.
- Understanding the service needs of priority segments.
- Designing and implementing service initiatives to address the needs of the priority segments.

Understanding consumer behavior is one key ingredient to a service quality initiative. This is primarily accomplished through marketing research with the following objectives:

- To ascertain the motivating factors that accompany the selection of a particular financial institution.
- To determine the market's perceptions of financial institutions on those attributes which are most important to consumers (i.e., convenience, product knowledge, responsiveness, etc.).
- To identify the impact of recent market changes on consumer perceptions of the bank.
- To determine if customer segments are satisfied with the products and level of service that they receive.

Market Research Methods
Service Quality Measurement

Research Used	Percent of Banks
Branch Shopping	83%
Customer Satisfaction Surveys	81%
Image Research	67%
Closed Account Surveys	64%
Others	19%

Source: S&A survey of top U.S. commercial banks.

These techniques can be combined or adapted to suit the information needs of a particular bank.

Wholesale Banking

While retail service quality may often emphasize overcoming consumer perceptions, often focusing on balancing price, convenience and cost/benefit, wholesale service quality focuses more on "surprising customers with excellence."

Wholesale service quality may be defined as meeting customer needs through better, more modern products that are delivered accurately and reliably with a commitment to error-free performance. Customer needs are identified and met by a responsive staff that is devoted to maintaining enduring business relationships through constant customer contact and the resulting deep understanding of each customer's business. Extraordinary competence is exhibited in handling the most complex customer requirements and extraordinary flexibility is shown in customizing services and procedures to meet individual customer needs.

Compared to the retail service quality planning process, wholesale banking presents a number of different issues. As with retail banking, the CEO's commitment to the concept and process of service quality is key to establishing a culture re-orientation in the wholesale business. Much of what can be accomplished in the area of wholesale banking service quality can be obtained through organizational changes and the implementation of processes and reporting systems within current staffing and expense levels. As with retail, target market and customer segments must be identified and fully evaluated to tailor wholesale banking activities to specific relationships and their needs and perceptions.

Management Information Systems
Service Quality Measurement

Measurement	Percent of Banks Retail	Commercial
Market Research	90%	33%
Customer Feedback	87%	31%
Employee Feedback	79%	26%
Quality Control Measurements	59%	13%
Others	49%	0%

Source: S&A survey of top U.S. commercial banks.

Much of what will be accomplished in setting up a service quality orientation in the wholesale area depends on the systems created and followed to measure service quality results against goals and expectations. Recognized quality corporations surveyed by S&A consistently report that service quality measurement systems are the focus of their service quality programs. The leading service quality companies devote considerable resources and effort to checking customers' perceptions of their service and believe

that "quality will be judged by the user, not announced by its maker." Key internal indicators of wholesale service quality should include:

- Officer call totals
- New business developed
- Business gained or lost from/to competitors
- Loan approval turnaround time
- Individual service/product volumes
- Problem rates versus performance standards

While specific attributes of wholesale banking dictate unique approaches to service quality planning, financial institutions can establish a clear differentiation in this area as well as in retail banking. Their methodology of external and internal evaluation, determination of alternatives and selection of a direction for the bank parallels that of retail and should be pursued equally aggressively.

Operations/Data Processing and Administration

Since reliability is a significant element of service quality, a financial institution's operational/data processing and administrative areas are integral to overall service quality planning. Performing to expectations is a key measure of these support areas, which in practice have two customer groups, external and internal. While most financial institutions have some form of quality control process to measure productivity and internal efficiency, few have related this performance to the bank's external situation.

Operations and Data Processing Service Quality Measurement

Measurement	Percent of Banks
Quality Control Measurements	64%
Employee Feedback	49%
Customer Feedback	46%
Marketing Research	18%
Others	3%

Source: S&A survey of top U.S. 100 commercial banks.

Overall service quality goals and objectives must be related to the bank's support functions in terms of performance and in terms of customer perceptions and behavior. An effective means of integrating the quality control/productivity approach with the service quality culture is through service level agreements between support areas and end users. Identifying and tracking key measures in these agreements are often instrumental in establishing an open dialogue between "production" and "service" functions.

Goals and Commitment

The Service Quality Current Assessment provided the bank with information regarding the market's perceptions of the bank's service quality. As part of the strategic plan three fundamental directions must be established:

- **The degree to which the bank wants to differentiate itself on service quality (i.e., pre-emptive, defensive, status quo, etc.).**
- **The commitment in resources required to reach this degree of differentiation.**
- **The breadth and scope of the institution's service quality initiative.**

The resolution of these issues will require balancing of the opportunities associated with an improved service posture against the costs/expenses of implementing an effective service program. Once senior management has established this direction, however, goal development/reinforcement is the most crucial role for senior management. Management must ensure that service goals have the following characteristics:

- **Be common throughout the organization.**
- **"Stretch" the bank to find new ways to accomplish things rather than to just increase costs (i.e., new processes and technologies).**
- **Be made part of all organizational-level and personal performance plans and job descriptions.**
- **Be reported on regularly to senior management. Many CEOs, in other industries, make this the first topic on the agenda of staff meetings.**
- **Be communicated throughout the organization.**

To maintain a service drive within an organization and to address these issues, most successful CEO's have a service "champion" - someone other than the CEO who serves as a manger and "driver" of service quality initiatives. For financial institutions, this is best served by establishing a service quality catalyst. This often is a person or small department which is responsible for administering and overseeing quality initiatives. This person or group keeps the fire burning and manages the process. It is most effective when this group reports to a senior executive, if not, the CEO. **While the CEO must infuse his or her organization with a service quality culture from the top down, day-to-day service quality management responsibility is critical.** The program manager generally should be chosen from within marketing or retail banking, but with direct access to senior management in a dedicated function. The criteria sought for the service quality department manager and "service driver" should include skills such as entrepreneurial, leadership and communications abilities and administrative talents. The position would have the following responsibilities:

- Oversee all quality activities
- Serve as a catalyst within the organization for quality
- Ensure that quality objectives are met
- Ensure that standards are followed
- Provide training to management
- Manage special quality programs

Measurement and Follow-up

Measurement is the last critical issue to be addressed in developing an effective service quality program. The statistical applications and methodologies first applied to the manufacturing industry have application to the financial services industry as well. Successful service quality programs depend upon consistent measurement over time. Measurement of processes, customer perceptions, and individual performance is critical. Motorola's success in winning the Baldrige award for service excellence in part is due to the emphasis placed on measurement. To monitor the bank's progress on these issues, senior management should require annual quality improvement plans from each operating division including cost of quality estimates. These plans form a basis for evaluating performance.

Another key issue for senior management is marketing. Senior management must address whether or not the service initiative should be promoted. **S&A believes that service quality programs should not be promoted until the "cultural change" has occurred throughout the organization and the bank can deliver on its commitments to the customer. Promoting too early creates expectations without the ability to follow through, and the result is the cosmetic, campaign-oriented "program" too often pursued by financial institutions.** Senior management must guard the use of service marketing. When promotion is appropriate, media advertising, public relations, employee incentives and similar activities should be aggressively implemented.

The bank that is truly committed to a service quality culture will make it a part of every employee's job description and will hire people based on this new criteria, including the following:

- Within reason, all customer contact employees should reflect the bank's commitment to service quality.
- Customer contact staff must be selected on their interpersonal skills as well as their technical skills.
- Hiring decisions must be influenced ultimately by the customer. If the customer is Hispanic, then employees should be bilingual.
- The time to re-orient employees to the service culture is during the hiring process. S&A agrees that it is better to make the time commitment at this time rather than during lengthy review or termination processing.

Senior Management Issues

To implement a service quality culture in your organization, S&A suggests that the following issues be addressed:

- What is my organization's real level of service quality? How does it compare to my key competitors?
- Given our overall business plan and performance goals, what level of commitment is appropriate to establish a service quality environment?
- Recognizing the need to cut across traditional organizational lines, how do we organize our service quality effort? Am I willing to designate a "service driver" and delegate appropriate authorities to establish a service environment?
- Given other priorities am I willing to make the long-term (three years plus) commitment to establish a service quality environment?
- Have we or can we establish the level of personal commitment throughout the organization to ensure a successful service quality environment?
- Does my organization have, or what do we need to do to establish the appropriate ongoing service quality measurement and management information systems?
- How do I integrate service quality into our overall planning environment?

In conclusion, service quality presents a demanding challenge for financial institutions. Unlike other businesses, banking deals primarily in intangibles, making it difficult to

differentiate one institution from another with enough significance to motivate the customer. **Banks are best served when delivering a consistently high level of service, value and performance to the marketplace, and not in attempting to hit the occasional "home run." Developing an effective service quality culture is consistent with this view; its bottom-line benefit will only be realized over an extended period of delivering higher than expected levels of service to the public.**

Next Issue

In the next issue of Strategic Commentary, S&A will discuss the future directions of Shared ATM/EFT networks. This analysis will focus on the state of shared network development today; product/service trends; financial performance; network consolidation; and future directions.

For additional information about S&A's special report "Service Quality in Financial Institutions" or information about consulting services furnished by S&A, please contact:

George L. Albright, President
Speer & Associates, Inc.
8215 Roswell Road, Bldg. 1100
Atlanta, Georgia 30350

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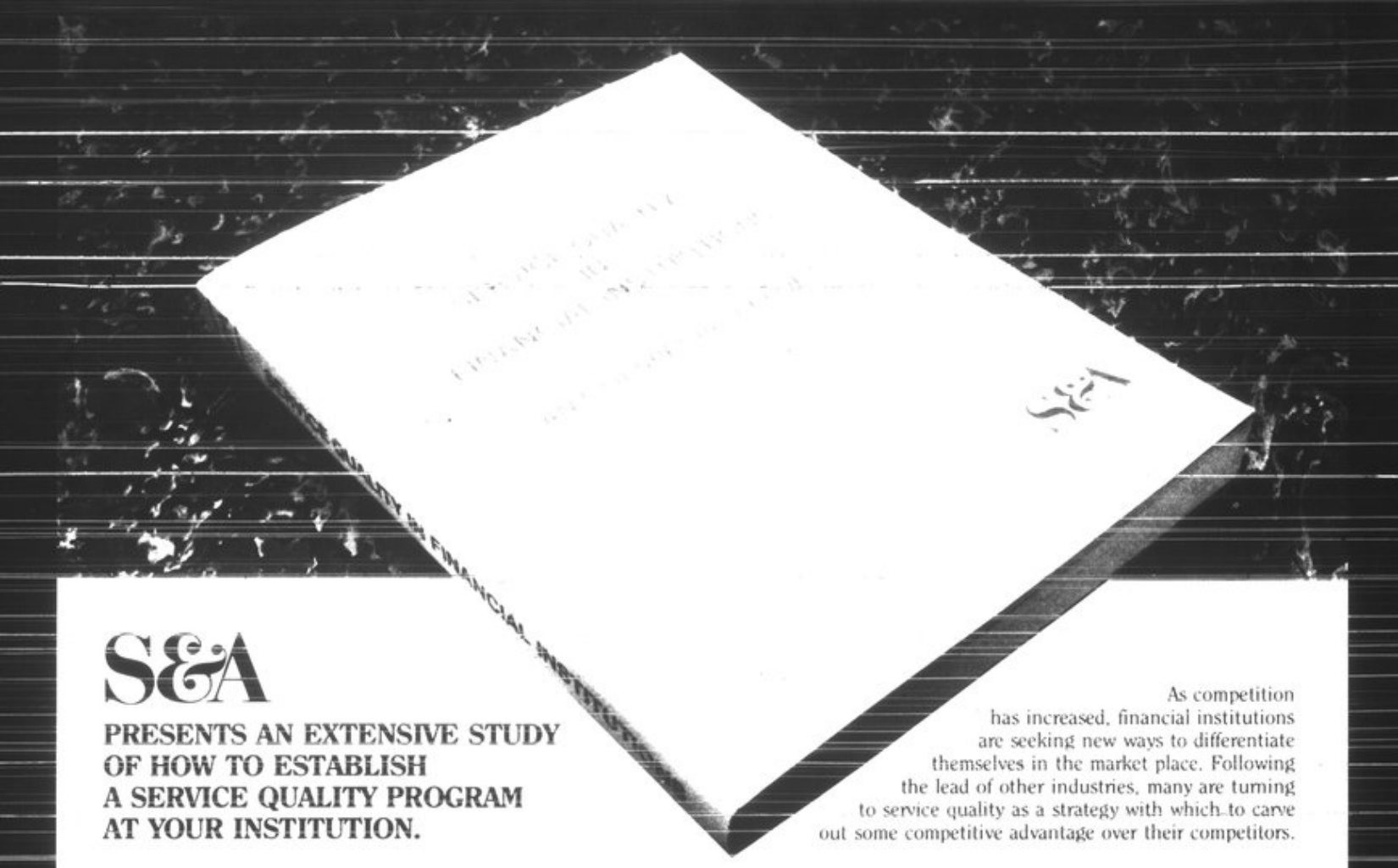

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As competition has increased, financial institutions are seeking new ways to differentiate themselves in the market place. Following the lead of other industries, many are turning to service quality as a strategy with which to carve out some competitive advantage over their competitors.

The study includes the results of a survey of top U.S. commercial banks conducted by S&A which identifies the service quality techniques being used in:

- Retail Banking
- Wholesale Banking
- Operations
- Data Processing
- Administration

The S&A special report on service quality is a comprehensive "how to" guide for implementing and measuring a service quality program at financial institutions.

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- Insurance
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- Entertainment
- Hotel
- Telecommunications

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AMERICAN BANKER

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Tougher Exams Spark Worries Over CRA Loans

By STEPHEN KLEPER
Staff Reporter, American Banker

NEW YORK — Is the requirement that banks provide credit to poor communities headed for a collision with tougher regulatory exams?

That question is on the minds of bankers who are faced with the dilemma of being pressured to increase local lending at the same time regulators are cracking down on credit quality. The bankers worry that their regular examiners may view the local loans as overly risky and force them to be written down.

The pressure to make more CRA loans stems from the new requirement that banks publicly disclose how well they comply with the Community Reinvestment Act. Because a low CRA rating would result in bad publicity, banks reportedly have been stepping up their lending to poor and middle-income communities.

ANALYSIS: *Follow-up on the news*

In late June, before the CRA disclosure rule took effect, bankers in Boston told government officials they feared the tight credit policies being enforced by regulators could derail some of their community redevelopment programs.

They got only lukewarm reassurance from the comptroller of the currency, Robert L. Clarke, that his agency's credit policies are consistent with CRA lending, according to one account of the private session.

But a spokesman said the agency sees no conflict between CRA compliance and prudent lending. "Some banks claim that CRA loans are bad loans," said spokesman Dean Debuck. "We don't agree. There are good loans to be made to fulfill your CRA responsibility, and banks should go ahead and make them."

"Nobody tries to make bad loans; that's not the issue," said James P. Murphy, executive vice president of Fleet/Norstar Financial Group, Providence, R.I. "We're trying to sensitize the examiners that when you make a [CRA] loan, you have to be more flexible."

There is plenty of anecdotal evidence that CRA loans perform just as well as any other category of loan. But because the loans are not reported separately from other loans, statistical evidence of this is hard to come by. Mr. Murphy said he has proposed a separate reporting category for the loans.

He said it remains to be seen whether examiners will force lenders to reserve against com-

See **FEAR** *page 6*

INSIDE NEWS

TECHNOLOGY

WITH JAPANESE banks playing catch-up in technology, U.S. banks are rushing to sign global custody contracts with Japanese investors. *Page 3*

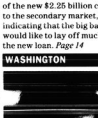
INTERNATIONAL

EASTERN EUROPE continued to soak up Western bank loans in the second half of 1989, but at a slower pace than in the first half. *Page 10*

FINANCE

RJR NABISCO'S bank group reoffered at least $1.4 billion of the new $2.25 billion credit to the secondary market, indicating that the big banks would like to lay off much of the new loan. *Page 14*

WASHINGTON



Jon Nass/Newsday

DONALD TRUMP'S crumbling real estate empire will be examined Aug. 9 at a hearing called by House Banking Committee Chairman Henry B. Gonzalez, who said aggressive oversight is needed now to ensure that banks do not go the way of the thrift industry. *Page 2*

THE FEDERAL Housing Finance Board lifted stock-dividend caps for seven of the 12 Federal Home Loan banks. *Page 8*

CONSUMER

IN THE SEARCH for lucrative markets, more banks are aggressively pursuing the personal accounts of top executives and professionals. *Page 6*

COMMENT

A POWERFUL FEW set the stage for the S&L debacle, writes Paul Nadler. *Page 4*

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Japanese Planning Big Expansion In U.S., Dashing Hopes of Easing

By JAMES R. KRAUS

NEW YORK — Defying predictions that the Japanese would curb their expansion in the United States, 15 banks are planning to open or upgrade 27 offices in 13 cities across the country, according to an internal memo of the Ministry of Finance.

Banking sources in Japan and New York said the banks intend to emphasize higher-yielding assets and fee income rather than simply an increase in the size of their existing assets.

Bankers Confirm Details

Officials with Japan's Ministry of Finance declined to comment on the memo, a copy of which was obtained by the *American Banker*. However, senior Japanese bankers confirmed the expansion, which they said was part of a plan by Japanese banks to open 65 additional offices around the world.

Japanese banks have been rapidly increasing their share of the U.S. market over the past decade and diversifying out of straight lending into other banking businesses.

Japanese banks held $372.5 billion in U.S. assets as of mid-year 1989, or more than 12% of total U.S. banking assets. They have 120 offices around the country.

The decision to expand in the

See **JAPANESE** *page 10*

CalFed Loss Heightens California Realty Fears

By TERESA CARSON

CalFed Inc. on Friday became the second California thrift in three days to report a large loss stemming from problem commercial realty loans, heightening concerns that the state's real estate market is headed for trouble.

California bank and thrift stocks were volatile Friday, with many still reeling from the earlier disclosure of problem real estate loans at San Diego-based HomeFed Corp. and an announcement by First Interstate Bancorp that it expected nonperforming loans to increase.

No Downturn Expected

But while analysts conceded some California markets were softening, most agreed that a major downturn was not imminent.

"The markets have definitely overreacted," said James F. Wilson, housing and thrift analyst at Montgomery Securities Inc.

First Interstate Bancorp fell $2.25, to $34.75 and Wells Fargo & Co. fell $1.375 to $75.50. HomeFed, whose shares lost 25 percent of their value Thursday, closed up 12.5 cents to $14.375.

See **STOCKS** *back page*

Citicorp Outlines A Wide-Ranging 'Reconfiguration'

By JED HOROWITZ

NEW YORK — In an announcement long on promises and short on specifics, Citicorp on Friday unveiled a "reconfiguration" of its troubled commercial and investment banking activities.

The plan calls for a simplified management structure in Citicorp's global finance sector for Europe, Japan, and North America. It puts power in the hands of nine key executives and sets up a compensation system that rewards customer service and market share more than meeting traditional quantitative goals, such as profit-center earnings.

Analysts Disappointed

The long-awaited news disappointed analysts, who were hoping that the nation's largest banking company would project cost savings from the restructuring and announce a specific number of layoffs among the

See **CITICORP** *page 5*

Thrift Industry Kept Shrinking In Early Part of Year, OTS Finds

By DEBRA COPE

WASHINGTON — The Office of Thrift Supervision released data Friday showing that the long, steady contraction of thrift industry deposits and assets continued into the first two months of 1990.

In its first, long-delayed report on the industry this year, the agency said deposits of all thrifts – both healthy and in conservatorship – shrank by $19.2 billion in January and February. The net outflow was little changed from the comparable period a year earlier.

Another $700 million left the industry in January and February as 18 thrifts were closed or merged out of existence.

Body Count

At the end of February, 2,860 thrifts remained in operation, including 333 in conservatorship. Their deposits totaled $926.5 billion, 3% below their February 1989 level of $957.4 billion. Meanwhile, assets fell to $1.225 trillion, 8% below the $1.336 trillion they logged in February 1989 and 2% below the



$1.250 trillion mark in December 1989.

"What we see is a slowly shrinking industry, both within the surviving institutions as well as those moving out of the industry," said Bert Ely, an Alex-

See **THRIFT** *page 11*

PEOPLE *in the news*

Moeller Expects Long Run At Connecticut Bank & Trust

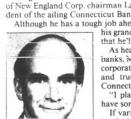
By TOM LEANDER

NEW YORK — The Moellers love a banking challenge.

When Franklin Delano Roosevelt declared a banking holiday on March 6, 1933, Frank Carl Moeller stepped in as president of First National Bank of Fort Dodge, Iowa. And he stayed – for 50 years.

His grandson, William E. Moeller, was tapped this week by Bank of New England Corp. chairman Lawrence A. Fish to become president of the ailing Connecticut Bank and Trust Co. subsidiary.

Although he has a tough job ahead, Mr. Moeller, 48, who carries



William E. Moeller

his grandfather's gold watch, is confident that he'll be at CBT for a long time.

As head of one of Connecticut's largest banks, Mr. Moeller will be responsible for corporate, commercial, real estate, retail, and trust and private banking within Connecticut.

"I plan to make this thing work, and have some fun," he said.

If variety adds up to fun, Mr. Moeller has had loads of it in his 24-year career.

He was executive vice president with Southeast Banking Corp. in Florida for the past two years. He was in charge of institutional and South Florida banking,

and responsibilities included international corporate banking, capital markets, and all commercial real estate activities.

Southeast suffered a significant rise in nonperforming real estate loans in the first quarter, but the Florida bank's woes pale when compared with the whopping $2.67 billion in problem assets carried on the books by Bank of New England Corp.

Mr. Moeller said his real estate experience – a new area before he arrived at Southeast – will pay off at CBT.

"It will serve me well in New England," he said.

Before going to Southeast, he worked for seven years at First National Bank of Chicago, where he rose to head the North American banking group. He cut his eyeteeth in banking, working in a number of positions at Citicorp, including commercial lending and back office operations. At Citibank, he was put in charge of franchising the company's Citicard to correspondent banks.

Mutual Friend Brought Them Together

The appointment of Mr. Moeller to Bank of New England had a personal touch. A mutual friend of both Lawrence K. Fish, Bank of New England Corp.'s chairman who assumed the post in March, suggested that they talk.

"Larry was very persistent, very persuasive, and the environment itself was extremely inviting," said Mr. Moeller.

Mr. Moeller, who spent his first full day on his new job touring CBT last Thursday, is brimming with enthusiasm. "We're on the right glide path at CBT," he said.

Mr. Moeller points out that he lived in Connecticut when his father worked a stint at General Electric Corp. He also attended Yale, where he graduated with a degree in economics, and earned a master's degree in business administration from the Amos Tuck School of Business at Dartmouth College.

He devotes his spare time to gardening, with a knack for plants that grow "in a temperate climate." In his other spare time, he says, was that he chucked a potential career as an oboist for symphony orchestras to take up banking. □

NEWS *briefs*

Ebert Named President of Southeast Banking

MIAMI — Douglas E. Ebert, who left Manufacturers Hanover Corp. after a recent reorganization, on Friday was named president and chief operating officer of Southeast Banking Corp. and its principal subsidiary, Southeast Bank of Miami.

Mr. Ebert, 44, spent 22 years at Manufacturers, most recently as a sector executive vice president. He will report to Southeast's 64-year-old chairman and chief executive, Charles J. Zwick.

Wells Fargo Agrees to Buy Citizens Holdings

LOS ANGELES — Continuing its expansion in southern California, Wells Fargo & Co. said it agreed to acquire Citizens Holdings for an undisclosed price.

Citizens owns El Camino Bank, Anaheim, and Citizens Bank, Costa Mesa, each with about $130 million in assets. Wells agreed earlier last week to buy the 130 branches of San Diego-based Great American Bank.

— Reuters

Glenfed Says Bad Loans Declined in Latest Quarter

GLENDALE, Calif. — Glenfed Inc. said nonperforming loans declined by $20 million in its fourth fiscal quarter to $449.4 million, or 1.76% of total assets. The percentage was 1.84% at March 31, the end of Glenfed's third quarter. □

House Committee to Probe Trump Real Estate Empire

By ROBERT M. GARSSON

WASHINGTON — Donald Trump's crumbling real estate empire will be examined Aug. 9 at a hearing called by House Banking Committee Chairman Henry B. Gonzalez, who said aggressive oversight is needed now to ensure that banks do not go the way of the thrift industry.

The Texas Democrat, who had staff investigators in New York last week, has asked bank regulators and Trump lenders to testify. Citicorp has been asked to testify, according to one source, and Chase Manhattan Corp. may be summoned as well.

In addition, Mr. Trump and representatives of the Trump Organization will be asked to appear, a committee spokesman said.

A Question of Confidentiality

However, there were signs that the hearing could be derailed because of a dispute between Rep. Gonzalez and the regulators over how much information the committee can provide about individual bank customers.

Rep. Gonzalez criticized the Office of the Comptroller of the Currency for indicating at staff-level meetings that the agency would not provide information about the Trump loans or the supervisory data taken with respect to the Trump Organization's lenders.

"I am aware of OCC's longstanding policy of confidentiality and it is something that often slows congressional oversight efforts in the past," Rep. Gonzalez wrote in a letter to Comptroller Robert L. Clarke.

"We are in a new era where the public expects a more open system and a more vigorous oversight of the agencies which regulate taxpayer-insured institutions," he added. "I am convinced that billions of dollars of insurance and tax dollars could have been saved" had Congress carefully monitored thrift regulators.

Senior deputy Comptroller Frank Maguire said the agency has no intention of discussing the Trump loans.

"We cannot speak to individual loans, and Trump is an individual," Mr. Maguire said. The Federal Reserve, which has also been invited to testify, reportedly shares the Comptroller's views.

Mr. Maguire said he doubted individual banks would violate Trump's right to financial privacy and testify about their loan agreements with the Trump Organization or their efforts to restructure that debt.

The hearing could be derailed because of a dispute between Rep. Gonzalez and the regulators.

The Softening Market

In his letter to Mr. Clarke, Rep. Gonzalez placed the Trump negotiations within the context of the continuing credit crunch.

Some committee members, he said, "have suggested that much bank credit is being channeled to larger borrowers while smaller, creditworthy borrowers suffer from a lack of credit."

A committee aide said the hearings could provide a case study of the nation's softening real estate markets, and would give the committee information about how those problems will affect the banking industry. □

For Bankers Who Mean Business
Commercial Real Estate
Every Tuesday in
AMERICAN BANKER

Fed to Consider Merger Proposal Of Sovran, C&S

By LINDA CORMAN

WASHINGTON — The Federal Reserve Board will hold a closed session today to consider the proposed combination of Sovran Financial Corp. of Norfolk, Va., and Citizens and Southern Corp. of Atlanta.

If approved by the Fed, the merger will employ a stock swap to create a new organization, Avantor Financial Corp., with dual headquarters in Norfolk and Atlanta. Avantor would become the nation's 12th or 13th largest holding company, with $49.5 billion in assets and operations in 11 states.

The planned merger, announced last September, has gotten most other necessary approvals. It was delayed while the Office of the Comptroller of the Currency reviewed the real estate portfolios of the two institutions' lead banks. The Fed, which received the merger application in December, said it would not consider it until the Comptroller's office completed its examinations.

Loss Provisions Boosted

Sovran announced last week that it would boost its loss provisions, according to their recent statements.

Last week, Sovran announced reduced net income for both the second quarter and first half of 1990. The lower quarterly results were attributed to a $69.8 million increase in provisions, including those for problem real estate and commercial loans and Third World debt.

In April, C&S announced it was setting aside $54.8 million to cover real estate losses.

A spokesman for C&S said he did not expect the writedowns to have an effect on the Fed's decision. Both the Fed and the Comptroller's office declined to comment on the results of the review.

The merger has also been

See **FED** *page* **11**

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TECHNOLOGY/OPERATIONS NEWS

Imaging Systems for Checks: Banks Expect Slow Payback

By JEANNE IIDA

NEW YORK — Although bankers look forward to increased productivity with check image processing, they expect the payback to be slow in coming, according to a survey by the Bank Administration Institute.

Of 113 bank respondents, 38% expect a payback two to three years after imaging systems are installed. But the largest group, 46%, said the payback would take more than three years.

"The payback is still one of the biggest issues surrounding imaging," said Bruce Davis, director of technology and operations for the institute based in Rolling Meadows, Ill. "Talking about cost benefit is like getting your arms around a cloud."

Most organizations seem to think the high cost of such systems can be justified within three years, he added. "Others have told us flatly they don't think it can be done in four years."

A Tough Sell to Management

Because the return on investment is uncertain and both systems are so expensive – at least $1 million to $2 million to install – some executives have a hard time selling top management on the technology.

A full 96% of the bankers in the survey said they plan to install imaging systems. But, Mr. Davis said, "very few of these banks have concrete plans."

Roger Elsom, vice president and manager of operations support at Huntington Banchares Corp., anticipates a payback in three to five years. Huntington, based in Columbus, Ohio, plans to test an imaging system in its check-processing area by next spring.

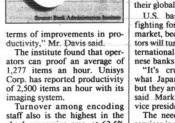
"There's going to be a lot of determining factors about volumes and work mix – how much preceded work a bank has versus over-the-counter work," Mr. Elsom said.

Decentralized organizations employing many proof operators may achieve returns the fastest, Mr. Davis said. Banks that have already centralized their operations and are enjoying economies of scale with larger reader/sorter machines will experience smaller returns.

Productivity Improvements

One of the biggest drags on productivity is proof encoding, in which an operator types in an amount for every check. Proof encoding "has hit the wall in terms of improvements in productivity," Mr. Davis said.

When Will Image Processing Pay Off?
Officials of 113 commercial banks give their projections



The institute found that operators can proof an average of 1,277 items an hour. Unisys Corp. has reported productivity of 2,500 items an hour with its imaging system.

Turnover among encoding staff also is the highest in the check-processing area, at 62.5% in 1989, up from 57.2% in 1987.

The survey of 138 institutions included 76 commercial banks, 29 thrifts, 28 banking holding companies, and five cooperative banks. □

U.S. Banks in Global Custody Race

Foothold Sought in Japan Through Advanced Systems

By RICHARD LAYNE

NEW YORK — With Japanese banks playing catch up in technology, U.S. banks are rushing to sign global custody contracts with Japanese investors.

At stake may be tens of millions in assets to be divided among U.S. bankers, who hope that their advanced back-office systems will give them an advantage as Japanese investors increasingly look to foreign markets.

A handful of U.S. banks operating in Japan have invested millions of dollars in systems that can settle trades and monitor portfolios in a variety of currencies. But industry observers say the U.S. banks' technological edge is diminishing as Japanese banks develop similar systems.

"You are seeing a race on the part of the U.S. banking institutions to gain a foothold in Japan as a global custodian," said Richard A. Pregiato, managing director of the Sequor Group, part of the merchant bank of Security Pacific National Bank. U.S. banks feel a sense of urgency, he said, because of well-funded Japanese efforts to match their global custody capabilities.

U.S. bankers say they are fighting for a small piece of the market, because Japanese investors will turn the bulk of their international assets over to Japanese banks for custody.

"It's crumbs compared to what Japanese banks will get, but they are worth fighting for," said Mark C. Aprahamian, a vice president at Citicorp.

The need for global custody services is expanding as the Japanese increasingly look abroad for investments. According to the Japanese Ministry of Finance, investors there have more than quadrupled their holdings in foreign-issued stocks and bonds since 1984. They accounted for $112 billion in net purchases last year, up from $27 billion in 1984.

The vast majority of Japanese investments continue to be in U.S. securities and Eurodollars. But U.S. bankers say Japanese pension funds and other investment pools are substantially increasing their investments in European and Asian securities.

While a U.S. branch of a Japanese bank can monitor U.S. purchases, a global custodian is needed to settle trades and provide timely information on trades in Europe, Asia, and Latin America.

U.S. banks declined to supply data on their global custody services in Japan, merely saying they see opportunities opening.

Chase Manhattan Bank, the largest global custody bank with $112 billion in assets, shifted its strategy in Japan late last year. The New York-based institution got out of fund management and other businesses to concentrate on global custody.

Chase Manhattan Trust Bank, Tokyo, has also been connected directly to a processing center in Bournemouth, England, giving Japanese customers instant access to their asset portfolio worldwide.

Chase and other U.S. banks operating in Japan can report on transactions in a variety of currencies and can settle trades in many markets. Mitsubishi's U.S. operations have multicurrency accounting software, but no Japanese bank operating on home turf does.

"One thing we can leverage going in is that we handle more cross-border investments for investors," said Mr. Aprahamian of Citicorp.

That technology advantage is eroding. "Japanese banks don't now have the technology to do global custody themselves," said Mr. Pregiato of the Sequor Group. "But we would be fools to think they won't have it soon."

U.S. bankers say the Bank of Tokyo is on the verge of announcing such a capability. The bank reports holding $112 billion in custody worldwide including stocks, securities holdings, with slightly more than half held through its trust bank affiliate in New York.

"Japanese banks have the clout and the resources to build global custody systems," Mr. Aprahamian said. "One or two of the Japanese banks will be heard from soon." □

The Offshore Attraction
Japanese net purchases of foreign-issued stocks and bonds, in billions of dollars

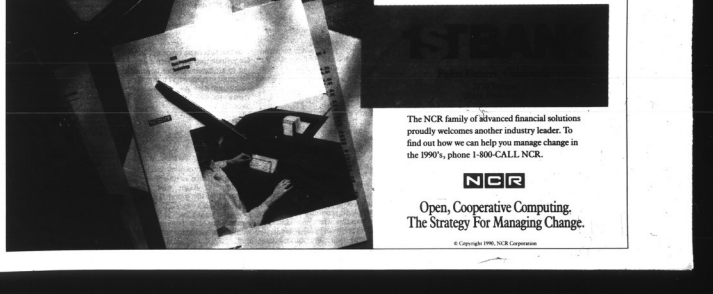


Source: Japanese Ministry of Finance

Fleet Names Unit President

PROVIDENCE, R.I. — The Fleet/Norstar Financial Group said Thomas Skala, senior executive vice president for the past four years, has been appointed president of its lead subsidiary, Fleet National Bank.

Mr. Skala, 46, succeeds Robert Higgins, 64, who was named chairman of the bank and remains as chief executive officer. — Reuters



COMMENT/*By Paul Nadler*

Powerful Minority Paved The Way for S&L Disaster

Meeting a top executive who has been brought in to help solve the savings and loan debacle and put the industry back into high public esteem, I asked, "What's the most interesting thing you have learned about the thrift crisis since you took this tough job?"

We were seated together at a dinner, and he asked me to wait a half hour before he answered. This was his response:

"The most interesting thing I have learned is how many savings industry executives resented the power structure that ran the industry since the early 1960s. The leadership consisted of a handful of people who made all the decisions and did not allow other executives to provide input or gain any power over decision-making."

In hindsight, one has to conclude that this helps explain a lot of what went wrong.

A Sense of High Purpose

It is ironic. For it was the multitude of thrift operators throughout the nation who cultivated the local congressmen, senators, and state legislators and made them feel that supporting the thrift industry was important for the future of America and for the housing stock of its citizens.

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

These thrift executives knew and supported their lawmakers on both sides of the aisle, and they made the typical legislator feel that thrifts were "good guys" who were there for the people. This attitude was immortalized in the movie "It's a Wonderful Life," which did so much for the image of the savings and loans.

But when it came to using this goodwill, the decisions about what to demand of Congress were all made by this small group that my friend described. What they asked for was idiocy (as any free-market economist would tell you now, and many tried to say then).

As conditions changed, the thrift industry could no longer survive on 3, 6, and 3 (taking in funds at 3%, lending them out at 6%, and hitting the golf course by 3 p.m.). Instead of fighting for new powers, such as variable-rate loans and shorter-term assets, these leaders asked for interest rate ceilings to protect them from market forces. And with their political clout, they got them.

But all that really resulted was that the commercial banks had to bypass these Regulation Q restraints through the use of the Eurodollars and by borrowing through the bank holding company structure, so the actual flow of funds would not be to a regulated bank but rather to a corporation that was not subject to Reg Q. The public got around the ceilings by putting money directly into money funds.

Day of Reckoning Postponed

All that Reg Q protection did for the thrifts was to postpone the day of reckoning until the early 1980s. The experience proved the old saw "Your first loss is your easiest loss." By the time the industry had undergone the radical surgery it needed, most S&Ls were in such difficulty that they had to work to carve out laws that allowed them to be the ranch.

This process involved taking risky assets financed with deposits solicited from everywhere under federal deposit insurance. As the S&L executive put it, 75% of the funds were invested not for safety, but rather for rate alone.

Deeper examination of the thrift industry today proves "the sins of the fathers shall be passed on to the third generation."

Pendulum Has Swung

For as thrift leaders try to rescue what is left of a once-proud industry, they find that Congress and the regulators have swung the pendulum so far the other way that it is difficult to make any thrift survive and thrive.

● In the 1980s the industry lobbied for and won deregulation without an accompanying increase in examination. Now regulators are directing exam policies that make negotiating with a terrorist reasonable by comparison.

● Industry leaders got "creative means" of generating capital, notably the development of goodwill capital. The industry relied on this as a solution to capital problems, only to see the thrift-bailout legislation remove it. That made the capital problem far more severe than it would have been.

● The leaders fought for full diversification and direct investment in anything, and in some states they got it. The result is that now the industry has to return to strict reliance on home finance and the very inflexibility in asset posture that helped cause the problems.

But most important, by trying to make housing and thrifts so important in the minds of Congress that money would be directed to home finance in all phases of the business cycle, we put so much money into one needed homes and commercial structures that we have an overhang of unsold and repossessed property that will depress the real estate market for years. Also, capital was denied to other areas that could have used it.

The lessons of the thrift bailout must include a repeat of the warning that a militant minority can rule over a passive majority.

As for that minority itself, it is obvious that even with all their power as spokesmen for the industry, they forgot the adage "Be careful in what you wish for, because you may be cursed to receive it." □

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ART
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FEATURES
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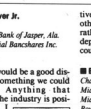
"SOUND OFF"

Federal Reserve Board Chairman Alan Greenspan recently suggested that a rise in bank capital requirements is in the offing. While he gave few specifics, he raised the possibility that it may be higher than the 8% ratio of capital to risk-based assets that the United States and other major countries have agreed to impose by the end of 1992. *American Banker* reporter Gordon Matthews posed the following question:

***Q** What impact will potentially higher capital requirements have on growth in the banking industry?*

■ John T. Oliver Jr.
Chairman
First National Bank of Jasper, Ala.
First Commercial Bancshares Inc.
Birmingham.

I think it would be a good discipline and something we could live with. Anything that strengthens the industry is positive, and I would applaud it. We would not want anything like the savings and loan situation to happen within the banking industry.



I look at this through a community banker's eyes, of course. Since the smaller banks have always been more heavily capitalized, it's easier for me to be positive than it might be for some other bankers. I would certainly rather see this than a change in deposit insurance limits, which could be very disruptive.

■ Edward J. Reiter
Chairman
Mid-American National Bank & Trust
Mid-Am Inc.
Bowling Green, Ohio

Without knowing what all the figures would be, I doubt it would affect a bank like ours, at least right now. However, if we were to experience further growth, it gets hard to predict the effect of this announcement.

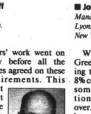
It seems like another case of reaction to problems in a certain segment of the industry by further regulating the majority of the industry – those who have been prudent and have not caused any problems. I don't think that's the right way to do it.

Politically, it would be popular, of course. Whenever anyone asks if banks should have more capital, the popular answer is yes.

But it might not work out to be so popular, economically speaking. If banks are restricted in lending money because of capital restrictions, we might not be able to grow as fast. That may cause small recessions in the communities in which we operate.

■ Ken Stancliff
Treasurer
First Union Corp.
Charlotte, N.C.

Several years' work went on internationally before all the major countries agreed on these capital requirements. This would be a bit like throwing it out before you've even tried it.



There isn't any doubt in my mind that we would be going back to a situation in which the banks in the United States would be at a disadvantage. We're not in a United States economy anymore, we're in a world economy.

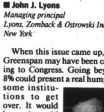
Does this affect First Union in the short term? No. Does it affect the other big southeastern banks? Probably not.

It would be felt by the major money-center and internationally oriented banks. I think it would be a mistake to put them at a disadvantage.

Longer term, it would mean the same problem for all domestic banks. In the Southeast, we have most of the major footing banks represented, at least in Atlanta and Miami. They would have a competitive advantage, since their required return on capital would be lower than ours.

■ John J. Lyons
Managing principal
Lyons, Zumbach & Ostrowski Inc.
New York

When this issue came up, Mr. Greenspan may have been catering to Congress. Going beyond 8% could present a real hump for some institutions to get over. It would be easier said than done.



Realistically, how would the banks that need it move toward higher capital levels if the marketplace is unwilling to provide it? Right now that seems to be the mood. The answer probably wouldn't be to grow through some variety of borrowed capital. The regulators would be unlikely to accept that. □

Citicorp to 'Reconfigure' Commercial, Investment Banking

Continued from page 1

sector's 15,000 employees.

For weeks, rumors have circulated that Citicorp would cut as many as 10,000 jobs, sell assets, and close down businesses.

Instead, the company said in an internal announcement that the changes "ultimately will result in fewer people and lower costs associated with these businesses. Our primary focus, however, is a change in management process."

Stock Unchanged

Citicorp's stock closed unchanged Friday at $21.65 on the New York Stock Exchange.

In the first six months of the year, earnings at the global finance sector, which is headed by Michael A. Callen, plunged 72% from the year-earlier period.

The sector, skewered by a battered portfolio of domestic real and by a sluggish Wall Street, returned a paltry 4.7% return on equity, well below the 20% that Citicorp's chairman, John S. Reed, has targeted for Citicorp business lines.

'Activity Centers' Retained

In a turn of phrase characterized by one insider as intentionally "fuzzy," Citicorp said it will retain "activity centers" focused on customers and products.

Each center, it said, will report directly to Mr. Callen, a former trader who was elevated to head of the global finance sector for the developed world in January.

Mr. Callen, in turn, will work with eight "line executives" who will coordinate the sector's worldwide activities with "the sole purpose of building the [customer] relationships and revenues that derive therefrom," according to the internal memorandum.

'Flattening the Structure'

"It's a change in the way we manage," said Thomas Jones, executive vice president for financial control. "These businesses used to be stand-alone kinds of activities with appropriate staff and divisional levels. We are flattening the structure out to get the people who are running the business more close to senior management."

The changes, which will primarily affect administrative staff people, will be phased in over the next 18 months to two years, Mr. Jones said.

Vagueness Defended

He defended the lack of specifics. "We honestly believe it would be wrong to put out a number on savings or head count, because it would take away from what we are aiming toward. Cost will be a natural byproduct of simplifying the structure and balancing the resources against the revenues."

Mr. Jones added that Citicorp is not disbanding the sector's approximately 50 business lines. What's more, he said, "we will not be reorganizing anyone who deals with the customers."

Rivals Moved First

In a philosophical sense, Citicorp is taking a page from three of its rivals — Bankers Trust New York Corp., Chase Manhattan Corp., and Manufacturers Hanover Corp. — which in recent weeks announced similar restructurings in their profit-starved wholesale banking units.

They also said that the changes will respond in a flattened management structure that is more responsive to the needs of issuers and investors. And they also implied that their new structures will hold management more accountable.

However, the three bank companies also listed specific layoff numbers and projected overhead savings — ranging from 75 people and annual savings of $10 million at Bankers Trust to more than 3,000 jobs and savings of $300 million at Chase.

The management changes at Citicorp were signaled earlier this month when George L. Davis, the unit's head of corporate lending in the United States, resigned.

Group of Eight

The so-called Group of Eight, whose members emerge with so-lidified power, is heavily weighted with executives schooled in Citibank's North American corporate banking division, which at one time was segregated from its investment banking area.

The group includes the three senior regional executives in global finance who were left after Mr. Davis' departure: Michael B. Kelland in Japan, Australia, and New Zealand; Ernst W. Brutsche in Europe, and Phillip B. Lassiter, head of North American investment banking.

> **"We are flattening the structure out to get the people who are running the business more close to senior management."**
>
> **Thomas Jones**
> *Citicorp*

The five others are:

● Jeffrey Grandy, who once ran commercial real estate lending and leasing and currently heads Citibank's commercial banking activities in London.

● Michael T. Welch, Mr. Grandy's predecessor in the London post and current chairman of Citibank's credit policy committee.

● Peter Burnim, current head of investment banking activities in London and a former corporate banker in New York.

● Todd Slotkin, head of the group that originates and distributes leveraged buyout loans.

● Rodney F. Bailek, who runs distribution and securitization in the sector's capital markets division. □

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CONSUMER NEWS

COMMUNITY RELATIONS

Bankers Fear Regulators May Target Local Loans

Continued from *page 1*

munity development loans that are being paid on time but do not meet all underwriting standards, as has happened with real estate loans.

The **American Bankers Association** is urging members who are uncertain about a loan to seek written judgment from the examiners and to record responses in their CRA files. "If you have it in writing, you're covered," said association spokeswoman Tara Ranels Little.

Among those attending the Boston meeting with the comptroller and Massachusetts Gov. Michael Dukakis were Bank of Boston chairman Ira Stepanian, Shawmut Bank president John Hammill, Bank of New England vice chairman Tim McNamar, BayBanks Inc. chairman William Crozier and vice chairman Richard Pollard, and Robert Sheridan, president of the Massachusetts Bankers Association.

Stephen Coyle, director of the Boston Redevelopment Authority, was also present. He said he pressed Mr. Clarke for a clear statement that there is no assumed conflict between prudent lending and CRA lending.

"His comment was that there was nothing in the supervisory review" that precluded CRA lending, but that did not mean loans would be rubber-stamped just because they were earmarked for community development, Mr. Coyle said. "It was walking the middle line," he said of Mr. Clarke's response.

> **"What doesn't work is throwing your standards out the window."**
>
> **Kristin Faust**
> *First National Bank of Chicago*

The regulators' answers may not have completely convinced bankers, but community development specialists assert that CRA loans can – indeed, must – be safe and profitable.

"We're willing to go the extra step for borrowers, but what doesn't work is throwing your standards out the window. That's foundation work," Kristin Faust, assistant vice president of the neighborhood banking division of **First National Bank of Chicago**, said during a recent American Bankers Association conference.

Ms. Faust said her division, which has provided $105 million in loans for community development, including residential and retail projects, never lends for more than 80% of the value of collateral and requires a $1.20 cash flow for every dollar in debt.

In lending to low-income buyers, however, it is sometimes necessary to accept the ability to pay rent and utilities as evidence of creditworthiness and to allow "sweat equity" to buyers willing to work toward their down payment, she said.

Extra Consideration Given to the Poor

"The needs of low-income communities are so clear to everybody, including the regulators, that extra consideration is going to be given for the bit of extra creativity needed to conduct CRA lending effectively," added Robert Dugger, chief economist of the ABA.

"The area that could be the most heavily impacted by regulatory scrutiny would be the commercial real estate area," said a banker who asked not to be identified. But he added that CRA provides that loans be made "in the context of safety and soundness," making it unlikely that banks will be pressured to finance new apartment buildings in soft markets such as New England.

Martin D. Levine, vice president for low- and moderate-income housing for the **Federal National Mortgage Association**, said lenders that wish to meet their CRA requirements by financing apartments could refinance existing multifamily properties or devote foreclosed property to use by low-income residents.

"My job is to encourage members of the U.S. League [of Savings Institutions] to be active – to work with community leaders and nonprofits," said Frank Willis, executive director of the league's Housing Opportunities Foundation. "There really are a lot of seasoned nonprofit groups that know their way around."

By forming such partnerships and tapping into government subsidies, Mr. Willis said, lenders can provide below-market financing to worthy projects while maintaining a profitable spread.

Competition for Public Money Is Keen

Mr. Willis noted, however, that competition for public money and other grants is already intense. The Federal Housing Finance Board recently awarded the first increment of this year's $78 million of Federal Home Loan bank money for affordable housing, a program that Mr. Willis described as "oversubscribed."

Mr. Willis said that although underwriting the loans can be "challenging," there are ways to remove from the balance sheet loans that might attract examiners' attention. For example, **GE Capital** Mortgage Insurance Cos. has a Community Home Buyers Program in which underwriting criteria are relaxed for borrowers who undergo home ownership counseling, he said. The private insurance enables the lender to sell the loan, passing the risk on to the secondary market agencies.

In Minneapolis, **First Bank System Inc.** meets part of its community reinvestment obligation by managing tax-advantaged equity investments by big corporations in low-income housing. □

Banks Stalking Executive Clients

Direct Mail Marketing Is Used to Flush Them Out

By ED LYNCH

NEW YORK — In the continuing hunt for lucrative niche markets, more banks are aggressively pursuing the personal accounts of top executives and professionals, industry sources say.

"The attractiveness of the executive/professional market is that it is an easier market to identify, easier to communicate with, and it's easier to find out where they are," said J. Douglas Adamson, executive vice president of the Bank Marketing Association.

Though no statistics are available, Mr. Adamson said, banks are using more direct mail to reach executives and professionals.

Recruiting a New Clientele

Chase Manhattan Bank decided to go after corporate executives, professionals, and entrepreneurs after bank studies showed they would be receptive to direct mail, said Suzanne Schutte, division executive of marketing at Chase's U.S. private bank.

"We had to get away from the traditional ways – for example, client referrals and our internal banking network – that we have relied on to get leads," she said. "Over the course of years . . . those sources dry up."

Last July the private bank began using direct mail in an effort to reach the wealthiest 2% of the population. Chase culls individuals who fit at least two of the following criteria: income of $250,000 or more, $1 million in net worth, and $500,000 or more in investable assets.

> **"It is an easier market to identify, easier to communicate with, and it's easier to find out where they are."**
>
> **J. Douglas Adamson**
> *Bank Marketing Association*

Targeting the Executive Suite

Chase and a Security Pacific Corp. unit are using proven mailing lists, such as those from upscale magazines, to reach executives. Security Pacific Executive/Professional Services said it also gets lists from trade and alumni associations.

In its mailings, Security Pacific offers an unsecured line of credit of up to $35,000. The division has targeted a less wealthy segment of the population than Chase – executives with incomes of $50,000 to $200,000 – said Dennis O'Brien, executive vice president.

Mr. O'Brien said Security Pacific has been in the direct mail business since the mid-1960s, when it bought a company that marketed loans to doctors and dentists. It expanded that effort in the mid-1980s to include executives and other professionals.

The Personal Touch

Manufacturers Hanover Trust Co. also offers a special credit line to executives. The Personal Executive Revolving Credit is available through the branch banking division only to the principals of its commercial accounts, said Robert Schaefer, a retail marketing vice president.

Potential clients for the credit line are also offered private banking products and priority banking, which includes reduced rates on credit cards and home financing products.

Manufacturers Hanover opts for a more personal sales pitch than Chase or Security Pacific. Its executives call or visit the potential customer instead of relying on mail. "It's just something that says their personal business is very important to us," Mr. Schaefer said.

Return on Investment

Security Pacific likes to see an overall response rate of 2% or more to its mailings, Mr. O'Brien said, and the division has about 100,000 accounts.

Ms. Schutte said Chase's response rates "have consistently outperformed 3%, which is your standard benchmark for direct mail." Respondents are put in touch with a portfolio manager, who often takes six to nine months to close a sale.

Manufacturers Hanover declined to give figures for its three-year-old program. □

Citibank Claims Success for Purchase Protection

NEW YORK — After one year of offering purchase protection to cardholders, Citibank is proclaiming its program a success, despite high costs.

Average Claim is $175

Under the insurance plan, goods purchased with any of Citibank's 27 million Visa cards and MasterCards will be replaced if the items are damaged or lost.

Over the past year, 90% of the claims filed have been paid, said Sheryl Behar, vice president of card member communications. The average claim runs about $175.

She declined to say how many claims have been made or give a dollar figure for refunds, acknowledging only that it was more than $1 million.

The Cost of Premiums

Industry observers say the average cost for premiums is 70 cents to $1 on each account, but Citibank pays slightly less than that, Ms. Behar said. At 70 cents an account, the cost would be $18.9 million for 27 million accounts.

The bank introduced purchase protection partly in response to a similar program heavily promoted by American Express® Co. In May, Citibank expanded the benefit to its checking account customers.

— Ellen Mennemeier

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index

Retail and Jumbo CDs



Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 largest banks and thrifts in each of the nation's 10 largest markets on July 18. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

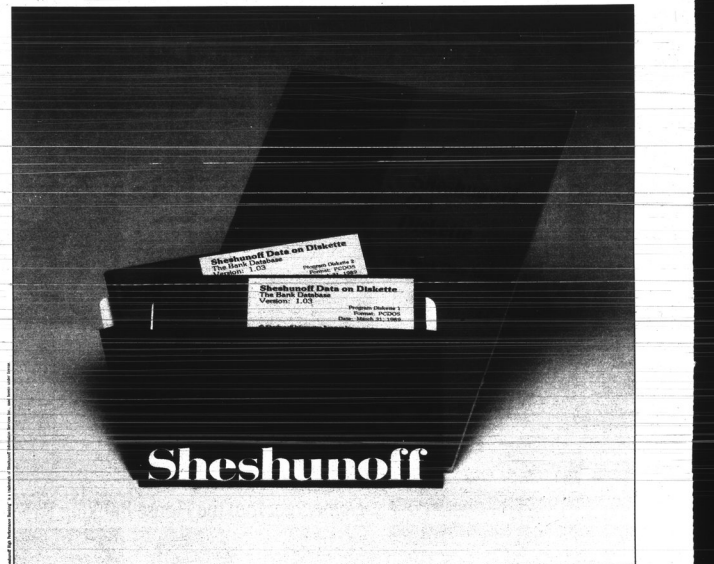
Retail Yields

	6-month	1-year	2-year
New York	7.59%	8.21%	8.47%
Los Angeles	7.90	8.21	8.68
Chicago	7.88	7.88	8.19
San Francisco	8.00	8.32	8.36
Philadelphia	7.56	8.11	8.16
Detroit	7.59	7.91	8.00
Boston	8.10	8.29	8.32
Houston	7.58	7.88	7.82
Dallas	7.80	7.71	7.87
Washington	8.30	8.46	8.44
BRM NATIONAL AVERAGE	7.89	8.00	8.16

Jumbo Rates

	6-month	1-year	2-year
New York	7.77%	7.91%	8.10%
Los Angeles	8.00	8.05	7.84
Chicago	7.75	7.82	8.00
San Francisco	7.97	8.07	8.18
Philadelphia	7.87	7.85	7.95
Detroit	7.92	7.82	8.03
Boston	8.00	8.04	8.12
Houston	7.87	7.77	7.82
Dallas	7.75	7.80	7.95
Washington	8.04	8.13	8.32
BRM NATIONAL AVERAGE	7.87	7.94	8.08

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330



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WASHINGTON *Monday*

A weekly feature

AMERICAN BANKER
Monday, July 23, 1990

7 Home Loan Banks Given Go-Ahead to Raise Dividends

By DEBRA COPE

WASHINGTON — Softening a policy it adopted six months ago, the Federal Housing Finance Board last week lifted stock dividend caps for seven of the 12 Federal Home Loan banks it oversees.

The relaxed grip on dividends is a victory for the Federal Home Loan bank presidents, who have argued for flexibility to pay market rates of return. Dividends are a sensitive matter because the return on stock that members must hold has to remain attractive in order for the Home Loan Bank System to retain members and draw new ones.

Indeed, with up to 40% of thrifts slated to be closed or merged out of existence, the Home Loan Bank System's survival may hinge on its ability to attract capital by generating strong earnings and offering robust dividends.

Recruiting May Be Easier

The easing could bolster the district banks' efforts to recruit new members from a base that has been broadened to include commercial banks and credit unions, and to market advances and other services.

The shift away from dividend austerity will boost efforts to coax commercial bank members to the Home Loan banks' dwindling rosters by sending a signal that they "don't have to be concerned about the stability of the system," said Thurman C. Connell, president of the Federal Home Loan Bank of Des Moines. It could also quell exit bids and redemptions of excess stock by savings institutions.

The policy shift is an indication of improved relations and growing trust between the Finance Board and the Home Loan banks, sources said.

"It's a matter of us getting to know one another better," said James Faulstich, president of the Federal Home Loan Bank of Seattle. In its nearly one year of existence, "the Housing Finance Board has gotten a deeper understanding of bank operations," he added.

Strong Earnings Expected

The Finance Board bent its rule because it expects that strong current earnings by the Boston, Pittsburgh, Atlanta, Indianapolis, Des Moines, Topeka, and Seattle banks will continue into next year, said Mary Bush, managing director of the fledgling regulatory agency. The banks got the nod to pay second-quarter dividends ranging from 9% to 11.15%.

Dividends of 8.25% to 9% were authorized for the Home Loan banks of New York, Cincinnati, Chicago, Dallas, and San Francisco.

The six-month-old rate policy, initially intended to firmly anchor dividends to the federal funds rate, now appears to serve more as a guideline. Unless Home Loan banks can persuade the Finance Board otherwise, they must limit dividends to 100 basis points above the benchmark rate, or 9.23% in the second quarter.

Tighter limits apply to Home Loan banks that make incomplete payments to the Resolution Funding Corp., which raises funds for S&L resolutions. These banks may pay only 50 basis points above the federal funds rate – 8.73% in the second quarter.

'Positive Indications'

Despite competing claims on Home Loan bank earnings, there are "positive indications that the banks are well managed, well capitalized, and capable of weathering the adverse circumstances swirling about the industry," said Mr. Connell. He noted that the Home Loan banks were already looking at thinner payouts when the Finance Board unveiled its dividend control policy last January.

Five months earlier, Congress laid claim to the banks' retained earnings plus $300 million annually to cover some of the costs of cleaning up insolvent S&Ls, and earmarked up to $100 million more from annual earnings for affordable-housing subsidies. Simultaneously, profits slackened as the system's thrift membership began to shrink and lose its previously robust appetite for advances.

Home Loan Bank System earnings slumped 25% to $610 million in the first five months of 1990, but the drop was from a record $816 million for the comparable period in 1989. This year's performance marks a gain from the $568 million earnings achieved in the first five months of 1988. Given massive thrift industry restructuring, profits are strong, Ms. Bush said.

Banks Show Interest

Fourteen commercial banks have joined the Home Loan Bank System since barriers were lifted last August by the Financial Institutions Reform, Recovery, and Enforcement Act, and 23 more applications are pending, Ms. Bush told reporters. Some observers say a tandem effort to lock up thrift members has dampened the enthusiasm of potential voluntary members, although Ms. Bush disputes this.

Many thrifts have been angered by a plunge in the better-than-market-rate returns that have been an enduring attraction of Home Loan bank membership, and to date 10 have petitioned to withdraw.

The Finance Board is trying to persuade the Federal Deposit Insurance Corp. to withhold coverage from state-chartered thrifts that quit the Home Loan Bank System. □

Dividends on the Rise
Federal Home Loan bank rates

	2Q '90	2Q '89
Boston	9.26%	10.42%
New York	9.26%	9.00%
Pittsburgh	9.26%	11.15%
Atlanta	8.76%	9.00%
Cincinnati	8.76%	8.50%
Indianapolis	9.26%	10.93%
Chicago	6.23%	8.25%
Des Moines	9.26%	9.90%
Dallas	8.75%	8.72%
Topeka	9.26%	11.00%
San Francisco	8.38%	8.72%
Seattle	9.25%	11.00%

Source: Federal Housing Finance Board

THE WEEK *ahead*

MONDAY, JULY 23

No significant events scheduled.

TUESDAY, JULY 24

The Federal Deposit Insurance Corp. holds an open board meeting to consider a final amendment to rules on real estate appraisals.

To be reviewed are the types of transactions that need appraisals, and distinguishing appraisals requiring the services of a state-certified appraiser from those requiring a state-licensed appraiser. 202-898-1990.

The Resolution Trust Corp. board of directors meets in open session to consider bulk asset sales and appraisals regulations. The meeting follows the FDIC board meeting.

Federal Reserve Board Chairman Alan Greenspan gives his semi-annual Humphrey-Hawkins monetary policy report to the House Banking Committee. His remarks are expected to be similar to those presented last week to the Senate Banking Committee. 202-228-7315.

Presidents of the Federal Home Loan Banks gather in Washington for a closed monthly meeting.

The Senate Judiciary Committee holds a hearing on the proposed Comprehensive Thrift and Bank Fraud Prosecution Act of 1990. Witnesses who will appear before the committee include: Federal Deposit Insurance Corp. Chairman L. William Seidman; Treasury Deputy Secretary John Robson; U.S. Attorney General Richard Thornburgh; and the Office of Thrift Supervision's director, T. Timothy Ryan Jr. 202-224-5225.

WEDNESDAY, JULY 25

The Senate Banking Committee resumes hearings on proposals to revise the deposit insurance system and restructure the financial services industry. Treasury Secretary Nicholas F. Brady is scheduled to testify. 202-224-7391.

The attorney general is to speak at a luncheon before the National Press Club. 202-662-7500.

THURSDAY, JULY 26

No significant events scheduled.

FRIDAY, JULY 27

Preliminary gross national product figures for the second quarter of 1990 are released by the Commerce Department.

Leading indicators for June are released by the Commerce Department. □

INSIDE *congress*

2 Democrats Join the House Banking Panel

With only a few legislative weeks left before Congress is scheduled to adjourn, it might seem a waste of time to fill two recently created vacancies on the House Banking Committee. But Democrats, apparently concerned about their dwindling majority on the panel, named two House veterans last week to fill the vacancies.

Seven-term Rep. Tom Lantos of California and six-term Rep. Ted Weiss of New York will take the seats vacated when Rep. C. Thomas McMillen, D-Md., moved to the Energy and Commerce Committee and Rep. Marcy Kaptur, D-Ohio, transferred to the appropriations Committee. The assignments to the Banking Committee are temporary.

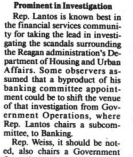
No Votes Scheduled

In past years, such end-of-term transfers were viewed as fund-raising moves, since the Banking Committee provides members with easy access to industry political action committees. But Congress is scheduled to adjourn in October – and to spend much of its time until then on recess. Most observers doubted that either Rep. Lantos or Rep. Weiss took the assignment to bolster his fund-raising effort.

"They will probably tend to make the committee somewhat more liberal," said one financial industry lobbyist. However, added a banking industry lobbyist, "it's not at all clear there will be any more votes this year in the committee."



Rep. Ted Weiss
Democrat of New York



Rep. Tom Lantos
Democrat of California

Tried to Impeach Reagan

Rep. Lantos, who spent his youth fighting in Hungary's anti-Nazi resistance, is the more conservative of the two. But that is only because Rep. Weiss – who was also born in Hungary – hails from one of the country's most liberal congressional districts.

It was Rep. Weiss who led a small band of House members in a futile effort to impeach President Reagan over the Grenada invasion, and it was Rep. Weiss who spent the Reagan years battling cutbacks in social programs.

Prominent in Investigation

Rep. Lantos is known best in the financial services community for taking the lead in investigating the scandals surrounding the Reagan administration's Department of Housing and Urban Affairs. Some observers assumed that a byproduct of his banking committee appointment could be to shift the venue of that investigation from Government Operations, where Rep. Lantos chairs a subcommittee, to Banking.

Rep. Weiss, it should be noted, also chairs a Government Operations subcommittee.

— **Robert M. Garsson**

RTC *observer*

Branching Laws Prove to Be a Major Hurdle in the Courts

By STEVE KLINKERMAN

Unless Congress acts to clarify interstate banking laws, the Resolution Trust Corp. will be unable to override state branching restrictions when selling thrifts under its control for at least the rest of the year.

In separate cases, federal judges in Arkansas and Colorado have enjoined the RTC from providing a sweetener in its sales deals with banks in states that limit branching to counties or other small geographic areas.

Using an agency regulation permitting overrides of state law, the RTC has offered to let banks that buy failed thrifts use the thrifts' office networks as branches, even if the locations would not ordinarily be permitted by laws applying to commercial banks.

The RTC plans to appeal the rulings but does not expect appellate court decisions for roughly six months.

The RTC plans to appeal the rulings but does not expect appellate court decisions for roughly six months. A third branch-override case, in New Mexico, favored the RTC, and the state bank supervisors have an appeal pending in U.S. Circuit Court in Denver.

A String of Court Rulings

The Arkansas and Colorado injunctions are the latest in a string of court decisions holding that the RTC and its parent agency, the Federal Deposit Insurance Corp., overstepped the authority granted them by Congress.

The court rulings are a clear setback for the RTC, which needs every available tool in selling the hundreds of bankrupt thrifts coming under its control.

But the decisions are also victories for state bank regulators. These officials contend that the RTC would wreck their state regulatory structures by according the wider branching privileges to banks acquiring thrifts.

An apparent absence of authorization in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 persuaded the federal judges to block the RTC's promised conversions.

According to Judge Stephen Reasoner, who presides in the U.S. District Court for the Eastern District of Arkansas, the reform law "says nothing about a bank converting [thrift] branches to bank branches and so operating them."

In establishing the regulation permitting overrides, Judge Reasoner said the RTC "clearly overstepped its authority pursuant to the language of the statute under which it was acting."

States' Rights

The judge's stinging rebuke will put a chill on further override attempts, experts say, because bankers and the RTC alike know that the overrides probably will not prevail.

"From a practical standpoint, bankers will be reluctant to accept overrides that have been found unlawful in two federal district courts," said Leonard Rubin, a lawyer with Bracewell & Patterson, who represented the Conference of State Bank Supervisors in court arguments against the RTC policy.

That is just fine by the state regulators, who maintain that a competitive disparity is created when acquiring banks get branching privileges while banks not acquiring RTC thrifts must abide by restrictions set by state lawmakers.

"It's a tradeoff," said Jonathon Lindley, managing director of the Washington office of Ferguson & Co. "States' rights have been preserved [in the Arkansas and Colorado cases], but the RTC has lost a tool that could elicit higher bids for certain failed thrifts and thereby lower taxpayer outlays in their rescues."

In the wake of the Arkansas court decision, Worthen Bank and Trust9 Co., Little Rock, has withdrawn a bid for Independence Federal Bank, Batesville, which has branches in 16 Arkansas counties.

Measure Pending in Congress

The RTC's best chance for a rebound on the issue lies with a provision that would amend the Federal Deposit Insurance Act. Proposed by Sen. Jake Garn, R-Utah, the provision would amend the thrift-reform law in a way that would allow the RTC to proceed with overrides as it sees fit.

Barring passage of the bill, the RTC has to hope that appeals courts overturn the lower court rulings. But the game is over if the appeals are kicked up to the Supreme Court. "The RTC's job will be over by the time the Supreme Court gets around to the issue," said agency spokesman Stephen Katsanos. □

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INTERNATIONAL NEWS

GLOBAL *dispatches...*

As '89 Ended, New Lending To Eastern Europe Slowed

Reuters

BASEL — Struggling Eastern Europe continued to soak up Western bank loans in the second half of 1989, but more slowly than in the first half, the Bank for International Settlements reported.

Total bank lending to Eastern Europe grew $3.3 billion in the second half, to $96 billion. The first half's rise was $5.3 billion.

The Soviet Union remained the region's biggest borrower. Its foreign bank debt, adjusted for exchange-rate swings, rose $1.9 billion in the second half to reach $43.22 billion at the end of last year.

Moreover, the cash-strapped Soviet Union withdrew $1.3 billion in deposits at Western banks during the period.

The Soviet Union still had $14.61 billion in deposits at the end of 1989, according to the semiannual BIS figures.

Renewed Soviet borrowing continued a recent pattern; Western bank lending to the Soviets had swelled $4.8 billion in the first half.

This year the Soviets, shaken by a economic disarray, have had trouble meeting scheduled payments to Western suppliers.

East Germany and Czechoslovakia were the other major borrowers, with $800 million and $700 million, respectively.

In general, international bank lending to countries other than major Western nations expanded $1.5 billion in the second half, the BIS estimated. The first-half increase was $1.2 billion.

Outstanding loans stood at $455 billion. International deposits leaped $30 billion, to $577 billion.

New lending to developed countries outside the reporting area – the Group of 10 plus Austria, Denmark, Finland, Ireland, Luxembourg and Spain – accelerated to $3.6 billion, from $1.2 billion in the first half. Almost all the new loans went to private borrowers.

Loans to members of the Organization of Petroleum Exporting Countries grew by a net $1.9 billion, lifted primarily by a $2 billion increase in lending to Iraq.

Outstanding loans to Latin America kept shrinking, falling $7.7 billion, to $176.1 billion, after a $6.9 billion drop in the first half.

Meanwhile, the Federal Reserve Board has reported that U.S. bank lending to foreign borrowers fell $1.3 billion in the first quarter this year, to $241 billion.

Loans to Latin American borrowers fell $3.7 billion from yearend 1989, to $40.5 billion. Loans to borrowers in industrialized countries climbed $10.9 billion, to $162.7 billion.

James R. Kraus contributed to this article.

... *by country*

BRAZIL

Brazil should have a program of debt swaps to reduce its stock of debt, former Finance Minister Mailson da Nobrea said in a Sao Paulo interview.

By converting foreign debt into equity "we reduced our debt stock by between $15 billion and $18 billion" during the last two years of the Jose Sarney administration, Mr. Nobrega said. The current government, which took office in March, should do the same, he said.

"Some U.S. banks have accused Brazil while I was minister of buying back debt, using foreign exchange reserves. This is not true," Mr. Nobrega said. Some state-controlled companies using their own resources carried out international transactions to reduce their foreign debt, he said.

CHILE

The Central Bank has set up guidelines for debt-to-equity swaps to make the most of the rest of the country's shrinking commercial debt.

The guidelines favor new investment and put most of the financial sector off limits.

A debt-swap pioneer, Chile has slashed its commercial bank debt from $14.5 billion in 1985 to under $5 billion, of which only about half is available on the secondary market.

"The debt-to-equity swap has fulfilled most of its potential in Chile," Francisco Garces, the Central Bank's international operations director, said Thursday. "We want to make more effective use of what's left of the debt."

The Central Bank board agreed this month that in considering approval for future swap, top priority would go to new investment, expansion of export projects, and import substitution industries.

Investments in equity in the communications, energy, tourism and banking sectors will also be encouraged. But swaps will no longer be allowed in insurance companies, investment funds, pension funds, or investment societies.

PHILIPPINES

President Corazon Aquino has cautioned against a Congressional proposal to suspend foreign debt repayments to enable the Philippines to recover from the destruction wrought by last Monday's killer earthquake.

In a statement, she said she hoped "we do not rush into any resolution" that undermines "the good will and credibility we now enjoy as well as the already ongoing efforts to mobilize external financial resources for our needs."

A House committee has sought a two-year freeze on foreign debt payments.

The by country **briefs were supplied by Reuters.**

Japanese Dash Talks of Curbed Growth

Continued from *page 1*

United States is at odds with earlier predictions that Japanese banks would be forced to curtail their U.S. growth because of their battered capital ratios. The ratios weakened earlier this year after a sharp drop in the Tokyo stock market and in the value of the yen against the dollar.

The decline in stock prices weakened the value of shares that Japanese banks count as part of their capital, while the fall in the value of the yen increased the amount of yen-denominated capital the banks need against their dollar-denominated assets.

"We're not very anxious to increase assets. Earnings from nonasset-related businesses are growing faster," said one Japanese banker, citing real estate investments, corporate acquisitions, project finance and trade finance as among the businesses his bank is targeting.

Japanese banks have been rapidly increasing their share of the U.S. market over the past decade and diversifying out of straight lending and into other banking businesses.

Applications Due Soon

Bankers said they would soon begin applying to local banking authorities for authorization to open or upgrade their offices.

Despite economic downturns in the Northeast and various U.S. regions around the country, Japanese bankers said they continue to view the United States as an attractive market in which to do business.

"There are more business opportunities here than anywhere else," said one senior Japanese banker in New York.

Japanese bank sources said the expansion was intended to broaden their business relationships with medium-size U.S. businesses and Japanese subsidiaries around the country.

Looking Ahead

Japanese banks also want a network they can use to do business unhampered by barriers to interstate banking fall.

Analysts said that the recovery in bank-stock prices over the last few months had bolstered Japanese banks' capital ratios.

According to Salomon Brothers Inc. banking analyst Thomas Hanley, 11 out of Japan's 15 biggest banks have already met or surpassed the minimum 8% capital-to-asset ratio agreed on by international regulators.

The banks are likely to strengthen their capital still further, Mr. Hanley noted in a report that the Ministry of Finance had recently authorized Japanese banks to issue subordinated bonds in the United States and that one bank, Sumitomo Bank Ltd., had already announced plans to issue $1 billion in subordinated bonds.

The dollar-denominated subordinated bonds are accepted as capital and will strengthen the banks' capital ratios, permit continuing growth in assets, and give the banks a hedge against future fluctuations in the value of the yen against the dollar.

Mitsubishi Most Ambitious

Among the 15 banks planning to expand their offices here, Mitsubishi Bank Ltd. has the most ambitious plans.

Mitsubishi, the world's fourth- largest bank with $360 billion in assets, is planning to open loan production offices in Atlanta, Philadelphia, Boston, Minneapolis, Detroit, Dallas, and St. Louis. Such offices may take loan applications but not deposits.

Mitsubishi already has branches in Los Angeles, Chicago, and New York; a U.S. commercial banking subsidiary – Bancal Tri-State Corp. – in San Francisco; an agency in Houston; a trust company in New York; and financial futures and securities affiliates in Chicago and New York. Agencies can extend loans but may only accept deposits from nonresidents.

Other Moves Listed

The other banks are:

• Tokai Bank Ltd., the world's ninth-largest bank, with $228 billion in assets, plans to open loan production offices in San Francisco, Columbus, Minneapolis, and Dallas. It already has branches in New York and Chicago, an agency and commercial banking subsidiary – Tokai Bank of California – in Los Angeles, and a trust company and securities affiliate in New York.

• Mitsui Taiyo Kobe Bank Ltd., the world's second-largest bank, with $375 billion in assets, plans to upgrade representative offices in Houston, Atlanta, and San Francisco to agencies. The bank already has branches in Seattle, Chicago, and New York; an agency in Los Angeles; a commercial banking unit, Mitsui Manufacturers Bank, in Los Angeles; and a securities affiliate and trust company in New York.

• Daiwa Bank Ltd. plans to open a representative office in Houston. The bank has branches in Chicago and New York, a Los Angeles agency, and a trust company and securities affiliate in New York.

• Saitama Bank Ltd. plans to open a representative office in San Francisco and upgrade its Guam loan production office to a branch. The bank already has branches in New York, Chicago, and Los Angeles.

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Japan	7.87	7.43	7.56	7.75	7.75	7.69	7.72	7.75	7.25	5.25	5.25	5.25	7.19	7.19	7.19	7.19
Canada	13.50	13.75	13.75	13.50	13.50	13.50	13.37	13.37	13.37	13.19	13.37	13.75	14.75	14.75	14.75	14.75
U.K.	15.00	15.00	15.00	15.00	15.00	15.00	14.93	14.93	15.00	14.31	14.38	14.38	15.00	15.00	15.00	15.00
West Germany	8.12	8.12	8.25	8.25	8.31	8.25	8.28	8.43	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Switzerland	8.75	8.25	8.75	9.00	8.93	9.00	8.97	8.97	9.00	9.00	9.00	9.00	11.25	11.25	11.25	10.38
France	9.87	9.69	10.12	10.00	10.00	10.25	10.06	10.06	10.31	9.50	9.50	10.00	10.00	10.00	10.00	10.00
Italy	11.00	11.00	11.62	11.37	11.37	11.25	11.37	11.37	12.00	12.00	12.00	12.00	13.00	13.00	13.00	13.00

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	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.05	14.37	5.43	8.79	7.77
6 to 12 months	8.15	13.42	5.64	8.17	7.72
12 to 24 months	8.76	12.73	6.88	7.43	7.45

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

Virginia Governor to Ask Counterparts to Back S&L Study

By ROBERT M. GARSON

WASHINGTON — Gov. L. Douglas Wilder of Virginia, who urged the White House last month to appoint a commission to study the thrift crisis, plans to take his proposal to the conference of the nation's governors.

Laura Dillard, the governor's press secretary, said the exact course of action has not been decided for the conference, which convenes here July 29, but she added it was "a good possibility" Mr. Wilder would seek support for his proposal.

Letter Sent to Bush

The Democrat from Virginia first described his proposal for a commission in a little-noticed June 12 letter to President Bush. The measure is essentially the same as one endorsed Wednesday by the House Democratic leadership.

House Democrats plan to incorporate the measure into a omnibus crime bill moving through Congress. The amendment is scheduled for action by the committee on Monday and could be on the floor later in the week.

Mr. Wilder said a national commission should be drawn from the investment, business, education, and labor communities. It should investigate the origins of the problem and the cost of the clean-up, and should make recommendations for remedying the problem and averting future crises.

Gov. Wilder wants a commission of investment, business, education, and labor leaders to investigate the origins of the problem.

Last Pushs for States

Mr. Wilder's initiative highlights the wide impact of the burgeoning S&L bailout. To the nation's 50 governors – as well as thousands of mayors, county executives, and other municipal officials – the thrift bailout is siphoning off money that might otherwise be spent on schools, roads, and services.

"Our citizens must know the truth," Mr. Wilder stated in his letter to the President. "They must be told the real facts of the effect this 'bailout' will have upon them, their children and their children's children.

"The working men and women of this great nation must be apprised of the steps that are to be taken, and that must be taken, to heal this wound in the most fiscally responsible manner available," he continued.

On the Taxpayers' Minds

Ms. Dillard said the S&L bailout appears to on the minds of people who attend Mr. Wilder's speeches.

"It's something he talks about a lot," she said. "The audiences always applaud."

Mr. Wilder, she added, regards the breakdown in the S&L industry as a case of "gross mismanagement" that the taxpayer should not have had to pay for.

"As early as 1984, there were recognizable signs of the irresponsible and unconscionable management practices that had enveloped many of our nation's savings and loan institutions," Mr. Wilder said in his letter.

Had Congress and the Reagan administration tackled the issue then, the cost of cleaning up the mess would have been greatly reduced, he added.

Mr. Wilder said a national commission should be drawn from the investment, business, education, and labor communities. It should investigate the origins of the problem and the cost of the clean-up, and should make recommendations both for remedying the problem and averting future crises. □

Fed to Hear Avantor Application

Continued from *page 2*

challenged for alleged inadequacies in the banks' Community Reinvestment Act performances. Most of those CRA challenges were directed at C&S.

Since January when the challenges were filed, C&S has announced its participation in a number of community-aid projects. Those initiatives prompted the provision of a letter of credit – reportedly at a discounted rate – to secure $10 million to $20 million in tax-exempt revenue bonds for an initiative to rehabilitate and rebuild housing in low-income neighborhoods.

A C&S spokesman said he does not know whether the Fed was satisfied with the company's CRA compliance. But he said the central bank has made submissions by the bank, had not requested any further information about CRA activities.

The Fed spokesman also declined to discuss whether the central bank was satisfied with the banks' CRA compliance. He said only that the board will weigh the institutions' CRA performances when it considers the application at its closed meeting.

Last Major Hurdle

The banks said the Fed's approval is the last major regulatory hurdle to the merger. If it grants approval, the Justice Department then has 30 days to challenge on antitrust grounds.

The merger has been approved by the banking commissioners of the District of Columbia and seven of the eight states in which the two companies have banks, said Sovran's general counsel, Page Crawford. The approval of the eighth state, South Carolina, is contingent only on the Fed's approval, Mr. Cranford said. □

Citibank Seen Close to Deal to Sell Ambac

By NICHOLAS BOYLE

NEW YORK — Citibank is negotiating to sell a 75.1% stake in its municipal bond insurance subsidiary, Ambac Indemnity Corp., to US West and American International Group, according to sources close to the talks. The announcement of an agreement in principle is imminent, the sources said.

The price is estimated at about $275 million, based on an overall value of $900 million.

Meetings Spur Speculation

Late last week, separate meetings were held by Ambac's executive committee, Citibank directors, and executives of US West Financial Services, Financial Security Assurance. Citibank executives also addressed the entire Ambac staff. Speculation, as a result, boomed.

James McLane, division executive of Citibank's global insurance division, categorically denied that a sale was near.

"No deal has been done," Mr. McLane said. "Citibank is committed to Ambac, and I'm very optimistic for Ambac's outlook."

He also said a possible alliance with US West and American International Group was not the entire picture. "It's not necessarily just them" involved in discussions, he said.

The unfortunate aspect of the proposed deal, sources said, is that Ambac would be dissolved and its more than $360 million unearned premium reserve would be "run off."

The *Bond Buyer* **is a sister publication of the** *Americas Banker.*

Lenders' Group Bolsters Its Marketing Effort

PHILADELPHIA — Robert Morris Associates, a trade group for commercial lenders, said it has formed a marketing and communications council to provide guidance and support for marketing and public relations activities.

William J. Rossman, chairman of the council, said its duties will include reviewing publications and recommending design and printing improvements.

Mr. Rossman, who is president and chief executive officer of Mid-State Bank and Trust Co., Altoona, Pa., said the council reflects an effort by Robert Morris Associates "to become more market driven."

The council has hired Steven C. Taylor for the newly created position of sales manager and has promoted Paul E. Kushner to senior manager – marketing services. □

Thrift Industry Shrank in Early '90, OTS Reports

Continued from *page 1*

andria, Va., consultant.

The OTS data showed progress by the Resolution Trust Corp. in bringing down the high interest rates paid by failed thrifts that it has managed since inherited, Mr. Ely said. Conservatorship thrifts slashed their time deposits toward shorter maturities and shaved rates on three-month to one-year certificates of deposit, bringing these yields close to those offered by institutions operating independently.

Rate Variances Persist

While the RTC is making headway, it still has not eliminated interest rate variances, said James Barth, a former OTS chief economist. Jumbo CDs at conservatorships continue to command high rates. Moreover, Mr. Barth said, it is hard to draw conclusions about the RTC's success based on the February data, because many deeply troubled thrifts had not yet been placed in the agency's hands. Some clues about the thrift industry's effort to restructure its balance sheet also emerge from the January-February data.

While borrowings declined $2.9 billion in those months, thrifts appeared to be easing up on efforts to cut deposits and to repaying Federal Home Loan bank advances and other debts. In contrast, over the period through December 1989, thrifts repaid $63.7 billion in borrowings.

Mortgage Securities Retained

The data also show that thrifts appear to stop their binge of selling mortgage securities in the first two months of this year. Thrifts sold only $2.6 billion of mortgage-backed securities in January and February, compared with $45.1 billion from June to December last year.

Mr. Ely speculated that thrifts may be holding onto the securities to meet the qualified-thrift-lender test, which requires S&Ls to keep 70% of their assets in investments related to residential mortgages. Alternatively, he said, thrifts may be capitalizing on a short-term widening of spreads.

Publicity about thrift problems may be motivating some depositors to move funds out of thrifts, said Mr. Barth, now professor of finance at Auburn University.

"I don't think that was ever much of a factor in the past," he said. "I don't think it's because of fear of losing money, just concern their funds will be tied up or delayed, even if that's not the case."

Enforcement Update

Timothy Ryan, director of the OTS, said at a press conference in Dallas Friday that the agency would step up civil actions against thrift executives who abused their institutions. In addition to demanding restitution, he said, the OTS will move to bar abusers from the thrift industry.

Mr. Ryan announced a strategy shift, saying that the OTS would temporarily cease hiring outside law firms to help with the enforcement proceedings. Instead, the agency would beef up its own team of lawyers.

"The work done by us will be just as good if not better than that done in the private sector," said Mr. Ryan, a lawyer himself. He said the U.S. Justice Department will also counsel the OTS on enforcement actions.

Steve Kliakerman in Dallas contributed to this article.

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Bailout Seen Penalizing 2 Regions

By ANNE HAZARD
States News Service

WASHINGTON — Taxpayers in the Northeast and Midwest will have to pay far more than their share of the cost of bailing out insolvent savings and loans, a report issued by a congressional coalition said.

In one such bill, introduced last week, Rep. Howard Wolpe, D-Mich., calls for states with the most savings and loan failures to pay an extra insurance premium for their state-chartered thrifts. Most of the failures have been in Texas, California, and Florida. Mr. Wolpe said it was unfair to make taxpayers in states with few failures pay for bailouts elsewhere.

Using figures for state-chartered savings and loans, Mr. Laughlin said 18 states in the Midwest and Northeast are responsible for only 4.6% of bailout costs but must pay 47.5% of the costs associated with insolvent state-chartered thrifts.

The regions "are being asked to pay a very high portion of the bailout, and this bailout is going to reduce the government's ability to make other kinds of investments we need," including road and bridge repairs, worker training, and environmental cleanups, Mr. Laughlin said.

Data Offered

December 1989 data compiled by a Cleveland State University professor showed that Indiana, for example, had 10 savings and loans insolvent or on the verge of collapse holding tangible capital equaling 3% or less of total assets. Texas had 142 such thrifts, Illinois 84, California 68, and Louisiana 47. □

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Citation Notices

File No. 2261-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW-YORK-BY-THE-GRACE-OOD FREE AND INDEBPENDENT-TO the heirs at law, next of kin and distributees of Pauline Cardinale, deceased, whose residence was and is 1 Sutton Place South, in the County of New York, and of any of them be dead, to their heirs at law, next of kin, distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown, and cannot be ascertained after due diligence. Public Administrator of the County of New York, attorney General of the State of New York a petition having been duly filed by Robert L. Kay and S. Andrew Schaffer, who is domiciled at 40 East 88 Street, New York, NY 10128 and 14 Washington Mews, New York, NY 10003-0042 Re: Martin Bregman CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street New York, on August 15, 1990, at 10:00 a.m., why a decree should not be made in the matter of Paulette Goddard Remarque, lately domiciled at Lot Angeles, California, and Ronco Switzerland, admitting to probate as a will of real and personal property, her order dated July 24, 1986, (a copy of which is attached), and ordering that Letters of Testamentary issue to Bruce Jacobsen, Esq. and Andrew Schaffer (State any further relief sought). Dated, Attested and Sealed July 29, 1990. (L.S.) HON. Renee R. Roth Surrogate, County of New York. Robert M. Reaves, Clerk of the Surrogate's Court Name and Address of Petitioner's Attorney Jonathan & Flynn Telephone Number (212) 421-4100 Address of Attorney: 410 Park Avenue, New York, NY 10022. This petition is served upon you as required by law. You are not required to appear. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

File No. 2123/90 SURROGATE'S COURT FREE AND INDEBPENDENT-NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOOD FREE AND INDEBPENDENT-The heirs at law, next of kin and distributees of CARRIE E. VOTTELER whose names are whereabouts unknown and cannot after due diligence, cannot be ascertian, if they be living, and if they be deceased, of the decedent herein, to their heirs at law, distributees, executors, administrators, creditors, lienors, or successors in interest. Public Administrator of the County of New York A petition having been duly filed by JOHN F. KELLY, who is domiciled at 63 East 80th Street, P.O. Box 0126, Fonda, New York 12068 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street, New York, on August 16, 1990, at 10:00 a.m., why a decree should not be made in the estate of CARRIE E. VOTTELER, lately domiciled at 11 Stuyvesant Oval, New York, NY 10009 and 1 Old Country Rd Carle Place, NY 11514 admitting to probate as a will of real and personal property a paper dated November 14, 1980, and ordering that Letters of Testamentary issue to JOHN F. KELLY, and that Preliminary Letters Testamentary issue to JOHN F. KELLY on May 14, 1990, he revoked. Dated, Attested and Sealed July 10, 1990. (L.S.) HON. Renee R. Roth, Surrogate County of New York Robert M. Reaves Clerk of the Surrogate's Court Name of Attorney: Richard Van Steenburgh Telephone Number (212) 940-1681 Address of Attorney: 19 West 44th Street, New York, New York 10036. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you, if you fail to appear it will be assumed that you do not object to the relief requested.

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E.F. Fazio Auct'r Lic #798972 Sells on 07/31/90 9 AM At 431 West 203rd St NYC '72 Mazda #S122A103342 Rr: J. Hernandez; 8:30 AM at 1828 Webster Ave Bkly '79 Buick #4X69X9H455897 Rr: T. Manadon; '88 Nissan #JN1HT21S9JT139682 Rr: L. Byrnes; '81 Honda #JHMSM3422KC097766 Rr: E. Vargas; '83 #YV1DX6940D1027084 Rr: H. A. Jones; 30 Volvo #YVCS66N4A1001084 Rr: S. Lawrence; '86 Ford #2FABP4GXGXX140028 Rr: Nicki Motor Corp., '82 Chevy #2G1AW19R0C1421468 Rr: W. S. Kersey; 10 AM at 1135 Webster Ave Bkly '82 Chevy #2G1AW19R3C1403697 Rr: C. Bass, '79 BMW #5433532 Rr: A. R. Daley; 10:30 AM at 670 Southern Blvd Bx '85 Dodge # 1B3BD46K2FB265042 Rr: Metro Auto Inc., '78 Ford #9J02Y339072 Rr: J. Spano; 11 AM at 111-41 Sanford Ave Qns '86 Volvo #YV1LNBP97F3GY663154 Rr: J. Donolfo, '79 Dodge #9L41J09F88724 Rr: A.A.Y. Stokes, '81 Olds #3G1AW68N4CB245016 Rr: S. N. Carlin; '85 Mercury #1MEBP7939FF602684 Rr: C. Munoz &/or R. Curtin; 11:30 AM at 230-21 Northern Blvd Qns '87 Olds #2G3GR11Y0H2303417 Rr: S. Bonavita, '87 Ford at 103-02 Roosevelt Blvd Qns '84 Chevy #1J3Z7BW196931 Rr: M. Terrero, '79 Pontiac #1Y91S506548 Rr: L. Fi-Nance, '89 Chevy #1R1RGS1T2KS536511 Rr: V. Rodriguez, '79 Buick #4H133Y9H322969 Rr: A. Mateo, '82 Lincoln #1M8BP9Y9CY016404 Rr: D. T. Dyer; '84 Buick #4G4AS27P8EK439886 Rr: O.O. Grant, '80 Jeep #J4FJ59N7031663 Rr: J. T. Henry; 12 PM at 865 Livonia Ave Bklyn '79 Mercury #9H89T697F5 Rr: G. Rubio Jr.; 1:30 PM at 501 Evergreen Ave Bklyn, '83 Lincoln #1LNBP9Y9XDY183378 Rr: O. Valoy; 2 PM at 259 58th St Bklyn, '83 Chevy #1G1AM58R2D7141020 Rr: J. Doe; 2:30 PM at 592 Pacific St Bklyn '80 BMW #7182866 Rr: M. Medina, '85 Kawasaki #KAZKE650AE5000 Rr: J. Doe; 3 PM at 279-81 Scholes St Bklyn, '82 Buick #1G4AW69R7CH437034 Rr: S. H. Rivera &/or A. Ahmed; 3:30 PM at 276 7th Ave '83 Nissan #JN1HJ01U1XS270769 Rr: M. Anderson; 4 PM at 516 West 27th St NYC '90 Ford #1GHLE2540WE202614 Rr: H. T. Smith; 4:30 PM at 609 11th Ave NYC '86 Buick #1G4AG27J7JX204119177 Rr: E. Rodriguez Inv#7016 &# 07/23/90.

C. LAUDISI & ASSOCS., INC. auct'rs sell July 31, 1990 at 10 AM at 96-14 Northern Blvd., Qns 1989 Honda #JHMEP4264KS021411 Acct., T.O. Webb and/or J.A. Webb; 11 AM at 97-07 100th St., Qns 1984 Chevrolet #1G1AE27P0E7140416 Acct., S.S. Ismail; 1985 Isuzu #JAABL14A4F0727182 Acct., F. Abreu, Mgr.; Metro at 70-11 35th Ave., Qns 1978 Ford #E34HBB22742 Acct., P.M. Frey; 1 PM at 37-11 79th Ave., Qns 1989 Chevrolet #1GNDM19K3KB108001 Acct., D.L. Peterson Trust; 1 PM at 29 Lincoln Ave., Bklyn 1981 Chevrolet #1G1AZ37K0BB462979 Acct., G. Kirkland. Published July 16 & 23, 1990.

By Virtue Of A Default In A Security Agreement Between Daniel Poyo Associates As Assignee Of Krasdale Foods Inc. & Roy & Ann Restaurant Inc. I will Foreclose And Sell On 8/23/90 At 1 PM At 3449 Boston Road Bx NY All Chattels And Fixtures Equipment And All Items Listed In Agreement. The Secured Party Reserves The Right To Bid. Subject To Any Prior Security Agreements. The Sale Does Not Include Any Personal Property That May Be Deemed On Rental, Loan, Lease. Israel L. Saposnik Att'y As Agent. DCA #527888.

Do You Have an Important Legal Notice? Call Gail Edwards at 212/943-5716

IN ACCORDANCE WITH THE PROVISIONS OF LAW, THERE Bona Due and Unpaid Charges for which the undersigned LONGWOOD STORAGE CORP. is entitled to a lien as warehouseman of the goods herein after described and stored at 400 South 2nd St., Brooklyn, NY 11211 AND DUE NOTICE of such having been given the owner and/or owners of the said parties known to claim an interest therein, and the time specified in such notice for payment of such having Expired there will be sold at Public Auction at 400 South 2nd St., Brooklyn, New York on Wed., Aug. 8 1990 at 10:00 A.M. or thereafter on or about that day the following property: Household goods, personal effects and/or office furniture. Unit #; Name; 86 Ford #1FABP46J4GH164642 Rr: J. Sacher, '86 Dodge #1B3BZ1E2XGF202788 Rr: M. Di Pa. No priority among LPs as to contributions or compensation by way of GP except per PA. No provision for additional LPs

DEALS

RJR Nabisco's Bank Group Eager to Unload Much of the New Loan

By STEVEN LIPIN

RJR Nabisco Inc.'s bank group reoffered at least $1.4 billion of the new $2.25 billion credit to the secondary market last week, indicating that the big banks would like to lay off much of the new loan.

While it does not indicate skittishness about RJR as a credit risk, the $1.4 billion reflects banks' eagerness to receive the bulk of the high fees in the deal--without holding much of the loans, banker say.

"That's the wish list," said one banker in the deal.

Cautious About Exposure

For some observers, the desire of the 28 originating banks to syndicate the bulk of the loan signals continued resistance on the part of banks to increase their overall exposure to highly leveraged transactions. Agents on the new financing are the banking units of Bankers Trust New York Corp., Manufacturers Hanover Corp., Chase Manhattan Corp., Citicorp, Security Pacific Corp.; and Fuji Bank and Long-Term Credit Bank of Japan.

Because of regulatory pressure in the United States, and Japanese reluctance to increase their overall exposure to highly leveraged transactions, many banks are trying to avoid increasing their HLT portfolios.

"We all have their existing debt," explained one of RJR's Japanese lenders. "I don't think many banks want to keep the additional amount."

While RJR is one of the preeminent HLTs, the secondary market is awash with over $5 billion in existing loans -- the most liquid, most widely held bank loan in the market. Underwriters feel the need to spread the risk across the industry, but as many as 150 banks already hold stakes in the company's bank debt.

Officials in the group said the figure was higher than expected, and pressure..on the secondary market pulled the quotes of RJR's existing loans down a point -- in other words, the upfront fees jumped as much as 100 basis points, loan-sales officials say. Initially, bankers were expecting a much lower figure of about $500 million for the pool.

"The tone of the market got bearish" when the $1.4 billion figure was circulated, one loan sale head said. "It's a lot of money to be thrown back in the pot."

With $7 billion in commitments, the originating banks expect the two-month selldown to be well received and are not overly concerned.

Hefty Fees

But because of the credit's initial underwriting risk, cosgents are taking as much as 250 basis points to 300 basis points before selling the loans to RJR's existing 150 lenders. That, some say, could temper banks' enthusiasm for the loan.

Explained one banker in the pool, "There's not an army out there waiting. There's already an army holding the paper."

Remaining fees for secondary banks will be 100 basis points to 150 basis points, which some bankers said was generous for the secondary market.

RJR raised $2.25 billion from banks as part of its effort to refinance its high-yield reset bonds. Proceeds from the loan are going toward redemption of its $1 billion in increasing-rate notes and the retirement of its refinancing bridge loan.

A pooled selldown allows a number of banks to divide loans to the secondary market. After the two-month selldown, banks retain their pro rata share of the credit, and individual banks can then sell additional loans to individual banks. □

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Macy's Bank Group Agrees to Amend Terms of Loans

By WILLIAM GOODWIN

R.H. Macy & Co. and its bank group amended terms of the company's bank loans, giving the retailer added financial flexibility as it approaches its peak borrowing period for the fall and Christmas inventory buildup.

The 40-member bank group is led by Manufacturers Hanover Corp. and Bankers Trust New York Corp. The amendment was first reported by *Women's Wear Daily*.

Hopes for a Better Christmas

Macy's is still feeling the effects of last year's disastrous Christmas season, which was marked by huge discounting.

"I don't anticipate another Christmas season like they had" last year, said Thomas Razukas, a high-yield bond analyst at Fitch Investors Service.

Last year's Christmas season was hurt by an overall weakness in retailing, which was made worse by the financial woes of Campeau Corp.'s Allied and Federated units.

While Mr. Razukas said he thinks Macy's is in relatively good shape, he still expects the retail environment to remain difficult.

Under the amendments to Macy's bank-loan agreement, the banks lowered interest coverage ratios for Macy's fourth fiscal quarter ending July 31, and the first quarter ending October 31.

For-both quarters, the ratios were reduced to 1.2 from 1.5.

In addition, the banks agreed to lower the minimum level of earnings before taxes, interest, depreciation, and amortization for the fiscal year ending July 31.

$438 Million in Long-Term Debt

To give the company added financial flexibility, the banks agreed to let Macy's use up to $50 million from asset sales until the end of the year. The original agreement required all proceeds from asset sales to be used for debt reduction.

As of the end of its current fiscal year on July 31, Macy's long-term bank debt will stand at $438 million, a company spokesman said. Macy's also has a revolving credit line from its bank group that ranges from $350 million to $475 million, depending on the season.

Macy Credit Corp., a subsidiary, has a revolving credit line of $625 million. □

Freddie Mac Moves to Let Servicers Use Mortgage Rights as Collateral

By PHIL ROOSEVELT

NEW YORK — In a move that could help the depressed secondary market for mortgage-servicing rights, the Federal Home Loan Mortgage Corp., or Freddie Mac, has taken steps to let servicers use the rights as collateral for borrowings.

Market professionals say that a number of servicers want to borrow against their portfolios to buy more rights. But Freddie Mac and the rival Federal National Mortgage Association, or Fannie Mae, have not allowed servicers to grant security interests in servicing rights related to loans purchased by the agencies.

In a memo to lenders this week, Freddie Mac said it has revised its rules to allow for servicers to grant security interests, as long as the servicer and lender sign a standard agreement crafted by Freddie Mac.

A spokeswoman for Fannie Mae said that agency plans to allow servicing rights to be used as collateral.

Duties of Servicers

Servicing rights allow the holders to earn fees for funneling monthly payments from mortgage borrowers to investors, tending to property tax and insurance payments for borrowers, and initiating foreclosure proceedings.

The rights, which historically have sold for 2% of the related loan, often trade for 1.5% nowadays, reflecting pending regulations and expectations of heavy selling by thrift liquidators and capital-short thrifts.

Services seeking to take advantage of the low prices might be better able to finance purchases under the revised Freddie Mac rule. The increased buying, in turn, could help support prices.

"We really applaud Freddie Mac," said Warren Lasko, executive vice president of the Mortgage Bankers Association of America. The trade group had been pushing hard in recent months for the agencies to accommodate the use of servicing rights as collateral.

"It's a step in the right direction," said Lawrence Pendleton of American Security Bank, a Washington bank that lends to mortgage bankers.

Debra Rose-Johnson, director in risk management at Freddie Mac, said the security interests granted to lenders will be subordinate to Freddie Mac's interest. Mortgage bankers pushing for the change did not expect anything more than a subordinate interest to be permitted. □

ARROW BANK CORP.
has acquired
United Vermont Bancorporation
and has formed
ARROW Financial Corporation
The undersigned initiated the negotiations and acted as financial advisor to Arrow Bank Corp.
First Albany Corporation
July 1990

Highlights for Friday, July 20

TOP 10 GAINERS %

Central Bancshares South, Inc.	17.5
Southeast Banking Corp.	8.7
Premier Bancorp, Inc.	7.1
Independence Bancorp	5.9
Iowa National Bankshares Corp	5.7
Keystone Financial, Inc.	5.5
First Florida Banks, Inc.	5.4
CCB Financial Corporation	5.3
First Fidelity Bancorporation	4.5
CCNB Corporation	4.4

TOP 10 LOSERS %

Bank of New England Corp.	-9.0
United Banks of Colorado, Inc.	-8.8
National Penn Bancshares, Inc.	-7.3
First Interstate Bancorp	-6.1
Bank of Boston	-5.8
First Colonial Bankshares	-4.7
Mellon Bank Corporation	-4.3
First Union Corporation, Inc.	-4.2
First City Bancorporation	-4.0
Wilmington Trust Company	-4.0

MOST SHARES TRADED

Chase Manhattan Corporation	1977700
Citicorp	1633000
BankAmerica Corporation	1183000
First Interstate Bancorp	676600
South Carolina Corporation	592700

VOLUME AS % OF AVERAGE

United Counties/Bancorporation	24900.0
South Carolina National Corp.	1314.9
West One Bancorp	1131.3
First Fed Financial, Inc.	943.8
United Banks of Colorado, Inc.	929.0

Stock Index Trends



Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively.

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.08	-0.63	2.28	-0.78	-1.29	-5.68	-1.66	-4.36	5.12

TOP 225 BANKS (4 PM PRICES)

52 Wk. Hi	52 Wk. Lo	Name	PE	Mkt. to bk	Cls.	Chg.
23¾	19¾	TrkSouncorp/pfA	6.6	90.9	20	--
14¾	10¼	1stNH Bnkg/NH	10.5	129.4	13¾	¼
28¼	20	AmSouthBancorp/AL	8.5	93.1	22¼	-¼
19¾	13¾	AmeritrstCorp/SC	8.5	81.4	14¾	--
29	18¾	AmeritrstCorp/OH	28.0	93.3	16½	-¼
25¼	19¾	AmSouthBancorp/FL	10.5	127.2	20¾	-¼
24½	18	BB&T Fin'l/NC	7.7	126.4	18	--
11¾	9¾	BancFla Savings/FL	8.9	63.4	11¼	-¼
40¾	36¼	BankFirst/WI	30.4	146.1	40	-¼
29¾	25	BancOne/Corp/OH	11.1	177.6	29¾	-¼
16	18¾	BancoPopular/PR	6.4	97.4	19¾	¼
23¾	17	BancorpHawaii/HI	9.0	164.1	23¾	-¼
33¼	24	BancorpSouth/MS	6.9	87.8	18½	--
27¾	21¼	BankAmerica/CA	7.9	104.6	26¾	-¼
24	17¾	BankNewEngland/MA	13.5	238.6	22	-¼
23¾	19¾	BankNewEngland/MA	6.1	81.6	21¾	-¼
14¼	8¾	BankNthCorp/GA	NM	77.2	13¾	-¼
12	8½	BankNthEAmer/OK	212.5	50.4	8¾	--
42	47¼	BankersBost/A	NM	71.0	39¼	--
39¾	28¾	BarnettBanks/nc/FL	10.1	118.6	32¾	-¼
39¾	28¾	BarnettBanks/nc/FL	8.9	44.3	33¼	-¼
39¼	29	Boatmen'sBcshrs/MO	8.3	97.2	31¼	-¼
25	15¾	BostonBcshrs/A	16.0	103.6	18¼	--
18¾	12¼	BrentonBanks/A	7.3	99.3	14	--
18¾	12¼	CCB FinCorp/C	8.6	114.8	18½	¼
22¾	17¼	CCNB Corp/PA	7.5	104.4	18	--
22¾	18¼	CNB Bancshares/IN	10.5	126.3	21¾	-¼
27	20¼	CPB Inc./IL	11.4	159.7	23	--
33¾	20¼	CalFedpref/CA	6.2	344.6	14¾	--
33¾	20¼	CalFedpref/CA	8.2	148.9	20¾	--
18¾	13¾	CentralFin/pfA/IL	7.1	115.5	18¾	¼
34¼	26¼	CentralFin/pfB/IL	7.7	109.1	28	--
27	17¾	CentralBancshs/A	7.6	85.8	19¾	--
44¾	20¼	ChaseManhattan/NY	NM	58.0	20¾	-¼
41¾	27¾	Chemical/NY/pfA	NM	71.0	39¼	--
35	30¾	ChemicalFincp/MI	9.1	99.8	31¼	--
28¼	21¼	Citicorp/NY	NM	84.6	27¼	--
25¾	18¼	CitizensBancorp/MD	7.9	96.7	17	¼
29¾	21¼	CitizensBcshrs/GA	8.0	70.3	21¼	-¼
15½	8¾	CitizensFirst/MI	5.9	97.2	8¾	-¼
14¾	10¾	CitizensFirst/MI	6.8	102.5	13¾	-¼
27¼	17¾	CityNatCorp/CA	10.8	195.0	19¼	-¼
22½	12¾	CoastSavBnk/CA	10.2	87.0	16¾	-¼
58¾	39¼	Comerica/mi/MI	9.4	104.8	45	--
29¾	23¾	CommBcshrs/KY	7.5	101.3	23¾	--
20¾	15½	CommonwealthBk/A	7.1	89.2	15¼	--
37¾	13¾	CommunityBk/NY	5.9	45.8	14¾	--
20¾	13	Continental/IL	NM	58.0	13¾	-¼
49¾	38¾	CoreStates/PaCp/PA	9.1	145.7	39	-¼
34	20¼	CrestarFin/Cp/VA	7.9	94.9	22	¼
18¾	7¾	CulbertSon/TX	8.4	80.9	8¾	-¼
37¼	29¼	DauphinDpsit/PA	8.9	130.5	31	-¼
32¾	23¾	DepositGuaranty/MS	6.2	71.8	25¼	-¼
25½	12	DominionBnkshs/VA	8.8	75.2	12	-¼
16	5	EquimarCorp/VA	NM	41.2	5½	--
21¼	12	EvergreenBancs/NY	6.5	99.2	14	--
15¾	12¼	F & M Nat'l/Cp/VA	10.2	154.0	12½	-¼
14¾	12¼	FNB Corp/PA	8.7	104.7	12¾	-¼
26	18¼	FNM Bancorp/IL	11.2	185.8	24¼	-¼
29	27¾	FarmersCpl/pfA/KY	11.9	138.4	27¾	--
39¾	30¾	FidelityBcshrs/MO	7.8	179.3	35¾	-¼
38¾	32½	FinancialTrust/IN	9.0	136.4	33	-¼
51¾	38¾	FirstFed/MI	8.6	102.7	40¾	-¼
19¾	15¾	FirstAlabama/AL	17.7	116.4	17¾	-¼
26¼	11¾	FirstAmCorp/TN	NM	72.9	12¾	-¼
34¼	24¾	FirstBancorp/NC	8.6	130.0	26¾	-¼
20¾	13¾	FirstBancorp/PR	6.3	181.9	18¾	-¼
32	21¼	FirstBancshs/MN	11.3	181.3	28¾	-¼
24¾	15¼	FirstBancorp/Ohio/OH	6.8	84.5	15¾	--
57¾	30	FirstBancorp/Ohio/OH	2.6	60.7	30¼	-¼
18¾	14¾	FirstBancorp/Ohio/OH	9.8	98.8	15¾	-¼
23¼	16¾	FirstBancorp/Ohio/OH	9.4	141.9	18¾	-¼
47¼	23¼	FirstBancorp/Ohio/OH	8.9	35.5	23¼	-¼
25¼	9¾	FirstBancorp/Ohio/OH	NM	48.3	9¾	-¼
39¾	26¾	FirstBancorp/Ohio/OH	9.2	133.9	32¼	-¼
54¾	34¾	FirstBancorp/Ohio/OH	7.1	127.7	36¾	-¼
28¾	18¾	FirstBancorp/Ohio/OH	14.2	157.7	20¾	-¼
41¾	33¾	FirstBancorp/Ohio/OH	8.3	140.6	38¾	-¼
18¾	12¾	FirstBancorp/Ohio/OH	11.1	196.3	16¾	-¼
31	25¼	FirstBancorp/Ohio/OH	9.6	115.7	30	--
29¾	20¼	FirstBancorp/Ohio/OH	10.1	175.2	22¾	-¼
44¾	18¾	FirstBancorp/Ohio/OH	6.0	83.0	18¾	-¼
20¾	10¾	FirstBancorp/Ohio/OH	5.2	68.1	10¾	-¼
72	17¾	FirstBancorp/Ohio/OH	NM	52.9	18¾	-¼
20¾	17¾	FirstBancorp/Ohio/OH	8.8	182.0	20¾	-¼
23¾	17¾	FirstBancorp/Ohio/OH	7.8	138.9	20¾	-¼
29¾	22¾	FirstBancorp/Ohio/OH	7.2	97.4	23¾	-¼
29¾	24	FirstBancorp/Ohio/OH	8.1	113.3	24¾	-¼
29¾	24¾	FirstBancorp/Ohio/OH	8.0	137.2	24¾	-¼
29¾	19	FirstBancorp/Ohio/OH	8.0	137.2	24¾	-¼
29¾	24¾

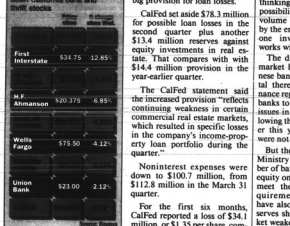
STOCKS

Loss by CalFed Heightens Fears On Real Estate

Continued from *page 1*

Los Angeles-based CalFed said it added $78 million to its loan loss reserve to cover problem commercial real estate loans, leading to a $53 million loss for the second quarter. Despite the loss, CalFed closed up 37.75 cents, at $14.875.

On the puzzling rise of CalFed's stock, analysts said the market was being kinder to the stock because of the belief that management is taking a proactive approach to a number of problems they did not create. CalFed has had three chief executives in three years.



Golden West Financial Corp. fell $1.125 to $29.875 Friday.

On Thursday, the stock of HomeFed Corp., San Diego, plunged $4.75, to $14.25, on news that it set aside $234 million for problem loans, producing a loss of $108 million.

Concern Over Property Loans

First Interstate also disclosed it was concerned about its California property loans, but added that it did not foresee a big jump in problem real estate loans in the immediate future.

"We should not be concerned about California financial institutions based on California real estate," Jerry L. Jordan, chief economist at First Interstate, said Friday.

"California does not compare to Texas or Arizona. We do not have the same overbuilding."

Slowing Is Reported

Mr. Jordan said California's economy was still good, although it is "slowing sharply from an unsustainable pace." Mr. Jordan said housing was not a problem, but offices were overbuilt.

Analysts said most of the problems the California financial institutions are experiencing are out of state. At CalFed, for example, only about 35% of the $606 million in problem assets are in California.

Analysts also stressed that nonperforming assets were down at most of the big California commercial banks in the second quarter. And even at CalFed, non-performers went up only slightly, from $602 million at March 31 and were down from $616 million at year-end.

Weak Spots Noted

"Overall, some spots are weak in the California real estate markets, said Jerry St. Dennis, chairman and chief executive of CalFed. But, he said, the problem areas are pretty predictable.

CalFed reported a second-quarter loss of $53 million or $2.10 per shre, compared to a profit the year earlier of $19.1 million or 73 cents a share. Although analysts earlier had expected profits from the company, they had warned investors that the company might take a big provision for loan losses.

CalFed set aside $78.3 million for possible loan losses in the second quarter plus another $13.4 million reserves against equity investments in real estate. That compares with with $14.4 million provision in the year-earlier quarter.

The CalFed statement said the increased provision "reflects continuing weakness in certain commercial real estate markets, which resulted in specific losses in the company's income-property loan portfolio during the quarter."

Noninterest expenses were down to $100.7 million, from $112.8 million in the March 31 quarter.

For the first six months, CalFed reported a loss of $34.1 million, or $1.35 per share, compared with earnings of $36.6 million or $1.40 a share for the first half of 1989. □

Fred Vogelstein and Gordon Mathews contributed to this article.

CAPITAL

Japanese Banks May Sell Preferred in U.S.

By KELLEY HOLLAND

As Japanese banks search for ways to raise their capital ratios, they may soon be tapping the preferred stock market in the United States for the first time, according to experts.

The Japanese are eager to raise new Tier I capital to meet the 1992 risk-based capital requirements. But weakness in the Tokyo stock market earlier this year makes the U.S. market for preferred stock more attractive.

"This is something they never thought about until three or four months ago because they thought they could continue to issue common stock," said Masaru Kakutani, an associate director at Moody's Investors Service.

$1 Billion Volume Seen

"Almost all the banks are thinking about this as a distinct possibility," he said. New-issue volume could reach $1 billion by the end of 1991, according to one investment banker who works with foreign banks.

The drop in the Tokyo stock market has kept a lid on Japanese banks' ability to raise capital there. The Ministry of Finance reportedly asked Japanese banks to hold off on new equity issues in the Nikkei market following the correction there earlier this year. Ministry officials were not available for comment.

But the reported move by the Ministry of Finance left a number of banks with barely enough equity on their balance sheets to meet the 1992 risk-based requirements. Japanese banks have also seen their hidden reserves shrink as the stock market weakened.

Loan Issues Authorized

Recently, the ministry authorized subordinated loan issues by Japanese banks, a rule change that enables banks to raise Tier 2 capital. And a unit of Sumitomo Bank Ltd. recently issued $500 million in fixed rate subordinated bonds in the United States after approval from regulators.

But Tier 1 capital must comprise at least half a bank's risk-based capital, so Japanese banks are still eying ways to boost their Tier 1 capital ratios. With their domestic market for common closed to them, the American preferred market is looking more and more like the best alternative. There is no preferred market in Japan.

"They certainly have a need for it in terms of raising capital," said John McVeigh, preferred-stock product manager at First Boston Corp.

Specialty of Banks

Foreign banks have been the source of more than half the new-issue volume in the American preferred stock market since the beginning of 1989 because of a favorable tax treaty.

New-issue volume is now below the levels prevailing in 1989, before investors grew so worried about the creditworthiness of the banking industry. But the high credit ratings on Japanese banks should ease their entry.

To be sure, preferred stock will not come cheap for Japanese banks. Under current corporate structures, Japanese bank issues would not be eligible for the dividends-received deduction, unlike their U.S. counterparts. The deduction allows investors a 70% deduction on dividends they receive on preferred stock.

Deduction Is Limited

The dividends-received deduction is only available to United States companies buying preferred stock of U.S. issuers, according to Ronald Gallatin, a managing director at Lehman Brothers Inc.

The preferred-stock market is becoming more and more skittish about bank issues. For example, Manufacturers Hanover Corp.'s recent issue of preferred stock, priced at $25 a share with a dividend of 10.96%, was offered recently at a yield of 11.4% and a price of about $23.75.

* * *

A Position For Preferreds
Foreign banks have taken the lead in issuing fixed-rate preferred stocks in the U.S.
dollars in millions



MARKET MONITOR

Banc One Corp. has filed a shelf registration for up to $300 million of senior or subordinated debt. Separately, the Columbus, Ohio-based bank announced it has completed its offering of 11.5 million shares of common stock at $29 a share.

Moody's reduced its ratings on the banking unit of HomeFed Corp., citing weaker asset quality and high levels of nonperforming loans. HomeFed Bank's subordinated debt rating was reduced to B1 from Ba2, its rating for long-term deposits to Ba2 from Baa3, and its rating for short-term deposits and commercial paper to Not Prime from Prime-3. □

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Changing an Organization's Culture Requires More than Vision

By Anthony P. Terracciano

Alfred North Whitehead described a concept called the "climate of opinion." If you listen to two people having an argument, he said, and you want to really know what those people think, listen not to their points of disagreement but to those ideas and concepts that neither of them discusses – their unspoken, shared assumptions.

Those nondebated assumptions make up what those people really think. That's the "climate of opinion" that underlies debate, and you can't have a debate until you share a tremendous amount. It's impossible for people who disagree about everything to have an argument.

When people talk about culture, they generally mean this shared "climate of opinion."

You can't describe culture except by reference to an operating environment. And you can't evaluate whether it's unhelpful or unhelpful, good or bad, unless you tie it to a task, to a strategy.

Transmitting Shared Values

In a stable operating environment, a culture tends to transmit shared values. It plays a socialization role, takes new people coming in and teaches them the unspoken value system of the organization.

Many of the things that people learn are in the air; they're behavioral, not conceptual values. They watch and listen, but they watch more than they listen. By watching, they usually get to learn the value system.

In stable environments, these values are easy to describe and easy to manage, because they are process-dominated.

Process is very helpful and effective in a stable operating environment where the culture is not changing, where the environment doesn't force change. The process is part of the vocabulary that communicates the culture.

It's particularly helpful if there's some consistency between what the process is telling people and what the chairman is telling people. Often, the two are inconsistent: Senior officers give speeches and say things, and the process tells them something very different.

Executives say: "Take risks. Don't be afraid to speak up." The process tells them exactly the opposite: "Your freedom to act is constrained – you do it this way. That's the way it's done here."

Still, it is relatively easy to describe, work within, and manage a culture that has tested, shared values that have been successful in an environment that isn't changing. Unfortunately, none of us have that option of working in a stable environment, and it's unlikely that we will.

In a period of dramatic change, what is the role of culture? The only possible task to be assigned to culture in a period of change is to help facilitate the change. It's almost like asking someone to bend his elbow in the wrong direction.

Culture is the glue. Culture is, almost by definition, reactionary. It helps resist change, and suddenly you're asking it to facilitate change.

The Role of Confusion

Unlike the stable operating environment, culture in a period of change – if it's the right culture – is disruptive. It creates and sustains confusion.

It makes people uncomfortable, because culture is fluid. That's terrible for a people to deal with. The value system is saying: "What's important is change – not structure, not stability, not process."

Culture helps determine which companies do well and which do not.In a period of change, a company that is process-dominated, in an industry that is going through tremendous change, is dead.

A culture for a stable environment doesn't facilitate the accomplishment of the strategic objective; it frustrates it. We really love those processes. We develop a vested interest in them, and they don't help very much.

In a period of change, I can't separate culture, strategy, and leadership. A leader or manager in a period of significant change has to twist the culture to accomplish the strategy.

Leadership: Dominant Variable

Leadership and culture, for some period of time, are almost the same. To define the culture of an organization that is undergoing change, the dominant variable is leadership. That's dangerous because it is dependent on a small group of people.

Managers in a period of rapid change must understand and manage change. Have you noticed how often people talk about *managing* change? And how little people talk about *understanding* change? If you look at Western thought from the time of the Greeks until today, it wasn't until the 18th century that people stopped talking about understanding things and started talking about managing things – only a couple of hundred years.

The emphasis was on understanding change for all those years. Now people hardly ever talk about it. Ironically, the Greeks didn't accomplish a hell of a lot by understanding it.

It didn't bother them. They thought the intellectual exercise of understanding was satisfying in itself.

The job of the manager is both to manage and understand change. If you try to manage it without understanding it, you'll get killed. If you try to manage it even when you do understand it, the odds are 8-to-2 against you. But if you understand it and you don't do anything with that understanding, nothing is going to happen.

Belief in the Possible

What does it take to have change? Do you think any group, any country, any corporation, is as likely to have change as the next? To have change, people have to believe it's possible. You didn't have the Russian Revolution until you first had a czar who eased up a bit. When conditions eased up, people saw that change was possible.

Two groups that have an underdeveloped sense of change and of the future are the very rich and the very poor. The probability of a change is minimal for both groups.

With a strong, big middle class, you tend to have a lot of change because there's a lot of both upside and downside potential. The middle class lives with that every day.

In some of the Indian languages of this country, there is no word for the future. In their culture, if you asked someone to forecast the future, it would be taken as a personal insult. You would be implying that they were crazy.

Don't assume that all cultures have the same developed sense of the possibility of change. Without that sense of the possible, there can be no change.

A startup operation will tend to have a highly developed sense of change, or is likely to be able to go through change quickly. It has no history, no memory.

The Temporary Thaw

And a company in trouble is capable of digesting a large amount of change very quickly. It is horrible to have problems, but one good thing about problems is that them temporarily thaw out the culture; you can get a lot of things done very quickly. If you don't do them quickly, that culture will freeze up again, maybe at a lower performance level.

If you don't move quickly through that window of opportunity, you lose the chance to make a lot of change very quickly. That's why you're better off doing things fast – which means that you have to know what you have to do.

Revolution is not easy on the individual. You'll find the greatest rigidity in that part of the organi-

Continued on next page

TO THE READER

In an age of consolidation, effective management of human resources is vital for companies hoping to survive the banking industry shakeout. The surviving entities will surely be those that demonstrate the best grasp of the key issues of compensation and reward systems, improving productivity, and reducing costs.

The articles in this special supplement on human resource management for the 1990s represent the best information on this continuously evolving field that was available to the authors at the time the articles were written. Readers are urged to contact the authors or their own advisers to seek timely updates.

To order additional copies of this supplement, or reprints of individual articles, call Martha Hernandez at 800-367-9989 outside New York or 212-943-4845 in New York State. Fax orders will be accepted at 212-480-0165.

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More than Vision

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zation which has historically been most successful.

Inventorying Strengths

Each of Shakespeare's tragedies had a hero with a tragic flaw. The flaw differed in each tragedy, but in each play the flaw was a strength that started working against the tragic hero.

For Hamlet, it was his intellect; Othello, his passion. It was always a strength that got out of control and eventually started to work against the individual.

To compete with you, I'm not going to spend a lot of time identifying your weaknesses, because that makes the arrogant assumption that I'm much smarter than you are. I need to concentrate on your strengths.

To understand change and how to deal with it, study the history of revolutions. Find out what caused them, their similarities and differences, the type of leadership that surfaced in each case, and whether it worked or didn't work.

'No Problem,' the Russians Said

I had a visit in Pittsburgh about a year and a half ago from 15 Russians, all senior bureaucrats. At lunch, I asked: "How are you going to do all this? You must have great courage to take on this agenda. This is going to be very hard."

"No problem," they replied.

"What do you mean, no problem?" I asked. "I've done the same kind of thing in a tiny way, and I've found it hard as hell."

The Russians replied: "You can't take your experiences and assume that ours will be similar. We have something going for us that you don't have – we have a whole population that has been trained to do exactly what they're told," they said.

"My God," I responded, "are you going to have problems. As soon as people in the Soviet Union get the idea that change is possible, you'll become like a playwright – in total control until the curtain goes up, then no control at all."

They didn't even understand their own revolution. Otherwise, they never would have had that perspective on what they were about to take on. They were ready to manage the hell out of it, but they hadn't studied it.

Articulate the Vision

You must be able to articulate the vision, presupposing that you have one. If you don't have a vision, why are you causing all this trouble?

You must have a vision, not a process. You have to break away from the stable-culture environment. You can't hide behind process. Having a vision is not sufficient. You must be able to convince people that it's real.

They don't have to be 100% convinced. It's helpful if the people in the organization think you're just a little bit crazy. Not a lot.

If they think you're totally crazy, they'll ignore you. But if they think you're a little crazy, that's good. In the early stages, creating change requires an act of faith from the people in the organization. It's not bad if they say: "He's just crazy enough, maybe he can do it."

Now's the Time

To define the pace you will use in managing change, there are two dominant variables. First, how much time do you have? You can't control that.

I hear people talking about change in terms of three-year or four-year projects. You don't have three to four years. The consolidation predicted in the banking industry by the year 2000 is coming much sooner.

The second dominant variable, which you also do not control, is the capacity of the organization to digest a certain rate of change. There are no techniques available to tell you precisely how much. It's always more than people think, and you don't know the real limits until you hear the creaking, the

To understand change and how to deal with it, study the history of revolutions. Find out what caused them, their similarities and differences, the type of leadership that surfaced in each case, and whether it worked or didn't work.

straining, the cursing, the yelling.

Listen for those things. Watch how your people's work hours and questions change. If you go too slow, it's going to be too late. You'll do a great job but it won't mean a damn thing.

If you go too fast, you lose control and have chaos. If you understand the amount of time you have, you'll be right on the edge of losing control.

If you understand the pace and you have the vision, you must phase it in, so that each phase lays the foundation for the next phase. People won't understand your vision in one second.

Conceptual Thinking

The reason it's so difficult to read books written by very smart people is that they're thinking in terms of concepts. What takes me four steps to understand, they understand in one.

The same is true about visions. People don't understand visions. They hear the words, but they don't understand the content.

You must create a vocabulary to make all this happen. That's the first element of change that begins to take hold.

Romancing the Change

The adoption of a new vocabulary is one of the risks, what I call "romancing the change."

The subordinate puts himself on the back and says: "I made the change. I was afraid for a while, but it only took three and a half hours. I've done it!" They think they've changed because they've learned the new words.

Years ago, commercial bankers didn't want to do anything except make loans. All of a sudden they were talking about swaps. They thought they were terrific, talking about risk-adjusted return on equity.

Their behavior hadn't changed a bit, but they had a new vocabulary. That's not bad. Let them feel good. But don't confuse words with behavioral change.

Translation Skills

Translation is an important concept. Organizations do a great deal of damage when they order their managers to communicate more. That's not what they get paid to do – which is good, because damn few of them communicate anyway.

It doesn't require tremendous skill to pass a comment along to someone down the line. It also doesn't do a damn bit of good.

Someone must translate that message from the upper echelons to the environment of the people listening. Translation is a soft skill. Few people are good at it. When people try to communicate, they get exactly the opposite result.

When Moses went to the mountaintop, he said to the Lord: "Who are you?" And the Lord said: "I am who am."

Moses must have said to himself: "Thanks for clearing that up." Considering the source, though, it was a perfect answer.

Answering the Wrong Questions

I introduced new strategies at both Chase and at Mellon. The young people in these organizations were terrific – really intelligent, well motivated. They wanted to do their best. They kept raising their hands, saying: "I don't understand your new strategy."

I said: "Gee, I'm not that bad. Let me give you my strategy. The new wholesale strategy is to create revenues without creating assets. Now, what word don't you understand?"

I was stupid. I wasn't translating their questions. They weren't asking me to explain the wholesale strategy. They really wanted to know what was wrong with the old strategy. Why did it have to be changed?

- "If the old one has to be changed, how do we know the one you're putting in is the best alternative?
- "Even if it is, what's your basis for assuming that this organization can pull it off?
- "Even if the organization can pull it off, don't you recognize that I'm threatened because I don't know whether I'll be successful in that new environment?"

If you don't understand which question the person is asking, how do you answer it? Are you communicating? You're throwing words back and forth. If the same question keeps coming back again and again, obviously you haven't answered the right question.

Translation is a hard skill to develop. Sometimes, people with vision do the worst job of articulating it; they understand it so clearly that it's almost impossible for them to explain it.

A Lesson from Plato

In Plato's "Republic," there's a section called the allegory of the king: Prisoners are chained, facing a wall, so that they can't turn around. Behind them is a ditch, and in back of the ditch there's a fire.

People down in the ditch are carrying cardboard cutouts of animals, people, trees in front of the fire. These cutouts cast shadows on the wall that the prisoners are looking at. To them, the shadows – two steps removed – are reality. Problems arise only if you the prisoners find out that there are two other steps.

One of them breaks his chain, crawls out of the cave, goes outside. He can't see anything. He needs time to adjust. After a while, he's able to see the real trees and animals.

He gets so excited that he runs back down in the cave to tell the other people. But back in the dim cave, he can't see – he stumbles.

"You're not going to believe this," he tells the other prisoners. "I have just seen reality. What you're looking at is not reality."

As he's raving about reality, he's stumbling around because he can't see. In their world, he looks like an idiot.

Articulating the Message

That's how a leader has to appear from time to time. The person with the vision of change isn't always capable of articulating it.

Continued on next page

ANTHONY P. TERRACCIANO
Chairman, President, and Chief Executive Officer
First Fidelity Bancorp.



Mr. Terracciano is chairman, president, and chief executive officer of First Fidelity Bancorp.

Before joining First Fidelity on Feb. 1, 1990, he was president and chief operating officer of Mellon Bank Corp., Pittsburgh.

Mr. Terracciano was associated with the Chase Manhattan Bank for 23 years before joining Mellon in 1987. At Chase, he served in a number of senior management positions including vice chairman for wholesale banking, executive vice president and chief financial officer, and treasurer with responsibility for services and activities in worldwide money markets.

Born Oct. 27, 1938, in Bayonne, N.J., Mr. Terracciano received a bachelor's degree in economics from St. Peter's College and a master's degree in philosophy from Fordham University.

He serves on the board of directors of Legent Corp., is on the board of directors of Philharmonic-Symphony Society of New York, is a member of the Council on Foreign Relations, and a member of the National Committee on Education and Literacy for the United Way of America.

More than Vision

Continued from preceding page

Translation skills have to be applied hierarchically. The message must be taken from the top, articulated, restructured, and sent down to the ranks in a form they will understand.

In the banking business, subcultures hate each other. The guys in the production base hate relationship managers, the bulls hate traders, and they all hate staff people.

Why? Because of the relevancy test: They all live in different time frames, use different vocabularies, have different priorities.

Do you really think a trader and a relationship manager would talk to each other? The trader doesn't go to meetings – he stares at a tube. When are you going to arrange for him to talk to a relationship manager?

Who will translate between them, especially during a period of change when the priorities of their culture are shifting? Who has the ability to present to each of those groups the perspective of the other?

We compound the difficulty of the translation job when we say to people: "You're not only responsible for the day-to-day tactical management of your business – you're also responsible for the strategy of your business.

People don't understand visions. They hear the words, but they don't understand the content.

"So, while you're doing all this complex translation, I also want you to live in two different time frames. And, by the way, I want you to talk to people who are living in all different time frames."

Living in Different Times

In a stable environment with a strong, tested culture, everybody is in the same time. That makes it easy for people to get along.

Everybody is living in today because there's not much change going on. Today looks a lot like yesterday, and tomorrow promises to be just as nice.

Now, put that same organization in a traumatic change environment. You need communicators. A small group of people will already be rushing to that vision like there's no tomorrow. They're already living in tomorrow.

But the bulk of the organization is still firmly rooted in today, with a number of people who wish we could go back and do things like we did it in 1965.

Changing, for an organization, is not like walking through a door. The whole organization doesn't go through at the same time. Somebody has to translate. Otherwise, you risk losing control. Then, the change will take even longer.

The management and the execution require and a different set of skills, to solve the problems. When you go through change, people meet problems they've never met before, and they get into a loop.

I'll take a manager who has no other skills except the ability to listen to people talk about a problem. He can restructure that problem to make it solvable.

That makes people angry, because they don't necessarily want to see their problems solved. People complain about the management information system. It's the greatest crutch ever invented. Two variables affect the quality of management information: the quality of the questions you're asking and your commitment to get the answers.

A manager has to help people see the roadblocks in a different way so that they lend themselves to solutions, especially in a period of rapid change.

Lots of people can measure progress, but how many managers can define it? You go to a meeting, you talk to people, they ask you questions, and they give you some complaints.

You go to a meeting with the same group one month later, you say something, they ask you questions, and they give you some complaints. You do that for six months in a row, and some managers finally give up. "All these people want to do is complain," they say.

What do you have to listen for to tell if you're making progress? For a change in the sophistication of the complaints. Don't expect an absence of complaints, because that only happens when you're dead – no data, no feedback at all.

Define you progress in terms of the increased sophistication of the complaints. I want people complaining constantly; I just don't want to hear the same complaints after six months of hard work. I want to hear better, more sophisticated complaints.

Every time you make a change, you change your mix of vulnerabilities and invulnerabilities. Before you made the change, you had some real risks to worry about. And you had another group of risks that you really didn't have to spend much time worrying about because your structure protected you against them.

Now you change, and things that weren't risks before you made the change are real issues. If you see change in too linear a way, you don't think about the associated risks.

The Example of Oedipus

In "Oedipus Rex," two people act logically, taking steps to change a situation, and both of them accomplish exactly the re-

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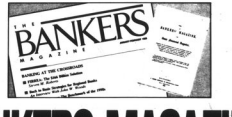
ARE YOU THE NEXT CEO?



WOULD YOU KNOW WHAT TO DO IF YOU WERE?



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Excelling in the '90s: A CEO's Perspective on Corporate Culture

By Richard P. Cooley

Everybody talks about culture, culture, culture. When I moved to Seafirst in Seattle from Wells Fargo in San Francisco, people said the culture at Seafirst would be different.

And, of course, the culture is different. But, at the time, I didn't quite understand what "culture" is.

Finally, I realized that a corporate culture is "how we work." Some people work in one way; other people work in other ways. And the way we work changes over the years.

What the Customer Sees

Much has changed in the way banks work today compared with 25 years ago, or even five years ago. Some people think that what's most significant is not what changes the banker sees but the changes the customer sees.

The customer's perception should be positive. Banks should be perceived as changing to make things better for the customer.

At our bank, and perhaps yours as well, Personal bankers in the branches are helping consumers from 9 a.m. to 6 p.m. on weekdays, and on Saturdays from 9 a.m. to 1 p.m. We even offer "Saturday special" sales.

We have a new telephone service that gets 18,000 calls a day, operating 24 hours a day, including weekends. We find that our commercial loan officers are beginning to spend more time out calling on the customers than working in the office. A lot of changes.

Change Energizes

As I look back over the years, this is quite remarkable. These are big changes. The feedback we hear from customers is that they like the changes. And they expect us to do at least this well, if not better, in changing in the years ahead.

This has meant a lot of changes for our employees. In the employee surveys we have done, these changes are received positively by employees, for the most part. People working for the bank feel energized; they feel excited. They like the positive response of customers. In an employee survey we conducted 18 months ago, 95% of the people in the bank said their job had a direct effect on customer service. That's fantastic.

At Seafirst, we've tried to establish a "sales culture," complete with sales goals and targets. This is accepted in our bank today, but we've learned that we need to watch carefully how the idea is applied. Selling is one thing, but managing sales is another. We must make sure people don't feel threatened if they don't make their sales goals. If employees do feel threatened, the whole value of a sales culture is destroyed. There's a fine line there; sales management is an art.

As a CEO, part of my job is not only to keep an eye on the way such ideas about culture are applied, but also to help shape the future. Let's consider three perspectives on the elements of our culture we at Seafirst feel are essential for excelling in the 1990s.

Trend Toward Service

The first perspective is to look at business trends from this country's past. As we look at business and industry in the second half of this century, a series of 10-year trends is evident. In the post-war period, in the 1950s, the big emphasis was on manufacturing. Autos and housing boomed as never before. People wanted new cars and new homes. This was a time when people were building a new life and a new economy.

In the '60s, as businesses grew, the spotlight turned more to professional management, as everyone talked about management by objectives. More and more business people went to Harvard Business School or to the special executive programs at Stanford, Berkeley, Columbia, and Wharton.

In the '70s the emphasis was on finance, particularly after the post-Vietnam War recession from 1973 to 1975. During the double-digit inflation of the late 1970s, more and more businesses recognized the necessity for the disciplines of finance. For example, the CEOs of many companies came out of the finance or controller's department.

When Paul Volcker finally got the reigns on inflation, companies realized that to make the numbers go up, they had to get out and sell. That made the '80s a decade of marketing.

For the '90s, it appears the focus more and more will be on service. A cover story in the June 4 issue of *Fortune* magazine said what the customer really wants is three things: service, service, service.

RICHARD P. COOLEY
Chairman and Chief Executive Officer
Seafirst Corp.

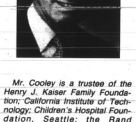
Mr. Cooley is chairman, chief executive officer, and president of Seafirst Corp., the parent company of Seattle-First National Bank.

He joined Seafirst in 1983; after a long career at Wells Fargo Bank, beginning in 1949. He was named a vice president at Wells Fargo in 1957, senior vice president in 1964, and executive vice president in 1965. He became president, chief executive officer, and a director of the bank in 1968.

In 1978, Mr. Cooley became chairman and chief executive officer of Wells Fargo & Co. The following year, he also became a director of the holding company.

Mr. Cooley is on the board of directors of BankAmerica Corp. and Bank of America, UAL Corp., and Burlington Northern Inc.

He is a member of the Washington Roundtable, the University of Washington School of Business Administration advisory board, the International Financial Conference, and the Seattle Symphony board.



Mr. Cooley is a trustee of the Henry J. Kaiser Family Foundation; California Institute of Technology; Children's Hospital Foundation, Seattle; the Rand Corporation, and the Seattle Art Museum.

Born in Dallas in 1923, Mr. Cooley is a 1944 graduate of Yale University with a BS degree.

Over the past three or four years at our bank, we've gone back and forth, debating over conflicts between our new sales culture and the traditional service culture. Then we realized that, from the customer's point of view, service includes selling in the customer's best interest. We began to see that excellence in customer service today does far beyond anything we did five, 10, 15, or more years ago.

We see that our competitors, your competitors can provide almost as good a value on many products that we all offer. We can differentiate perhaps on price, but especially on service. Service and attitude. We see service as the way to establish a competitive edge in the 1990s. Because of that, a focus on customer service will drive our culture in the years ahead.

The International Scene

The second perspective is from the international point of view. It's fine to look at our own country, we are hearing more and more about the global environment and global competitiveness. Seafirst is taking a strategic look at the Europeans, the Japanese, and other key players on the international scene. The picture and the possible impact on a corporate culture are impressive.

I won't go into a lot of detail, but there were some things I heard at the International Financial Conference in Frankfurt, and from customers in Europe and Japan, that were significant.

In four days of meetings in Frankfurt we heard from the head of the Deutsche Bank, the head of the Bundesbank, and the German finance minister. In all of those speeches and meetings there were only two mentions of the Pacific Basin.

In the meantime, in Seattle we say that the Pacific Basin is the future (we have the closest port to Asia), and that the Pacific Basin is where all the growth is going to be.

But Europe is so excited about what's going to happen in 1992, plus the communist breakdown and the loosening up in Eastern Europe, that they say the future will be in Europe, maybe even more than in the Pacific Basin.

This appears to be a special moment in history. The economy of the Soviet Union is in state of crisis. We all know that. The Germans made a big loan to the Soviets; whether that's going to solve the problem, I don't know.

At the same time, knowledgeable people told us, the German economy this year will be a negative 2% to 4%. The other side of that view was that the people in West Germany said that after an initial problem with unemployment in East Germany, maybe for as long as 24 months, the East German economy is going to grow 8% to 10% a year.

What the economic problems and pressures for a market economy will be in the Soviet Union – if the Soviets can save the government, if they can keep control – are very hard to imagine.

American banks have looked at the coming of 1992, the consolidation of the European Community, for several years, sometimes with some apprehension. Many people in Europe advocate giving a lot of help to the Soviet Union, as the Germans did, to get its new economic and political structures going. To leave out the Soviet Union, they say, would be foolish. As everybody tries to balance all these factors, how things will develop in Europe is unclear.

Some say the expansion of German banks into East Germany and the financial power of Frankfurt will be even more significant than 1992. The first two or three paragraphs of the conference talks by the German finance minister, the head of the Bundesbank, and the head of the Deutsche Bank demonstrated a big push to make Frankfurt the financial center of Europe, not London. So you can see how

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More than Vision

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verse of what they set out to accomplish. The same type of thing happens when you take an organization through a process of change. There are some variables you can control and some variables you can't, and you've got to know how that mix of variables will change.

When you add it all up, you could convince yourself quite easily that the task is impossible, that you're better off not initiating change. But if you don't, you don't survive. If it's an issue of survival, you'll do it.

You'll generate anger. All that hostility in the culture will come after you. Tell them: "Stay angry for three years, because we're not letting expenses go up for three years; we'll never again put this organization in a position where it has to do that."

To pull this off, you need a culture that is identified exactly with the task with which the bank or starts it and has the responsibility for completing it. The culture, the manager, and the environment become one. That's the only kind of culture that can get you through. And if you don't get through, you won't survive.

You need to get out that cultural message. You send it out by acting. I wouldn't give very high odds of succeeding. It is very difficult to rend that infrastructure, that culture.

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they're thinking.

At the conference there was a consensus that gradualism in Central and Eastern Europe won't work, that speedy change is a necessity.

Just so I wouldn't get too sold on Europe, I went to Japan to get the Japanese point of view. Customers there still have money to invest in our country. Even so, they have a variety of concerns about the yen, the stock market there, and the real estate market in this country.

Many large companies in Japan have been burned by their real estate investments here. We need to make sure that investment vehicles are adequate for them; it's not smart to turn off the Japanese interest in investing in our country. We need to treat Japanese investors as good customers.

Already, the large Japanese banks – the Citibanks of Tokyo, which I haven't called on in a couple of years – have different names. They're merging with smaller retail banks. As in the United States, bankers world over want access to the retail market.

Several ideas arise from an international view that relate to our other perspectives on corporate culture, such as the periodic necessity for speedy changes. For example, West Germans are merging quickly with the East German banks, seizing the opportunity at hand.

My point is that several themes from the international perspective strike a chord with what we see from other perspectives as essential to our corporate culture for the 1990s: taking care of the customer, focusing on retail banking, and making changes quickly when the time is right.

Leaders in Retailing

With national and international trends in mind, let's turn to a third perspective on corporate culture in the next five years. We know we are in the service business. At Seafirst we know we are a regional bank. In the past two or three years we have taken a careful look at what other service businesses – in many cases regional businesses – are doing to deliver excellent service. We wanted to examine their strengths and weaknesses, problems and opportunities.

One of the big things we have learned is that we in fact are in the retail business, not just banking. In trying to become more retail-oriented in the past couple of years, we realized we have a lot to learn from leaders in retailing.

From looking at businesses in food service, transportation, consumer goods, and many other industries, we see several factors that help define and lead to excellent service. These factors have strong implications for a bank's corporate culture. There is not a "magic" list, but let's go through these ideas that apply to our retail business.

First, a commitment to service. Customer service must come first, high-quality service as perceived by customers. This takes commitment by top management and by everybody in the business.

Certainly, bankers all believe this idea. But when you look at this from the customer's point of view, it's easy to be humble. In a recent survey we did, one of our customers said: "I think bankers tend to look at what other bankers are doing as their definition of what giving good service is. And why you would want to look at the poorest examples of what customer service is all about and try and one-best them is beyond me."

Hamburger University

So we looked elsewhere. We send our people to McDonald's. We went to Hamburger University.

Almost one out of 10 Americans eat at a McDonald's each day – that's more than 20 million people a day.

In the whole world, more people eat at McDonald's every day than the total population of Australia and New Zealand combined.

McDonald's is the biggest food-service corporation in the world. Today you can find more than 11,000 pairs of golden arches in 51 countries.

In the United States, McDonald's sells more than one-third of all hamburgers sold in commercial restaurants and more than 25% of all french fries.

This is a fascinating statistic: McDonald's also is one of the largest employers in the United States. The number of American workers who had their first job at McDonald's is 1 out of 15. McDonald's has replaced the U.S. Army as the nation's largest job-training organization.

Another way of looking at all this is that McDonald's has posted its 100th consecutive quarter of record earnings – that's 25 years in a row.

How do they do it? How do they outsmart, outbuild, outlast their competitors every single day, every single year?

Their big "secret" is their overall commitment to service. Perhaps you've read how MacDonald's is experimenting with adding carrot sticks, celery, pasta, and pizzas to their menu. And their U.S. restaurants are switching from ice cream products to lowfat milkshakes and lowfat frozen yogurt, even to nonfat muffins.

The big point, according to their chief executive officer – and perhaps the message to all of us – is that you simply have to be better today than you had to be yesterday.

Just as that has worked well for McDonald's for the last 25 years, it will work well for banking for at least the next 10 years.

Along with this goes the second cultural value we see: "thinking big but small." Even if you are with a big bank with ties to worldwide financial resources, it's clear you have to relate to the needs of local consumers, person to person, face to face. Otherwise all the resources, all the systems, all the technology mean very little.

Our approach is perhaps not surprising. Our idea is what we call the "franchise concept." In a sense, each Seafirst branch is run like a franchise, much like a McDonald's. The branch is the manager's franchise; he or she is in charge.

Need for Flexibility

Now sometimes it's hard to get the manager to accept this idea. And sometimes it's difficult to provide enough flexibility in how we manage so that sales quotas and goals fit the local market. At one branch, the manager recently said to me that one of their monthly sales goals involved selling 150 accounts of a certain type. The manager asked how they could have a quota of 150 when the branch hasn't sold three of those products in the last 10 years.

The branch was meeting four out of its five goals. At Seafirst all branches have quotas, and if they meet their quotas, they participate in the profits to a considerable extent. An average-size branch with 10 to 15 people can make $4,000 to $5,000 a quarter. Approximately 15% goes to the manager, and the manager splits up the rest among the personal bankers, the tellers, and the rest of the staff, rewarding those who have been particularly good at sales that month.

Fortunately, we adjusted this branch's quotas, fixing the problem. Yet I'm sure their are other adjustments to make. We have to be able to adapt to local needs in a specific marketplace.

In our look at other industries, we have found that getting to know local business and consumers first hand is essential to providing the kind of service customers want, and to developing a personal touch.

Calling on Customers

All of our top management make calls on customers every week; we're out of our offices a lot. There's no substitute for direct contact with customers.

I count calling on the branches as calling on customers. In a sense, we are customers of each other within the organization. At Seafirst we believe that. That's why people in the computer center can say in an employee survey that their job provide enough flexibility in how we manage so that sales quotas and goals fit the local market. At one branch, the manager recently said to me that one of their monthly sales goals involved selling 150 accounts of a certain type. The manager asked how they could have a quota of 150 when the branch hasn't sold three of those products in the last 10 years.

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Navigating Change

Change is an undeniable fact in the financial services community. And as the industry changes, so must job responsibilities, qualifications, and compensation. How then do you attract, retain, and motivate employees to meet your leadership position?

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Citibank's Approach to Attracting and Retaining Qualified Staff

By Joel Ospa

A tidal wave of change is sweeping across the United States – in economics, in demographics, and in the values of working people.

In the competitive environment, the banking and savings and loan industries will be regulated much more aggressively. There are also an enormous number of new entrants into the financial services market.

Given our financial performance, one wonders why all these other companies want to go into financial services. But Sears is very heavy in mortgages, the Discover card is becoming profitable, and they have a brokerage organization.

Ford, through its Nationwide subsidiary, is a very big presence in banking. And AT&T recently entered credit cards, with Universal, which we view as a formidable competitor.

Greater Expectations

Customer expectations are changing. We are moving through a demographic cycle States that affects our customer base; the types of products and services they demand, and the way they demand them.

As the work force gets older, people acquire assets. They reach a stage in life at which they think about maintaining and building their resources. Investment and service become more important to them than loans and mortgages.

The work force is aging. The baby bust is here; there will be many fewer young people entering the work force. In fact, the growth rate is negative beginning this year. Minorities and immigrants are representing an increasingly greater percentage of the work force.

Single families now account for 45% of the families in the United States and dual-career households for 40%. It's hard to find a woman in the work force today who doesn't have children: 65% have children under the age of six.

Declining Commitment

Values and commitments in the work force are changing. As people become increasingly mobile, their commitment to organizations declines. About 40% of those age 20 to 29 relocate physically for job-related reasons.

There's a growing disparity between job requirements – basic skills such as reading and writing – and the capabilities of people entering the work force.

Most workers feel generally low levels of commitment to the organizations that employ them.

They believe that their organizations don't have any particular commitment to them – which is realistic, particularly in the financial-services industry.

Most workers do not expect to be staying with their current organization very long, either because they don't expect their organization to survive or because they expect to move on.

The next decade will bring longer retention of our older workers. They are a stable, experienced work force, but they also tend to be more resistant to change.

Managing Diversity

Greater generational and ethnic diversity will create organizational tension. Some of my colleagues in high-tech firms talk about "managing diversity." Some organizations are even starting to have a function called "director of diversity," which evolved from the old equal-opportunity departments.

Considering generational gaps, immigration, and minority representation, we are growing a work force of tremendous diversity in the United States – with the concomitant conflict and tension as people worry about careers and lifestyle. The demand is increasing for family-related support – child and elder care and more flexible work environments. We face increasing competition in recruiting and, consequently, a major increase in compensation costs.

The Riddle of Incentives

How do you build incentive plans that really work to retain people? Citibank loses 15% to 25% of its exempt work force per year.

Location is the predominant variable. The lowest turnover rates today in the country, for us and the rest of the financial-services sector, are in the Northeast. The highest rates are in the Midwest and California. With about 25% of our exempt work force turning over every year, how can your management gain a business?

We need to invest in training, some of it in very basic skills such as reading and writing, and put more emphasis on people management. Around Citibank, I often hear complaints about super-

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been involved in their communities. I predict such involvement will grow in importance in the 1990s as banking becomes more and more retail oriented.

Seafirst is involved financially through our Seafirst Foundation and through direct bank support, together more than $1.5 million a year. This has become a significant part of our culture.

We also have something called the Seafirst Volunteers. This program encourages employees to get involved in community organizations, matching employees' skills with the needs of nonprofit organizations. More than half of our employees are out in the community as Seafirst Volunteers.

Such programs attract new employees who want to help people, a value that is fundamental to a service culture. You help people. That's what banking's all about.

Emphasis on Sales

Another factor that we believe is essential for the 1990s is to continue to foster an emphasis on sales as part of our corporate culture, not something that is here today but gone tomorrow, but a focus on the long term. Customers like being sold in the context of a longer-term relationship with a company that stands behind its products and services.

Customers don't like a lot of turnover. They want to see the same person there. That isn't just true of the corporate treasurer who gets upset the third time a new vice president calls in nine or 10 months, it's also true of the individual who walks into a branch, who's used to seeing familiar faces, used to being greeted by name. Customers aren't happy if the whole teller line turns over every six months.

And customer retention is significant. We may have different kinds of customers, but once we get a customer, we want to keep that customer.

Any banker should. On the average it costs five times as much to get a new customer as it does to serve an existing one. The average cost of acquiring a customer – including marketing, advertising, opening a credit account – ranges from $500 to $1,000.

You want to protect that investment, but you also want to feel you are helping people and responding to their needs. Nobody likes to lose a customer.

How do you lose one? They either move away or die – right? Wrong. Our numbers say this:

- 1% die.
- 3% move away.
- 5% develop other relationships.
- 9% leave for competitive reasons.
- 14% leave because they're dissatisfied with the products.
- But 68% leave because they've encountered an attitude of indifference as they're being served.

Every big branch opens thousands of accounts each year. Other closes thousands of accounts each year. Three years ago we were closing more accounts than we were opening.

When you're dealing with a half a million accounts, a somewhat negative ratio may not seem significant; the total dollars of deposits may not change that much. But, in the last two years, we've turned the situation around. Now we're opening more accounts than we're closing.

Last year we opened 30,000 more demand deposit accounts than we closed – a net gain of 30,000 accounts. That's like opening 10 branches – mature, good branches – without putting one brick on the ground. It's really so easy when you think about it. You want to keep those customers.

People want service. When they want to be sold, they want to be influenced by someone who knows the product, but who is especially interested in helping them in the long run. Just as it takes creativity to sell, we're trying to be both innovative and flexible in adding value through service.

That's why about a year ago we introduced something called "Excel Service," which includes longer hours on weekdays and being open on Saturdays, the 24-hour phone service, and the $5 we pay if people have to wait in a teller line more than five minutes. All of these factors help in customer retention.

Once we saw the need and the opportunity for such changes, we worked fast to be the first bank in the market, and the first in the country, to offer these services. To be a leader and to be successful, we feel we have to be able to respond to the customer, and to be able to do so quickly.

This goes hand in hand with being the low-cost producer, something which is easily misunderstood. This doesn't mean be cheap, it doesn't mean lay off your people. It starts with offering top quality. If you do it right the first time, your costs go down. Continuous quality improvement can lead to continuous cost reductions.

It's also a matter of what adds value for the customer. If you can get rid of things that don't add value, you not only can cut expenses but you also can offer quicker and better service.

There's an art to this. We look at the pros, like the regional chain, Costco. In seven years it has gone from a two-person company to an operation with 62 units in nine western and southeastern states and two western Canadian provinces.

Costco follows a club concept targeted to wholesale and business customers. By limiting sizes and quantities to those best suited for offices, restaurants, and small retailers, Costco has driven its expense-to-sales ratio – if you can believe this – to less than 9%. I questioned this number when I first saw it; I couldn't believe it. I'm assured that it's true.

In a sense, each Seafirst branch is run like a franchise, much like a McDonald's. The branch is the manager's franchise; he or she is in charge.

Training is Fundamental

Fundamental to giving good service is hiring, training, and keeping good employees, a factor on our list at Seafirst.

As part of the service focus of the 1980s, this is becoming the decade of the employee, particularly for employees with the right skills. As demographics change, as baby boomers reach middle age, the entry-level job market is tightening. Seafirst has seen this already for the last year or so.

Because good, attentive employees are looking more and more for good training, and because we are focusing more carefully on the career-development interests and needs of current employees, our "Seafirst College" training budget is 10 times more today than three years ago. We're happy to make this investment because we know that our customers want good people with top skills, because our people want good training, and because training is a key to building the corporate culture we want in the 1990s.

To help employees find what

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vision.

I ask: "How many supervisors do we have in the country?" Few people can answer that question. Given an estimated span-of-control of 5-to-1, we have roughly 5,000 supervisors for our 22,000 employees in the United States.

How much basic training in people management have these supervisors received? We send about 500 people a year to some form of training, which roughly covers our turnover. That's capture about 20% of supervisors with any form of basic supervisory training. We're embarking on an effort to improve those numbers.

With a work force that is becoming more difficult to attract and less committed to the organization, most organizations (including Citibank) are looking to alternatives such as ATMs and other forms of electronic support. Some of these are more productive and less expensive than people.

Short-Term Perspectives

Key professionals are going to be leaving in greater numbers. Those who stay will demand immediate financial rewards.

Many of the professionals who come to our organization today have very short-term perspectives. They want the cash bonus coming into the organization, they want the cash on a formula basis every month, and they want lots of cash at the end of the year. It's not the sort of thing that builds commitment to an organization: You can't really blame them. We've created some of this ourselves.

Regardless of financial rewards, we are seeing much less tolerance for unenriched jobs. Key professionals are quite ready to move if the job is not satisfying, interesting, enriching, challenging, and autonomous.

Career Impatience

Career impatience is a growing factor. People tell me that if they haven't moved in the last six months, and if they don't see something of great significance very shortly, they're not having a very successful career.

There's also an increase in what I call independence behavior; it's a lot more difficult to manage people. They don't listen to you the way they used to. It's very hard to maintain an authoritarian organization in which people do what you tell them to do. In my organization, they hardly ever listen.

The Competitive Environment

In the competitive environment, we see a stronger focus on sales and marketing and an increased emphasis on service as a competitive differentiator, particularly as our customer base begins to age. On the retail side, it is not only good business to provide good service, but there's an increasing demand for it from our customers – our populations are less tolerant.

The market where we do really well financially is New York. In the national context, service scores in New York are relatively nil, so I guess New Yorkers are used to poor service. The demand for service in Florida is incredibly high.

In U.S. consumer banking, Citibank is active in seven major geographic areas: California, Utah-/Nevada, Arizona, Florida, Washington/Maryland, New York, and Illinois. Our major areas are Florida, New York, Illinois, California, and Arizona. New York is the only market where we really

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they need to develop to succeed in their work, we also have established a career-development program. We have been rewarding employees through incentive compensation can work, and is essential, particularly in a sales environment.

In surveys, employees typically ask for more and better employee recognition, so we are working on that. We see that recognizing employees is a key to keeping employees. Just as a focus on retention makes for better customer service; retention of employees is the key to building a long term service culture.

Employees need to be good at what they do. If the incentives are right, then the constant climbing of the ladder is not necessary to get ahead. Changing jobs every six to 18 months frustrates the customer, and is not easy on the manager of the departments that these fast track people are going through.

If you get good salespeople in the right place and give them the right incentives, they don't have to move 10 miles away to a larger office in order to make another $10,000. We like to be able to provide incentives to keep employees happy with what they're doing.

So, after going to school on other service and retail businesses, these are some of the factors on our list at Seafirst.

- Commitment to service.
- Thinking big but small.
- Getting to know retail businesses and consumers first hand.
- Fostering community involvement.
- Emphasizing sales and customer retention.
- Being innovative to add value.
- Being a low-cost producer.
- Developing good employees.

So the three perspectives we've considered – business trends in this country from the '50s through the '90s, the international scene, and what leaders in retail are doing – bring us to a sharp, clear, consistent focus: service.

To a large extent, delivering service is a matter of mastering fundamentals that can be a strong foundation for a bank's corporate culture. How well and how consistently we apply those fundamentals in the 1990s will make all the difference. □

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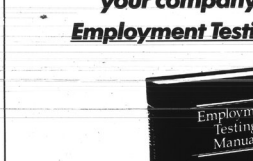

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Continuously Evolving Role of the Human Resources Manager

By Mary Jean Wolf

After 17 years in the airline industry, I came to the Dime Savings Bank of New York three years ago — when Mr. Icahn chased a few of us out of TWA.

So I've seen deregulation, takeovers, significant corporate change, and a great deal of downsizing in my career as a human resources person. But I have never seen anything like the accelerated change that we are going through right now in the thrift business.

When I came to the Dime, I found two or three people making decisions at the top and a whole lot of other people waiting to be told what to do. When I asked why things were done a certain way, people told me: "That's the way we've always done them."

The Dime's recruiter told me going in that they wanted someone who would be more proactive. When I got there, I found a human resources function that threw the pratics and, willy-nilly, ran some o the benefit programs. It didn't do much else.

Some people from Citibank had infiltrated a few years earlier, so we were getting a lot of the very independent behavior in senior management that Citibank has successfully fostered. This independent orientation hit the savings bank like a ton of bricks – the cultural differences were enormous.

There is no such thing as a culture in our organization. We're trying to develop it, but we are going through a convulsion of accelerated change.

Window of Opportunity

We could almost we overwhelmed by environmental issues, the weak economy, work-force demographics, the negative image of the thrift business these days – you can't pick up a newspaper without seeing another horror story – and all the things that we're trying to do clean up bad loans, improve service quality, and differentiate ourselves in the marketplace.

But we have a tremendous window of opportunity right now. You could say we have a long way to go, but we have nowhere to go but up.

We have an opportunity to redefine ourselves, and that's what we're doing.

The lines separating the various types of financial-services institutions are becoming blurred. Soon we won't be talking about commercial banks and thrifts, just about financial services.

We have access now to some very competent people as a result of recent misfortunes on Wall Street. People are available who might not have been interested in working for a thrift before 1987, and – they're good. They have strong technical skills and are tremendously entrepreneurial.

The challenge for the human resources function is not only to help recruit these people, but to welcome them with open arms and try to create a climate where they can do their best work. That takes a lot of skill.

Relearning the Business

My approach to the human resources function today is to forget everything we ever knew and start over. In the next 10 years we're going to see an evolution that will make what we knew in the '60s, '70s, and '80s just about unrecognizable.

It's a little frustrating to think that all the stuff we worked so hard to master is becoming almost irrelevant. It's not. The transactional issues, personnel administration, compensation, and benefits all have to keep being done. But, on top of that, we have an obligation to do other things that have not been part of our vocabulary in the past.

Start from the strategic plan. Until a few years ago, our organization didn't have a strategic plan – we were just a thrift. Now we have a strategic plan, so we have a focus.

The first order of the day, for me, was to position myself as a partner with the heads of our lines of business. Remember, I mentioned that we have a lot of Citibank people: They are accustomed to having profit-and-loss responsi-

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have a commanding market share.

We have moved to what we call semiflexible choices in our benefits coverage. We have all seen enormous increases in the cost of medical coverage in recent years. People get older, they get sick, there are more of them. On top of that you have diversity in the work force: working families, single mothers, immigrants – all with differing values and needs.

We have instituted a variety of family-support programs, including counseling and day-care centers. In some locations our work force is highly dispersed: 220 branches in the New York area, for example, representing 7,000 people spread out over about 10,000 square miles. It is very hard to provide day care given this dispersion.

We have a day-care center in Sioux Falls, S.D., that handles about 200 children. We charge an employee about $100 a month per child. We subsidize it to the tune of about a $1 million a year – for 200 kids.

Stock-Based Incentives

In the area of retention incentives, we are moving toward stock-based plans. We have essentially decided that the current program, using stock options, doesn't really get us the value. We give out 5.5 million stock options a year to exempt employees, and our assessment is that it gets us about zero in terms of commitment.

We're looking at the use of restricted stock plans and stock in lieu of bonuses. We believe that the way to build strong commitment to the organization is getting people to feel a close tie with the shareholder. Dividends count as real cash, and the stock becomes valuable to the vast majority of the work force.

We are seeking to tie incentive compensation into our sales and service area. For several years we have had very aggressive sales incentives on the mortgage side. As a result, we're now the nation's No. 1 one mortgage lender with about $15 billion a year in mortgage originations. I only wish I could tell you that it is as profitable as the assets suggest, although in various years the mortgage side will generate $30 million to $100 million dollars in after-tax earnings.

On the retail side, which has proven more difficult, we've also begun to look at an integrated sales-incentive plan. A branch has about 300 to 400 products running through it, requiring a typical branch manager and staff to perform an enormously varied set of tasks.

We may give them an incentive to sell assets or checking accounts this month and savings and CDs the next. With promotions changing almost daily, the enormous diversity in the branch makes it difficult to create sales incentives. And, always, the incentives must be counterbalanced against a strong service orientation.

Our response has been what we call SBL: satisfying, building, and leveraging. This translates into sales, service, and productivity.

SBL is an integrated program of goal-setting that allows the branch to trade off sales and service for points that lead to incentives. We have tried to empower the branch to make the tradeoffs, but the incentives require them to take a very balanced approach to their marketplace.

Recruiting and Training

In recruiting, we're competing for qualified, available people. Today, in New York, we have to screen 40 people to hire one teller. It's not just New York. We have similar problems in most of our major metropolitan areas in the U.S. Some would argue that we're not screening as well as we should, but we want the people, and they are hard to find.

In our supervisory training, a lot of focus is on conflict resolution and problem-review procedure.

We also do annual employee surveys, which are important to Citicorp. We believe that employee attitudes relate to service. We see a direct relationship: If the employees believe the organization is treating them well, the customers in those branches also believe they're being treated well.

We have expanded participant hours for training and development to 600,000 a year from about 400,000. Much of this training effort is focused on the branches.

We put Macintosh computers in all of our branches, and we use them as training vehicles. We need to make more intelligent use of electronics. We're now using intelligence-support systems in our branches for sales, and are experimenting with other systems.

JOEL D. OSPA
Senior Human Resources Officer
Citicorp U.S. Consumer Banking Group

Joel D. Ospa is the senior human resources officer for Citicorp's U.S. consumer banking group, which is responsible for Citicorp's retail financial activities in the domestic market, including savings organizations in New York, Maine, California, Illinois, Arizona, Florida, Utah, Nevada, the District of Columbia, and Maryland.

The group also includes Citicorp's national mortgage business (the largest in the U.S.), the national student loan business, Citicorp Brokerage, and a variety of smaller businesses.

There are over 22,000 employees in this Group, working in over 700 locations across the country. Mr. Ospa supervises about 600 human resources professionals.

Mr. Ospa is a 1966 graduate of Brooklyn College. Following service in the U.S. Army, he earned a master's degree in business administration from Baruch College of the City University of New York. He worked briefly for the Port Authority of New York and New Jersey.

Mr. Ospa joined Citicorp in 1973 as a specialist in its education and training organization. For the first seven years of his career, he held a variety of positions in personnel research and training.

From 1976 to 1979, he was the vice president supervising Citicorp's human resources research and organization development organization. During this period, Mr. Ospa continued his professional training by earning the New York University's doctoral program in industrial psychology.

He left the research and organizational development area in 1979 to become senior human resources executive for Citicorp Industrial Credit, the organization's secured-asset-lending business. Mr. Ospa was then promoted to head the human resources function for the New York retail bank. Over the years, he has assumed increasing responsibility as Citicorp's consumer businesses have grown.

Evolving Role

Continued from preceding page

bility and their own resources. So we're moving toward a more decentralized way of doing business.

We have only 2,500 people, so a lot of skill is needed to determine which things make no sense to decentralize, because of economies of scale, and which things to give the line organization.

When I say give, I'm kidding myself. If I don't give responsibilities all have to keep being done. But, on top of that, we have an obligation to do other things that have not been part of our vocabulary in the past.

The more entrepreneurial types from Wall Street will run their own human resources activities, evaluating people and paying people the way they perceive it needs to be done. The days of job descriptions, salary levels, and the compensation practices of the past are pretty much over.

We have to start being creative as we move toward an environment in which there's much more blurring of lines among jobs. We will be evaluating people on the basis of what they produce for the organization as opposed to a job standard.

We have access now to some very competent people as a result of recent misfortunes on Wall Street. People are available who might not have been interested in working for a thrift before 1987, and they're good.

Good human resources people will immediately start cringing to think of equal-opportunity issues and other things we've learned to do for good reasons. We have to unlearn them and find other approaches.

The senior people who head up our business lines pretty well know what somebody's worth when they hang them out to organization, and they know what a job is worth based on their business plans.

I have to participate in the development of the business plans with them so that I can understand what's going on. I don't need to be able to do their jobs, but I need to know enough about what they're trying to accomplish and what kind of people they're bringing in.

We recently remodeled our entire compensation program for officers. Now, we have them fill out a questionnaire; we don't ask for job descriptions anymore, because they are too rigid. The questionnaire helps us determine the value of a job in the organization, and has been enormous successful and popular.

The questionnaire is easier to fill out – except for people who, when they answer the questions, find out they're not really doing very much.

Where people have honestly believed that they were below market, this kind of an exercise tends to reinforce that belief and gives us much clearer evidence.

Salesmanship

Salesmanship is another area in which we all need to do better. We need to develop nontraditional ways of finding workers – they're just not there any more. And a lot of the business heads don't understand this. They think it's still like it was in the '70s, when you just put an ad in the paper and people showed up; if you had to interview 40 people to get one, that was O.K.

We've been doing a lot of work with older workers. As a group, they are very interesting. They've seen it all. They are little cynical; they've been through all the puppy-dog eagerness, and they're past that stage. They're not going to buy a story unless it makes sense. So if you've got a task that really is worth doing, and you empower them to do it, you'll find plenty of energy in the older workers, better judgment and experience than you would get from younger workers.

We've also done a lot of work among people with physical limitations. We had an interviewer who could speak, but could not hear at all. She interviewed by reading lips. She did a wonderful job, was extremely successful, and half the people she interviewed never understood that she couldn't hear anything they said. Getting people to buy into the concept of hiring an interviewer who can't hear would be very difficult, but once you get people into the organization, show what can be done, it becomes a lot easier.

We have many such barriers to break down. The workers are out there; they just look different from the workers we've had in the past. And to the degree that we understand how a sale is made, we will be more successful in getting our business managers to do that. Some of these ideas of nontraditional workers. Every human resources person should be reading a good book on how to sell.

Coping with Entrepreneurs

Tools for Advancement

We have opportunities to give people tools to advance, to develop, to get in touch with their own skills as they move ahead in their careers – if they can identify the direction they should be taking, what's right for them, where they fits are going to be for them at the next level. If we work as partners with people in their career advancement, they will find the organization a more rewarding place to work; we don't do that nearly enough.

At the Dime we do a lot of technical, in-house, job-related training. We do some management training, and we make available to all the departments a service that provides information about seminars in various areas.

We aren't trying to tell our people which courses they have to take. Our interest is in knowing what training people are getting.

Our job is going to be, increasingly, to turn over our tools to the line managers. That is hard to accept, because it feels like we're giving up job security. But we have no job security unless we give them as much knowledge and support as we can, and let them play a much stronger role in self-determination on human resources issues.

In compensation, especially, you can really turn people off if you're not enabling them to have the programs that they feel they need to get their jobs done.

Necessity for Planning

You have a right to ask them to plan, and the business plan should talk about compensation. It also doesn't mean that they have their own payroll system; it does mean that they should be overlooked. With procedural barriers.

It means allowing them some flexibility in what kind of instrument they use to evaluate employees. As long as what they're doing works for them – and works for the organization – and isn't being applied indiscriminately, it's probably appropriate to be a little more relaxed about what you let them do.

A blank piece of paper can be used as an evaluation form, as long as it is used the same way for all employees. If they give everybody the company evaluation form – except for one person who gets "Susie ain't makin' it" on a blank piece of paper, that won't work.

But if they want to write just one thing about the employee's progress and maybe the things that they think the employee needs, why force a form on them? We've gotten a little carried away with some of these elaborate programs that probably worked well enough in the heyday of the legislation we were dealing with.

We have an enormous need to be communicators. Human resources should take responsibility to support the organization's mission statement. We recently drew up a vision and values statement which we gave to all of our employees.

We recruited 50 managers to meet with employees around the organization. We've talked to just about everybody, and gave them a chance to write in questions about any points that bothered them. So we had a successful launch.

The role that I expect to be playing in the future will be very different from the role I've played in the past. But it is full of opportunities, and I'm very excited about it.

MARY JEAN WOLF
First Senior Vice President
The Dime Savings Bank of New York



Mary Jean Wolf is first senior vice president and director of corporate human resources for the Dime Savings Bank of New York.

Ms. Wolf came to the Dime after a 17-year career with Trans World Airlines Inc. For six years, she was vice president of personnel at TWA, responsible for human resources functions for 28,000 employees worldwide.

At the Dime, Ms. Wolf is responsible for developing corporate human resources functions for the Dime and its subsidiaries. She is experienced in organizational planning, litigation prevention, recruiting and employment, career development and outplacement activities, compensation and benefit functions, employee-assistance programs, and administrative services.

She speaks frequently on a broad range of human resources topics including litigation, labor-management relations, arbitration, and employee privacy legislation and practice. Ms. Wolf chairs the Management Resources and Organization Committee of the National Foreign Trade Board and is an active member of the Human Resources Planning Committee.

A Manhattan resident, Ms. Wolf earned her undergraduate degree at Philadelphia's Drexel University and her MBA from New York University Graduate School of Business.

The Dime, with assets of $10.1 billion, is the fourth-largest thrift institution in New York State and one of the largest thrifts in the nation. It operates 62 retail banking offices in New York and 34 residential-property loan-production offices in New York and nine other states on the Eastern seaboard.

I wish I understood why some people have judgment and some don't, but it's like pornography – I don't know how to describe it, but I know it when I see it.

Emphasis on the 3 Ps: Profitability, Productivity, and People

By Richard A. Collister

It's a tough environment out there. In the past two years we have lost an estimated 45,000 jobs in the securities industry alone.

We'll be seeing a lot more – some say another 5,000. I think we could see another 15,000 to 20,000 jobs disappear over the next year. Some of the large financial institutions such as Citibank or Chase Manhattan – that have not had to deal with this situation to the same extent as the brokerage security firms or the thrift industry – will also be facing it.

We've seen a fundamental shift in the paradigm. Perrier and Drexel both went down the tubes in the same week.

Soon we'll be wishing we were back in the '80s, because the '90s are going to be a very tough environment. In the year that I've been at Merrill Lynch, we've brought down the work force by some 2,000 people in my area alone. We're continuing to work on bringing it down further.

As our industry undergoes this change, the human resource function has become extremely important. It is increasingly becoming a partner with the business. The focus in human resources increasingly is on the three P's: profitability, productivity, and people.

Many other houses on the Street are also losing money. Some of those are masked by the fact that they have parents with deep pockets. Over time, the question will be: How deep are those pockets? How long is one's arm? Other houses that are protected today by parents such as Kidder, Sears, or GE, eventually may disappear or have to go through significant change.

Focus on Profitability

We have to move away from just revenue generation. In an industry such as ours, focused on generating revenue, the purpose for generating revenue was to spend it. Our goal was to increase product share, market share, product positioning – but profitability was not necessarily a word used throughout the organization. Increasingly, we have to think in terms of bringing dollars to the bottom line.

Some managers had been accustomed to giving whatever salary increase they wanted to give. And the difference of 1% in salary increase could be a change of $3 million to $4 million in our bottom line. In today's environment, that is not something to sneeze at. The difference between a one-year guarantee for a new hire, a big producer, or a two-year guarantee on bonuses, can sometimes be millions.

When I first came to Merrill, a multiyear package for a new hire was presented for my approval: base salary, $150,000 – not unreasonable. That's what we pay most of our investment bankers and producers.

But later on, after all the stock options, restricted shares, and guaranteed bonuses, there was a number: $4.5 million. So I sent it back to be retyped, because $4.5 million seemed to be an obvious typo – they had to mean $450,000, based on my historical frame of reference.

I was wrong. It was a $4.5 million package. In talking with the manager, I started to see that there was some anticipation of how much the individual would make for the firm, but most of what that revenue would go to that individual, not to the bottom line.

I quickly changed my attitude quickly because that individual, within six weeks of coming aboard, brought in a $20 million deal; he paid for himself, literally, within six weeks. Other similar deals, unfortunately, have not worked out as well.

Profitability is an absolutely critical factor. We in human resources must focus some of our attention on profitability, as well as productivity and return on equity.

A few years ago, if you had a problem you threw money at it. Today, we're cutting expenses, getting our hands around our real costs. The capital markets group used to say that it had 8,000 employees. In reality, we had 13,000 employees – because we didn't manage operations, support functions, or a whole host of other areas. When we measured the business on the basis of 8,000 employees, it was making money. When we considered our total cost today, it wasn't. The most common response to dealing with the issue of people today is downsizing, firing, trimming, cutting expenses, getting rid of people.

Break the Paradigm of the Past

How do we create a culture that is business-based, future-focused, and breaks the paradigm of the past? Can your organization build a new culture with the management team that brought you the old? The real question is: Can you change people, or do you need to change people?

We must deal with the ambiguity of getting smaller in an era of consolidation while trying to build for the future. However, the first priority has to be stop the bleeding. We must focus initially on short-term solutions.

In a recent survey, 73% of senior human resource executives at large companies around the globe said that building and keeping a qualified work force is the critical challenge they face. We have to downsize, but we also need to reconfigure our organizations.

We need to ensure that we are keeping the right people, maintaining morale, and positioning the organization for the future. And we're not doing this only at the top, or with producers. It must be done at the managerial level, professional level, clerical level – from the top producer to the little people.

In our industry, little people have not counted in the past. They've been cogs in the machine, they've been expendable. Increasingly, we're having to recognize the need to deal with people from all levels, from the multimillion-dollar producer to the $24,000-a-year margin clerk. They're all important to us.

At Merrill, over the past year, we've had to focus on a realistic assessment system. And I don't mean performance appraisal. We needed to look at what products and activities we wanted to stay in business with. What people did we want to keep? In some cases those were individual decisions as to what people we wanted to keep; in other cases they were group decisions.

We also had to focus on the skills we would need for the future. As an institution, we have become highly specialist in recent years. There is a debate in our industry about whether to continue to have specialists or move more toward generalists.

Today we have a specialist – a person who has a skill to perform a transaction on Tuesday from 11 a.m. to 11:15 a.m. If the market shifts – now it's Wednesday, from 2 p.m. to 2:30 p.m. – we'll fire the person with the Tuesday skill and hire somebody with the Wednesday skill. We have to rethink that approach as we move toward the future.

We've also had to provide for those people who are going, once we've made the decision. I am a very strong advocate for outplacement service – whether provided in-house, as we did in one of the years I was at Chase, or externally as we are doing at Merrill.

Fairness

It must never be forgotten that we are dealing with human beings. These are people whose identity is associated with your company. They must be dealt with fairly and positively.

You can negotiate fees, programs, and terms with outplacement firms, much as you can with executive recruiters. Most companies like to use outplacement firms because that's a way of washing their hands: I turn over the problem to somebody else.

In today's world it is critically important for the company and the outplacement agency to work in partnership, so that you're dealing fairly with your people, tracking performance. It allows you to send back a message to those who are staying in the organization that you treat people fairly, that you care, that you have made good decisions.

A key issue with survivors is to communicate, communicate, communicate. Most communications from management assumes that they need to say it only once, and they need to focus only on what they want to say. We need to focus on what the listened hears, his train of thought, at all levels in the organization.

We need to clarify new directions and objectives, but also to tell people what is no longer acceptable. Most surveys say that our employees want clarity of direction, a better understanding of performance standards, and a clear statement of how they fit in.

Communication Is Behavior

We need to answer these questions for individuals at all levels. Communication is more than just verbiage. It is also behavior.

One of the biggest disappointments I've had is to encounter managers who do not understand that. They feel that a speech is all that is necessary; they don't understand the impact of their behavior.

We reward new behaviors. We have cut bonuses, and we will continue to cut. Bonuses last year in our businesses went down 20% to 60%, and they will continue to go down another 25% or more this year.

It is thus becoming increasingly important to make sure that we use the dollars we have to reward the kind of performance that we want in the future.

Return on equity was a term that was unheard of in our institution a year ago. This past year, as we pre-

Continued on next page

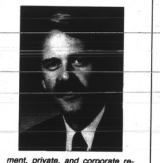
RICHARD A. COLLISTER
Director
Merrill Lynch Capital Markets

Richard A. Collister is director of human resources for Merrill Lynch Capital Markets.

He is responsible for implementing human resources policies and procedures for compensation programs, management development, equal employment opportunity, employment, employee relations, and human resources information within capital markets worldwide.

Mr. Collister joined Merrill Lynch in 1989 from the Chase Manhattan Bank, where he was held a succession of progressively responsible positions in human resources over an 11-year period, most recently as director of executive and managerial resources.

Earlier, Mr. Collister worked with the chief operating officer and a group of other senior Chase officers on the implementation of major strategic change worldwide. Prior to that, he served as the human resources executive for the bank's Western Hemisphere area and as senior human resources generalist for the trust, investment, private, and corporate recruiting and staffing.



Before working at Chase, Mr. Collister spent four years as an assistant vice president for organization planning and development at the First National Bank of Chicago. Prior to that, he was a special assistant to the executive director of the Illinois Board of Higher Education, and staff assistant to the chancellor of the University of Illinois at Chicago Circle.

Using Group Incentives to Motivate Tomorrow's Bank Worker

By Elizabeth A. Gall
and James E. Nickel

The worker of the year 2000 will be different from today's employees. So will the bank she works for.

Consequently, banks need to rethink how they motivate and reward their employees. At the core of banks' new human resources programs will be broad-based group incentives in the operations and retailing sectors of the business.

These new group incentives will be used to underline business strategies, encourage greater employee involvement, improve customer service, and control costs. They will complement the executive, functional area, and sales bonuses already in place.

Some widely accepted predictions of changes in the work force and organizations apply easily to banking. There will be a suppliers' market for many types of labor. Employees, not jobs, will be in short supply. Banks will compete more aggressively for fewer workers.

As a result, banks will take workers' needs and desires more into account in designing their human resources programs. They will learn from industries such as health care, which is already responding to nursing shortages by increasing nurses' participation in patient management.

The shortages will be particularly acute in the first several levels of organizations, as fewer workers enter the work force over the next decade. Further, those who do enter will have much lower skill levels. It is clear that banking industry cannot avoid these problems because entry-level employees are the backbone of operations and retail functions.

A low birth rate plus an increased life span will result in the graying of the American population. Older workers will fill the gaps caused by shortages of youthful workers.

We see this trend even today. Fast food chains are actively seeking seniors to work in their retail operations. Some banks are doing the same in seeking tellers. Many older workers could, instead, choose to remain on the job – if the workplace offers satisfactions not available in retirement.

Many baby boomers will find themselves squeezed in the managerial pyramid. In 1987, 1 in 20 of them would have been promoted to management.

By 2001, only 1 in 50 will ascend the flattened managerial pyramid. Companies will face the problem of motivating employees who perform well but can expect no more promotions.

Cost control and emphasis on quality and customer satisfaction must be instilled throughout the organization. Faced with persistent erosion of product line mar-

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Emphasis on 3 Ps

Continued from preceding page

sented our bonuses, we presented what we called the ROE program.

As we took bonuses down 25% or more, we also offered our producers the opportunity to earn the equivalent of 15% of their 1989 bonus in 1990 and another 15% of the 1989 bonus in '91 by achieving certain ROE objectives. People suddenly became very interested in return on equity.

When we issued our first-quarter earnings, the most commonly asked question was: What was the ROE?

We also have expanded the use of restricted shares and stock options to increase ownership and tie personal needs, desires, and goals into the issues of the shareholder.

Some Bleak Christmases

Historically, Wall Street has given out Christmas bonuses. It hasn't been a very good Christmas the past few years – more like a stocking full of coal. This year, we're thinking of doing away with the Christmas bonus. If we achieve certain ROE targets, all employees will get a bonus, not just the big producers. Our people might get a week's pay or two, not as a Christmas bonus but because we've achieved certain corporate objectives.

We're also starting to use spot awards as a vehicle for rewarding specific behavior. Each quarter, managers can nominate individuals who are not bonus-eligible, who have come up with ideas that resulted in cost savings or increased productivity.

Human resource people need to contribute to productivity and profitability; 80% of our efforts and expenditures today are for administration. In the future, the good human resource function will spend devote only 20% of its activities and expenditures on administration.

The key focuses have to be on building future capability, improving profitability and productivity, creating an organizational climate that makes you the employer of choice, and employee service. If we can break out of our historical paradigm, we can help the organizations that we're working with break through theirs.

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Group Incentives

Continued from preceding page

gins, banks must ensure that expenses, especially for labor, do not get out of line with revenues. Quality will also be important, since poor quality is so costly in terms of both revenues and expenses.

The fallout of cost-control programs already undertaken by banks is diminished worker loyalty. Every worker on the banking industry's payroll has seen friends and acquaintances lose jobs in downsizings.

As a result, blind loyalty to company will become a thing of the past. The banking community will have to earn the loyalty of its producers in the 1990s.

Group Incentives

TPF&C has observed a growing trend toward the use of group incentives, which is not surprising. This trend is born of the competitive pressures and changing workforce just discussed:

• Suppliers' market for labor. Workers in short-supply can expect the bank to allow them to participate in the successes they create in a way that does not add uncompetitive fixed costs.

• Graying work force. The team effort to achieve the goals of a group-incentive plan will appeal to older workers, as will the opportunity for greater involvement and more meaningful input in their workplace.

• Managerial traps. The energy spent in striving for promotion will have to be redirected. The sense of being a part of a team that wins by achieving strategy can be a substitute.

> The fallout of cost-control programs already undertaken by banks is diminished worker loyalty. Every worker on the banking industry's payroll has seen friends and acquaintances lose jobs in downsizings.

• Cost control. High-labor-cost businesses such as operations and retailing will choose performance measures to focus employee behavior on reducing costs and improving productivity. Changing employee behavior is the most traditional goal of incentives.

• Loss of worker loyalty. Loyalty will not ensure that workers strive to achieve company goals. But group incentives will tie worker rewards to the achievement of those goals. Greater emphasis on information-sharing will also help create a sense of being a stakeholder in the organization.

Today's Group Incentives

Having observed the trend toward group-incentive programs, TPF&C sought to learn from those already using them successfully. Therefore, we recently surveyed 177 programs in 144 large and small companies in a variety of industries. Over 30% of the respondents are in the service sector. We eliminated executive, sales, and special-recognition bonuses as well as deferred cash plans from the study.

Companies using group incentives typically adopt them to meet business competition. Or the programs help to strengthen employee involvement in order to gain competitive advantage in recruitment and retention.

The participants told us that group incentive plans work. They report achieving excellent results through:

• Improved quality, productivity, and cost control.

• Promotion of teamwork among employees.

• Encouraging employee participation.

These plans measure performance in a variety of ways. Some focus on operational or financial measures alone, some on a combination of operational and financial measures.

The type of performance measure chosen, or the focus of the plan, had great impact on plan success. Results differed significantly with the type of program.

Operational measures, which often focus on efficiency or effectiveness, proved most effective. Fully 86% of the respondents viewed their operational measures as accurate or very accurate in measuring performance.

Financial measures (primarily unit profitability) are less successful if used as the sole measure.

Only 56% of the respondents rated their financial measures as accurate or very accurate, with 13% citing not accurate at all.

> Organizations are coming to realize that group incentives can be an effective means of reinvigorating the organization and managing change.

The most effective plans use "blended" measures and look at performance from a broad, strategic perspective. Their performance measures are chosen to have a direct line of sight between the workers' activities and their impact on plan targets or measures effective in reflecting employee achievement. Their blends of performance measures typically include financial and operational measures as well as an emphasis on quality and customer service.

Over 90% of companies with operational measures use multiple criteria and over half use three to five measures.

Unlike the traditional gain-sharing plans of the past, programs today set target levels or standards of expectations based on current business needs and objectives rather than some historical baseline. Most companies also change measures and targets as required to reflect current business conditions and to incorporate the concept of "continuous improvement."

ELIZABETH A. GALL
Vice President
TPF&C

Ms. Gall is a TPF&C vice president specializing in executive compensation and salary administration.

Her areas of expertise are the design of incentive programs for executive, midlevel, and sales employees and executive annual-incentive, long-term incentive, and capital-accumulation programs.

An area of special interest is the design of functional-area incentives for financial institutions, including investment banking, corporate and retail banking, capital markets, and investment management. She has also conducted projects involving pay-level testing, job evaluation, the creation of salary structures, and the development of administrative policies and procedures.

Ms. Gall has worked with a number of domestic and foreign-owned commercial banks, including money-center and regional banks.

Ms. Gall joined TPF&C's Philadelphia research department in 1970.

She received a BA in economics from Northwestern University and an MILR. from the New York State School of Industrial and Labor Relations at Cornell University.

A frequent author and speaker on financial services topics, Ms. Gall is located in the New York consulting office.

JAMES E. NICKEL
Principal
TPF&C

James E. Nickel is a principal of TPF&C and Towers Perrin's alternative rewards practice.

He is responsible for managing this practice and for conducting client assignments in the design and implementation of all forms of alternative-rewards programs worldwide.

His experience prior to joining TPF&C includes seven years of consulting experience as Midwest regional practice director for compensation with Sibson & Co., and as a principal and practice director in human resources consulting with Arthur Young & Co.

He earned BS and MS degrees in industrial relations at Iowa State University.

Mr. Nickel's consulting experience includes developing numerous forms of incentive programs such as gain-sharing and short-term-bonus plans (both individual and small-group-oriented); and human resource management projects including organizational analysis, work measurement, performance appraisal, manpower planning, and productivity-improvement programs.

He has designed and installed gain-sharing and group-productivity programs in a variety of manufacturing and service organizations for some of the nation's largest companies.

The participants reported that commitment of both management and employees is critical to plan success. This means that the most fruitful plans involve worker participation and the carefully managed communications process.

The surveyed companies reported this success even with relatively small awards: the average award was about 7% of salary, or $1,200. Most did not change their plans to replace any other form of compensation. That is, they did not reduce salary when they introduced the plan.

While more variable pay may be an objective, most companies do not view these programs as a different (or perhaps less costly) way of paying people or shifting risk to employees. Organizations are coming to realize that group incentives can be an effective means of reinvigorating the organization and managing change. The survey results certainly say so.

Group Incentives in Banking

Through their use of executive, functional-area, and sales incentives, banks already know that incentives can be very useful in underlining business strategies.

Group incentives offer the opportunity to extend this methodology to other parts of the organization where such issues as cost savings, quality, and customer service are especially important. At the same time, group incentives meet the needs of the changing work force. For all these reasons, TPF&C expects to see more use of group incentives, particularly in banking operations and retail sectors.

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Achieving Competitive Advantage Through Human Resources

By Robert H. Marcin

First Nationwide is one of four members of Ford Motor Co.'s financial services group. Ford bought us in 1985 as part of its strategy to diversify using financial services to balance the cyclical results of the auto business.

Our fellow group members are Ford Motor Credit, U.S. Leasing, and the Associates. Together, we employ about 27,000 people worldwide.

The financial services group has combined assets of more than $115 billion. We provide a broad array of products for consumers and commercial customers.

In 1989, our combined income was $660 million, or 17% of Ford's total earnings. Ford wants the group to contribute 30% of its worldwide earnings.

Among the benefits of the association with Ford Motor Co. are its reputation for sound fiscal management, continuously improving quality products and services, a customer-driven philosophy of service, a keen sense of cost competitiveness, and, without doubt, employee involvement and teamwork.

Strategy Founded on People

For me personally, it blended the concepts of mission, values, and guiding principles with First Nationwide's proud culture. The transfer of those principles from manufacturing to financial services illustrates how a strategy founded on people can yield significant competitive advantages in the marketplace.

We at First Nationwide believe that the only possible competitive advantage left is our 6,700 employee work force. While that sounds rather obvious, the planning for managing your human resources to become a competitive advantage immediately raises a number of questions:

• What advantages, if any, do you possess?

• What target advantages do you want? Cost structure? Quality service and delivery? Reward systems? Talent retention?

To address this strategic issue of competitive advantage, we at First Nationwide took stock of our organization's strengths and weaknesses. The bank had endured largescale changes in acquired several small thrifts, selling off disadvantaged businesses, and replenishing a number of key executive positions.

First Nationwide has now acquired what I refer to affectionately as a "mongrel" culture. The organization had influences from the "old bank," the acquired institutions, a new cadre of management, and an industry under attack by regulators and consumers.

The challenge was to make a make a success out of a geographically dispersed nationwide bank with diverse customer groups.

Strategic Planning Model

The process of setting the strategic direction began with an off-site planning meeting using the Peter Drucker strategic planning model: opportunities, challenges, mission statement, requirements, goals, objectives.

Among the opportunities we focused on were creating a common vision, transforming into a premier consumer bank, and accelerating the rate of change. The challenges are our ability to make decisions rapidly on markets, products, organizations and people; regulatory uncertainties; focus on the customer; and creation of competitive advantages.

Now we have all been through those long, arduous sessions of hunting for precisely the right words for a mission statement that ends up essentially meaningless. None of us was looking forward to this experience again. However, one member of our group sat quietly after our discussions on opportunities and challenges, and sketched out the essence of a mission statement that we believe says it all:

"Our mission is to create a premier nationwide consumer bank that is:

• A great place to bank.

• A great place to work.

• A great place for stockholders' investment.

• A place where we all reach for the best in everything we do."

Among the plethora of requirements we defined included these people-related items: investments in training; rewards for performance; disciplined management; and clear, consistent communication with our people. The five-year goals we established were in terms of our customers, people, and shareholders.

The final step in this model was the linkage of this message to the rest of the bank's management. This process brought together 300-plus bank officers in an interactive planning session.

We used this same strategic planning model, laying open our goals and objectives for the groups' input. In this way, commitment was built into the strategic direction and managers buy in to its implementation.

The process was then cascaded by all managers down to their staffs, utilizing the same meeting format, but this time based on vid-

Continued on next page

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Learn from Wall Street's Mistakes to Get a Handle on Bonuses

By Vincent C. Perro

With regulatory barriers crumbling over the past several years, banks and other financial-services firms have expanded aggressively into investment banking and other traditional Wall Street businesses, developing a host of new skills in transaction structuring and risk management.

As a result, the distinctions have blurred considerably between the skills of transactors (i.e., dealers) in securities firms and other financial-services firms such as banks.

The most important lesson Wall Street teaches is the cost of not integrating bonus planning with business planning.

As transactor skills have converged, so have compensation practices. Banks and other financial-services players have adopted many compensation practices of the Street – particularly much larger bonuses – to attract and retain talented transactors.

However, there is a dark side to these changes: the potential to lose control of bonus costs and erode profits, a significant factor in Wall Street's recent misfortunes.

Banks and other financial firms have an opportunity to learn from Wall Street's mistakes and institute bonus and overall pay practices that support talent-intensive transaction businesses without wreaking havoc on the bottom line. The following five lessons can help firms get a handle on bonuses to the benefit of both the firm and transactors.

Lesson No. 1: Pay Mix

Traditional practice in investment banking and trading emphasizes highly variable pay with significant potential balanced by significant risk. Many securities firms extend this philosophy throughout their firms, giving junior people opportunities to double their fixed pay via bonuses and allowing senior people's awards to climb to four or five times their salaries.

"In such entrepreneurial environments, having so much pay at risk is highly motivating. However, large bonus opportunities can distort perceptions about reasonable levels of pay.

As a result, the big bonuses paid at the top begin to trickle down to lower-level jobs. Many transactors begin to view part of their bonus as deferred salary. This thinking, plus bonus-guaranty practices and a fear of losing their stars, has held many securities firms virtually hostage to what amounts to bonus-funding floors.

Large bonus opportunities can distort perceptions about reasonable levels of pay. As a result, the big bonuses paid at the top begin to trickle down to lower-level jobs.

The result? A good idea – highly variable pay – is more illusion than reality.

The investment banking group of a large money-center bank devised an interesting solution to address part of this problem. The bank knew it had to increase pay dramatically to compete for talent.

It also knew competitive bonuses would be very different across its varied units, such as real estate and leasing. It had two other concerns: the difficulty of measuring junior transactors' bottom-line contributions, and the barrier different bonus practices could present to cross-training.

The solution: Pay highly competitive salaries to MBAs in their first few years and keep them on a division-wide bonus averaging 10% to 20% of base.

Then, put them on a business-unit bonus plan after two or three years of rotations, when they are established in a business unit. Finally, slow base salary growth and eventually cap it – allowing bonuses to determine future pay growth.

The benefits realized from this approach included dramatically lower turnover and enhanced cross-training efforts.

Lesson No. 2: Competitive Positioning

A second lesson concerns determining the proper competitive framework and pay position versus that framework – that is, who should we compare ourselves with? Should we pay more, less, or the same?

Some of Wall Street's pay problems result from vague definitions of "competitive." A typical refrain among investment bankers is: "We need to pay like the bulge-bracket firms."

Instead, they should be asking questions such as: With whom do we compete for deals? What caliber of people are we hiring? To what firms have we lost people in the last few years? How does our performance compare with others?'

Answering these questions helps establish the appropriate framework and positioning policy. For example, a leasing company considered its business and people competitors to encompass a wide

Continued on next page

ROBERT H. MARCIN
Group Senior Vice President
First Nationwide Bank

Robert H. Marcin joined First Nationwide Bank in September 1989 as group senior vice president and human-resources director.

Prior to joining First Nationwide Bank, Mr. Marcin spent 16 years at Ford Aerospace, where he held various management positions in personnel relations, compensation, and industrial relations.

His last position at Ford Aerospace was executive director, employee relations and external affairs office.

Mr. Marcin holds a BS degree form State University of New York and an MBA from California State University at Hayward.



Competitive

Continued from preceding page

ees of their own functional planning work. All employees contributed their ideas to implementation of the strategic direction in work team meetings.

This process resulted in the establishment of our final people objectives:

1. Build the bank through internal career planning, management development, and selective external recruiting.

The focus of this objective has much to do with changing the culture from a historically small thrift to a nationwide savings bank. This is a compound objective that began with an inventory of our skills and talents on board through our succession-planning process. Where no replacements are identified, the officer-hiring process was enlisted to fill the void.

2. Define, communicate, and launch a major component of First Nationwide University.

To gain capability and implement change in our strategic direction, we established First Nationwide University. We rolled out major training initiatives supporting the strategic direction and reinforcing people as our competitive advantage.

Examples include:

• A quality customer service program cascaded by human resources trainer/manager teams, developed in conjunction with line organizations and setting of quality standards and recognition and reward programs.

• A teller training program designed by human resources with line-manager advisers and signoff.

• New-product training through computer-based programs designed by functional experts.

• Process-improvement-team training and consulting support for dealing with cross-functional problems impeding accomplishment of strategic objectives.

3. Establish a compensation program based on rewards for performance.

We believe it was necessary to establish a compensation philosophy with the active participation of the top management group. We "mongrels" wanted to become "thoroughbreds," at least in our thinking on what we believe compensation can and should do for the motivation, retention, and reward of the work force.

We used two-off site sessions to review compensation issues in terms of pay and benefits, linkage of pay to performance, productivity sharing, etc. The purpose is to have senior management have some ownership in compensation and benefit programs designed by our human resources team.

It also is having an ancillary effect of educating management about the complexity, costs, and effects of a "compensation philosophy." The major shift is orienting the total bank toward a sales culture.

4. Develop an effective bank-wide communication program – delivery, content, less volume.

During any organization change, a comprehensive communication vehicle must inform, educate, encourage, and create a common knowledge base essential for a competitive advantage. As with recruitment, employee communication was centralized and integrated with the business. It is now rolling out with extremely favorable response and contains news-letters, bulletins, vidbos, telephone "news talk," issue letters, and informal management "skip level" lunches.

A Simple Formula

It appears to be a rather simple formula and it is meant to be. The keys to successful implementation without question are the human resources professionals to understand the bank's mission and the strategic direction of business; design the processes to support the strategic direction; and the planning to see it through.

My own role in these processes is to sponsor these activities through the actions and words of our top management team. I see my responsibility to be the catalyst for change; the internal critic, the instigator of culture examination, and often the inquirer of the obvious questions. I am fortunate to have helped build that team; the challenge is to continue to develop the team.

In summary, at First Nationwide, our strategic thrusts are in the areas of customers, our people, our shareholders. The competitive edge in banking is in people serving people, whether externally or internally.

Human resources brings expertise to the workplace in building the cultural framework that links people - management to line, peer to peer, employee to customer.

As key players in supporting First Nationwide's strategic direction we are using strategic planning, training and organizational development, hiring and compensation strategies, to create a clear understanding for the fit of each employee in the success of First Nationwide Bank. □

Wall Street

Continued from preceding page

range of firms in securities, commercial banking, and equipment leasing. But a detailed analysis narrowed the range.

The company had successfully hired from one bulge bracket firm but rarely recruited from the others (thus, only the former made the list). In addition, looking at performance demands and risks as well as the quality of transactor staff suggested different positioning versus the different competitors.

As a result of this analysis, the company decided it should pay less than securities firms, more than other lessors, and roughly the same as banks.

Lesson No. 3: Measuring Performance

Financial firms can be viewed as a collection of highly intertwined businesses. This makes performance measurement difficult and contributes to a traditional focus on top-line – not bottom-line – measures of results. Often the result is overpayment of bonuses relative to overall profits.

A number of approaches have been tried to measure accurately the contributions of business units that jointly produce revenue, but few firms have been wholly successful in solving this dilemma.

For example, one approach is to create a non-P&L tracking system that credits each contributor to a deal with transaction revenue. This double (or sometimes triple) counting minimizes crediting disagreements and supports a team-oriented environment. But it does not help to distinguish the relative contributions of deal-doers.

And "restating" revenues can create the illusion of larger profit margins than actually exist, leading to payout expectations that exceed an organization"s ability to pay.

A second method of measuring performance is transfer pricing – allocating revenues and costs to the units responsible for them. Transfer pricing can more accurately measure relative contributions and it can help keep bonus expenditures within overall means.

On the downside, disputes may erupt over the real market rate for services and, in the worst-case scenario, an organization can become so consumed with measurement that it loses track of performance.

There is a third alternative used by a large investment banking firm. Given the limitations of measurement, this approach may be the most practical.

This firm uses a formula based on overall firm profits to set the maximum size of the bonus pool. It then awards business units and individual bonuses according to discretionary quantitative and qualitative criteria.

The reason? Measurement is so complex that only a judgmental assessment can capture all the nuances of business-unit and individual results.

This approach supports teamwork and largely avoids the problem of aggregate overpayment. Such extensive use of discretion, however, requires frequent and clear communication to prevent participant mistrust from developing.

Lesson No. 4 Managing Expectations

With such difficulty establishing a realistic- yet equitable pay mix, defining an appropriate comparative framework, predicting competitive bonus levels, and measuring performance, it is no wonder the loudest complaints in investment banking and trading revolve around the trauma managers and recipients face in managing expectations.

Discretionary bonuses contribute to the problem. Top management struggles with the appropriate level of aggregate funding as successive management layers try to guess how big the pie will be and how to slice it up to a multitude of deserving transactors.

Since most firms do not have specific performance criteria and expectations linked to business unit funding or individual bonus targets, the bonus process is more akin to negotiation than decision making.

As tough as it may seem, expectations can be managed effectively. It starts with communicating the rules of the game and addressing such questions as: How will bonuses be decided? Who will be involved in the decision? How long will it take? What input do participants have?

The communication goal is for participants to understand what is driving bonus funding – unit profits, company profits, individual performance — and in roughly what proportions.

A successful approach to managing expectations is illustrated by the bonus plan of a large money-center bank. The bank uses a pre-established profit formula to make an overall adjustment to an aggregate target bonus pool. Then business-unit and individual performance adjustments are based on quantitative and qualitative measures such as revenues, milestone achievement, cost control, and productivity.

Participants know the range of the corporate and business unit adjustments, and can reasonably estimate the impact performance at each level will have on their awards.

The process is further strengthened by linking individual objectives to business-unit and corporate goals drawn from the business strategy and a series of key success factors (what needs to happen to execute strategy). Ongoing feedback and the yearend performance assessment are based on achievement against these objectives, forming the basis for bonus payouts.

Lesson No. 5 Integrating Bonus Planning With Business Planning

Perhaps the final and most important lesson Wall Street teaches is the cost of not integrating bonus planning with business planning. Traditionally, bonus accruals have been managed at firmwide levels rather than at the business unit, to avoid raising expectations. Unfortunately, firms playing bonuses close to the corporate vest forgo the opportunity to link bonuses to the drivers of value in the business, give clear signals to talented performers, and maximize returns on their bonus investment.

One way to integrate bonus and business planning is to view compensation as "capital" to be used for building and maintaining the firm's talent base. When compensation (and particularly bonuses) is viewed as a capital expenditure, firms are able to make bonus funding decisions on the basis of where they are most likely to get an adequate return on the investment of bonus capital.

For example, a business that needed to increase staff but expected higher profits would need more bonus capital, and should get it. Another business unit's bonus fund could be subsidized if the unit is not yet profitable but is central to the business strategy. The decision to subsidize will help attract and retain the level of talent necessary to grow the business.

The subsidy for the business could be taken from another unit that is a poor performer and provides an asymmetry with other businesses. Poor performers would be "starved" of bonus capital until they became more competitive (i.e., by cutting back staff or pay levels, or increasing contribution).

The key is to manage bonus investment, or disinvestment, around the returns each business generates and their bonus "capital" requirements – a process not unlike the capital budgeting techniques widely used today.

Summing Up

The dilemma of bonuses suggests no easy answers for financial services firms competing in traditional Wall Street businesses. Powerful competitive forces argue for large bonuses to attract and retain talent.

Yet the potential exists to lose control of bonuses with obvious consequences for the bottom line. But the solution is within reach: carefully assessing competitive requirements, tightly managing performance, and focusing on the return on bonus capital.

The payoff for financial services firms that implement this solution is success in attracting, motivating, and retaining talented transactors without sacrificing long-term viability.

VINCENT C. PERRO
Principal
Sibson & Co.



Mr. Perro's consulting experience encompasses executive compensation, sales management, incentive-plan design, organizational analysis and development performance management, and pay-strategy development.

Mr. Perro has consulted for a variety of manufacturing, service, and financial corporations. He has been particularly active in assisting banks, securities firms, and service firms in addressing their unique human-resources needs.

Prior to joining Sibson & Co., Mr. Perro spent six years with E.F. Hutton & Co., where he served as vice president and chief administrative officer of the firm's public-finance division. He was responsible for all administrative matters, including strategy and business plan development, accounting, and professional staffing.

Earlier, he was a vice president of personnel for Hutton and was responsible for exempt and non-exempt staffing, university relations, human-resource information systems, manpower planning and development, employee relations, benefits planning, and employee communications.

Before Hutton, Mr. Perro served as a personnel generalist with the Federal Reserve Bank of New York and held management positions at Saks Fifth Avenue and R.H. Macy & Co.

Mr. Perro has an MBA degree from New York University and a bachelor's degree from City University of New York, summa cum laude. He is a frequent speaker on human-resource management issues for industry groups.

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Linking Human Resources to Success in Middle-Market Lending

By Richard P. Semler

The success of companies in all industries is directly connected to the effectiveness of the link between business strategy and human resources capabilities.

To be successful in the 1990s, financial services companies are recognizing that diverse business units need to align human resources strategy (recruiting, selection, training, career paths, and pay) with the unique needs of each business. This is particularly true for banks doing middle-market lending, where the capabilities and activities of the people, and their aggregate cost, are a critical factor in both the production and profitability of business.

Local banks must concentrate on growing local talent. Close customer contact and strong community standing are essential to business development and credit control at this level.

As straight lending to major corporations declined through the 1980s, the area of middle-market lending has become a key priority for many banks, regardless of size or locality. Spreads are still good in middle-market lending, and expenses are relatively controllable and relatable to profit.

It's a hot market – although not a sure thing. Several major banks have made a series of false starts in the middle market. Penetrating this market requires a specific strategy attuned to the specific market segment in which the bank operates, and reflecting the bank's existing capabilities.

Business strategy in middle-market lending hinges on the environment and on the capabilities of the organization. Six factors are primary determinants of strategic positioning:

- Geography, particularly the existence (or lack) of a branch system.
- The existence (or lack) of various merchant-banking functions.
- The extent and type of competition.
- The specific customer base and needs.
- The bank's culture, and its compatibility with the targeted segment of the market.
- The existence and strength of skills in credit, developing and managing relationships, cash management, financial analysis, advisory and structuring services, and risk assessment.

Conceptually, these factors translate to three primary market segments, which represent the primary positioning possibilities for middle market lending: 1) the national market segment, 2) the regional market, and 3) the local market. These segments do not define banks, but market opportunities and approaches – particularly since some larger banks will have different strategies against each of these three markets and may operate in all three.

Let's look at these market segments and the unique factors of each that translate into strategy. We will also look at how each business strategy suggests effective human resources strategy.

Market Segments

The local market is characterized by smaller companies ($1 million to $50 million in revenues) with customers who are driven by stable relationships and basic lending needs. Competing in this market segment typically requires a concentrated geographic presence, a credit culture, relationship-based lending, and controlled risk.

Margins are good, but the business is people- and time-intensive – meaning that costs can quickly erode profits. Appropriate strategy for pursuing local accounts typically hinges on stable relationship lending supported by intense local calling efforts and a strong branch and credit service network.

In contrast, the national market's typical clients are $100 million to $300 million in revenue, and may be characterized by HLTs, off-balance-sheet finance, or other value-added services. Because this market segment consists of comparatively few highly profitable deals, a branch presence is largely irrelevant and deals are typically pursued by a small staff of experts in specific locations.

This market is characterized by a "deal" culture, a capital-markets capacity, and a high tolerance for risk. Fees (and margins) are high, as is the price of the expertise required and the risks to be managed.

Servicing such a market calls for highly focused rather than broad calling, a primary emphasis on specialized fee-based services (with credit services secondary), and superior capability in risk assessment.

Regional market segments fall somewhere between the two ends of this middle-market spectrum. Banks may focus regionally more toward local relationship markets or toward national "deal" markets.

In our experience, the most successful regional market players focus primarily on the $5 million to $75 million companies (the core middle market) while doing the higher-end deals as a smaller part of their business.

Strategy at the regional level often requires the ability to combine elements of local and national markets – relationship lending with some corporate finance, local calling with centralized specialized services, and strong credit services with some fee-based corporate-finance products and services. The integration of these often determines ultimate success.

Recruiting Profile

What kind of human resources profiles do these strategies dictate?

Local banks must concentrate on growing local talent. Close customer contact and strong community standing are essential to business development and credit control at this level.

Typically, account officers are recruited from local colleges at local pay rates. Success in the local market does not demand Harvard MBA calling officers; in fact, such a profile could be a disadvantage.

Banks operating in a national market need to recruit undergraduates from the top business schools and/or second-tier MBAs, and they need to offer pay competitive at that higher level. Since corporate-finance-related skills are critical, national-market banks pursue midcareer hires from the top end of the regional banks, other national banks, and investment banks. A willingness to relocate should characterize most of these hires, since they must go where the "deals" are, and upward mobility will typically requires transfers among small offices in various geographies.

A regional-market bank's hiring profile would lean more toward the local level (to capitalize on the local branch presence and smaller to midsize companies) with some aspects of the national market. Typically, successful regionals recruit a mix of local BAs and MBAs as well as midcareer hires possessing specialized skills.

A key factor in linking human resources strategy to business strategy is using the competitive environment to advantage in designing programs.

The integration of these contributes to successful retention. For regional-market banks both paths may be open, but crossovers between the larger local-market effort and the smaller, specialized effort typically become an issue because of the different pay, experience, and training of the individuals.

Compensation

Compensation must both reward and motivate the behaviors key to realizing strategy within these different markets, and compensation cost must be related to the differences in the markets. This is where banks sometimes go wrong.

At the local level, pay should compete primarily with the going local market. Since individuals have less impact on a given deal, and more on the sum total of relationships established over a long period of time, pay vehicles must reflect this.

Typically, salary is emphasis on credit usually required in the local segment. Exceptions to this are where the selling process has been split out and leveraged sales incentives exist for those officers who strictly sell, or where sound account- and product-profitability systems, with risk adjustments, are in place.

National-market banks must compete with the top end of the market and must largely compete nationally. Pay is driven by the ability to do the deal, and all too often by internal comparisons with the corporate-lending or corporate-finance units.

To compete for and fully utilize these specialized skills, incentives are a key leverage point for pay. Essential is the potential for significant upside opportunity when performance contributes directly to the bottom-line result.

An often-neglected corollary – that pay declines steeply when profits drop – is equally important. Incentives recognize and reward risks inherent in the mode of operations and the control of those risks.

Regional-market banks, on the other hand, emphasize incentives with variable opportunity and leverage for different market segments and different business mixes.

Competitive Environment

A key factor in linking human resources strategy to business strategy is using the competitive environment to advantage in designing programs. For example, local-market banks compete best on local presence, sustained relationships, and service for basic credit needs. This competitive environment demands career-oriented people.

For regional markets, the major human resources challenge is to meld the relationship-driven local-market culture with the deal-driven transaction culture. It is difficult to retain top performers and equip them with credit and relationship skills as well as the more advanced finance abilities.

As accounts begin to grow in

Continued on page 18

RICHARD P. SEMLER
Associate Practice Leader, Financial Services
Sibson & Co.

Richard P. Semler specializes in linking business strategy to human resources issues within the financial services industry, with particular emphasis on executive and incentive compensation and organizational strategy.

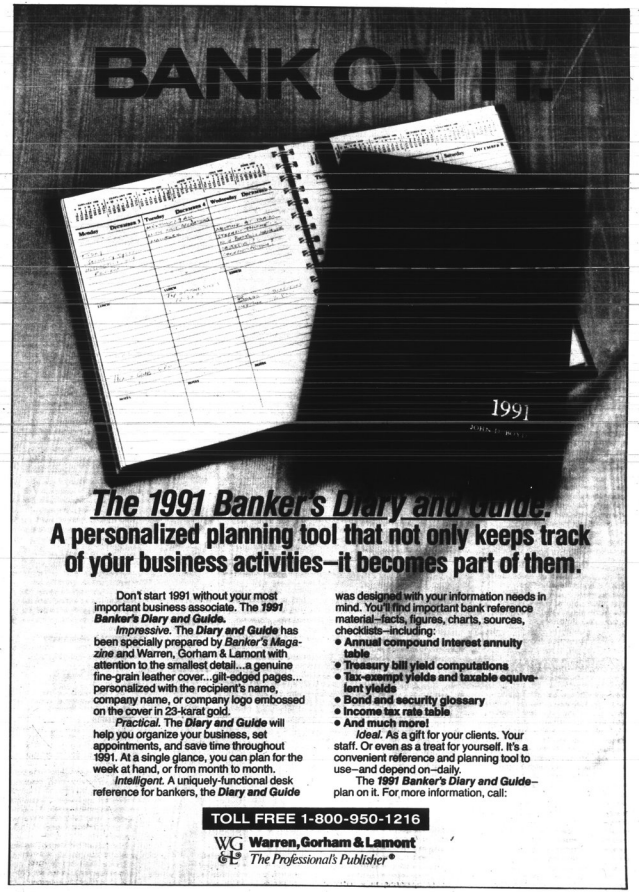
He has assisted in developing human resources and compensation programs for middle-market lending at a variety of large and midsize banks on both coasts.

Mr. Semler focuses on all areas of financial services, where he develops programs to support diverse strategies in large and small commercial, investment, and savings banks, insurance and brokerage companies.

Prior to joining Sibson, Mr. Semler was director of financial services consulting for the Hay Group, based in Los Angeles. His corporate career includes six years as a Citicorp vice president, heading worldwide corporate and executive compensation and U.S. regional human resources.

He has managed compensation and human resources functions in both the manufacturing and insurance industries, including Continental Insurance and MONY.

Mr. Semler is a frequent speaker on issues relating to the financial services industry, human resources management, and compensation planning. His speaking engagements have included the American Program Bureau, the American Bankers Association, and various professional organizations on both coasts.



3 Simple Steps Can Help Improve Service Without Raising Costs

By James J. Juliano

Customer service, productivity, and cost containment are a greater concern than employees, say senior-level bank managers in a recent survey conducted in New York by Chatham Consulting Group.

These managers, all employed by major banking institutions throughout the United States, rated "process" – which includes service, productivity, and costs – above employee training, employees' contribution to the bottom line, and organization of work. In fact, employees were ranked last, also behind increasing revenue and introducing new products.

Therein lies the problem.

Too many times we invest in procedures and programs, only to forget the most vital element – the institution's employees. The only way to improve service while reducing costs – the only way to increase revenues significantly over the long haul – is to have a well trained and highly motivated staff working efficiently.

In the past, attempts to create improvements through employee programs have often failed. Efforts such as industrial engineering, time management, and reward programs have ultimately been unsuccessful because they were unfocused. These programs centered on the speed of the individual, when they should have centered on the handling of the work itself.

Our survey listed 10 issues, ranked in order of importance. They were then grouped into the categories of process, work, and people – illustrating bankers' managerial priorities.

The manger's priority should not be a new procedure, policy, or plan. Rather, the manager should focus on the staff needed to put the new program into practice. The following steps can help increase service without raising costs.

Three Steps to Cutting Costs And Improving Service

First, examine the organization in depth. Look at who is doing the work. Second, streamline the work process. Observe how the work is being done. Third, make certain the staff is well trained to perform its new work processes.

At a major savings bank with branches throughout the New York metropolitan area, our mission was to improve profitability and customer service at the bank's headquarters. Our approach can be illustrated by looking at two functions that were streamlined: processing mortgage payments and processing mortgage applications.

During the assessment period, we discovered that mailed mortgage payments had to pass through both the real estate and finance divisions. The responsibility was so split that one department was receiving the payment and completing the ticket, while another division was posting the payment. In the consulting business it's called process fragmentation.

When a customer sent in an amount different from that on the preprinted ticket, the two divisions didn't know what to do. They wound up discussing the problem at length, since there was no set policy for this matter – even though it arose frequently. In addition, it was astounding to discover that this simple transaction typically involved up to four clerical persons and four supervisors.

In the mortgage-applications division, the fragmentation was so great that there were 27 handoffs – 27 handling transactions – between the application and the closing. If a customer had a question about his/her application, or merely wanted a progress report, the bank was often unable to give a satisfactory answer. Often it was even unable to find the paperwork.

Rooting Out Inefficiencies

In short, because too many units were involved in providing service, less service was being provided. Because the work flow was organized inefficiently, the same task was being done over and over.

In examining the process, the first inefficiency noticed was that the two departments working on the loan documents were six floors apart, which meant that both areas

Because too many units were involved in providing service, less service was being provided. Because the work flow was organized inefficiently, the same task was being done over and over.

were spending a good part of every day riding the elevator. Step one, then, involved moving the operations people to the lending floor. Productivity began to improve at once.

In fact, almost immediately we saw that people were beginning to run out of work, because they had recaptured all of that time previously spent listening to the Muzak in the elevator.

Ultimately, we used the individual workstation approach here as well – merging these two functions together. One person was given the whole loan processing effort for a specific part of the world. The workers adjusted quickly and happily to this reallocation of effort.

The most amazing aspect of the new system was a truly remarkable change in worker attitude – something that can only be explained by pride in work.

ward recorded savings by the bank of $1 million by January 1990, with anticipated savings of $2.5 million by June 1990.

In another instance, we were called into the international loan-operations department of one of America's major banks. The goal again was to create a solid and profitable service environment while cutting costs.

Before, we had always seen clerical workers referring to "the bank's customers." Now we began to see them speaking of "my customers." They were speaking with genuine pride and concern.

These people were proud because they were in control of – there's that word again – the process.

Yet, when we introduce our cross-training approach to some managers, we hear the same objection: "But clerks always say, 'your idea just won't work. I'll bet only 50% of this department's employees can be cross-trained successfully ."

Our response to that is: "Good. If 50% can be cross-trained successfully, then you won't need the other 50%." Given the growing shortage of skilled labor, such streamlining of effort is going to become essential – there simply will not be enough people to fill all the jobs.

While the single-workstation solution is far from the only one we propose when handed the mission of making businesses more productive, it is an important one, because it:

- Reduces costs, as required by current pressures to keep overhead down.
- Helps to solve problems created by today's shortage of skilled personnel.
- Creates improved service since fewer people are involved in a transaction.

Of course, the larger solution to procedural problems in business is careful implementation of a three-step approach – examining the organization, streamlining the process, and implementing and training the workers in that process.

When those three steps are successfully completed, workers are motivated and happy. And management is well on its way to its goal of service improvements and cost decreases. □

JAMES J. JULIANO
Principal
Chatham Consulting Group



James J. Juliano is principal and cofounder of Chatham Consulting Group. He is responsible for the firm's consulting services.

Prior to forming Chatham in 1985, Mr. Juliano held senior-level operations positions at J. Aron & Co., a division of Goldman, Sachs & Co., including director of administration and chief of staff, reporting directly to the managing partners.

From 1974 to 1982, Mr. Juliano specialized in operations at Citicorp. Mr. Juliano held department-head/vice-president positions in operations and finance at Citibank.

In 1979, he cofounded Citicorp's Operations Consulting Services with John Campi. The management-consulting subsidiary provided customer banks with guidance on how to improve productivity.

Mr. Juliano graduated from the State University of New York at Stony Brook in 1970 with a BA in German. He learned the consulting business when he joined Brooks International Corp., Westwood, N.J., first as a consultant and then as a project supervisor.

Mr. Juliano is a member of the advisory board of Harriman College of Management and Policy at Stony Brook. He frequently lectures on productivity at meetings of the American Bankers Association and the American Society for Performance Improvement.

Middle Market

Continued from page 16

size, they will also begin to require more sophisticated products and services, and the same individual can seldom handle both.

The very large banks typically compete in all markets (more or less successfully). They may compete as locals or regionals in their home markets, and also with other nationally oriented banks or the investment banks, both in and out of their home markets.

To be successful, they need different human resources strategies for each market. A critical challenge for a large bank is to measure the contributions of different people to transactions and to relationships. Once measured, pay – particularly incentives – must be structured to deliver awards that differentiate for performance, reward for controlling risk, and are competitive with regional, national, and investment bank challengers as appropriate.

The bottom line: Success in middle-market lending demands a careful analysis of who the competitors are, what the customers need, and what present and future skills will keep those customers coming back.

The next step is to align recruiting efforts, selection methods, career opportunities, and pay with business strategy. The aim is to attract, motivate, and retain individuals with the know-how and ability to secure and sustain middle-market account relationships at a profitable level.

It's a tough world in middle-market lending. But the competitor with the best business and human resources strategy will usually have the best returns, because capacity, skills, and costs are grounded in reality.

Executive Compensation in the '90s: Focus on Shareholder Value

By Rose Marie Orens

Fierce competition and wide-spread consolidations will characterize banking in the 1990s.

Overcapacity will result from the entry of foreign banks, non-bank financial firms, and consumer-oriented finance companies into areas traditionally held by banks. This will cause banks to vie for quality borrowers and deposits.

As industry restructuring continues, megamergers are likely. Banks with the highest market to book values will have tremendous opportunities to grow and reap future profits.

Banks that manage for shareholder value will survive. Others will decline or disappear.

Shareholder Value

Executive reward systems are a key factor in achieving desired growth. As traditional approaches are reexamined, executive compensation programs may need to be reshaped to build in shareholder value.

Short-term incentives will drive shareholder value creation by extending these incentives from senior management through to the functional and business-unit levels and by selecting performance measures and rewards that accurately reflect profitability and are meaningful to all participants.

Long-term incentives, which will also be extended further into the organization, will stress commitment and align management and shareholder interests by encouraging management to own and hold stock. All of this means more pay at risk.

What constitutes shareholder value? Shareholders receive value from share price appreciation and dividend payments.

Theoretically, if executives are given stock options with opportunity to buy shares at a fixed price over time) and dividend equivalents, this should align management and shareholder interests. Unfortunately, it's not that simple.

We have learned that executives' interest in stock options vacillates with overall market conditions. When stock market performance was poor in the 1970s, executives realized that since they had no real control over external market forces, incentive programs should focus on more meaningful internal indices of performance.

Thus, performance plans (contingent awards of cash or stock based on three- to five-year internal goals) grew in popularity. When the Dow Jones hit record highs in the early and mid-1980s, executives were more willing to accept risk and once again favored stock options.

Following the crash of 1987 – and, in financial institutions, the specific problems of LDC debt, bad real estate loans, overcapacity, and the turmoil in the thrift industry – executives are again becoming averse to risk and are looking for safer incentive arrangements, often in the form of restricted stock awards and megagrants of stock options.

Problems with Stock Grants

The problem with restricted stock awards and mega-option grants is that they can reduce the risk associated with lackluster performance. Restricted stock, which is an outright gift of stock for which the executive must simply remain with the company, can be highly profitable to an executive even though over time the stock price increases only modestly or even declines over the vesting period. And the stock pays dividends, as well.

If the size of the option grant is large enough, even small increases in stock price (i.e., no greater than a risk-free rate of return on a passbook savings account) can deliver significant wealth to an executive. We should also note that performance plans that pay out in cash are also problematic in that management can be rewarded for results that are not reflected in shareholder gains.

Compensation plan designers have also been creative in ways that have encouraged executives not to own stock but at the same time to reap benefits from stock-price increases. Stock-appreciation rights, which are typically offered in tandem with options, allow executives to take the appreciation in stock price instead of exercising (i.e., buying) the shares under option with their own money.

Another arrangement, the "cashless exercise" of options, permits an executive to finance the purchase of shares through a margin account with a broker. This also results in cash for the executive but not shares, since under a cashless exercise, a significant portion of the exercised shares are almost always sold immediately to pay for the exercise costs and the taxes due.

In actual practice, executives typically sell all the exercised shares and pocket the cash. In addition, by eliminating preferential tax treatment for long-term capital gains, recent changes in tax laws have further eroded the incentive to hold on to shares once exercised.

Thus, as we enter the 1990s, many long-term incentive plans in banks attempt to target stock-price appreciation – thereby aligning shareholder and executive interests – but are not successful at building a long-term commitment through significant stock ownership.

Challenges for the '90s

In the 1990s, senior management and compensation planners will need to reestablish the link between the elements that contribute to upward stock movement and executive reward systems. Only through direct ownership can the organization ensure that management's actions will parallel shareholder interests.

This will best be done by creating a combination of truly long-term incentive plans balanced by some shorter-term opportunities.

The first step is to emphasize the "long term." While a stock option has always been viewed as a long-term incentive because the term of the option can last as long as 10 years, institutions have in fact so reduced the vesting period for options (25% or 33% a year is typical) that they have become in fact short-term incentives.

In some cases, options vest immediately. A short vesting period encourages executives to focus on the short term and enables them to take advantage of short swings in stock price or, even worse, to exercise and sell the options and depart without leaving anything on the table.

Some attribute these shorter exercise periods to legislation aimed at capping the windfall gains executives can potentially receive from a change of control (golden parachutes). Under these regulations, accelerated vesting of long-term incentives may be subject to additional taxation while already vested shares will not.

Nonetheless, the shorter vesting periods we see today clearly contribute to the thinking that "there's always more where those came from." In order to emphasize the long-term focus of these programs, exercise periods will need once again to be longer.

Restrictions on Awards

To encourage ownership further, banks may also want to attach restrictions on exercised stock, a trend we are beginning to see in the large manufacturing companies. For example, any shares delivered beyond the purchase price may be in the form of restricted shares. Or executives may be encouraged to hold their shares by granting them restricted stock opportunities along with options.

An executive could be offered a share of restricted stock for every three option shares exercised. The restricted stock would vest in three years provided the optioned shares are still held.

Added Requirements

In addition to attempts to encourage more direct ownership, added performance requirements may also be built into long-term incentive programs in a variety of ways. Particularly where large or "megatype" awards are being made, some companies have added a feature that calls for increasing the exercise price of stock options

ROSE MARIE ORENS
Senior Manager
Peat Marwick

Rose Marie Orens is a senior manager in Peat Marwick's New York management consulting department's performance and compensation management practice.

She has worked extensively in the areas of executive compensation, sales compensation and salary management in a wide variety of companies with specific concentration in the financial services industry.

Ms. Orens' extensive involvement with financial service firms has included the design of short- and long-term incentive programs for investment banks, mortgage banks, commercial banks and thrifts, including the selection of appropriate performance measures, eligibility, size and type of awards, and review of key accounting and tax implications.

She has also specialized in the design of functional incentive plans that cover distinct business groups such as commercial lenders, private bankers, traders, investment professionals and staff.

Peat Marwick's practice focuses on identifying the key business strategies and objectives that need to be reinforced in compensation planning to ensure that compensation is appropriately linked to business results as well as competitive practices.

Ms. Orens received a BA from Boston University and an MBA from New York University Graduate School of Business Administration. She is a faculty member of the American Compensation Association and teaches the Certification II Executive Compensation Program.

She is a frequent speaker and has been quoted in the press on topics in the executive-compensation field. Ms. Orens currently teaches a graduate course in executive compensation, short- and long-term plan design, at the New School for Social Research graduate program in New York City.

She has also coauthored an article entitled "A Case for Considering Performance Shares If Your Strategy Calls for Stock Grants" which appeared in Compensation & Benefits Review, and an article on "Strategic Compensation" which appeared in Mortgage Banking Magazine.

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Shareholder

Continued from preceding page

to ensure that shareholders are receiving a minimum return on their investment before executives can participate in any appreciation.

This approach may appeal to banks in which stock prices are depressed and management may feel uncomfortable granting options at such depressed prices.

As bank managements attempt to build more risk into these programs, other devices and modifications to traditional long-term incentives may become popular. These may include adding performance criteria to the option exercise or to the vesting of restricted shares.

We will also see features added to existing plans to encourage ownership, such as qualified stock purchase plans, stock-for-stock exchanges, reload arrangements for stock surrendered through stock-for-stock exchanges, dividend equivalents, and the payment of short-term incentives in the form of stock or restricted shares.

Reeducation Needed

As senior management and human resource professionals in the banking industry come to realize that "ownership" encourages long-term thinking and maximizes shareholder value, they may have to reeducate executives as to their specific roles in achieving business objectives.

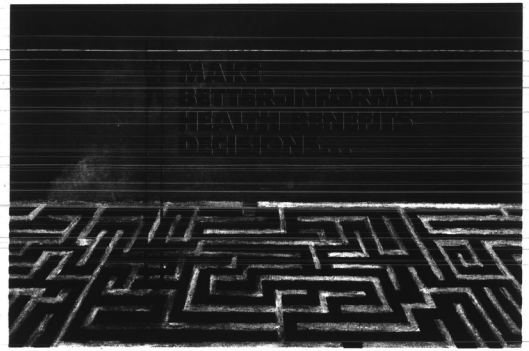
This will entail reviewing the bank's philosophy on share ownership and revising the performance measures currently used in all the bank's short-term and long-term incentives. This would include incentives for corporate as well as for the various business units.

> Many long-term incentive plans in banks attempt to target stock-price-appreciation but are not successful at building a long-term commitment through significant stock ownership.

While traditional management incentive plans are often based on accounting earnings or EPS, measures of cash flow and return on capital may be better indicators of value creation. At the business-unit level, line-of-business profitability analyses will identify the true contributors and allow management to compensate them accordingly.

In conclusion, while shareholders and boards of directors recognize that management talent does not come cheaply, they are coming to demand results for these levels of pay.

The challenge for the 1990s will be to build programs that deliver shareholder gains and thereby create a true sense of partnership between management and shareholders. Value-based incentives and stock ownership are the key vehicles to get there.



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For Shame, Chairman Greenspan!

By SANFORD ROSE

The idea that banks should be asked to raise still more equity capital – an idea floated by Fed Chairman Alan Greenspan during recent congressional hearings – has to be considered one of the most palpably absurd notions to come down the pike in recent memory.

It is of course true that equity functions as a sort of insurance deductible, reducing the residual risk of loss to the Federal Deposit Insurance Corp. So it is natural for regulators to clamor for as much equity as they can get.

But the regulators should understand that there is a close connection between safety and profitability, and that in the long run unprofitable banks pose the greatest danger to the insurance fund.

Comment

It makes sense to ask banks to raise capital only if that capital can be employed at a suitable rate of return. Some banks claim that they don't want to raise equity because their stocks sell at a discount to book values. But that is not a very good reason. If the rate of return on incremental business opportunities promises to exceed the cost of the new equity, then the capital should be raised, regardless of the bank's current market-to-book ratio.

But there's the rub. Many bank stocks have sold and some still sell at a discount to book values because these banks' average returns fall short of the opportunity cost of shareholders' equity. And what is true on average is even truer at the margin.

Paucity of Opportunities

There just aren't enough new opportunities to invest capital funds and monies leveraged thereon in good-earning assets, defined as assets that yield a risk-adjusted, match-funded return on equity of at least between 13% and 15%, a range that approximates the cost of equity in many bank businesses. [That cost reflects (1) the return on riskless assets, (2) the excess return over the riskless rate demanded by equity investors, and (3) the individual riskiness of the business in question.]

Since suitable rates of return are unavailable, any incremental capital that may be acquired will be invested suboptimally, with the result that the market value of bank equity will fall further, encouraging managements eventually to embark on much riskier strategies in an effort to

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INSIDE NEWS

FINANCE

WESTPAC BANKING Corp. and First National Bank of Chicago committed $1 billion to finance an unsolicited $27-a-share offer by Kansas City Power & Light Co. for Kansas Gas and Electric Co. *Page 22*

INTERNATIONAL

U.S. BANKERS are giving thumbs-down to Mexico's program to privatize state-owned banks. *Page 14*

CONSUMER

BANK OF HAWAII gives its customers the benefit of the doubt. Anyone with a checking account in "satisfactory" order is considered qualified to carry the bank's debit card. *Page 8*

TECHNOLOGY

SPEECH-RECOGNITION technology, once a fanciful idea, is finding its way into major banks in the United States and abroad. *Page 1*

THRIFTS



ROGER HILLAS, chairman of Meritor Savings Bank, has been conducting a strategic retrenchment since he took over two years ago. Part of the toll was a $136.8 million loss in the second quarter. *Page 2*

REAL ESTATE

SWAPPING distressed junk bonds for some of the issuer's real estate is a new technique that has caught the eye of some banks looking to capitalize on the weaknesses of high-yield bond issuers. *Page 10*

COMMENT

THRIFTS HAVE A ROLE to play in the revival of the real estate industry, says Barry J. Zadworny. *Page 4*

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Tax Breaks Seen Giving NCNB An Unfair Edge in Texas Market

By STEVE KLINKERMAN

DALLAS — Outrage is growing in Congress and around the country about the tax subsidies granted to buyers of failed thrifts. But the biggest giveaway of all may have involved a commercial bank.

NCNB Corp. of Charlotte will probably avoid paying some $950 million in taxes over five years as part of a 1988 agreement to take 40 failed First RepublicBank Corp. banks off the hands of the federal government.

The potential size of the tax breaks was known when NCNB acquired the Texas units. But now that the subsidies are kicking in, some competitors have started contending that NCNB has been given an unfair advantage – and is using it to trample its rivals.

With its profits largely shielded from taxes, NCNB has become a Texas bully, paying higher rates for deposits, charging lower rates for loans, and bidding more for acquisitions, these critics contend.

Predatory Pricing Cited

"The government has created a monster," says Chris Willis-ton, president of the 900-member Texas Independent Bankers Association. "The tax breaks allow NCNB to engage in predatory pricing, and it is having

See **TAX** page **16**

Fleet Drops Bid to Buy Maine Bank From BNE

By TOM LEANDER

NEW YORK — In a setback to Bank of New England's efforts to raise much-needed capital, Fleet/Norstar Financial Group said Monday it had withdrawn from negotiations to acquire the company's Maine National Bank unit.

Fleet declined to disclose the reasons for dropping its bid, but analysts said negotiations were terminated after the company refused to pay more than the unit's $62 million book value. However, Fleet officials left open the possibility that negotiations could be reopened.

"To conclude that negotiations could not be revived is wrong," said Robert Lougee, Fleet's investor relations officer.

Stock Not Affected

A Bank of New England spokesman was not immediately available for comment. The company's stock closed Monday at $2.25, unchanged.

Boston-based Bank of New England is actively trying to sell assets, including its Maine and Rhode Island units, to raise cap-

See **FLEET** page **7**

Sharp Retreat In Stock Prices Of Major Banks

By GORDON MATTHEWS and FRED VOGELSTEIN

NEW YORK — Major bank and thrift stocks retreated sharply on Monday as the Dow Jones industrial average plummeted over 100 points before closing down 56.44 points.

The broader market fell on weak second quarter earnings by many corporations and concern that interest rates are unlikely to fall further, sending some bank stocks down to new 52-week lows.

In the financial-services sector, declines were paced by the three big government-sponsored enterprises: the Student Loan Marketing Association, the Federal Home Loan Mortgage Corp. and the Federal National Mortgage Association.

Bank and thrift issues did not perform as badly as other stocks, partly because they now trade at only 50% of the overall market on a price-earnings basis and have less room to decline.

But most were off between 50

See **PRICES** back page

Under Scrutiny from Regulators, Southeast Banking to Boost Capital

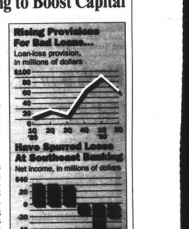
By KENNETH CLINE

ATLANTA — Southeast Banking Corp., the second-largest holding company in Florida, said it had reached agreements with the Office of the Comptroller of the Currency and the Federal Reserve Bank of Atlanta to boost its capital by about $10 million at yearend and to strengthen its real estate lending, credit review, and reserve policies.

Milder Agreements

The agreements are not as stringent as the cease-and-desist orders that regulators use in enforcement actions, and the $15.8 billion-asset company is not expected to have difficulty raising the required capital. But it does face closer regulatory scrutiny as it prepares to usher in a new generation of top management.

Along with the announcement of the regulatory agreement late last week, the Miami-based company said that a former Manufacturers Hanover Corp. sector executive, Douglas E. Ebert, will be its new president and chief operating officer. Mr. Ebert, 44, will be No. 2 to



Charles J. Zwick, 64, at both Southeast Banking Corp. and Southeast Bank of Miami, the

See **SOUTHEAST** page **7**

PEOPLE *in the news*

Lane of NCNB Texas Seeks To Win Hearts and Minds

By STEVE KLINKERMAN

Robert Lane has put on his white hat and is out to convince the Lone Star State that NCNB Texas National Bank is one of the good guys.

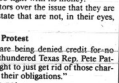
Recently named president of NCNB Texas, Mr. Lane has joined in a corporate crusade to win over the disgruntled Texans who are convinced that the bank has been too tight with its money.

So upset are certain Texas legislators over the issue that they are proposing to tax big banks in the state that are not, in their eyes, making enough loans.

Thunderous Protest

"Instance after instance, people are being denied credit for no good reason, and I blame NCNB," thundered Texas Rep. Pete Patterson in a recent interview. "We ought to just get rid of those characters if they are not going to fulfill their obligations."

A native Texan, Mr. Lane, 52, is not daunted by the emotional outpourings of his fellow citizens. He points with pride to the 8% increase in gross loans recorded by the bank during the 15 months that ended March 31.



Robert Lane

"We've done a good job of lending money, but we don't get credit for it," said Mr. Lane. To spread his message, the executive has begun accepting speaking invitations in the state.

Wooing fellow Texans is only one of the big jobs facing Mr. Lane, who succeeded Kenneth Lewis as president of the bank. The institution, the largest in Texas, has been on a buying spree and has not yet consolidated its acquisitions, which include University Savings Association, Houston, and the failed banks formerly owned by National Bancshares Corp. of Texas, San Antonio.

By November, Mr. Lane wants all 250 of the bank's Texas branches to be operating on a common computer system. Once installed, the statewide system will shave the bank's annual operating expenses by $130 million, Mr. Lane estimated.

Much Training Required

Aside from the technical challenges involved, the conversions entail much employee training, said Mr. Lane. So he is exhorting branch managers to stress customer service during the transition.

"I've been in almost all of our outlying offices, and I have telephone relationships with most of our managers," said Mr. Lane. "You have to keep people's confidence up."

Mr. Lane's ascension to the No. 2 position at the giant Texas bank marks a new career high for the executive, who survived the Texas banking crisis with remarkable aplomb.

He was placed in charge of InterFirst Corp.'s Austin division after that company swallowed First Bancorp Inc., which he led.

After RepublicBank Corp. swallowed the ailing InterFirst, Mr. Lane was named director of general banking for the merged entity. After First Republic failed and was acquired by NCNB , Mr. Lane became group executive vice president in Texas.

"He survived the problems at InterFirst and First Republic and went on to win one of the top posts in the Texas banking industry," said Frank Anderson, a senior analyst with Stephens Inc., a brokerage house in Little Rock, Ark. □

NEWS *briefs*

Equifax to Buy Telecredit

ATLANTA — Equifax Inc. said had it entered into a definitive agreement to acquire Telecredit Inc., a Los Angeles-based payment services company.

The deal has been unanimously approved by both boards of directors and is expected to be consummated by the fall.

Second Quarter Mergers Up 12% from Year Ago

SCHAUMBURG, Ill. — The W.T. Grimm & Co., a unit of Merrill Lynch Business Brokerage and Valuation, said mergers and acquisitions announced in the 1990 second quarter rose 7% to 626 from 584 in the 1990 first quarter and 12% from 561 in the 1989 second quarter.

The second quarter volume, which included the $4.4 billion employee-led bid for UAL Corp., did not offset the 3% dip for the 1990 first half to 1,210 from 1,246 a year earlier.

Advisory Firm Converting To Limited-Purpose Trust

NEW YORK — Offit Associates Inc., a New York investment advisory firm with $2.5 billion of assets under management, said it has received state banking department approval to convert to a limited-purposed trust company.

Morris W. Offit, 53, chief executive of Offitbank, said it would operate like a European private bank. He said he knew of no registered investment adviser that has converted to an investment management bank. While providing trust services to clients, Offitbank will maintain its emphasis on portfolio management. □

Meritor Posts $136 Million Loss

Crossland Had $40 Million of Red Ink for Quarter

By STEPHEN KLEEGE

Meritor Savings Bank said Monday that continued downsizing and restructuring actions led to a loss of $136.8 million, or $3.90 a share, in the second quarter.

Philadelphia-based Meritor had earned $21.2 million, or 61 cents a share, in the second quarter of 1989.

Meritor said some of the latest red ink came from the sale of 54 branches to Mellon Bank, Pittsburgh, and related restructuring. The combination created a net loss of $74.5 million, Meritor said.

The restructuring expenses included a $171.9 million writeoff of goodwill and the loss of $54.7 million from closing out some interest rate swap and floor contracts, Meritor said.

Crossland Loss

Meritor is the latest of several major thrifts to report quarterly losses.

Another large Northeastern thrift, Crossland Savings of Brooklyn, N.Y., had a net loss of $40 million, or $3.64 a share, for the quarter just ended. The thrift charged $50 million to write down real estate assets to net realizable value.

Crossland had net income of $3.8 million – and a per share loss of 47 cents – a year earlier. It had $12.7 billion in assets on June 30, down from $15.4 billion a year earlier.

Sizable losses were also reported last week by two of the largest California-based thrifts, CalFed Inc. and HomeFed Corp.

Meritor Retrenching

Meritor is in the midst of a retrenchment that began about two years ago when Roger Hillas of PNC Financial Corp. replaced Frederick Hammer as chairman. Mr. Hammer had led Meritor, formerly known as the Philadelphia Saving Fund Society, through an expansion into new regions and lines of business in the early 1980s.

Built-In Losses

"We've been laboring with a built-in loss of $3 million a month representing the cost of securities, $2 million for the amortization of goodwill, and $1 million for excess real estate," Mr. Hillas said.

Mellon paid a $355 million premium for the deposits of 54 Meritor/PSFS offices; the proceeds were used help pay for Meritor's writedowns.

Assets Were Slashed

The sale of branches reduced Meritor's assets by about $5 billion, to $6.9 billion.

"This quarter showed management taking great whacks at the things which bother everybody," said Roger G. Powell, analyst for Alex. Brown & Sons.

See LOSSES *page 9*

Earnings Flat at Bankers Trust

By JED HOROWITZ

NEW YORK — Bankers Trust New York Corp. reported earnings of $174 million in the second quarter, a sum virtually level with its year-earlier profit but 12% better its stellar first-quarter result.

Trading profits remained high, and corporate-finance fees showed signs of a rebound. But the $57 billion-asset company, the nation's ninth-largest banking company, also shared in the credit woes that many of its money-center competitors revealed in earnings reports last week.

Strength Despite Adversity

Bankers Trust's portfolio of foreclosed real estate and other nonperforming assets rose 83% from the end of the first quarter to $119 million. Also, $179 million of its loans to real-estate developers, highly leveraged borrowers, and other non-Third World debtors were more than 90 days past due.

Analysts Impressed

Analysts nevertheless were impressed. Bankers Trust stock closed at $39.50, down 37.5 cents in trading on the New York Stock Exchange on Monday, a day in which the Dow Jones industrial average dropped 56 points.

"Their quarter was one of the more notably strong ones in a very difficult environment," said Arthur Soter, a money-center bank analyst at Morgan Stanley & Co.

"Clearly there is pressure on their asset quality, but the num-

See FLAT *page 9*

BANKERS TRUST CORP.
New York
Dollar amounts in millions (except per share)

SECOND QUARTER	2Q '90	2Q '89
Net income	$174.0	175.0
Per share	2.06	2.14
Net interest revenue (tax. equiv.)	191.0	243.0
Yield	10.22%	10.64%
ROA	1.19%	1.17%
ROE	28.72%	19.83%
Noninterest income	573.0	531.0
Noninterest expense	492.0	444.0
Loss provision	28.0	65.0
Net chargeoffs	157.0	91.0

FIRST HALF	1990	1989
Net income	$372.0	$339.0
Per share	4.40	4.16
Net interest revenue (tax. equiv.)	418.0	481.0
Yield	10.65%	10.39%
ROA	1.24%	1.16%
ROE	32.0%	19.70%
Noninterest income	1,166.0	1,016.0
Noninterest expense	1,003.0	891.0

BALANCE SHEET	6/30/90	6/30/89
Assets	$57,341.0	$62,160.0
Deposits	17,740.0	29,726.0
Loans	20,251.0	21,748.0
Shareholder equity	2,850.0	2,366.0
Loss reserve	2,345.0	1,306.0
Reserve/loans ratio	11.58%	6.00%
Nonperf. loans	1,998.0	1,404.0
Nonperf. loans/loans	9.86%	6.46%
Primary capital ratio	9.16%	8.84%

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TECHNOLOGY/OPERATIONS NEWS

Interest in High Speed Link Revs Up, Clearing House Says

By JEANNE IIDA

NEW YORK — The New York Automated Clearing House Association says interest is heating up in its high-speed telecommunications link, which it says can reduce bank operating expenses and improve flexibility.

Fleet/Norstar Financial Group Inc., Providence, R.I., is the most recent addition to the service, which has been available for two years. Fleet installed the high-speed line in March, becoming the fourth banking company with such capabilities. The clearing house said it expects other banks to follow soon.

The clearing house provides software, but banks must contract with their local telephone company for the service. That service, with a speed of 56 kilobits per second, has just recently become available throughout the New York area.

A Way to Free Up Lines

Along with cost incentives, banks may view the service as a way to free up overtaxed phone lines. Many banks are finding their telephone lines tied up for hours with incoming transactions because of the New York ACH's move this spring to an all-electronic system. All participants now must be able to receive transmissions electronically.

"Since we went all-electronic banks are on the phones much longer than they used to be," said a Clearing House official.

The New York ACH is one of the few all-electronic ACH systems in the country. Others are the Fed in Arizona and the system run by Visa U.S.A. in some 21 states.

Processing Speeded

Fleet/Norstar said the high-speed link has reduced the time it takes to process Social Security and other payments at the end of the month. It now processes an average of 135,000 government Social Security payments in 45 minutes instead of five hours.

Fleet previously used a slower service – 9.6 kilobits per second – that is still used by most members of the clearing house.

"At the end of the month, [the slower service] was killing us," said David Dube, vice president in charge of computer operations at Fleet/Norstar Service Corp., the processing subsidiary of Fleet/Norstar Bank, Providence, R.I.

Funds Available Quickly

Mr. Dube said the new telecommunications service had helped the flow of government

The bank company finds the high-speed link especially useful when government payments pour in.

transactions, which come at the end of the month. With the old service, funds might not be deposited in customers' direct-deposit accounts until late the following day.

"With the service, "items that need to be available immediately will drop in DDA and savings accounts the same night," said Mr. Dube.

Banks are also saving money by switching to the higher-speed service.

A bank would pay about 86 cents to transfer 10,000 records – a relatively large file – with the high-speed line. To send the same file by 9.6-kilobyte service would cost $5.61, according to the clearing house. □

Speech Recognition Making Gains

Banks Start to Use Systems to Help Their Executives

By RICHARD LAYNE

NEW YORK — Speech-recognition technology, once reserved for science fiction, is finding its way into major banks both in the United States and abroad.

The technology promises to bypass keyboards, allowing high-level managers to speak into their personal computers, order up data bases, and dictate memos. Banking companies, including Security Pacific Corp., are now using such systems as home-banking aids and as super secretaries, and they are exploring other uses.

While speech-recognition systems have been available commercially since the mid-1980s, the initial products could understand only 100 words – and only if spoken slowly.

Improvements in Technology

But the technology has made quantum leaps recently. Dragon Systems Inc., a leading provider of voice recognition technology for personal computers, introduced a system in March that can understand 30,000 words – a smaller vocabulary than found in Shakespeare's collected works.

Dragon, a 30-person computer company in Newtown, Mass., has a contract to supply the system, called DragonDictate-30K, to International Business Machines Corp.

Janet Baker, president of Dragon, said the technology's most common financial application was to accelerate transactions, particularly equity and currency trades. "Doing them by voice is faster than otherwise," she said. "It's better than writing it down and having someone else key it in. The cost of delaying information is high."

With so much of a bank's business taking place electronically, commanding a computer through speech can streamline operations and give executives easy access to computerized information.

"Speech recognition could be significant for banks," said Craig Atkinson, vice president of Manufacturers Hanover Corp. and head of a group that explores emerging technologies. The New York bank is studying the technology for potential use in the bank.

Banks in the United States, Europe, and Japan have already begun to use the technology, according to Ms. Baker. The vice

> **"It's better than having someone else key it in. The cost of delaying information is high."**
>
> **Janet Baker**
> *Dragon Systems Inc.*

chairman and executive vice president at Security Pacific Corp. have recently installed speech-recognition systems in their offices to take dictation and help them use personal computers, a company spokesman said. Citicorp is also reportedly experimenting with the technology.

Potential Untapped

"Speech recognition is not used in any big way in financial services at this point," said Charles W. McDonough, an emerging technologies specialist with Andersen Consulting in Detroit. "But it has promise."

In Japan, consumers can do banking from home via the phone. A Dragon system recognizes simple words and digits, Ms. Baker said, allowing consumers to inquire about their balances and transfer funds with just the spoken words.

At least one U.S. bank is assembling management reports using the technology, said Ms. Baker, who declined to identify the bank.

Translation Is Aided

Two banks, she said, also use the technology to translate documents faster. Translators rarely type. Typically, they dictate their translation to a secretary or into a recorder. The translation is later typed in a computer. With speech recognition technology, a translator can dictate his English translation directly into the computer.

The adoption of speech recognition systems has been hampered in the past by limited vocabularies, by their inability to understand natural speech, and by their inability to understand the speech of several people.

The Dragon system, which consists of software and a special voice processing apparatus, is capable of understanding 30 to 40 words each minute, a pace slower than normal speech but faster than older models. Users learn to pause for a split second between each word.

The spoken word immediately pops up on the screen, along with other words that sound similar. If the first word is not correct, but the third word is, a speaker can select the correct word by saying "choose 3."

Ms. Baker reports that her adolescent son uses a speech-recognition system to produce assigned reports for teachers.

Ms. Baker describes the system as capable of understanding the speech of anyone who uses it. □

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COMMENT/*By Barry J. Zadworny*

Thrift Industry Should Not Be Written Out of the Script

Is there any good news about the thrift industry?

Ever since the beginning of the year, and even before that, considerable ink has been given to the problem of the regulators and the regulated.

The articles read like soap operas. Every day an "exciting" development takes place. The thrift crisis seems to offer more drama than "Dallas."

The stage for the thrift industry "soaps" is set in Washington, rather than Southfork or Television City, Calif.

With each passing day, there is some new revelation or statistic that sends shock waves across an already embattled industry. Taxpayers and members of Congress are wondering if there will be any letup. The scripts seem to suggest that the problem will not go away.

Is the Industry Needed?

One question facing the writers of future installments is how much the cleanup will cost the taxpayers. Down the road, attention will shift to whether the thrift industry is needed at all.

Later episodes will zero in on the question of states' rights – that is, whether the states should still have a voice in regulatory matters through the dual banking system.

There is room in this country for a thrift industry. There always will be. The Federal Deposit Insurance Corp. will ask for weak players to leave the field, but the remaining institutions will survive and make important contributions to the housing market.

Tradition Will Continue

Just as in the days of our parents and grandparents, the remaining thrifts will provide a menu of mortgage financing plans to the public.

Americans need to be able to "comparison shop" for their mortgage financing. Being limited to a single financial entity would not help.

Housing Sector Needs Help

I hope that the Bush administration and Congress will not lose sight of the contributions that thrifts have made to the housing market.

Housing is a vital economic indicator. If Americans are denied access to affordable credit or their choice of lenders is trimmed, the real estate market will continue to stagnate.

Housing sales simply are not moving in most areas of the country. Real estate agents worry about whether there will be light at the end of the tunnel within the next 12 months.

When that light arrives – and it eventually will – the real estate industry will need the thrift industry. Doing away with thrifts would only delay the recovery of real estate.

Focus on Mortgages

Thrifts that stuck with home lending managed to stay healthy and keep their names off the FDIC's list of sick institutions. When the FDIC is finished with the shakeout of weak players, the remaining thrift institutions

"It makes little sense for a healthy thrift to pay twice as much for FDIC insurance as a healthy commercial bank."

should concentrate their energies in the mortgage marketplace.

In short, thrifts must return to and stick with the basics that have served them well for more than a century.

The States Are Losing

On the question of the dual banking system, a different script is being written.

Sadly, the states are losing their regulatory authority, and it is apparent that this trend will continue.

I have used the word "sadly" because for many years I have believed that states are better qualified to deal with such issues as branching and mergers than a regulator based in Washington.

Generally, state regulators knew more about the officers and directors running a particular thrift and about the economics and demographics in its market.

Nevertheless, it appears that the thrift bailout law has permanently changed the dual banking system.

There is no retreating to the system we used to know.

The FDIC has a legislative mandate to preserve the safety of its deposit insurance fund. The agency must take swift action, with or without the support of the state regulator, to intervene in any situation that poses a threat to its insurance fund.

Give Parity to Healthy S&Ls

But if the remaining, healthy players are to survive and aid in the recovery of the real estate market, Congress, with the support of the FDIC, should acquiesce to one important regulatory change:

The present inequity in the calculation of FDIC deposit insurance premiums should be eliminated.

It makes little sense for a healthy thrift to pay twice as much for FDIC insurance as a healthy commercial bank with the same level of deposits.

Level the Playing Field

There are many fine people connected with the thrift industry, and they should not be written out of future scripts. Chrysler Corp. came back, and so can the thrift industry.

The playing field has to be made level, and healthy thrifts should not have to pay double for their FDIC deposit insurance. □

Mr. Zadworny is senior vice president of Roma Savings Bank, Trenton, N.J. He spent 27 years in the New Jersey Department of Banking.

CRIME BLOTTER/*By Tom Leander*

Fraud Counts in S&L Buyout

The owner of a California construction company was indicted last week on charges of misleading regulators in his 1986 takeover of Bishop Savings and Loan, Santa Monica, Calif.

Michael R. Goland, 42, is accused of supplying false information about the sources of $1.5 million used for the buyout. In the picture that Mr. Goland allegedly painted for regulators, the money came from a group of 10 investors.

The indictment claims that Mr. Goland deliberately overstated the personal assets of this group, hoping to get quick regulatory approval for the deal.

Actually, a large part of this money – $900,000 – was lent secretly to Mr. Goland by California state Sen. Alan E. Robbins, who later acknowledged that he had received campaign contributions from Mr. Goland.

Mr. Robbins is not under indictment and has cooperated with federal authorities in the investigation of Mr. Goland, according to Assistant U.S. Attorney George Newhouse in Santa Monica.

Mr. Robbins was "not made aware of the details of what he was doing," in his loan to Mr. Goland, Mr. Newhouse said.

The straw group of investors was assembled by Mr. Goland and a codefendant, Clifford A. Sherwood, the indictment charges. At the time of the takeover, Mr. Sherwood was a top executive of Mr. Goland's Balboa Construction Co., Chatsworth, Calif.

Because Mr. Goland was in financial difficulty at the time, he allegedly presumed that the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corp. would not approve his application.

He acquired a controlling 56.5% interest in Viking Savings in December 1986. The thrift was subsequently sold to Westside Savings and Loan Association in 1988.

Neither Mr. Goland nor his attorney could be reached for comment.

* * *

High Flier Gets 20 Years

The book was closed last week on a highly visible prosecution for S&L fraud at North America Savings and Loan Association, Santa Ana, Calif.

Janet Faye McKinzie, a business manager and consultant to the thrift's former president, was sentenced to 20 years in prison following her conviction on 22 counts of fraud, conspiracy, and racketeering.

Ms. McKinzie was also ordered to make restitution of $14 million. She was the first savings and loan insider to be convicted under the Racketeer Influenced and Corrupt Organizations Act, which allows the government to sue for treble damages. Ms. McKinzie could have been sentenced to a maximum of 175 years in prison under RICO.

Ms. McKinzie worked under the thrift's owner, Duayne Christensen, who died in a car accident shortly before the regulators moved in. Prosecutors charged that the pair used bogus deposit accounts, falsified records, and forged signatures to defraud the S&L, then used the money to buy such items as a pair of Rolls Royce automobiles, an $18,500 antique letter opener, and a $500 gold paper clip.

Regulators seized North America Savings in 1987, following its loss of $8.9 million in the first 11 months of 1986. An investigation uncovered evidence of fraud. The collapse cost taxpayers $120 million.

* * *

Trainer Sues Bank of America

A Los Angeles racehorse trainer has sued Bank of America in connection with an alleged scheme in which as much as $2 million may have been embezzled from the state's payroll account.

Charles Whittingham's suit in Superior Court in Pasadena claims that the Bank-America Corp. unit negligently cashed checks made out to fictitious employees of the stable, according to a report in the *Los Angeles Times*.

According to Richard Craigo, the trainer's attorney, Bank of America maintained a payroll service for the stable during the years the phony checks were written. The bank cashed checks without properly verifying the names of the payees, the suit claims. The bank has declined comment on the suit.

Police suspect that an insider at the Whittingham stables was responsible for the scam, which employs over 100 workers. There have been no arrests to date.

* * *

Ex-Citibank Aides Convicted

Two former Citibank officials have been convicted of evading income tax for four years and of filing fraudulent withholding certificates, federal prosecutors said.

A federal jury in Manhattan returned guilty verdicts last Wednesday against John Dipetto, 40, a former vice president of the Citicorp unit, and his wife, Michele, 38, a former assistant vice president. They each face maximum sentences of 20 years in prison and $850,000 in fines on four counts of tax evasion.

The couple was convicted of evading about $180,000 in income taxes from 1983 through 1986 by failing to file returns or pay taxes.

Sentencing is scheduled for Sept. 19 before U.S. District Judge John Cannella. □

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San Francisco: Sam Zuckerman (bureau chief). 415-986-1194
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Martin Barnicle (assistant chief), Christine Arce, Terry Barnhart, Edward Kilkenny, Robert Paul Molay, Jane Sandiford

ART
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LETTERS *to the editor*

Plus, Cirrus Making Transactions In Greater Volume than Reported

To the Editor:

I think Speer & Associates fed you some specious data and spurious conclusions in the June 19 article and passed them off as fact ["Cirrus, Plus Report Gaining in ATM Wars," page 1].

According to Speer, in 1990 Plus and Cirrus together will do 60 million transactions, and as a result of tremendous gains over the next several years, by 1993 our transaction volume will reach 10% of the total ATM transactions interchanged.

Cirrus alone did 59 million transactions in 1989, and Plus claimed a similar number. This year, Plus and Cirrus will probably do 200 million transactions, or about 14% of total interchange volume. We're already way ahead of Speer's prediction.

Since we were created in the early 1980s, Cirrus and Plus have played an important part in electronic funds transfer. To imply that our transaction volumes have been disappointing because they aren't as large as some regional systems is a real lack of understanding about the ATM business.

The founders and members of Cirrus and Plus never expected the nationals' volumes to equal more than a small fraction of total ATM usage. This is because banking – whether at a branch or an ATM – is primarily a local activity. However, travelers turn to Plus and Cirrus for the nearly half a million times a day.

Just as Speer researchers are wrong about volume, they also draw the wrong conclusions about how various factors affect volume. Network consolidation is not fueling the volume growth of Plus and Cirrus. As smaller networks or independents become part of large regionals, Cirrus and Plus often lose transactions. National volume is further siphoned off by interregional switching agreements.

Even with consolidation and subswitching, Cirrus and Plus volumes continue to set records. In May, for example, Cirrus cardholders did 7.6 million transactions. That is because the more consumers use ATMs, the more likely they are to use them again. And that trend will continue to boost all ATM transaction volume to greater heights.

G. Henry Mundt 3d
Senior vice president and general manager
Cirrus System Inc.
Downers Grove, Ill.

Editor's Note: Speer & Associates, the source of the study reported in the article, does not dispute Mr. Mundt's numerical corrections. Speer said because Cirrus and Plus did not respond to its requests for information, it estimated volume for both. The higher volume figures underline the conclusion that the national networks are increasing their impact on the ATM market.

Banks Diluting Their Identity In ATM Deals

To the Editor:

I'm surprised that *American Banker* published another article June 19 on automated teller machines ["Cirrus, Plus Seen Gaining in ATM Wars," page 1] without providing perspective on what these developments mean for U.S. banks.

Although some consultants and newsletter writers have forged successful careers out of reporting and analyzing every twist and turn on the ATM front, it seems that issues such as the quality and cost of electronic services and the ability of banks to profitably offer them have gotten short shrift.

The Cirrus and Plus situation raises the most questions, as it seems to be the most outlandish. Can anyone explain why this nonsensical brand-name battle continues? Although questions arise on the use of any brand-name identity, banks' practice of placing a competitor's logo on its cards and ATMs continues to take the cake. Is there still confusion between providing electronic switching services and expanding a customer's cards and ATMs?

As Harvard Professor Michael Porter recently said, the challenge for banks is to find a unique position and image. Visa versus MasterCard, Cirrus versus Plus, and all dominant network brandings make this wellnigh impossible.

Banks should be demanding a cooperation that will quickly provide interchange that is proprietary yet universally acceptable bank card. It's crucial to individual bank survival.

Joseph E. Wallace
Chicago, Ill.

Editor's note: Mr. Wallace, a financial consultant, has proposed that banks adopt a universal service mark, "System B," to avoid the multiplicity of shared logos on ATM cards.

Pa. Thrift Would Consider a Sale

JOHNSTOWN, Pa. — Johnstown Savings Bank said it will consider sale of the thrift as a way to enhance stockholder value.

The $273 million-asset thrift, which reported a small profit in the second quarter after losing money a year earlier, said it could give no assurance that an acquisition offer would be forthcoming or that the price would be fair to stockholders.

Johnstown Savings earned $152,000, or 8 cents, a share in the quarter ended June 30, after it lost $718,000, or 37 cents a share, in last year's second quarter. Its assets declined 7% in the 12 months, and the thrift recently announced a plan to cut its 100-person work force by eight.

Patrick J. Coyne, president and chief executive officer, said the thrift is continuing in a "back-to-basics" mode of operation at is five branches. □

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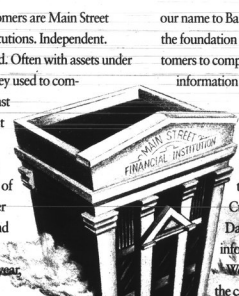

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The Economist in Greenspan Must Be Chafing and Cringing

Continued from *page 1*

repair shareholder fortunes. If the past is any guide to the future, these strategies will spawn devastating losses.

Thus, as has occurred in the thrift industry, capital levels that are initially set too high may in the end turn out to be too low. And the regulatory effort to build insurance deductibles may ultimately create the need for far larger deductibles than can conceivably be provided.

A Review of Rationalizations

That banks lack suitably profitable outlets for capital is apparent from a review of the rationalizations offered by managers for current investment strategies. For example, many bankers are still enamored of mortgage-backed securities.

Why? Say some bankers quite baldly: "We get yields of 125 to 140 basis points over Treasuries."

But what about the cost of the prepayment option? After allowing for that cost and the cost of match-funding the security, the yield is very much lower and, if at all positive, may not be high enough to provide an acceptable return on even the reduced amount of capital required by regulators for mortgage assets.

The banker's answer to this type of inquiry usually runs as follows: "Who takes into account the cost of the option? Interest rates are not about to fall by more than 150 basis points. And if they don't, the options on those current-coupon securities won't get exercised."

Fudging the Analysis

In other words, the paucity of bona fide investment opportunities has encouraged bankers to fudge the analysis of those that may not be so terribly good. Bankers are content to bet against the possibility of falling interest rates in order to justify the employment of deposit and capital funds that otherwise could not be employed.

Consider also why so many banks are investing heavily in asset-backed securities like credit-card and auto-loan paper. The average lives of such investments range from two to five years, and their yields from between 8.75% and 9.5%. If match-funded at, say, three years, the spread between the asset yield and the liability cost would be scant and certainly not sufficient to earn a 13% return on Tier 1 capital.

But who is match-funding, scoff many bankers? Compared to the cost of federal funds, they maintain, the yields on asset-backeds are certainly attractive.

Gape Undeniably Negative

Now it is true that bankers can justify a liability-sensitive mismatch if it is designed to offset an asset-sensitive gap in another part of the portfolio (although, in reality, the profitability of each investment should be measured as if the bank intended to match-fund it, regardless of whether that in fact happens). But it is also true that many consultants and industry observers are reporting that banks whose overall gaps cannot possibly be anything but negative nevertheless continue to short-fund auto and credit-card paper.

Once again the almost frenetic search for investment outlets is encouraging bankers to bet – this time against rising rather than falling rates. In other words, if the numbers don't work using *prudent investment criteria*, surely they will work if we allow for sufficient imprudence.

Lacking enough profitable outlets for their money, banks should be shrinking, not expanding. But most are not, for the simple reason that they are stuck with too much capital which the regulators won't let them dividend back or pay out to their shareholders, who almost certainly can employ the money more profitably than can the banks.

Under such circumstances, isn't it a bit foolish to ask for still more capital? Surely Mr. Greenspan understands that risk-adjusted spreads in most bank, and certainly thrift, businesses are not large enough to adequately compensate shareholders, which is of course the basic reason depository-institution stocks trade at such low multiples. So why does he suggest that banks turn to the investment community for still more equity?

As noted, this is a standard regulatory demand. But Mr. Greenspan is an economist as well as a regulator. And the economist must chafe and cringe at what the regulator feels compelled to advocate. □

Kennedy Unveils S&L Tax Plan

WASHINGTON — Rep. Joseph Kennedy, D-Mass., has announced a 30-year, $300 million package of surtaxes for the wealthiest individuals and corporations to help bail out the savings and loan industry.

Rep. Kennedy introduced a bill to put a 7.5% surtax on interest, dividends, and capital gains received by individuals with annual incomes greater than $100,000. The surtax would be 5% on corporations earning over $75,000 annually.

Rep. Kennedy said at a news conference that the two taxes would raise $19 billion a year, relieving "the poor and working people" who, in his view, bear a disproportionate burden of taxes.

The proposal is likely to face stiff opposition from the White House. President Bush has said he wants to cut the capital gains tax and has only reluctantly agreed to consider some revenue increases as part of a deficit reduction package.

— Reuters

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Fleet Drops Bid to Acquire a Bank of New England Unit

Continued from *page 1*

ital and refocus the company. Its company's capital ratio was 1.65% at March 31, well below the regulatory minimum.

The collapse of negotiations with Fleet "continues to put more pressure on Bank of New England's] capital base," said Kristina Andersson, an analyst for Kidder Peabody & Co. in New York.

Worries Reflected

Analysts also said that Fleet's reluctance to enter into the deal signifies a deepening worry about the New England economy at Fleet and elsewhere.

"You'd think that Fleet would be among the best players in this deal, and they looked at it and don't like it. It shows they're still skeptical or wary of the local economy," said Ms. Andersson of Kidder Peabody.

Fleet emerged last month as the leading bidder to acquire the $1 billion asset Maine National Bank, which would have made it the largest banking company in New England with $37.5 billion in assets. It now ranks second to Bank of Boston Corp., which has $37.2 billion in assets.

Bank of Ireland, through its First New Hampshire Corp. subsidiary, is understood to have backed away from negotiations last month to acquire Maine National. Bank of Ireland and Fleet were the only two banks said by sources to be in the bidding.

Analysts said Bank of New England was unrealistic to expect to sell its Maine unit above book value.

"We're looking at a fire sale here," said James Moynihan, an analyst for Advest in Boston. "Certainly no buyer is going to pay a premium." He added that acquisition prices have dropped dramatically since last year, giving any buyer an incentive to wait.

Unit Called a Good Buy

Maine National remains a good buy, analysts said. Maine National, which had 6.42% equity-to-assets ratio at the end of first quarter, is reported to be the healthiest unit in the Bank of New England franchise, despite the worsening of the Maine economy.

Analysts said another bidder could surface to acquire Maine National, most likely from the Northeast or Middle Atlantic states. Maine's laws allow banks from any region in the country to enter state.

"In this environment, it pays to wait," said James J. McDermott Jr., an analyst for Keefe, Bruyette & Woods Inc. in New York.

Jed Horowitz in New York contributed to this article.

Southeast Agrees To Boost Capital By $10 Million

Continued from *page 1*

state's largest commercial bank.

Analysts had been expecting some kind of regulatory action at Southeast. The bank has run up cumulative losses of $92.8 million in the past three quarters and is expected to be unprofitable for the year because of problems with its real estate, indirect automobile, and credit card loan portfolios.

"Given their capital position and the weak banking environment in Florida and nationwide, they needed to be closely monitored by a regulatory body," said Richard S. Grolenwski, banking analyst with Goldman, Sachs & Co. in New York.

Need to Boost Tier 1

Southeast's agreement with the Comptroller's office requires that its flagship subsidiary, Southeast Bank, boost its ratio of Tier 1 capital to risk-weighted assets from the current 4.22% to 4.25%, or about $10 million.

Southeast also agreed to review and strengthen such areas as real estate lending, credit review, reserve methodology, and related management functions. The bank also agreed to keep the Comptroller's office informed of its dividend plans.

The agreement "recognizes [Southeast's] commitment to correct deficiencies," said Robert V. Ahrens, district administrator for the Comptroller's office in Atlanta.

At the holding company level, Southeast also reached a memorandum of understanding with the Federal Reserve covering the same areas.

"There are different grades of regulatory constraints, and these are at the lesser end," said Kathryn H. Bissette, banking analyst with Interstate/Johnson Lane in Atlanta. "But certainly, it reaffirms the company is going through some difficult times."

Southeast would seem to have little trouble boosting its capital by $10 million at yearend because it expects to earn about $20 million before taxes in the third quarter from the sale of its mortgage-servicing company to Sears Mortgage Corp. It is also planning to securitize about $160 million in credit card receivables, analysts say.

"But capital is affected by what you earn or lose," Ms. Bissette said, pointing out that a big surge in nonperforming assets later this year could depress Southeast's profitability even further. "The [capital] gap is minimal right now, but you still have another half of the year to go," she said.

Southeast has been without a president since John Porta resigned on March 30, shortly before the company reported a $56.8 million first-quarter loss following an examination of its real estate loans by the Comptroller's office. The new president, Mr. Ebert, has a reputation among analysts as a "nose-to-the-grindstone, tough personality," as one put it.

Observers are intrigued by Mr. Ebert's investment banking experience, since they view Southeast as a prime acquisition candidate. □

CREDIT UNIONS

Regulator Urges the Industry To Keep Own House in Order

By ELLEN MEMMELAAR

Roger Jepsen, chairman of the National Credit Union Administration, challenged credit union executives at an industry conference last week to manage risks lest they be subject to new regulations.

* In the text of a speech to the National Association of Federal Credit Unions, Mr. Jepsen pointed to three areas of concern: construction lending, certain mortgage derivative products, and the corporate credit union structure.

Mr. Jepsen said regulation was possible in those areas if credit unions do not take precautions and regulate themselves, said Susan Nelowet, executive assistant to the chairman.

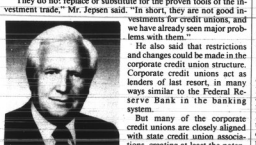
"Although deregulation has been around for a while, we remain in a time of transition," Mr. Jepsen said at the opening of the association's 23d annual conference in Nashville.

Troubleshooting Termed Crucial

"We must continue to develop and maintain expertise in spotting trouble before it grows," he said. "We must remain adept at guiding credit unions around pitfalls."

The NCUA is "taking a serious look" at prohibiting certain types of investments, including derivative or "strip" investments, such as interest-only and principal-only mortgage securities, he said.

"They do not replace or substitute for the proven tools of the investment trade," Mr. Jepsen said. "In short, they are not good investments for credit unions, and we have already seen major problems with them."



"We remain in a time of transition."

Roger Jepsen
National Credit Union Administration

He also said that restrictions and changes could be made in the corporate credit union structure. Corporate credit unions act as lenders of last resort, in many ways similar to the Federal Reserve Bank in the banking system.

But many of the corporate credit unions are closely aligned with state credit union associations, creating at least the potential for conflicts of interest. In California, the president of the state's credit union league, Christopher Stewart, was recently removed as president of the Western Corporate Federal Credit Union. The action effectively separates the league from the corporate credit union.

Corporate credit unions "remain a potential trouble spot for credit unions, politically as much as financially," said Mr. Jepsen. "We also recognize the problems inherent in the system and will do everything we can to stay on top of them."

The close relationship between the thrift industry and its former regulator, the Federal Home Loan Bank Board, has been criticized as contributing to the S&L crisis. The Bank Board ran the Federal Home Loan Bank System, which provided funds to thrifts.

Need for Outsiders Cited

The Credit Union National Association has a big role in the corporate credit union structure, said Mark Clark, public affairs counsel for Callahan & Associates, a Washington-based consulting firm. The trade association is especially key, he said, in the governance of the U.S. Central Corporate Credit Union, which is the top corporate credit union.

"No one says that they shouldn't, but more outsiders should be involved in the direction of it," Mr. Clark said.

"We certainly agree with Jepsen's statement that the corporate system is in good shape [financially]," said Jerry Karbon, a spokesman for the CUNA, which is based in Madison, Wis. But corporate credit unions could be troublesome politically, he said.

Some Real Estate Lending Causes Concern

The other area of concern that Mr. Jepsen described was speculative construction lending.

"The risk inherent in such lending is too great to be ignored," he said. "A few credit unions could cause a great deal of damage to the entire credit union movement."

Residential mortgage lending continues to be no problem, Mr. Jepsen said.

Jepsen Defends Tough Regulatory Stance

In other remarks, Mr. Jepsen defended the NCUA against accusations that it has been too tough a regulator. Comments about strict regulation are a sign that "you've noticed something is different now," he said.

"We're really not in the business of regulating as much as we're in the business of supervising," he said. "Call it aggressive supervision if you like, but it's the price exacted by deregulation." □

Debit Cards Seen in New Light

Bank of Hawaii Treating Them More Like Checks

By YVETTE D. KANTROW

NEW YORK – Bank of Hawaii has faith in its customers.

Many institutions across the country are aggressively pushing debit cards, allowing customers to use their automated teller machine cards to pay for goods and services. But most of these banks allow only their most creditworthy clients to carry the "plastic checks."

'Satisfactory' Is Good Enough

Bank of Hawaii is taking a more liberal approach. Anyone with a Bank of Hawaii checking account in "satisfactory" order is considered qualified to carry its debit card, according to Peter Drewliner, vice president of electronic financial services.

"If we feel confident giving you a check, we feel confident giving you a card," Mr. Drewliner said. "We wanted to look at this product in a different way."

The Honolulu-based bank recently got in touch with 70,000 consumers, or half its checking account customers, to offer them Access cards, which are part of the Visa Debit program.

The strategy is considerably different than that of other institutions enrolled in MasterDebit and Visa Debit – the country's two major debit card programs. Because the systems are off-line, there is a delay in the movement of funds from consumer to retailer when a purchase is made, meaning sufficient funds may not be available to cover the debit.

First National Bank of Chicago, Fleet National Bank, and National Bank of Detroit are among the big banks that issue debit cards only to their most creditworthy customers.

Program Called a 'Stretch'

"It took some stretching for us to do this," Mr. Drewliner said of Bank of Hawaii's program. "It's an attempt to look at a product the way customers do."

According to Mr. Drewliner, market research helped Bank of Hawaii realize that most consumers truly consider debit

Customers want to use the cards to pay for items they usually buy with cash and checks.

cards to be plastic checks. Customers want to use the cards to pay for items they usually buy with cash and checks.

Consumers do not not see debit cards as credit vehicles that allow them to delay payments, Mr. Drewliner said. Most customers said they would not use debit cards in place of credit cards.

These findings made it easier for Bank of Hawaii to ease the credit requirements associated with debit cards. While many institutions rely on their credit card departments to determine who should receive debit cards, Bank of Hawaii moved that function into the retail deposit department.

"We didn't feel comfortable taking a credit approach," Mr. Drewliner said.

Both MasterDebit and Visa Debit are becoming increasingly popular among the nation's banks. By putting their logos on bank ATM cards, MasterCard International and Visa International are essentially creating international "accepted" debit cards.

Financial institutions in the United States have issued nearly 200 million ATM cards to their customers – about equal to the number of domestic MasterCard and Visa credit cards. The potential market for debit cards is usually considered smaller because it is not known how many ATM cardholders are creditworthy enough to carry them. But if more institutions followed Bank of Hawaii's approach, the market would be vast.

Bank of Hawaii has been aligned with Visa Debit since the mid-1970s. But it only recently began to market the service aggressively.

The bank is offering the card free for the first 12 months. After that, it will charge a $12 annual fee.

"In the Seventies, this was a product before its time," Mr. Drewliner said. "But the latest research showed this is a product customers wanted." □

American Express Unit Posts Second Quarter Gain

NEW YORK – Citing growth in its charge card and travelers check businesses, American Express Travel Related Services Co. said earnings rose 16% in the second quarter.

The unit of American Express Co. posted net income of $249 million, up from $214 million in the year-earlier period.

Worldwide charge volume hit $28 billion during the quarter, up 11% from a year earlier. The number of American Express green, gold, and Optima cards outstanding worldwide grew 7.8% to 36 million. The numbers rose 7% in the United States and 10% abroad.

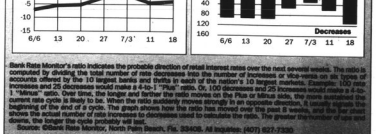
The company said 3.1 million service establishments now accept American Express cards, 14% more than a year earlier.

Sales of travelers check, including those issued by joint venture companies in Britain and France, totaled $6.6 billion in the quarter. The value of travelers checks outstanding averaged $4.4 billion, 4.6% more than a year earlier.

Despite the gains by the travel unit, American Express reported flat earnings for the quarter, largely because of declines by Shearson Lehman Hutton. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index — **Latest rate trend: Momentum downward**



Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more imminent the current rate cycle is likely to be. When the ratio succeeds moves strongly in an opposite direction, it usually signals the beginning or the end of a cycle. The graph shows how the ratio has moved over the past 8 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of rate changes, the longer the cycle probably will last.
Source: Bauer Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

Flat Earnings Reported by Bankers Trust for 2d Quarter

Continued from page 2

bers are still holding up better than most. The standout characteristics would include the performance of their global trading and risk management business."

After spurring the company to a $198 million profit in the first quarter, its second-best period ever, earnings from trading bonds, swaps, and currencies fell by $29 million in the April-June sale $243 million, 25% higher than in the year-earlier period. Foreign-exchange profits, however, fell 66% from the 1989 quarter.

Corporate finance fees strengthened slightly to $80 million, up 10% from the first quarter, but down 16% from the second quarter of 1989. Trust and custodian fees rose 13% from the previous year's $96 million to $108 million.

Interest Revenue Down

Balancing the good news was a decline in net interest revenue – primarily because of lower interest payments from Brazil, Argentina, and other Third World nations – and a rise in noninterest expenses.

The expenses jumped 11% from the year-earlier quarter to $492 million, reflecting a 7% increase in salaries and bonuses to compensate for the healthy trading results. Bankers Trust also took an $8 million charge in the quarter for a restructuring of its corporate finance department, which involved 75 layoffs and projected annual savings of more than $10 million.

Bankers Trust now has a reserve of about $1.9 billion, covering about 72% of its total refinancing-country loans.

The company continued reducing its exposure to Third World debt, charging off $129 million of loans and selling or swapping $347 million of the debt for $137 million.

Bankers Trust now has a reserve of about $1.9 billion, covering about 72% of its total refinancing-country loans. It also reallocated $100 million from its Third World reserve to cover its troubled credits in other areas of the bank.

Bankers Trust charged off $28 million of loans in the first quarter, including $15 million to highly leveraged borrowers. Some analysts had expected larger chargeoffs to reflect regulatory examinations of the leveraged credits during the quarter.

On the other hand, the bank put $101 million of loans secured by real estate on a cash basis, a number that does not include its unsecured loans to developer Donald Trump. Bankers Trust, like most other large Trump lenders, is believed to have put its more than $100 million of Trump loans on a nonperforming basis.

Cash-Basis Loans Rise

The bank added $179 million of cash-basis loans during the quarter, bringing its total of such loans to $772 million exclusive of Third World debt. Loans to highly-leveraged borrowers make up $221 million of the total, followed by $219 million of secured real estate loans.

Bankers Trust said it considers 2.4% of all its nonrefinancing country loans to be covered by its reserves. □

Losses at Meritor And Crossland For 2d Quarter

Continued from page 2

Baltimore. He said the loss exceeded his expectation, partially because of an increase in nonperforming real estate loans and participations in highly leveraged transactions.

Meritor's net loss for the first six months of 1990 was $166 million, or $4.73 a share. The loss for all of 1989 was $9 million, or 26 cents.

Quarterly Results 'O.K.'

On an operating basis, Mr. Powell said, the quarterly results were "O.K." The company reported net interest income of $22.4 million for the quarter, off from $45.1 million in the comparable period a year earlier.

Crossland recorded net interest income of $35.4 million before loan-loss provisions; the figure was $61.5 million in the second quarter of 1989. The decline is attributable to Crossland's effort to boost capital ration by shrinking and to the increase in delinquent loans, the company said.

Takeover Rumor Rejected

Senior vice president Peter J. Cunningham, a spokesman for Crossland, dismissed as "misleading" a published report that analysts believe Crossland is headed for federal takeover.

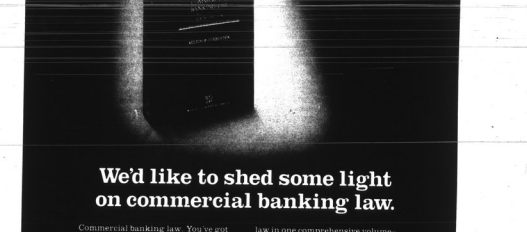
He said the thrift, which with $14.1 billion of assets was the 13th largest in the nation at year-end 1989, intends to meet its regulatory capital requirements by converting $363 million of preferred stock to common stock.

Capital Rule Cited

New capital requirements do not allow banks and thrifts to count preferred stock toward regulatory capital.

This year, Crossland terminated a plan to sell a controlling interest to Coast-to-Coast Financial Corp., Chicago, for $150 million.

In afternoon trading Monday, Meritor's stock price was unchanged at $2.125 per share. Crossland, at $1.125, was off 12.5 cents. □



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Commercial **REAL ESTATE**

A weekly feature

AMERICAN BANKER
Tuesday, July 24, 1990

Banks Looking to Swap Junk Bonds for Issuers' Properties

By ANDREW REINBACH

A new financial restructuring technique has caught the eye of some banks looking to capitalize on the financial weaknesses of high-yield bond issuers: swapping distressed high-yield bonds for some of the issuer's real estate.

J.P. Morgan & Co. expects to act as an intermediary in these new deals. NCNB Corp. is also looking at the market as a possible new business, although any decision is at least a year away.

The swap allows companies to reduce their interest costs by taking advantage of the difference between the book and market values of their real estate. That assumes companies can absorb the tax consequences of any capital gains.

Similar to Debt-for-Equity

These transactions are a natural outgrowth of the leveraged 1980s, say bankers, who compare the idea to the debt-for-equity swaps that arose from the business of lending to lesser-developed countries. As cash flow slows and debt burdens become onerous, companies are looking for a way out.

Since many of the issuers of junk debt own significant property portfolios, it makes financial sense to look at those holdings as a way to pay down their debt without selling off cash-generating assets such as operating companies.

The potential market for these deals is quite large. The size of the junk bond market is about $210 billion.

Bank Role Is Built In

Banks will be involved in these transactions, even if they choose not to use an advisor. This is because, in the actual swap, the debt issuer must surrender unencumbered title to the debt holder. As a result, these transactions will create substantial mortgage activity, including mortgage satisfactions and new mortgages, as debt is transferred from the affected properties.

Whether it is mortgage origination or an advisory role, some banks have looked at the idea and liked the opportunities.

"There is client interest in these deals, and we have looked at and are considering doing such transactions," said Paul Finn, a J.P. Morgan vice president in the real estate department. "They make sense, and real estate lends itself to it."

No Working Group

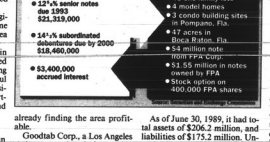
Mr. Finn said that Morgan has no organized working group targeted to this area. Instead, he said, his 35-person group is essentially looking for a target of opportunity by bringing the idea up with clients.

"I don't think that from our perspective we would need to set up a special group," he said. "We know there are people who are interested, and would welcome an offer. So we continue to probe."

When a transaction is conducted, said Mr. Finn, J.P. Morgan would probably use at least two of its units: Morgan Guaranty Trust Co. for the real estate side of the deal, and J.P. Morgan Securities Inc. for the bond side. He suggested that most banks capable of handling these deals would do the same.

Fees would be typical for real estate transactions, said Mr. Finn. "Size would be a determining factor, but if you wanted to choose a number, 100 basis points would not be inappropriate," he said.

While Morgan is looking to get its feet wet, other firms are already finding the area profitable.



Goodtab Is Active

To date, about $250 million in the face value of high-yield debt has been swapped, with another $250 million under negotiation, according to data provided by Goodtab. All of these transactions have been negotiated by Robert N. Goodman, principal of Goodtab. Among the debtor firms involved have been Lin Colinas Corp., U.S. Home Corp., Horn & Hardart Co., and FPA Corp.

FPA Corp., a homebuilder based in Huntington Valley, Pa., owned substantial assets that were either undeveloped or under development, and had a high amount of debt on its balance sheet.

As of June 30, 1989, it had total assets of $206.2 million, and liabilities of $175.2 million. Unsold units and land held for development or sale totaled $151.8 million, while debt of all sorts, including mortgages as well as junk, totaled $149.6 million. Much of the land and property was on otherwise developed projects – country clubs and resorts.

"We had a big problem, and good assets that were unproductive in our hands," said Benjamin D. Goldman, FPA's executive vice president. "We didn't have the capital to develop them the way we'd have liked, nor did we have the capital to hold onto them."

Shareholder Interested

But FPA did have a 22.5% shareholder that also held $43.18 million in face value in two classes of high-yield debt and accrued interest – First Executive Life Insurance Co., based in Los Angeles. So in November 1989, FPA asked First Executive if it was interested in swapping some real estate for some debt.

Next came six months of tough, head-banging negotiations.

"The negotiations with First Executive were a very difficult and interesting transaction," said Mr. Goldman.

Eventually, FPA gave First Executive assets it valued at about $50 million, and took a pretax loss of $10.7 million.

Package Assembled

First Executive managed in this way to get clear of what it considered a bad situation, according to Fred Carr, First Executive's chairman. "Our concerns were obviously the long-term viability of the company, and we wanted to be able to liquidate before the year 2000. This way, we thought it would allow us to be out of the bonds earlier," he said, adding that First Executive intended to develop the properties and sell them off within the next ten years.

Mr. Carr said he expected to do more of these deals, on a case-by-case basis.

Morgan has yet to complete a swap, according to Mr. Finn. And Ralph Caresio, corporate executive vice president of NCNB, said his bank was looking at this type deal along with others to build its fee-related real estate activities.

But it does not expect to decide on whether to enter the area for at least a year, because it is still digesting the effects of NCNB's takeover of First Republic Bancorp in Texas last year. "Where we are in 1990, we shouldn't be really innovative," he said.

But while Morgan is hoping to act as an intermediary in such deals, and NCNB is mulling it over, not all bankers see much in the idea.

"I can see a lot of this being done, but I can't see Wells doing it," said Fredrick W. Petri, executive vice president of Wells Fargo Bank, San Francisco. □

DEALMAKERS

Regulatory Caution Seen Paralyzing the Resolution Trust's Activities

By ANDREW REINBACH

Patrick Oxford, a lawyer who specializes in dealing with the Resolution Trust Corp., is worried.

"The S&L crisis is feeding on itself," he said. "The regulators are being very conservative in evaluating real estate portfolios, so there's almost no financing available for real estate."

Described as Troubleshooter

"Most of the real estate deals that are being done today are for RTC assets," he said. "And if there is no financing for RTC assets, you're reducing the size of the market for RTC assets, which drives down prices for them, which causes regulators to be more cautious."

Mr. Oxford, a partner in the Houston-based law firm of Bracewell and Patterson, knows firsthand the problems with the bureaucracy; he makes his living as a troubleshooter for clients trying to do business with the RTC. And Mr. Oxford says that people at the RTC are almost paralyzed by political considerations.

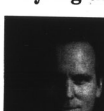
Sees a Bureaucratic Tangle

"The magnitude of the problem and fear of retributive hindsight is clearly making them very cautious, and that caution is costing taxpayers a lot of money," he said.

As an example of the contortions some institutions have gone through in dealing with this cautious environment, Mr. Oxford cited his recent creation of a new company to help a client acquire assets from the RTC. The client was a thrift that had been created through a supervisory merger and was being audited by Congress.

This thrift couldn't acquire assets from the RTC until it successfully completed the audit, so Mr. Oxford created a "little sister" institution, managed by personnel from the "big sister."

Once that audit was over, the plan was to merge the little sister with her older sibling. Mr. Oxford made sure that, from a legal point of view, the two institutions were totally separate, so that the little sister had government approval to acquire assets in the expectation of the ultimate merger.



Patrick Oxford
Bracewell and Patterson

Letting the Buyer Choose

The only way out of the spiral, said Mr. Oxford, is to allow the RTC to finance its own deals with some sort of equity "kicker" that will give the government participation in any profits made by bidders, and to allow bidders to choose which properties they want to buy – the opposite of announced RTC policy.

"Buyers should be able to cherry-pick their deals," he said. "They know who they plan to sell to when they bid, so the government has to let them do their deals, so that the RTC deals can be done in the first place. I just don't think that making buyers bid on bulk packages will work."

Mr. Oxford said these packages suffer from the same flaw as the package deals of whole thrifts made by M. Danny Wall when he was chairman of the Federal Home Loan Bank Board.

Criticism of the RTC

Bulk sales, he said, are bureaucratically attractive to the government but have plenty of political downside. "FSLIC put together packages of thrifts in 1988 that were difficult for investors to see as attractive, so FSLIC put in incentives that are exactly what are being complained about today."

Mr. Oxford also criticized the RTC's reliance on appraisals to set property prices. "If the government doesn't have a clear idea of the value of what they own by now, they never will." □

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The following is a selective index, arranged by subject, of the top stories in *American Banker* last week. The date of appearance precedes each item. This column was compiled by Matt Barthel.

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7/17 Lacking a full understanding of both direct and indirect costs, banks often misprice their products, says Sanford Rose. *Page 4*

7/18 Hazardous waste poses a threat not only to the environment but also to banks, which could be held liable for cleaning up messes they didn't create, warns Brian W. Smith. *Page 4*

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7/20 Regulators have mandated higher capital levels but are not easing the way for banks to meet them, writes Donald S. Rice. *Page 4*

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7/17 Bankers and real estate appraisers are nearing a showdown over rules established by the Federal Reserve Board to govern the use of certified appraisers in mortgage transactions. *Page 1*

7/17 While most banks are regretting the big plunge into commercial real estate lending in the late 1980s, insurance companies are beginning to stick a toe back in the water. *Page 16*

7/18 Citicorp reported that its second quarter profits fell 38% to $248 million, reflecting a continuing strain from badly performing real estate loans and weak deal activity. *Page 1*

7/20 HomeFed Corp.'s stock plunged 25% after the San Diego thrift company announced an unexpectedly large increase in bad real estate loans. The fallout spread to other California banks with real estate exposure. *Page 1*

7/20 Washington Bancorp.'s ability to continue operating is "in doubt" because of mounting losses from bad real estate loans, said John J. Mason, the recently appointed chairman. *Page 1*

COMMUNITY RELATIONS

7/16 Regulators have surprised some foreign-owned banks by cracking down on Community Reinvestment Act compliance. *Page 6*

CONSUMER SERVICES

7/16 Economists expect consumers to be cautious borrowers in the months ahead, despite an unanticipated increase in consumer credit. *Page 6*

7/17 MasterCard says it faces fierce fights against fraud, especially in the Far East, despite last year's decrease in fraud as a portion of transaction volume. *Page 14*

7/17 Closings of military bases and cuts in defense spending could put the squeeze on credit unions associated with the armed services. *Page 14*

7/18 Visa International said first quarter sales of its travelers checks were well ahead of projections, which had been termed optimistic by many in the industry. *Page 6*

7/19 Coverdell & Co., Atlanta, has developed a program that will allow Delaware banks to market their own insurance products without heavy back-office investment. *Page 6*

7/20 Comfed Bancorp, a troubled New England housing lender, is offering a government-insured mortgage with a low down payment. The Low Down is aimed at first-time homebuyers who feel locked out of the market. *Page 6*

7/20 Richard C. Breeden, chairman of the Securities and Exchange Commission, told Congress that the government should consider selling deposit insurance to consumers at a market rate. *Page 1*

EARNINGS

7/17 Chase Manhattan Corp. reported that its second quarter profits plummeted 62%, to $52 million, because of problem real estate loans. The numbers intensified speculation that the banking company will be forced to cut or eliminate its quarterly dividend. *Page 1*

7/18 Faster economic growth and slower growth in problem assets helped superregional bank companies outshine their money-center counterparts in the second quarter. *Page 1*

7/18 Citicorp reported that its second quarter profits fell 38%, to $248 million, reflecting a continuing strain from badly performing real estate loans and weak deal activity. *Page 1*

7/19 A spate of disappointing figures on second quarter earnings sent the yields on bank debt rising, continuing their upward trend of the preceding two weeks. *Page 1*

7/19 First Interstate Bancorp profits fell 8% in the second quarter. PNC Financial's fell 13%. Fleet/Norstar's 33%. Continental Bank Corp. lost $57 million. *Page 2*

7/20 Washington Bancorp.'s ability to continue operating is "in doubt" because of mounting losses from bad real estate loans, said the company's recently appointed chairman. *Page 1*

DEPOSIT INSURANCE

7/17 L. William Seidman said the Bank Insurance Fund could face more losses next year if the nation is thrown into a long and one of their strongest days in months as news of credit easing by the Federal Reserve Bank overshadowed its statements about the prospects for increased capital ratios. *Page 20*

7/16 Barely two weeks after announcing a $50 million restructuring chargeoff for the second quarter, Continental Bank Corp. said it would nearly double its domestic nonperforming loans, to $455 million. *Page 1*

7/17 Chase Manhattan Corp. reported that its second quarter profits plummeted 62%, to $52 million, because of problem real estate loans, intensifying speculation the banking company will be forced to cut or eliminate its quarterly dividend. *Page 1*

7/17 Highly leveraged lending is back. While the spigot is not wide open, a trickle of deals

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FINANCE

7/16 Bank stocks turned in

Interesting things happens when people link someone else might pick up the tab.

Account Number: 4000-1234-5678-9010
Name: CHRIS HARMER
Billing Period: AUG-SEPT
Payment Due Date: 10-15-90

Sale Date	Description	Charges	Credits
09/04	PAYMENT-THANK YOU		18.75
09/12	AL'S ALL-U-CAN-EAT	14.75	
09/12	MAIN STREET GAS 'N GO	10.00	
		24.75	

Account Number: 4000-1234-5678-9010
Name: CHRIS HARMER
Billing Period: SEPT-OCT
Payment Due Date: 11-15-90

10/09	PAYMENT-THANK YOU	103.00	24.75
10/09	CHEZ FANTASTIQUE	115.00	
10/09	AIR CHARTERS	176.00	
10/09	THE BARGAIN FARM	48.97	
10/09	AKBAR'S HOME STORE	96.76	
10/09	AKBAR'S HOME STORE	164.00	
10/09	MAIN STREET GAS 'N GO	14.75	6.36
10/09	THE BARGAIN FARM	48.97	
10/09	THE BARGAIN FARM	48.97	
10/09	AUTHENTIC BELLE	32.00	
10/09	THE BARGAIN FARM	48.97	
10/15	MAIN STREET GAS 'N GO	14.75	
10/16	AKBAR'S HOME STORE	164.00	
10/17	AL'S ALL-U-CAN-EAT	14.75	
10/17	AUTO EDDIE'S EMPORIUM	164.00	
10/20	THE BARGAIN FARM	48.97	
10/20	CHEZ FANTASTIQUE	115.00	
10/20	MAIN STREET GAS 'N GO	12.00	
10/22	THE BARGAIN FARM	48.97	
10/23	AUTHENTIC BELLE	32.00	
10/24	THE BARGAIN FARM	48.97	
10/25	AKBAR'S HOME STORE	96.76	
10/25	CAGNA ESTORE	48.97	
10/25	THE BARGAIN FARM	48.97	
10/25	FASHIONS BY MAIL	32.00	
10/25	MAIN STREET GAS 'N GO	14.75	
10/25	TV & STEREO & STUFF	349.00	
10/25	AKBAR'S HOME STORE	164.00	
10/25	AUTO EDDIE'S EMPORIUM	47.75	
10/25	CHEZ FANTASTIQUE	115.00	
10/25	AIR CHARTERS	176.00	
10/25	THE BARGAIN FARM	115.00	
10/25	TV & STEREO & STUFF	48.97	
10/25	FASHIONS BY MAIL	32.00	

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seen six months ago has recently turned into a more steady flow. *Page 1*

7/17 As funding costs drop with the Fed's recent move to lower short-term interest rates, bank debt issuance could pick up in the second half of the year. *Page 24*

7/18 Chase Manhattan stock was traded heavily by investors concerned about the safety of the dividend and long-term profitability. *Page 24*

7/19 Lead banks on a $1.75 billion loan for Lin Broadcasting's cellular phone operations syndicated almost all the credit ahead of deadline by offering rich up-front fees. *Page 30*

7/20 Citicorp appeared to swallow some humble pie when it acknowledged the need to reorganize its corporate finance businesses in Japan, Europe, and the United States. *Page 1*

7/20 HomeFed Corp.'s stock plunged 25% after the San Diego thrift company announced an unexpectedly large increase in bad real estate loans. The fallout spread to other California banks with real estate exposure. *Page 1*

7/20 Lancer Industries refinanced with a combination of new bank credits and subordinated debt a $130 million bridge loan that matures next month. *Page 18*

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7/20 Comfed Bancorp, a troubled New England housing lender, is offering a government-insured mortgage with a low down payment. The Low Down is aimed at first-time homebuyers who feel locked out of the market. *Page 6*

7/20 Felix M. Beck, chief executive of Margaretten & Co., says the mortgage company is expanding its wholesale business in an effort to increase the size and geographic diversity of its servicing portfolio. *Page 8*

INSURANCE

7/17 Taking aim at a Delaware law that allows banks to underwrite and sell insurance, the Senate Banking Committee's chairman, Donald W. Riegle, D-Mich., has urged federal bank regulators to study whether restrictions should be placed on those activities. *Page 1*

7/19 Coverdell & Co., Atlanta, has developed a program that will allow Delaware banks to market their own insurance products without heavy back-office investment. *Page 6*

INTERNATIONAL

7/16 Brazil will take a tough stand in upcoming debt negotiations, according to Economy Minister Zelia Cardoso de Mello. *Page 12*

7/17 The Fed proposed to raise the limits on U.S. banks' underwriting of securities overseas but impose new restraints on portfolio investments. *Page 2*

7/17 Rumored proposals by the Bank for International Settlements to further tighten capital standards have caused consternation in Japan. *Page 8*

7/18 Midland Bank closed its Midland Montagu Securities unit in New York, becoming the third big British bank to pull out of the U.S. Treasury bond market. *Page 14*

7/19 Citicorp, Creditanstalt Bankverein of Austria, and Barclays Bank and Midland Bank of Britain won initial approval for full-fledged banking operations in Poland. *Page 20*

7/20 Yuko Kuna, senior managing director for international planning at Dai-Ichi Kangyo in Japan, will return to the United States to head the CIT Group and the company's California unit. *Page 10*

INTERSTATE BANKING

7/19 Illinois will open its doors to full interstate banking Dec. 1, but so far no acquirers are waiting in line. *Page 1*

LEGAL CRIME

7/19 The House Democratic leadership rallied behind legislation that would stiffen penalties for bank-related crimes and establish a national commission to investigate what caused the savings and loan crisis. *Page 1*

LEGISLATION REGULATION

7/16 T. Timothy Ryan and the Office of Thrift Supervision are coming under fire for not providing timely data on the status of the nation's S&Ls. *Page 8*

7/16 For the first time in seven months, the Fed moved to reduce interest rates, pushing the federal funds rate down a quarter point, to 8%. *Page 1*

7/16 The Office of Thrift Supervision has backed down from a policy requiring significantly higher capital at thrifts that service pools of mortgages guaranteed by the Department of Veterans Affairs. *Page 1*

7/16 After two years the Federal Reserve Board, John P. LaWare is emerging as the central bank's key player in bank regulatory issues. *Page 1*

7/17 Bankers and real estate appraisers are nearing a showdown over rules established by the Fed to govern the use of certified appraisers in mortgage transactions. *Page 1*

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7/17 L. William Seidman said the Bank Insurance Fund could face more losses next year if the nation is thrown into a long and deep recession. *Page 20*

7/18 The Senate Banking Committee narrowly rejected a proposal to give banks and thrifts a partial reprieve from tighter check-clearing schedules that take effect Sept. 1. *Page 1*

7/18 Housing Secretary Jack Kemp announced the first $47.5 million in grants to an affordable housing program mandated by the S&L bailout law. *Page 2*

7/19 The House Democratic leadership rallied behind legislation that would stiffen penalties for bank-related crimes and establish a national commission to investigate what caused the savings and loan crisis. *Page 1*

7/19 The tightening of bank credit that prompted the Fed to reduce short-term interest rates is likely to continue and may lead to further easing by the central bank, Chairman Alan Greenspan said. *Page 1*

7/20 Richard C. Breeden,

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INTERNATIONAL NEWS

LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Merrill Lynch Capital Markets

	7/18 Bid	7/18 Offer	7/11 Bid	7/11 Offer
Algeria	80.00	82.00	80.00	82.00
Argentina	13.75	14.25	13.63	14.25
Bolivia	11.00	12.00	11.00	12.00
Brazil	21.75	22.25	23.88	24.50
Chile	67.00	67.50	66.75	67.25
Colombia	63.25	66.00	63.25	66.00
Costa Rica series A	37.00	39.00	37.00	39.00
Costa Rica series B	30.00	32.00	31.50	32.00
Dominican Republic	17.00	18.00	17.00	18.00
Ecuador	16.50	17.00	16.50	17.00
Honduras	18.00	20.00	18.00	20.00
Ivory Coast	6.00	8.00	6.00	8.00
Jamaica	40.00	42.00	40.00	42.00
Mexico (Par)	43.50	44.00	44.00	44.63
Mexico (Discount)	66.50	67.00	67.00	67.50
Morocco	43.00	44.00	43.00	44.00
Nicaragua	4.00	6.00	4.00	6.00
Nigeria	28.25	28.75	28.25	28.75
Panama	12.00	13.00	12.00	13.00
Peru	4.75	6.00	4.75	6.00
Philippines	52.75	53.25	52.88	53.25
Poland	15.38	16.00	14.25	15.25
Senegal	36.00	38.00	36.00	38.00
South Africa	69.00	71.00	69.00	71.00
Sudan	4.00	6.00	4.00	6.00
Uruguay	49.13	50.00	49.50	50.25
Venezuela	47.00	47.38	46.25	46.75
Yugoslavia	63.25	63.75	63.25	63.63
Zaire	19.00	21.00	19.00	21.00

Source: *LDC Debt Report*

Philippines Planning Debt Swap

MANILA – The Philippines hopes to resume its debt-to-equity conversion program by September under revised rules, Central Bank Governor Jose Cuisia said.

Cuisia told reporters that the Monetary Board, the Bank's policy-making body, has approved using auctions and has let a ceiling of $300 million of debt purchased in a year.

Cuisia declined to give details, saying the changes were approved only in principle and will be presented next week to the Joint Executive-Legislative Foreign Debt Council for review and approval.

A debt-to-equity swap is one of the measures used by the government to help reduce its external debt while luring foreign investors into the country.

Debt conversion was introduced in 1986 but suspended in 1988 after it was blamed for fueling inflation.

Meanwhile, Speaker of the Congress Ramon Mitra said the destruction caused by last week's earthquake could strengthen the government's hand in negotiations with foreign creditors.

He said the earthquake, in which around 1,000 people died, was a tragedy for the country but could help by creating a sense of crisis in which political factionalism was forgotten.

In a speech prepared for delivery at the opening of the new session of Congress on Monday afternoon and released in advance, Mitra said the Philippines must prove "to a poor and impatient people" that democracy can work.

Mitra said the disaster could help the heavily indebted Philippines with its foreign and domestic creditors.

"Last week's tragedy should also strengthen the case we've been trying to make for a little more sympathy and understanding from our creditor banks, whose debt papers we've religiously met up to this moment," he said.

Mitra did not endorse moves in Congress either to impose a two-year moratorium on repayments of the country's $26.6 billion foreign debt, or to put a ceiling on debt servicing of 15% of the previous year's merchandise exports. — **Reuters**

U.S. Bankers Cool to Mexico's Plan

Restrictions on Privatization Called Too Limiting

By JAMES R. KRAUS

NEW YORK — U.S. bankers are giving thumbs down to Mexico's program to privatize state-owned banks.

Bankers cited as reasons for their lack of interest the Mexican government's restriction on foreign ownership of the banks to 30%; Mexico's unwillingness to allow banks to swap its debt for equity in the banks; and the uncertain financial condition of major Mexican banks.

"Response has been underwhelming. We're certainly not jumping all over the place to bid on one of those banks," said one senior banker in New York.

The Mexican government announced last week that it would begin to sell state-owned banks as soon as Mexico's Chamber of Deputies approved a bill allowing the privatization.

The privatization will start with four small banks in about a month, Minister of Finance Pedro Aspe said last week.

Congressional debate on a bill to privatize the banks began two weeks ago.

The bill would reprivatize most of the nation's 18 banks nationalized in 1982 amid a foreign debt crisis and a plunge in oil prices.

However, a Chamber of Deputies committee gave foreign investors a setback by adding tighter curbs on foreign investment to a presidential bill that would privatize the banks.

Other Restrictions

According to a Reuter report, the amendment by the Chamber of Deputies' Treasury and Public Credit Commission would bar foreigners who live in Mexico from holding voting shares, which will account for at least 51% of the stock.

Foreigners would also be excluded from being director general of any Mexican bank. The aim of that ban is "assuring plainly that the control and management of the multiple banks stay in the hands of Mexicans alone," the amendment says.

Restrictions Criticized

Foreign banks are barred under Mexican law from opening branches. Several expressed interest in the privatization program when it was announced several months ago.

But bankers and analysts have criticized terms of the privatization as too restrictive. □

NatWest Loss Soars to $106 Million; Real Estate Problems Are Blamed

By JAMES R. KRAUS

NEW YORK — Beset with problem real estate loans, National Westminster Bank's U.S. unit said it had lost $106.3 million in the second quarter, up from $24 million in the first.

The second quarter loss follows a $147.6 million provision for possible loan losses and a $30 million reserve for losses on other assets related to real estate.

In a statement, chairman and chief executive William T. Knowles said the bank considers reserves for nonperforming assets to be adequate. However, National Westminster Bancorp is continuing to monitor its loan portfolio to ensure that reserves "appropriately reflect changing market conditions," he said.

National Westminster Bancorp is the $21 billion-asset U.S. holding company for Britain's National Westminster Bank PLC and is the second-largest foreign-owned bank holding company in the United States.

The U.S. holding company's three main operating units are National Westminster Bank USA, National Westminster Bank NJ, and First National Bank of Central Jersey.

National Westminster Bank NJ, formerly First Jersey National Corp., was acquired in February 1988, and First National Bank in August 1988.

Analysts said they do not expect losses related to real estate to deter National Westminster from continuing to build a U.S. regional banking franchise.

The loss follows a $147.6 million provision for possible loan losses.

"They have a very strong parent company which is able to support them through a difficult environment and has a long-term commitment to its investment," said Gregory Root, president of Thomson Bankwatch Inc., an *American Banker* affiliate. He estimated that real estate lending accounts for 12% to 13% of National Westminster's U.S. loan portfolio. □

Bank of Tokyo Names Head of N. American Investment Banking

NEW YORK — To expand securities-related business in the United States, Bank of Tokyo has named Yoji Anzai as executive vice president in charge of investment banking at its North American headquarters.

Mr. Anzai, who will supervise the growing investment banking operations at Bank of Tokyo in New York and Union Bank in California, has also been given responsibility for operations of BOT Financial Corp., including BancNewEngland Leasing Group, acquired from Bank of New England last month for $500 million, the Japanese bank said Monday.

Bank of Tokyo ranked in mid-1989 as the largest foreign bank in the United States; assets here totaled $47.2 billion.

Japanese banking sources said Mr. Anzai, 49, has unofficially run New York operations related to investment banking for months. He was previously general manager of the financial services department in Tokyo.

In a statement Monday, Kenji Yoshizawa, the bank's resident deputy president, said Mr. Anzai will focus on expansion of fee-generating businesses.

— **James R. Kraus**

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime rate/base		
	7/19	7/20	7/23	7/19	7/20	7/23	7/19	7/20	7/23	7/19	7/20	7/23	7/19	7/20	7/23
United States	8.06	8.06	8.06	8.12	8.12	8.18	8.12	8.18	8.25	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.00	7.00	7.00	7.75	7.75	7.69	7.81	7.81	7.81	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.25	13.00	13.87	13.00	13.00	13.00	13.12	13.37	13.37	13.00	13.00	13.00	14.75	14.75	14.75
U.K.	15.00	15.00	15.00	15.00	15.00	15.00	14.87	14.93	14.87	14.31	14.31	14.50	15.00	15.00	15.00
West Germany	8.12	8.12	8.19	8.25	8.31	8.44	8.43	8.50	8.56	6.00	6.00	6.00	10.00	10.00	10.00
Switzerland	6.87	6.75	6.12	6.62	6.62	6.62	6.62	6.62	6.62	5.00	5.00	5.00	11.25	11.25	11.25
France	9.81	9.87	10.06	9.69	10.00	10.18	10.06	10.06	10.25	9.00	9.00	9.00	10.00	10.00	10.50
Italy	13.00	11.00	11.62	11.50	11.37	11.25	11.50	11.37	11.37	12.00	12.00	12.00	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollar		West German marks		Swiss francs	
	Buying	Selling	Buying	Selling	Buying	Selling
6 to 9 months	7.99	14.00	8.38	8.70	7.25	7.75
9 to 12 months	8.08	13.95	8.01	8.08	7.27	7.48
12 to 24 months	8.23	12.66	8.02	7.92	7.49	7.72

* Midday quotes in the New York market

Source: Reuters, Ashley & Pearce Inc., New York

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Tax Breaks Seen Giving NCNB an Unfair Edge in Texas

Continued from page 1

anticompetitive effects in Texas."

Questions about the propriety of NCNB's tax advantage are surfacing at a time when Congress is scrutinizing the generosity of tax subsidies doled out under the controversial Southwest plan, a series of 15 Texas thrift rescues. But the tax breaks given to NCNB were almost twice as generous.

And, in a twist previously unreported, the Federal Deposit Insurance Corp. avoided paying $634 million in taxes stemming from the First Republic rescue – effectively giving a subsidy to the banking industry and bringing the U.S. Treasury's tax shortfall to $1.6 billion.

"To the extent that tax dollars were used in this rescue, we the citizens are losers," says Paul Horvitz, a professor of banking and finance at the University of Houston.

> **"The tax breaks allow NCNB to engage in predatory pricing, and it is having anticompetitive effects in Texas."**
>
> **Chris Williston**
> *Texas Independent Bankers*

The magnitude of NCNB's windfall was highlighted just last week when the company reported that 34% of the $137.4 million it earned in the second quarter was derived from tax breaks, most of which stemmed from the First Republic transactions.

NCNB freely admits that it regularly offers the highest deposit rates of any big bank in the state. Texans have taken notice: Over the 15 months ended March 31, NCNB Texas ballooned its deposit base by 25% to $25.5 billion – a $5 billion increase.

Generous Bidder

The company offered $50 million more than its nearest rival to win the bidding for National Bancshares Corporation of Texas, San Antonio, and $60 million more than its nearest rival to win the bidding for University Savings Association, Houston.

"NCNB never should have gotten those tax breaks," says James Sexton, a consultant with Bracewell & Patterson, Austin, and a former director of bank supervision for the FDIC.

"It is inexcusable that this deal slipped through the bureaucracy." Mr. Sexton left the FDIC before the NCNB deal was negotiated.

FDIC Chairman L. William Seidman declined comment on whether the tax breaks were overly generous.

NCNB: 'No Special Advantage'

Timothy Hartman, chairman of NCNB Texas, says the tax breaks helped the company raise the $1.7 billion needed to recapitalize the First Republic banks.

> **"The perception of being able to earn a tax-free return in the future is what enabled us to sell capital and make this thing into a good deal."**
>
> **Timothy Hartman**
> *NCNB Texas*

"The perception of being able to earn a tax-free return in the future is what enabled us to sell capital and make this thing into a good deal," he says.

Mr. Hartman further argues that almost all Texas banks have tax breaks stemming from previous losses. That being the case, he says, NCNB Texas does not have any special advantage.

Less Income to Shelter

However, the big Texas banks that still have operating-loss carryforwards are the ones that did not fail and get federal rescues. These institutions – including Texas Commerce Bancshares Inc. and First Interstate Bank of Texas – are at a disadvantage because their troubled balance sheets are yielding comparatively less income that could be sheltered from taxation, critics of the NCNB deal argue.

The other big Texas banks that got rescues – including First City Bancorporation of Texas, Banc One Corp.'s Bank One Texas, and Team Bank – did not get the stockpile of tax breaks granted to NCNB.

That leaves NCNB Texas, the largest institution in the state, as the only top competitor with a clean balance sheet and substantial tax breaks.

Effect on Competitiveness

"This has had an enormous effect on NCNB's ability to compete in Texas," says James Marino, a senior vice president with the Secura Group, a Washington-based bank consulting firm.

NCNB acquired the First Republic banks in November 1988, four months after they were seized by the FDIC. Under the terms of the deal, NCNB acquired 121 branches, $20 billion of deposits and $11.5 billion of performing loans.

In exchange, the company was allowed to shield $2.8 billion in income from taxes. The breaks stemmed from operating losses and loan writedowns recorded by the First Republic banks during the 15 months before they failed.

Unexpected IRS Ruling

To the astonishment of tax lawyers, the Internal Revenue Service determined that depositors – not shareholders – would own the banks when they failed. The banks essentially would become depositor-owned mutual savings associations, the IRS decided, and therefore NCNB's acquisitions would roughly resemble stock conversions.

The ruling allowed NCNB Texas to claim tax-loss carryforwards generated by the First Republic Banks. Without the decision, the tax breaks would have gone to First Republic shareholders or have been extinguished altogether.

"The substance of the ruling was amazing," says Thomas Dwyer, a tax lawyer with Arnold & Porter, Washington. "There are a lot of tax lawyers who have no idea how the IRS arrived at that interpretation."

In a separate ruling, the IRS allowed NCNB to use the First Republic tax breaks to shield its entire seven-state operations from taxation.

A Lucrative Scenario

Barring an unforeseen downturn, NCNB will easily earn more than $2.8 billion over the next five years. At the maximum tax rate of 34%, the company can avoid paying $950 million in taxes on the profits.

During the 18 months ended June 30, the company used its First Republic subsidies to avoid $177 million of taxes.

"I can't think of a more lucrative deal that has been made in the banking industry," says Frank Anderson, a senior analyst with Stephens Inc., a brokerage in Little Rock, Ark.

A Boon to the Insurer

The IRS ruling also was a boon to the FDIC. The agency was obliged to eliminate the $1.8 billion capital deficit of the 40 failed banks when NCNB took them over. But tax laws required NCNB to treat that assistance as taxable income, meaning that NCNB owed the IRS $634 million.

The new owner could not be expected to pay that tax, since the assistance was made necessary by First Republic's losses. So the FDIC had to provide $634 million in additional assistance to make up the difference.

The FDIC was able to escape that obligation by using some of First Republic's tax-loss carryforwards, Mr. Hartman says. The banking industry was the ul-

> **"This has had an enormous effect on NCNB's ability to compete in Texas."**
>
> **James Marino**
> *The Secura Group*

timate beneficiary, since it funds the FDIC.

Benefit to Banking Industry

"Obviously, the tax rebates accrued to the benefit of the banking industry, and that's not the way the system is supposed to work," says Robert McIntyre, director of Citizens For Tax Justice, a Washington-based lobbying group.

An IRS spokesman declined to comment. However, an agency official familiar with the matter admits that the agency broke with legal precedent in granting the ruling that allowed NCNB and the FDIC to benefit from the First Republic tax breaks.

"It's not perfect analysis," the official says.

Interagency Cooperation

Speaking on condition of anonymity, the IRS official further stated that the agency had rushed its ruling – rendered only three weeks after it was requested – as a favor to the FDIC. "All of us who work for a government agency have some inclination to respond to requests that are delaying another agency's work," the official says.

A number of experts praise the IRS for expediting its work so that the FDIC could complete a major bank rescue. But in extending the favor of a rushed decision to the FDIC, experts said, the IRS created the appearance that the ruling itself was made as a favor to the FDIC.

"I would expect the IRS to look to the letter of the law and not accommodate a sister agency," says Bert Ely, the consultant in Alexandria, Va.

Mr. Seidman said the FDIC played no part in obtaining the IRS ruling.

> **Even critics of the tax breaks applaud NCNB's initiative in asking for the ruling, saying the company had every right to seek legitimate avenues to enhance its $1.7 billion investment in the First Republic banks.**

In Defense of the Deal

Mr. Hartman, the NCNB executive who negotiated the IRS ruling, insists his company obtained the tax breaks fair and square.

"This was a straightforward, real up-front transaction and there is nothing about it that is uncertain or clandestine," he says.

Even critics of the tax breaks applaud NCNB's initiative in asking for the ruling, saying the company had every right to seek legitimate avenues to enhance its $1.7 billion investment in the First Republic banks.

But critics say the arrangement, aside from the questionable substance of the ruling, may have skewed the bidding for First Republic. The three finalists were First Republic's management, NCNB, and Wells Fargo & Co. Each had differing assistance requests, and each had plans to capture varying portions of the tax breaks.

FDIC Protects Itself

In evaluating the attractiveness of each bid, the FDIC apparently considered which proposal posed the least cost to the insurance fund.

But since taxpayers were being dragged into the transaction, experts say, the FDIC at least should have evaluated the bids on the basis of their cost to the government. As it stands, no one knows whether NCNB would have won the bidding under that criterion.

"Somebody at the FDIC dropped the ball," says Mr. Marino.

Mr. Seidman declines to discuss how the First Republic bids were evaluated.

What surprises some observers is that Congress has remained relatively silent on the First Republic transaction. After all, observers argue, the defunct Federal Home Loan Bank Board was reviled for giving away $1.3 billion of tax breaks during five Texas thrift rescues made under the Southwest plan.

The five acquirers in the deals gained $1 of tax breaks for every $18 of assets gained during their December 1988 deals. By contrast, in November of the same year, NCNB got $1 of tax breaks for every $11 of assets acquired.

Washington Looks Askance

Lawmakers decried the Southwest plan deals from the moment they were enacted and eventually ordered federal audits so they could learn the true cost of the transactions.

"Whether it is a bank rescue or a thrift rescue, the American taxpayer should know what the cost is to the government, not just the insurer," says James Barth, the former chief economist with the Office of Thrift Supervision.

However, it appears the First Republic rescue will go unchallenged by lawmakers, who have been overwhelmed by the thrift crisis.

Response From Congress

"The FDIC appears to have given away the store on this deal, but we can't do a heck of a lot about it," says one aide to the House Banking Committee.

Though mute, lawmakers did send a message about the First Republic deal when they fashioned the thrift reform law last summer.

In establishing guidelines on tax treatments for failing institutions, the House Ways and Means Committee made it clear that IRS was never to repeat its ruling on First Republic.

"While no inference should be drawn as to the correctness of this ruling under prior law, the committee intends it to be clear that such a transaction would not qualify for tax-free reorganization treatment following the enactment of this bill. The committee further intends this position to be included in the regulations or other administrative guidance issued by the Treasury Department."

But closing off the spigot of tax dollars for future deals does little to correct what experts perceive as a serious competitive inequity, especially in Texas.

"There is no doubt that NCNB has a significant competitive advantage because of the tax breaks," says Mr. Anderson. ☐

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Qualified candidates must have a BA degree with 5-7 years of related experience in customer service, marketing, or finance related backgrounds within the travel and entertainment or retail industries. An MBA would be a plus.

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Auction Notices

Joel Pope auct'r Lic #794209 sells 8/08/90 9 AM at 1000 Long Island Ave Deer Park NY. '83 Jeep #1JCNJ15NXDT069438 Re: H. Tregarthen, Mfd: Hauov Trst; 10 AM at 163 West Montauk Hwy Hampton Bays NY '79 Chevy #1W27M9B448828 Re: C. Gehman, '85 Honda moy #JH2AF0603FS123547 Re: T. Dombrowski, '80 Buick #4C37AT155305 Re: T. Delaney, '83 Lincoln #1LNBP96F4D4675793 Re: Arkady Pinsoy, J. Doe; 12 PM at 1025 Old Country Road Westbury NY '78 Buick #4P37Y8H603574 Re: P. Forte, Jr.; 1 PM at 241-07 Jamaica Ave Qns NY '85 Buick #1G4CW69200H152451 Re: Juan Farm Ins., Nat'l. Westminster Bank USA; 2PM at 144-01 94th Ave Qns NY '85 Mercury #1MEBP92F8FH682046 Re: M. Rengel; 3 PM at 56-17 58th Street Qns NY '86 Subaru #JF1AX43BJGC326350 Re: L. Castro, Marine Midland Bnk NA, '84 GMC Van #2GTDG15D6E4514529 Re: S. Miller; 4 PM at 179 Bunker St Bklyn NY '79 Mack Truck #F785T21997 Re: Airfreight Transportation Corp. of NJ, Nat'l. Westminster Bank. Published 7/24 & 7/31/90.

BY VIRTUE OF A Default In A Certain Security Agreement Made By Ole Jewelry 34th St., Inc., Debtor, To Joyem Trading Corp., Secured Party. Notice Is Hereby Given That ACE AUCTIONEERS & LIQUIDATORS INC., Auctrs. As Agents, Will Sell At Public Auction On Fri., July 27, 1990 At 10 A.M. At 21 West 34th St., New York, N.Y. 8/7/J1 Ib & To Fixtures & Merchandise. Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. Auctrs. Tel: (516) 333-9758.

DEFAULT In Security Agreement Made By Julio C. Vargas to 5615 Fifth Avenue Supermarket & Fabiola Diaz & assigned to Sea Crest Trading of Connecticut, Inc. I Will Sell On 7/25/90 At 10 AM At 5615 5th Ave., Bklyn, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

DEFAULT IN A Security Agreement Made By Iris & Lidia Santos, To Manuel Then. Sale July 25, 1990 At 10:30 A.M. At 721 Burke Ave., Bronx, N.Y. 8/7/J1 In & To Chattels & Fixtures As Per Schedule Subject To Prior Liens & S/A. Secured Party Reserves The Right To Bid. LEO FRANK INC., Auctr. As Agent. DCA #464147.

M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 841437 Sell July 31, 1990 1:00 P.M. 386 Main St New Rochelle NY 1986 Jaguar 4 Dr Sdn SAJJCALP4CC432390 Re: J. Hiscock/Terra Leasing. Metropolitan Auctioneers Inc. Published July 16, 1990 & July 24, 1990.

Foundation Notice

NOTICE

The annual report of the **INNISFREE FOUNDATION** for the fiscal year ended May 31, 1990 is available at its principal office located at c/o Whitman & Ransom, John D. Gray, 200 Park Avenue, New York, NY 10166, (212) 351-3000 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Lester Collins.

NOTICE

The annual report of **THE ELENA DUKE BENEDICT FOUNDATION** for the fiscal year ended April 30, 1990 is available at its principal office located at c/o Whitman & Ransom, 200 Park Avenue, New York, NY 10166, (212) 351-3000 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Stefan Boshkov.

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FINANCE

DEALS

Westpac and First Chicago Commit $1 Billion to Utility Buyout Bid

By WILLIAM GOODWIN

Westpac Banking Corp. and First National Bank of Chicago committed $1 billion to finance Monday's unsolicited $27-a-share offer by Kansas City Power & Light Co. for Kansas Gas and Electric Co.

The unsecured credit facility comprises a $700 million acquisition bridge loan and a $300 million revolver, both maturing in three years.

In keeping with language in a number of recent bank loan agreements, the credit pact provides that the pricing of the loans will rise if the underlying transaction is determined to be highly leveraged. If the loan were to be designated an HLT, pricing would rise by 50 basis points.

The deal, however, has "none of the characteristics" of an HLT, said an official at Donaldson, Lufkin & Jenrette Securities Corp., Kansas City Power & Light's adviser on the takeover. He declined to elaborate on the company's capitalization.

Pricing 'On the Cheap Side'

The loan is priced at the prime rate for the first year, according to a tender offer document filed Monday with the Securities and Exchange Commission. Pricing rises in stages during the second and third years, topping out at prime plus 50 basis points.

"That's on the cheap side," said an official in the utility lending group of a bank not involved in the deal.

He added that Westpac has a big appetite for assets, while First Chicago has been doing a lot of deals cheaply to build its volume and relationships.

Westpac and the First Chicago Corp. unit both have previous banking relationships with Kansas City Power & Light, and no strong ties to the target.

Indeed, Westpac has not done any business with Kansas Gas and Electric, while First Chicago has had only limited dealings with the Wichita-based utility.

"I don't really consider them our bankers," said Kansas Gas and Electric treasurer, William Whitmer, referring to First Chicago. He said Citicorp and Bankers Trust New York Corp. were the company's lead banks.

Mr. Whitmer declined to comment on the unsolicited bid, or to discuss the company's possible responses or alternatives.

Westpac and First Chicago declined to comment on their policies concerning loans used to finance hostile takeovers.

"Our banking relationships with our clients are paramount, but we do judge every situation on its own merits," a Westpac spokeswoman said.

Pricing Options

Kansas City Power & Light also has the option of pricing the loans at the London interbank offered rate, or the CD rate.

In the case of the former, the loan initially would be priced at Libor plus 37.5 basis points, and then rise in stages to Libor plus 125 basis points.

Kansas City Power & Light agreed to pay a commitment fee of 15 basis points a year on the average daily unused portion of the bridge loan and revolver.

The loan agreement also provides for an arrangement fee of 5 basis points, and a syndication fee of 30 basis points.

The breakdown of each bank's commitment under the agreement was not given. Syndication of the bank loans was said to be in the early stages.

Kansas City Power & Light is offering to buy all outstanding common shares of Kansas Gas and Electric for $27 each in cash.

The bidder is also offering to buy Kansas Gas and Electric's 4.5% preferred stock at $110 a share, the 4.32% preferred at $101.64 a share, and the 4.28% preferred at $101 a share.

The common stock offer, totaling $857 million, represents a 37% premium over the market price on July 20, Kansas City Power & Light said.

The company said it had expressed interest to Kansas Gas and Electric about a possible business combination "on a number of occasions over the past two years," and would still prefer a negotiated deal.

The Missouri utility also hinted in a letter to the target company's chairman that it might be prepared to sweeten the bid, if warranted, after a review of nonpublic information. □

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GAF Refinancing Draws Strong Interest

By ANGELA WILSON
Asset Sales Report

Scores of lenders attended last week's bank meeting for a refinancing for GAF Corp.

Agents and underwriters on the $800 million refinancing are Chase Manhattan Bank, Bank of New York, Banque Paribas, and Bank of New York.

A cogent said representatives from 50 or 60 banks attended the bank meeting. They heard Samuel Heyman, GAF's chairman and chief executive, and other senior executives, present the company to the potential lenders.

GAF plans to use the debt to retire $50 million in increasingrate notes and what remains of the $885 million in bank debt used to take the company private last year. Calls to the company were not returned.

Lenders will receive a commitment fee of 75 basis points for $15 million, 100 basis points for $25 million, and 125 basis points for commitments of $30 million. The financing is an amortizing term loan with final maturity in eight years.

Although this credit is better priced than last year's bridge loan, one lender in that facility believes the new credit is clearly superior to the bridge facility.

The new credit is secured by all of GAF's operating assets.

"Sure [the bridge] is a better loan if you want a bridge with no identified source of repayment," he said, but the new credit is secured by all of GAF's operating assets.

The new facility is also more attractive, as there will be no leverage discount: GAF will get the London interbank offered rate plus 250 basis points or the prime rate plus 150 basis points, whether or not its earnings-to-interest coverage ratio increases. Often lenders reduce the interest rate if this ratio decreases.

GAF's ratio of earnings before interest and taxes to total interest expense is 1.5-to-1. Its ratio of earnings before interest and taxes to cash expenses is 1.8-to-1.

Lenders are expected to step up to participate in the financing. "It's looking good to me," said one lender who participated in the bridge facility, "and we're all hungry for assets."

Another agent banker said that *Asset Sales Report* is one of the already starting to come in, in addition to those of the underwriters." He declined, though, to specify the dollar amount or the number of lenders committed to the deal.

Commitment letters are due from banks by July 31.

—Asset Sales Report is an American Banker newsletter.

Top Court Review of Liability Sought

Fleet Hopes Justices Will Hear Superfund Dispute

By STEPHEN KLEGGE

The Supreme Court will be asked to overturn a controversial Circuit Court decision in the Fleet Factory Corp. case that vastly expanded the boundaries of lender liability for environmental damages.

But the high court is considered unlikely to consider the issue, at least for the time being.

Fleet/Norstar Financial Group, Providence, contends that a decision earlier this year by the 11th Circuit Court rendered meaningless an exemption for lenders in the "Superfund" law, which provides for cleanup of environmental contamination.

The Circuit Court last week denied a request to review a decision by two of its judges in the Fleet case.

Lender liability attorney Edward F. Mannino of Philadelphia termed the Circuit Court decision "totally out in left field" compared to the body of law on the issue.

But he said the Supreme Court is unlikely to hear the case because the justices "like to have a conflict in the circuit" and the 11th Circuit is the only one to consider the issue to date.

"I think that other courts will not follow [the precedent in] Fleet Factors," he said. "If the other courts should follow below it, the Supreme Court will reverse it – or Congress will reverse it."

The Circuit Court last week denied a request to review a decision by two of its judges in the Fleet case.

Fleet general counsel William Brower acknowledged the high court is unlikely to hear the case, given that it chooses to hear only a small percentage of cases brought to it. But he added that Fleet still has the option of a jury trial on the facts of the case in Federal District Court in Atlanta.

At stake is liability for the $375,000 cleanup of the Swainsboro Print Works plant. Fleet loaned the now-defunct company $800,000. The Circuit Court held that Fleet Factors could be held liable because it was in a position to influence the management of environmental problems by a borrower (Swainsboro Printworks Inc.), which has since gone out of business.

Focus On A Changing Industry
Home MORTGAGES
Read It Fridays in AMERICAN BANKER

BANK AND THRIFT STOCKS

Highlights for Monday, July 23

TOP 10 GAINERS ▲

Northeast Bancorp, Inc.	7.4
Bank of New England Corp.	5.6
Commonwealth Bancshares	4.8
Citizens First Bancorp, Inc.	4.3
Central Jersey Bancorp	3.9
First Interstate Bancorp	3.6
Union Bank	3.3
South Carolina National Corp.	3.0
BB&T Financial Corporation	2.8
Iowa National Bankshares Corp	2.7

TOP 10 LOSERS ▼

Riggs National Corporation	-6.9
First Security Financial Corp.	-6.8
Plaza Commerce Bancorp	-6.7
First Security Corporation	-6.7
Provident Bankshares Corp.	-6.6
Northern Bank of California	-5.9
First Security Corporation	-5.6
Bank of Louisville	-5.6
First Security Corporation	-5.1

MOST SHARES TRADED

Chase Manhattan Corporation	2125200
BankAmerica Corporation	1673500
Citicorp	1585800
Security Pacific Corporation	1135500
ConnStates Financial Corp	579000

VOLUME AS % OF AVERAGE

First Peoples Financial Corp.	1768.7
Marshall & Ilsley Corporation	794.5
Imperial Bancorp	678.8
Provident Bankshares Corp.	505.4
Banks of Iowa, Inc.	443.7

Stock Index Trends



*Weighted average of top 250 Southeast banks and thrifts

1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.91	-3.17	0.10	-1.46	-3.27	-7.23	-3.82	-9.42	-8.32

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	Pfd	Mkt to bk	Cls.	Chg.
23¾	18¾	1stSource Corp-IN		6.5	90.2	19¾	-¼
16¼	12¾	1stTennessee Natl		10.2	94.1	15¾	-¼
28⅜	20	AmSouthBancorp-AL		8.6	89.3	21⅝	-⅛
19¾	13¾	AmeribancCorp-NC		6.8	80.0	18¾	-¼
29	15⅝	AmeritrustCorp-OH		26.9	89.7	15⅝	-¼
22¾	16¾	AmericanFed Bk-SC		9.2	126.0	20	-¼
24½	18	BB&T FinCorp-NC		7.9	109.3	18¾	+¼
15¾	9¾	BancFlorida Sav-FL		6.8	61.4	11⅝	-⅛
49⅜	36½	BankFirst-WI		30.4	146.1	45	
13⅜	10	BankSouthCorp-GA		11.2	174.8	10	-⅜
26	18¼	BancPopular-PR		6.5	98.0	19½	+¼
56½	42	BancTexas Group-TX		4.6	81.3	50¾	-1
23¾	18	BancorpNew-MS		6.9	87.8	18¾	
37¾	30½	BankAmerica Corp-CA		5.4	101.8	32⅝	
24	17⅜	BankGrantCorp-NC		13.5	238.8	22	
29¾	24¼	BankNewEngland-MA		NM	43.3	29¾	+⅛
14⅜	8¾	BankSouthCorp-GA		5.8	86.4	9¾	-⅛
39¼	29	BankersFirstCorp-MD		21.0	162.5	29¾	-¼
62	48⅜	BankamericaCorp-IL		10.9	105.1	60¾	-¾
39¾	28¾	BankersTrustNY-NY		7.6	108.1	29¾	-¼
40¾	33¾	BayBanks-MA		8.7	43.6	33¾	-¼
39¾	29	BeneficialCorp-DE		8.2	94.1	30¾	-¼
26	15½	BoatmensBanc-IL		232.1	106.6	18¾	-¼
18¾	12¾	BoatmensBcshs-MO		7.1	89.3	13¾	-¼
43¾	32	CCB FinCorp-NC		8.4	112.3	32¾	-¾
22¾	17	CCNB Corp-PA		7.5	88.6	17	-¼
22⅝	18⅜	CNB BancsharesIN		10.3	124.1	21⅛	-⅜
27	20¼	CPB Inc-IL		10.3	100.0	22⅝	-¼
28	12⅞	CVB FinCorp-CA		10.2	294.3	14¾	
18⅜	12¾	CalFed Inc-CA		3.4	163.5	13	-⅛
18⅜	12¾	CentraBcshs-AL		6.9	94.0	14¾	-⅛
18⅜	12¾	CentraBcshs-NC		7.6	108.1	14¾	-⅛
27	12¾	CentralJersey-NJ		7.9	89.2	13¾	+¼
41¾	32¾	CharterOne Fin-OH		9.0	97.7	32¾	-¼
41¾	32¾	CharterOne Fin-OH		NM	69.1	33¾	-¾
24¾	20¾	CitizensFirst-MS		7.6	89.2	20¾	-¼
30¾	20¾	Citicorp-NY		NM	81.2	20¾	-¼
25¾	20¾	CitizensFirstMD-MD		7.6	89.2	20¾	-¼
15¾	10¾	CitizensHoldingME		7.3	88.5	21	-¼
15⅛	8¾	CitizensSvgs-IL		6.8	102.5	14¾	-⅛
34⅜	26¾	CityBancorp-MI		6.8	102.5	29¾	-¼
27½	17¾	CityNatCorp-CA		6.0	102.5	27¾	-¼
22⅜	12⅜	CoastFederal-FL		37.5	84.2	15	-⅛
58¾	39¾	ComericaInc-MI		9.0	102.5	39¾	-¼
58¾	39¾	ComericaInc-MI		NM	102.5	39¾	-¼
25¾	19½	CommonwealthBk-FL		7.5	89.2	19¾	-¼
15¾	12¾	CommunityBcshs-FL		7.6	144.5	13¾	-⅛
28⅛	13	CoreStates-IL		NM	56.9	13¾	-¼
28⅛	20¾	CoreStates Fin-PA		7.7	107.7	20¾	-¼
34	20¼	CrestarFinCorp-VA		7.7	90.7	20¼	-¼
18¾	15¾	DeltaBancorp-IN		7.2	89.2	15¾	-¼
37¾	29¾	DeposBancpInc-IA		8.6	126.3	35	-1
25¾	21¾	DominionBcshs-VA		8.7	74.4	21¾	-¼
25¾	21¾	DominionBcshs-VA		8.7	74.4	116	-¼
21¾	12	EnergyBancInc-KY		6.6	93.7	13¾	-⅜
13¾	12¾	F & M NatCorp-VA		10.2	154.5	13¾	-⅛
14½	12½	FNB Corp-PA		8.7	104.7	13¾	-¼
21¾	18¾	FNH Bancorp-IL		10.8	178.2	23¾	-¼
29	27¾	FarmersCapital-KY		11.3	118.4	27¾	
30⅜	30¾	FifthThirdBancp-OH		11.3	172.7	30¾	-¼
38⅜	32½	FinancialTrust-IN		9.0	136.4	33	
19¾	15¾	FirstAmBcshs-TN		8.4	99.8	19¾	-¼
19¾	15¾	FirstAtlantaBcshs-GA		17.3	113.9	17¾	-¼

52 Wk Hi	Lo	Name	Pfd	Mkt to bk	Cls.	Chg.
20¼	11⅜	FirstArlingtonTX		NM	70.7	12	-¼
28¾	20¾	FirstBancorp-NC		8.1	89.2	20¾	-¼
20¾	12¾	FirstBankSystem-MN		NM	112.9	14¾	-¼
29¾	24¾	FirstBkCorp-FL		8.4	98.1	25¾	-¼
29¾	24	FirstBkCorp-IL		8.4	98.1	25¾	
18¾	12¾	FirstBkCorp-MI		8.4	98.1	14¾	-¼
18¾	12¾	FirstCitizBcshs-NC		9.7	123.9	12¾	
21¾	16¾	FirstCmwlthCp-IN		7.8	81.2	21	-⅛
21¾	16¾	FirstCommerce-NC		8.5	91.0	20¾	
21¾	16¾	FirstCommerce-NC		8.5	91.0	17¾	-¼
21¾	18	FirstCommercial-AR		8.1	118.4	19¾	
21¾	18	FirstCommercial-AR		8.1	118.4	19¾	
35¾	21½	FirstEastern-PA		8.5	103.4	23	
35¾	21½	FirstEastern-PA		8.3	98.4	23¾	
33⅜	18¾	FirstFedMI-MI		NM	80.1	18¾	-¼
50	40⅞	FirstFedNY-NY		NM	95.2	38	1¼
14¼	10¾	FirstFinancial-IL		10.0	77.1	20¾	-¼
18¾	14¼	FirstFinancial-IN		8.3	115.4	18¾	
24⅜	17	FirstMidwest-IL		10.5	148.4	19	
24⅜	17	FirstMidwest-IL		8.8	123.2	19¾	-¼
44	28	FirstPeoples-NJ		6.1	97.5	29	
44	28	FirstPeoples-NJ		6.1	108.3	44	
18	13¾	FirstSecurity-NC		12.4	188.9	13¾	-¼
18¾	13¾	FirstSecurity-NC		12.4	188.9	13¾	-¼
28¾	21¾	FirstTennessee-TN		7.9	95.3	23¾	
28¾	18¾	FirstVirginia-VA		7.8	97.7	18¾	
35¾	24¾	FirstVirginia-VA		7.8	109.3	24¾	
45¾	27¾	FirstWachovia-NC		10.5	157.9	43¾	-¼
35	27¾	FirstatCorp-FL		7.1	112.2	28¾	-¼
20¾	17¾	FirstbankInc-CO		16.7	157.2	18¾	-¼
55¾	42¼	FirstofAmerica-MI		8.0	101.4	47¾	-¼
29¾	18¾	FirstvicksburgMS		14.2	98.4	18¾	-¼
25	19¾	FortWayneNatCp-IN		8.4	102.2	19¾	
14¾	12¾	FortuneFed-SC		12.2	136.1	14¾	
21¾	16	FutureSciCp-PA		7.8	122.8	16¾	-¼
15¾	12¾	GBC Bancorp-CA		8.4	204.9	15¾	
15¾	9	GranadaBancshMS		14.2	71.7	9¾	
49	39¾	HancockHoldingLA		9.0	107.5		
21¼	14¾	HeritageFedAr-IL		9.2	122.3	18¼	-¼
21¼	14¾	HeritageFedAr-IL		17.4	107.5	14¾	-¼
20¾	14¾	HuntingtonBcshs-OH		7.6	109.9	14¾	-¼
20¾	12¾	HutchFin-KS		8.8	94.4	12¾	
27¼	15	ImperialBancp-CA		6.5	94.3	15	-¼
27¼	15	ImperialBancp-CA		6.5	95.6	17¾	-¼
30¾	21	IntegraFinCp-PA		14.5	94.7	21	-¼
30¾	21	IntegraFinCp-PA		9.5	138.6	21	-¼
17	13¾	IrvingBank-ON		NM	154.4	37¾	-¼
28¾	17¾	JacksonBcshs-IA		7.8	107.5	17¾	-¼
29½	23¾	JeffersonBkshs-VA		10.0	104.2	12	
29¾	23¾	JeffersonBkshs-VA		8.7	98.4	23¾	-¼
35⅜	29	KeystoneHoldPA		8.7	126.0	23	-¼
35⅜	29	KeystoneHoldPA		10.0	126.0	29	-¼
29¼	27	LakeShoreB-IL		10.2	97.0	27¾	-¼
18	15	LeaderBancorp-MD		8.0	112.8	15¾	-¼
30¾	24¾	LibertyNatBncp-KY		10.0	111.7	24¾	-¼
29¾	11¾	MBNA Corp-DE		8.3	97.0	11¾	-¼
29¾	11¾	MNC Financial-MD		4.3	67.0	11¾	-¼
29¾	11¾	MNC Financial-MD		4.3	67.0	11¾	-¼
80	41¾	MarshallIsl-WI		8.4	98.2	44	-¼
44¾	38¾	MarshallIsl-WI		NM	78.1	39¾	-¼
21	18¾	MetroCorp-IL		12.1	130.8	19¾	-¼
20¾	15	MetroWestBkMA-MA		8.1	102.1	15¾	-¼
37¾	30¾	MetroBkHldgMN-MI		8.6	112.6	30¾	-¼
37¾	30¾	MetroBkHldgMN-MI		8.6	112.6	30¾	-¼
28¾	23¾	MercantileBncp-MD		38.1	89.5	23¾	-¼

52 Wk Hi	Lo	Name	Pfd	Mkt to bk	Cls.	Chg.
23¾	18¾	MercantileBncsh-MD		8.5	118.2	20¾	-¼
90⅜	46	MercantileBank-NY		11.3	180.9	46	
27¾	21¼	MerchantsNat-IN		10.6	89.2	22	-¼
26¼	15¾	MeridianBancorp-IN		6.9	85.2	15¾	-¼
26¼	15¾	MichiganNatCorp-MI		2.6	59.4	25¾	-¼
18¾	14¾	MidAmericaIC-KY		9.5	95.3	14¾	-¼
18¾	14¾	MidAmJnc.-OH		9.4	141.9	14¾	-¼
47¼	13	MidlantecCorp-NJ		8.7	34.8	13	-¾
35¾	28½	MidlandBancp-IL		NM	47.0	28½	-¾
35¾	28½	NBD Bancorp-MI		9.0	130.8	31¾	-¾
34¾	34¾	NCNB Corp-NC		7.0	128.0	34¾	
26	18¾	NCwideCommBcp-CA		14.4	154.7	19	
41¾	33⅜	NationalCityCp-OH		8.2	138.7	39¾	-¼
51	38	NationalPenn-PA		11.1	196.5	38	
25¾	20¾	NationsBancorp-NC		9.6	115.7	20	-¼
25¾	20¾	NatlCommerce-TN		9.8	170.6	22¾	-¼
44¾	18	NationsBancorp-NJ		6.0	82.5	18	
20¾	10½	NorthFinBanc-WI		5.1	65.8	10½	-⅜
72	17¾	NorthesBancCT		NM	56.8	20	-¼
35¼	27¾	NorthernTrst-IL		9.5	176.5	28¼	-¼
35¼	27¾	NorwestCorp-MN		7.8	141.5	28¼	-¼
32¾	22¾	OhioBancorp-OH		7.0	95.3	23	-¼
29¾	24	OldKentFinCp-MI		8.0	111.0	24¾	-¼
26¼	24¾	OldNatBancp-IN		13.2	157.9	25	
28¾	19	OneNetBancMW-WI		7.3	86.4	20¾	-¼
48¼	29¼	PNC Fin'cpPA		9.4	104.1	30¾	-¼
14	9¾	PacificBancCA		11.9	161.4	27	
12¾	9¾	PacificMortgCA		8.3	151.6	10¾	-¼
21¾	16¾	PeoplesBancorpNC		8.7	119.0	15¾	-¼
27¾	20	PioneerBankAR		9.8	125.9	27	
28¾	20¾	PioneerCommun-IA		8.1	181.1	20¾	-¼
21¾	12	PremierBancorp-LA		21.2	62.9	19¾	
27	21¾	PremierFinSvc-IL		NM	125.4	22	
27¾	19¾	PugetSoundBcp-WA		NM	39.3	19¾	-¼
29¾	19¾	PugetSoundBcp-WA		11.5	111.1	20¾	-¼
27¾	13¾	RepublicBancp-KY		149.2	130.5	49¾	-¼
27¾	13¾	RiggsNatCorp-DC		7.5	53.9	13¾	-¼
43¾	23¾	SanPaoloBcp-CA		13.7	282.2	29¾	-¼
43¾	23¾	SantaBarbaraBcs-CA		12.7	282.2	29¾	-¼
54¾	34¾	SecurityBancp-GA		8.1	136.0	39¼	
54¾	34¾	SecurityPacific-CA		5.4	101.8	38¼	
43¾	31¾	SignetBanking-VA		8.4	103.8	39¾	-¼
43¾	31¾	SignetBanking-VA		8.4	103.8	39¾	-¼
27¼	18¾	SouthCarolinaNC-SC		6.6	86.8	17¾	-¼
27¼	18¾	SouthCarolinaNC-SC		NM	44.3	18¾	-¼
15¾	11¼	SouthernNatCp-KY		9.4	129.7	15¾	-¼
15¾	11¼	SouthernNatCp-KY		6.7	86.6	15¾	-¼
43¾	29¾	SovranFinCp-VA		7.4	103.3	29¾	
43¾	29¾	SovranFinCp-VA		7.4	103.3	29¾	
42¾	32¾	StateStBosCor-MA		13.6	236.0	39¾	
42¾	32¾	StateStBosCor-MA		NM	45.3	39¾	
26	16	SuburbanBancp-IL		12.5	81.0	16¼	-¼
26¾	16	SuburbanBancp-IL		6.3	95.4	27¾	-¼
22¾	15¾	SummitBcp-PA		8.3	94.1	16¾	-¼
22¾	15¾	SummitBancorp-NJ		6.1	86.1	16¾	-¼
36¾	20	SunTrustBanks-GA		7.5	116.6	20¾	-¼
24¾	14¾	SunwestFinSvc-NM		79.8	78.4	16¾	-¼
22¾	17¾	SusquehannaBcsh-PA		7.6	98.9	17¾	-¼
26¾	18¾	SynovusFinCorp-GA		15.7	256.6	18¾	-¼
18¾	13	TheFlaritnCorp-NC		8.8	120.8	14¾	-¼
24¾	18¾	TrustCompBcp-MS		8.6	153.0	19¾	-¼
43¾	31¾	TrustmarkCorp-MS		8.5	145.2	34	
32¾	25¾	U.S. BancorpOR		8.5	127.1	28¾	-¼
32¾	25¾	U.S. BancorpOR		8.5	127.1	28¾	-¼
43	33¾	U.S.TrustCorp-NY		12.2	186.8	39¾	-¼
28¾	13¾	UJB Financial-NJ		7.3	74.1	13¾	-¼
28¾	13¾	UJB Financial-NJ		6.3	87.1	13¾	-¼
32	21¼	UnionBankCa-CA		5.7	91.3	23¾	-¼
21¾	17¾	UnionPlanters-TN		NM	87.4	19¾	-¼

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended July 21

LARGEST PRICE GAINERS*	% change	7/14/90	7/21/90
1st Constitution Fin'l	16.67%	$ 3.00	$ 3.50
Premier Bancorp Inc.	15.38	$ 3.25	$ 3.75
Southwest Banking Corp.	10.30	8.50	9.38
FWH Bancorp Inc.	10.00	22.00	24.25
Sunwest Fin'l Svgs Inc.	8.82	15.75	17.25
LARGEST PRICE LOSERS*	**% change**	**7/14/90**	**7/21/90**
Washington Bancorp	-54.55%	$ 2.75	$ 1.25
Great American Bank SSB	-46.66	3.31	1.63
Homefed Corp	-18.44	17.63	14.38
Bank New England Corp.	-16.18	2.75	2.25
Summit Bancorporation	-15.67	15.00	12.50
LARGEST CHANGES IN VOLUME†	**Multiple**	**Average Last Week**	**Last Week**
United Banks of Colorado	6.89	194,260	1,338,100
South Carolina Nat'l Corp.	5.67	217,870	1,452,500
Lake Shore Bancorp	4.24	9,277	39,300
Mercharia Bank New York	3.94	2,020	8,100
Amcore Fin'l Inc.	4.07	17,340	69,900

*Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gain; the five with largest price decline; and the five with largest change in volume. Prices are as of the close of previous week and week ended July 21. †—Percentage change in volume calculated by dividing last week's volume by previous 13 months. ††—The multiple of last week's trading volume to the average weekly volume over the previous 13 months.

Data Source: *Salomon Brothers Inc., New York.*

Key Rates

(July 23, 1990)

	7/23	7/20	7/16
Federal Funds-domestic range:	8¾–8⅞	8¾–8⅞	8–8⅛
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit†			
3 Month Posted	7.60	7.60	7.65
6 Month Posted	7.65	7.65	7.75
1 Year Posted	7.75	7.80	7.80
Eurodollar deposits‡			
3 Month	8.00	8.00	8¼
6 Month	8¼	8¼	8¼–⅜
1 Year	8¼	8¼	8¼–⅜
LIBOR			
3 Month	8⅛	8⅛	8¼–⅜
6 Month	8⅛	8⅛	8¼–⅜
1 Year	8⅛	8¼	8¼–⅜

Mid-afternoon quotes, New York market. (†)— Largest offering rates at selected NYC banks (‡)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking and thrift holding firms ranked by asset size, as measured by the market value of all common shares outstanding. The 52-week high and low prices are adjusted for stock splits and dividends of 5% or more. Pfd is for preferred stock. Mkt to bk is the closing price as a percentage of the most recently reported book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Chg. The price change in the stock last traded. If no trades for the day, the latest bid. **All Bank and Thrift Indexes:** Composite stock price indexes for the 250 banks in market value and the top 50 thrifts in market value, respectively. **AB Bank Index:** The largest commercial banks in market value and volume indicators most shares traded and today's volume as a percentage of average shares traded over the past 13 weeks.

Data source: SNL SECURITIES, Charlottesville, VA. 804/977-1600, processed the tables. Financial News Network, Vienna, VA, provides 24h, with the daily prices.

CAPITAL

Barnett to Offer Preferred Issue To Fund Growth

by KELLEY HOLLAND

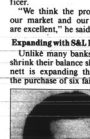
The securities of southeastern banks have been beaten up lately in the capital markets, but Barnett Banks Inc. is unfazed.

The Jacksonville, Fla.-based bank company is planning to issue a new type of preferred stock to help finance its expansion plans, according to Stephen A. Hansel, senior executive vice president and chief financial officer.

"We think the prospects for our market and our company are excellent," he said.

Expanding with S&L Purchases

Unlike many banks trying to shrink their balance sheets, Barnett is expanding through the purchase of six failed thrifts



Stephen Hansel
Barnett Banks Inc.

this year. The bank is holding on to assets, including a credit card portfolio of about $900 million that is ripe for securitization. And loan growth averaged 15% in the second quarter of the year.

New deposits are providing part of the funding for the expansion. But Barnett is also turning to the capital markets, probably during the current quarter, for an offering of contractually exchangeable preferred stock.

The stock carries a fixed rate – identical to the preferred stock that counts as Tier 1 capital – except that it is exchanged at some fixed future date for another form of cash that will count as Tier 1 capital, according to John McVeigh, product manager for preferred stock at First Boston Corp.

Mr. Hansel is hopeful the novel structure of the preferred stock offering will appeal to some institutional investors, as well as the retail investors who are the biggest buyers of fixed-rate preferred. He believes that the the added demand could enable Barnett to keep its funding costs low. First Boston will probably be lead manager on the offering.

The automatic exchange feature creates a sort of synthetic sinking fund that enables insurance companies to hold the preferred stock without having to mark it to market.

"Insurance institutions can participate in the high-yielding fixed-rate preferred market without having to mark to market," Mr. McVeigh of First Boston said. He declined to comment on the Barnett deal.

Mr. McVeigh was hopeful that the new type of preferred issues, which have been discussed with several banks, would allow banks to raise Tier 1 capital at a lower cost than that available in the common stock or retail preferred stock market.

If it were not expanding, Barnett could easily avoid raising new capital in the markets because its deposit funding base is so large. Jumbo certificates of deposit fund just 14.6% of its earning assets, and other deposits fund 83%. "We're just a country bank in terms of how we fund ourselves," Mr. Hansel said.

Although deposits are sufficient to fund part of Barnett's expansion, new securities issues will be needed to finance the rest of the growth.

The market's negativism on southeastern banks would hurt Barnett if it tried to issue new debt or common stock, Mr. Hansel conceded. That is why the unusual structure of the preferred offering, shaped as it is to draw a larger than usual pool of investors, makes sense.

On Monday, Barnett's stock was trading at $31.75, a scant 1⅝ premium to the second-quarter book value of $27.52 a share.

* * *

MARKET MONITOR

NCNB Corp. is marketing a new subordinated debt issue, market sources said. Price talk on the $200 million 25-year noncallable offering is for a yield of 160 to 165 basis points over long-term Treasuries. Merrill Lynch Capital Markets is the lead manager.

On Monday, Standard & Poor's Corp. affirmed the single-A rating on NCNB's senior debt. □

STOCKS

Prices of Major Bank Shares Fall Sharply

Continued from *page 1*

cents and $1.50, causing several to hit new 52-week lows: Citicorp, which fell 50 cents to $20.625; Chase Manhattan Corp., which fell 37.5 cents to $19.875; First Chicago Corp., which fell 25 cents to $26.875; and First City Bancorp, which fell $1.25 to $19.625.

Volume in Chase and Citicorp was heavy with investors trading 2.1 million shares of Chase and 1.6 million shares of Citicorp. BankAmerica traded 1.7 million shares, falling 87.5 cents to $25.50.

"The concern in banking stocks is that weaker-priced banking institutions will participate in the downside of the market, but then not join in the upside if there is a recovery," noted Frank W. Anderson, banking industry analyst at Stephens Inc., Little Rock, Ark.

Sallie Mae, whose stock is widely recommended by investment professionals, fell $4.625 to $49.375 on news that a major guarantor of loans in the federal government's student aid program is encountering financial problems.

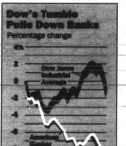
Share prices of the government-sponsored secondary mortgage market agencies slipped in sympathy. The stock of Freddie Mac slid $3.25 to $76.625 and shares of Fannie Mae fell $1.625.

Big Movement in Wells Fargo

The biggest movement among banks, as usual, belonged to Wells Fargo & Co., which fell $1.50 to $74. The San Francisco company's stock registered larger swings than other bank equities because the price of its stock is double or more the prices of other bank shares.

Major price erosion was experienced by other well-regarded bank stocks, as well. NBD Bancorp., Detroit, fell $1.25 to $31.375; U.S. Bancorp., Portland, Ore., fell $1 to $28.25; Republic New York Corp., New York, declined $1 to $49.25; and Northern Trust Corp., Chicago, fell $1 to $28.75.

Analysts said these movements were attributable to the fall in the overall market. "These are the bank stocks that have held up better than others over the past six months and consequently have more space to decline with all other stocks today," said one analyst.



Among money-center banks, the largest price decline was posted by Chemical Banking Corp., New York, which fell $1.25 to $31.375. J.P. Morgan & Co. fell 50 cents to $36.875.

Analysts said that concern about the quality of student loans nationwide helped drive these stocks down as they are the most exposed if problems with the $50 billion in student loans outstanding become systemic.

Stock in Citicorp was possibly further impacted by a downgrade from a "buy" to a "neutral" from Merrill Lynch & Co., according to analysts who said Citicorp's management reorganization announced Friday was not as broad reaching as they had expected.

Impact on Regionals

Among major regional banks in the Middle Atlantic states, Wilmington Trust Co., Wilmington, Del., was off $1 to $41 and Riggs National Corp., Washington, D.C., was off $1 to $13.50. Dauphin Deposit Corp., Harrisburg, Pa., was also off $1, to $30 in mid-afternoon trading.

The story was much the same among major thrift institutions. Great Western Corp., Los Angeles, the nation's largest savings company, was off $1 to $16.25, while H.F. Ahmanson & Co., Los Angeles, parent of Home Savings of America, was off 75 cents to $19.625.

Well-regarded Golden West Financial Corp., Oakland, Calif., declined $1.12 to $28.75 while HomeFed Corp., San Diego – the thrift stock that has suffered the heaviest price decline recently – slipped another 62.5 cents to $13.75.

Broader Market Picture

Analysts said the broader market was reacting to lower-than-expected earnings at McDonald's Corp., program trading, and renewed concern that interest rates might not fall soon.

Dennis Jarrett, a market analyst at Kidder Peabody & Co., said options-generated selling pressure from Friday afternoon continued Monday.

Because many of the options expiring Friday were to buy shares, Mr. Jarrett said institutions tried to sell. □

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Health of FDIC Being Exposed To the Spotlight

By BILL ATKINSON

As barometers of the political mood, the Sunday morning television interview programs have latched onto banking industry issues with a vengeance.

The programs have turned a spotlight on the savings and loan crisis and the impact of declining real estate markets, both tarnishing the image of bankers.

But now the interview shows — and the media in general — are confronting what could be the most damaging issue of all: the health of the Federal Deposit Insurance Corp.

Whereas the thrift debacle affected only one segment of the financial industry, and real estate problems have been viewed as regional, the FDIC insures virtually every depository institution in the country.

ANALYSIS: *Follow-up on the news*

Washington lawmakers, among others, are beginning to wonder if the crisis that led to the demise of the Federal Savings and Loan Insurance Corp. may repeat itself in the FDIC's much bigger commercial bank fund.

Two Kinds of Worry

Bankers worry that they may be assessed higher premiums to replenish the bank insurance fund, but consumers may feel a very different kind of alarm about the safety of their deposits.

On July 15, at least four major news programs discussed banking and thrift-related issues, with the FDIC question moving to the forefront.

FDIC Chairman L. William Seidman made comments that members of the general public might have found most startling. He acknowledged that the $13 billion fund that insures deposits at more than 13,000 commercial banks is under "considerable stress" and could be hurt in the event of a long recession.

Worst-Case Scenario

Several days before Mr. Seidman made his appearance on "CBS News" "Face The Nation," a senior FDIC official said before a group of savings and loan executives that the bank insurance fund could lose as much as $2 billion in a worst-case scenario. And last Wednesday, Mr. Seidman returned to an NBC morning news program to say, "If we had a long and deep recession, [the bank insurance] fund might not be able to handle it."

Industry observers say that in the wake of bad loans to developing countries, in real estate,

See **HEALTH** *page* **15**

INSIDE NEWS

FINANCE

INSIDERS at Valley National Corp. apparently believe the sun is about to shine again on the Phoenix bank. Top officials there spent $700,000 to buy a large number of its shares in recent months, coinciding with a rise in the company's stock price. *Page 24*

CONSUMER

ANOTHER BATTLE over insurance powers for commercial banks is shaping up – this time in Pennsylvania. *Page 8*

INTERNATIONAL

BANK OF IRELAND said Tuesday it planned to start a new bank in Boston in an effort to expand its franchise in New England. *Page 14*

TECHNOLOGY

SWIFT 2, a long delayed upgrade to the international interbank messaging system, has users reporting improved service and some early cost savings. *Page 3*

WASHINGTON



THE WHITE HOUSE supports increased penalties for financial institution crimes, including the life sentence that a Senate bill would impose for the most serious offenses by so-called savings and loan kingpins, Attorney General Dick Thornburgh said. *Page 2*

COMMENT

LEGISLATION is needed to give lenders protection from unfair liability under the Superfund law, write Alfred Pollard and Thomas Greco. *Page 4*

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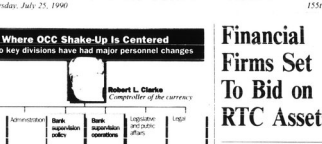
Where OCC Shake-Up Is Centered
Two key divisions have had major personnel changes



Source: Office of the Comptroller

Doubts, Pressure, Shake-Up Lead To Brain Drain from Comptroller

By BILL ATKINSON

WASHINGTON — The Office of the Comptroller of the Currency tossed the banking industry on its ear this year with a series of tough real estate exams. But meanwhile, the agency has been undergoing a shake-up of its own.

Since last fall, four senior staff members have left the regulatory unit, and a fifth plans to leave. Meanwhile, four other top regulators have been reassigned to lesser posts.

Key Divisions Affected

The changes have all occurred in the agency's two key divisions: bank supervision policy, which sets exam policies and schedules, and bank supervision operations, which conducts the exams.

The brain drain seems to have resulted from low morale among senior staff members who felt their recommendations were ignored and from recent reorganization that has unsettled employees.

Whatever the reasons, the changes, coming when the agency is being criticized for overzealous examinations, have raised questions about its stability and its capacity to do its job in particularly troubled times.

Chief's Tenure in Doubt

Further clouding the picture is the fact that Robert L. Clarke's five-year term as comptroller ends in December and his reap-

See **DOUBTS** *page* **16**

Financial Firms Set To Bid on RTC Assets

By DEBRA COPE

WASHINGTON — Several major financial institutions are preparing bids for $500 million blocks of assets held by the Resolution Trust Corp., sources said Tuesday.

The expected bidders include Shearson Lehman Hutton Inc., Merrill Lynch & Co., Goldman, Sachs & Co., the Federal National Mortgage Association, the J.E. Robert Companies, an investment group led by former Treasury secretary William Simon, and NCNB Corp.

They are said to be seeking the sour loans and other government-seized assets for their own accounts or for resale in the form of securitized or whole-loan packages.

Moving Assets to Private Sector

The bulk transactions have been designed by the RTC to move assets faster off its books and into the private sector. The first three bulk asset packages will be assembled for bidding in late November and the sales closed in early 1991.

Under a plan outlined by RTC staff members Tuesday at an open board meeting, the

See **FINANCIAL** *page* **11**

Private Market Placements Up, Participants Say

By WILLIAM GOODWIN

Despite earlier predictions of a sharp dropoff in private-placement volume, activity has picked up considerably in the past month, according to market participants.

They cite a combination of factors, including the so-called credit crunch, a dip in interest rates, and the demise of the public high-yield bond market.

"We've seen a lot of increased activity from companies that are nervous about banks pulling their [short-term credit] lines," said Maleyne Syracuse, vice president in charge of private placements at Bankers Trust New York Corp.

In addition, a number of highly leveraged transactions are now being refinanced in the private-placement market.

"That has definitely helped pick up" the market, said Robert Szymczak, manager of data

See **MARKET** *page* **22**

Greenspan Vows Fed Is Continuing Inflation Fight Despite Cut in Rates

By LINDA CORMAN

WASHINGTON — In an effort to convince skeptical markets that he had not give up the fight against inflation, Federal Reserve Board Chairman Alan Greenspan on Tuesday reiterated that the July 13 easing of short-term interest rates was forced by recent signs of overly restrictive lending practices by banks.

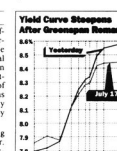
"We have not done anything to alter our policy path," Mr. Greenspan told a House Banking subcommittee. It was his second congressional appearance in successive weeks to present his semiannual report on monetary policy targets.

Further Cuts Called Unlikely

In testimony last week to the Senate Banking Committee, Mr. Greenspan said further interest rate cuts were unlikely unless necessary to counteract excessively tight bank credit. (For excerpts from that testimony, see page 5.)

Analysts said the Fed chair-

Yield Curve Steepens After Greenspan Remarks



man's remarks on Tuesday were meant to lessen confusion and address credibility problems in the financial markets since the Fed dropped the federal funds rate from 8.25% to 8.0%. Fed watchers, citing a lack of economic data to justify a lowering of rates at that time, suggested

See **GREENSPAN** *page* **9**

PEOPLE *in the news*

Washington Bancorp. Chief In Urgent Quest for Capital

By BILL ATKINSON

John J. Mason, chairman and chief executive officer of the troubled Washington Bancorp., is a man in search of capital.

The second-largest shareholder of Washington Bancorp., Mr. Mason became chairman less than two months ago as maneuvers began to pull the $1.8-billion banking company from the brink of failure.

Like any good manager, he boils the challenge down to a narrow, focused task.

"Our strategy is very clear, and that is capital adequacy," he said in a recent interview.

That may prove quite an understatement, for the problems he faces are formidable at a time when the economy of the nation's capital is slowing.

Washington Bancorp., the parent of National Bank of Washington, lost $80 million in the second quarter alone and defaulted in early May on $25.8 million in maturing commercial paper. The bank continues to borrow heavily from the Federal Reserve's discount window – the lender of last resort – to the tune of $130 million to $150 million a day.

"I'm here in the middle of the ocean holding on," said Mr. Mason. "I am trying to manage a very difficult situation. I am not looking for a job; I am not looking for a feather in my cap. I'm a businessman. My livelihood is not dependent on working at this institution."

"I'm here in the middle of the ocean holding on. I am trying to manage a very difficult situation."
John J. Mason
Washington Bancorp

Mr. Mason, 51, is highly regarded in Washington for his knowledge of both real estate and banking. He currently runs a Washington-based real estate investment company, and was vice chairman of NS&T Bank, a profitable institution acquired in the mid-1980s by Crestar Bank in Washington.

He charges that Washington Bancorp.'s performance waned during the previous administration of former Chairman Luther H. Hodges Jr. Under Mr. Hodges's leadership, the bank lost millions in loans from Wards to Latin American countries and to directors. There was also an attempt to oust Mr. Hodges because of the bank's poor performance, but he resigned voluntarily on Jan. 31.

Mr. Mason said the bank lacked internal controls, and he criticizes the institution's use of commercial paper, or short-term money, to fund long-term mortgages – akin to the strategy that sent the thrift industry crashing.

Mr. Mason appears to be a chief executive who will not mince words. At least one bank holder, Alan Patricof of Avalon, Inc., has openly stated this month that the future prospects for the banks continued operations are "in doubt." The source, a former executive there, thought the announcement was a move to put the bank in the worst light possible, so creditors would resign themselves to taking deep cuts on their investments.

"I am not part of a diabolical plan to screw the creditors," Mr. Mason said. "To suggest that I would play that sort of game is a little like playing Russian roulette. It is a little far-fetched."

Despite the heavy burden, Mr. Mason thinks there is plenty of value in the 181-year-old bank, which was once owned by the United Mine Workers and helped finance the Washington Monument.

"Moving forward there is still a very good franchise," he said. We have 130,000 to 140,000 depositors. I don't think it should fail. I think it is a worthwhile institution to save." □

NEWS *briefs*

BB&T Financial to Acquire Albemarle Savings & Loan

WILSON, N.C. — BB&T Financial Corp. will acquire Albemarle Savings and Loan Association and operate it as a separate, savings bank subsidiary, said John A. Allison IV, chairman and chief executive officer of BB&T.

To complete the deal, Albemarle will have to convert from the mutual to the stock form of ownership, and obtain approval from depositors as well as state and federal thrift regulators.

Albemarle, based in Elizabeth City, N.C., has $91 million in assets and 13.6% of the deposits in its home county.

Pa. Bank Opts Out of Law

PERKASIE, Pa. — Independence Bancorp became the latest Pennsylvania financial institution to exempt itself from a state antitakeover law. Its board opted out of two of the three provisions of Act 36, including one that limits the voting rights of shareholders who acquire 20% or more of the stock.

The $2.6 billion-asset Independence followed Mellon Bank Corp., PNC Financial Corp., and other Pennsylvania-based companies to opt out of part of the law. □

Thornburgh Backs Life Sentences

Supports Senate Bill on Financial Institution Crime

By ROBERT M. GARSSON

WASHINGTON — The Bush administration supports increased penalties for financial institution crimes, including the life sentences a Senate bill would impose for the most serious offenses by "savings and loan kingpins," Attorney General Dick Thornburgh said Tuesday.

"A life sentence might have some effect" on deterring future crimes against thrifts, Mr. Thornburgh told a Senate Judiciary Committee hearing.

Call for Commission Opposed

While praising the penalties specified in a Senate bill, Mr. Thornburgh condemned parts of a companion measure that cleared the House Judiciary Committee Monday afternoon. In particular, he said in a written statement to the Senate panel, a provision creating a national commission to study the S&L crisis could interfere with current enforcement efforts.

With Congress moving quickly to finish work on a crime bill that will include a section dealing with savings and loan crime, Mr. Thornburgh's comments on penalties underscored the gettough attitude that is setting in as public anger grows over the cost of the taxpayer-financed S&L bailout.

In particular, members of Congress are sensitive to the charge that "S&L crooks" are not being prosecuted.

Fraud, Criminality Cited

Mr. Thornburgh told the Senate committee that as many as 30% of the failures in the S&L industry may have been the result of some form of fraud and criminality. Other estimates, he noted, are much higher.

But S&L industry analyst Bert Ely, called such claims "hogwash." In a paper released this week, Mr. Ely said that actual cases of fraud or criminality may cost $5 billion, or about 3% of the bailout on a present-value basis.

Most of the cost, he said, is attributable to interest expense, while price deflation, bad lending and real estate deterioration account for the second largest chunk. About $25 billion, or 17% of the total, comes from the federal government's failure to begin the cleanup in 1983, he said.

Office of Thrift Supervision Director T. Timothy Ryan said this week that he had seen Mr. Ely's analysis but had not had time to evaluate it independently.

In testimony scheduled for delivery Tuesday, Mr. Ryan said the few recent cases in which stiff penalties have been imposed on individuals convicted of crimes against thrifts are the exception rather than the rule.

A more typical case, he said, is the penalty imposed on Robert LeRoy Mikkelsen, who was convicted of misapplying funds at Baldwin County Savings and Loan, Robertsdale, Ala., where he was vice president.

Although the Baldwin County thrift lost over $2 million as a result, Mr. Mikkelsen was sentenced to a year of unsupervised probation, with no requirement to make restitution to the thrift.

Mr. Thornburgh also highlighted the difficulty that prosecutors have encountered in persuading judges to order restitution.

In 1988 and 1989, for example, a total of $8.9 million was awarded in cases brought by the Dallas Bank Fraud task force, Mr. Thornburgh said. Of that total, $23,700 has been paid.

Of the $2.5 million awarded this year, $50 has been paid.

Mr. Ryan's scheduled appearance, along with that of Deputy Treasury Secretary John Robson and Federal Deposit Insurance Corp. Chairman L. William Seidman, was postponed indefinitely.



"Whether bank robbers steal with a pistol or with a pencil, they should serve hard time."
Sen. Joseph R. Biden
Democrat of Delaware

Abuses Spreading Nationwide

Mr. Seidman's written testimony, which was made available by the Judiciary Committee Tuesday, noted that S&L abuses – once seen primarily in the Southwest and in Southern California, are beginning to turn up in the Northeast and in Florida.

Judiciary Committee Chairman Joseph R. Biden Jr., D-Del., lamented the small number of S&L prosecutions and what he said were overly lenient sentences.

In 1989, he said, the average prison term for an S&L offender was only 1.9 years. By contrast, he said, "the average bank robber was sentenced to serve 9.4 years behind bars – almost five times what an S&L crook received.

"Whether bank robbers steal their loot with a pistol or with a pencil – either way they should serve hard time," Mr. Biden added. □

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First City Deal Furthers Citicorp's Processing Aims

By RICHARD LAYNE

NEW YORK — With the acquisition last week of the merchant processing contracts of First City Bancorporation of Texas , Citicorp is at least temporarily realizing its long-standing goal of becoming the biggest processor for both consumer cards and merchant sales drafts.

Citicorp, which has aggressively snapped up such businesses, has tripled its sales draft volume in the past three years. With the addition of First City's $700 million in business, Citicorp's merchant portfolio tops $18.4 billion.

For First City, which has processed sales drafts for 14,000 merchants, the sale completes its withdrawal from the cardprocessing business. The bank sold its profitable consumer card business to Bank of New York in March 1990.

Marketing Role Retained

The sale price for its merchant business was not disclosed. Under an agreement with Citicorp, the Texas bank will continue to market the business.

In a business dominated by a few companies, Citicorp is the biggest processor of consumer cards, with $25 billion in outstandings in the U.S. in 1989. The card giant considers the merchant business, which is not as profitable, complementary.

In 1989, he said, the average prison term for an S&L offender was only 1.9 years. By contrast, he said, "the average bank robber was sentenced to serve 9.4 years behind bars – almost five times what an S&L crook received.

"Whether bank robbers steal their loot with a pistol or with a pencil – either way they should serve hard time," Mr. Biden added. □

by yearend.

"One of our goals is to be No. 1," said Mr. Weber, who added that acquiring portfolios is a fast way to grow. He said that the bank has targeted the Midwest and the Southeast as attractive, expanding markets.

Industry observers said Citicorp has grown aggressively in the past year, taking contracts for Melville Corp., Ames, and Avis Corp. away from other big processors. Citicorp also bought the processing business of First Chicago Corp. earlier this year.

Whether Citicorp will be the top merchant processor at yearend remains to be seen. National Processing was the leader, with $18.1 billion in merchant drafts at the end of 1989, followed by Citicorp with $17.7 billion, and Nabanco at $14.8 billion, according to *The Nilson Report*, an industry newsletter.

Neither of Citicorp's top competitors have announced major additions to their portfolios this year. But both companies are said to be pursuing acquisitions.

David Robertson of *The Nilson Report*, said Citicorp, National Processing Co., and Nabanco will all break the $20 billion mark this year.

Large Volumes Needed

First City had an average-size merchant portfolion, but processing requires continuous investment in software and hardware.

"A strong merchant business is important to promoting the well-being of the card business," said Bruce M. Weber, president of Card Acceptance Services, the merchant card processing arm of Citicorp.

Portfolio Expected to Grow

Citicorp, which processed only $7.5 billion in merchant sales drafts in 1987, expects that portfolio to swell to $22.5 billion by the end of 1990, followed by banks tens of thousands of dollars annually, participants in the project said.

Morgan Absent from Test

Morgan Stanley, which was scheduled to take part in the test and switch to Swift-2 last month, dropped out of the project. Morgan could not be reached for comment.

One source said Morgan had decided not to participate in the trial because of problems with a systems vendor.

36 Banks Worldwide in Test

Thirty-six banks in six countries have migrated to Swift-2, which is designed to handle unlimited message volume. The system is expected to replace Swift-1 completely by May 1992. About 100 banks will begin migrating to the new system in September.

Swift-2 is expected to pave the way for banks to offer financial electronic data interchange services to corporations trading overseas.

Users said Swift-1 is inflexible and forces banks to receive messages in an unvarying sequence. On Swift-2, they can choose what type of messages they want to see first.

Stop-Gap Measures Needed

The upgrade has been in the works since 1981 and is running three years behind schedule. The original network was designed to process 350,000 transactions a day and can handle the current load, which recently hit 1.4 million, only because of stop-gap measures to increase capacity.

The network is operated by the Society for Worldwide Interbank Financial Telecommunication, a Brussels-based consortium of 1,600 banks in 71 countries.

One of the early users of Swift-2, Huntington National Bank, Columbus, Ohio, said it would save at least $40,000 a year with Swift-2 because it now needs only one person instead of two to manually check and enter incoming letters of credit. Staff requirements will also be reduced in other areas, such as payments, according to Charles McGuire, vice president and manager of international operations at Huntington.

Most Anticipate Savings

Some other banks say savings will come when all banks are using Swift-2. "There's potential to save money down the road, but the major capabilities of Swift-2 are limited until everyone's on it," said Michael Sipe, manager of international communications at First Bank System Inc., Minneapolis.

He said eventually Swift-2 will allow banks to cut down on message costs by sending longer messages than they can now. Today long messages have to be broken down and sent in several parts.

Huntington, which sends about 300 Swift messages a day and receives about 250, is creating software to allow those messages to initiate payments on Fed Wire. The bank makes 50 to 60 payments a day via Fed Wire.

Retrieval Feature

Another benefit of the Swift-2 system is the ability to retrieve messages sent up to 90 days ago, said Mr. Sipe of First Bank.

If a customer asks to see a letter of credit sent two and a half weeks ago, a bank using Swift-1 has to pay as much as $100 to retrieve a record of that message.

Absorbing Fees

Sometimes banks pass such fees on to the customer, but often they absorb the cost. The decision depends on the type of relationship with the customer, said Mr. McGuire of Huntington Bank.

Along with Huntington, U.S. banks already using Swift-2 are First National Bank of Maryland; First Bank National Association, Minneapolis; Manufacturers Hanover Trust Co., New York; Riggs National Bank of Washington; and the New York branches of National Australia Bank Ltd. and União de Bancos Brasileiros in Sao Paulo. □

Swift-2 Users Hail Network Upgrade

U.S. Participants Report Enhanced Service, Savings

By JEANNE IIDA

NEW YORK — The seven U.S. banks that are using the Swift-2 network, the long-delayed upgrade to the international interbank messaging network, are reporting service improvements and some early cost savings.

Swift-2 allows banks to automate their procedures so that a Swift message generates a payment without human intervention. Such automation can save

About 100 banks will begin migrating to the new system in September.

ANOTHER

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Jim Scanlon, Jr., Senior Vice President
First National Bank, Albuquerque, New Mexico

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COMPUTER ASSOCIATES

COMMENT/*By Alfred Pollard and Thomas Greco*

Congress Must Correct Superfund Law

The Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, was enacted in 1980 in the wake of several well-publicized discoveries of hazardous waste sites, such as the Love Canal area in New York and the Hooker Chemical facility in Montague, Mich.

The law was designed as a comprehensive scheme for addressing environmental hazards. In addition to creating a means to promptly and effectively respond to the release of hazardous substances, Congress developed an elaborate framework of liability that imposes cleanup costs on those parties responsible for causing the contamination.

Superfund, as applied by the courts, imposes strict joint and several liability for the costs of responding to a release or threatened release of hazardous substances and for the harm to natural resources caused by such release [42 USC 9607(a)].

Mr. Pollard is senior vice president of Security Pacific Corp. in Washington, D.C., and Mr. Greco is associate general counsel for the American Bankers Association. Washington. Charles Lerlow of Cleary, Gottlieb, Steen & Hamilton also contributed to this article.

"No showing of fault is required, and one person may be made to pay for the entire cleanup even if there were other responsible parties involved."

No showing of fault is required, and one person may be made to pay for the entire cleanup even if there were other responsible parties involved. The latter concept has the effect of forcing a single responsible party to attempt to recover from others who were also involved.

Liability Under Superfund

Liability is based on three elements:

- A release has occurred or is threatened.
- Response costs were incurred (that is, costs to investigate, remove, or otherwise deal with the hazardous substances).
- The person involved falls into one or more of four categories of responsible parties outlined in the law (specifically, a current owner or operator of a facility; a former owner or operator of a facility at the time of disposal of a hazardous substance; a person who arranges for transport, treatment, or disposal of hazardous substances; or the transporter of hazardous substances).

Defenses Under Superfund

The Superfund law specifies three limited defenses to liability:

Under 42 USC 9607 (b)(3), a person is relieved from liability if a discharge was caused by an act of God, an act of war, or "an act or omission of a third party." For the third party defense to apply, the "third party" cannot be an "employee or agent of the defendant" or someone whose act or omission occurs in connection with a contractual arrangement.

Under the Superfund Amendments and Reauthorization Act of 1986, a contractual relationship is defined in 42 USC 9601 (35)(A)as include "land contracts, deeds, or other instruments transferring title or possession."

When a land contract is involved, however, a defendant is entitled to assert an "innocent landowner" defense in certain narrowly drawn circumstances.

To prevail, a defendant must establish two elements:

- That the property was acquired after the hazardous substance was placed there and at "the time the defendant acquired the facility the defendant did not know and had no reason to know that any hazardous substance which is the subject of the release . . . was disposed of on, in, or at the facility."
- That at the time of acquisition of the property, the defendant had undertaken "all appropriate inquiry into the previous ownership and use of the property consistent with good commercial or customary practice in an effort to minimize liability." See 42 USC 9601 (35)(B).

To establish whether the owner undertook "all appropriate inquiry," the law requires courts to "take into account any specialized knowledge or experience on the part of the defendant, the relationship of the purchase price to the value of the property if uncontaminated, commonly known or reasonably ascertainable information about the property, the obviousness of the presence or likely presence of contamination at the property, and the ability to detect such contamination by appropriate inspection."

The law also provides that an owner who "by any act or omission caused or contributed to the

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GRAPEVINE/*By Jed Horowitz*

Citi Compensates. Although Citicorp did not mention the word "bonuses" last week in describing its reconfigured investment and commercial banking sector, some insiders expect to be compensated according to new criteria.

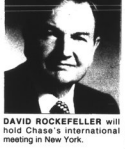
"Intangibles such as better customer morale and increased market share didn't used to count because everything was calculated by profit-center earnings," one banker said. "Bonusable events now seem to include other longer-term things. This is something that [chairman John] Reed has been saying a lot internally."

Citicorp hinted as much when saying it will no longer calculate profit-center earnings for each of its 50-odd businesses in the sector. Instead it will emphasize performance measures that stress revenues, market share, and "tier position" – customers' evaluation of Citicorp as their first, second, or third-choice bank. In the past, tier position was calculated for issuers but not for investors.

* * *

CRA Relief Fees. A satellite industry is emerging to help banks cope with their Community Reinvestment Act obligations. The latest manifestation: A Virginia company that plans to offer guarantees on certain loans to borrowers in poor communities.

"Banks have not been able to fulfill the new requirements because they usually require substandard loans," said Lee Fishman, president of Allstate Financial Corp., a NASDAQ-listed company with a net worth of $8 million that specializes in factoring and financing of "nonbankable" young companies.



DAVID ROCKEFELLER will hold Chase's international meeting in New York.

Allstate, which is not related to the insurance giant, expects to charge a fee of 5% to 10% of the loan it agrees to guarantee. It will also monitor the borrower's collateral for a service fee of about 1.5% of the value of the borrower's receivables.

Mr. Fishman, who said he became aware of banks' CRA quandaries as a board member of Megabank in Miami, expects to sell his first guarantee within a week to a bank in the Washington area. He said he is talking with Crestar, Riggs National Bank, Maryland National Bank, among others. Allstate, which owns Receivable Financing Corp. in New York, has a 3A-2 Dunn & Bradstreet rating, the third highest for a firm its size, Mr. Fishman said.

* * *

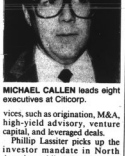
At Home Abroad with Chase. Chase Manhattan Corp. signaled its new emphasis on thrift last week when it said that its international advisory committee – chaired by David Rockefeller and "counseled" by Henry Kissinger – would meet in New York rather than overseas. (*The New York Times*, which broke the story, did not say how much the bank expects to save by flying in and housing, in low-priced Manhattan, the committee's far-flung members from 17 nations.)

Chase chairman Willard Butcher was battered at the bank's annual meeting by an investor who wanted to know why the bank had flown its 22 directors and their spouses for a meeting in Italy and Germany last year. Mr. Butcher, who said the trip cost over $1 million, justified it as a way to educate the board about Chase's plans for expansion in Europe after the 1992 economic unification. Chase has since drastically cut those plans.

* * *

The Citi Lineup. In attempting to eliminate the bureaucratic structure of its global finance sector, Citicorp is harking back to the old division between investment and commercial bankers. The new lineup of eight executives for the sector head Michael Callen is being divided into customer men who sell to investors (investment banking/capital markets/distribution) and issuer men. They ostensibly have no administrative responsibilities, such as hiring, but will cultivate specialties such as cost cutting.

Ernst Brutsche, who chairs the sector's foreign exchange and derivative products committee, is focusing on selling to investors in Europe. Jeffrey Grandy oversees European issuer services, such as origination, M&A, high-yield advisory, venture capital, and leveraged deals.



MICHAEL CALLEN leads eight executives at Citicorp.

Phillip Lassiter picks up the investor mandate in North America, while Robert Welch oversees North American corporate borrowers. Todd Slotkin is responsible for specialized finance and advisory activities in the United States and Canada.

Responsibilities for capital markets activities and sales of securitized products – considered customer activities – go to Rodney Ballek in North America and Peter Burnim in Europe. □

Reader Forum

The *American Banker* welcomes points of view on issues of interest and importance to the banking industry.

Please direct them to Jeffrey Kutler, assistant managing editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004. Letters may be edited for space.

REQUIRED READING/*By Alan Greenspan*

Credit May, Indeed, Be Getting Too Tight

Mr. Greenspan testified July 18 before the Senate Banking Committee about the Federal Reserve Board's semiannual report to Congress on monetary policy. The following is an excerpt.

When I came before this committee in February, I characterized the economy as poised for continued moderate expansion in 1990, and, in large measure, developments so far this year appear to have borne that statement out. Real GNP grew at a 2% annual rate in the first quarter, and indicators of economic activity for the second quarter suggest a further rise, though perhaps at a somewhat slower rate.

On the distinctly positive side, exports have shown solid gains, buoyed by expanding markets abroad. The impetus from international trade has been important in the pickup in industrial production this year.

Consumers Pulling Back

In contrast, the news coming from the household sector in recent months has had a softer cast to it. Consumers appear to have pulled back a bit, as the slower overall pace of expansion and the more pronounced weakness in certain parts of the country – especially the Northeast – seem to have taken some toll on confidence in the economic outlook.

"The likelihood of a near-term recession seems low."

Moreover, having accumulated large stocks of automobiles and other consumer durables earlier in the expansion, consumers could be more selective about when to purchase replacements. Sales of new homes also have weakened.

Economy Still Growing

There are other pluses and minuses. Overall, however, the economy still appears to be growing, and the likelihood of a near-term downturn seems low, in part because businesses have been working hard to keep their inventories in line with sales trends.

Although output overall grew rather modestly over the first half, the unemployment rate remained at its lowest level in almost 20 years.

Inflation Slips Back

The core rate of inflation in consumer prices, proxied by abstracting from movements in food and energy prices, picked up sharply in the first half but has moderated in recent months. This moderation has been concentrated in the prices of goods, perhaps reflecting the ebbing of capacity pressures in a number of industries, while service price inflation has shown little sign of abating.

In 1990, Federal Reserve policy has continued to be directed at sustaining the economic expansion while making progress toward price stability.

Ultimately, the two go hand in hand: A stable price level sets the stage for the economy to operate at its peak efficiency, while high inflation inevitably sows the seeds of recession and wrenching readjustment.

Risks Seemed Balanced

In the short run, however, the risks of inflation, on the one hand, and of an economic downturn, on the other, must be weighed in the policymaking process.

The Federal Reserve saw those risks as about evenly balanced over the first half of the year and made no adjustments in monetary policy.

Throughout this period, which has been marked by dramatic changes in the flow of funds through depository institutions, the Federal Reserve has been paying particularly close attention to conditions in credit markets.

Evidence Accumulates

Evidence of a tightening of terms and reduced availability of credit has gradually accumulated, to the point where it became apparent in recent days that some action by the monetary authority was warranted.

A number of indicators have been pointing in this direction, including the behavior of the monetary aggregates. Growth in M2, for example, which stalled out in the spring, has failed to strengthen materially, suggesting that the degree of financial restraint in train might be greater than anticipated or than appropriate.

This restraint is a function of developments in the credit markets, independent of monetary policy. The recent decline in the federal funds rate to 9% as a consequence of . . . [Fed] action to ease slightly the pressures in reserve markets represents an effort to offset the effects of greater stringency in credit markets.

Market Interest Seesaw

Other market interest rates generally rose early in 1990, as it became apparent that the economy was not as weak as many had thought. Long-term yields were most affected, increasing a full percentage point by early May. Subsequently, however, signs of a softening of activity prompted a reversal of much of that runup.

Throughout this period, rates on Treasury bills have remained somewhat higher than usual relative to those on private instruments, probably in part reflecting the large amount of bill issuance necessary to fund working capital for the Resolution

See **REQUIRED** *next page*

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REQUIRED READING

Continued from page 5

Trust Corp.

The run-up in market interest rates early in the year was one factor behind the sharp slowing in money growth over the first half of 1990. M2, which had been running close to the top of its target range in February, posted no net increase between March and June. This weakness, which moved the aggregate close to the bottom of its range, was too abrupt to be accounted for fully by the rise in market rates, however.

Another of the factors at work was the restructuring of financial flows.

One aspect of this restructuring was the closing of insolvent thrifts by the RTC and sale of their deposit bases. Although the RTC's activities do not directly affect M2, the availability of huge blocks of deposits to the remaining thrifts and banks lessened their need to raise rates to draw in funds.

In combination with the more cautious attitude depositories have exhibited toward expanding their balance sheets, the deposit transfers contributed to an unusual degree of inertia in the pricing of retail deposits. Households responded to the relatively low returns on deposits by looking elsewhere, as suggested by heavy flows into stock and bond mutual funds and sizable noncompetitive tenders at Treasury auctions.

Nevertheless, while the movements in yield spreads can account for a good share of the slump in M2 growth, a portion of it still requires explanation.

The cause for the meager growth this year in the broader monetary aggregate, M3, is clearer: The RTC closed down a very large number of S&Ls, taking many of those institutions' assets onto the government's balance sheet and thereby effectively reducing the overall funding needs of the depository system. In addition, increased loan losses and the phasing-in of tighter capital requirements circumscribed the expansion of credit at many other thrifts and banks.

M3 Stalls Out

With depository credit growth limited, M3 – which contains much of the associated funding – essentially stalled. By June, M3 growth was well below the 2½% lower bound of the target range the Federal Open Market Committee had set in February.

That range had itself been reduced a full percentage point from the target provisionally set last July in recognition of the potential effects of the ongoing contraction of the thrift industry.

Lacking historical experience with a financial restructuring like the current one, however, it was unclear exactly how the flows would end up being redirected through the financial system and, in particular, how much of the thrift lending would be picked up by commercial banks.

While the economy more broadly is about where we expected it to be, the configuration of the financial system is somewhat different, leading to less M3 growth than had been anticipated.

Credit Conditions

The weakness in the monetary aggregates in part signals a change in the behavior of depos-

"I would not call this change a 'credit crunch' . . . but I can well appreciate that my view may be perceived as a semantic nicety by a borrower who today is suddenly unable to get a loan on the terms formerly available."

itory institutions, with potential for affecting overall credit provision.

The conservative pricing of retail and wholesale deposits represents one aspect of their efforts to widen profit margins. In light of concerns about their capital positions, banks and thrifts also have reined in lending activity and imposed stiffer terms on loans.

Is It a Crunch?

The change in credit supply conditions may have significant implications for borrowing, spending, and policy.

I would not call this change a "credit crunch," as those words connote a contraction of lending on a major scale, with many borrowers effectively shut out of credit markets, regardless of their qualifications. We are not seeing symptoms of that kind of widespread, classic crunch, as in the past when deposit rate ceilings or usury ceilings limited the market's ability to adjust and forced cutoffs of credit.

But I can well appreciate that my view on this topic may be perceived as a semantic nicety by a borrower who today is suddenly unable to get a loan on the terms formerly available.

To the borrower, it makes little difference why the lender is pulling back or how pervasive the change in credit conditions is.

Verdict Isn't In

From a policymaker's perspective, however, it is essential to sort the issues out. This means discerning the breadth and depth of the shift in credit conditions, its causes, its effects, and the extent to which it may ultimately be a desirable development.

Clearly, the verdict is not yet in on the current episode; in economics we are seldom able to make a definitive diagnosis until well after the fact, but to do our job we must hazard some answers.

Lenders More Selective

First, what do we observe? The evidence on this score continues to grow; numerous reports indicate that depository institutions and other lenders have become more selective in extending credit.

In addition, Federal Reserve surveys of large banks support this sense that terms have been tightened in particular parts of the country and on certain types of loans. Especially hard-hit have been financings for mergers and leveraged buyouts, commercial real estate, and construction and development.

There also is evidence that small and medium-size companies, as well as the poorer-quality credits among the larger firms, have faced some tightening of credit availability.

The change in credit conditions has taken various forms, including tougher standards for credit approval, higher collateral requirements, and increases in interest rates. And, in some cases, loans have been simply unavailable.

Even investment-grade corporations appear to be facing slightly higher costs in accessing bank credit facilities. At the same time, a huge widening of spreads on less-than-invest-

See REQUIRED next page

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REQUIRED READING

Continued from page 6

ment-grade bonds has effectively shut down that market to most new issues.

Some Sectors Little Affected

But on a number of other types of credit, changes in price and nonprice terms appear to have been relatively minor. For example, the rates on residential mortgages, consumer loans, and the debt of investment-grade corporations have remained about in their usual alignment with other market interest rates.

Because these credits may trade on securities markets and thereby access a broad range of investors, the interest of banks and thrifts in holding the obligations in portfolio has little, if any, effect on the cost to borrowers.

These obligations account for a major share of the credit extended in the economy, and hence the slowing of depository credit and the sluggish behavior of the monetary aggregates, while indicative of some tightening of credit, likely overstate the impact of the depositories' behavior on economic activity.

Restraint Is Partly Cyclical

No doubt a sizable portion of lenders' increased reluctance to commit funds for certain purposes reflects a natural and healthy reaction to a slowdown in growth as the economy moves closer to capacity constraints.

Prospects for continued strong production and sales increases fade, and the odds rise that some borrowers will prove unable to meet their obligations.

Paying for Excesses of 1980s

But there is more to it than that. Through one avenue or another, the change in credit standards has its roots in part in the excesses of the 1980s. The weaker credits extended during that decade have come home to roost, and in so doing have impinged to varying degrees on the current availability of credit.

Perhaps the clearest example is the real estate sector and its principal lender, the thrift industry. Those S&Ls that were the freest with their funds exist no longer, having been closed by the RTC, and the remaining S&Ls face tighter regulations constraining their lending.

The resulting void has been filled quite effectively for home mortgage borrowers, with highly developed secondary markets drawing funds in from elsewhere. For these borrowers, the shrinkage of the thrift industry does not represent a significant decline in intermediation services.

But many other clients of thrifts, whose debt is less easily securitized, have been hard-pressed to find alternative sources of funds. Moreover, lax lending standards by both thrifts and banks contributed to overbuilding in commercial real estate, which has added to problems for lenders to this industry.

Incentives to Conserve Capital

Rising capital requirements for banks and thrifts have interacted with large losses on soured loans and the financial market's distaste for providing additional capital to the institutions taking these losses. This interaction has resulted in strong incentives for

"When you go from excess credit creation to normal, it can feel like a tightening."

depository institutions to conserve capital. Their efforts to build larger capital cushions, in turn, have been manifest in a somewhat more cautious approach to lending, as well as a stepped-up effort to sell off assets by, for example, securitizing loans.

Partly as a result of tighter credit conditions, the growth of credit, as measured by the change in the debt of domestic nonfinancial sectors, has come down into closer alignment with the expansion of nominal GNP. This process, which reflects a somewhat more cautious approach on the part of borrowers as well, is not an aberrant restrictive phase in the life of the financial system, but rather a return to what had been the norm prior to the 1990s.

To be sure, when you go from excess credit creation to normal, it can feel like a tightening. And in that sense credit conditions have tightened.

In addition, however, depository institutions appear more ready to be lending with greater caution in general. As a result, even creditworthy borrowers may have to look harder for a loan, put up more collateral, or pay a somewhat higher spread.

Benefits and Costs

For the nation as a whole, the tightening of credit standards will leave the financial system on a sounder footing and contribute to economic stability in the long run.

Nevertheless, in the here and now, the tightening is beginning to have very real, unwelcome effects. Diminished credit availability can constrain firms' spending, for example, limiting more of them to internally generated funds.

It is difficult to discern the dividing line between lending standards that are still healthy and those that are so restrictive as to be inconsistent with the borrower's status and the best interests of the lender in the long run. In recent weeks, however, we may have slipped over that line.

'Slight' Restraint on Economy

Such developments can, and do, occur independently of central bank actions, and can have important influences on spending and output. Thus the Federal Reserve must remain alert to the possibility that an adjustment to its posture in reserve markets might be needed to maintain stable overall financial conditions.

As best we can judge, the change in credit conditions currently is exerting a slight additional degree of restraint on the economy.

The process of credit restraint may not have reached completion, and some of its effects may not yet have been felt; hence it will require continued scrutiny. However, the tightening should eventually unwind as displaced borrowers find alternative sources of funds and as the banking system rebuilds its capital.

Implications for Fed Policy

This restraint has implications for monetary policy at present, and the ongoing restructuring of the financial system has implications for the conduct of policy over the foreseeable future.

It is clear that the financial restructuring will affect the channels through which policy actions are transmitted ultimately to economic growth and inflation; some will be diminished and others augmented.

In these circumstances, the Federal Reserve has emphasized a flexible approach to policymaking, which includes attention to a wide range of economic and financial indicators. □

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CONSUMER NEWS

PRIVATE BANKING

Where Clients Are Scarce, Net Worth Isn't Everything

By MAUREEN NEVIN DUFFY
Special to the American Banker

Private banking does nicely where there is a large population of wealthy people. But what about where there are few? One Australian institution believes it has found the answer.

"For the traditional private bank, Australia would represent a very poor opportunity," said Paul Clitheroe, director of IPAC Securities, a Sydney-based financial planner that operates a private banking service in partnership with Lloyds Bank NZA Ltd.

Australia "simply does not have large numbers of high-net-worth individuals," Mr. Clitheroe said. Furthermore, "many of those who do fit into this category have a great percentage of their wealth in illiquid assets, principally real estate, property."

So IPAC and Lloyds decided to set their sights on "high-income rather than high-net-worth individuals," Mr. Clitheroe said.

"There is a significant, growing, and underserviced market for a private banking operation focusing on individuals with high income levels rather than high asset levels."

IPAC's research showed that in its potential market this segment contained nearly 87,000 people with incomes of $50,000 to $100,000 in U.S. dollars and 12,000 people with incomes of at least $100,000.

> **"There is an underserviced market for individuals with high income levels rather than high asset levels."**
>
> **Paul Clitheroe**
> *IPAC Securities*

As its target group, IPAC chose people earning $80,000 or more. Most work for Australia's top 100 companies; IPAC aimed its marketing campaign toward these executives.

This market wanted advice that was fee-based, independent, professional, and backed by a sound parent company, research showed. IPAC and Lloyds developed products including an executive's personal business plan for a fee of $2,000 to $3,000.

"In the first year of our joint operation, five major Australian corporations appointed us to assist their senior executives in the management of their personal finances," Mr. Clitheroe said.

The marketing contact was made through the personnel director or human resources manager. The only advertising expense has been for production of a marketing brochure.

Some observers see a trend in private banking to incorporate clients without extremely high net worth. Another Australian private bank, ANZ Grindlays Bank, a subsidiary of ANZ Banking Group Ltd., Melbourne, accepts clients with $50,000 to deposit. At ANZ the price of entry is also affected by where clients want funds kept; a U.S. account does not require so large a minimum deposit as one in Geneva.

Tapping the Expatriate Market

The largest trust company in Canada is providing a package of services aimed at people living outside of their home country.

Royal Trust Bank says services such as its Globally Yours are a growing business and a sound way to lure high-income executives.

The bank finds potential Globally Yours clients through its corporate financial services division and its Royal Le Page Relocation Services. Contacts are also made through branch manager referrals. Officers visit interested companies to inform executives and staff.

In most cases, financial arrangements should be started months before executives move out of the country, experts say. The return should similarly be planned well in advance.

Most Globally Yours clients are from Canada. But the company plans to broaden its market to include executives from the United States, according to Trevor Wynn, the program's director on Jersey in the Channel Islands. Expatriate services account for most of that office's business.

"Expat business is on the increase," Mr. Wynn said. "In order to cope with the global marketplace, corporations need experienced managers who can be anywhere in the world. They must have more people positioned in order to compete."

Globally Yours services are paid for by the client's corporation or by the client on an hourly rate or a flat fee basis. Services include tax and financial advice and multicurrency checking accounts. A full range of private bank products, including asset management, is also available. But small accounts make some sophisticated products, such as portfolio management, too pricey to be practical.

The Jersey office also handles mundane services, including paying clients' bills and insurance premiums – and some truly extraordinary requests. "If your roof falls off the house back in Canada, you're not going to come all the way back from the Ural Mountains to fix it," Mr. Wynn said. "The private banker will see to it."

Ms. Duffy is a freelance banking reporter based in New York.

Insurance Battle Brewing in Pa.

Pending Bill Would Allow Banks to Sell Coverage

By A. JOSEPH NEWMAN JR.
Special to the American Banker

PHILADELPHIA — Another battle, this time in Pennsylvania, is shaping up over whether commercial banks should be permitted to sell insurance.

The battle lines are forming around legislation that was introduced in the Pennsylvania House of Representatives in June, a few days before members went home for the summer.

"I like it. It's a good bill," said James R. Biery, the Pennsylvania Bankers Association's vice president of government affairs.

"We're opposed to it," countered Frederick Russell, senior vice president of the Professional Insurance Agents Association of Pennsylvania, Maryland, and Delaware. That lobbying group recently lost a fight in the Delaware legislature, which passed a bill permitting state-chartered banks to underwrite and sell insurance nationwide.

Action Unlikely This Year

Both sides agree that the Pennsylvania proposal is not likely to go far this year. Lawmakers return to work after Labor Day, but the fall elections leave little time for consideration before adjournment in November.

The stage is thus being set for a fight next year, when the bill's chief sponsor, state Rep. Allen G. Kukovich of Westmoreland County, a Democratic leader, plans to reintroduce it.

The bill would amend the Insurance Department Act to permit banks, trust companies, and bank holding companies to be licensed to sell insurance as brokers or agents.

Tie-ins to other bank products would be banned. Banks could sell insurance for the first five years only through brokers or agents already licensed by the department – a condition similar to one in a pending legislative proposal in Illinois.

> **"There's no way that legislation can prevent coercion."**
>
> **Frederick Russell**
> *Professional Insurance Agents Assn.*

Bankers' Support Expected

The government affairs policy committee of the Pennsylvania Bankers Association is expected to back the proposal at a meeting July 31, Mr. Biery said. He added that the association had no role in writing the bill.

The five-year transition period could be "a little long," Mr. Biery said. The period could be shortened and other changes made next year when the bill is reintroduced.

Rep. Kukovich said his original bill was designed "to get the discussion going." He plans to hear bankers association officials' views at a meeting this summer.

The degree of the bankers' interest, he said, will determine "how high a priority" he puts on it next year. Rep. Kukovich is chairman of the House Democratic Policy Committee, but he said the bill does not have the formal backing of the administration of Gov. Robert Casey, also a Democrat.

Meanwhile, the Pennsylvania Bankers Association will poll members this fall to determine their degree of support for various new bank powers including insurance, real estate brokerage, and securities.

Benefits for Buyers

Rep. Kukovich conceded that his bill contains "an element of regional" against the insurance industry. But he added that more competition would benefit insurance buyers.

Mr. Russell, who said he represents 1,900 insurance agencies with 13,000 people in Pennsylvania, promised that bankers would see "a lot of fur flying" on the bank insurance issue. His association is urging agents to write and visit legislators in a preemptive lobbying strike.

"There's no way that legislation can prevent coercion, expressed or implied, of [a bank's] debtors to buy insurance," Mr. Russell said. "People who need credit will do what they think a lender wants them to do, whether the lender wants them to or not." □

Discover Card Earns $24.4 Million in 2d Quarter

By ELLEN MEMMELAAR

The Discover Card from Sears, Roebuck and Co. continues to solidify its position in the credit card industry, contributing $24.4 million in second-quarter earnings to its retailing parent company.

Discover's profits represent a 47% increase over the $16.6 million earned in the period last year. Though earnings are down from the first quarter of this year, when profits were $35.4 million, the slippage can be attributed to seasonal considerations, said Douglas Fairweather, a Sears spokesman.

Earnings Meet Expectations

"We are very pleased," Mr. Fairweather said. "It's meeting our expectations." He declined to project Discover's earnings for the third quarter or the year.

But if the trends of the first and second quarters continue, Discover could show a profit of $120 million for 1990.

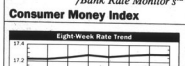
For 1989, the card posted $80.2 million in profits, up from $18.9 million in 1988.

Nine quarters of continuous profits have affirmed Discover's staying power in a market dominated by American Express, MasterCard, and Visa.

At the end of 1989, Discover had 32.8 million cards outstanding, up 20% from the previous year. Overall, Sears reported a decline in second-quarter earnings, reflecting declines in its Allstate Insurance Group and its Merchandise Group. □

/Bank Rate Monitor's™

Consumer Money Index — **Personal loan rates and fees**



Here are the personal loan rates and fees charged by selected large banks and thrifts nationwide on July 24. The rates are for a $3,000 unsecured personal loan with a fixed rate and a 24-mo. term. The 8-week trend is based on rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.

Thrifts

THRIFT	RATE	FEES
Beneficial Svgs Bank, New York	13.00%	None
First Mutual of Boston, Boston	17.00	None
Germantown Svgs Bank, Bala Cynwyd	16.25	None
Newgrid Bank, Boston	18.00	None
Provident Inst. for Svgs Boston	18.00	None

Banks

BANK	RATE	FEES
Fidelity Bank, Philadelphia	12.49%	None
Harris Trust & Svgs Bank, Chicago	18.00	None
Maryland Nat'l Bank, Baltimore	17.90	None
Michigan Nat'l Bank, Farmington Hills	15.00	$50
Philadelphia Nat'l Bank, Philadelphia	15.40	None

Source: Gilbert Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

Greenspan Says Fed Hasn't Backed Down on Inflation Fight

Continued from *page 1*

the central bank was going soft on efforts to curb inflation.

Mr. Greenspan testified on July 18 that the quarter-point drop was to "mesh with a very restrictive bank lending. The "dividing line" between healthy lending standards and those that are too restrictive is hard to discern, Mr. Greenspan said. "In recent weeks, we may have slipped over that line."

The Markets Weigh In

Markets responded to the Greenspan testimony of July 18 with a steeper yield curve, reflecting rising long-term rates relative to short-term rates on Treasury securities.

Short-term Treasury rates were up in Tuesday's market. The three-month Treasury bill was trading at a yield of 7.78% Tuesday afternoon, compared with 7.71% on Monday. The yield on the benchmark 30-year bond rose from 8.56% to 8.58%.

Lenders Called Reluctant

Some market participants were disappointed on Tuesday when Mr. Greenspan chose not to elaborate on his earlier comments on credit tightness. He added only that the lack of credit was due to a reluctance of lenders rather than overzealous regulators.

> **The easing appeared to be a softening by the Fed in its stand against inflation.**

"He knows he failed at the first Humphrey-Hawkins performance," said Robert A. Brusca, chief economist of Nikko Securities Co., referring to the law that mandates the Fed chairman's semiannual reports to Congress. "He was trying to go out and improve" his performance.

The markets did not react negatively to the Fed's easing of interest rates just before Mr. Greenspan's first testimony, said Mr. Brusca. The market responded negatively because it did not find credible the chairman's explanation that the Fed was responding to a credit tightening.

Perceived as Political Move

"What the market didn't like is that he said [the easing] was due to a credit crunch, which he said didn't exist two weeks ago," said Mr. Brusca. The market concluded that Mr. Greenspan was giving in to political pressures to respond to signs of a weak economy and lighten up on its inflation fight.

> **The market concluded that Mr. Greenspan was giving in to political pressures to respond to signs of a weak economy and lighten up on its inflation fight.**

"Gary Schlossberg, vice president and chief economist of Wells Fargo Bank, San Francisco, agreed that the market had responded negatively because it did not believe the chairman's contention that it was motivated by a credit crunch.

"It may be true that the credit squeeze may have caused the Fed to ease, but the evidence is really sketchy," said Mr. Schlossberg. "His evidence is not in published numbers."

Paul DeNoon, money market analyst at Manufacturers Hanover Securities Corp., predicted that the markets would not be reassured by Mr. Greenspan's latest statements. As a result, he said, the Fed would probably be unable to ease credit without producing further negative results in the market.

To ease again, the Fed chairman would have to be able to point to both further significant signs of a credit crunch and a weakening economy, Mr. DeNoon said.

Traders said Mr. Greenspan had largely preempted further market reaction on Tuesday after hefty price swings on testimony last week when he left open the prospect for further easing in response to tight credit. □

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Sale of Deposits Set By Co-operative Bank

ACTON, Mass. — The Co-operative Bank of Concord, Mass., said it has agreed to sell the $15 million of deposits in its Cohasset office to a nearby facility of South Shore Bank, Quincy.

The transfer, which is expected to take place later this year after regulatory approvals, will bring South Shore Bank's Cohasset office up to $33 million in deposits.

The Co-operative Bank, with $677 million in assets, is based in Acton and operates 14 retail offices. South Shore Bank had $1.1 billion in assets at yearend 1989. — **Reuters**

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More Banks Charge for ATM Network Use

By JEANNE IIDA

In an attempt to offset the costs of running networks of automated teller machines, banks are increasingly charging their customers for transactions made on shared networks, according to a study by the Bank Administration Institute.

A small and apparently shrinking number of banks also charge for transactions made on the bank's own ATMs. The institute based its findings on a survey of ATM use at 168 financial institutions in 1989.

Mature Service

The percentage of banks charging transaction fees rose about 15% in 1989. "ATMs are now a mature service," said Bruce Davis, director of operations and technology at BAI, Rolling Meadows, Ill. "Marketers are now looking at it as a product where fees can be charged."

One factor contributing to the increases is that service charges do not appear to dissuade consumers from using ATMs. "Consumers' demand to use the machines is not related to price," said Jack Benton, president of Benton International, Los Angeles, which tracks ATM usage.

Differentiating Networks

Of the banks surveyed, 77% charged fees for transactions made on national networks; 69% charged for regional network transactions.

However, the study showed the start of a trend to move away from service charges performed on banks' own machines. Only 14.3% of the banks charged for such "on-us" transactions, down from 18.1% in 1988.

The decline in proprietary fees could represent a reallocation of fees, according to the BAI. "Some banks may have instituted charges and then backed off," said Mr. Davis. "Others may have gone to a pricing differential to motivate customers to use [banks'] own ATMs."

Regional Variations

Noshir Kathok, senior vice president with Benton International, said the number of banks charging for proprietary transactions varies by region. "In California and on the West Coast, banks have been charging for proprietary transactions for some time, but in the East it hasn't been that," he said.

Banks that charged for check processing often instituted lower fees for ATM transactions to encourage customers to move to electronic transactions. Now some of these banks may be dropping those charges in response to competitive pressures, Mr. Kathok said.

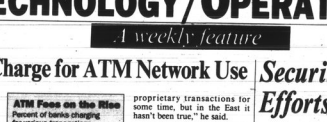
Fees Source of Revenue

Valley Bank, Las Vegas, does not believe in charging its customers for ATM transactions. The bank charges noncustomers $1 for each nonproprietary transaction. "We have 210 ATMs – half of them in casinos," said Paul Stowell, a Valley spokesman. "We see [the service fees] as a revenue opportunity, but we will not charge our own customers."

Service fees of all types, whether proprietary or nonproprietary, tend to be tied to such things as the customer's balance, Mr. Kathok said.

In what may indicate the future direction of similar studies, Mr. Kathok said his firm has found data that indicates a different type of consumer is drawn to using an ATM card in a supermarket than is drawn to using an ATM machine in a bank branch.

"You find the people who like to use [point-of-sale] cards are often older people, who like to go into a bank branch and talk to a teller, but who don't want to carry a lot of cash around," Mr. Kathok said. □



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Security Pacific Boosts Efforts to Link Branches

By SHIMON-CRAIG VAN COLLIE
Special to the American Banker

Long a technology powerhouse, Security Pacific Corp. has stepped up efforts to knit together its far-flung branch network.

"The pace of our major projects is at an all-time high, and the amount we have invested in them is greater than ever before," said Dale Terrell, executive vice president of Security Pacific Automation Co., the bank corporation's information systems unit. "We're creating savings by reducing costs and increasing quality."

The automation company is the driving force in the bank's effort to consolidate loan systems and centralize customer service, data-center automation, branch communications, and image processing operations. The unit has saved its $85.1 billion-asset parent about $150 million in reduced labor costs.

Leader in Automation

"They're a good operation with good numbers," said Robert Albertson, vice president of Goldman, Sachs & Co., New York. "To date, not many big banks have been able to create a common system over a broad geography, but they're definitely a leader in that area."

SPAC was formed in 1988 partly to create a common set of application, product, and delivery systems and to consolidate operations in consumer loan accounting, commercial loans, demand and time deposits, and delivery systems. By yearend, the unit will have completed the loan portion of the program, having melded 15 systems for loan originations, consumer and commercial loans, and collections into one system.

"That's the model we're following for all of our systems," Mr. Terrell said. "Our target date to convert the deposit system in California is early 1991. The other stages should be completed in 1992."

A Place for PCs

The bank has similar plans for electronic delivery systems. The information systems unit is now piloting a branch delivery program to replace existing teller and platform terminals with personal computer and local-area networks, or LANs.

Mr. Terrell expects the pilot to show that PCs can coexist with older terminals, allowing the changeover to be gradual. This transition strategy will also enable Security Pacific to install the PC/LAN configuration at newly acquired banks and plug them into the central system.

PCs and LANs are already being used to consolidate the gains made by centralizing such branch functions as ATM deposits and night deposits. The information unit claims the configuration has facilitated a 15% saving in labor and added quality control for data coming out of its product and accounting systems.

In addition, the configuration has enabled the unit to unify workstations for back-office tasks such as general ledger and cash clearing. Traditionally, such areas were independently staffed, but now they are part of a generic system that can distribute work loads more evenly.

"We're moving data to where the workers are, instead of building systems that access data from a central computer," Mr. Terrell said.

The information unit has also bolstered the retail bank's 24-hour customer service area. Up to 60 transactions can now be handled by phone, relieving the workload at branches and allowing for extended banking hours and cross-selling.

"We're creating savings by reducing costs and increasing quality."
Dale Terrell
Security Pacific Corp.

At the same time, the unit has reduced its primary data centers from five to two – one in Seattle and one in Brea, Calif. – thus generating an additional estimated saving of $5 million a year.

Robots Added to Banks

Further gains are being made in automation within the centers. For example, robots load and remove cartridge tapes for production runs. IBM computers at the bank's satellite data centers are being run from the primary centers without human intervention. Internal bank memos are being transmitted electronically rather than printed, and wherever possible, internal reports are being doubled up on the same piece of paper. As a result, the use of certain types of paper has dropped 30% to 40%.

Security Pacific's communication network, completed in March, complements the effort. The network consists of 17 major nodes linked by 51 proprietary communication lines that run along the West Coast and east to New York. It has enabled the unit to trim expenses to a third of the total before integration, said Laurence Dorf, executive vice president for SPAC's network and computer services.

The lines are part of a so-called T1 system, a digital cable capable of simultaneously transmitting 24 communications, thereby reducing the number of lines required.

Next, Security Pacific will hook up branches with a Uniform Access Network, including ATMs, teller terminals, alarm systems, voice, and other functions. In the future, the network also is expected to support image processing, delivering documents electronically.

Shimon-Craig Van Collie is a journalist based in Oakland, Calif.

Big Financial Companies Prepare to Bid on RTC Assets

Continued from *page 1*

agency will take 70% to 90% of the profits from bulk sales of sour loans and other financial assets seized from failed thrifts.

But the deals for the $500 million asset blocks will be structured "so there is an incentive for the purchaser to sell assets and maximize recovery, and not just liquidate them," said RTC spokesman Stephen Katsanos. The RTC will provide up to $2 billion in financing to facilitate the first bulk sales from its $37 billion receivership portfolio, he added.

Interest Expressed Early

Even though the first bids are not due until November, the plan already is drawing interest from Wall Street, investment groups, and other asset managers, according to sources familiar with the bidding process.

By retaining the lion's share of the profits on bulk sales, the RTC can protect itself from the financial and political consequences of having sold the assets too cheaply, said Joseph F. Robert Jr., chairman and chief executive of one potential bidder, Alexandria, Va.-based J.E. Robert Cos.

Following a bulk sale, the RTC would receive the larger proportion of profits until the buyer's debt is repaid. Then any additional profits would accrue primarily to the bidder, according to the agency.

The RTC said Tuesday it would offer seller financing on bulk sales for up to five years, and possibly longer, for 85% of the purchase price. And it said it could be flexible with winning bidders by negotiating the contents of the package of assets, possibly substituting undesired assets or indemnifying the acquirer.

One observer said the shared collection arrangement outlined by the RTC raised some questions about whether the thrift-resolution agency is actually transferring risk to investors.

"Is this a clear-cut sale of assets, or is it a back-door financing scheme?" asked Bert Ely, an Alexandria, Va., consultant. "If you have a genuine transfer of risk, then the bulk of the initial return goes to the investor, who actually assumes the risk. The seller should only get the extraordinary returns," he said.

But Mr. Robert disagreed. "It's not unusual for a seller to share in the upside as part and parcel of providing financing," he said. "That meets the traditional definition of a sale."

Fine-Tuning Expected

A spokeswoman for the RTC Oversight Board said it will monitor the transactions and review them upon completion, with an eye toward fine-tuning the program. The Oversight Board wants to ensure that the RTC avoids long-term entanglements with borrowers.

"The RTC can sell loans off to the secondary market. We want them to be considering those options," the spokeswoman said.

The RTC bulk sales, which will consist both of bank and real estate property, will be offered to bidders in two forms. The first, a structured transaction, will include performing and nonperforming loans and property assembled in bulk by the RTC. Due diligence on such sales will be allowed.

The second, or expedited, transaction, known as a pool purchase, would be sold without due diligence by the bidders, but would include warranties to return unwanted properties for a certain period of time.

In addition, the RTC is exploring co-fiduciary transactions, in which it would transfer a block of assets to a trust controlled by an acquirer. The acquirer would securitize the assets by issuing bonds to institutional investors and then advance the proceeds to the RTC, pumping needed cash into the RTC.

Under this approach, bonds could be issued for 50% or more of the estimated realizable value of those assets, Mr. Robert said.

"If the RTC is able to take back secondary financing behind the bondholders, that should entitle the RTC to the lion's share of liquidation proceeds once the bonds are defeased," he said. □

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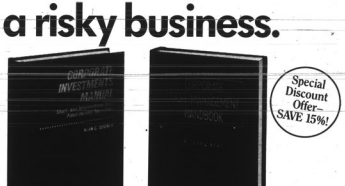

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Student Loans Still Guaranteed, Cavazos Says

WASHINGTON — U.S. Education Secretary Lauro Cavazos said that student loans guaranteed by the financially troubled Higher Education Assistance Foundation would remain guaranteed and that the foundation's default problems do not threaten the integrity of the national student loan program.

Mr. Cavazos said at a news conference that a department task force is now reviewing the foundation's operations at its St. Paul headquarters. After the examination, he said, a decision would be made about what to do if the foundation does not survive.

Mr. Cavazos' comments followed reports that the agency faces possible bankruptcy if it does not merge with another loan guarantor. Under Secretary Ted Sanders said that a merger is not a "preconditive action," adding, "We are exploring various options."

The other choices, he said, include the termination of the foundation as a guarantor and the formation of a new guarantor agency.

Mr. Sanders said the agency's troubles will not lead to a long string of failures in such guarantee agencies.

"This situation will not affect the ability of students to obtain loans, of lenders to make those loans, or of guarantors to insure those loans," Mr. Cavazos said.

"While HEAF's problems are serious to that organization, they do not threaten the integrity of the nationwide guaranteed student loan program or the loans now guaranteed by HEAF. Loans now guaranteed by HEAF will continue to be guaranteed," he said. — **Reuters**

EXECUTIVE *changes*

Eda To Manage The NY Branch Of Sanwa Bank

Japan's Sanwa Bank Ltd. has named **Minoru Eda,** managing director, as general manager of its New York branch. The bank's head office is in Osaka.

He succeeds **Takeo Sakai,** who is returning to Tokyo to become deputy head of the bank's international division.

Mr. Eda, who turns 54 Friday, formerly served as general manager of Sanwa's Nihonbashi branch in Japan. He has extensive experience in domestic and international banking and previously served in the United States as a loan officer at Sanwa's New York branch from 1965 to 1969.

His top priority is to develop Sanwa's U.S. investment banking activities such as mergers and acquisitions as well as capital markets and securities operations, the bank said in a statement.


Minoru Eda

Sanwa, the world's 35th largest bank and the 6th largest foreign bank in the United States with $28 billion in U.S. assets, is already engaged in a broad range of operations.

The bank has a retail banking subsidiary in California, does wholesale banking and trust banking, runs a U.S. primary dealership, and has a leasing company and seven U.S. branches.

Bankers Group Elects Johnson

Gary E. Johnson, president of Community Bank of Arizona in Wickenburg, is the newly elected president of the **Western Independent Bankers,** a regional trade association representing more than 300 independent community banks in the Western United States.


Gary E. Johnson

Mr. Johnson succeeds R. Blair Hawkes, president of Ireland Bank in Malad City, Idaho.

Elected vice president of the group was **John G. Rebelo Jr.,** president of Peninsula Bank of San Diego.

The new secretary/treasurer is **Lawrence S.L. Ching,** president of Liberty Bank in Honolulu.

Mr. Johnson began his banking career 26 years ago in Michigan. He was founding CEO of Community Bank of Arizona, which opened in 1978. He became a director of the bankers' group in 1985 and has served as chairman of its government relations committee. In addition, he is president of the Arizona Bankers Association and is a past president of the Wickenburg Chamber of Commerce.

Howard Savings Bank, Livingston, N.J., said it has named **William P. Tuggle 3d** its new chairman and chief executive officer.

Mr. Tuggle currently serves as a director, president, and chief executive officer of First Fidelity Bank, New Jersey, and as a director and senior executive vice president of First Fidelity Bancorp. The appointment is subject to FDIC approval.

The appointment of Mr. Tuggle ends months of searching for a new chairman. Donald F. McCormick resigned as chairman and CEO on Jan. 29 after the thrift reported a large fourth-quarter loss stemming from real estate problems.

Frank T. Reilly, chairman of the search committee of the Howard's board of directors, said Leo J. Rogers Jr., president of the Howard and acting chief executive officer since Jan. 29, had declined to be considered for the position. Mr. Reilly is a retired chairman and CEO of Brooks Brothers.

Mr. Tuggle , 57, said he was "delighted" to be joining the Howard. He added, "The Howard has a long tradition of responding to the banking and credit needs of New Jersey. I look forward to working with the Howard's many fine employees and its board of directors in meeting the challenges of today and the future."

Mr. Tuggle said that he was concluding his 26-year association with First Fidelity and its predecessors "with a great sense of pride in the organization and with a positive feeling for First Fidelity's future.

— **Franklin Smith**

NEW ENGLAND

Bank of Boston Corp., Boston, has named **Betty L. Francis** comptroller. She was formerly with the Boston Five Bancorp, where she was treasurer.

Richard J. DeKaser has been named senior economist at Bank of Boston. He was previously with Data Resources Inc., Lexington, Mass., where he was senior associate in the U.S. industry information service area.

Tolland Bank, Vernon, Conn., has elected **David H. Gonci** vice president/controller and director of strategic planning.

Mr. Gonci formerly was senior vice president and treasurer of BancNew England Mortgage Co., the residential mortgage affiliate of Connecticut Bank & Trust Co.

Bank of Hartford, Conn., has appointed **Mark B. Shaw** vice president-bank operations.

MIDWEST

Society National Bank, an affiliate of **Society Corp.,** Cleveland, said **Michael R. Greer,** senior vice president, has been named manager of its commercial banking division operations in western Cuyahoga and Lorain counties.

Robert J. Tracy, senior vice president, has been named head of the bank's commercial banking operations for its Cleveland, Cuyahoga East, Lake East, and Ashtabula districts.

See **EXECUTIVE** *next page*

The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others.

Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.

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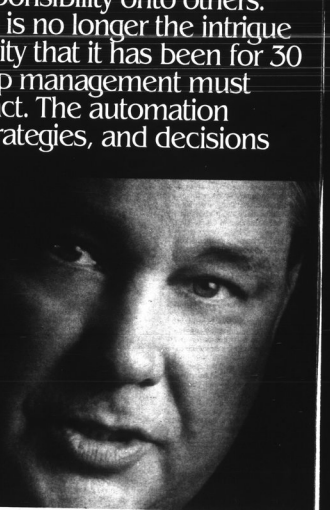


EXECUTIVE *changes*

Continued from *page* **12**

Human Resource Management Systems Inc., Glenview, Ill., said **Peter B. Thompson,** a former assistant vice president with the First National Bank of Chicago, has joined the consulting firm.

Mr. Thompson will be a senior partner in the firm's consulting division, strategic human resources practice.

Bank of Chicago, a unit of **Banco of Chicago Bancorp Inc.,** has named **Ronald E. Fack** to president from executive vice president/acting president. **Charles B. Hall** has been named executive president. Mr. Fack succeeds **William Peterson,** who resigned in January.

First Colonial Bankshares Corp., Chicago, said **William G. Hoskins** has been named chairman of First Colonial Bank of Lake County, Vernon Hills. He will continue to serve as president of the bank. In conjunction with the move, **Ed Werdell** has been named executive vice president.

MIDDLE ATLANTIC

United Intelligence Inc., New York, has appointed **Michael Ognibene** director of marketing and business development. He previously was vice president and manager of money market institutional sales for Swiss Bank Corp.'s New York branch.

Citizens Bank of Maryland, Laurel, has announced the appointments of **Paul W. Hughes Jr.** vice president, systems and programming; **Barbara J. Drew** vice president, real estate; **Jon R. Allen, Michael A. Cibak,** and **C. Bayne Northern** as vice presidents and regional branch supervisors; and **Ashton T. Poole,** vice president loan operations.

Canadian Imperial Bank of Commerce, New York, said **David V. Dunn** has joined the bank as a vice president. He is responsible for managing the precious metal department, which services precious metals producers, consumers, and corporate investors for Canadian Imperial in the United States.

Mr. Dunn previously was a vice president of precious metal sales and trading at Shearson Lehman in New York.

Norstar Bank, Melville, N.Y., a subsidiary of **Fleet/Norstar Financial Group Inc.,** Providence, R.I., has named **Andrew J. Adams** vice president and marketing officer of international trade services in the corporate banking division.

MasterCard International, New York, has appointed **John A. Almash** senior vice president. He will oversee the market research and information services functions for all MasterCard regions worldwide.

KeyCorp, Albany, announces management changes at Key Banks.

In New York State, **Albert F. Kilts** has been named senior vice president for Key Banks shares of New York, and **Kevin P. Riley** has succeeded Mr. Kilts as senior vice president and chief financial officer for Key Bank of Eastern New York. In the West, **Albert V. Legge** has been named senior vice president and chief officer for Key Bank of Oregon, Portland, and **Robert W. Nye** has been designated senior vice president and chief financial officer for Oregon-based Key Mortgage Funding Inc.

Morgan Stanley Group Inc., New York, has named **Philip A. Lacovara** general counsel and secretary of the group and as a managing director and member of the management committee of Morgan Stanley & Co. Inc.

He formerly was with General Electric Co. as vice president and senior counsel for litigation and legal policy.

Bankers Trust Co., New York, said **Jeffrey M. Walters** has been been named head of Bankers Trust, Midwest.

In this position, he is responsible for coordinating and overseeing all of the bank's product groups in the Chicago office, including merchant banking, corporate finance, structured finance, the private bank, BT Commercial Corporation, global operating and information services, and global markets. Walters is also head of the Midwest corporate finance group, which works with corporate senior managements to develop transaction opportunities.

According to Ralph L. MacDonald Jr., managing director and head of the corporate finance department and a member of the bank's management committee, "Our local strengths in business development and execution are critical to our expansion of business in the Midwest.

Mr. Walters was previously vice president and head of merchant banking for the Midwest.

Bank of Bermuda (New York) Ltd. has appointed **Donald J. Danilek** senior vice president responsible for the newly formed private banking/personal trust division.

The parent bank, the Bank of Bermuda Ltd., has concentrated on personal trust and private banking business for more than half a century from the head office in Bermuda and through its foreign subsidiaries in Europe and the Far East.

"The addition of Mr. Danilek to the staff and the creation of the new division in New York will enable the Bank of Bermuda to offer a broad range of personal trust and private banking services to U.S. residents with international trust needs and/or international investment requirements," said Edgar C. Felton, president of The Bank of Bermuda (New York). "The bank will also be better positioned to service the U.S. fiduciary requirements of overseas clients."

Mr. Danilek previously was managing director of Bank of Liechtenstein Trust Co.

SOUTHEAST

New East Bancorp, Raleigh, N.C., has appointed **C. Phillips Kraemer** executive vice president of administration for the holding company. He previously was chairman, president, and chief executive officer for Independent Banks of Virginia in Norfolk. — **Franklin Smith**

INTERNATIONAL NEWS

GLOBAL *dispatches...*

2 German Banks Take Lead On $3.1 Billion Soviet Loan

Reuters

FRANKFURT — Deutsche Bank and Dresdner Bank are jointly leading the bank consortium that will lend up to $3.1 billion to the Soviet Foreign Trade Bank, Deutsche Bank said.

The budget committee of West Germany's parliament agreed Tuesday to guarantee the 12-year loan to the Soviet Union.

Deutsche Bank said that the Soviet Union would use the credit for economic, industrial, and technical cooperation, in line with President Mikhail Gorbachev's plan to restructure the Soviet economy.

Manfred Carstens, state secretary of the West German finance ministry, told reporters in Bonn that the loan was a very necessary short-term emergency measure.

A Deutsche Bank spokesman said the two lead banks had not yet completed formation of the consortium. He declined to say how many banks would participate, but said there would be "broad participation."

... by country

JAPAN

Japanese institutional investors such as life insurance companies will soon be able to make subordinated loans to banks, a new form of financing in Japan, the ministry of finance said in Tokyo.

Lenders in a subordinated loan agreement have a lower claim to repayment in the event of the borrower's bankruptcy.

Subordinated debt will help banks meet capital adequacy requirements set by the Bank for International Settlements, the ministry of finance said.

Worries that the new loans could compete for investor funds have hurt yen bond prices recently, but most analysts expect the long-term negative impact to be limited. — **TFW**

Kiru Credit Union, the second-biggest credit union in the Osaka region, will merge with Kawasaki Credit Union, also based in Osaka.

The merger, which is planned to be complete by April 1991, responds to strong incursions into retail banking banking by Osaka's larger financial institutions.

The two institutions combined held about $5 billion in savings as of March. — **TFW**

GUYANA

The World Bank said Guyana fully cleared the arrears on its World Bank loans last week, making it eligible for more World Bank disbursements.

Guyana paid $55.3 million, about half for overdue interest and other charges and the rest for principal.

Guyana was the first of nine countries that have missed payments to resume full servicing of its debt, World Bank president Barber Conable said in Washington.

Guyana had been missing payments since Dec. 1, 1986.

— **Reuters**

BELGIUM

Visa International's ATM network has expanded to Belgium, the 40th country to join the program.

Visa said in San Francisco that the Belgian ATM networks, Bancontact , and Mister Cash, add 500 cash-dispensing locations to Visa's worldwide network of 52,187 machines, already the world's largest.

CHILE

MasterCard and **Cirrus** cardholders can now get cash 24 hours a day from 12 automated teller machines linked to their networks in Santiago and other major cities in Chile.

The on-line ATMs, dispensing Chilean pesos, have been installed by Bancard SA, Chile's only MasterCard issuer.

Bancard plans to increase its number of cash-dispensing ATMs to 90 by 1992. The new arrangement gives Bancard's 200,000 MasterCard holders in Chile access to MasterCard ATMs throughout the world.

The ATMs are the first in South America that allow MasterCard and Cirrus cardholders to withdraw cash.

Cirrus and Mastercard plan to link ATMS in Venezuela to their networks by the end of July and ATMS in Argentina, Columbia, and the Dominican Republic by yearend.

The networks plan to have ATMS on line in 22 countries by yearend. Currently the service is available in the United States, Canada, Japan, Mexico, France and Chile. — **James R. Kraus**

AUSTRALIA

Moody's Investors Service assigned a Prime-1 short-term deposit rating to Bankers Trust Australia Ltd., a licensed Australian bank and a fully owned subsidiary of **Bankers Trust New York** Corp.

The rating was based on the unit's solid capital position and total risk exposure, Moody's said in Sydney.

The bank's commercial loan exposure is small, and its major credit concern is counterparty risk related to its money-market and foreign-exchange business, Moody's said.

The credit management system is comprehensive and asset quality remains high, Moody's added. — **Reuters**

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Cumiluc International Corp., Cupertino, Calif.

Bank of Ireland to Open Boston Bank

By JAMES R. KRAUS

NEW YORK — Bank of Ireland said Tuesday it planned to start a new bank in Boston in an effort to expand its franchise in New England.

The new institution, First National Bank of Massachusetts, will have $8 million in capital provided through First NH Banks Inc., Bank of Ireland's main U.S. operating unit, based in Manchester, N.H. The Boston bank is expected to be operating by the end of the year.

Irish Population Targeted

Officials at Bank of Ireland and First NH said that the Boston bank would emphasize its Irish links and target the large Irish community in eastern Massachusetts as well as corporate and trade-related business.

They said that more than 40% of the population of eastern Massachusetts is of Irish origin and that the community offers Bank of Ireland a natural starting point.

"We think we'll be well received," said Ray Schwedhelm, senior vice president and director of marketing for First NH.

Base for Expansion

Officials added that Bank of Ireland would also use its Boston unit to either acquire or open other offices in eastern Massachusetts.

"It's well known that we don't plan to just stick in New Hampshire. We see ourselves as moving into Massachusetts in the longer term and this is a start," said Michael Hillin, director of investor relations at the Bank of Ireland in Dublin.

Bank of Ireland and First NH have jointly applied to the Massachusetts Division of Banks for authorization to set up a state-chartered bank.

Entry Is Recent

Bank of Ireland, Ireland's second-biggest bank with $21 billion in assets, in 1988 acquired First NH, a holding company for six New Hampshire banks and First Maine Bank of Portland.

The Irish bank also hopes to expand in the Portland area. The bank this month studied acquiring Maine National Bank from Bank of New England, but decided against making an offer because of the Portland unit's real estate-related problems.

"We were asked to look at Maine National. We looked at the bank and quickly made up our minds that we weren't interested," Mr. Hillin said.

Maine Takeover Shunned

Bank of Ireland has already grown more cautious about expanding in New England after running into problems with real estate lending at First NH.

The $2.8 billion-asset holding company lost $4.7 million for the fiscal year ended March 31 and will next month announce further real-estate related losses for the quarter ended June 30, Mr. Hillin said.

Officials said that they viewed the current economic downturn in New England as cyclical and predicted that the New England economy was likely to turn around again in two years.

Real Estate Still a Problem

"The big problem is real estate and it's a matter of getting things under control," Mr. Hillin said.

Bank of Ireland will also use the Boston bank for building up its business in the United States in areas such as trade finance and correspondent banking.

To strengthen its trade related business, the Irish bank is installing an export-import matching data system at First NH.

The proprietary system, developed with several other banks, automatically matches exporters and importers of the same product worldwide. □

Bank of Ireland

Head office	Dublin
Assets	$21.2 billion
Number of employees worldwide	11,200
Branches in Ireland	340
Foreign branches	26
Major U.S. subsidiary	First NH Banks Inc.

Banks Say Poland Can Pay Back Loans

By PAUL KELASH
LDC Debt Report

Poland's bank advisory committee sent Warsaw a positive assessment of the Solidarity government's ability to pay back its $9 billion in outstanding commercial bank debt.

The bank advisory committee recently met in London to complete its own review of Poland's economic future after members of its economic subcommittee had visited Washington and Warsaw to go over Poland's economic data.

"There was a broad-based consensus that it would be useful for them to know what our conclusions were. Obviously we expect they can pay more," said a member of the bank advisory committee, which is headed by Barclays Bank.

Parallel Deals Sought

Most of Poland's $40 billion in external debt is owed to governments, and banks appear resolved to hold out for nothing any debt reduction plan without "compatible" reduction through the Paris Club, an ad hoc group of countries to which Poland owes money.

"Any solution without the Paris Club would be next to useless," said a banker.

But another banker who attended the meetings said the Poles could easily deduce from the banks' economic plan what banks are willing to accept as a discount in any negotiation: "slightly more than 25%."

Other bankers denied that any discount could be found in the economic forecast because "the numbers could all change if the Paris Club [accepts debt reduction]," one banker said.

In meetings last month with banks, the Polish delegation, headed by chief debt negotiator Jan Krzysztof Bielecki, Banks have avoided the trap that ensnared thrifts – depending on short-term borrowings to make long-term loans – and banks' growth rates have been much more moderate.

"Borrowing short to lend long

Conservator Upheld for Michigan Thrift

PONTIAC, Mich. — First Federal Bancorp said a federal district court has denied its request for a preliminary injunction to prevent the Office of Thrift Supervision from appointing a conservator or receiver for the company's First Federal Savings Bank and Trust subsidiary.

The Pontiac-based holding company said the court did continue a temporary restraining order already in effect against the OTS action until July 27, to give First Federal a chance to file an appeal with the federal appeals court in Cincinnati. □

Key International Rates

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/20	7/23	7/27	7/20	7/23	7/27	7/20	7/23	7/27	7/20	7/23	7/27	7/20	7/23	7/27
United States	8.06	8.06	8.12	8.12	8.12	8.19	8.12	8.12	8.25	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.50	7.50	7.63	7.75	7.75	7.75	7.81	7.81	7.75	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.25	13.25	13.87	13.50	13.50	13.50	13.37	13.37	13.59	13.59	13.59	13.67	14.75	14.75	14.75
U.K.	15.00	15.00	15.06	15.00	15.00	15.00	14.87	14.87	14.87	14.31	14.31	14.30	15.00	15.00	15.00
West Germany	8.06	8.06	8.19	8.25	8.25	8.37	8.43	8.50	8.50	6.00	6.00	6.00	10.00	10.00	10.00
Switzerland	9.00	8.87	8.25	9.00	9.00	9.00	9.00	9.00	8.93	6.00	6.00	6.00	11.25	11.25	11.25
France	9.93	9.81	9.93	9.93	9.99	10.12	10.06	10.06	10.25	9.50	9.50	9.50	10.50	10.50	10.50
Italy	12.25	13.00	11.62	11.37	11.50	11.25	11.50	11.50	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.98	14.35	8.43	8.72	7.75
6 to 12 months	8.08	13.38	8.66	8.09	7.74
12 to 24 months	8.75	12.67	8.90	7.35	7.45

* Midday quotes in the New York market

Source: Telerate, Ashley & Pearce Inc., New York

Health of the FDIC Is Being Exposed to Media Spotlight

Continued from *page 1*

and in highly leveraged transactions, the public is beginning to expect worse to come.

"People are madly looking around to find the next problem," said Bert Ely, an Alexandria, Va.-based financial consultant. "I think it is a widely perceived problem."

A Perception Problem

Thomas Bloom, former chief accountant with the Federal Home Loan Bank System and now a partner at Kenneth Leventhal & Co., a real estate accounting and consulting concern, said the attention being given to banking industry problems was beginning to feed on itself.

"I don't think Bill Seidman was saying the sky is falling, but it is kind of an unstable environment," Mr. Bloom said. "With real estate as bad as it turned out to be, it is adding that little extra bit to the pressure cooker."

"I don't think Bill Seidman was saying the sky is falling, but it is kind of an unstable environment."
Thomas Bloom
Kenneth Leventhal & Co.

In the eyes of some analysts, the pressure cooker has already begun to heat up, especially on Capitol Hill.

Two weeks ago, the Senate voted 99 to 1 in favor of an amendment to a crime bill that sets stringent penalties for S&L and bank executives who break the law.

"The witch hunt is on," said Karen Shaw, president of Institute for Strategy Development, a Washington-based consulting firm. "We are going to see son of FSLIC – the general mood of let's get the FDIC – on the political front."

Banks' problems are much different than those suffered by the S&Ls, Ms. Shaw and other industry leaders contend. Banks have avoided the trap that ensnared thrifts – depending on short-term borrowings to make long-term loans – and banks' growth rates have been much more moderate.

"Borrowing short to lend long really creamed the [thrift] industry," Mr. Ely said.

Crisis Not Close

In 1981 and 1982, the S&L industry lost a combined $8.2 billion. Mr. Ely said. For the commercial banking industry to have a comparably dismal year, it would have to lose $22 billion, he noted.

"The banking industry isn't coming close to losing that kind of money, 90% of the banks are making money," Mr. Ely said. In 1989, FDIC-insured banks had aggregate net income of $16 billion, down 34% from the 1988 level as many of the largest banks added to reserves for developing-country loans.

Furthermore, the FDIC is dealing head-on with its problems, Mr. Ely said, and has not swept them under the rug as the Federal Savings and Loan Insurance Corp. was accused of doing.

"The FDIC, as far as we can tell, is not engaged in masking over the problems," Mr. Ely said.

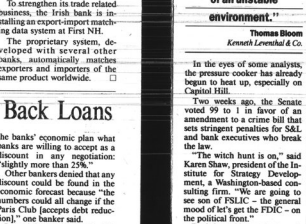
But R. Dan Brumbaugh, a senior research scholar at Stanford University's Center for Economic Policy Research, who was one of the first to trumpet the problems in the S&L industry, disagrees. He charges that the FDIC has been covering up the true magnitude of the banking industry's problems.

"We have been in [a banking crisis] since 1987, and we are now just beginning to realize it," he said. "The people are basically in the dark of what I consider to be the 100% probability that taxpayer dollars are going to be needed for the closure of commercial banks unless there is a miraculous recovery in the economy."

"The people are basically in the dark of what I consider to be the 100% probability that taxpayer dollars are going to be needed for the closure of commercial banks."
R. Dan Brumbaugh
Stanford University

The acknowledgement that the FDIC fund could lose as much as $2 billion by yearend is evidence that problems among banks are growing, Mr. Brumbaugh said.

"You can see the change in the political tenor in the last couple of months," he said. "That deterioration in confidence is the kind of admission of trouble one gets belatedly from the regulatory apparatus." □





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Doubts, Shake-Up Lead to Brain Drain at the Comptroller's

Continued from page 1

pointment is uncertain.

Mr. Clarke denied that the changes have made his office less effective. "To suggest that [the agency] is in turmoil is certainly not accurate," he said in an interview.

Mr. Clarke said that the defections resulted from better opportunities being presented to talented and experienced staff members. The internal changes, he said, stemmed mostly from requests for transfers.

Changes Called Unusual

But almost 20 former and current members of the comptroller's staff interviewed for this article said the number of changes is unusually high — for the Comptroller's office or other agencies.

The office is in the midst of disarray that has sapped morale and cost it some of its top regulators, they said.

"It is a slow bleed of experienced and talented people," said a former employee.

Another said: "Clearly, you don't have this type of turmoil at the other agencies."

Most of the people interviewed — including former employees who still maintain business relationships with the agency — spoke on the condition that they not be identified.

Transfer of Top Aide

The highest-ranking official involved in the shake-up so far is Robert J. Herrmann, who suddenly announced last month that he was giving up the top job at the division of bank supervision policy to take a lower-ranking position as deputy comptroller of the central district in Chicago.

The division sets policy or rules for 4,200 national banks; for example, it determines when a bank is insolvent, how often banks should be examined, and what steps should be used in an examination.

A 28-year veteran of the agency, Mr. Herrmann was in a prestigious but highly intense position. Sources familiar with the situation said senior agency officials felt that he did not make decisions fast enough.

Shortly before he announced the move, Mr. Herrmann was blasted on Capitol Hill by Sen. Alan Dixon, D-Ill., chairman of the subcommittee of the Senate Banking Committee. The senator read a scorching resignation letter by Ronald E. Wienk, special assistant for fair lending in compliance management unit under Mr. Herrmann. The letter attacked the agency's "vacuous management of bank compliance policy."

Mr. Herrmann's Explanation

In a recent interview, Mr. Herrmann denied that performance was an issue in his moving. He said he made the move to be closer to his family and to work more closely with banks, something he likes to do.

Two months before Mr. Herrmann's announcement, Dean E. Miller, deputy comptroller for compliance, in a unit under Mr. Herrmann, was shifted to the lower-ranking position of senior adviser for fiduciary responsibilities. He was replaced by Ronald A. Lindhart.

Leaving This Month

In addition, Malcolm P. Northam, deputy director of investment securities, will leave the agency this month. A 21-year veteran, Mr. Northam said he is leaving to start his own consulting firm.

And there are reports that Owen Carney, who has more than 20 years with the agency and is the director of investment securities, may soon leave. Mr. Carney was on vacation and could not be reached for comment.

Unsettling Changes

Meanwhile, changes have also rattled the division of bank supervision operations, which implements the agency's policies and oversees some of the nation's largest banks.

Four of the division's directors have moved to lower ranking positions.

Four officials have resigned this year:

• John Campbell, 16-year veteran, resigned as director of multinational and regional bank analysis to take a job with Price Waterhouse in Washington.

• Michael L. LaRusso, 23-year veteran, quit as senior national bank examiner in New York to take a job with First Fidelity Bancorp., Lawrenceville, N.J., as senior vice president in charge of audit and policy development.

• Stephen M. Lane, 17-year veteran, left as national bank examiner to take a job with the Secura Group, a Washington-based policy and consulting firm.

• David H. Scott, who replaced Mr. Campbell, left to take a job at the World Bank.

• Emory W. Rushton, head of multinational banking, was named last September to be primary liaison to the Resolution Trust Corp. Many saw the move as a step down; Mr. Rushton said he viewed it as a promotion. "I had been in multinational for several years, I was looking for a change," he said.

In addition, at least one change appeared to be connected with the real estate exams in the Northeast. In January, Thomas W. Taylor, deputy comptroller for the agency's Northeast district, was pulled to the Washington headquarters of the Comptroller's office after New England's real estate market exploded and platoons of examiners — many from the Southwest — were sent in to clean up the mess.

Mr. Taylor was replaced by Karen J. Wilson, a deputy comptroller in Chicago.

A Complex Agency

The Comptroller's office a complex agency to manage. It has a staff of 3,290, including more than 2,400 examiners in 120 locations around the country and in London. It is split into six districts that cover banking institutions across the county, including the nation's largest banks.

Aides reporting directly to Mr. Clarke include a special advisor, five senior deputy comptrollers, and a chief counsel. Below that level are 17 deputy comptrollers and more than 50 directors.

Several years ago, many of the agency's top officials were lured away at the same time by lucrative offers from Federal Home Loan Bank Board and private firms.

'Tired of Fighting'

But one source at the agency said the current changes are different. "People aren't leaving for more money – they are tired of fighting battles," he said. "The OCC gives you no reason to stay."

The result is that the agency is scrambling to fill top positions with less experienced people, former employees say.

Restructuring Surprised Some

The restructuring which surprised some insiders, who were initially told no changes were afoot.

The reorganization kicked into full gear last October in St. Louis, where more than 240 managers met to discuss the agency's direction. The goal was to streamline the agency by cutting out layers of management.

The division of bank supervision operations has already been restructured; some people were shifted into other divisions and others moved to district operations. The restructuring of the division of bank supervision policy, which was under Mr. Herrmann, is still under way.

Morale is low, several sources said. "It can't get much lower," one said. "It is self-destructing. Many of the good people are looking [for jobs] or to go back to a district."

Mr. Clarke acknowledged that the restructuring has caused some turnover.

Process Is Defended

"Anytime you go through any sort of reorganization . . . it can create uncertainty and anxiety," he said. But he cautions that the reorganization is not "grandiose," but simply a "check up."

Dana H. Cook, a former special adviser to Mr. Clarke who left in February 1989 and is now partner and national director of financial institution capital markets at KPMG Peat Marwick, contends that if the agency is unsettled it is a result of the uncertainty surrounding Mr. Clarke's future with it.

"Treasury needs to decide about what they are going to do with the leader," Mr. Cook said. "People are going to be unsettled until Treasury" decides. □



Michael L. LaRusso
Left agency for job at First Fidelity Bancorp.



Thomas W. Taylor
Was shifted from Northeast district to D.C. in January



Karen J. Wilson
Replaced Mr. Taylor as deputy comptroller in Northeast



Dana H. Cook
Sees need for Treasury to say if Mr. Clarke will be reappointed

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COMMENT

Law Needed to Protect Lenders from Superfund Excesses

Continued from page 4

release" is not eligible for the defense.

A Pressing Issue

Liability under Superfund is one of the most pressing issues for all businessmen and particularly lenders. Financial institutions are concerned with the law as holders of security interests or as fiduciaries for trusts and estates.

Typically, a lender might extend credit and take a security interest in property of 15 or 30years. The law's definition of "owner or operator" specifically excludes one who "without participating in the management of the facility . . . holds indicia of ownership primarily to protect his security interest in the vessel or facility."

"Lenders are now less certain what actions would be appropriate to assure that no liability is incurred."

Several court cases have explored the extent to which loan foreclosure and loan management activities short of foreclosure can make lenders subject to Superfund liability despite this security interest exclusion. The cases include U.S. v. Fleet Factors Corp., F.2d, No. 89-8094 (11th Cir. May 23, 1990); U.S. v. Mirabile, 15 Envt'l L. Rep. 20994 (E.D. Pa. 1985); U.S. v. Maryland Bank & Trust Co., 632 F.Supp. 573 (D.Md. 1986), and Guidice v. BFG Electroplating and Manufacturing Co., 1989 U.S. Dist. Lexis 14, 042 (W.D. Pa. 1989).

The courts have addressed applicability of the security interest exclusion when a bank takes title to the secured property upon foreclosure. In Mirabile, the court found that a lender who held title for a brief period after foreclosure without participating in the management of the property was not an "owner or operator." More recently, however, Maryland Bank & Trust Co. and Guidice decided that lenders who foreclose and take title to property lose the security interest exclusion.

Loan Management Activities

The courts also have found that certain loan management activities short of foreclosure can be considered as "participating in the management" of the facility, making the lenders an "operator" not protected by the security interest exclusion.

Decisions by federal district courts in the Mirabile and Guidice cases generally found that participation in day-to-day operational and management decisions could subject a lender to Superfund liability, but mere financial oversight, collection activity, and advice would not.

Significantly, the recent appellate court decision in Fleet Factors rejected this delineation and prescribed a broader and less well defined basis for liability on the part of the lender.

The court said: "It is not necessary for the secured creditor actually to involve itself in the day-to-day operations of the facility in order to be liable. . . . Rather, a secured creditor will be liable if its involvement with the management of the facility is sufficiently broad to support the inference that it could affect hazardous waste disposal decisions if it so chose."

The court recognized that its interpretation was a "narrow construction" of the security interest exemption and that under its decision "there is a clear risk that innocent borrowers will find it difficult to obtain credit."

"To reduce these risks, lenders are requiring environmental audits (which can run up to $50,000 on a $100,000 loan) and, in some cases, simply not providing credit for certain lines of business."

The court's ruling in Fleet Factors is at once broad and vague. The result is that lenders are now less certain what actions would be appropriate to assure that no liability is incurred. The court's only guidance was to say that "a secured creditor can become involved in occasional and discrete financial decisions relating to the protection of its security interest without incurring liability."

The Fleet Factors decision significantly strengthens the trend in the courts to pare away the security interest exemption and create problems for financial institutions both as creditors and fiduciaries.

The Misdeeds of Borrowers

Borrower misdeeds create potential liability for creditors, and this affects lending policies. The creditor not only incurs the risk of losing a loan and collateral but also faces the potential of having made a small loan and owing much greater sums for a cleanup.

To reduce these risks, lenders are requiring environmental audits (which can run up to $50,000 on a $100,000 loan) and, in some cases, simply not providing credit for certain lines of business, particularly small and midsize firms.

Foreclosure becomes more difficult and places a financial institution (or a government agency) in a unique position. Foreclosure may now require an expensive audit, which may result in walking away from collateral. Existing portfolios become suspect.

Fiduciaries are placed in an unfair position. Trustees have no specific knowledge of a property that is subject to a trust. Thus, when becoming an executor to an estate, a manager of pension fund assets (which may include title to a building or property) or a bond indenturer (who represents the bondholders and may need to foreclose), a fiduciary can be placed in a perilous position. This is particularly difficult where a fiduciary's duty may mandate a foreclose against the best judgment of the trustee in the face of Superfund.

Federal Agencies Note Problem

Government entities, including those vested with cleaning up the savings and loan crisis, have acknowledged a problem. The Resolution Trust Corp., the Small Business Administration, and every government body that extends credit or guarantees against real property are potentially liable.

Superfund liability is not simply a problem for financial institutions. Small businesses, homebuilders, farmers, and others are confronted with unusual new requirements, higher transactional costs, and uncertainty.

No sound public policy exists for holding creditors liable for customer actions. Giving a very narrow interpretation to the security interest exception does not reflect congressional intent. Liability in the recent court cases under Superfund is created after the fact and imposed on an innocent third party; this has no deterrent effect on hazardous discharges.

Unintended Effect

The law is being used as a trap, not as originally enacted. The EPA and state environmental agencies have overstepped their mandate in their eagerness to pull in all possible deep pockets. Portions of the law need to be returned to their original effect – to exempt innocent parties.

Recent nonlegislative solutions have focused on the requirements for meeting the innocent landowner defense. For example, the EPA has issued guidelines, but these go no further than to offer general advice and to caution that environmental assessments will be made case by case [EPA, "Guidance on Landowner Liability under Section 107(a)(1) of CERCLA . . ." June 6, 1989].

Under the auspices of the American Society of Testing and Materials, the lending, leasing, homebuilding, realty, government, and environmental testing communities are working to develop standards for appropriate environmental due diligence in commercial real estate transactions.

These standards would establish a benchmark necessary to satisfy the innocent landowner defense. This effort should help solve part of the problem.

Nothing short of legislative action, however, will resolve the current uncertainty faced by lenders, fiduciaries, and governmental entities that have an interest in real property.

Bills Address the Problem

Two bills have been introduced to address the problem:

H.R. 4494 (Congressman LaFalce) excludes from liability lending institutions that gain control of a facility pursuant to a security interest. Fiduciaries who have legal title for purposes of administering an estate or trust or who do not have legal title but do operate or manage a facility are exempted.

Similarly, indenture trustees, individual fiduciaries, lenders who hold leases subject to federal or state banking law, and federal and state government agencies that make loans on the security of any facility (including economic and industrial development agencies) are eligible for exemption. No protection is provided under the bill for otherwise exempted parties who in fact cause or threaten to cause a toxic release.

S. 2827 (Senator Garn) would amend the Federal Deposit Insurance Act and the Federal Credit Union Act to limit federal and state cleanup liability of depository institutions and mortgage lenders who foreclose on real property or of those who hold real property in a fiduciary capacity. The federal financial institution agencies would also be protected from liability.

No exemption flows to a party who actually causes a release or threatened release from the property. The bill also limits the exemption if the institution has benefited by remedial action of the government to the extent of the actual benefit conferred.

Finally, in order to ensure due diligence by institutions, S. 2827 requires the federal financial institution regulators to ensure that depository institutions develop and implement procedures to evaluate environmental risks that may arise from lending and fiduciary activities.

Modifications Are Likely

It is very likely that these legislative proposals will be modified as the process evolves. The Garn and LaFalce bills are obviously different in scope and do not solve all problems.

For example, as noted in the Garn bill, prudent banks will still want to perform some level of environmental audit on real property during loan origination. Should there be some legislative standard for the type of audit necessary? What actions may lenders take to monitor their loans without "participating in the management of a facility," the problem raised most recently in the Fleet Factors case?

Under the LaFalce bill, the question of preempting "mini-Superfund" – state laws that would impose waste cleanup costs on lenders – remains. If state laws are not specifically addressed, then lenders could continue to be exposed to cleanup liability even if the difficulties presented by the federal law are remedied.

Too Wide a Net

The original goal of Superfund – to remove hazardous substances from the environment – is one that everyone supports. The current interpretation of the law's liability provisions, however, cast a much wider net than was ever envisioned by Congress. Lenders, fiduciaries, and government entities – typically innocent parties – are faced with potential liability that is out of proportion to their involvement with contaminated property.

The impact that such liability has on economic development and governmental policy in other areas (such as the S&L bailout) was never considered by Congress. Judicial narrowing of Superfund's protection for lenders has led to unforeseen consequences that will only be corrected by congressional action. □

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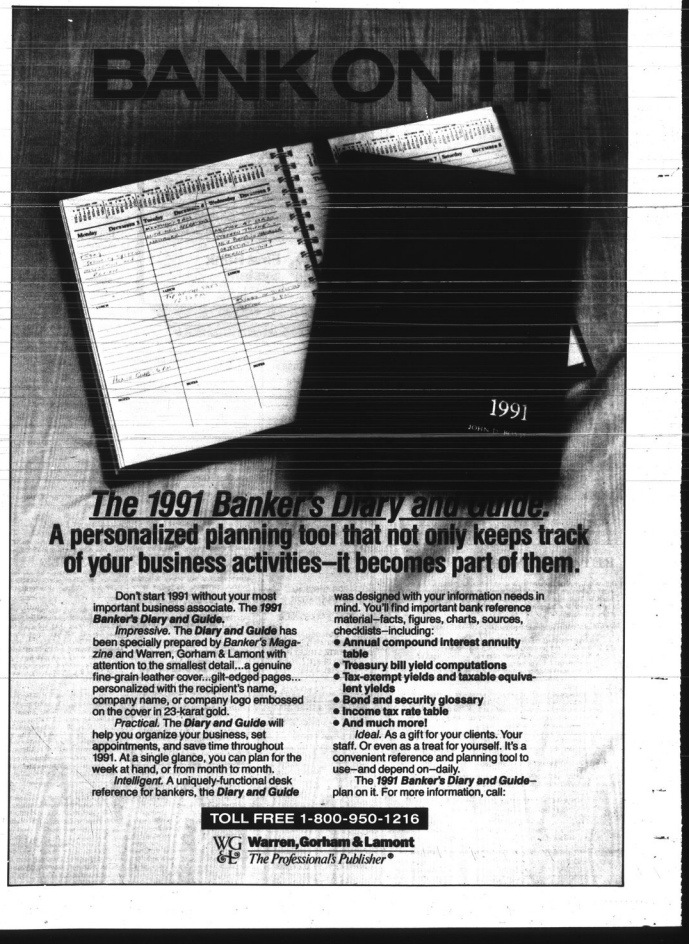

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COMMENT/MERGERS
High-Performance Banks Have Access to Capital Needed for Takeovers

By REID NAGLE
President
SNL Securities

Last week's column identified the 10 most active acquirers of banks in the 18 months ended June 30, 1990, and discussed the strategies of companies focused on the Texas market. This column examines the strategies of four companies whose recent expansion has taken place partially or exclusively outside of Texas.

Three of the companies – Security Pacific Corp., Banc One Corp., and Comerica Inc. – have made acquisitions of both healthy institutions and government-assisted depositories. The fourth, Union Planters Corp., has concentrated exclusively on acquiring small banks.

While the acquisition strategies of these four companies have more differences than similarities, the companies have in common an ability to outperform their peers and, in the process, attract the capital required for growth.

SECURITY PACIFIC

Security Pacific's acquisition style could be described as both flexible and opportunistic. Its nine announced acquisitions, all in six Western states, have displayed a willingness to seize opportunities in a variety of forms.

Three involved the acquisition of healthy subsidiary banks. One involved the interstate acquisition of a healthy savings and loan. The remainder of the transactions were negotiated with the government – three with Resolution Trust Corp. and two with the Federal Deposit Insurance Corp.

Terry Strucca, senior vice president of corporate planning, noted that "the pendulum is swung" away from private transactions and in favor of deals negotiated with the RTC and FDIC.

Stock Has Weakened

On top of the shifting economics of bank acquisitions, Mr. Peruca added that the decline in Security Pacific's stock price, from a high of $54.50 on July 31, 1989, to $35 recently, makes a stock acquisition of a healthy company far less likely today than it was just a few months ago.

With a reduced appetite for private-sector transactions, Security Pacific has turned its attention to the RTC and, to a lesser extent, the FDIC.

Won Bid for Gibraltar

In the second quarter, the company was the winning bidder for Gibraltar Savings, a failed thrift with $3.6 billion of core deposits in California and Washington. Security Pacific paid a premium of 4.02% of core deposits.

Capital constraints and asset quality pressures would appear to be the major factors potentially limiting Security Pacific's expansion plans. For the second quarter, Security Pacific's nonperforming assets rose 7.4% reaching 1.98% of assets. Similarly, its equity-to-assets ratio at June 30 stood at 5.21%, somewhat below the 5.89% average for all superregionals.

So far, Security Pacific has taken advantage of the ability to do a "liability-to-liability swap" offered by most RTC deals, placing higher-cost borrowings such as commercial paper with Gibraltar's deposit base.

Easy on the Balance Sheet

That tactic will enable Security Pacific to absorb this and other large thrifts without expanding its balance sheet on a dollar-for-dollar basis.

As for its future acquisition strategy, Mr. Strucca is expected to bid in most, if not all, the big RTC auctions in the West. It is likely to bid for Meridian, scheduled to go on the block this quarter.

The other logical targets that would help fill Security Pacific's market area include Imperial Savings of San Diego, Santa Barbara Savings, and Ben Franklin Savings of Oregon.

COMERICA

Why would $12 billion bank holding company based in Detroit concentrate its acquisition program in California and Texas?

According to Comerica, the reason has to do with "liquidity." Spokesman Randy Boileau says that the Michigan markets "generate more funds than [Comerica] can profitably deploy," leading the bank to look elsewhere to export the lending specialties it has developed.

Comerica has four primary lines of business: middle-market lending, trust services, commercial banking, and consumer banking. The company has targeted California and Texas as markets ideally suited to those businesses.

Separate Strategies

Comerica's dual-market expansion has required distinct strategies for each market.

In California, Comerica has announced two acquisitions of healthy banks in the past nine months – Plaza Commerce in San Jose and InBanschares in City of Industry, east of Los Angeles. Both institutions emphasize commercial lending and commercial real estate and construction lending.

Comerica's expansion into the pricey California market-place will not come cheaply. Plaza Commerce will cost 295% of book value, to be paid in stock, while InBanschares will cost 216% of book value. Both deals are expected to close in January 1991, the earliest date permitted by California's interstate banking law.

Using the Government

The other side of Comerica's split personality is reflected in its expansion into Texas.

Including its recent entry into the Lone Star State in the fall of 1988, Comerica has completed six acquisitions, five with the FDIC and one with the RTC. It now boasts 14 branches and assets of $910 million in this Texas banking network.

Comerica's expansion will continue to emphasize the Texas and California markets, in that order, if the current unbalanced pricing relationship between private and public-sector deals prevails.

An Ironic Possibility

If California's economy and real estate markets contract, Comerica might find itself in the ironic and somewhat embarrassing position of having its Michigan and Texas franchises outperform its California units.

To date, California has held together reasonably well, but a real estate downturn could play havoc with the sizable construction and commercial real estate portfolios of Plaza Commerce and InBanschares.

Some Negative Signs

In two ominous signs of a crack in the California real estate markets, HomeFed of San Diego announced a staggering increase in nonperforming assets and San Jose-based Silicon Valley Bancshares' stock price declined by 24% last week despite an announcement of strong second quarter earnings.

Presumably, Comerica has several months left in which to invoke the "material adverse changes" clause in its agreements with Plaza Commerce and InBanschares.

UNION PLANTERS

Union Planters announced six deals in the 18 months ended June 30 and later canceled two pending deals because of the most unusual of the four companies.

Based in Memphis, Tenn., it seeks small banks in rural communities, strikes a rapport with management, and offers them the opportunity to operate autonomously.

The attraction of autonomy has enabled Union Planters to produce uncommonly cheap deal prices for many of the banks it has acquired. The strategy contrasts sharply with that of Security Pacific, a bank that has demonstrated a willingness to pay top dollar to secure the No. 1 position in its markets.

No Quest for Synergy

Union Planters' strategy of autonomous acquisitions pays little heed to the concept of synergy. Acquired banks keep their own names and operating systems. Of 19 Union Planters affiliate banks, the lead bank services only five others. Asked what savings might be achieved after a deal closes, a company executive had to think for a few moments and then suggested "insurance coverage."

BANC ONE

With 41 acquisitions in the last 10 years, Banc One has mastered the art of consolidation, improving the company's return on assets from 1.23% in 1980 to 1.51% over the last 12 months.

The ability to simultaneously grow through merger and improve performance has given Banc One exceptional access to the capital markets to support its future growth. Just last week the bank completed a $325 million offering of common stock at a price only 13% below the historical high for the stock.

Chairman John B. McCoy's comments on key issues in Banc One's acquisition and business strategy: uniformity of product line; emphasis on efficiency; efficiencies through technology; and a management system that allows for decentralization of decision-making with close monitoring of performance.

Unless it takes an unexpected misstep, Banc One is poised as the model superregional bank of the Nineties. No bank in the country is better poised to take advantage of the opportunities presented by the massive banking consolidation currently under way. □

Private Acquisition Deals — July 16-23

Status	Seller	City/State	Assets	Value	Buyer	Assets
C	Plainfield National	Plainfield, II	73	16	First Midwest, II	2,082
P	Citizens Holdings	Costa Mesa, Calif	267	NA	Wells Fargo, Calif	51,713
P	Guardian Bancorp	Great Falls, MT	92	NA	First Fidl of Montana, MT	195
P	HeartFed Financial	Auburn, Calif	889	115	U.S. Bancorp, Ore	17,748

Status: C= Completions; P= Announcements; T= Terminations

DEALS
Market Participants See Signs of Revival in Private-Placement Activity

Continued from page 1

products at Loan Pricing Corp.

To be sure, deal flow in the private-placement market is widely expected to be off in the first half of 1990 compared with the same period last year, when $87 billion of new securities were issued.

Joel Glasky, managing director of private-placements at Chase Manhattan Bank, said the first-half decline could be anywhere from 10% to 30%.

Securities Data Co., which tracks new-issue volume in the private-placement market, expects to report figures for the first half of 1990 in about a week, an official there said.

The expected decline in first-half numbers is largely attributed to the falloff in private placements funding employee stock ownership plans. Last year, ESOP paper accounted for an estimated 25% of the $170 billion private-placement market.

In part because of the virtual disappearance of ESOP paper, Neil Powell, president of Shea, Paschall & Powell, predicted just two months ago that market volume could plunge by as much as 40% this year – to around $100 billion.

Based on the current level of activity, Mr. Powell said recently, now says this year "could turn out to be as good as a flat year."

Still, "you can't take one month and extrapolate in this business," said Mr. Glasky at Chase, referring to the recent spurt of activity.

Regulatory Factors

Mr. Powell noted that the private-placement market has also benefited from a regulatory-induced credit crunch.

"There is a fair amount of borrowing transference away from the banking industry into the institutional marketplace," Mr. Powell said.

His firm just completed a private placement for a client who used the proceeds to pay off a loan from a New England bank that had recently been examined by federal regulators.

> **"You can't take one month and extrapolate in this business."**
>
> **Joel Glasky**
> *Chase Manhattan Bank*

Chase's Mr. Glasky and others agreed that the private-placement market is now seeing activity from deals that otherwise would have gone to banks or the public junk-bond market.

"We're doing subordinated-debt deals with equity kickers, and senior-debt deals that didn't use to," Mr. Glasky said.

He added that borrowers are now more willing to issue long-term debt because of the dip in interest rates and the perception that rates won't fall much further.

"We're pretty close to a good low in the market" in terms of interest rates, Mr. Glasky said.

The yield on five-year Treasuries is currently about 8.33%, down from 8.60% two months ago, and the yield on 10-year Treasury securities is 8.52%, down from 8.63% in late May.

Timothy Conway, vice president in charge of private placements at Citicorp, agreed with other experts that a drop in interest rates is probably the biggest factor behind the pickup in the private-placement market.

Bank-Loan Constriction

Although he disagreed with the notion that there is a credit crunch, he conceded that the private-placement market is benefitting from a "slight-tightening" in the bank-loan market.

"Some of our customers that might typically do a deal in the bank market like the private-placement market more attractive," he said.

A lot of existing loans to highly leveraged transactions are also being refinanced in the private-placement market now that the new-issue junk market is closed, participants said.

A notable example is the recent $300 million LBO debt refinancing by Corpo., arranged by Donaldson, Lufkin & Jenrette Inc. At the time of the transaction, the deal was expected to be refinanced in the public junk market.

The refinancing was unusual for a private-placement deal because it included a floating-rate tranche priced similarly to a bank loan, officials at Loan Pricing Corp. pointed out.

The $166 million tranche was priced at 275 basis points over the London interbank offered rate. Fixed rates are more customary in private placement.

Unfavorable Trends at Work

While participants are generally upbeat right now about the private-placement market, some unfavorable trends are at work.

Insurance companies have been big buyers of highly leveraged debt in the private-placement market. But they are expected to cut back their holdings because of new capital requirements adopted by the National Association of Insurance Commissioners.

"With the new NAIC rules, [insurance companies] may become less active in the HLT area," said Susan Mitnick, an analyst at Loan Pricing Corp.

Despite the ballyhoo surrounding adoption of rule 144A this spring by the Securities and Exchange Commission, the rule – aimed at increasing liquidity in the private-placement market – hasn't yet had much impact.

"It's largely a nonevent," said Mr. Conway at Citibank, even though Citibank itself just completed a deal – a $130 million placement for Nova Corp. of Alberta.

"It certainly is a small factor at the moment," said Chase's Mr. Glasky. □

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8,625,000 Shares

This portion of the offering was offered in the United States by the undersigned.

Goldman, Sachs & Co. | Montgomery Securities | Dean Witter Reynolds Inc.

2,875,000 Shares

This portion of the offering was offered outside the United States by the undersigned.

Credit Suisse First Boston Limited | Goldman Sachs International Limited

BNP Capital Markets Limited | Deutsche Bank Capital Markets Limited | Fox-Pitt, Kelton N.V.

Montgomery Securities | J.P. Morgan Securities Ltd. | Nomura International

Paribas Capital Markets Group | N M Rothschild & Sons Limited | Swiss Bank Corporation Investment Banking

S. G. Warburg Securities | Deutsche Bank Capital Markets-International Ltd.

July 24, 1990

BANK AND THRIFT STOCKS

Highlights for Tuesday, July 24

TOP 10 GAINERS

Northern Trust Corporation	7.8
Midlantic Corporation	7.6
Bank of Granite Corporation	7.5
Central Jersey Bancorp	7.4
Riggs National Corporation	5.3
MidAmerica Bancorp	5.1
Affiliated Bankshares of Co.	5.0
Shawmut National Corporation	4.8
First Financial Bancorp	4.0
Union Bank	3.8

TOP 10 LOSERS

Cal Fed Bancorp	-7.7
Premier Bancorp, Inc.	-7.1
UJB Financial Corp.	-7.0
Northeast Bancorp, Inc.	-6.1
Chase Manhattan Corporation	-5.6
First National Bancorp	-5.5
Evergreen Bancorp, Inc.	-5.2
Key Centurion Bancshares, Inc.	-5.0
Bankvest Capital Corp.	-4.8
Bank of New England Corp.	-4.4

MOST SHARES TRADED

Citicorp	2475800
Chase Manhattan Corporation	1310300
BankAmerica Corporation	952800
Shawmut National Corporation	860100
J.P. Morgan & Co. Incorporated	600800

VOLUME AS % OF AVERAGE

CNB Bancshares, Inc.	1362.0
First Commercial Corporation	748.9
Sunwest Bank	747.5
Chemical Financial Corporation	741.8
Wilmington Trust Company	569.8

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.35	2.59	1.72	0.57	-0.27	-9.27	0.86	1.34	5.66

TOP 25 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to bk	Mkt Cls.	Chg.
27¾	20¼	MercantileBncrpInd	8.5	126.5	20¾	+¼
90¾	50	MerchantsBank NH	11.8	188.4	50	+½
27	21¼	MerchantsNatl IN	10.5	95.4	24	+¼
26¼	15¼	MeridianBancorp PA	7.0	86.6	15¾	-¼
32¾	17¾	MichiganNatCorp MI	2.7	65.5	32¼	+¼
18¾	14¾	MidAmericaNY	10.0	100.2	15¾	+¾
24¾	21¼	Midlen.Inc.-Old	9.7	145.7	19	+¼
47¾	13¾	MidlanticCorp NJ	3.8	36.8	14¼	1
28½	10	MidStateBank MA	5.2	47.6	10	+¼
35¾	28¼	NBD Bancorp MI	9.2	133.3	32¾	+¼
54¾	34¾	NCNB Corp NC	7.1	135.0	34¾	+¼
26	18¾	NCalfCommBncpCA	14.4	154.7	19	
27¼	17¼	NationalCityCp OH	8.4	144.1	25¾	+¾
51	38	NationalPenn PA	11.3	201.7	39	
25¼	20¼	NatWestcorpStkNot	9.5	115.2	24¾	+¼
35¾	20¼	NatlCommerce TN	10.0	137.4	23¾	+¼
44¾	34¾	NationsBank NC	9.2	135.9	35¾	+¼
20¾	11	NorthFortBanc WI	5.4	68.7	11¼	-¼
27¾	17¾	NorthernBancp CT	6.4	89.7	18¼	+¼
23¾	17¾	NorthernTrust IL	8.7	167.4	20¾	2¼
27¾	17¾	NorwestCorp MN	8.2	121.2	19¾	+¼
22¾	15¾	OceanBancorp FL	7.9	95.3	22	+¼
24¾	20¼	OldKentFinCorp MI	8.3	114.5	24¾	+¾
24¾	16¾	OldNatlBancorp KY	13.5	165.8	20¼	+¼
23½	19	OneValleyBanc WV	7.3	86.3	20	
48¾	29¼	PNC FinCorp PA	9.0	107.1	30¾	+¼
28¼	24	PacificBanCo CA	11.3	155.3	27	
19¾	14¾	PacificNorwestCo	10.7	160.0	15	+¼
18¾	14¾	PeoplesBancorp NC	9.1	123.9	15¾	-¼
27	22	PiedmontNatl NY	10.0	128.0	27	
15¾	10	PlazaCommerce CA	9.7	185.1	12¼	+¼
20¾	3	PremierBancorp LA	18.1	53.5	3¾	-¼
27	22	ProvidentBancor OH	9.0	127.7	22	
14	8¾	ProvidentBankcorp MD	22.0	43.4	8¾	-¼
27¼	19¾	PugetSoundBanc WA	12.2	118.0	21¼	+¼
52¼	42¼	RepublicNYCorp NY	305.0	134.9	48¾	+¾
27¾	14¼	RiggsNatlCorp DC	8.3	59.9	15	+¼
23¾	20¼	RiverFrontL	13.0	295.2	20¾	+¼
43¾	23¾	SanantonioBancCo	11.6	215.8	25¼	+¾
23¾	17¾	SecurityBancorp KY	8.3	142.8	19¾	+¼
54¾	34¾	SecurityPacific CA	5.8	100.2	35¾	+¼
30¾	20¾	ShawmutNatlCorp MA	9.1	96.4	21¼	+¼
42¾	18¾	SignetBanking VA	4.2	65.2	18¾	
24¾	19¾	SouthCarolinaBcCp SC	8.3	109.2	20¾	+¼
27¼	17¾	SouthCarolinaCp SC	6.7	92.6	18¼	+¼
30¾	23¾	SoutheastBkCorp FL	NM	76.4	24¾	-¼
15½	11¼	SouthernNatCp MS	9.9	138.4	12	
25¼	16¾	SouthtrustCorp AL	9.3	120.1	16¾	+¼
43¾	26¾	SovranFinCorp VA	5.8	95.7	26¾	+¼
29¾	24¼	StarBancCorp OH	9.4	127.0	24¾	+¼
43¾	32¼	StateStBosCorp MA	14.9	259.7	42¾	+¼
29¾	20¾	StatewideBancrp	NM	47.0	24¼	+¼
28	18	SuburbanBancorp IL	11.3	82.1	18¼	
26¾	20¾	SumitomoBank CA	9.1	98.2	21¾	+¼
22½	15¾	SunmarkCorp FL	8.3	94.1	16¾	
23¾	17¾	SunnyBancorp NJ	7.1	108.8	15	
26¾	20	SunTrustBanks GA	8.0	122.8	21¾	+¼
25¾	19¾	SuntrustEquitCap	NM	79.7	20¾	+¼
22¾	17¼	SusquehannaBcPA	7.9	103.1	18¼	+¼
14¼	9¾	SynovusFinCorp GA	16.6	270.6	11¾	+¼
18½	13	TheFinancialCorp WV	9.9	133.3	16	+¼
25¾	19¾	TrustCoBankCorpGA	9.7	162.3	20¾	+¼
43¾	21¾	TrustcompanyNJ	8.8	151.6	35½	
25¾	18¾	TrustmarkCorp MS	9.8	118.2	18¾	+¼
32¾	25¼	U.S. BancorpOR	9.1	135.4	30¼	+¾
42¼	31¾	U.S.TrustCorp NY	9.1	165.8	32¾	
28¾	13¾	UJB FinancialNJ	6.1	76.6	14¼	-1¼
24¾	19¾	UMB Financial MO	9.9	89.1	19¾	+¼
32	21¼	UnionBancal CA	5.7	95.4	24¾	+¼
15¾	7¾	UnionPlanters TN	NM	64.2	8¾	

TOP 25 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to bk	Mkt Cls.	Chg.
26¼	11½	FirstAmerCorp TN	NM	70.2	11¾	-¼
24¾	16¾	FirstBancorp PR	7.1	109.1	17¾	+¼
26¾	12¾	FirstBankSystem MN	NM	118.8	14¾	+¼
23¾	17¾	FirstChicago	7.3	71.2	20¾	+¼
29½	24	FirstCitizensNC	9.7	100.0	25¾	
24¾	18¾	FirstCitizensVA	8.3	83.7	23¾	+¼
18¾	13¾	FirstColonialGp	10.3	133.8	13¾	+¼
25¾	21¾	FirstCommerce LA	8.8	99.0	19¾	+¼
29	21¼	FirstCommerce NE	8.5	91.0	28¼	
22¾	17¾	FirstCommerce TN	8.2	117.6	17¾	+¼
21¼	18	FirstCommercial AR	8.1	167.2	18¼	-¼
19¾	14¼	FirstCommercialA	11.8	118.4	17	
35½	21¼	FirstEasternPA	7.9	102.9	22¼	
72	60½	FirstEnterpr MT	8.5	100.2	62¾	+¼
33¾	17¾	FirstFidelity NJ	10.2	79.3	17¼	
69¾	22	FirstFinancialCp IN	15.0	211.7	45¼	1¼
34¾	19¾	FirstFloridaFL	9.9	79.1	20½	½
28¾	19¾	FirstFortBancorp KY	10.7	225.2	24	
11	7¾	FirstIllinois IL	10.5	163.9	8	-¼
29¾	22	FirstInterstateCA	NM	108.0	40	
7	5¾	FirstInterstate IA	7.8	107.8	6¼	+¼
24¾	17¾	FirstMarBancpCpNE	8.4	119.3	18¾	+¼
24¾	16¾	FirstMidwest IL	10.4	146.5	18¾	+¼
29¾	23¾	FirstNBancorpCA	7.9	122.4	24¾	+¼
44	26¼	FirstPeoplesNJ	9.5	101.9	26¼	
19¾	13¾	FirstRepublic TX	7.4	102.2	13¾	
18	14	FirstSecurityNC	13.5	182.0	15	
13¾	29	FirstSecurityT	8.6	88.5	29¼	
28¾	21¾	FirstTennessee TN	8.1	96.8	23¾	+¼
18¾	15¾	FirstUnionCorpNC	7.7	92.1	18¾	+¼
35¾	24¾	FirstVirginia VA	7.8	110.4	24¾	+¼
26¾	18¾	FirstWachoviaNC	10.7	180.8	24¾	+¼
37¾	24	FirstarCorp MI	7.4	117.4	28¾	+¼
39¾	17	FirstbankPortland	8.8	106.5	17¾	
55¾	42¼	FirstsecurityInc ID	8.1	103.8	47¼	+¼
28¾	18¾	FleetNorstar SI	12.2	103.0	19	
25	19¼	FortWayneNatCp IN	8.3	104.7	19¾	+¼
12¾	6¾	FortuneFinancial	12.6	180.9	7¾	
21¾	16	FultonFinCp PA	7.7	125.5	16¾	-¾
30¾	23¾	GBC Bancorp CA	8.3	203.5	28¼	
15¾	9¼	GranadaCorp MS	14.6	73.6	9¾	
19¾	5¾	HawaiianBancorp	7.4	124.4	7¾	+¼
21¾	14¾	HeritageFinSvc IL	9.1	120.3	18	
26	14¾	HiberniaCorp LA	17.9	108.6	14¾	
20¾	15	HuntingtonBancsOH	7.9	118.4	15¾	+¼
20¾	15	INBFinCorp IL	9.0	96.3	17¾	+¼
27¼	18¾	ImperialBancorp CA	8.1	117.9	18¾	
28¾	18	IndependentBk MI	7.9	97.1	18¾	+¼
30¾	21¾	IntegraFinCp PA	14.9	98.8	21¾	+¼
47¾	37¼	InterNorthInc IA	9.7	140.4	38¼	+¼
48	33	J.P. MorganNY	NM	152.2	35¾	
28¼	19¾	JeffersonBkshs VA	8.1	97.4	19¾	+¼
15¾	12	KeyCenturion WV	10.0	104.2	12	-¼
17¾	11¾	KeyCorp NY	7.7	115.0	17	
25	21¼	KeystoneFin PA	9.1	131.8	23¾	¼
24¾	18¾	LaSalleNatlCorp IL	8.9	120.4	19¾	+¼
24¾	20¾	LakelandFinancial	9.1	198.2	22¼	
29½	22	LeaFirstCorp IL	10.1	198.2	22¼	
23¾	11¾	LibertyBancshs MO	6.7	63.8	11¾	
30¾	24¾	Liberty Nat Bancs KY	18.1	112.8	25¾	
27	20	LincolnBancorp IN	9.9	88.3	20	
29¾	11¾	MBC FinancialMD	4.3	67.0	11¾	
24¾	18¾	MBNA Corp DE	8.1	140.8	18¾	+¼
60	41¾	ManufacturersNat MI	9.6	102.7	44¾	
44¾	28¾	ManufacturersNat IN	NM	78.0	31¾	
21	18¾	MarineCorp IL	12.3	133.2	20¼	+¼
20¾	15	MarshallBushs MO	8.2	106.3	15¾	+¼
37¾	30¾	MarshallMidlay WI	8.4	115.5	30¾	+¼
24¾	18¾	MarylandBancCp PA	7.5	134.1	19¾	+¼
38¾	29¾	MercantileBncr MD	188.5	96.1	24¾	+¾

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to bk	Mkt Cls.	Chg.
23¾	19¾	UnitedBankersCoCO	20.8	92.8	21¾	-¼
14	12	UnitedBcshs WV	8.3	98.4	13¾	
17¼	13	UnitedCarolinaNC	7.6	103.8	13¾	+¼
62	52	UnitedCounties NJ	7.1	101.5	52¼	
22¼	18	UnitedMissouri MO	8.3	112.2	20	+¼
27¼	22	WellsBancorp MI	9.2	115.1	23	-¼
36	22¼	WhiteCapCorp NY	7.9	147.8	24¾	
28¼	19¾	WilmerNatBancs NJ	7.9	151.6	21	
31¾	23¾	WilmerNatBancs NJ	8.3	70.3	24¾	+¼
87¾	64¾	WellsFargoCA	6.8	155.7	77¾	¾
33	28¾	WestAmerBncp CA	8.1	138.6	30¾	+¼
27¼	21¾	WestOneBancorp ID	8.7	108.6	24¾	+¼
31¾	23¾	WestcorpInc CA	9.4	147.7	28¾	+¼
24¾	16¼	WestcorpNet CA	6.8	155.7	77¾	¾
33	28¾	WestAmerBncp CA	8.1	138.6	30¾	+¼
27¼	21¾	WestOneBancorp ID	8.7	108.6	24¾	+¼
31¾	23¾	WestcorpInc CA	9.4	147.7	28¾	+¼
24¾	16¼	WestcorpNet CA	6.8	155.7	77¾	¾
24¾	16¾	WhiteCapCorp NY	7.9	147.8	24¾	
28¼	19¾	WilmerNatBancs NJ	7.9	151.6	21	
31¾	23¾	WilmerNatBancs NJ	8.3	70.3	24¾	+¼
87¾	64¾	WellsFargoCA	6.8	155.7	77¾	¾
33	28¾	WestAmerBncp CA	8.1	138.6	30¾	+¼
27¼	21¾	WestOneBancorp ID	8.7	108.6	24¾	+¼
31¾	23¾	WestcorpInc CA	9.4	147.7	28¾	+¼
24¾	16¼	WestcorpNet CA	6.8	155.7	77¾	¾

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to bk	Mkt Cls.	Chg.
24¾	16¼	Ahmanson CA	10.1	106.6	22	-¼
40¾	30¾	AppleBancorp NY	8.1	74.7	43¾	+¾
28¼	15	CalFederal CA	4.9	37.4	15¾	-¼
50¾	40¼	CharterMacCp CA	12.3	57.5	48¾	¼
20¾	5¾	CoastSavingsFinCo NE	NM	40.3	5¾	-¼
17¾	12¾	CommonwealthCp VA	7.1	68.2	13¾	
54	14¾	DimeSavBankCpNJ	51.4	126.1	18¾	
37¾	24¾	FirstFedFinCorp FL	10.5	137.5	26¾	+¼
27	18¾	FirstFedFinCp CA	8.2	138.6	22¾	
21¾	12	FirstFedMI	6.6	56.2	15¾	+¼
25¾	11¾	GLENFED CA	3.2	31.3	17¾	
34¾	23¾	GoldenWestFin CA	11.4	277.8	30¾	+¾
24¾	15¾	GreatWesternFin CA	20.3	120.2	18¾	
14¾	9¾	GtAmericanBcp FL	8.0	70.4	10¾	+¼
47¾	17¾	HomeFedCorp CA	3.5	35.0	17¾	+¼
24¾	20¾	HomeFed FSB SD	14.2	90.2	20¾	+¼
16½	11	NBB Bancorp MA	10.7	52.7	12¾	+¼
23¾	17¾	NorthFinCorp CA	8.3	142.8	19¾	
54¾	34¾	SecurityFinCp CA	5.8	100.2	35¾	+¼
30¾	20¾	ShawmutNatlCorp MA	9.1	96.4	21¼	+¼
42¾	18¾	SignetBanking VA	4.2	65.2	18¾	
24¾	19¾	SouthCarolinaBcCp SC	8.3	109.2	20¾	+¼
27¼	17¾	SouthCarolinaCp SC	6.7	92.6	18¼	+¼
30¾	23¾	SoutheastBkCorp FL	NM	76.4	24¾	-¼
15½	11¼	SouthernNatCp MS	9.9	138.4	12	
25¼	16¾	SouthtrustCorp AL	9.3	120.1	16¾	+¼
43¾	26¾	SovranFinCorp VA	5.8	95.7	26¾	+¼
29¾	24¼	StarBancCorp OH	9.4	127.0	24¾	+¼
43¾	32¼	StateStBosCorp MA	14.9	259.7	42¾	+¼
29¾	20¾	StatewideBancrp	NM	47.0	24¼	+¼
28	18	SuburbanBancorp IL	11.3	82.1	18¼	
26¾	20¾	SumitomoBank CA	9.1	98.2	21¾	+¼
22½	15¾	SunmarkCorp FL	8.3	94.1	16¾	
23¾	17¾	SunnyBancorp NJ	7.1	108.8	15	
26¾	20	SunTrustBanks GA	8.0	122.8	21¾	+¼
25¾	19¾	SuntrustEquitCap	NM	79.7	20¾	+¼
22¾	17¼	SusquehannaBcPA	7.9	103.1	18¼	+¼
14¼	9¾	SynovusFinCorp GA	16.6	270.6	11¾	+¼
18½	13	TheFinancialCorp WV	9.9	133.3	16	+¼
25¾	19¾	TrustCoBankCorpGA	9.7	162.3	20¾	+¼
43¾	21¾	TrustcompanyNJ	8.8	151.6	35½	
25¾	18¾	TrustmarkCorp MS	9.8	118.2	18¾	+¼
32¾	25¼	U.S. BancorpOR	9.1	135.4	30¼	+¾
42¼	31¾	U.S.TrustCorp NY	9.1	165.8	32¾	
28¾	13¾	UJB FinancialNJ	6.1	76.6	14¼	-1¼
24¾	19¾	UMB Financial MO	9.9	89.1	19¾	+¼
32	21¼	UnionBancal CA	5.7	95.4	24¾	+¼
15¾	7¾	UnionPlanters TN	NM	64.2	8¾	

Key Loan Registrations — **July 16-20**

Dollars in millions

Lending Corp./Gen'l Corp. Purposes	
United Parcel Service of America	$1,500.0
Amgen Inc.	100.0
Tyco	73.0
BJ Services Company	50.0
Reflectone Inc.	20.0
Yes Clothing Co.	8.0
Gerrity Oil & Gas Corp.	5.0
Takeover	
LIN Broadcasting Corp.	$2,100.0
MCI Communications Corp.	1,000.0
Ugine ACG	240.0
Novatel Computer Systems	56.5
Fleming Companies	50.0
Acer Inc.	25.0

Debt Repayment	
Mark IV Industries.	$300.0
Emms Broadcasting Corp.	185.0
Svenska Petroleum Exploration	175.0
Kay Jewelers	80.0
Chronar Corp.	10.0
CP Backup	
McDonnell Douglas Corp.	$1,400.0
Stokely USA	40.0
Project Finance	
Universal City Florida Partners	$275.0
Securities	
Consolidated National Corp.	$43.2

Securities: This table tracks key corporate financial activity made weekly with the SEC. **/**=Deal under than 1yr.
Data Source: Loan Pricing Corp., New York (212) 489-5455

Key Rates — **(July 24, 1990)**

	7/24	7/23	7/17
Federal Funds-domestic range:	7¹⁵/₁₆–8	8¹/₁₆–8¼	8–8⅛
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit[1]			
3 Month Posted	7.60	7.60	7.65
6 Month Posted	7.60	7.65	7.70
1 Year Posted	7.70	7.75	7.80
Eurodollar deposits[2]			
3 Month	8.00	8.00	8¹/₁₆–⅛
6 Month	8.00	8¹/₁₆–⅛	8⅛
1 Year	8¹/₁₆–⅛	8⅛	8¹/₁₆–⅛
LIBOR[3]			
3 Month	8⅛	8⅛	8¹/₁₆–⅛
6 Month	8⅛	8⅛	8¹/₁₆–⅛
1 Year	8¹/₁₆–⅛	8⅛	8¹/₁₆–⅛

Mid-afternoon quotes, New York market. (1)— Largest offering rates at selected NYC banks. (2)— Late London bid (3)— Annualized money market basis - source: Manufacturers Hanover Tr.

Bank of New York Willing To Refinance Cogenron Debt

By FRED VOGELSTEIN

Cogenron Inc., operator of a large cogeneration plant in Texas, has convinced Bank of New York to refinance its $145 million high-yield bond issue with bank debt.

The company is in negotiations with the high-yield debt holders to determine the exact prices, said Richard Lammers, director of finance at Enron Power Corp., Cogenron's parent owner. However, Mr. Lammers said Cogenron is not certain it will use the Bank of New York credit.

The company would like to be able to buy the bonds back at a discount. He indicated that Cogenron is leaning toward urging at least a portion of the loan. Even if Cogenron bought the bonds back at par, the company's annual interest costs would be lower than the $17.4 million it now pays.

Compelling Argument

"If you look at the current coupon rate on the existing debt and the current bank conditions, it's advisable for us to do it. . . even if we bought the bonds back at par," he said.

The Cogenron deal, while not noted for its size, garnered attention because banks tend to be reluctant to refinance riskier high-yield debt with their own investments. That is particularly true lately, with concerns about asset quality raging.

Bank of New York declined to comment. However, Mr. Lammers said he assumed the reason the bank agreed to the loan was that the plant is now operating profitably and has a strong financial guarantor in Enron. The other owner is Dominion Resources, the holding company for Virginia Power Co., Richmond.

Breakdown of Debt

The current high-yield debt, issued at the end of 1985, comprises 11.75% senior notes due Dec. 1, 1994; 12.75% senior subordinated notes due Dec. 1, 1996; and series A, 14.25% cumulative exchangeable preferred stock.

Mr. Lammers said interest costs for the bank loan will be "at market rates," but declined to elaborate. He would give no other details about the terms of the loan, or whether it is a highly leveraged transaction. □

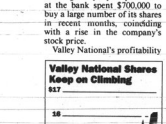
STOCKS

Insiders Show Confidence in Valley National

By GORDON MATTHEWS

NEW YORK — Insiders at Valley National Corp. apparently believe the sun is about to shine again on the Phoenix banking company. Top officials at the bank spent $700,000 to buy a large number of its shares in recent months, coinciding with a rise in the company's stock price.

Valley National's profitability has been impaired over the past two years by the severe downturn in the Arizona real estate market, which began earlier than the difficulties in other areas of the country.



Analysts are divided on whether a recovery has begun in the area, but the price of Valley's shares has clearly been on the rise since directors began acquiring additional stock last spring.

Action in Brief Period

According to Invest/Net Group Inc., which that tracks such activity, seven directors of Valley accumulated 50,000 shares at an average cost of $14 between April 20 and May 2.

At midday on Tuesday, Valley's shares traded at $16.25, up 75 cents on the day and 26.5% ahead of its yearend level.

The largest insider buyer was Robert F.B. Logan, Valley's president, who acquired 25,000 shares. Richard Lehmann, its chairman and chief executive officer, bought 4,000 shares.

Stake Had Been Small

The insider buying has helped adjust a situation that analysts considered a negative: a minimal stake in the company by its senior managers and directors.

Valley's 1990 proxy statement, dated March 15, listed Mr. Lehmann as owner of just 584 shares and Mr. Logan, its president, just 400 shares.

Insiders are differently motivated than other investors, noted Frank W. Anderson, a banking analyst at Stephens Inc., Little Rock, Ark. Tied to the fortunes of a company, they tend to be longer-term oriented, "but we are in a very short-term market right now," he said.

While the first two quarters this year were much improved at Valley, "I think it's still too early to be an aggressive buyer," said Mr. Anderson.

More optimistic is Thomas K. Brown, who thinks Valley is undervalued but acknowledges he is in the minority.

Takeover speculation has also boost the stock. On June 4, its shares stirred to life on takeover speculation after BankAmerica Corp. said it would buy a failed thrift in Arizona, Western Savings and Loan Association, Phoenix.

The move left industry observers wondering if Valley is now the only fully functioning vehicle for a possible Arizona entry by Wells Fargo & Co. The San Francisco superregional is the only big Western bank lacking a presence there.

* * *

TUESDAY'S MARKET

Most bank and thrift stocks declined again on Tuesday as the stock market in general remained indecisive about the direction of the economy.

J.P. Morgan & Co., the nation's premier money-center bank, was off 50 cents, to $36.75 in afternoon trading. Chemical Banking Corp., who price was quoted erroneously in Tuesday's column, was unchanged at $23.75.

Manufacturers Hanover Corp. fell $1.375, to $30.75, but analysts said the weakness was apparently not related to any financial developments.

Shares of Student Loan Marketing Corp. fell $4.875 in early trading but recovered some ground after Education Secretary Lauro F. Cavazos said the integrity of the Guaranteed Student Loan Program was not threatened by the financial problems of a large guarantor.

By the middle of the afternoon, Sallie Mae, as the organization is known, was off only $2.375 at $47.50. □

CAPITAL

Capital-Rich Have Pricing Edge, Study Says

By KELLEY HOLLAND

The new risk-based capital rules are accentuating the differences between the haves and the have-nots in banking by allowing well-capitalized institutions to compete aggressively on pricing, according to a survey released by the American Bankers Association.

And those differences are likely to increase, according to Dennis G. Buchert, a sector executive at Marine Midland Bank and chairman of the American Bankers Association's Corporate Banking Executive Committee.

"Over the long term, I think the cost of capital for banks will ultimately be reflected in an industry-wide repricing" of services, Mr. Buchert said. "If banks are going to continue to grow, they are going to have to reprice services at some point."

Subtle Pricing Changes

Even though almost all of the nation's largest banks already have risk-based capital in excess of the levels to be required in 1992, they have made subtle changes in the way they price their services and allocate their capital, the survey showed.

For one thing, banks with capital in excess of minimum levels can afford to price high-quality individual corporate loans more aggressively. This positions them well to develop relationships with borrowers, which will lead to repeat business that is profitable in the aggregate.

But banks with little extra capital need to price every loan so it is profitable, because their marginal cost of capital would be painfully high in today's hostile markets.

"Banks with less capital have to price at the transaction level, so that at the margin they are profitable, whereas banks with excess capital can rely more on relationship profitability," Mr. Buchert said.

Capital Rules Spur Loan Pricing Changes
Percent of banks adjusting loan pricing to adapt to new capital guidelines

	Small banks	Medium banks	Large banks
Higher rates on all loans	11.8%	38.5%	29.4%
Low rates for low-risk loans and no change on other loans	17.6%	0%	5.9%
High rates for high risk and low rates for low risk	55.9	38.5	41.2

Source: American Bankers Association

Survival of the Fittest

The difference in pricing flexibility between banks with excess capital and those without it is just one more indication of the Darwinian nature of banking today, Mr. Buchert said. Banks from Bank of New England Corp. to Washington Bancorp.have already learned that institutions truly in need of capital must pay top dollar for it – if they can raise it at all.

The ABA study points out that banks with excess capital also have advantages on the lending side of their business. "Those banks that are well ahead of the risk-based capital requirements definitely have the opportunity to turn that into a competitive advantage in terms of pricing services and developing relationships," Mr. Buchert said.

In the study, banks said they would differentiate more between high-quality and low-quality borrowers when pricing loans. On average, 48.4% of banks said they would offer lower rates on low-risk loans and higher rates on high-risk loans. Only 11% said they would lower rates on low-risk loans while leaving rates on high-risk loans unchanged, and just 22% said they would raise rates on all loans.

Turning to Other Methods

Both stock and bond investors are negative on bank securities these days, so banks seeking to boost their capital ratios prefer other methods. Asset securitization is the method of choice, according to the survey. Downsizing the institution came second, followed by slow growth and risk profile restructuring. Selling more stock was the least-favored method.

A total of 377 banks with assets of $1 billion or more were sent questionnaires, and 105 of them responded. Tier 1 and Tier 2 ratios of those banks were not revealed.

* * *

MARKET MONITOR

NCNB Corp.'s $200 million issue of 25-year subordinated bonds was priced on Monday at 166 basis points over comparable Treasuries, with a coupon of 10.2%. The offering, lead-managed by Merrill Lynch Capital Markets and comanaged by Salomon Brothers Inc. and Goldman, Sachs & Co., was all sold on Tuesday. □

FINANCIAL TECHNOLOGY-UPDATE

NCR's Electronic Journal (EJ) automates the audit data collection of ATM operations.
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THE INDEX FOR THE 90'S

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TOP 500 BANKS IN THE WORLD BY ASSETS
Ranking based on 1989 Y.E.

AMERICAN BANKER

VOL. CLV NO. 145 | Thursday, July 26, 1990 | 155th year

Firewalls May Have Outlived Their Usefulness

By LINDA CORMAN

Firewalls, the regulations that are meant to insulate banks from the problems of their non-bank affiliates, may not be necessary after all.

None other than Federal Reserve Board Chairman Alan Greenspan cast doubt on firewalls in a dramatic declaration earlier this month:

"The board has for some time held the view that strong insulating firewalls would both protect banks and taxpayers from the risk of new activities and limit the extension of the safety-net subsidy that would place independent competitors at a disadvantage," Mr. Greenspan testified July 12 before the Senate Banking Committee.

ANALYSIS: *Follow-up on the news*

Recent events, including the demise of the brokerage firm Drexel Burnham Lambert Inc., "have raised serious questions about the ability of firewalls to insulate one unit of a holding company from funding problems of another," Mr. Greenspan said.

According to Fed sources, Mr. Greenspan was troubled by the fact that Drexel drained capital from a healthy subsidiary to meet the parent's commercial-paper obligations, which eventually crippled the entire company. The same problems could imperil subsidiaries of bank holding companies.

According to many observers of the bank-insurance debate, Mr. Greenspan thus has effectively undermined the firewall concept. Regulators and bankers had agreed that the firewalls made it safe for banking companies to enter more risky securities businesses, because the affiliated banks would not be affected by – or have to pay for – an affiliate's collapse.

Stricter Supervision Favored

To be sure, Mr. Greenspan did not recommend a wholesale dismantling of the walls. But he did suggest that if banks are to be granted wider powers – as the Fed has long advocated – higher capital standards and more stringent supervisory control would be more effective than firewall-type insulation.

"It may be more realistic to apply more limited firewalls to the new activities," he said.

In one example of a limited firewall, the Federal Reserve Act currently allows some lending between banks and their non-bank, nonsecurities affiliates. The loans must be collateralized and are limited based on a

See **FIREWALLS** page 18

INSIDE NEWS

SPECIAL REPORT



BANKERS ARE SEEKING new marketing opportunities amid the continued globalization of financial markets and the decline of planned economies in Eastern Europe. *Page 1A*

INTERNATIONAL

BRAZIL'S chief debt negotiator reiterated that the government would not pay arrears on its huge foreign debt before it starts negotiations with creditors. *Page 16*

CONSUMER

MUTUAL FUNDS are far more profitable for a bank than certificates of deposit, according to a study by a Boston-based consulting firm. *Page 8*

TECHNOLOGY

MELLON BANK, a leader in transaction processing services, predicts a fee growth will outpace the industry this year and is restructuring its $646 million service unit to help achieve that goal. *Page 3*

FINANCE

LENDING ACTIVITY will not pick up as a result of the Fed's move to lower rates, according to bankers and analysts. *Page 24*

WASHINGTON

TREASURY SECRETARY Nicholas F. Brady told the Senate Banking Committee it would have to wait several months before hearing his department's advice on how to reform the financial system. *Page 2*

MANAGEMENT

WITH COST CUTTING rampant, a number of bankers and consultants are advocating swift, decisive action when it comes to employee layoffs. *Page 14*

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Private S&Ls Losing Less, OTS Reports

By DEBRA COPE

WASHINGTON — The 2,505 savings institutions that remain operating in the private sector lost $271 million in the first three months of 1990, the Office of Thrift Supervision reported Wednesday.

The aggregate loss was significantly less than the $900 million that the same 2,505 institutions lost in each of the last two quarters of 1989, but was far worse than their $900 million profit in the first quarter of last year.

If the thrifts not in conservatorship lose money throughout the year at the same pace as in the first quarter, the industry deficit would exceed the $900 million net loss for all of 1989. That figure did not include the performance of institutions placed under government control in 1990, which brought the total loss for 1989 to $6.2 billion.

A Wide Disparity

In its release of industry data, the OTS pointed to a wide disparity in thrifts' profit performance by dividing the industry into four groups based on profitability and survivability. Almost half of the 2,505 private-sector thrifts are considered well-capitalized and profitable, but their profits were not sufficient to bring the entire group into the

See **LOSSES** page 13

Europe's Surging Banks Outpace Japanese, U.S.

By SAM ZUCKERMAN

Forget Europe 1992. In banking, the continent's party has already begun.

Thirty months before Europe's vaunted economic integration, *American Banker's* annual ranking of the world's 100 largest banking companies reveals that European institutions grew much faster than their U.S. and Japanese counterparts in 1989.

Contrast in Assets Growth

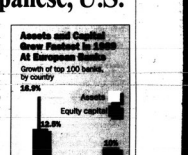
Assets of the top 43 banks based in 10 European countries rose 16.92% in dollar terms last year. The 14 U.S. banks among the top 100 raised assets a moderate 6.57%. (See table, page 27A.)

Only a fraction of the European growth stemmed from currency appreciation. While the assets of French, Italian, and German banks in the top 100 soared 23.07%, 21.34%, and 17.14% respectively, the franc gained only 6.13%, the lira 3.14%, and the deutsche mark 5.38% against the dollar.

Shrinkage in Japan

Assets of Japanese banks, the growth leaders in recent years, actually shrank 0.51%, as measured in U.S. dollars. The decline largely reflected a 16.2% depreciation of the yen against the dollar in 1989.

The reshuffling in the ranks of the top 100 in 1989 reflected a shift in banking power away from Japan and North America



and toward a resurgent Europe – a trend that has picked up steam this year, banking analysts said.

Buildup in Europe

"European banks are probably in a stronger position vis-a-vis the Americans and the Japanese than they have been in a long time," said Gregory A. Root, president of Thomson Bankwatch Inc., an affiliate of *American Banker.*

Though the Japanese held on to the top six spots in worldwide

See **EUROPE** page 16

Many Pennsylvania Banks Forgo State's Antitakeover Protection

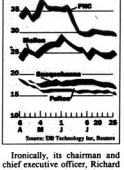
By GORDON MATTHEWS and FRED VOGELSTEIN

Many, but not all, of Pennsylvania's major banking companies have decided to forgo the protection of that state's tough new antitakeover statute. The deadline for opting out of the controversial law is today.

The state's three largest banking companies – PNC Financial Corp. and Mellon Bank Corp. of Pittsburgh and Core States Financial Corp., Philadelphia – have taken the action, although they are seen by many industry analysts as in little danger of hostile takeover.

But so have some midsize Pennsylvania banking firms that could eventually be targets, such as Meridian Bancorp., Reading, and Independence Bancorp., Perkasie.

Among the banking firms that have exercized the option of dropping some coverage of the law is the midsize First Eastern Corp. of Wilkes-Barre.



Ironically, its chairman and chief executive officer, Richard M. Ross Jr., also chairs the Pennsylvania Chamber of Business and Industry, which lobbied forcefully for the law.

Mr. Ross explained that he

See **TAKEOVER** back page

Columbia S&L Sells $3 Billion Of Junk Bonds

By TERESA CARSON

LOS ANGELES — Columbia Savings and Loan Association announced Wednesday it sold its junk-bond portfolio to an investor consortium for $3 billion in cash and notes, but analysts predicted regulators would still seize the troubled thrift.

"They are still insolvent. They will still be closed. There is no doubt there," said Jay F. Lustig, director of high-yield securities trading at Drake Capital Securities, Los Angeles.

Premium Is Estimated

Beverly Hills-based Columbia did not disclose the premium paid for the bonds. The bonds had a market value at $2.9 billion at the end of the first quarter, indicating a premium of about $100 million. That would not be enough to eliminate Co-

See **COLUMBIA** page 12

PEOPLE *in the news*

Fed's Seger Mulls Leaving Because of Mother's Illness

By LINDA CORMAN

Federal Reserve Board Governor Martha R. Seger confirmed Wednesday that she was considering resigning from the central bank because of the failing health of her mother.

She dismissed widespread speculation that she was weighing giving up the seat she has held for more than five years because of rocky relations with Fed staff members.

"Life has not been easy here," Ms. Seger admitted in an interview Wednesday. "I'm not pretending that it has been.

"If [staff friction] were the cause, why wouldn't I have left several years ago? What's changed is other responsibilities."

The 58-year-old governor said she has to assess her personal situation and decide whether she should stay or leave." There are eight years left in her 14-year term. She said she would make a decision by the end of the year.



Martha R. Seger

Some Other Complaints

Sources close to Ms. Seger said she had been complaining more lately about being left out of the Fed's loop on key issues. They said that combined with the governor's personal concern – her ailing mother – Ms. Seger also had begun to express a need to return to the private sector to earn more than the $89,000 paid to Fed board members.

Ms. Seger has been commuting frequently between Arizona and Washington. Earlier in the year, her mother suffered a stroke and she has recently undergone hip replacement surgery.

If Ms. Seger decides to resign – as she first hinted in an interview earlier this week with *The Wall Street Journal* – that will create two open seats on the board. In June, Vice Chairman Manuel Johnson announced his resignation, effective in early August. No replacement has been nominated.

The departure of Ms. Seger, the sole woman on the Fed board, would put significant pressure on the Bush Administration to nominate another woman or a member of a minority in her place, sources said. A woman or a black has held a Fed seat for at least the last 20 years. One source said Security Pacific Corp.'s chief economist, Kathleen Cooper, would be a logical person to succeed Ms. Seger.

Problems of Style

The outspoken Ms. Seger is considered abrasive and a loner by some observers, and Fed insiders suggested that her relations on the board was damaged in large part by her uncompromising nature.

While acknowledging her direct style, others say the governor has been effective, especially in the areas of consumer banking issues and community relations – areas over which she had direct oversight.

Although Ms. Seger consistently voted for easing monetary policy, her absence from the board would not affect the board's monetary direction, economists noted.

"She would be a loss for the banking industry," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America. "The banking industry is in her debt for pointing out regulatory burdens." □

NEWS *briefs*

Household Bank to Buy Nine TransOhio Branches

PROSPECT HEIGHTS, Ill. — Household Bank, a unit of Household International Inc., said it signed a definitive agreement to buy nine branches, along with $330 million in deposits, from TransOhio Savings Bank in the Columbus, Ohio, area. The purchase price was not disclosed. Household, based in Cleveland, Ohio, is a unit of TransCapital Financial Corp.

— Reuters

June Home Resale Rate Up

WASHINGTON — Sales of previously owned homes picked up momentum during June as consumers responded to lower mortgage interest rates, the National Association of Realtors said.

The association recorded a seasonally adjusted annual sales rate of 3.34 million existing single-family homes, 1.2% higher than the May revised rate of 3.30 million. The month-to-month rise was the first recorded this year. The June resale rate was 0.3% above the June 1989 pace.

GMAC Second-Quarter, Six-Month Earnings Rise

DETROIT — General Motors Acceptance Corp., the nation's largest finance company, earned a consolidated $302 million from financing, insurance, and mortgage operations in the second quarter. Its six-month net was $638 million. $13 million more than in the 1989 period.

Net income from financing operations amounted to $267 million for the second quarter, up from $224 million in 1989 as borrowing costs in the United States fell. □

Brady Mum on Regulatory Reform

Doesn't Say What Recommendations Are Under Study

By LINDA CORMAN

WASHINGTON — Treasury Secretary Nicholas F. Brady held his cards close to the vest Wednesday in long-delayed testimony before the Senate Banking Committee on reform of the financial regulatory system.

He said it would be several months before the Treasury Department completes its recommendations on reform, as mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

While declining to give any preview of the Treasury's conclusions, Mr. Brady did say that he did not "see a rush to lower [deposit] insurance" from the current level of $100,000.

Structure 'Outmoded'

The Treasury secretary also warned that U.S. banks suffered from overlapping and inefficient regulations that cry out for reform.

"The present structure is outmoded," said Mr. Brady.

"We see it as a system that, through ongoing changes in the marketplace, appears to have outgrown its historical regulatory structure," he said.

"The result is overcapacity, layers of regulation, concentration in the riskier parts of traditional commercial lending, uneven product diversification with rules and exceptions that sometimes make little sense, and inefficient limitations on geographical diversification."

Aiming at Yearend Completion

Mr. Brady said the Treasury study of deposit insurance and financial restructuring will be ready by the end of this year. The department is soliciting

> **"The present structure is outmoded."**
>
> **Nicholas F. Brady**
> *Secretary of the Treasury*

comments from the other federal banking and financial regulatory agencies to contribute to its report.

Pressed by Senate Banking Committee Chairman Donald W. Riegle Jr., D-Mich., Mr. Brady agreed that the administration would make it a top priority next year to introduce and pass legislation to restructure the financial industry.

In the face of repeated questions from the Senate panel, Mr. Brady declined to give specific clues to the direction of Treasury's thinking.

Asked about his views on such concepts as firewalls, risk-based premiums, capital standards, and limits on deposit insurance coverage, he repeatedly replied that those were all issues the Treasury was studying.

New Powers Favored

Reinforcing comments earlier this month by Federal Reserve Board Chairman Alan Greenspan, Mr. Brady did say that tough capital standards and heightened supervision should play a role in increasing safety and soundness and in reform efforts.

However, the Treasury secretary said the need to safeguard the safety and soundness of U.S. banks does not preclude the granting of new powers. He noted that studies of banking systems overseas revealed that even though most countries allow broader activities for their banks and have safety nets to prevent financial crises, there is little evidence that their institutions are at greater risk than our own.

In fact, Mr. Brady said wider powers would improve the competitiveness of banks as well as the safety and soundness of U.S. banks. □

U.S. Seeks to Aid Student Loan Guarantor

Reuters

WASHINGTON — The U.S. Department of Education said it was discussing a possible takeover of the troubled Higher Education Assistance Foundation by several smaller guarantors of student loans, and the foundation said it was pursuing solutions of its own to its financial crisis.

Education Department spokeswoman Etta Fielek gave no details of the talks initiated by the agency, but one solution might be takeover by the United Student Aid Fund. The Indianapolis-based fund and the Higher Education Assistance Foundation are the largest agencies guaranteeing student loans.

Ms. Fielek did not identify the other guarantors that might step in, but federal officials Wednesday ruled out a merger of HEAF with the Nebraska Student Loan Program.

HEAF, with $9 billion of guaranteed loans, has been plagued by rising defaults. Its problems have reverberated throughout the student loan structure, setting off a sharp decline in the stock price of the Student Loan Marketing Association, one of HEAF's largest creditors.

The problems were also said to have contributed to declines in some bank stock prices in recent days. Banks make student

See **MERGER** *page* **15**

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TECHNOLOGY/OPERATIONS NEWS

Mellon Revamps Its Servicing Area to Boost Revenues

Predicts Fee Business Will Outpace Industry

By RICHARD LAYNE

In a move to squeeze even more profits from its lucrative transaction processing business, Mellon Bank Corp. is restructuring its service unit to sharpen its focus on corporate and institutional clients.

Mellon, a leader in transaction processing services, predicts its fee growth will be in the double digits this year, well outpacing that of the industry.

Servicing fees, including such businesses as trust, cash management, and data processing, may climb as much as 12% to $723 million this year from $646 million in 1989. Such growth would be a dramatic increase from the less than 5% gains than Mellon has realized over the past two years.

"We have a large revenue base in service fees, but if we can consistently run in double-digit growth, we will be doing well," said W. Keith Smith, Mellon vice chairman. Mellon wants a balanced revenue stream from wholesale, retail, and service fees, but Mr. Smith said services are growing at fast; if not faster, than other business areas.

Healthy Growth Expected

Mr. Smith said he expects the service fee growth to accelerate to the "low double digits" in 1990.

"Mellon is trying to do more on the fee side," said Kenneth F. Puglisi, an analyst with Keefe, Bruyette & Woods Inc. "They will concentrate on their strengths."

To achieve its goal, Mellon said earlier this week that it is dividing its service business into two units. Under the restructuring, David L. Johns, executive vice president, will head technology products, which includes cash management and mortgage processing. Allan P. Woods, senior vice president, will head financial institution services, which includes trust accounting services, electronic funds transfer processing, and others.

"We recognize that we have to be more global in thinking and in providing services," said Mr. Smith. "The reorganization will bring more management help to this."

Importance of Service Fees

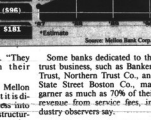
Mellon, which observers say has a robust and extensive service offering, is among a small cadre of superregional banks – including two other Pennsylvania banks – CoreStates Financial Corp. and PNC Financial Corp. – that derive almost 40% of their revenue from service fees. "Mellon's fee component is larger than its peers," said Dennis F. Shea, an analyst with Morgan Stanley & Co.

Mellon Focuses on Fee Income

A breakdown of '89 earnings, in millions of dollars

Service products	$181
Retail banking	$106
Wholesale banking	$83
Other	$27
LDC debt	($90)
Real estate banking	($96)
Total	$181

Overall fee revenues, in millions of dollars



Source: Mellon Bank Corp.

Some banks dedicated to the trust business, such as Bankers Trust, Northern Trust Co., and State Street Boston Co., may garner as much as 70% of their revenue from service fees, industry observers say.

Wall Street Likes Fee Income

Service fee income is low risk and predictable and requires little in the way of equity to meet banking regulations. Banks that derive sizable income from fee-based services tend to be valued higher, say Wall Street analysts.

Mellon's service fees accounted for $646 million in revenue last year, or 51% of the bank's total. Service fees generated $151 million in income, or 38% of profits.

Trust fees alone contributed $280 million in revenue last year. Along with being the largest segment of Mellon's fee business, trust is expected to lead gains in the next few years. Mellon is investing $30 million to expand the capabilities of its trust systems.

Cash Management Lags

Robert M. Tetenbaum, a managing vice president at First Manhattan Consulting Group in New York, said that cash management fees are growing less than 10% annually across the industry, a result of service providers cutting prices in response to competition. Trust is growing at slightly more than 10% a year, he said.

"Double-digit growth is challenging, but not impossible, especially for a bank like Mellon, which has one of the broadest mixes of fee-based businesses among all commercial banks," said Mr. Tetenbaum.

"Mellon Bank has some real advantages and expertise," said Mr. Puglisi of Keefe Bruyette. In a recently published *American Banker* survey of the trust industry, Mellon ranked in the top 10 in both trust income and discretionary assets. □



David L. Johns
Executive vice president



Allan P. Woods
Senior vice president

Visa Expands Clearing House Service in South

By JEANNE IDA

NEW YORK — Visa U.S.A. signed a marketing agreement this week with Southern Financial Exchange that allows Visa to offer automated clearing house services in five additional states.

The pact brings the total number of states where Visa can operate as a provider of ACH services to 21. In February, Visa added Washington and Alaska to its list.

Southern Financial Exchange, a regional ACH association, has over 300 members in Mississippi, Alabama, Arkansas, Louisiana, and Tennessee.

Members of Southern Financial process about 24 million ACH transactions – primarily direct payroll deposits and automated monthly bill payments – each year.

Southern Financial said the pact would help its members reduce costs, build market share, and increase fee income by allowing them to market ACH services based on Visa's system.

Visa Negotiating with Fed

Members will have the option of using Visa's services or those of the Federal Reserve System for processing and settling transactions.

Visa's ACH services are considered technically superior to those offered by many of the Fed's ACH systems. The company is negotiating with the Federal Reserve to allow it to offer ACH services nationwide.

Visa entered the business in 1987 as the ACH processor for members of the Calwestern ACH Association, which represents five western states, including California.

The Visa ACH system is all-electronic, meaning participants must be able to at least receive payments electronically. □



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For Bankers Who Mean Business
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COMMENT / *By William M. Isaac*

Casting Blame Only Diverts Attention from S&L Cleanup



It's the silly season in Washington. Democrats are attempting to pin the blame for the S&L disaster on President Bush and the Republicans. The White House has fired a volley to remind the loyal opposition that two can play that game. Both sides, apparently sensing the need for diversion, are now engaged in one-upmanship on criminal prosecutions.

Don't get me wrong: I don't have anything against throwing thieves and other assorted rascals in jail. It needs to be done if only as a deterrent to would-be thieves. But let's not kid ourselves. It may be satisfying to flog the scoundrels, but it won't make the S&L fiasco any less painful to the taxpayers.

Lucky to Break Even

I suspect we'll be lucky if the monetary recoveries from the prosecutions exceed their cost. And to the extent that criminal prosecutions divert attention from the public policy mistakes that are at the root of the S&L crisis, they will be counterproductive.

A potentially more harmful political sideshow is developing with respect to the cleanup program. The Democrats can't finger George Bush for creating the S&L mess, for the simple reason that he was not in power when it arose — unless someone wants to argue that the vice presidency is a power position.

Money Shortage Can Be Cured

Cognizant of the futility of arguing that point, the Democrats are railing against the Bush-designed "cleanup program," contending that it is proceeding at a snail's pace. There is no question the cleanup program has had difficulty getting off the ground and continues to suffer from a shortage of money, staff, and systems. The money shortage can be cured anytime Congress and the administration choose to do so.

It will take time to resolve the staffing and systems problems. If the politicians push the Resolution Trust Corp. into moving faster than is reasonable in disposing of assets, the inevitable result will be massive doses of fraud, abuse, and just plain bad deals.

Public Is Finally Outraged

The politicians are playing these games because the public is finally beginning to comprehend the magnitude of the S&L disaster and is understandably angry. Politicians who had nothing to do with creating the mess are searching for ways to capitalize on it. Politicians whose fingerprints can be found at the scene of the crime are searching for ways to focus attention elsewhere.

We can't let that happen. We need to endeavor to understand the causes of the S&L collapse if we are to avoid its repetition. It is in this spirit that I offer a chronology of the major events leading up to the S&L crisis:

● The Johnson administration pursued a "guns and butter" fiscal policy in the mid-1960s, setting off inflationary pressures. These pressures led to higher and more volatile interest rates that impaired the viability of long-term lenders such as thrifts.

● The Hunt Commission recommended in 1971 that deposit interest rate controls be phased out, that thrifts and other lenders be allowed to offer variable-rate mortgages, and that mutuals be permitted to convert to stock form. The recommendations were ignored. The Federal Reserve Board compounded the situation in 1977 by ruling that bank holding companies may not acquire healthy thrifts.

● Inflation raged during the Carter administration; and the prime rate soared above 21%. Thrifts suffered massive disintermediation and began to hemorrhage red ink because they held long-term, fixed-rate loans.

● Congress belatedly authorized deregulation of interest rates in 1980. A last-minute rider was cut, over the objections of the Federal Deposit Insurance Corp., to raise deposit insurance from $40,000 to $100,000, marking the first time that fully insured deposits were offered without interest rate controls.

● The Reagan administration assumed office in 1981. The Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corp. were overwhelmed by failing S&Ls. Responding to intense industry and congressional pressures, the bank board lowered capital standards for S&Ls and adopted loss-deferral, appraised equity, and other regulatory accounting techniques to allow insolvent thrifts to continue in operation.

● Congress, with the support of the Reagan administration, in 1982 passed the Garn-St Germain Act, which broadened the investment and lending authorities of S&Ls. The law sanctioned reduced capital standards for thrifts by mandating a net worth investment.

See **SIDESHOW** *next page*

Among the well known companies that have joined the lobbying group are **Lazard Freres, NMB Post Bank,** and **Prudential-Bache.** The new group was created and financed by business, without government assistance, and will complement the work of individual chambers of commerce representing the 12 European Community nations.

Significant investment flows are at stake. The value of two-way trade between the United States and European Community is increased to more than $171 billion in 1989, with U.S. exports to the community exceeding imports by $1.29 billion. According to the U.S. Department of Commerce, direct investment in the United States by the European Community totaled some $235 billion, while U.S. direct investment in the 12 member states of the European Community reached nearly $150 billion by the end of 1989.

— **Louis Gerhardstein, Debra Cope, and Robert Trigaux**

Mr. Isaac was chairman of the Federal Deposit Insurance Corp. from 1981 to 1985. He now heads the Secura Group, a Washington-based consulting firm.

THE LOBBYISTS

Providers Create Legislative Post For Sheryl McGrath



Sheryl Peterson McGrath
American Financial Services Association

The **American Financial Services Association** has named **Sheryl Peterson McGrath** director of legislative affairs, a new position created for Ms. McGrath.

For the past three years she has been an assistant director for legislative affairs, lobbying the House of Representatives for the association, which represents providers of financial services to consumers and small businesses.

Ms. McGrath will coordinate the association's lobbying on Capitol Hill and play an increased role in strategy development and planning, while continuing as the group's liaison to the House. She will report to **Frank Salinger,** director of government affairs.

Her agenda in the next year includes legislation to diversify regulatory oversight of the financial services industry by function rather than by the status of the parent company, and an effort to make it more difficult for consumers to file for bankruptcy, Ms. McGrath said.

The American Financial Services Association also will oppose efforts, now under consideration in the White House-congressional talks on the federal budget deficit, to "kicker" via taxation with current provisions for mortgage interest deduction, Ms. McGrath said.

Ms. McGrath holds a bachelor's degree in government and politics from George Mason University and an MPA in executive legislative and regulatory management from George Washington University.

* * *

Housing Groups Rally To Save Deductions

Housing industry groups are cranking up their grass-roots machinery now that the popular home mortgage interest deduction and other itemized tax breaks are on the table at the budget summit.

No deal has emerged yet, but negotiators from Congress and the Bush administration, rooting through the tax code for ways to boost revenues, are weighing reductions in the value of itemized deductions for the wealthiest taxpayers.

One trade group, the **National Association of Realtors,** isn't taking any chances. In a preemptive strike unleashed on July 13, the Realtors reminded President Bush of a pledge he made, in a speech to the 665,000-member trade group last November, to support both mortgage interest and property tax deductions.

"It would be both imprudent and counterproductive ... to adopt any policy that would limit, either directly or indirectly, the value of the mortgage interest deduction," wrote **Norman D. Flynn,** the group's president.

Congress first curtailed the once-inviolable mortgage interest deduction in 1986, opening the door to further limits.

"Clearly, it's something we're watching very closely," said a **National Association of Home Builders** lobbyist. More than a month ago, the builders alerted their members to prepare for a fight over the mortgage interest deduction. Both groups are urging members to lobby senators and representatives in their districts during the August congressional recess.

* * *

Businesses Forge Trans-Atlantic Link

Leaders of major American and European Community-based businesses said this week they had formed a new organization, the **European Community Chamber of Commerce in the United States,** to represent the shared interests of American and European companies in expanding transatlantic trade and



Norman D. Flynn
National Association Of Realtors

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COMMENT

Sideshow on Blame Diverts Attention from S&L Cleanup

Continued from *page 4*

certificate program.

● The FDIC issued a study in 1983 calling for significant reforms in the deposit insurance system in order to instill greater depositor discipline in an environment of deregulated interest rates. Congress and the Reagan administration ignored the recommendations.

● Dick Pratt resigned as chairman of the bank board and Ed Gray took office in 1983. About a year later, Gray became concerned about the rapid growth and risky investments in the S&L industry. Much of the growth was fueled by fully insured brokered funds, so the FDIC and FSLIC adopted regulations curtailing deposit insurance on brokered funds.

The money brokers challenged the regulations, and a federal court ruled that the agencies lacked statutory authority. The battle moved to Capitol Hill, but the agencies' position was opposed by the administration and key members of Congress.

● The bank board, over the strenuous objections of the Office of Management and Budget, raised salaries and began to strengthen its examiner force in the mid- 1980s. The bank board, facing stiff opposition from the S&L industry, the administration, and key members of Congress, proposed to limit the investment authority of S&Ls in 1985.

● The administration proposed in 1986 to recapitalize the FSLIC to the tune of $15 billion. The proposal was strongly opposed by the U.S. League of Savings Institutions and was cut back to $5 billion.

● Ed Gray left office in 1987, discredited and under attack by the administration, the industry, and the Hill. Danny Wall became chairman of the bank board and continued to improve the S&L industry's tarnished image. He consistently understated the problems in the industry and maintained that the FSLIC had enough money to handle the problem.

Readers are free to draw whatever conclusions they wish from the above facts. Two conclusions seem obvious to me. First, the S&L crisis is a tragedy that could have been avoided at any of several points if industry and political leaders had exhibited more vision and courage. Second, there is more than ample blame to go around; neither political party has clean hands.

Washington loves moratoriums. I propose a moratorium on political posturing so that we might concentrate our energies on substance. Our first priority must be to clean up the S&L mess at the lowest possible cost to the taxpayers. Our second priority must be to enact the reforms necessary to ensure that a scandal of this magnitude is never repeated.

"The S&L crisis is a tragedy that could have been avoided at any of several points if industry and political leaders had exhibited more vision and courage."

I further propose that any public official who interferes with either objective be run out of town on a rail. □

Fed Approves Sovran Merger With Citizens

WASHINGTON — The Federal Reserve Board has approved the merger of Citizens and Southern Corp., Atlanta, with Sovran Financial Corp., Norfolk, Va.

The Fed said late Tuesday that the combined, superregional company would be the 10th-largest in the commercial banking industry, with $36.8 billion in total deposits. It would rank 12th in assets with $50 billion. Sovran said in an announcement Tuesday.

The merger has been pending since Sept. 26, 1989, and is expected to be completed on Aug. 30.

The companies had filed their application to merge under a new holding company name, Avantor Financial Corp. But in an unexpected turn, they said this week that they would scrap that plan and adopt the name C&S/Sovran Corp.

Change in Priorities

"Last Sunday we talked about separate operating companies. But now we've been involved in a related transition planning process for almost a year, and our priority has clearly changed," said Paul H. Anderson, chairman and chief executive officer of C&S Corp., who will hold the same posts in the merged organization.

"Our focus is on building a strong, unified, thoroughly integrated company," Mr. Brown said. "That's what led to the conclusion that C&S/Sovran is a name that more accurately reflects who we are."

Reaction from customers, employees, and shareholders "reinforced the value of retaining and incorporating into our new name the names under which we have historically operated so successfully," said Albert B. Gornto, chairman and chief executive officer of Sovran and chairman of the C&S/Sovran executive committee. □

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REQUIRED READING / By John C. Getzelman

Global Thinking for the Domestic Banker

The following is excerpted from a speech given by Mr. Getzelman to the CityClub Forum on June 14 in Seattle.

When asked to address a topic of special interest to me, I thought immediately of "globalization" – a clumsy word but a good one to describe the many ways, both obvious and subtle, in which borders, boundaries, and restrictive categories are breaking down all over the world.

My theme is how the Pacific Northwest has evolved from a continental outpost to a global crossroads – and how regional institutions such as banks must respond to that evolution, now and in the future. Because one thing is sure about the globalization of the business environment – it is inevitable, it is irreversible, and, if we manage it properly, it is to be welcomed.

The New Domestic Banker

My perspective on this theme is that of a convert. For 25 years, my focus was on places like Singapore, Sao Paulo and Bangkok. Now, I'm a domestic banker, focusing on Eugene and Yakima and Pocatello.

"International trade supports one in six jobs in Seattle, and one in eight in Portland."

But while the emphasis at Security Pacific is on building our Northwest franchise, we have learned that there are no purely domestic businesses today. Today, domestic bankers must be international bankers as well, because our domestic customers have international needs.

The concept of domestic banks serving international needs is especially evident in the booming Northwest economy. This region's growth has outpaced the nation's for the last two years, and will continue to do so, despite some moderation.

Boom Years

In Washington and Oregon, especially, comparison to the national picture is striking: in job gains in the manufacturing, construction, and service sectors; in housing starts; in population growth, and in lending activity. For example, outstanding commercial, consumer and real estate loans at large Washington and Oregon banks grew 18% last year, compared with 8% nationally.

Immigration is booming, and with it, the demand for consumer products and services, as well as for housing and construction workers in the Puget Sound area.

We should see a 5% growth rate in employment in the Northwest this year – somewhat slower than in the last two years of the 1980s, but still twice the national average. And Washington, of course, has a powerful economic engine in Boeing Co.

Boeing is part of the stereotype of the Northwest economy, which has traditionally relied on aerospace, fishing, forest products and agriculture.

But times are changing, and so are stereotypes. The region is diversifying into non-traditional areas such as software, biotechnology, high fashion sportswear, and wineries.

The Pacific Northwest, once an obscure western outpost in the American expansion, is now an important crossroads of the world economy.

One figure that sums up this international linkage is no doubt familiar to you, and that's "one in six" – international trade supports one in six jobs in Seattle, and one in eight in Portland.

Boeing is good example of this reliance on international trade. Forty percent of its sales are abroad, making Boeing the nation's second largest exporter after General Motors. In fact, the largest fleet of Boeing jets in the world is Japan Airlines.

Other major firms in the area, like Paccar and Microsoft, are well aware of the value of international markets – over half of Microsoft's sales are now international. Several traditional resource-based industries depend on international trade.



With the market for bottom-fish exploding over the last few years, Asian nations now purchase one-half of the region's fish harvest. One-fifth of all Northwest apples and one-fourth of Washington's lumber and wood products go abroad.

Pacific Rim countries are important consumers of Northwest raw commodities, but Europe is also a significant market, especially for high value-added products such as processed food, software, and electronics.

Europe's Boeing orders, for example, were worth twice that of Asia last year. By air, London is as close to Seattle as Tokyo is, so from Nike shoes to Microsoft programs to red delicious apples, Northwest exporters are taking a new look at old world.

International Investment

But international trade in not the whole story here. Foreign direct investment is also important. For example, in a single decade, Japanese high-tech firms have become major employers in Oregon: Forty-three Japanese electronics companies are now

See **GLOBAL** *next page*

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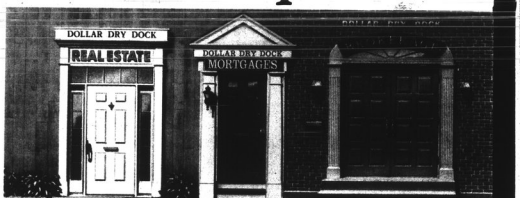

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Mr. Getzelman is chairman of the board and chief executive officer of Security Pacific Washington and Security Pacific Bancorporation Northwest.

REQUIRED READING

Global Thinking Needed at Home

Continued from *page* **6**

diversifying the economy of the Portland area. In Washington, some 40,000 workers owe their jobs to foreign-held businesses.

Japanese acquisitions – like the Daishowa pulp mill in Port Angeles – are often the most visible projects, but investors from Canada, Britain, Sweden and other nations have been just as active.

Behind the Myth

Some people see international investment as negative; but only selectively, they're worried about the Hong Kong owners of the Warwick Hotel but not the Canadian investment in the Four Seasons Olympic or the Dutch pension funds invested in the new Second and Seneca Building. We tend to fear the unfamiliar, but it's a fear that the global economy will not tolerate.

We need to put international investment in perspective. It's still a small fraction of total investment in the United States. In 1987, for example, foreign direct investment affiliates accounted for only 11% of sales. We tend to forget that investment from abroad is less significant in our country than in many others – including Canada; the United Kingdom, Germany, and France.

We also tend to forget the strong American investment presence overseas. On my Asian trip, I was also in Tokyo, where the tallest building near the Imperial Palace is the American Insurance Group Tower.

Besides fresh capital, investment from other parts of the world spurs competition, and speeds the spread of technological advances. In terms of increasing American competitiveness, it's said that one year's worth of international investment in an industry is worth fifty years of antitrust cases.

International investment also signals a vote of confidence in the health, safety, and productivity of the American economy. If international investors begin to spurn U.S. projects in favor of those in Germany or Indonesia – that will be the time to worry.

To me, the truly worrisome issue about international investment is not ownership, but expertise. When Japanese investors bought the Southland Corporation and its 7-Eleven subsidiary, the significance is not that Japan had bought something American.

The significance is that the Japanese may have the management expertise to operate an American concept like convenience stores better than Americans can. That troubles me – and the solution is not Japan-bashing, but some soul-searching about our own management skills.

"The New Pacific would be marketed to buyers and investors as a single region with 5 billion people."

To sum up, investment across national borders is a natural product of the global economy. As we move toward the 21st century, we must learn to be global in scope, whether their headquarters is in Chicago or Tokyo or Toronto. They will employ people of many nationalities, and produce earnings for shareholders all over the world.

The Role of Banking

So how do regional banks support this globalization of the regional economy? In the case of Security Pacific Northwest, by keeping a sharp focus on our Northwest customers and their international needs – and by staying closely linked with our international franchise, which gives us sophisticated capital markets and trade finance products that were not in Rainier's repertoire of services.

Before the 1987 merger with Security Pacific Corp., Rainier Bancorp. had offices in 11 countries outside the United States, with an Asian presence far greater than our relative size among American Now, as Security Pacific Northwest, we have access to Security Pacific Corporation offices and services around the world.

"International investment is now a crucial element in the Northwest's share of the global economy."

The merger was a good fit – two vigorous organizations, both pursuing involvement in the overseas Pacific Rim. The two banks merged their Asian branch networks into Security Pacific Asian Bank, with a mission to focus on trade and commercial banking.

I was involved in the formation of the Asian Bank in California, and I'm proud of that – I took the skills I learned in banking to Asians in Asia, and applied them here in the United States. We're looking to do the same thing here in the Northwest – to serve customers from other countries or other cultures in a way that benefits us both.

Serving the New Clientele

One example is our Hispanic branch in the town of Zillah, near Yakima, which will open this fall. This will be a full-service branch, but it will be located in the El Ranchito tortilla factory, which serves and employs a segment of the hispanic population of the lower Yakima valley.

The branch's brochures and other printed material will be in Spanish, as will the screens on the automated teller machine. The entire customer service staff will be bilingual.

This trend is bound to continue, as domestic banks realize the diversity of their customer base, and the special challenges and opportunities of serving their communities – whether they're

See **GLOBAL** *page* **10**

Dry Dock divide



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MARKETING/ADVERTISING

Norwest's Milwaukee Entry Adding to the Competition

By NANINE ALEXANDER

Norwest Corp. gave its name last week to the First Interstate Bank of Wisconsin, Kohler. But the newly christened Norwest Wisconsin has a lot of ground to cover. Its deposits total just $421 million in the Milwaukee area, making it an also-ran in the market.

And competition has been heightened since Columbus, Ohio-based Banc One Corp. entered Wisconsin in 1988 with its purchase of Marine Corp. Banc One has been nipping at the heels of the state's second-largest bank holding company, Marshall & Ilsley Corp., and top-ranked Firstar Corp.

Acknowledging that Norwest's presence in Milwaukee is small, just 3% of deposits, Executive Vice President Daniel A. Sakland raised the possibility of further acquisitions in the market.

Consolidation First

For now, Norwest is concentrating on customer retention and name recognition, said Mr. Sakland, who heads community banking for Minnesota, Wisconsin, Indiana, and Illinois. The Wisconsin bank's longtime slogan, "Come to expect the best," has been modified to "Come to expect a change for the best" in radio and print ads to support the name change. With the backing of its Minneapolis-based parent, the Wisconsin unit is planning its first TV campaign for the fall.

The First Interstate acquisition, announced last year, was completed in May after months of legal entanglements – primarily over First Interstate's Indiana banking unit.

Increased competition in the state from Banc One and Norwest has led to more packaged banking products, say observers; but the banks have not reduced prices or raised rates to buy market share.

Building Relationships

John P. Hickey Jr., executive vice president of the retail banking group for Banc One Milwaukee, said the trick is in gaining market share profitably. "We're looking to build relationships, rather than just moving products out the door," he said of Banc One, which is spending about $1 million a year on advertising in the state.

Banc One and Marshall & Ilsley have each gained about $200 million in Milwaukee deposits over the last two years, while Firstar's have dropped about that amount. For Milwaukee and its surrounding counties, Firstar had $3.2 billion in deposits at the end of 1989, followed by Marshall & Ilsley at $2.9 billion and Banc One Wisconsin Corp. at $2.4 billion.

Stephen J. Steiner, first vice president and director of marketing at Firstar, said the decline in deposits reflected reduced funding needs.

The $8.6 billion-asset company has restructured – getting out of lesser-developed country lending and reducing its exposure to commercial real estate – to concentrate on its own back yard, said Chris M. Bauer, president of the company's lead bank.

Advertising Campaign Set

First Wisconsin-Milwaukee is in the process of reorganizing its Milwaukee area and suburban banks into five geographic banking groups. Each will offer basic services that will be tailored to the the needs and wishes of its customer base, he said. Firstar, which is considered an aggressive advertiser, will highlight the changes in local advertisements later this year.

Some observers question whether increased competition will generate any reaction from Marshall & Ilsley. Industry observers and bankers alike said the $7 billion-asset bank does very little advertising. Marshall & Ilsley officials did not return phone calls.

Chicago Targeted For NBD Debit Cards

Two months after First Chicago Corp. launched a debit card program, NBD Bancorp. plans to offer a similar product in the Chicago area, said a bank spokesman.

NBD began offering a debit card in Detroit, its home city, last year and now has about 40,000 holders. A debit card could be rolled out in Chicago by yearend, the company said. Calls to other Chicago-area bankers found that most are waiting to gauge the impact of First Chicago's debit card, introduced two months ago, before offering a competing product.

First Chicago offers the debit card as "part of a better checking account," said Richard C. Hartnack, executive vice president and head of the community banking group.

Citicorp's Citibank has no plans for a debit card in the Chicago area. A spokesman for the bank, which entered Chicago in 1984 with the purchase of First Federal Savings, said the company offers card products on a national basis.

Boatmen's Is Using Customers in Its Ads

Boatmen's Bancshares Inc. of St. Louis is using responses from a poll of 3,000 current and potential customers in its television commercials. The survey asked, "How would you run a bank?" Respondents include one from an elderly customer, who requests more marriage-eligible tellers, and a consumer who complains about polka music when put on hold. □

Funds in Study Beat CDs for Profitability

By ELLEN MEMMELAAR

NEW YORK — Mutual funds are far more profitable for a bank than certificates of deposit, according to a study by Dalbar Financial Services, a Boston-based research firm.

The study, done in conjunction with First Manhattan Consulting Group, found that expenses reduce substantially the profits on CDs. Expenses are not part of the interest rate spread on mutual funds, thus assuring profitability, said Louis Harvey, president of Dalbar.

Gross profits are higher on a CD, but the expenses are also, says Dalbar Financial Services.

A bank's gross profit on a six-month, $10,000 CD is $65, versus $46 for a six-month, $10,000 U.S. Treasury intermediate mutual fund, the study showed. But after operating expenses, overhead, and Federal Deposit Insurance Corp. premium costs, the CD will lose $8 for the financial institution, and the mutual fund will earn $13.31 for an institution, Mr. Harvey said.

Small denominations of mutual funds remain unprofitable, the study found. A $1,000 mutual fund results in a $7.67 loss, compared with a $60.80 loss for a $1,000 CD. While a $100,000 CD will earn $30 for the bank, a $100,000 mutual fund results in a profit of $223.14.

Mr. Harvey noted that mutual funds eliminate interest rate risk, since banks have to pay only what the investment vehicle earns.

"There are situations where a bank can make more money on a mutual fund, but it really depends on the assumptions that you make," said Monroe Haegele, senior vice president at PNC Corp.'s Provident National Bank, Wilmington, Del.

Profitability of mutual funds depends on how much of the money invested is brought in from outside sources, Mr. Haegele said. The less disintermediation, the more profitable that mutual funds are, he said.

Over the past 10 years, mutual fund assets have grown to $1 trillion from $94.5 billion. The number of accounts has grown to 60 million from 10 million in 1980, Mr. Harvey said. □

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Consumer Money Index — Auto, personal and credit card rates

Market	CREDIT CARD 7/25/90	CREDIT CARD 7/18/90	PERSONAL 7/25/90	PERSONAL 7/18/90	AUTO 7/25/90	AUTO 7/18/90
New York	19.29	19.29	18.71	18.71	13.79	13.79
Los Angeles	19.16	19.16	20.06	20.06	13.16	13.16
Chicago	18.80	18.80	17.10	17.10	11.90	11.90
San Francisco	19.74	19.74	20.06	20.06	12.80	12.80
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Boston	18.00	18.00	15.85	15.63	12.08	12.03
Dallas	17.35	17.35	17.66	17.66	12.93	12.93
Houston	18.12	18.12	15.56	15.56	11.49	11.63
Dallas	19.17	19.17	16.87	16.87	11.27	11.37
Washington D.C.	18.81	18.71	16.55	16.55	11.45	11.45
BRM Index	18.65	18.64	17.31	17.29	12.26	12.28

The Bank Rate Monitor index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets as the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $9,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 36-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES	7/25/90
First Pennsylvania, Philadelphia	12.49%
Philadelphia Nat'l Bank, Philadelphia	12.49
Republic of Texas, Dallas	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank Of America, San Francisco	21.26
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
Lasalle Nat'l Bank, Chicago	10.75
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.00
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
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BL Paul Fed. Svgs. Bank, Chicago	15.90
Benjamin Franklin Bank, Houston	15.90
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COMMENT/*By Howard L. Lax*

Life Insurance Survey Has Some Good News for Banks

Life insurance products are highly compatible with consumers' savings and investment needs – and with their caution. The large majority of people, however, do not perceive insurance as a savings or investment vehicle.

This is just one of the conclusions from a recently released syndicated research survey by Claritas Corp. on life insurance needs, attitudes, and use.

Marketing Challenge

The challenge for insurance companies and banks with insurance powers is create marketing that essentially redefines how people think about insurance.

More than 5,300 households nationwide participated in the survey. The data also are being used as the basis of a segmentation system for the life insurance market.

Potential Among Underinsured

The industry has been concerned about flat sales in recent years. And though uninsured

Though consumers are satisfied with their life insurance companies, they tend to be more satisfied with their banks.

people always represent a potential market, the survey indicates that there is significant potential among the underinsured.

As many as one-quarter of the survey respondents indicated that they were dissatisfied with the amount of insurance coverage they carry. Another one-third were not satisfied with the amount of coverage that relatives hold.

Consumer Satisfaction

There is also good news for banks trying to sell or get into the insurance market: Though most consumers are satisfied or very satisfied with their life insurance companies, they tend to be still more satisfied with their banks.

Fifty-four percent of respondents indicated that they were very satisfied with their banks; the figure for insurance companies was 40%.

Moreover, 17% respondents with life insurance said they were not very satisfied or not at all satisfied with their insurance companies.

Market Segmentation

In some respects the market for life insurance seems largely undifferentiated; the reasons people buy insurance seem obvious, and whole-life products dominate.

These apparent truisms, however, are open to debate.

In fact, people buy insurance for different reasons. It makes a difference, for example, whether there is a child or a nonworking spouse in the household. And many people think of insurance coverage as a form of saving for retirement or education, or simply as a way to pay for funeral expenses.

This diversity of perspectives has ramifications for marketing. It is easier to market in conformity with how people think than to change their thinking.

How people think about insurance affects receptivity to different marketing messages and helps shape the type and amount of insurance they buy.

Who Buys What

For example, although whole-life plans still are the most typical, term-life policies have distinct appeal to certain market segments. Among investment-oriented buyers – who typically are better educated and more affluent than the average consumer – variable and universal-life plans are appealing. And college graduates age 25 to 44 are somewhat more responsive to buying insurance than the norm.

So the market for life insurance can't be approached as a homogeneous mass market,

Ten percent of respondents said they prefer to buy life insurance without meeting with an agent.

with one-size-fits-all products and marketing.

Agents play a critical role in marketing. Not only do most people buy through them, but those who do tend to have more coverage than people who buy without using an agent. Those who use an agent also tend to buy more types of policies and be more satisfied with their insurance companies.

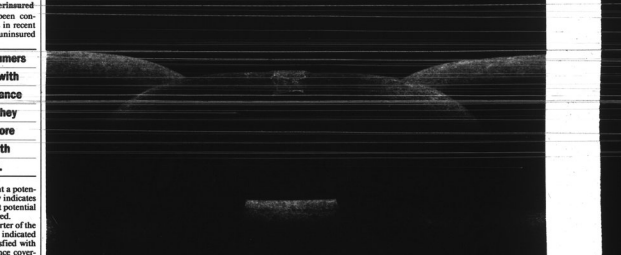
About 15 percent of insured consumers, however, have bought at least one policy in response to a direct mail solicitation. And almost as many have bought insurance in response to telemarketing campaigns, magazine ads, or some other marketing effort not initiated by an agent.

Selling Without Agents

In fact, 10% of respondents indicated that they prefer to buy life insurance without meeting with an agent. And 37% said they would consider buying without an agent.

Selling insurance cost-effectively through the mail not only is viable, it is the best way to reach some markets. Direct-mail sales, however, require even more-target marketing than traditional ways of selling life insurance. □

Mr. Lax is director of marketing for Claritas Corp., a target marketing and research firm based in Alexandria, Va.



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REQUIRED READING

Global Thinking for the Domestic Banker

Continued from *page 7*

Hispanic or Vietnamese or Korean.

Since the merger, we have reorganized our International Division, blending the corporation's international network with our own focus on domestic customers.

Security Pacific Northwest serves 300 or so distinctly international customers – but that's "international" quite narrowly defined. In fact we, and every other bank in the Northwest, have thousands of international customers – every domestic customer with a international element in their business, now or in the future.

Breaking Down Borders

When you look at the future of the Northwest's economy, you see an international coming of age. You see Washington's Economic Development Board developing a long-term strategy on positioning the state to compete in the global economy. You see Oregon's economic task force setting a major goal of creating "an international frame of mind" in the state's business and cultural life."

Even more exciting, beyond these state-by-state efforts, is the creation of the Pacific Northwest Economic Partnership of Washington, Oregon, and British Columbia – with Idaho and Alberta showing interest. This coalition is studying cooperative efforts in information sharing, biotechnology, aquaculture, environmental technology, and local economic development.

As these cooperative plans develop, state and even national borders are becoming more permeable in the Pacific Northwest. Historically, this was a single entity – the Oregon Territory. Today, the Canadian-American Free Trade Agreement points us back in that direction.

A recent leadership conference in Vancouver stirred up visions of the "New Pacific" – from Anchorage and Vancouver in the north, to Spokane and Calgary in the east, to Seattle and Portland in the west and south.

The New Pacific would be marketed to buyers and investors as a single region with 5 billion people, vast natural resources and progressive leadership. The booming Seattle economy – and the prominent reputation of Vancouver in Asia – would benefit both metropolitan areas.

An International Vision

What is the role of regional banks in this blurring of boundaries? Are banks too stodgy to keep up with this visionary trend? Since I'm a banker, you know my answer – of course not! At Security Pacific, we are already breaking down borders in our branch operations – as business and economic boundaries are superseding statutory and political boundaries.

It's not only state borders that are blurring – we're crossing national borders as well. Security Pacific Canada has headquarters just north in Vancouver, and offices in Toronto and Montreal – but it's managed from Seattle. This makes banking sense, because of British Columbia's strong Pacific Rim connections, and its many resource-based industries similar to those in Washington and Oregon.

This cross-border management gives us a chance to expand our international trade finance business, and to market to regional industries like fishing and forest products, as well as to serve Asian immigrants on both sides of the U.S.-Canadian border.

"Domestic businesses – and therefore domestic bankers – have to deal with this global diversity of products, investments, and markets."

Educating Bankers

For regional banks, one key to successful international service is educating domestic bankers to think globally. At Security Pacific, for example, we've developed an International Handbook.

It's a sort of short course in international banking, to help our 200 commercial relationship officers understand our international services, to help them spot international banking opportunities, and to keep them posted on issues.

The handbook is supplemented with training sessions, so that our domestic officers can discuss international trade issues with the hardware store owner whose rakes are made in Thailand, or the real estate developer in Bellingham, whose investors are Chinese residents of Canada, or the small software firm in Portland, whose potential customers are in France.

Thinking Globally

Managing Diversity is a program that I'm particularly interested in, because for much of my career I was the "foreign" element on the domestic scene. In Belo Horizante, in Manila, in Hong Kong, I was the one who didn't speak the language, and whose appearance stood out in a crowd. I was the foreigner, and the people I worked with had to make the effort to accommodate me, just I was trying to adjust myself to their culture.

These days we're all making adjustments, internally, in our organizations, and externally in our marketing. We're all learning to make the most of a seamless world – to see that people are not different, but diverse, and that markets are not foreign, but international.

I mentioned that my focus these days is on Yakima and Pocatello, but I also mentioned a recent trip to Thailand. That, I think, is the future of the domestic regional banker – to bring the world home to our customers, and represent our customers to the world – to think globally.

Adapting to New Cultures

How does global thinking translate into global action, for all of us? I'll leave you with two major goals. First, we have to adapt to other cultures, and stop expecting the world to adapt to us. We need to vastly improve the education of our children, in geography, in current affairs, and in languages.

I have a list of foreign language translators in our bank's International Division, from Arabic to Vietnamese, which includes four Chinese dialects, and three Filipino. My point is not that Security Pacific has people who speak these languages – I'm sure that all our respected competitors have the same capabilities. My point is that American schoolchildren should be learning to communicate with the rest of the world – we simply cannot afford to be parochial anymore.

The second goal is that we should learn the lesson that jumps out at us every time we open a newspaper: that the pace of global change is accelerating, and we all have a steep learning curve ahead of us. Not so long ago, Europe '92 was the big economic revolution ahead. Now Europe '92 is old news, and Eastern Europe is the great unknown.

Taiwan used to be the hot spot for manufacturing investment, but now the hot spot is Thailand. Within a few years, I think we'll be seeing Mexico as a major industrial center – and perhaps well be talking about a U.S.-Canada-Mexico Free Trade Agreement.

Most of us – or at least many of us – remember Nikita Krushchev and his threats. Last week, Mikhail Gorbachev came to San Francisco to court West Coast investors! The economic world, along with the political world, is transforming itself in front our eyes. We have to watch carefully, and to anticipate.

Perhaps in the future, domestic banks won't have international divisions, because international services and international awareness will be so well integrated into every function of domestic baking that a separate division won't be necessary.

That's the challenge of global thinking – for bankers and for everyone else in this global crossroads region of the Pacific Northwest. □

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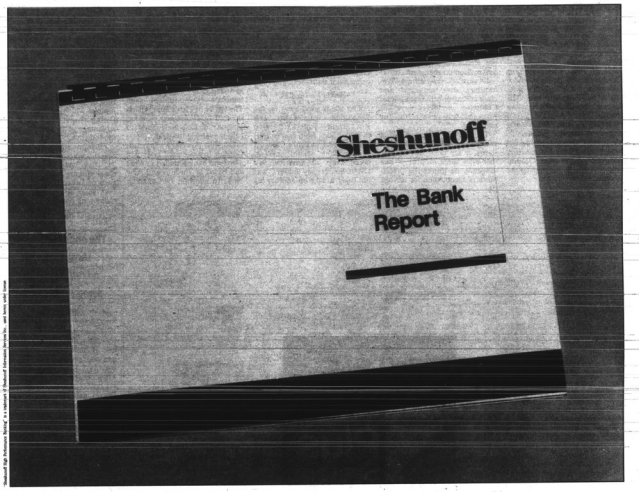

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Columbia Savings Sells Junk Bond Portfolio for $3 Billion

Continued from *page 1*

lumbia's capital deficit, which stood at $215.6 million at March 31.

The structure of the deal is also controversial. The buyer, Gordon America L.P., will pay Columbia only $300 million in cash, essentially a down payment of 10%. The remaining $2.7 billion will be financed by Columbia in the form of a note with a 10.5% interest rate. The note is secured by the junk bonds.

Market sources say the sale has some recourse provisions, under which Columbia would end up with the bonds if Gordon defaulted on the loan. Gordon would essentially only forfeit the downpayment.

"The good news is they sold the portfolio; the bad news is that it could go back to Columbia," says Mr. Lustig.

Gordon, whose investors include General Electric Capital Corp. and Canadian Imperial Bank of Commerce, also will pay Columbia a facility fee of $50 million on the loan.

Edward G. Harshfield, Columbia's new president and chief executive officer and other Columbia executives were not immediately available for comment.

Thomas I.A. Allen, a Gordon partner, declined to discuss the terms of the deal. But he said that after three months of due diligence, he thinks the investment is a good one for anyone

> **"The good news is they sold the portfolio; the bad news is that it could go back to Columbia."**
>
> **Jay N. Lustig**
> *Drake Capital Securities*

"who believes in the upside of corporate America in the short or medium term."

Better for the RTC

The sale is good news for the Resolution Trust Corp. The RTC already owns $3.7 billion in junk bonds from institutions it has closed; notably Centrust Savings Bank, Miami, and Imperial Corp. of America, San Diego. Sources say the RTC was not eager to take on another big portfolio of junk bonds, many of which are illiquid.

The deal requires corporate and regulatory approval, Columbia's announcement said. The Office of Thrift Supervision in mid-July retained Kidder, Peabody & Co., New York, to help it evaluate the deal.

Gordon America's parent, Gordon Investment Corp., is a merchant bank founded in 1987 and based in Toronto and New York. In addition to Canadian Imperial and General Electric, its principal shareholders include Canada Life Assurance Co.; Hutchinson Whampoa Ltd., Kuwait Investment Office, Hollinger Inc., and Yasuda Trust and Banking Co. Mr. Allen said Gordon has invested more than $1 billion in various enterprises.

The sale of the junk bond portfolio represents a dismantling of the $8.2 billion-asset Columbia, which was once a high-flying thrift that took full advantage of the deregulation of the industry.

Former chairman Thomas Spiegel, who resigned on Dec. 31, 1989, had close ties to Michael Milken, former junk bond guru of Drexel Burnham Lambert Inc. Mr. Spiegel bought many junk bonds for Columbia, funded primarily with wholesale deposits.

> **The once high-flying thrift took full advantage of the deregulation of the industry.**

This strategy seemed to work for awhile. Columbia was once one of the strongest-capitalized and most profitable thrifts in the country. However, with the 1989 plunge in the junk bond markets, the bankruptcy of Drexel, and requirement under the Financial Institutions Reform, Recovery, and Enforcement Act that thrifts sell the junk bonds – and thus mark them to market – Columbia plunged into losses.

Columbia lost $591 million in 1989 and another $293.3 million in the first quarter. Mr. Spiegel has been fighting charges that he used Columbia funds for personal purposes that included an arsenal of 50 firearms, a personal security detail and Columbia-owned condominiums. Mr. Spiegel was not available for comment. □

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Low Incomes Seen as Limiting Home Sales

WASHINGTON — Expansion of the housing market will be limited because most American renters cannot afford to buy a home of their own, according to a study by the Joint Center for Housing Studies at Harvard University.

It said 80% of white renters and 96% percent of black renters do not have enough income to raise a 10% down payment.

"They lack the savings and wealth to secure a home, the very asset that has proven to be the best source of wealth accumulation for most Americans," said William Apgar, author of the study, which was sponsored by the Ford Foundation.

In 1970 the average down payment for a house was just over $6,000, but by 1980 the average had climbed above $11,000. It is now just over $9,000.

The study saw no sign of record high rents falling soon for poor renters, almost 30% of whom are at or below the poverty level.

Mr. Apgar said the prospect was especially grim for renters close to the poverty line since low-cost apartments in U.S. cities are being upgraded to attract higher-income tenants.

Reuters

Pittsburgh S&L Chief Dies at 67

Daniel T. Kubasak, 67, chairman, president, and chief executive officer of Great American Federal Savings and Loan Association, Pittsburgh, died July 21 of heart failure in a New York City Hospital.

Kubasak began his career with the First Federal Savings and Loan Association of Homestead in 1940. During his nearly 50 years with the same association, he worked in every department and was named president and chief executive officer in 1973.

Under his leadership, First Federal became Great American Federal in 1975. In 1988, he was elected chairman of the board.

Mr. Kubasak was active in many community organizations and associations, including the Steel Valley Chamber of Commerce, the U.S. League of Savings, the Pennsylvania Association of Savings Institutions, and the Institute of Financial Education. □

Losses Slowing at Privately Owned S&Ls, OTS Reports

Continued from *page 1*

black.

Most of the improvement among the private-sector thrifts in the first quarter was the result of slower bleeding among the least-healthy institutions that are likely to be seized and transferred to the Resolution Trust Corp. The 310 institutions in this classification, which the OTS calls Group 4, lost $874.1 million in the quarter that ended March 31, down from $1.5 billion in the last three months of 1989.

The condition of thrifts on the second-lowest of the four rungs – 311 troubled institutions with poor earnings and low capital – deteriorated in the first quarter. Their losses climbed to $281 million from $100 million three months earlier.

> **"The job of the private sector of the industry is to go out and be as profitable as it can be."**
>
> **T. Timothy Ryan Jr.**
> *Office of Thrift Supervision*

Many of the institutions in this tier, Group 3, will ultimately be transferred to the RTC.

"We knew some were going to slip down, but some with low capital probably have sufficient core earnings to find a marketplace solution to their problems," said William C. Ferguson, an industry analyst, who said some of the uptick in losses is probably attributable to provisions for loan losses.

In a shift from its prior practice, the OTS reported only on the performance of thrifts operating outside government control. Data on losses by the 350 thrifts in conservatorship as of March 31 were not available, making it difficult to make an exact assessment of whether the entire industry's condition has improved.

Good Quarter for Top Tier

The top group of 1,264 well-capitalized thrifts turned in their best performance in a year, earning $692.5 million, up from approximately $500 million in the prior quarter. Their earnings totaled $2.4 billion in 1989.

Net income of 620 thrifts in Group 2, which meet or are near required capital levels, totaled $191.5 million – little changed from $200 million in profit in the last three months of 1989.

"These thrifts are beginning to show signs of consistent profitability," said OTS director T. Timothy Ryan Jr. They posted earnings of $100 million in all of 1989.

Mr. Ryan said he is not yet prepared to assess the future of the thrift industry, which some observers say is obsolescent.

"We can't make judgments based on what we see in this quarter," he said. "We need to wait and see some real trends. I'm neutral and on hold as to what these data really mean," he said.

He defended the decision – reached by Treasury, the RTC, and OTS – to report separately on the condition of thrifts controlled by the government.

"The job of the private sector of the industry is to go out and be as profitable as it can be," Mr. Ryan said. The troubled segment's job is to prepare itself for liquidation, "not to run a vigorous business."

OTS officials said they were unable to delineate the operating and nonoperating losses of the thrift industry because of changes in the reporting system. □

Thrift Profits Vary
First-quarter earnings by industry segment, in millions of dollars

1,264 well-capitalized institutions	$692.5
620 thrifts likely to raise capital	$191.5
311 troubled thrifts with low capital	($280.7)
310 thrifts destined for conservatorship	($874.1)
All 2,505 thrifts not in conservatorship	($270.7)

Source: Office of Thrift Supervision



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Layoff Advice: Do It Fast, Then Help the Survivors Cope

By PHIL ROOSEVELT

When Bank of New England Corp. announced plans in April to cut its staff by 5,600 – one-third of the total – the company wasn't just talking.

Within a day or so, 1,700 workers were given 30-day notices of dismissal, and many others were told that their jobs would be eliminated by the end of the year, company officials say.



"We tried to do it quickly and get it all over with, so people didn't think we were just sort of dribbling out the bad news," says Ralph D. Gordon, director of human resources for the Boston-based holding company.

Similar Cases May Follow

The case of Bank of New England may be extreme, but as the banking industry intensifies its cost cutting, a number of bankers and consultants are advocating swift, decisive action when it comes to layoffs.

"It's not a fun process," Dale Winston, president of Battalia and Associates, a New York-based executive search firm, says of layoffs. "The best thing is just to have it done as quickly as possible."

Lingering uncertainty over who will be cut and when the cuts will occur can sap a staff of its morale, thereby hurting productivity.

Indeed, many experts warn, the uncertainty can drive some of a bank's best-performing employees to leave for more stable situations.

At the very least, some banks that have undergone big staff reductions have found it useful to redouble efforts at internal communication.

Los Angeles-based First Interstate Bancorp publishes special weekly or biweekly newsletters between the announcement and the implementation of staff cuts.

"It's reassuring for employees to see something in writing," says June Jones, a vice president in human resources at First Interstate.

Of course, not all layoff procedures are practical or desirable for all situations.

Some banks, for example, are under so much pressure from stockholders to cut costs that they must announce general plans for layoffs weeks or even months before details are in place. Other banks may be concerned that moving too quickly will result in errors or add to the trauma of layoffs.

What follows are some approaches used by three banking companies that have launched staff reduction programs this year:

BANK OF NEW ENGLAND

This institution, crippled by souring real estate loans, announced its radical plan less than one month after the arrival of a new chairman and chief executive, Lawrence K. Fish.

Rumors about possible layoffs had been rampant since the beginning of the year. "The best you can do is be honest with people and say that just as soon as you're in a position to say something specific, you will," Mr. Gordon says.

Almost immediately after taking office on March 6, Mr. Fish told employees that big cuts were likely. Then, on April 4, he announced the plan to cut one-third of the staff by yearend.

Already, the company had analyzed who would be cut, managers had received training in executing layoffs, and arrangements had been made for outplacement services. Thus, those who were going to be laid off soon knew it.

Job Cutting Gathers Steam

Bank	Number of jobs cut/percentage of total	Date announced
First Fidelity	1,400 20%	March 5
Bank of New England	5,600 33%	April 4
Bankers Trust	75 5% of corporate banking department total	June 19
Harris Bank	320 8%	June 20
Chase Manhattan	3,200 17%	June 21
Continental Bank	900 15%	June 26
First City of Texas	700 30%	July 1
Manufacturers Hanover	1,400 7%	July 17
Citicorp	Unspecified reductions in corporate finance units worldwide	July 18

Why such speed? "I think there's some comfort for the staff to know that it's over," said Mr. Gordon. "It makes the survivors feel better to know that it's out of the way and isn't going to be dragged out."

CONTINENTAL BANK

Most human resources specialists stress the importance of clear and constant communications during a round of layoffs. For Chicago-based Continental Bank Corp. – which recently announced plans to cut 900 jobs, or 13% of its total, to bolster profits – a solid communications mechanism was in place.

Under the company's "key communicator" system, about 300 employees heard from senior management in late March that the company planned to review all product lines with an eye to trimming costs.

Each communicator relayed the information to a group of employees, ranging from 10 to more than 50, either in formal meetings or informally. "The nice part about the system is that it allows for one-on-one communication," said Holly Anderson, Continental's manager of internal communication.

'There's no price tag you can put on this kind of service,' he said.

'There's no price tag you can put on this kind of service," he said.

System Put to Use

The key communicators – a system that was formed about two years ago for disseminating general information – was called upon again in June, shortly before the layoffs were announced.

Between April and now, she says, the majority of people being laid off have been informed, though few details of the cuts have appeared in press accounts.

"As a matter of basic humanity, you want to make sure that people don't read in the newspapers that they're not going to be laid off before they've heard it from you," she says.

AMOSKEAG BANK SHARES

The ramifications of layoffs can linger long after the actual cuts. The employees remaining may well suffer from survivor's syndrome.

"The stress can be very high for the survivors," says Normand St. Amand, director of human resources for Amoskeag Bank Shares Inc., a Manchester, N.H., parent of three banks in that state.

"They can be left wondering from week to week, 'Am I going to be next?' or 'Why am I still here and he or she is gone?'."

While cutting 60 jobs, or 6% of its staff, during the first quarter of this year, Amoskeag relied heavily on the services of an outside company to provide help and counseling for both departing workers and survivors. The company, Resource Management Consultants of Salem, N.H., had been providing an employee assistance program for Amoskeag for about four years.

Calming the Survivors

After the staff cuts, Mr. St. Amand said, many employees felt more comfortable discussing their anxieties with outsiders than with their superiors at Amoskeag.

"There's no price tag you can put on this kind of service," he said.

Resource Management Consultants helped convey to survivors that "it's all right to feel lucky," Mr. St. Amand said. Employees were offered both classes and private counseling.

"The people who stay often don't get a whole lot of attention paid to them," said Jonathan Sheff, president of the Resource Management. But without proper help, he said, "They run around feeling anxious and guilty."

Mr. St. Amand said the care for survivors included some frank talk about the future.

"Once the cuts were made, we couldn't in all honesty sit here and say there would be no further layoffs," he said. "What we said was that the people who are remaining are needed for the job but that if a particular line of business is eliminated, we may also eliminate the jobs." □

Progress in Seafirst Labor Talks

But Bank and Union Say Key Economic Issues Remain

By SAM ZUCKERMAN

SEATTLE — Seafirst Bank and labor officials bargaining for about 4,700 employees have made progress toward an agreement, according to representatives of the two sides.

But Seafirst, a unit of BankAmerica Corp., and the United Food and Commercial Workers both caution that key economic issues have not yet been settled and major hurdles remain before a contract can be signed.

A contract would cover all employees except supervisors, professionals, officers, management trainees, and guards.

A Unique Agreement

The two sides say that such a pact would be the only union agreement covering a major U.S. bank's workers.

Seafirst fought an 11-year legal battle against the union, agreeing to talk only after ordered to do so by a federal appeals court last December. But now, said Seafirst chairman and chief executive Richard E. Cooley, "we are bargaining in good faith."

"We made a proposal," Mr. Cooley noted in an interview. "If [the union] had accepted it, we would have had a contract."

Nancy J. Holland-Young, president of UFCW Local 1439, said: "It's still too early to tell [if an agreement can be reached]. But the early signs are encouraging."

As of mid-July, eight bargaining sessions had been completed. Seven more sessions are scheduled through the end of August.

Both the bank and the union say the talks have been cordial. But neither side is predicting when, or even if, a contract will be concluded.

"We're not on any time line to settle overnight or next week," said Seafirst president Luke S. Helms.

Neither side is predicting when, or even if, a contract will be concluded.

So far, negotiators have reached agreement on such issues as terminations, layoffs, and promotions, according to sources familiar with the talks. But the key economic questions of pay and benefits, as well as union access to the workplace, dues check-off, and grievance and arbitration procedures, have not yet been addressed.

When the more contentious issues come to the table, "the atmosphere could change, but we certainly hope not," said Ms. Young.

Dispute over Salary

The union has proposed a minimum 4% across-the-board increase in pay for all employees, as well as an 8% rise in the pay ranges for different job categories, according to union documents.

Seafirst has proposed to keep its current pay ranges, which tie compensation to performance. The bank will sign a contract only "if it allows us to be competitive," Mr. Helms said.

Sources familiar with the talks say the union is prepared to be flexible on pay and other economic questions.

The bank recognized an independent union as bargaining agent for its workers from 1971 to 1977. When the two sides failed to agree on terms to renew the contract, union members voted to affiliate with the Retail Clerks International Union, which later merged with the UFCW.

In 1979, the National Labor Relations Board ordered Seafirst to negotiate with the clerks union. The bank fought the ruling in court for more than a decade.

Last year, after a series of administrative and judicial rulings, a federal appeals court upheld the NLRB's order to bargain. Seafirst agreed to talks, but also asked the Supreme Court to overturn the lower-court decision. The high court denied the bank's petition. □

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Bank of Hawaii	Duff 1
Bankers Trust Co	Duff 1
Chase Manhattan Bank (N.A.)	Duff 1
Chemical Bank	Duff 1
Citibank, N.A.	Duff 1
Citizens & Southern Nat'l Bank-Georgia	Duff 1
Continental Bank	Duff 1
Fidelity Federal Savings & Loan Assn	Duff 2
First Bank National Association	Duff 1
First Interstate Bank of California	Duff 1
First National Bank of Boston	Duff 1
First Nat'l Bank of San Antonio	Duff 2
First Nationwide Bank, F.S.B.	Duff 2
Manufacturers & Traders Trust Co.	Duff 1
Manufacturers National Bank of Detroit	Duff 1
Mitsbn Bank, N.A.	Duff 1
Morgan Guaranty Trust Co. of N.Y.	Duff 1
NCNB Texas National Bank	Duff 1
Security Pacific National Bank	Duff 1
Shawmut Bank, N.A.	Duff 1
Union Federal Savings Bank	Duff 1
U.S. National Bank of Oregon	Duff 1
Wachovia Bank & Trust Co., N.A.	Duff 1
Wells Fargo Bank, N.A.	Duff 1

Long Term Ratings

Banco Popular de Puerto Rico—Senior Debt	A
Banco Popular de Puerto Rico—Sub Debt	A-
Banco Santander-Puerto Rico—Senior Debt	A-
Bank of New England, N.A.	BB-
Citizens & Southern National Bank-Georgia	AA-
Fidelity Federal Savings & Loan Assn	BBB
Franklin Savings Association—Sub Debt	CCC
Manufacturers & Traders Trust Company	A-
Manufacturers National Bank of Detroit	A-
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Merger Sought For Guarantor In Student Loans

Continued from page 2

loans by state agencies such as HEAF guarantee them.

At its headquarters in Overland Park, Kan., HEAF said that while it is cooperating with the U.S. department, it is also pursuing its own options.

Timing Held Crucial

HEAF said it received a significant number of inquiries. "It is clear to us, and our lenders said, "that the eroding confidence in the strength of our guarantee requires us to move quickly to consummate desirable arrangements."

On Monday, the Nebraska Student Loan Program confirmed it was approached by HEAF about a possible asset transfer agreement, but said those talks were terminated when the education department failed to approve the deal.

Also on Tuesday, U.S. Education Secretary Lauro Cavazos vowed that HEAF-guaranteed loans would remain government-guaranteed, and Sallie Mae said its balance sheet and earnings would not be affected materially even if HEAF did not pay claims on defaulted loans. □

REPUBLIC NATIONAL BANK OF NEW YORK

A SUBSIDIARY OF REPUBLIC NEW YORK CORPORATION

Consolidated Statements of Condition

Assets	June 30, 1990	June 30, 1989
	(Dollars in Thousands)	
Cash and due from banks	$ 286,040	$ 267,228
Interest bearing deposits with banks	8,548,850	10,243,674
Precious metals	385,230	206,047
Investment securities	3,699,476	2,795,215
Trading account assets	59,467	140,038
Federal funds sold and securities purchased under resale agreements	731,009	44,772
Loans, net of unearned income	4,854,096	4,117,128
Allowance for possible loan losses	(200,754)	(145,646)
Loans (net)	4,653,342	3,971,482
Customers' liability on acceptances	2,010,434	2,253,065
Premises and equipment	324,603	310,806
Accrued interest receivable	291,481	304,479
Investment in affiliate	485,022	466,286
Other assets	538,048	591,508
Total assets	$22,013,002	$21,594,600

Liabilities and Stockholder's Equity	June 30, 1990	June 30, 1989
	(Dollars in Thousands)	
Non-interest bearing deposits:		
In domestic offices	$ 684,264	$ 669,079
In foreign offices	72,967	81,923
Interest bearing deposits:		
In domestic offices	4,629,346	5,108,612
In foreign offices	8,814,497	8,083,393
Total deposits	14,201,074	13,943,007
Short-term borrowings	2,087,155	1,040,515
Acceptances outstanding	2,017,390	2,259,997
Accrued interest payable	206,975	250,695
Other liabilities	529,756	682,921
Long-term debt	1,353,450	1,782,296
Stockholder's Equity:		
Cumulative preferred stock, $100 par value; 1,000,000 shares outstanding	100,000	100,000
Common stock, $100 par value; 4,800,000 shares authorized; 3,550,000 shares outstanding	355,000	355,000
Surplus	860,000	860,000
Retained earnings	302,202	300,169
Total stockholder's equity	1,617,202	1,635,169
Total liabilities and stockholder's equity	$22,013,002	$21,594,600
Letters of credit outstanding	$ 1,517,794	$ 1,225,914

The portion of the investment in precious metals not hedged by forward sales was $12.0 million and $6.0 million in 1990 and 1989, respectively.

REPUBLIC NEW YORK CORPORATION

Summary of Results
(In Thousands Except Per Share Data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	1990	1989	1990	1989
Net income	$ 97,091	$ 89,544	$ 52,646	$ 43,765
Cash dividends declared on common stock	$ 21,396	$ 19,288	$ 11,428	$ 9,675
Per common share:				
Net income	$ 2.74	$ 2.45	$ 1.43	$ 1.25
Cash dividends declared	$ .66	$ .64	$ .33	$ .32
Average common shares outstanding	31,655	30,072	33,082	30,103

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Cost Control

Disciplined Approach to Corporate Real Estate Benefits Bankers Trust

By JEFFREY MARSHALL

Bankers Trust New York Corp. says it is saving as much as $50 million a year over its rivals, without issuing a pink slip or turning employee benefits. How? By careful cost management of its corporate real estate.

Operating at scores of sites in 30 countries around the world, Bankers Trust is constantly reassessing its space needs and leasing out space it is not using. It stresses function and flexibility, preferring to use office sites as is rather than customizing them to accommodate the current occupants, said senior vice president Charles H. Nobs.

Bankers Trust tries to evaluate corporate space each month and do a thorough review each quarter, Mr. Nobs said. It has its own acquisition and leasing staff, which monitors rates in the marketplace on a weekly basis.

Internal Discipline Counts

According to Mr. Nobs' calculations, Bankers Trust's tight management of real estate, combined with internal discipline, saves $30 million to $50 million more per year than its wholesale-oriented bank peers and investment firms.

Mr. Nobs heads the office of corporate operating services that oversees real estate and other services such as security, insurance, and office technology.

"Bank occupancy is typically the second-largest noninterest expense, ranking only behind employee compensation/benefits," he said.

Mr. Nobs said Bankers Trust manages more than $150 million in premise-related expenses annually and has 50 to 75 building-related capital projects under way at any time. The company has three million square feet in the New York metropolitan area and half again that much elsewhere.

Some capital projects might involve new construction, such as Bankers Trust's building in London's Broadgate area, completed in 1989. Other projects might be as simple as renovation of floor space, he said.

Most projects are jointly managed between the affected business line and the corporate services staff. Corporate finance and trading activities are two of about 15 such lines, Mr. Nobs said.

Bankers Trust realized considerable cost savings by moving some corporate offices out of Manhattan five years ago. Today, the bank holds a lease for 385,000 square feet of space at the Harborside complex in Jersey City, an area that houses 1,400 employees.

Arithmetic Tells the Story

Mr. Nobs bases Bankers' savings edge over its competitors on corporate occupancy cost ratios derived from simple arithmetic: comparing corporate occupancy expense, a balance-sheet line item, to the total number of employees.

Proven Ways to Cut Costs Sought for New Column

Bankers are looking everywhere for ways to control their cost of doing business. To provide readers with cost-cutting tips, the *American Banker* has begun a column that will appear Thursdays on the management page.

We invite readers to let us know about methods they have found successful in controlling expenses. Please get in touch with Patricia Stundza, features editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004, phone 212-943-5733 or fax 212-943-2094.

Its competitors spend 40% more for occupancy, and Bankers' average occupancy-cost growth has been running at about 8% annually for the past five years, compared with 13% for its rivals, he maintained.

These comparisons are meaningful only because Bankers in the same basic businesses in most of the same cities, he argued. □

GLOBAL *dispatches...*

Brazil Won't Pay Arrears Before Start of Debt Talks

Reuters

RIO DE JANEIRO — Brazil's chief debt negotiator, Jorio Dauster, reiterated that the government would not pay arrears on its huge foreign debt before the start of negotiations with creditors.

"At this moment the government is not contemplating making any payment of arrears before starting negotiations," Mr. Dauster told a news conference here.

The government announced late Tuesday that an International Monetary Fund team would arrive in Brazil on Aug. 1 to begin a review of the country's economy and to initiate talks on a standby loan agreement.

Mr. Dauster said commercial bank creditors seeking payment of arrears would have to take their place in line behind international agencies and government lenders.

Payment Order Given

"First we are going to fix how much Brazil can pay," he said. "Then there exists a priority, a seniority of whom to pay."

First comes the IMF, Mr. Dauster added, because "whoever doesn't pay the IMF is dead." Next come international agencies such as the World Bank and the Inter-American Development Bank, which "cooperate with Brazil and bring new money."

Third comes the Paris Club of government creditors.

"I will only know what can be paid to [commercial] banks after I know what has been agreed with the other three groups because they are at the head of the queue," Mr. Dauster said.

Sumitomo Plans New York Unit

TOKYO — **Sumitomo Bank** Ltd. will set up a wholly owned subsidiary in New York in mid-1992 to control its fund management, securities, leasing, trust, and capital markets business in the United States.

The controlling unit, as yet unnamed, will be capitalized at $3 million, the Japanese city bank said in a statement.

Sumitomo also said it plans to establish in New York a fund management subsidiary capitalized at $40 million; a securities unit capitalized at $40 million; and a leasing subsidiary capitalized at $240 million. The parent company will directly own 90% of each of the three companies, and its controlling unit the other 10%.

The controlling subsidiary also will own 10% each of Sumitomo's wholly owned Sumitomo Bank Capital Markets Inc. and Sumitomo Bank of New York Trust Co. — **Reuters**

IDB

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Statement of Condition
as at June 30, 1990

Assets	
Cash and Due from Banks	$3,201,838,000
Federal Funds Sold	176,000,000
State, Municipal & Other Securities	406,001,000
Loans	992,297,000
Less: Allowance for Possible Loan Losses	20,991,000
Loans, Net	971,306,000
Customers' Liability on Acceptances	8,462,000
Premises & Equipment, Net	11,670,000
Other Assets	51,692,000
Total Assets	$4,827,569,000
Liabilities	
Deposits	$4,461,671,000
Acceptances Outstanding	8,462,000
Other Liabilities	55,036,000
Subordinated Capital Notes	27,000,000
Convertible Subordinated Capital Notes	7,333,000
Total Liabilities	4,559,502,000
Stockholders' Equity	
Common Stock	80,689,000
Surplus	38,595,000
Undivided Profits	148,783,000
Total Stockholders' Equity	268,067,000
Total Liabilities & Stockholders' Equity	$4,827,569,000

Standby Letters of Credit $66,053,000

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Europe's Banks Lead in Growth

Hard Times Cramp Top Japanese, U.S. Institutions

Continued from *page 1*

bank assets, they failed to repeat the previous year's sweep of the top 10 places.

Dai-Ichi Kangyo Still No. 1

Once again leviathan Dai-Ichi Kangyo Bank Ltd., Tokyo was the world's largest bank, with $403.4 billion in assets.

But two French banks, $242.3 billion-asset Credit Agricole Mutuel and $231.8 billion-asset Banque Nationale de Paris, jumped into seventh and eighth places, respectively, from 11th and 14th.

Citicorp Wins Back No. 10 Spot

Citicorp, the largest U.S. institution, with assets of $227 billion at yearend 1989, regained the No. 10 spot, which it had held two years before.

Other strong gainers included $211 billion-asset Credit Lyonnais, Paris, which moved up five notches to 13th place, and $202.6 billion-asset Deutsche Bank, Frankfurt, up six spots to 16th.

Japan's Banks Take a Beating

Although Japanese banks built assets substantially in yen terms, 1989 was their toughest recent year. They were battered by rising interest rates, declining margins, lower profitability, and a capital shortfall three years before the deadline for meeting the 8% capital standard of the Bank for International Settlements.

Despite these problems, the Japanese had great success in raising capital. *American Banker* calculates that in 1989 the 30 largest Japanese banks boosted shareholder equity 9.97% in dollar terms, despite the fall in the yen.

'Hidden Assets' Deteriorate

A decline in Japanese stock prices this year has added to the banks' woes. The decline wiped out part of their "hidden assets" – unrealized gains on their stock holdings that represent an important part of their capital structure.

Although the Tokyo stock market has recovered much of its losses, the banks got a vivid demonstration of their vulnerability, a lesson that has made them more cautious about expansion.

U.S. banks, meanwhile, have been hobbled by a sluggish economy, poor profitability, rapidly deteriorating credit quality, and a hostile market for raising equity – trends that became visible in 1989 and accelerated this year.

The most ominous sign for U.S. institutions has been how little their capital has increased. In 1989 the equity of the 14 largest U.S. banking companies rose only 3.94%; their top competitors abroad boosted equity 12.8%.

> **"Our banks are basically operating with huge anchors around their necks. No matter how hard they run, they can't stay in place – because everybody else is moving faster."**
>
> **Robert Litan**
> *Brookings Institution*

'Everybody Else Moving Faster'

"Our banks are basically operating with huge anchors around their necks," said Robert Litan, a Brookings Institution banking expert. "No matter how hard they run, they can't stay in place – because everybody else is moving faster."

As a result, most large U.S. banking companies added assets slowly or not at all, and most dropped in rank in the *American Banker* survey.

BankAmerica and Morgan Slip

BankAmerica Corp., once the world's largest banking company, had assets of $97.2 billion at the end of 1989, slipping from the 40th to the 48th spot. J.P. Morgan & Co., with assets of $87.6 billion, dropped five places to 55th. And Security Pacific Corp., with $83.1 billion, slid three notches to 57th.

The only big U.S. gainer was NCNB Corp., with assets of $65.8 billion. NCNB, which absorbed First RepublicBank Corp. in Texas, more than doubled in size, become the world's 75th-largest banking company.

Strength in Europe

Banks in major European countries except Great Britain have benefited from a strong economic climate and healthy banking conditions.

"Generally, [European] banks have had quite good asset quality; lower levels of bankruptcy; quite strong loan growth, and favorable interest rate environments," said Sasha Serafimovski, an analyst with Morgan Stanley International, London.

Consolidation Trend

Much of the asset growth of the continent's largest institutions came from mergers, acquisitions, joint ventures, strategic alliances, and other moves to shore up their home markets and build beachheads elsewhere in preparation for European economic integration and the opening of the Eastern bloc.

In the past year, European banks have tried "to position themselves as major players in a united Europe," said Estela Piscope, an analyst with BHF Securities Corp., New York. "Many of the banks have proceeded to buy up smaller operations across borders."

For example, Banque Nationale de Paris, which increased assets 19.1% in 1989, acquired a 2% stake in Italy's Credito Romagnolo, opened 15 branches in Spain, built a strategic alliance with Germany's Dresdner Bank by exchanging directors, and established a joint venture leasing firm in Greece. In France, BNP bought the 78-branch Banque de Bretagne.

To back up their growth, European banks have added capital fast.

American Banker calculates that in 1989 German banks built equity by 24.71%, French banks by 18.72%, and Italian banks by 12.31%.

However, in the French and Italian cases, equity growth lagged behind the increase in assets. The ability to raise capital will be the most important restraint on banks' further growth in those countries. □

Key International Rates*

	Day-to-day money	3-mo. interbank	6-mo. interbank	Discount rate	Prime customer
	7/20 7/24 7/19	7/20 7/24 7/19	7/20 7/24 7/19	7/20 7/24 7/19	7/20 7/24 7/19
United States	8.00 8.00 8.00	8.12 8.12 8.19	8.12 8.12 8.18	7.00 7.00 7.00	10.00 10.00 10.00
Japan	7.00 7.00 7.45	7.72 7.71 7.81	7.81 7.81 7.75	5.25 5.25 5.25	7.13 7.13 7.13
Canada	13.50 13.25 13.75	13.25 13.50 13.56	13.12 13.37 13.37	13.00 13.00 13.47	14.75 14.75 14.75
U.K.	15.00 15.00 15.00	15.06 15.00 14.93	15.00 14.87 14.81	14.31 14.31 14.30	15.00 15.00 15.00
West Germany	8.10 8.05 8.10	8.25 8.25 8.01	8.40 8.40 8.50	6.00 6.00 6.00	10.00 10.00 10.00
Switzerland	8.00 8.00 8.37	9.00 9.00 9.00	8.50 9.00 9.00	6.00 6.00 6.00	11.25 11.25 11.25
France	10.12 9.93 9.87	10.00 9.93 9.93	10.06 10.00 10.06	8.50 8.00 9.00	10.00 10.00 10.00
Italy	11.75 12.25 10.80	11.37 11.37 11.12	11.37 11.55 11.25	12.00 12.00 12.00	13.00 13.00 13.00

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*Midday quotes in the New York market

Sharon Nesvig, Arthur D. Postrel, Eric Wiltse

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HMT90

Firewalls Have Outlived Their Usefulness, Greenspan Hints

Continued from *page 1*

bank's capital. They must be made at arm's length and at market rates of interest.

Rigidity of Glass-Steagall

The Glass-Steagall Act prohibits any lending between a bank and its securities affiliates. This prohibition – an impenetrable firewall – is what the Fed is now questioning.

"Independent of regulatory or organizational structure, all of us should understand that the market, the stockholders, and management will think of the bank and any associated units – affiliates or subsidiaries – not as a confederation of businesses, but as an integrated organization," Mr. Greenspan said.

"Recognition of this reality suggests that it is perhaps inefficient, at best, and under conditions of financial distress, ineffective, to try to make integrated businesses behave as if they were a collection of independent firms."

Industry Welcomes Trend

Banking industry officials characterized the Fed's new stance as significant and welcome.

"It's a refreshing insight," said Robert Dugger, chief economist for the American Bankers Association. "The older, strict-firewalls approach is a clear obstacle to efficiency in product and service integration."

"It was a bold statement by Greenspan," said Richard M. Whiting, general counsel for the Association of Bank Holding Companies.

> **"It's a refreshing insight. The older, strict-firewalls approach is a clear obstacle to efficiency in product and service integration."**
>
> **Robert Dugger**
> *American Bankers Association*

"On one hand, it is a positive reaction to the needs of bankers to respond to international and nonbank competition, and on the other hand to respond to critics who have said deregulation led to the S&L crisis. It's mincing it right down the middle. It is a bold and ingenious stroke on Greenspan's part."

Capital Anxieties

While welcoming the Fed's move, several banking industry representatives said the new capital standards that would replace firewalls might be too onerous. In the testimony that covered firewalls, Mr. Greenspan suggested that capital requirements will go still higher than the 8% ratio of capital to risk-based assets that must be in place by the end of 1992.

"We have no idea" what capital levels the industry can handle, said Mr. Dugger. "Some can meet [higher standards] already. Others would find it very difficult to raise [their capital] beyond the new risk-based standards."

"It will be tough for banks to meet new standards," said Melanie L. Fein, a partner at Arnold & Porter and a former Fed lawyer. "We have no triple-A-rated banks in the country. The stocks of regionals are plummeting. It is not a pretty sight."

She said banks will have an easier time raising capital if they can diversify.

Recommendations Forthcoming

The Fed is now drafting recommendations for those higher capital standards, a Fed source said. Those recommendations will probably be made by the time the Treasury issues the results of its study on deposit insurance reform, expected within the next few months.

> **Retiring Vice Chairman Manuel H. Johnson was the Fed's staunchest advocate of firewalls.**

Federal Reserve Board Governor John P. LaWare, declining to discuss specific numbers, said any new capital guidelines would have to be phased in gradually.

Both Mr. Whiting and Mr. Dugger predicted that if the suggested direction were to become formal policy, it would increase the pace of consolidation already under way in the industry.

Some Early Indicators

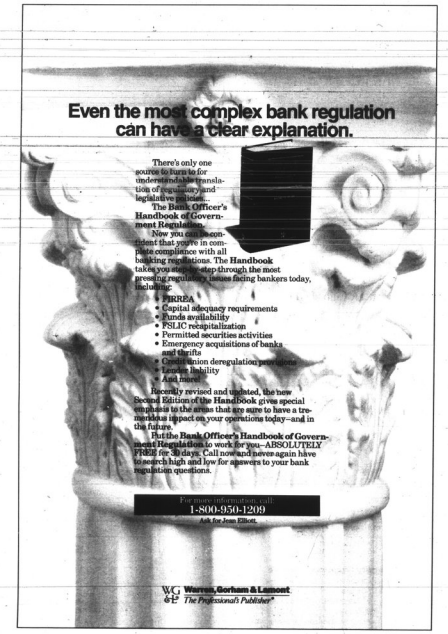
Although the Fed's new view of firewalls is significant, it did not come out of the blue.

One early clue was a January 1987 speech to the New York State Bankers Association by New York Federal Reserve Bank President E. Gerald Corrigan. Robert Eisenbeis, a professor of banking at the University of North Carolina and a member of the Shadow Financial Regulatory Committee, an independent group that comments on issues before the Fed, said Mr. Corrigan's 1987 proposal to change the regulatory structure included a revisionist look at firewalls.

This past May, Mr. Corrigan, in testimony before the Senate Banking Committee, definitively denounced the efficacy of firewalls. And a week later, in far more circumspect remarks at a Federal Reserve Bank of Chicago conference, Mr. Greenspan himself noted that firewalls offset the advantages of increased powers for banks.

Ms. Fein noted that for years the Fed has said it would reconsider firewalls after it had experi-

See **FIREWALLS** *page* **22**



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DEALS

Hanover Commits to Financing for Buyout of Ford Aerospace Division

By STEVEN LIPIN

An investor group led by Loral Corp. has received a commitment from Manufacturers Hanover Corp. to help fund the acquisition of Ford Motor Co.'s aerospace subsidiary, a spokeswoman for Loral confirmed.

She would not disclose the amount of the loan, but it is thought to be in the neighborhood of at least $500 million and perhaps as much as $700 million; one lender said.

The deal is reportedly costing $811 million and the assumption of roughly $500 million in Ford debt," Loral and Shearson Lehman Hutton Inc. are each investing $150 million in the buyout. A representative of Manufacturers Hanover confirmed that the bank was financing the transaction but declined further comment.

Rating Agencies React

The high degree of leverage in the deal has spurred the major rating agencies to put Loral's debt on watch for possible downgrade, although the transaction is structured without recourse to Loral.

Initial estimates suggest that the equity will comprise about 24% of the capitalization of the new entity. While that is not in line with many recent leveraged transactions, Tassos Philippokos, a vice president at Moody's Investors Service, noted that the key ratio will be the coverage of interest expense by cash flow.

"Obviously it will be leveraged," said Mr. Philippakos.

The fact that the company will have no recourse to Loral does not mean that the New York-based manufacturers Hanover would let the company go bankrupt, the Moody's analyst said. Banks will probably take comfort in that fact.

Japanese Caution Is a Factor

One Japanese lender said the deal could be a tougher sell than some other recent deals financed by Manufacturers Hanover - including two deals for Forstmann, Little & Co.- because of the higher degree of leverage and Japanese caution about lending to defense concerns.

"Japanese banks haven't gotten into defense-type industries," he said. "It won't be as easy as General Instrument." Forstmann Little arranged a $1.15 billion package from lenders led by Manufacturers Hanover for the acquisition of the company.

Moody's noted in its release that the "ratings agency's review is focusing on the direct and indirect impact that this transaction will have on the company's cash flow, liquidity, and overall financial flexibility.

Furthermore, Moody's will analyze the prospects of Loral Corp. itself and the new entity, both in effect, in view of the continuing deterioration in the business environment for defense contractors." □

Kansas Utility Denies Reports of a New Credit Pact

By WILLIAM GOODWIN

Kansas City Power & Light Co. denied reports circulating among bankers in the utility industry that it has entered into a $125 million revolving credit pact with Westpac Banking Corp.

Banking sources had said the new credit pact would be replacing an existing Eurocredit facility of approximately the same amount. That Eurocredit facility expires next year.

A spokeswoman for the Missouri utility said there is no agreement with Westpac on a replacement credit, adding that the company is focusing on its effort to acquire Kansas Gas and Electric Co.

An reported, Westpac and First Chicago Corp. together committed $1 billion to finance the unsolicited tender offer.

A Westpac official, meanwhile, would not comment on reports of the separate $125 million revolver.

Kansas City Power & Light apparently discussed a new revolver with Westpac to replace the Eurocredit facility, but then dropped the issue to concentrate on the Kansas Gas offer, according to one source familiar with the situation.

According to reports circulating among utility industry lenders, Westpac had also committed to provide the $125 million revolver, and was in the process of syndicating the loan. □

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Interest on the above issue payable February 1, 1991, and at maturity

Dated August 1, 1990 Price 100%

The Bonds are the joint and several obligations of the Banks of the Farm Credit System and are issued under the authority of the Farm Credit Act of 1971. The Bonds are not obligations of and are not guaranteed by the United States Government.

Additional information may be obtained upon request through the Funding Corporation.

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Federal Farm Credit Banks Funding Corporation
90 William Street, New York, N.Y. 10038
(212) 908-9400
The Farm Credit System

This announcement appears as a matter of record only.

Philadelphia Fed Survey Shows Manufacturing Off in July

PHILADELPHIA — Manufacturing activity in the Third Federal Reserve District is slipping this month, according to the July "Business Outlook Survey" of the Federal Reserve Bank of Philadelphia.

The widely followed survey of regional economic trends showed that business was down at 29% of companies thismonth, while 16% reported an upturn. The July results, after a relatively level second quarter, suggest a return to the pattern of monthly declines that began in July of last year, according to the bank's research department.

Another Soft Year

With the slower overall pace of business, local firms are entering a second year of soft activity. Although shipments are up from last month, manufacturers are operating at less than full capacity, the Philadelphia Fed said. Backlogs are down, even though orders are coming in at a steady pace.

One-fourth of the surveyed companies are reducing payrolls, while 16% said they are cutting working hours. Consistent with a scenario of slack demand, firms in the Middle Atlantic region plan further reductions in payrolls and working hours this year.

Three Points of View

Looking to the future, executives gave varying forecasts but their comments was that business will stabilize at the current level over the next six months. Respondents were nearly equally divided among those predicting improvement, those anticipating continued decline, and those who expect steady activity between now and January 1991.

Industrial prices in the region remain fairly stable. Two-thirds of the firms polled in the July survey said both input costs and output prices are unchanged from June. But one-third expect price increases for both the goods they purchase and their own products in the next six months. □

Firewalls' Usefulness in Doubt

Continued from page 18

ance with new powers.

"Now bank holding companies have had a lot of experience with underwriting activities and they have acted responsibly and prudently," she said.

Global Competitiveness Factor

Still other factors contributing to the Fed's change in thinking have been the detailed information produced in the last year about foreign bank structures, how the U.S. system makes its banks less competitive internationally, and the lack of evidence that foreign bank structures are more risky, said Mr. Dugger.

Besides an evolution of thinking at the Fed, Vice Chairman Manuel H. Johnson's June announcement that he would resign Aug. 6 may have been a factor. Mr. Johnson was the board's staunchest advocate of firewalls.

And Mr. Greenspan himself may also be coming into his own on issues of bank structure. Some Fed watchers view the Fed chairman as having taken a back seat during the crafting of thrift-reform legislation.

"With Seidman and Clarke fading out and Wall gone, the focus is now narrowing down on Greenspan," said one observer, referring to key bank regulators, FDIC Chairman L. William Seidman, Comptroller of the Currency Robert L. Clarke and former Office of Thrift Supervision director M. Danny Wall. "The Fed may have viewed their relative inactivity [in Fiscal] as something they need to make up for now," by taking the lead in bank-structure reform. □

The Latest in Banking Automation
TECHNOLOGY REPORT
Every Wednesday in AMERICAN BANKER

Highlights for Wednesday, July 25

TOP 10 GAINERS %

First City Bancorporation	10.4
Valley National Bancorp	5.5
Trustcompany Bancorporation	4.6
First Financial Bancorp	4.1
Citizens and Southern Corp	3.7
Chase Manhattan Corporation	3.8
South Carolina National Corp.	3.5
Banks of Iowa, Inc.	3.4
First National Bancorp	3.2
Summcorp	3.1

TOP 10 LOSERS %

Bank of New England Corp.	-8.7
Jefferson Bankshares, Inc.	-7.6
Iowa National Bankshares Corp	-6.6
Premier Bancorp, Inc.	-6.1
Trustmark Corporation	-6.3
First Citizens Bancshares Inc.	-5.8
Provident Bankshares Corp.	-5.2
Fulton Financial Corporation	-4.6
MNC Financial, Inc.	-4.5
	-4.4

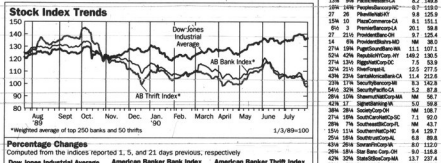
MOST SHARES TRADED

Chase Manhattan Corporation	3884300
Citicorp	3626900
BankAmerica Corporation	687900
Bank of Boston Corporation	593300
Bank of New England Corp.	446500

VOLUME AS % OF AVERAGE

West One Bancorp	1207.0
Imperial Bancorp	1179.8
Puget Sound Bancorp	1064.0
Peoples Bancorporation	700.5
Citizens Bancorp	644.3

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous; respectively

New Jones Industrial Average				American Banker Bank Index				American Banker Thrift Index			
Day	Week	Month		Day	Week	Month		Day	Week	Month	
0.29	-1.70	3.02		0.50	-2.94	-4.73		0.19	-9.28	-5.95	

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
22¼	13¾	1stSouthwestCorp4%	7.3	80.2	18¾	--
141/8	10¼	4FIRSTcorp4%	CC	17.0	13¾	12%
28¾	20	4thFinancialCp	6.8	89.3	23¾	--
19¾	13½	AmeriFirst	8.4	80.0	14¾	--
29	19¾	AmeriServeFinCp	26.7	89.0	19¾	--
22¾	18¾	AssociatedBanc-W	9.9	122.9	19½	--
24½	18	BancFirstCorp	7.9	109.3	19½	--
15¼	9¾	BaltimoreBancrp	9.8	62.7	12	--
48¾	36¾	BankFirstCp	11.1	149.3	44	--
33½	26	BancOneCorp OH	11.1	173.4	29¾	--
28	18¾	BancPacificInc	8.5	99.0	19¾	--
58½	42	BancorpHawaii Inc	9.8	181.3	50¾	--
23¾	18¾	BancorpSouthMS	6.9	67.8	19¾	--
36¾	23¾	BankAmericaCorpCA	5.4	102.1	25¾	--
24	17¾	BankBostonCorpNC	13.2	233.2	21½	--
23¾	24	BankNewEnglandMA	NM	47.8	2¾	--
14¾	8	BankNorthGroupWI	NM	78.1	8¾	--
57¾	35½	BankersTrustNY	NM	136.3	39¾	1¼
31½	19¾	BankersWindowNY	5.1	55.7	19¾	--
29¾	11¾	BanksStockInMO	139.1	41.8	11¾	¼
59	27	BarnettBkFlaWr	NM	78.1	27½	--
12	8¼	BarnhillsMinnOK	212.5	50.4	8¼	--
82	68½	BarnettBkFla	11.2	118.6	69	2¼
39¾	28¾	BarnettBankInc FL	10.1	118.1	32¼	¼
19¾	14¾	BayBanksInc MA	8.4	47.2	14¾	¼
39¾	29	BeaterwildwireMO	8.0	93.3	30	¼
31¾	13¾	BeaverBancorp	229.6	105.0	18	--
18¾	12¾	BrentonBanksIA	7.3	100.2	14¾	--
22¾	17	CB FinCorpKY	8.4	112.3	20¾	--
22¾	17	CNB CorpIN	7.3	101.5	17¼	--
22¾	16¾	CNB BancsharesIN	10.3	134.1	21¾	--
27	20¼	CPB Inc. IN	11.0	152.8	22	--
12¾	9¾	CalFedBancorp	9.9	228.0	12¾	--
33¾	20¼	CalNetBancCp	8.3	151.8	20¾	--
18¾	13¾	CanandaigualNY	6.7	82.3	13¾	--
34½	28¾	CentralFidelityVA	7.3	104.3	28¾	--
17¾	12¾	CentralJerseyNJ	7.6	85.8	12¾	--
44¾	19¾	CharterMedfordNY	NM	58.1	20¾	¾
41¾	31¾	CharterOakBancNY	NM	79.8	24¼	--
35	30	CharterOfFCorpMI	8.7	95.0	30	--
35¾	20¾	CitizensFNCorp	NM	82.2	21	--
25¾	15¾	CitizensBancorpMD	7.3	89.5	15¾	--
19¾	14¾	CitizensBkDanvilleVA	7.3	89.5	14¾	--
15¾	8¾	CitizensFirstAI	6.0	96.6	9	--
30¾	21¾	CitizensSouthernGA	7.9	141.5	21¾	--
27½	17¾	CityNatlCorpCA	10.7	192.4	18¾	¼
22¾	12¾	ColonialBancGrpCO	8.4	84.9	13¾	--
58¾	30¾	ComericaInc-MI	9.3	103.0	44¼	¼
29¾	22¾	CommercialBancshMO	7.2	97.8	23¾	--
20¾	15¼	CommonwealthPA	7.5	83.5	18¼	--
17¼	12¾	CrestfieldNJ	7.8	72.1	13¾	--
28¾	12¾	CumberlandIL	NM	43.9	13¾	--
28¾	20¾	CustomerBancorpPA	7.9	141.5	21¾	--
34	20¾	CvestarFinCorpVA	7.7	92.9	21½	--
37¾	29¾	DauphinDeposit PA	8.6	128.1	29¾	--
18¾	13¾	DeltaFinancialCorp	8.8	71.7	13¾	--
29¼	11¾	DimeBancorpInc-W	NM	26.4	11¾	--
16	5	DominionBkCorpVA	8.5	91.8	15¾	--
25¼	15¾	EastWestBancorp	6.5	157.0	12¾	--
14¾	12¾	F & M NatlCorpVA	10.2	157.0	12¾	--
14¾	10¾	FBS Corp IN	8.7	104.7	12¾	--
29¾	22¾	FBW BancorpIL	10.9	180.1	23¾	--
29¾	27¾	FarmersCapBkKY	11.9	118.4	27¾	--
39¾	30¾	FBOfTheBoroPA	11.3	173.7	30¾	--
33½	22	FidelcorpInc	8.8	132.2	32	--
51¼	38¼	FirstTierNE	9.5	101.2	38¼	¼
19¾	13¾	FirstAmericaCp	17.6	115.6	17¾	--
27½	20¼	FirstBancorpNC	NM	130.0	20¾	¼
34½	24	FirstBancorpPR	8.6	130.0	26¾	¼
23¾	18¾	FirstBancSystemMN	9.0	95.3	24¼	¼
49¾	36¾	FirstChicagoIL	8.1	75.2	37	--
19¾	13¾	FirstCitizensBcshs	7.9	112.3	14¾	-1¼
39½	18	FirstCitybAnkTX	3.0	54.0	19¾	1¾
19¾	13¾	FirstCommBkTN	9.7	123.9	17¾	-¼
23¾	18	FirstCommerceLA	8.2	92.6	18	--
21½	15½	FirstCommercialAR	8.5	91.0	20¼	--
22	17¾	FirstCommercialAL	9.8	108.2	17¾	-¼
19¾	18	FirstCommercialMI	8.1	118.4	19¼	--
19¾	14¾	FirstCommunityIL	11.0	112.7	18¾	--
20¼	21½	FirstEasternPA	8.0	87.6	21¼	--
72	60¾	FirstEmpire NY	8.2	96.6	60¾	¾
19¾	18¾	FirstFidelityNJ	NM	91.1	19	--
50	40¾	FirstFidelcorON	14.4	203.1	44	1¼
19¾	14¾	FirstFinancialCp	9.9	78.7	20	--
26¾	20¼	FirstHawaiianHI	10.3	212.4	24	¼
19¾	17	FirstHorizonTN	8.1	98.3	19¼	--
60¾	32	FirstInterstateCA	NM	92.2	34¾	¾
24	19	FirstInterstateIA	7.8	102.2	19¾	--
18¾	14¾	FirstMichBkCpMI	8.0	111.6	14¾	-¼
24¾	17	FirstMidAmIL	8.2	142.6	18¾	--
19¾	13¾	FirstNBancorpGA	8.2	126.3	20	--
41¾	28	FirstNBancorpNJ	8.1	97.0	26	--
19¾	13¾	FirstSecurityKY	11.8	106.5	14	--
19¾	12¾	FirstSecurityUT	12.3	182.3	13¾	--
33¾	25¾	FirstSecurityUT	7.7	80.5	26¾	--
23¾	20¼	FirstVirginiaBks	8.0	95.8	23¾	--
26¾	18¾	FirstUnionCorpNC	7.9	94.0	19	¼
26¾	18¾	FirstVirginia VA	7.8	108.0	24¾	--
45¾	31¾	FirstWachoviaNC	10.4	157.0	41¾	¾
27¾	27¾	FirstWestVA	7.2	112.8	28¾	--
20¾	17¾	FirstWisMIL-A	17.4	111.7	19	¼
20¾	14¾	FirstWisconsinMI	8.0	101.1	19¾	--
29¾	18	FleetNorstarRI	14.1	98.7	18¾	¾
25	20¾	FloridaEastCoast	8.6	68.4	21¾	--
28	20¾	FourthFinCpOH	14.8	148.8	22¾	¼
24¾	17	FultonFinCorpPA	7.7	118.8	18	--
24¾	18¾	GBCBancorpCA	8.6	211.8	19¾	--
15¾	12¾	GeneseeBankNewNY	13.4	87.9	13¾	--
9¾	6¾	HamiltonBancorpFL	4.0	107.5	7	--
24¾	14¾	HarborFedInc IL	9.4	124.2	14¾	--
26	14¾	HiberniaCorp LA	17.4	107.5	14¾	-¼
24¾	18¾	HomeBancorpIN	8.0	130.0	24¾	--
32¾	22¾	HUBFinCorpCA	8.5	93.3	22¾	-¼
19¾	13¾	HuntingtonBcshs	8.2	98.3	19¾	--
20¾	15	IntegraFinCp PA	14.7	95.8	21¼	--
30¾	19¾	IntegraFinCp PA	14.7	95.8	21¼	--
48	33	J.P. MorganNY	NM	153.9	37¼	¾
19¾	12¾	JeffersonBkshsWV	8.7	105.3	12¾	--
15¾	12	KeyCorpNY	10.1	105.3	12¾	-¼
19¾	14¾	KeystoneFinInc	8.7	108.3	19¼	--
26	21¼	KeystoneFinPA	8.7	126.7	23¾	--
20¾	14¾	KeystoneFinInc PA	8.7	126.7	19¾	--
14¾	8¼	LaJollaBancorpCA	17.4	230.6	12¾	-¼
19¾	14¾	LeaderBancsh IL	8.2	104.2	14¾	--
18	10¾	LombardFidelcsMO	7.6	80.2	10¾	-¼
24¾	18¾	LiberyNatlBkMN	10.2	113.9	19¾	--
27	19¾	LincolnFinCpIN	6.8	82.8	19¾	-¼
16¾	11	MNC FinancialMD	8.1	95.5	11¾	--
18	13¾	MagnaGroup IL	8.4	95.3	13¾	-¼
40	41¾	MarshallBancshsWI	8.5	98.7	44¼	--
44½	28¾	ManufacturersNY	NM	75.9	31¼	--
21	18¾	MarineCorp IL	10.1	135.8	20	--
20¾	15	MartinFedBkMo-MD	8.1	105.2	15	--
37¾	30¾	MarshallMcLeanVA	8.1	95.5	30¾	--
37¾	24¾	MellonBankCorpPA	8.5	90.5	29¾	--

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
34¼	24	FirstBancorpOH	NM	95.3	24¼	--
29¾	12¾	FirstBancSystemMN	NM	113.9	13¾	--
49¾	36¾	FirstChicagoIL	8.1	75.2	37	--
19¾	13¾	FirstCitizensBcshs	7.9	112.3	14¾	-1¼
39½	18	FirstCitybAnkTX	3.0	54.0	19¾	1¾
19¾	13¾	FirstCommBkTN	9.7	123.9	17¾	-¼
23¾	18	FirstCommerceLA	8.2	92.6	18	--
21½	15½	FirstCommercialAR	8.5	91.0	20¼	--
22	17¾	FirstCommercialAL	9.8	108.2	17¾	-¼
19¾	18	FirstCommercialMI	8.1	118.4	19¼	--
19¾	14¾	FirstCommunityIL	11.0	112.7	18¾	--
20¼	21½	FirstEasternPA	8.0	87.6	21¼	--
72	60¾	FirstEmpire NY	8.2	96.6	60¾	¾
19¾	18¾	FirstFidelityNJ	NM	91.1	19	--
50	40¾	FirstFidelcorON	14.4	203.1	44	1¼
19¾	14¾	FirstFinancialCp	9.9	78.7	20	--
26¾	20¼	FirstHawaiianHI	10.3	212.4	24	¼
19¾	17	FirstHorizonTN	8.1	98.3	19¼	--
60¾	32	FirstInterstateCA	NM	92.2	34¾	¾
24	19	FirstInterstateIA	7.8	102.2	19¾	--
18¾	14¾	FirstMichBkCpMI	8.0	111.6	14¾	-¼
24¾	17	FirstMidAmIL	8.2	142.6	18¾	--
19¾	13¾	FirstNBancorpGA	8.2	126.3	20	--
41¾	28	FirstNBancorpNJ	8.1	97.0	26	--
19¾	13¾	FirstSecurityKY	11.8	106.5	14	--
19¾	12¾	FirstSecurityUT	12.3	182.3	13¾	--
33¾	25¾	FirstSecurityUT	7.7	80.5	26¾	--
23¾	20¼	FirstVirginiaBks	8.0	95.8	23¾	--
26¾	18¾	FirstUnionCorpNC	7.9	94.0	19	¼
26¾	18¾	FirstVirginia VA	7.8	108.0	24¾	--
45¾	31¾	FirstWachoviaNC	10.4	157.0	41¾	¾
27¾	27¾	FirstWestVA	7.2	112.8	28¾	--
20¾	17¾	FirstWisMIL-A	17.4	111.7	19	¼
20¾	14¾	FirstWisconsinMI	8.0	101.1	19¾	--
29¾	18	FleetNorstarRI	14.1	98.7	18¾	¾
25	20¾	FloridaEastCoast	8.6	68.4	21¾	--
28	20¾	FourthFinCpOH	14.8	148.8	22¾	¼
24¾	17	FultonFinCorpPA	7.7	118.8	18	--
24¾	18¾	GBCBancorpCA	8.6	211.8	19¾	--
15¾	12¾	GeneseeBankNewNY	13.4	87.9	13¾	--
9¾	6¾	HamiltonBancorpFL	4.0	107.5	7	--
24¾	14¾	HarborFedInc IL	9.4	124.2	14¾	--
26	14¾	HibernaCorp LA	17.4	107.5	14¾	-¼
24¾	18¾	HomeBancorpIN	8.0	130.0	24¾	--
32¾	22¾	HUBFinCorpCA	8.5	93.3	22¾	-¼
19¾	13¾	HuntingtonBcshs	8.2	98.3	19¾	--
20¾	15	IntegraFinCp PA	14.7	95.8	21¼	--
30¾	19¾	IntegraFinCp PA	14.7	95.8	21¼	--
48	33	J.P. MorganNY	NM	153.9	37¼	¾
19¾	12¾	JeffersonBkshsWV	8.7	105.3	12¾	--
15¾	12	KeyCorpNY	10.1	105.3	12¾	-¼
19¾	14¾	KeystoneFinInc	8.7	108.3	19¼	--
26	21¼	KeystoneFinPA	8.7	126.7	23¾	--
20¾	14¾	KeystoneFinInc PA	8.7	126.7	19¾	--
14¾	8¼	LaJollaBancorpCA	17.4	230.6	12¾	-¼
19¾	14¾	LeaderBancsh IL	8.2	104.2	14¾	--
18	10¾	LombardFidelcsMO	7.6	80.2	10¾	-¼
24¾	18¾	LiberyNatlBkMN	10.2	113.9	19¾	--
27	19¾	LincolnFinCpIN	6.8	82.8	19¾	-¼
16¾	11	MNC FinancialMD	8.1	95.5	11¾	--
18	13¾	MagnaGroup IL	8.4	95.3	13¾	-¼
40	41¾	MarshallBancshsWI	8.5	98.7	44¼	--
44½	28¾	ManufacturersNY	NM	75.9	31¼	--
21	18¾	MarineCorp IL	10.1	135.8	20	--
20¾	15	MartinFedBkMo-MD	8.1	105.2	15	--
37¾	30¾	MarshallMcLeanVA	8.1	95.5	30¾	--
37¾	24¾	MellonBankCorpPA	8.5	90.5	29¾	--

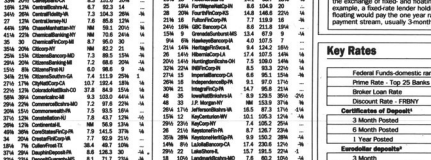
TOP 25 THRIFTS (4 PM PRICES)

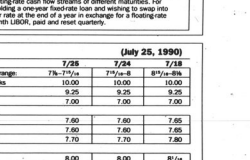
52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
24¾	18¾	AmeranscoCA	6.2	92.8	19¼	-¼
45¾	30¾	AppleBancorp NY	8.3	71.5	40¼	-¼
28¾	13¾	CalFedInc CA	37.9	53.9	13¾	-¼
55¾	40¼	CitadelHldgCp CA	9.7	71.7	45¼	--
28¾	24	CrossCentralSgsVA	NM	30.9	24¼	--
17¼	5¾	DimeSgsBk NY	NM	20.9	6	--
37¾	17¾	EmeryBancorpSoCA	13.1	62.2	19¾	-¼
38¾	24¾	FirstFedAmerica MI	10.5	138.5	38¾	--
28¾	18¾	FirstFedAmerica CA	7.3	122.9	22¼	--
21¼	12	FirstFedMichCM	6.3	33.1	13¼	-¼
15¾	11¾	GLENFED CA	23.5	30.0	12	--
34¾	22¾	GoldenWestFn CA	10.2	160.0	28¾	-¼
14¾	13¾	GreatNorthernFn CA	14.1	99.0	13¾	--
14¾	1¾	GtAmericanBank CA	NM	12.1	1¾	--
47¾	13¾	GreatWestern CA	7.2	48.2	13¾	-¼
21¾	13¾	HomeSvgsBcshs MT	17.3	95.8	19¼	--
11¾	11	NBB BancorpMA	NM	83.3	11¾	--
10¾	5¾	People's Bank CT	30.9	41.5	5¾	-¼
12¾	7¾	PeoplesSvgsCp FL	7.2	48.2	8¼	--
22¼	7¾	SociatyForSvgsCT	4.6	35.0	7¾	--
19¾	13¾	SPSBancorp NY	8.0	98.2	13¾	--
12¾	7½	StandardFedBk MI	6.3	53.9	8	--
20¾	15¾	WashingtonFedSL MD	10.0	201.2	15¾	--
31¾	23¾	WashingtonFedSL MN	10.0	201.2	28¾	--
9¾	6¾	WorldSavingsCp CA	6.0	69.3	6¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded companies having their main offices in the U.S. Banks are ranked by assets as measured by the market value of all common shares outstanding. As of March 31, there were 225 banks in market values of at least $69.6 mil. and for thrifts $121.46 mil.) 52 Wk Hi (or the moving high and low prices for the stock in the past 52 weeks. PE, the price/earnings ratio. It is the current stock price divided by the trailing five-quarter earnings per share. Mkt to bk, the ratio of the current stock price to the book value per share. Cls, the closing price for the stock last traded. If no trades for the day, the latest bid. AB Bank Stock Index: a weighted average of the top 250 banks based on market value and the top 50 AB thrifts. Weighted averages are calculated by the largest percent gainers and losers, but does not use indicators most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data source: SNL SECURITIES, Charlottesville, VA. 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Libor Swap Yield Curve





Data source: Manufacturers Hanover Trust Co., New York

Description of table: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used by active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate asset and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates

(July 25, 1990)

	7/25	7/24	7/18
Federal Funds-domestic range:	7⅞–7¹⁵/₁₆	7¹⁵/₁₆–8	8¹/₁₆–8⅛
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.60	7.60	7.65
6 Month Posted	7.60	7.60	7.65
1 Year Posted	7.70	7.70	7.80
Eurodollar deposits*			
3 Month	8.00	8.00	8¹/₁₆
6 Month	8.00	8.00	8¹/₁₆
1 Year	8¼	8¼	8¼
LIBOR*			
3 Month	8⅛	8⅛	8¼
6 Month	8⅛	8⅛	8¼
1 Year	8¼	8¼	8⅜

*Mid-afternoon quotes, New York market. (1)— Largest offering rates at selected NYC banks (2)— Late London bid (3)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

Takeover Shield In Pennsylvania Gets Few Takers

Continued from *page 1*

feels that federal regulatory procedures make protection at the state level against takeovers unnecessary for banks.

But that has not stopped several other banking companies on the state from staying under the law. Spokesmen for both Susquehanna Bancshares Lititz, and Fulton Financial Corp., Lancaster, said those banks will not opt out of the law's coverage, but declined further comment.

Many Reasons for Decline

Most Pennsylvania bank stocks have declined since the law was passed in April. But analysts pointed out that more important factors have been influencing bank stocks since then.

Berkeley Robins-Miller, an analyst at Radnor Capital Management, Radnor, Pa., doubted the law would have any impact on bank stocks, regardless of whether banks opt out.

"For me, as an analyst, I'm absolutely indifferent. I don't believe it's quantifiable," said The Pennsylvania measure, enacted in April, is regarded as the toughest of its kind in the country. It has drawn sharp criticism from top institutional shareholders, who have threatened an investment boycott of the state's public companies if they do not exempt themselves.

Most observers consider the law to have less impact on banks than other companies, since the typically long regulatory-approval period for bank acquisitions makes hostile takeovers difficult. And the recent rise in nonperforming assets at many banks has made dealmaking of any sort look unattractive.

"In the context of everything else that's going on with banks, [the Pennsylvania law] gets lost in the shuffle," said Anthony Davis, a banking analyst at Wheat First Securities, Richmond. "However, at some point in the future when people start thinking about interstate banking again, it will make a difference."

John Church, chief investment officer at Glenmede Trust Co., agreed that the anti-takeover provision would probably have less impact on banks than other corporations. However, he said, he feels more comfortable without the law: "I guess I'd rather have free-market forces rule," he said.

Glenmede, with $6 billion in assets under management, owns about 200,000 shares of CoreStates Financial.

Other banking firms have reserved their decisions until the last moment. Directors of Keystone Financial Inc., Harrisburg, and Integra Financial Corp., Titusville, are scheduled to resolve the issue at meetings today.

Available Options

Banks and other companies in the states have had until today to retain or forgo three provisions of the law:

- The disgorgement provision, which requires investors who acquire 20% stakes in a firm in connection with takeover attempts to surrender their profits to the target company.
- The control-share-acquisition provision, which restricts voting rights of investors who acquire 20% or more of a company's shares in relation to takeovers unless a majority of other shareholders approve.

> **"I guess I'd rather have free-market forces rule."**
>
> **John Church**
> *Glenmede Trust Co.*

- The fiduciary-duty provision, which gives directors the express authority to consider the interests of customers, employees and communities – in addition to those of shareholders – in assessing takeover proposals.

Selective Usage

Many Pennsylvania companies, including CoreStates and Meridian – have exempted themselves from the first two provisions, but not from the third. But directors of Dauphin Deposit Corp. adopted a bylaw on Monday exempting the company only from the control-share provision.

The new Pennsylvania law was inspired principally by the failed effort of Canada's Belzberg Group to take over Armstrong World Industries Inc., Lancaster. Armstrong has said it will not opt out of the law.

It has been joined by Aluminum Company of America and PPG Industries Inc. But other big firms in the state, including Westinghouse Electric Corp. and H.J. Heinz Co., have exempted themselves.

CAPITAL

Trim for Rates Doesn't Impress Bankers

By KELLEY HOLLAND

Little if any extra lending will follow the Federal Reserve Board's move this month to lower rates, bankers and analysts say. But some predict that banks with long-term assets could see a marginal rise in earnings.

Fed Chairman Alan Greenspan said the rate cut, engineered in mid-July, was aimed at stimulating new lending. But bankers say larger rate cuts would be necessary for borrowing to pick up.

The 25-basis-point decline in rates is too small to elicit new loans, analysts and bankers said.

Regulators Blamed

"If there is a credit crunch, I think it's to a large extent induced by regulatory policy, not by a 25-basis-point change in interest rates," one analyst said.

"I don't think our loan volume is spurred by a lowering of rates as much as it is by the amount of restructuring activity," said one money-center banker, referring to leveraged buyouts and recapitalizations.

Bankers are not eager to expand their balance sheets, in large part because it could mean having to raise new capital in today's hostile markets. And because they are not eager to make loans, they are less prone to cut rates for new credits. "In the market today, a lot of banks are not lending, so pricing is not so competitive," said one analyst.

Doubtful Help for Borrowers

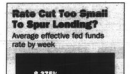
Large corporate loans are often floating rate, so a drop in rates does not necessarily allow borrowers to lock in lower interest costs. That means lower rates will not necessarily spark a measurable increase in loan demand.

"Lending activity is more of a function of the economic environment," said Peter L. Gartman, chief financial officer of MNC Financial Inc. "It's not that much of a rate question."

In any case, banks are too nervous about regulators taking a dim view of the quality of their loans to initiate much lending. "I'm not sure that changing the price of funds is what alters the supply of credit," said one analyst.

Rate Cut Too Small To Spur Lending?

Average effective fed funds rate by week



Source: Babcock Polson Perkins

Some Banks Could Gain

Even so, the cut could help some banks from another angle: Banks with very short term borrowings and large loan portfolios should enjoy a wider net interest margin.

Take MNC Financial, for example. "We are liability sensitive, so we're positively impacted by lower rates," Mr. Gartman said. As the Baltimore-based bank's balance sheet is structured now, a 0.25% decline in rates will add $8 million to the bank's earnings on an annualized basis, he said.

The lower rates are helping other banks with fixed-rate assets as well. Banks with large portfolios of credit card receivables or large investment portfolios filled with long-term bonds will enjoy a slight increase in net interest margin, analysts said.

J.P. Morgan & Co., Bankers Trust New York Corp., Republic New York Corp. and NCNB Corp. stand to benefit from the lower rates because they have large fixed-income investment portfolios, one analyst said.

"NCNB's probably the biggest beneficiary," he said, pointing to the bank's holdings of long-term government mortgage-backed securities. But "J.P. Morgan leaves some footprints that are worth following."

* * *

MARKET MONITOR

First Chicago Corp. has filed a registration statement to issue through a subsidiary $500 million in securities backed by credit card receivables. A management group including FCC Capital Markets Inc. and First Boston Corp. and led by Salomon Brothers Inc. will bring the three-year instruments to market. Price talk is about 70 basis points over comparable Treasuries.

* * *

Bank of San Francisco has completed a common stock offering of 475,000 shares $8.375 a share. The offering was managed by PaineWebber Inc.

* * *

Standard & Poor's Corp. lowered its ratings on Dime Savings Bank of New York, citing declining asset quality and concern about a possible rise in nonperforming assets. The savings bank's medium-term note rating was lowered to BBB-minus from BBB, its commercial paper rating to A3 from A2, and its certificates of deposit to BBB-/A3 from BBB/A2. □

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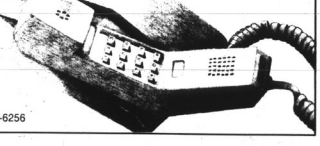

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TOP BANKS
Rankings of the top 500 banks in the world, by assets, starting on page 14A.

Overview

U.S. Banks May Be Missing Global Opportunities

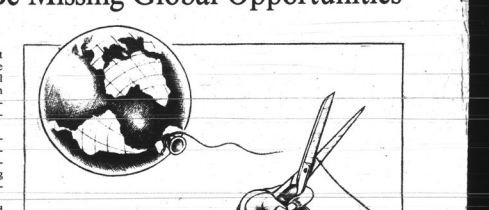
By JEFFREY KUTLER

In the terminology of politics, most bankers in the United States have gone isolationist. They have ample financial justification, including pressures on capital and earnings at home and inadequate returns from their earlier ventures on the international scene.

But some marketing strategists argue that isolationist bankers will miss out on the golden opportunities of a world in ferment. Entire new economies are sprouting in Europe and the developing world. Asian nations other than Japan are becoming economic powerhouses in their own right.

Mobility and migration are turning the U.S. and many other countries into ethnic melting pots, blurring the cultural differences that made some places and markets once seem inhospitable.

A bank that can succeed in Los Angeles or Miami or New York, the theory goes, can realistically consider planting its flag in Bangkok or Sao Paulo or Vienna. And it does not have to limit its sights to high-margin corporate or merchant banking, which have been the preferred avenues of expansion for U.S. banks but still active internationally.



David Gothard

"Not only do I think it's possible" for U.S. banks to consider full-service strategies on a global scale, says advertising executive Gary DePaolo. "I think it's desirable."

Mr. DePaolo, an executive vice president in New York at BBDO Worldwide Inc., the ad agency, typifies a new internationalist school of marketing thought. It holds not only that U.S. financial institutions should consider their reluctance to enter the global arena, but that they are capable of besting their potential European and Asian rivals when the competition gets fully under way.

Banking Isn't Shippable

This sort of thinking would seem radical only in banking. It has long been characteristic of industries that fully embraced multinationalism. Without such thinking, names like Coca-Cola, IBM, Kodak and McDonald's would not have become universal icons, engendering more and lasting revenues among the mass consumer public than do many governments.

Such corporations adopted the multinational marketing principles articulated by Harvard Business School professor Theodore Levitt in a landmark 1983 *Harvard Business Review* article, "The Globalization of Markets."

"Suddenly, no place and nobody is insulated from the alluring attractions of modernity," Mr. Levitt wrote.

"All parts of the world want the most advanced things that the most advanced sectors already have, and no longer will merely the same classes and types of goods and services satisfy them. They also want them in their most advanced states of functionality, reliability, durability, service levels, and price competitiveness."

Technology a Driving Force

Mr. Levitt cited McDonald's, Coca-Cola, and Pepsi-Cola as prime examples of globalized enterprise – having gained consumer loyalty by delivering consistent and desirable quality at reasonable prices. Financial services did not figure specifically in his essay, but technology did. He saw it as the driving force of the globalization and homogenization of markets, which are having a profound effect on financial businesses.

"Unlike a consumer product, financial services cannot simply be manufactured and shipped," said John Bennett, senior vice president of Visa U.S.A. and an architect of one of the few global marketing strategies in the banking industry.

"The services have to be controlled and delivered locally, respecting any social, cultural, and legal differences among countries," he said. Visa's approach was decentralized, with five separate, independent regional corporations that set their own marketing strategies under a common set of technical and design standards.

Visa Is Far Ahead

A joint venture of thousands of banks in almost 200 countries, Visa is far ahead of most individual institutions on the globalization curve. U.S. banks still have to prove they can operate successfully nationwide, let alone worldwide.

But BBDO's Mr. DePaolo and others contend there is room for U.S. banks in the international corporate firmament, if they have the right outlook.

"In financial services," said Mr. DePaolo, "the customer needs are basically the same everywhere – mortgages for housing, other types of loans, deposits, and transaction services. There are obviously going to be some differences in customs and cultures, but we are going to see more and more convergence and an increasing commonality."

An institution that can provide a better-quality service than its competitors will win out, and American institutions have the technology and expertise to deliver world-class quality.

"The key question is when," said Mr. DePaolo, who has worked on multinational advertising for Pepsi-Cola and, currently, Visa. Financial institutions in the U.S. have the wherewithal to get ahead internationally by projecting their desired images through advertising. But "advertising can get too far out in front of an institution's ability to deliver product against it," he warned.

For now, no U.S. bank is in danger of being "too far out in front," globally speaking.

Citicorp, the largest U.S. banking company and parent of Citibank, is the only one explicitly pursuing global leadership in both consumer and corporate businesses. American Express Co., which most bankers regard as a formidable competitor, is doing the same with a more diversified mix of financial services.

Competitive Help

Through their credit card associations – MasterCard and Visa – U.S. banks offer products that help them compete against giants like Citicorp and American Express. Meanwhile, they support international payment systems that have literally shrunk the world, making it almost as easy to deliver a service in Beijing as it is in Boston.

In financial services, these are virtually the only U.S. organizations with any sort of global foundation to build on. Studies by Landor Associates, a San Francisco-based consulting firm that specializes in corporate image and identity programs, have shown that American Express, MasterCard, and Visa are the only U.S. financial-service names that register as high with the general public as Kleenex, McDonald's, or Sears. They have lower standing in Europe and Japan, but at least they have standing.

See **ISOLATIONISTS** *page* **32A**

INSIDE: *Global Marketing*

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Dorothy Alvarez Peggy Turbett

CONSULTANTS ALAN TAYLOR, *(from left), Kenneth J. Roberts, and banker James Gibson talk about marketing challenges facing banks in the 1990s.*

Roundtable

Credibility Seen Top Marketing Challenge of 1990s

As the decade proceeds, banks will be facing a host of new marketing challenges.

The increasing globalization of financial markets, the demise of planned economies worldwide, the development of new technology to gather demographic information, and changes in advertising techniques and targets are but some of the changes the industry will confront. In addition, U.S. banks must decide whether to keep a tight focus, concentrating on the domestic market, or turn their eyes toward emerging markets in Eastern Europe and on the Pacific Rim.

Business writer Merri Rosenberg spoke with two marketing professionals and a banker in an attempt to size up the industry's plans and strategies.

The participants in this roundtable were: Alan Taylor, senior vice president of Landor Associates, a San Francisco-based consulting firm; Kenneth J. Roberts, a principal of the identity consulting firm Anspach Grossman Portugal, which is based in New York; and James Gibson, vice chairman of Union Bank, San Francisco.

In a wide-ranging question-and-answer session, the participants touched on current approaches to marketing and pitfalls banks might face down the road.

AMERICAN BANKER: What are the greatest marketing challenges that banks and financial services institutions face as we enter the 1990s?

ALAN TAYLOR: If the research that we've done is projectible, the single greatest issue confronting the industry is credibility – trying to improve the esteem and regard in which banks are held by consumers and businesses alike.

JAMES GIBSON: I think Mr. Taylor is right on target. Part of the issue of credibility is our own making, but part isn't. There's a lack of clear identification of the different segments – thrifts, credit unions, banks. It all seems to come out of the same pot, as far as the consumer is concerned. The savings and loans [bailout] will impact on income taxes, and people in general will resent the failures.

KEN ROBERTS: I think we also have to add in the problems with Third World debt as an issue for consumers.

AB: What can bankers do to combat these perceptions?

TAYLOR: Commercial banking must appeal to different constituencies – corporate and retail. The retail segment is best reached through personalized advertising geared towards transactions. But the advertising has to reassure consumers that size doesn't replace ingenuity or customer service.

AB: What role does advertising play, and what kinds of advertising have you found to be most effective?

GIBSON: Some of the TV advertising we've seen in our home market speaks to the issue of international debt. For example, one local institution has run spots saying they lend to Mary and Joe Smith's hardware store on Main Street, in contrast to the big banks' overseas loans.

ROBERTS: I tend to agree with what's been said, but I have to add that the kind of advertising that Mr. Gibson mentioned is potentially disastrous. Bringing up international issues can raise many more doubts than it solves.

By saying "We're safe, we're not a money center, we lend locally" you create strategic problems. That was one of the arguments the superregionals used, and now they're taking a hit as various real estate markets go soft. That kind of advertising undermines confidence in the entire industry.

AB: What steps should a bank take to ensure that branch employees – those who meet face to face with customers – are aware of the advertising message presented to customers and prospects?

TAYLOR: You have to communicate the message to employees. That will surpass the most fabulous advertising.

ROBERTS: I would agree that your own employees have to see and get the message of your own advertising, because they have to sell it.

AB: How can banks tailor their advertising message to specific ethnic groups, the fastest-growing segment of the population?

TAYLOR: Whether you're marketing to the mainstream or to special ethnic groups, your message should be pretty consistent as far as image and identity are concerned.

ROBERTS: I would agree with Alan that the overall message shouldn't change. Besides, most good opportunities for business from ethnic neighborhoods are currently centered in New York or Los Angeles, although there might be some favorable circumstances in Texas.

GIBSON: That's true, but there is a huge concentration of Hispanics in our area, and we must pay attention to that, as well as to areas with Asian concentrations. It has to be addressed, because it's formidable.

AB: Historically, banks have been relatively slow to exploit marketing opportunities. Are there any lessons banks could learn from other industries in the new global environment?

TAYLOR: I'd give a qualified yes to the first statement. Too many Americans remain undereducated about the banking industry. Bank customers can't be expected to know all about the strengths and acumen of financial institutions unless banks tell them.

Are there lessons banks can learn from those outside the industry? Of course, the answer is yes. If we take retail banking as a parity industry where there isn't much difference between you and the guy down the street, the idea is to create a preference, to make your company more memorable, more creative.

For example, take the airlines. By trial and error, they were able to individualize and position themselves for specific target markets.

AB: Have banks been slow to embrace marketing?

ROBERTS: Relative to other industries, banks have been slow. Their early efforts at marketing weren't successful, and some weren't able to accurately read the data they collected.

Moreover, they didn't always listen to customers and were relatively slow to adopt the posture that customers come first. They've been slow to recognize that they're in a parity category, and slow to create a real difference.

GIBSON: Banks have gone through several cycles. At one time, there was a big effort to get people to use automatic teller machines. Now, we've got to get people into branches so that we can talk to them.

At Union Bank, we've launched in-store banking in supermarkets that are open seven days a week. And we market differently to these customers, taking two to three minutes on just a few products.

Ultimately, the idea is to take banking to the people – wherever they are. For the industry, that's a switch. It used to be that banks were concerned with branch locations and getting people to come to them.

AB: Strong links between local banks and large multinational corporations is still a growth trend in this industry. In light of that, how should banks and other financial institutions communicate their identity?

TAYLOR: There'll always be regional banks that have well-established links with a local institution. For example, Mr. Gibson's bank, Union Bank, is owned by the Bank of Tokyo. The trick is to know where big is better.

See next page

Ms. Rosenberg is a New York-based financial writer.

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GIBSON: That's an excellent point. Regarding our link with Bank of Tokyo, we tried to put two cultures together: Union Bank, which is in the middle market, and the Bank of Tokyo, which is a great international tie.

But we still have 165 consumer branches that we want people to know about. We tried to get television ads out to address that issue, but we stopped because they weren't effective. So we switched to print media that we could target toward the consumer middle market as well as the international business community.

AB: Do you make use of the Bank of Tokyo identity?

GIBSON: Only with selected customers. We use it with corporate customers in the Pacific Rim but say nothing about it in advertising in California or in consumer advertising.

TAYLOR: That's an interesting approach and suggests a parallel to the three-tier strategy used by Japanese and European banks.

On one level, advertising will promote expertise in world financing and lending aimed at governments and major financial institutions. Another level is the consumer banking area, where megabanks take advantage of the local banks' identity. In a third area, banks talk about their trading expertise in securitized lending, maximizing assets, and credit swaps.

This trend will enhance the esteem in which financial institutions are held. Two years ago, Landor [Associates] did a study to find out which were the best-regarded financial service entities. All three were credit card companies: American Express, MasterCard, and Visa.

In Japan, meanwhile, five of the best-regarded identities were banks. That's an incredible difference, and it's not just cultural. It touches on how banks have communicated with retail customers.

AB: Have any problems arisen because of the number of top banks that have new identities?

ROBERTS: Yes. There's been a loss of individual personality and ties to a community. As the legislation controlling banks broke down, banks became more remote from the consumer. A similar pattern doesn't exist in Japan.

GIBSON: I just attended a directors meeting of the American Bankers Association, and one guy there had recently completed his third merger in the past 18 months. These name changes are going on throughout the South and on the West Coast. People get to wondering, "Who owns this thing?" But there comes a point at which customers simply cease to care.

TAYLOR: We did a study of users of financial services – restricted to the U.S. and Britain – in which people were invited to make comments on mergers and acquisitions and the co-opting of a bank's identity by a bigger bank. For the most part, the results matched Mr. Gibson's perception.

Consumers usually don't care about who owns the bank. But if it's foreign-owned, that's often perceived as a negative.

GIBSON: Obviously, we deal with this issue every day. The key thing here is to make apparent to the consumer that this is still going to be the place for their business. Ultimately, we are a local bank. We're trying hard to identify with consumers and meet their needs.

AB: Are American banks well positioned for the upcoming consolidation of European markets in 1992?

ROBERTS: American bankers should be better positioned to enter Europe. But because of the lending experiences some banks had there five or six years ago, many money-center banks have withdrawn from Europe. They've scaled down considerably.

TAYLOR: Very few are properly prepared. But if they were, there would be some great opportunities.

For example, Chase is significantly stepping up its efforts in private banking. They're taking the intelligent route of influencing significant individuals, who can in turn influence their companies.

GIBSON: People forget that when the president of any major company goes home, he's a consumer. Inevitably, dealing with him on a personal level will have a trickle-down effect. □

American bankers should be better positioned to enter Europe. But because of the lending experiences some banks had there five or six years ago, many money-center banks . . . have scaled down considerably.

James Gibson
Union Bank

AMERICAN BANKER
FEATURES DEPARTMENT
Patricia Stundza
Suzanne Christy
Joseph L. McCarthy
Beth Piskora
Editors

ART DEPARTMENT
Pamela Butz Moriarty
Art Director
Dylan Kreuzer,
Peggy Turbett, Carl Zeichner

COPY EDITORS
John Fulton
Copy Desk Chief
Martin Barolsky (assistant chief), Christine Arax, Terry Bormann, Edward Kulkosky, Robert Paul Molay, Jane Sandiford

PRODUCTION
Susan Wright

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LOS ANGELES agency: 555 South Flower Street Suite 2400, Cal. 90071-2564 tel. (213) 624 0440 telex 4720021 COMIT LSA Fax 6240457

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Banks Discover Market In Ethnic Minorities

By ELLEN MEMMELAAR

Coming soon to a bank near you: products and services targeted at specific ethnic groups.

Brought to you by: the industry that has pitched its products at baby boomers, older people, and other demographic segments.

Faced with flagging commercial operations, some banks are looking to boost their earnings with fee income from ethnically oriented products.

Others see such marketing innovations as an effective way to meet requirements now imposed by the Community Reinvestment Act, under which institutions are rated on their ability to meet the credit and banking needs of the nation's minority populations.

Groups Seen Underserved

But virtually all bankers point to the fact that ethnic groups generally are underbanked and underserved.

Ethnic market segmentation seems to be something everyone is pushing, said Alfred Dominick Jr., executive vice president and chief retail officer of Dallas-based Banc One Texas. It is the "hot button," he said.

"I don't think anyone is doing enough here," said James Grant, senior vice president and chief of consumer marketing at First National Bank of Chicago, a subsidiary of First Chicago Corp.

Profit Potential

Though the overall U.S. population is a transition from baby boom to baby bust, ethnic groups are still growing. This makes them one of the few expanding markets in the United States.

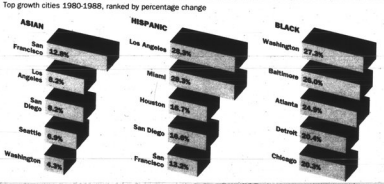
Potentially, they are also among the most profitable, some experts say.

For example, average household income for Asian-Americans is $23,000 a year, well above the national average, $19,900, according to *American Demographics*. Korean-Americans top the Asian-American category.

The figure for Hispanics is a below-average $14,700. But Michael Sullivan, a Charlotte, N.C.-based consultant, notes that 73% of Hispanics own a car and 20% say that they are planning to buy a house within the next year.

Emerging Ethnic Markets

Top growth cities 1980-1988, ranked by percentage change



Source: U.S. Department of Commerce, Bureau of the Census

The number of Asian-Americans rose 65% between 1980 and 1990, according to Census Bureau figures.

Uneven Distribution

The next-highest growth rate was for Hispanics, whose numbers surged 45% during the decade. The Hispanic population could grow an additional 55% by the year 2000, said Alfred Valdez, a consultant in Albuquerque, New Mexico.

But the spread of ethnic groups nationwide is uneven, with many pockets springing up, said Peter Morrison, a senior researcher at the Population Research Center, a division of the Rand Corp.

For example, he said, 74% of all Hispanics are in California, Texas, New York, and Florida, with many in Los Angeles, Miami, and Houston. About 49% of all Asian-Americans are in California, particularly San Francisco, and San Diego, and in Hawaii.

"Many are looking at the marketing potential and realizing that it is becoming a mosaic," Mr. Morrison said.

Focus on Hispanics

Many bank marketers are zeroing in on Hispanics because of the group's size and income and because Spanish-language media – including television stations, newspapers, and magazines – make the group easy to reach, said Les Dinkin, a Westport, Conn., consultant.

A leader in marketing to Hispanics is Dollar Dry Dock Savings Bank of New York. A committee of marketers and other bank employees has designed programs geared toward this group, said Linda Lockhart, vice president of marketing.

Ms. Lockhart said the first step for Dollar Dry Dock has been an attempt to overcome misconceptions that many Hispanics have about banks.

"They see banks as a big black hole that is taking their money," she said. "If they put it into a shoe box, they think that is much more tangible."

Wooing the Market

Dollar Dry Dock has programs designed to show Hispanics how to open and maintain checking accounts, Ms. Lockhart said.

The thrift also provides bilingual transaction slips, automated teller machines with Spanish-language instructions, and bilingual brochures and passbooks. Spanish-language advertisements run in local Hispanic publications.

Dollar Dry Dock also participates in local Hispanic festivals. At the annual New York-Pan American festival, a booth staffed with bank representatives answers questions and talks with passersby about employment opportunities at the bank.

Chicago Campaign

Another institution seeking to focus on Hispanics is First Chicago. It is slated to launch a marketing program in the fall that probably will come up to speed in 1991, officials said.

Literature and advertising are being translated into Spanish, said the bank's Mr. Grant. Spanish-language instructions may also be available on the bank's automated teller machines. Television and radio campaigns are in the works.

At least initially, First Chicago will also publicize the program with a "bankmobile" touring Hispanic neighborhoods.

"We realized that we've got a city of two million people and a ton of them don't speak English," Mr. Grant said.

"I think it's becoming increasingly evident that market share can be influenced by targeted marketing."

Laid-Back Service

Another effective way to reach Hispanics is to adopt a laid-back service style at bank branches, said Barry Deutsch, president of the Deutsch Consulting Corp., Coral Springs, Fla. Mr. Deutsch said market research he did for a Florida-based thrift revealed that Hispanics don't want to be hurried during banking transactions.

Using this information, Mr. Deutsch said, the thrift made several changes. Employees poured coffee for bank clients, and officers readjusted their schedules so they could spend more time with customers.

Asian-Americans also are beginning to draw attention from bank marketers.

One problem with marketing to them is the multiplicity of languages. But in the long run, marketing efforts will probably be rewarded, consultants say.

On average, Asian-Americans have the highest income of any demographic category in the na-

See next page

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Continued from page 4A

tion, said Michael Sullivan, a consultant based in Charlotte, N.C. In addition, a cultural emphasis on education makes them the most highly educated group, Mr. Sullivan said.

Moreover, parents start saving early for their children's college costs and are therefore excellent candidates for savings products, such as money market accounts or certificates of deposit.

Asian-Americans normally steer clear of investing their funds in equity or bond markets, Mr. Sullivan said. But many own their own businesses and so are excellent candidates for small-business loans.

Targeting an Asian-American subgroup, Peterson Bank in Chicago 10 years ago formed a department dedicated to the needs of Korean customers, said Karen Pearlman, director of marketing.

Banking in Korean

All the department's employees speak Korean, Peterson promotions come in Korean and English, and Pearson was the first bank in the country to install a bilingual Korean-American telephone banking service, Ms. Pearlman said.

Some of the bank's advertising is aimed at Koreans, and Peterson buys spots on a local ca-

Targeting an Asian-American subgroup, Peterson Bank in Chicago formed a department to serve Korean customers.

ble television station that runs blocks of Korean programming, she said.

Korean-speaking customers are avid users of mortgages, business loans, home equity lines of credit and savings plans, said Charles Oh, senior vice president at Peterson.

The bank is especially proud of it Rose Account. It works like a Christmas club and resembles similar programs found in Korea, Ms. Pearlman said. Esentially, it is a forced savings plan that breaks down a total savings goal into monthly installments.

About 99% of the account's customers are Korean, Mr. Oh said.

Other Groups

Other demographic and ethnic groups are bound to attract attention from banks soon, said Mr. Dominick of Banc One Texas. Eventually, bankers "will come to realize that we are ignoring other segments," he said.

After all, he reasoned, "Hispanics aren't the only potentially profitable group reachable through tailored products and directed advertising.

"One could say that the black segment and low- and middle-class segments, too, can be profitable." □

Environmental Banking: The Selling of the Green

By RANDY WELCH

As awareness of environmental concerns grows around the world, bank marketers are linking new campaigns to the "green" theme.

At least a dozen financial institutions are involved in environmental-based marketing campaigns. And as more pick up the cry, some thorny issues are arising, among them fears about possible conflicts of interest among banks that support environmental interest groups.

Passing Fancy?

Bank marketers disagree on whether the budding movement will continue to blossom or go the way of other passing fancies. Another question is whether the trend represents creativity in a time of crisis or simply opportunism.

On the latter issue, bankers involved in "green" programs are of a single mind.

"I think if you just pick something up that can be construed as a marketing ploy instead of an earnest desire to provide a benefit, people will see through that real quickly," says Ernie Malone, marketing manager for BancFlorida Federal Savings Bank, Naples.

Potential Problem

One potential problem for banks is avoiding the conflict of interest that would arise if an interest group funded by the bank later sued a commercial client of the bank. Moreover, simply adopting a green campaign can bring intense scrutiny from skeptics quick to point out the environmental sins of corporate America.

By and large, however, several banks report that their cam-

See next page

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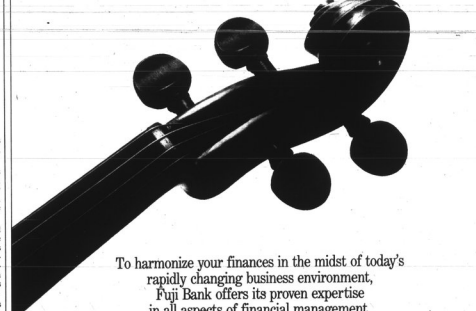

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Heller Financial, Inc., Heller Overseas Corporation

Continued from page 5A

paigns were not only good for external business but also changed internal operations as employee consciousness about the environment increased. Many say morale was boosted, internal recycling programs were begun (often saving money), use of plastic foam cups ended, and even loan policies were questioned and revised.

Helping to Identify

Strategically, a focused environmental campaign can help identify a bank with its marketing home base. For example, First National Bank of Stuart, Fla., a banking subsidiary of Seacoast Banking Corporation of Florida, has been running an advertising campaign since 1985 that focuses on local concerns such as manatees, sea turtles, and mangrove trees.

Kip Myers, president of the bank's advertising agency, Myers & Associates, says, "We wanted to identify the bank as part of the Treasure Coast [a strip on the Atlantic Coast, north of Palm Beach], rather than a statewide or regional bank."

Injuries to manatees began to receive front-page attention when the ads started running, Mr. Myers says, and reports of suspected turtle egg poaching have increased.

Good for Business

But the environment is not the only winner; the bank has gained considerable name recognition and business from the campaign. The bank now captures about 42% of loans and 36% of deposits in its target marketing area, despite increased competition. Before the campaign started, the bank only got 34%of the loans and deposits in the target area.

On the other side of the state, BancFlorida Federal, with $1.7 billion in assets, received a positive response to credit cards it introduced with a wildlife theme. The bank commissioned wildlife art renderings by two artists – a Florida panther by Richard Evans Younger and a great blue heron by Lee Cable – and then used the art on the card designs for Visa (the panther) and MasterCard (the heron).

Signed limited-edition prints of the artworks were also made available to cardholders for $25, of which $5 was given to the Florida Wildlife Federation. Print sales totaled about $25,000 in the first nine months of the program, according to Mr. Malone. He declined to say how many customers who signed up for the cards.

In other environment-conscious efforts, BancFlorida employees work on a telephone book recycling program and print bank publications on recycled paper. Also, they have banned plastic foam cups and collect aluminum cans for recycling.

'Sound' Banking Practices

At least five banks have run campaigns focusing on cleaning up particular bodies of water – enough, in fact, to give a whole new meaning to the phrase "sound banking practice." They are Puget Sound Bank of Tacoma, Wash; Fleet National Bank of Providence, R.I.; Maryland National Bank; First Constitution Bank of New Haven, Conn.; and Coastal Savings Bank of New London, Conn.

Puget Sound Bank, which has the most extensive of these programs, has played caretaker to its namesake since November 1987. The program began because the bank was expanding into the Seattle market and wanted to increase name recognition as well as build on previous community involvement, said marketing director Don Piercy.

2 Cents Per Transaction

It started with the bank's promise to donate two cents to the Puget Sound Fund for any automated teller machine transaction on its system. Then it added a scenic check series; part of the fee for the checkbooks goes into the fund. Finally, the bank promised to put $5 into the fund for each new checking account.

Today the fund's income stands at a whopping $200,000. ATM usage has doubled since the program began, and many new checking accounts have been opened.

But most important to the bank, 86% of the area residents indicated awareness of the Puget Sound name in a 1989 survey, up from only 27% awareness in 1987. According to another market survey in the area, Puget Sound is now second only to Seattle-based SeaFirst in unassisted recall and is first in aid awareness.

Proceeds from the fund have gone to tree plantings, educational brochures and seminars.

On the East Coast, meanwhile, First Constitution Bank of New Haven and Coastal Savings Bank of New London have embarked on efforts to clean up Long Island Sound.

Earmarked Funds

Coastal has a program that donates 0.1% of its growth in loans and deposits to environmental groups that work to clean up the sound.

"We are located on the Sound, and our marketplace is right on the sound," said advertising manager Elaine Mistretta. "And tourism generates a lot of income in most of our communities. Shortly after our campaign started, medical waste products began washing up on the shore. That brought much more awareness to the general public of the kind of things that might be happening."

First Constitution Bank of New Haven, meanwhile, donates $3 to Nature Conservancy or the Long Island Soundkeeper Fund whenever a new account is opened. Last year the bank raised $50,000, including $34,000 in contributions from First Constitution itself. The campaign includes advertising, events to raise public awareness, and a free recycling tips booklet for customers.

Of course, the greening of bank marketing has its critics, both within the banking community and outside. Some activist groups are adopting a skeptical, "show-me" stance toward corporate America's environmental overtures. And Amory Lovins, vice president and director of the Rocky Mountain Institute, a research and consulting firm in Snowmass, Colo., offers this caveat:

"If you make [marketing] claims, you invite scrutiny of your general environmental record across the board," Mr. Lovins said. "I have advised some very large banks with enormous real estate holdings that were generally not paying attention to the energy, water efficiency and other [environmental] impacts of the property they owned."

Getting a passable environmental report card, Mr. Lovins said, involves "not just one accomplishment for which you have bragging rights but a broadly based, conscientious effort."

The banking arena also has its share of skeptics, among them Providence-based Fleet National Bank. The bank ran a one-time campaign after a 1989 oil spill in Narragansett Bay that raised more than $50 million in certificates of deposit and $50,000 for a group called Save the Bay Inc.

But the management of Fleet, a subsidiary of Fleet/Norstar Financial Group, remains cool toward green marketing.

"The program was all right, but results were not enthusiastically higher than other campaigns have been, and there are no immediate plans to duplicate it," said Fleet's senior product manager Michael Fortin.

Getting a passable environmental report card involves "not just one accomplishment but a broadly based, conscientious effort."

Amory Lovins
Rocky Mountain Institute
Snowmass, Colo.

Maryland National, meanwhile, tested an affinity checking program last year that benefited the Chesapeake Bay Foundation. Daniel Finney, a spokesman for Maryland National, says its credit card subsidiary, though a national leader in affinity card marketing, has found that the response among environmentalist groups isn't significantly higher than that in other affinity groups it targets.

The experiment with affinity checking throughout the Chesapeake Bay Foundation has been discontinued, Mr. Finney says, because the bank found that perhaps half the Foundation members were already affiliated with Maryland National. □

Mr. Welch is a business writer based in Denver.



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High-Tech Consultants Help with Avalanche of Data

By SHIMON-CRAIG VAN COLLIE

In search of a competitive edge, bank marketers are counting heavily on technology to help them gather information and refine marketing strategies at home and abroad.

"Our goal is to get 100% of our customers' business," said John Blissenbach, senior research manager for Minneapolis-based NorWest Corp., the 11-state, $26.7 billion community banking concern. "There's a tremendous amount of information that we already have, but we're not putting it to best use."

A host of companies are eager to provide solutions to this dilemma. Some specialize in creating software systems for bankers; others are only consultants. But all are working to provide banks with demographic data that can be used to refine strategic focus.

Targeting Is Tightened

With such information in hand, experts say, bank marketers are better equipped to target specific audiences – even individual households – for new or expanded services.

"We can show banks where the customers are, why they're there, how much money they make, their propensity to buy certain products and much more information," said Joseph Nicholson of Atlas Strategic Mapping in San Jose, Calif.

In the international arena, San Francisco-based Bank of America uses technology to focus on businesses, rather than individuals.

"We can show banks where the customers are, why they're there, how much money they make, their propensity to buy certain products and much more."

Joseph Nicholson
Atlas Strategic Mapping Inc.
San Jose, Calif.

"We have fewer customers to keep track of," says Laura Pilz, vice president of marketing and advertising for Bank of America's world banking division. "The challenge we face is accurately marketing our business to our customers."

Toward that end, the bank relies on a data base that lists the business of current customers and identifies opportunities for cross-selling.

Input Is International

Bank of America processes data through a worldwide transaction system, called the International Banking System. Data gathered in IBS is processed into so-called management information systems reports, which in turn are used for marketing.

"From MIS reports," Ms. Pilz said, "we can get a picture of our marketing penetration."

Many software vendors also see opportunities opening in the international market, especially with the formation of economic blocks in Europe and Asia, and the possibility of substantial economic growth in Eastern Europe.

"Foreign banks haven't had to compete for the consumer's attention like American banks have," said Michael Newes of Okra.

But soon, he said, "We'll see French banks vying for consumers in Belgium and Germany, and vice versa. MCIFs will become more attractive to foreign banks with a variety of products that can be sold over time to the same customers."

On the home front, meanwhile, banks are moving to target individual customers. For example, NorWest recently signed on with Customer Insights, a Denver, Colo., software company that takes customer information files, or CIFs, from the bank's data base and links these accounts by household. At that point, the manipulated data base can identify which customers are using any of the bank's services. More importantly, Mr. Blissenbach said, the data base also points out opportunities for cross-selling.

Uses of the Data

CIFs are most useful when they can be broken down to show balance information by account, said Michael Newes, head of marketing and communications for Okra Marketing Corp. in Tampa, Fla. A marketing CIF, or MCIF, can take customer information from different hardware and software applications and combine it into a single data base.

Some software also performs integrated profitability options. Using the Okra system, bank marketers can track the cost factors of different types of accounts – for example, the costs of offering and processing a loan

See next page

Mr. Van Collie is a business writer based in Oakland, Calif.



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Continued from page 7A

or a checking account. Using market penetration data, the software also can price services and produce a picture of each household's accounts and total net worth.

Reports generated by the companies that provide MCIFs can be used to conduct direct-mail campaigns. The results then can be tracked and re-entered into the data base for further analysis and updating.

MCIFs must be updated to assure accuracy, marketing consultants say. Toward that end, banks usually are given several options. In some cases, outside companies can act as a service vendor and do the updating. Alternately, they will sell customers a package that can be used within the bank to update the files.

Graphics Are Used

Increasingly, banks also are seeking to translate the data generated by MCIFs into graphic presentations. Some computer mapping companies offer software that replaces time-consuming hand-drawing techniques. The maps are generated by using a spreadsheet software package in conjunction with a personal computer.

"Our goal is to get 100% of our customers' business. There's a tremendous amount of information that we already have, but we're not putting it to best use."

John Blasenbeck
Senior research manager
Norwest Corp.
Minneapolis

"Mapping gives you the ability to analyze spatially," says Joe Nicholson of Atlas Strategic Mapping. "We can put up to 250 layers of data in one geographical area."

In one popular application, banks are using maps to determine strategies for acquisitions or building branches in new locations. Area Locations Systems of Northridge, Calif., has developed a software product called Location Analysis and Network Design, or Land, which runs on IBM-compatible PCs. David Hornbeck, ALS president, says the company's data base currently contains every branch of every bank in California, along with those in Chicago, New York, Washington, D.C., Baltimore, and the state of Nevada.

FDIC Data Are Outdated

"You can get your data from the Federal Deposit Insurance Corp.," Mr. Hornbeck said, "but they're out of date."

The methods used to create ALS's primary data base are decidedly low-tech. Company staffers drive the streets filling out handwritten location evaluations, noting parking, access, egress, and other elements.

Once entered into the ALS data base, the information is ready to be mapped. Clients can then perform demographic analyses to see if an acquisition or a new branch site makes sense.

"The collection of data is relatively unsexy," says Howard L. Lax, director of marketing for the financial services division of Claritas Corp., a marketing research and consulting concern in Washington, D.C.

In determining a marketing strategy for a bank, Claritas compiles census data but also uses other statistics, including motor vehicle registrations and magazine subscriptions. The company compiles this data on a compact disk in the form of a reporting and mapping system compatible with most PCs.

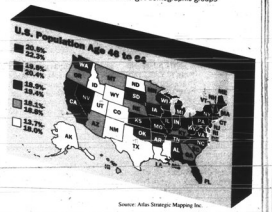
Segmentation Available

The system can interface with other data bases and with market segmentation systems that group people by either their use of financial services or by geographic area.

The use of geographic data bases also could play a major role in banks' compliance with the Community Reinvestment Act, which took effect on July 1. Under one facet of the legislation, the effectiveness of banks in meeting the credit needs of the communities they serve will be assigned a rating. Among the factors that examiners will consider are a the distribution of a bank's loans and its commitment to community development.

"With the geographic component of the CRA," says Valerie Fawzi of Strategic Mapping, "banks have realized that they need a better idea of what's going on." □

Better Marketing Through Mapping
Computer graphics can be used to target demographic groups



Source: Atlas Strategic Mapping Inc.

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These and other issues are addressed in the following book abstracts, compiled by *American Banker's* Rita Kay Meyer.

The authors sketch blueprints for success in the global marketplace, in the process addressing a myriad of topics – from technology to taxes.

Global Financial Services: Strategies for Building Competitive Strengths in International Commercial and Investment Banking
By Roy C. Smith, Ingo Walter
Harper & Row
New York, 1990



The authors, experts in international finance from the Stern School of Business, New York University, describe methods to assess market share potential and future international growth.

Other topics they address include:

- International commercial banking.
- Project financing.
- Legal dimensions of global commercial banking.
- Eurobonds and other international debt issues.
- International private banking services.

Comparative Economic Systems
By Richard L. Carson
M.E. Sharpe Inc.
New York, 1990



Countries can have an effect on financial markets by adjusting industrial policies, Mr. Carson asserts.

The book includes analyses of:

- Planning in Soviet-type economies and market economies.
- Expansion of the public sector in market economies.
- The organization of foreign trade.
- Small-scale enterprises.

The Competitive Advantage of Nations
By Michael E. Porter
The Free Press
New York, 1990

Mr. Porter tells how companies and governments can tap and extend their nation's advantages in the international arena.

He discusses business strategies and national economic policies in Britain, Denmark, Germany, Italy, Japan, Korea, Singapore, Sweden, Switzerland, and the United States.



Singled out for deeper examination are the German printing press industry, the medical equipment industry in the United States, and the Japanese robotics industry.

The International Businesswoman of the 1990s: A Guide to Success in the Global Marketplace
By Marlene L. Rossman
Praeger
New York, 1990

Ms. Rossman, a specialist in international business and marketing, offers strategies for success in the United States, Canada, Europe, Asia, Latin America, Africa, and the Middle East.



In addition to telling how nine women succeeded in the global marketplace, she points out opportunities for women in businesses of the future ranging from family-owned companies to global conglomerates. □

Guest Comment

Limits at Home Hinder U.S. Banks Abroad

By CYNTHIA GLASSMAN
Special to the American Banker

The good news is that U.S. institutions have what it takes to be winners in the global arena – when they are allowed to play.

The bad news is that they are not allowed to play in all the games.

As things now stand, U.S. banks are not positioned to play a major role in overseas competition except as specialty players.

Strengths of U.S. Banks

But the strength of U.S. banks as specialty players is impressive.

U.S. banks have become accustomed to diverse and changing environments. The deregulation of the 1980s created a competitive climate and honed managements' capacity to recognize emerging market needs and bring products to market quickly.

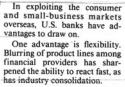
As intrastate and interstate banking barriers have fallen, bank managements have learned to organize their business to serve differing markets. U.S. banks also have exploited opportunities within a changing legal and regulatory framework. They have been at the forefront of developing innovative products tailored to their customers' needs.

In short, they have rapidly developed the key skills to be successful global participants.

Understanding Consumers

Moreover, they understand consumer behavior and how it affects the need for and use of financial products. They have learned the importance of information and technology in managing their consumer and corporate business. This has given them the flexibility to market and merchandise to many customer segments, enter new product and geographic markets, and compete against a variety of financial service providers.

U.S. banks know how to serve the most consumer-oriented society in the world, as well as one of the most entrepreneurial. This knowledge puts them in a strong position to compete for consumer and small-business customers.



In exploiting the consumer and small-business markets overseas, U.S. banks have advantages to draw on.

One advantage is flexibility. Blurring of product lines among financial providers has sharpened the ability to react fast, as has industry consolidation.

U.S. bank managements have the capacity to understand change and its affect on the production and distribution of products and on customers' needs and expectations. U.S. managers also understand the steps and the organization needed to take advantage of change. Most important, they have established processes to manage change.

Another competitive advantage is the degree to which U.S. banks have applied technology to improve efficiency throughout their organizations.

U.S. bank technology is some of the most sophisticated in the world. It has facilitated large networks of automated teller machines, 24-hour banking, nonsite banking, and superior credit card operations. This technological skill is a strong suit in European markets, where there are more branches per capita than in the United States but where ATMs and credit card use are still developing and growing fast.

Prowess in Marketing

Furthermore, U.S. banks have demonstrated marketing prowess. They know how to use public and proprietary information to target customer segments and to develop products. Their ability to understand and market to a heterogeneous customer base will be especially valuable in the integrating European Community. And knowledge of consumer-oriented markets will be an asset in such countries as Japan, where consumerism is new.

Facility with a variety of techniques and technologies to reach their targeted markets will stand U.S. banks in good stead in countries with different communication and media systems. All these strengths at home give the U.S. banks a competitive edge in spotting and acting on changes overseas.

World Leaders

Finally, U.S. banks are reputedly world leaders in a wide range of activities, including:

- Tailoring and merchandising products to meet customers' needs, from simple loan and deposit products for consumers to financial engineering for corporations.
- Pioneering the development of financial instruments and creative financing.
- Managing risk with sophisticated products.
- Creating sales-oriented data bases.
- Creating a sales and service culture.

One of the major strengths U.S. banks can leverage in overseas markets is a fresh assessment – based on product development, production, distribution, research, and marketing skills – of financial service needs and opportunities.

But giving U.S. banks the ammunition they need to be true global competitors means putting "full" back into "full-service banking."

This is the bad news.

Competitive Handicap

U.S. banks ability to compete overseas is handicapped by outdated restrictions on their power to develop and offer a full range of financial products at home.



CYNTHIA GLASSMAN *sees U.S. banks competing overseas only as specialty players.*

Product restrictions, notably on insurance and securities activities, will make it hard for U.S. banking organizations to be broad-based competitors in overseas markets.

Other countries have recognized that banking is only part of a much broader financial services industry. In much of Europe, universal banking, which combines commercial and investment banking activities, is already permitted. Under the single banking license that takes effect in the integrated European Community of 1992, universal banking will be the norm.

Insurance, too, is permitted to bank affiliates in many EC countries. The combination bank-securities-insurance company has become common in the EC, where providers of financial services seek to expand their customer bases, make more effective use of existing distribution systems, and leverage their strengths and expertise.

Japan, too, is in the process of weighing expansion of bank activities. It is likely to eliminate restrictions soon.

Unfortunately, the United States lags behind the rest of the world in recognizing the realities of the global financial services marketplace.

Home Team Advantage

Technically, U.S. banks could build securities and insurance business overseas, where they are not subject to the same restrictions as at home. But that would mean building these businesses outside their home base, without the "home team" advantage. And, without the ability to build critical mass and expertise in their home markets, banks will find it hard to attract such business abroad, especially since banking in major industrialized countries tends to be dominated by a few large well-established institutions. U.S. banks are caught in a "Catch-22," with the result that, in overseas markets for activities such as equity underwriting, they will be competing as underdogs.

They will be further impeded by regulatory burdens that are heavier in the U.S. than overseas, such as non-interest bearing reserves and deposit insurance premiums, which place cost burdens on our banks not faced by most of their foreign competitors. These regulatory burdens make it difficult for our institutions to have consistent and broad-based global strategies.

In conclusion, U.S. banks are strong but limited in the global arena. Because they are used to competition, they can compete well as specialty players capable of making inroads against even dominant competitors. □

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New York Branch
One World Trade Center, Suite 8151, New York, NY 10048, U.S.A. Tel: 212-432-3400
London Representative Office
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A Puzzler for British Banks: What's in a Name?

By JOHN EVANS

Many European banks are able to offer near "one-stop" shopping in consumer banking products. Partly because of recently won securities powers, for example, banks in Britain are allowed to offer a whole range of investment-related services, including mutual funds, pensions, life insurance, and mortgages.

But clinging to every silver lining there's a dark cloud – in this case the problem of how to effectively market such a comprehensive array of products. The issue has sparked a debate in Britain on whether financial concerns would do best to promote themselves or the individual products they create.

Ford Approach or BMW?

Frank Abramson, marketing director of Britain's TSB Bank PLC, describes the conundrum by drawing a parallel with the auto industry. In advertising its products, Ford Motor Corp. chooses to emphasize the name of individual models, such as Taurus or Escort, he said. By contrast, tony German makers including BMW and Daimler-Benz prefer to project an overall image.

Traditionally, Mr. Abramson notes, banks have chosen to use "the BMW approach and publicize the name of the bank rather than individual products."

But that strategy is no longer universal.

Breaking with Tradition

Midland Bank PLC, Britain's third-largest, two years ago broke with tradition, setting a cat among the banking pigeons by launching checking accounts under various brand names.

Since then, Midland has been avidly promoting accounts with names such as "Orchard" and "Meridian."

Increased Competition

Industry watchers say the move was a response to increasing competition in Britain's financial services that has prompted banks to offer higher interest on checking accounts in hopes of attracting more customers.

Last year, Midland also launched First Direct, Britain's first 24-hour telephone banking service, without an effort to link the product with the parent's name.

Most Maintain Tradition

But the majority of British banks, including TSB, haven't followed what some call Midland's "big gamble." Instead, they are following the more conventional approach, marketing themselves and not their products.

"We talk about [products] in the banks, but nobody else does," Mr. Abramson said.

"Consumers will talk about [individual] cars, soap powders, beers," but they don't talk about individual financial services.

New Regulation

Some experts say banks also are choosing the total-marketing approach because of a tough new regulation in Britain that requires all financial-services suppliers to state clearly whether the products they offer are created by the company itself or an outside concern.

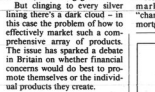
In most cases, banks choose not to spend time and effort marketing products developed by others, marketing professionals say.

But New York-based Chase Manhattan Bank, which has some 200,000 Visa credit card customers in Britain, is bucking the trend.

Chase Bucks the Trend

The bank has established Chase Manhattan Financial Services, an independent service that depends on a team of brokers and account handlers. CMFS helps clients find mortgage loans, insurance policies, and investment vehicles even if the best fit is a product offered by an outside concern.

The service is "rare among major distributors," a Chase spokesman said. □



Lloyds Bank

CORPORATE IDENTITY *for Lloyds Bank is symbolized by its black stallion logo. Some U.K. banks are shifting focus to product names.*

1989
Highlights of the year

The ordinary and extraordinary shareholders' meetings of Banca Popolare di Milano, were held on 28th April 1990 and chaired by Dott. Piero Schlesinger (1,476 shareholders were present). During the extraordinary meeting, a number of changes to the Bank's Statutes were approved. Its Report and Accounts for the year ended 31st December 1989 (the 124th since the Bank's establishment) were approved by an overwhelming majority during the ordinary meeting.

As far as banking services are concerned, the positive results for the year show:

Customer deposits	ITL 12,040.1 billion	+17.6%
Total deposits (including banks)	ITL 20,425.2 billion	+20.4%
Funds administered (total deposits & securities held for banks and customers)	ITL 35,598.3 billion	+18.4%
Loans and advances	ITL 8,084.5 billion	+12.4%

During 1989, the notable increase in the Bank's operations continued in parallel with a widespread expansion to the territory it serves which resulted from the consolidation of Banca Popolare di Apricena (with 25 branches, mostly in Puglia). This expansion followed a similar merger with Banca Popolare di Bologna e Ferrara which took place in 1988.

The Bank also strengthened its international presence with the opening of the London Branch, situated in the heart of the City of London, and with the relocation of the New York Branch to new and more prestigious offices.

The first part of an increase to the share capital of the Bank was conducted very satisfactorily, producing an inflow of ITL 134 billion. To this amount, must be added ITL 66 billion resulting from the conversion into shares of warrants issued in 1989.

As a result of the increase in share capital and the allocation to reserves approved during the shareholders' meeting, Banca Popolare di Milano's net worth increased to ITL 1,247.5 billion (+20.5%).

A rise in income coupled with profits derived from the sale of minority participations (in particular the sale of the Bank's shareholding in Nuovo Banco Ambrosiano), produced an increase in the Bank's internal cashflow.

In fact, after having provided for extraordinary losses realised during the year (of which ITL 90.9 billion related to Bipiemme Leasing), a profit before tax of ITL 283.5 billion was recorded. After the deduction of taxes, a 32.1% jump in net profit to ITL 168 billion was achieved.

The shareholders' meeting, while retaining ITL 77 billion for the Bank's reserves, also approved the distribution of ITL 66.5 billion from profits to pay a dividend of ITL 460 per share to the 144.6 million shares in issue (as against the ITL 525 distributed to each of the issued 104.3 million shares in the previous year).

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Cashing In on Visitors from Abroad

By BRAD EDMONDSON

Tourism is booming in the U.S.

International visitors accounted for 11% of our $350 billion travel industry in 1989, up from 7% in 1985, according to the U.S. Travel and Tourism Administration. A full two-thirds of travelers here come from border countries Canada (15.4 million visitors in 1989) and Mexico (9.3 million).

These tourists, and others who cross the border, are proving to be an ever-growing market for U.S. banks. Partly because deposits in U.S. banks are insured up to $100,000 by the Federal Deposit Insurance Corp., individuals, partnerships and corporations based in other countries have $13.8 billion in branches of foreign banks on U.S. soil in 1990, up from $6.4 billion in 1985, according to the Federal Reserve.

Most visitors need to exchange their currency for U.S. dollars. The profit margin for this service is minimal; most banks report that the cost of procuring foreign currency eats up all revenues. However, savvy bank marketers are using currency exchange to "hook" foreigners into other financial services.

"From commercial lending to mortgages for second homes, from currency exchange to savings, foreigners are excellent customers," says Robert M. Gillis, president of chief executive officer of Franklin-Lamoille Bank in St. Albans, Vt.

Canada Border Business

Banks in St. Albans, just 15 miles from the Canadian border, are among those riding the wave of foreign activity. Residents of Quebec, the Canadian province adjacent to Vermont, account for 15% to 20% of the market at local banks.

Canadians are attracted to U.S.-based savings accounts, experts say, partly because their banks don't offer depositors' insurance.

St. Albans' banks are taking advantage of this insurance gap in various ways. Franklin-Lamoille, for example, recently sent a direct-mail piece to residents of Montreal. The mailing mentioned the insurance issue, but also offered a more favorable currency exchange rate to any Canadian purchasing a six-month certificate of deposit.

Cultivating Snowbirds

Florida banks, too, are anxious to cash in on business from our neighbor to the north: An estimated 2.2 million Canadians visited the state in 1989, said Bill Leeder, general manager of the weekly, Auburndale, Fla.-based *Canada News*. Mr. Leeder said some 200,000 to 300,000 of these are "snowbirds," people who come to the state around November – when temperatures begin to drop up North – and leave in April or May.

Many of the Canadian snowbirds are relatively well-to-do, owning second homes in Florida: More than one-quarter of *Canada News* subscribers have annual incomes of more than $40,000 a year, even though three-quarters are retired, Mr. Leeder said. *Canada News* subscribers spend an average of $1,200 a month in the Sunshine State, he said.

Here again, currency exchange is the key to attracting Canadian business. One institution using that approach is Orlando-based SunBank, which advertises itself as "The Bank of Canadians' Choice."

"We advertised in *Canada News* with a coupon that offered Canadians a better currency exchange rate, since money exchange usually provides the initial contact," says Joan Crain, senior market manager. "We hope that they will then put some of those dollars into an account with us."

SunBank has advertised on "Canada Calling," an Orlando-based radio program, sponsored a Canadian Professional Golfers' Association tournament in Brevard County, and underwritten an Orlando-area luncheon appearance by Canadian hockey star Bobby Hull. The bank also donates prizes at meetings of local Canadian organizations in Florida.

The effort seems to be working, Ms. Crain said, with business from Canadians rising significantly.

SunBank is not the only Florida bank that targets Canadians. Florida's largest bank has also noticed this group.

"We have a Snowbird Banking program that they find appealing," says Ben Turnbull, senior vice president for international operations at Barnett Banks in Miami.

The Snowbird Banking program – which also is marketed to visitors from other U.S. states – holds a Florida account open with no service charges while a temporary resident is gone. Barnett also mails monthly statements to the snowbird's northern address.

From South of the Border

Meanwhile, Mexican tourists are also an attractive revenue source for U.S. banks. Many have investments north of the border, and the peso's chronic instability makes saving in the U.S. doubly attractive.

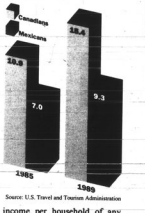
Firm data on Mexican investments in banks here isn't available, partly because of legal considerations. Earlier this year, the U.S. and Mexico agreed to share tax records in an effort to catch tax evaders who stash money abroad.

"This is an extremely sensitive area," says one borderland banker, who asked not to be identified. "If you're a Mexican citizen with a CD in an American bank, now your government can know about it. And a lot of our customers are very, very nervous about that."

Nevertheless, Mexican activity in U.S. banks is increasing. Nowhere is that activity more evident than in Laredo, Tex.

In 1988, the latest year for which statistics are available, the city had the lowest median income per household of any U.S. metropolitan area, less than $14,000. But Laredo is also home to Texas' largest independent bank, International Bank of Commerce (IBC), and an estimated 35% of all legal U.S.-Mexico border traffic passes through the town. As a result, in 1988 Webb County, which contains the Laredo metropolitan area, had more bank assets per resident – $20,000 – than any other Texas county.

Boom in Tourism
Canadian and Mexican visitors, in millions



Source: U.S. Travel and Tourism Administration

Very Profitable

Border banking is a little-understood but profitable niche, says Jerry Schwebel, vice-president of IBC. In 25 years, IBC has become the largest bank with headquarters along the U.S.-Mexico border, with assets totaling $1.6 billion.

Mr. Schwebel scoffs at the notion that the a substantial portion of border banks' deposits come from illegal sources such as drug money or tax evasion.

"Condemning us because we have Mexican depositors is like condemning a Houston-based bank because it has depositors from Houston's suburbs. Our depositors come to the United States on a weekly or daily basis to do their shopping, recreation, and business."

When the new United States-/Mexico tax agreement was announced, "the expectation was disaster," says Schwebel. These expectations were fueled by the Mexican press, which has always been critical of investors who put their money in the United States, he says. "But the impact was not as severe as we had expected," he continues. "Once the Mexican depositors really understood what the new law was about, the vast majority of them realized that they had nothing to fear."

In the long run, a person's citizenship may mean less than their bank affiliation. That's because technological advances will soon make it easier for United States banks to serve foreign visitors. Sunbank's Crain says that some international visitors can already withdraw U.S. dollars from ATMs in Florida and have funds withdrawn from their accounts in Canada. And Citibank, which has offices in 47 countries, is working to give each depositor full access to its services in any office. □

Mr. Edmondson is executive editor of *American Demographics* magazine in Ithaca, N.Y.

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Guest Comment

Will the Rush to Europe Be Profitable?

By ROBERT N. GOGEL
Special to the American Banker



HERD INSTINCT *of banks is described by Robert N. Gogel.*

The herd instinct, well established among U.S. financial institutions, has now crossed the Atlantic and is running rampant in Europe. Cross-border mergers and acquisitions, as well as the creation of de novo operations – or the rehabilitation of dormant ones, have become the vogue for virtually all European and many U.S. institutions.

The movement is driven in part by the European Community's movement toward economic integration. The central idea most often is to buy some form of foothold.

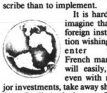
"Bigger is better," "pan-European" and "sensitive to client needs" have become the justifying slogans for these expansion strategies. The slogans are often accompanied by a certain degree of irrational behavior, as can be seen from some of the premiums being paid in the marketplace.

What About Profit?

The notion of profitability rarely enters the discussion. When it does, the "strategic" imperatives often outweigh the notions of profit or return to shareholders.

What makes the arrival of the herd even more surprising is that the banking and insurance industries in each country have existed for many years before the development of the European Community.

The two strategies pursued most commonly are de novo entry and acquisition of a local institution. Both are easier to describe than to implement.



It is hard to imagine that a foreign institution wishing to enter the French market will easily, or even with major investments, take away share from Credit Agricole, one of the real pros in marketing.

Yet the response by many foreign institutions looking at the French market is that they will focus on "certain profitable niches" that the competition overlook. Sorry, local institutions are just not that naive to leave profitable niches to new entrants.

For that foreign entrant to merge successfully or to make a useful acquisition, the challenge is equally difficult. It assumes that cultural, linguistic, and managerial differences will be easily overcome.

New European regulations for financial institutions are essentially completed. In light of these changes, how will American institutions, powerful and eager as they may be, do any better than their European counterparts?

The changes in competitive rules will spur even greater competition, and seriously threaten or even penalize American institutions. In fact, it should be clear by now that all that 1992 will bring – deregulation of markets and a barrier-free Europe – was not designed with U.S. institutions in mind.

Nor does the prospect of the single market hold all the promise some European institutions predict.

Unfortunately, the market for retail and wholesale financial services in Europe, for the most part, is already quite saturated. The wise European financial institutions will strengthen their stronghold in their existing domestic segments.

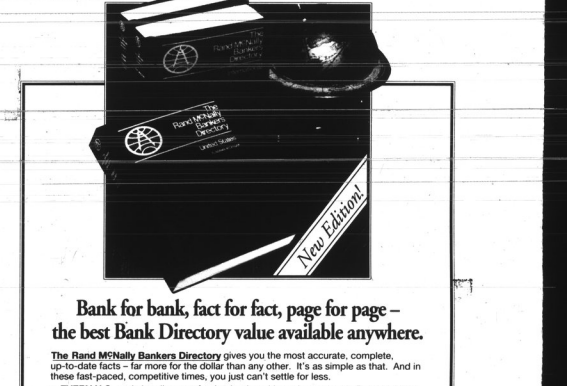
Setting a Course

The irking question remains, and this is precisely the sticking point: how exactly does a self-respecting and optimistic financial institution get its act together over the next 18 months?

A careful, thoroughly analyzed reaction may prove too slow, but it may also serve to confirm the worth of be better-safe-than-sorry strategies. A swift, pragmatic response, often leading to higher-value returns, may, if rashly conducted and in inadequate circumstances, prove fatal and sink an overly hasty institution before it has had time to cross the Atlantic.

For those already here, the burden of a too-rapid expansion may be managerially impossible to handle. □

Mr. Gogel is a senior vice president at the Paris office of the Cambridge, Mass.-based management consultant firm, The MAC Group.



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WORLD BANKING

The Top 500 Banks in the World

U.S. and overseas banks ranked by assets on Dec. 31, 1989 or nearest fiscal yearend

Asset Rank 1990	Asset Rank 1989		Assets in US dollars 12/31/89	Assets in US dollars 12/31/88	Gain Rank	Asset Rank 12/31/88	Bank Branches 12/31/89	Employees 12/31/89	Operating Since
1		Dai-Ichi Kangyo Bank Ltd., Tokyo	Japan	403,386,126,193e	386,927,333,376e		363	18,466	1971
2		Sumitomo Bank Ltd., Osaka	Japan	368,167,430,610e	376,087,770,340e	2		344	16,479	1912
3		Fuji Bank, Ltd., Tokyo	Japan	362,575,295,833s	364,043,947,284s	3		376	15,377	1880
4		Mitsubishi Bank Ltd., Tokyo	Japan	359,960,178,697s	351,250,915,924s	4		265	14,926	1880
5		Sanwa Bank Ltd., Osaka	Japan	350,692,139,934s	348,357,953,888s	5		362	13,604	1933
6		Industrial Bank of Japan Ltd., Tokyo	Japan	256,905,555,665s	257,577,924,532s	6		36	5,582	1902
7		Credit Agricole Mutuel, Paris	France	242,311,948,300e	207,998,000,000e	11	+4	9,956	73,714	1920
8		Banque Nationale de Paris	France	231,769,484,000e	194,515,887,000e	13	+5	2,561	46,884	1966
9		Tokai Bank Ltd., Nagoya	Japan	227,736,519,111s	225,121,125,836s	8		245	11,754	1941
10		Norinchukin Bank, Tokyo	Japan	219,773,041,914	241,947,549,684	7		40	2,867	1923
11		Mitsubishi Trust & Banking Corp., Tokyo	Japan	213,465,098,466e	210,465,840,186e	10		66	5,598	1927
12		Credit Lyonnais, Paris	France	211,205,525,000e	179,662,569,961e	17	+5	3,303	61,508	1863
13		Barclays Bank Plc, London	United Kingdom	205,461,760,000s	189,196,160,000s	14	+1	4,000	116,500	1896
14		Mitsui Bank, Ltd., Tokyo	Japan	203,291,465,903s	219,666,256,008s	9		261	10,505	1876
15		Deutsche Bank, Frankfurt	Germany	202,607,135,750s	170,289,623,280s	21	+6	1,330	56,560	1870
16		Bank of Tokyo, Ltd.	Japan	200,547,845,630s	173,575,004,350s	19	+3	69	17,081	1946
17		Sumitomo Trust & Banking Co., Ltd., Osaka	Japan	190,943,020,692s	196,588,736,216s	12		61	5,693	1925
18		National Westminster Bank Plc, London	United Kingdom	189,784,790,000s	178,344,736,000s	16		3,266	111,000	1968
19		Societe Generale, Paris	France	183,626,636,415s	168,693,810,000s	15		64	5,197	1924
20		Long-Term Credit Bank of Japan Ltd., Tokyo	Japan	176,019,715,000s	143,857,280,000s	25	+5	N.A.	N.A.	1864
21		Taiyo Kobe Bank, Ltd., Kobe	Japan	174,794,317,152u	172,338,687,272u	20		31	1,735	1952
22		Mitsui Trust & Banking Co. Ltd., Tokyo	Japan	172,977,970,205u	173,670,175,800u	18		374	13,139	1973
23		Citibank NA, New York	United States	157,813,185,014s	155,513,864,704	23		63	3,985	1925
24		Daiwa Bank, Ltd., Osaka	Japan	155,494,965,279u	156,168,952,720u	22		259	5,250	1812
25		Dresdner Bank, Frankfurt	Germany	145,666,029,692s	129,339,840,000e	26		216	9,248	1918
26		Hongkong and Shanghai Banking Corp., Hong Kong	Hong Kong	132,835,072,000s	113,115,008,000e	29	+2	1,300	53,375	1865
27		Swiss Bank Corp., Basle	Switzerland	129,538,256,000s	102,482,359,315u	32	+4	293	23,349	1872
28		Toyo Trust & Banking Co., Ltd., Tokyo	Japan	117,492,324,355u	123,204,478,080	27		64	4,703	1959
29		Union Bank of Switzerland, Zurich	Switzerland	114,096,403,656u	110,777,607,220u	30		354	21,210	1912
30		Nippon Credit Bank, Ltd., Tokyo	Japan	113,890,048,045s	118,784,458,416	28		23	2,257	1957
31		Commerzbank, Frankfurt	Germany	113,016,860,000e	100,815,213,384s	33	+1	897	27,631	1870
32		Istituto Bancario San Paolo di Torino, Turin	Italy	107,663,678,274s	73,788,623,253s	54	+21	1	9,597	1890
33		Banco do Brasil, Brasilia	Brazil	107,663,678,274s	81,698,751,045s	47	+13	755	20,407	1563
34		Banco Nacional de Mexico, Leviro, Rome	Italy	105,136,166,384u	83,475,348,071s	45	+10	1,495	34,931	1913
35		Westdeutsche Landesbank Girozentrale, Duesseldorf	Germany	104,488,637,000s	91,025,055,000s	39	+3	449	26,238	1929
36		Bayerische Vereinsbank, Munich	Germany	104,324,980,000s	92,099,891,893s	37		11	9,652	1909
37		Midland Bank Plc, London	United Kingdom	102,306,000,000s	90,965,341,040s	40	+2	454	14,995	1836
40		Saitama Bank Ltd., Urawa	Japan	100,591,140,000s	100,768,052,000s	34		1,980	60,237	1936
41		Kyowa Bank, Ltd., Tokyo	Japan	98,665,555,088s	96,130,074,480s	35		203	7,845	1943
42		Amsterdam-Rotterdam Bank, Amsterdam	Netherlands	97,915,617,239s	104,217,609,500s	31		247	7,971	1945
43		Lloyds Bank Plc, London	United Kingdom	94,173,280,000s	83,716,796,000s	44	+2	688	23,738	1863
44		Algemene Bank Nederland, Amsterdam	Netherlands	92,642,920,000s	93,715,872,000s	36		2,504	84,679	1765
45		Rabobank Nederland, Utrecht	Netherlands	91,907,368,000s	84,814,380,000s	43		990	51,994	1824
46		Bayerische Hypotheken und Wechsel-Bank, Munich	Germany	89,902,700,111s	75,696,971,532s	49	+4	2,192	34,399	1866
47		Credit Suisse, Zurich	Switzerland	89,115,552,000s	75,399,720,270u	50	+4	N.A.	N.A.	1935
48		Banca Commerciale Italiana, Milan	Italy	88,809,129,900s	82,633,763,000s	52	+5	N.A.	17,537	1856
49		Royal Bank of Canada, Montreal	Canada	88,573,064,583s	90,034,493,130s	48	+14	570	20,918	1864
50		Bank of America NT&SA, San Francisco	United States	85,340,000,000	81,651,000,000	48		887	47,757	1869
51		NMB Postbank Group, N.V., Amsterdam	Netherlands	84,927,976,000s				3,060	22,897	1965
52		Bayerische Landesbank Girozentrale, Munich	Germany	82,514,933,800s	71,686,240,000s	57	+5		4,434	1972
53		Banque Paribas, Paris (e)	France	82,272,399,000s	72,143,637,000s	56	+3	650	8,860	1872
54		Chase Manhattan Bank NA, New York	United States	82,109,155,000	74,990,927,000	53		415	31,108	1799
55		Shoko Chukin Bank, Tokyo	Japan	81,957,549,921	91,072,217,476	38		93	5,722	1936
56		Bank of Yokohama, Ltd.	Japan	81,122,917,864u	81,776,615,440u	46		202	6,577	1920
57		Canadian Imperial Bank of Commerce, Toronto	Canada	78,511,029,792s	71,336,177,538s	58	+1	N.A.	N.A.	1867
58		Westpac Banking Corp., Sydney	Australia	78,104,297,000s	60,072,073,200s	67	+9	N.A.	N.A.	1817
59		Monte dei Paschi di Siena	Italy	75,877,857,795s	66,488,882,580s	60	+1	794	19,315	1472
60		Credito Italiano, Milan	Italy	75,415,864,900s	56,881,65 1,500s	70	+1	541	16,187	1870
61		Bank Melli Iran, Tehran	Iran	73,516,646,000	53,061,736,000	77	+16	1,938	23,136	1928
62		Zenshinren Bank, Tokyo	Japan	71,498,005,860	85,981,240,600	42		18	1,033	1951
63		Chuo Trust & Banking Co., Ltd., Tokyo	Japan	70,683,523,795u	72,641,168,852u	55		103	3,554	1962
64		Hokkaido Takushoku Bank Ltd., Sapporo	Japan	70,062,233,449u	75,430,062,960u	51		212	6,627	1900
65		Generale Bank, Brussels	Belgium	67,965,863,400s	62,006,302,400s	74	+9	1,156	14,180	1955
66		Norddeutsche Landesbank Girozentrale, Hannover	Germany	67,629,966,572s	60,373,371,460s	66		209	6,050	1970
67		Banco di Napoli, Naples	Italy	67,166,324,536	57,338,418,425s	69	+2	502	12,930	1539
68		Cassa di Risparmio delle Provincie Lombarde, Milan	Italy	66,563,985,000s	65,411,335,000s	61		1,040	10,867	1823
69		Bank of Montreal	Canada	64,873,487,716s	61,616,574,334	65		1,230	33,666	1817
70		Groupe Des Banques Populaires, Paris	France	64,787,690,223	55,242,661,888	73	+3	1,462	27,435	1921
71		Banco di Roma, Rome	Italy	64,628,173,500s	54,698,647,500s	74	+3	407	14,435	1880
72		Morgan Guaranty Trust Co., New York	United States	64,464,140,000s	70,064,776,000	63		17	11,341	1839
73		Bank of Nova Scotia, Toronto	Canada	62,340,736,908s	56,459,901,930s	72		1,284	29,618	1832
74		Skandinaviska Enskilda Banken, Stockholm	Sweden	58,868,940,000s	47,133,243,000s	84	+10	N.A.	N.A.	1972
75		Chiba Bank, Ltd.	Japan	57,989,881,627	58,138,025,316	68		188	4,761	1943
76		Hokuriku Bank Ltd., Toyama	Japan	57,041,456,033s	54,006,921,000	70		197	5,040	1943
77		Banque Indosuez, Paris	France	55,388,891,000s	47,559,964,449s	83	+6	45	5,347	1875
78		Den Danske Bank, Copenhagen	Denmark	54,879,085,526s	23,263,104,000s	151	+73	786	16,014	1871
79		Australia & New Zealand Banking Group, Ltd., Melbourne	Australia	53,962,264,000s	44,910,296,100s	87	+8	2,000	47,039	1835
80		Banque Nationale de Paris	Belgium	53,958,211,264	50,777,159,582	80		161	5,015	1878
81		Second Pacific National Bank, Los Angeles	United States	53,644,000,000	52,940,000,000	78		244	19,286	1812
82		Banco Bilbao Vizcaya, Bilbao	Spain	53,621,385,000	48,358,117,000	82		651	15,937	1871
83		National Australia Bank, Ltd., Melbourne	Australia	51,842,577,710u	62,466,427,360s	63		N.A.	N.A.	1988
84		Banque Generale Luxembourg, Brussels	Belgium	51,208,550,400s	40,806,671,400s	95	+11	2,191	35,309	1955
85		PKbanken, Stockholm	Sweden	50,735,240,810s	45,143,343,613s	86	+1	N.A.	12,116	1936
86		Bankers Trust Co., New York	United States	50,244,719,000s	39,730,435,000s	99	+13	150	5,600	1974
87		Shizuoka Bank Ltd.	Japan	49,850,612,000	52,340,021,000	79		18	12,114	1917
88		Bank of Seoul	Korea	49,174,546,304u	46,620,715,776u	85		193	5,369	1943
89		Kredietbank N.V., Brussels	Belgium	48,591,864,300s	37,299,633,799	108	+19	258	9,838	1959
90		Toronto Dominion Bank	Canada	47,866,288,000s	38,638,948,564s	104	+14	960	11,526	1935
91		Sudwestdeutsche Landesbank, Stuttgart	Germany	47,492,560,000s	43,101,817,144	91		144	6,076	1901
92		Commonwealth Bank of Australia, Sydney	Australia	45,869,716,000s	40,656,000,000s	97	+5	1	2,347	1988
93		Sparbankernas Bank, Stockholm	Sweden	45,786,468,000s	32,915,236,800s	119	+26	1,261	32,303	1953
94		Credit Commercial de France, Paris	France	45,663,523,000s	38,086,522,000s	106	+12	0	1,300	1942
95		Wells Fargo Bank NA, San Francisco	United States	45,344,872,000	38,038,472,835s	107	+12	N.A.	12,300	1864
97		Refidain Bank, Baghdad	Iraq	43,487,141,000	43,487,141,000	89		457	19,229	1870
98		Bank of New York	United States	43,092,559,700	54,460,950,400	75		123	6,783	1941
99		Home Savings of America, FA, Irwindale, Calif.	United States	44,972,627,000	21,355,771,000	166	+68	261	13,770	1784
100		Banco Central, Madrid	Spain	44,924,933,000	40,917,353,000	94		357	10,819	1899
				44,913,236,390s	40,684,984,200s	96		2,865	23,801	1919

Data Source: The primary source of data in **American Banker's** Question naire to the 1,200 largest banks in the world. Data were checked against annual reports whenever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidated data usually include those affiliates which ownership exceeds 50%. **Total assets** usually contra accounts and contingent liabilities. **Note:** Banks that did not provide current data are **excluded** from the listing. **Date of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989, Sept. 30, 1989, and March 31, 1990; Canadian bank data are for fiscal yearend Oct. 31, 1989, and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Where necessary, for example, the New York dollar is used, and this rate is for same day as bank's figures. See "Foreign Currency Exchange Guide and Exchange Rates" elsewhere for key to currency abbreviations. **(e)** – A subsidiary of Compagnie Financiere de Credit Industriel et Commercial. **(s)** – A subsidiary Compagnie Financiere de Paribas. Paris, a financial holding company. **(u)** – Consolidated data. **(f)** – Figures are included in the consolidated figures of parent bank. For that reason, this data for the bank are not included in the aggregate data totals for the Top 500 Banks in the World. **Gain Rank:** Where applicable, the New York dollar is used, and this rate is for same day as bank's figures. See "Foreign Currency Exchange Guide and Exchange Rates" elsewhere for key to currency abbreviations. **(p)** – Restated to reflect changes in consolidation in 1989. **N.A.** — Not available.

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Guest Comment

Banks Hone Strategies for Eastern Europe

By CHARLES McHUGH La FOLLETTE
Special to the American Banker

As international finance becomes increasingly competitive, money-center banks are finding it essential to have a global presence.

Recent political developments in Eastern Europe make this region the latest battleground in which commercial banks can compete. Many companies react to the opportunities in these countries will provide clues about which banks will win the global marketing challenge of the economic order that follows the cold war.

A Potentially Large Market

Eastern Europe provides markets for three areas of bank business:

▪ Advisory services. Many banks have advised commercial companies interested in joint ventures. Fees in this business have been modest as joint ventures in Eastern Europe have skyrocketed. The Soviet Union has over 1,000 joint ventures with Western firms today; it only had 162 in 1988. Hungary has 600 joint ventures now, but only 150 two years ago. Poland has gone from 26 joint ventures to over 400. Banks have been intimately involved as big corporate accountants like France's Pechiney, Japan's Suzuki, Korea's Daewoo Electronics, the United States' Control Data and Germany's Siemens have lead the surge.

▪ Commercial lending. Commercial lending in Eastern Europe is also a big business. Bank for International Settlements showed a 40% increase in loans to Eastern European countries in the last year – from $5.7 billion of loans in 1988 to $8.3 billion at yearend 1989. Figures will probably grow as market-oriented reforms take hold in these countries.

▪ Retail banking. With a population of 440 million (almost twice the size of the United States) and a combined GNP of $3.5 trillion in 1989 (90% the size of West Germany's) the region could become a lucrative retail market. Though it is premature to address the retail market, several companies are designing strategies to approach it once the region forms a capital base.

Long-Term Strategy

In vying for these three markets, commercial banks will weal their strengths in long-term strategic planning.

The most creative banks are not simply taking a reading of the region's economy or targeting the most export-oriented businesses. Instead, they are laying the groundwork with strategies that emphasize compensating for structural weaknesses in the region.

For instance, West Germany's A.G. Commerzbank is exporting prefabricated bank buildings to East Germany equipped with satellite-accessing telephone lines and facsimile lines. These buildings will give the bank a tremendous competitive advantage over other banks in a region where there are only 15 phones per 100 people (and few of these phones can make international calls).

In addition, banks are looking at ways to train managers in Eastern Europe. Eastern European countries lack both senior level and middle-management personnel.

"There is no history of Western-style banking in the area," explains Francy Oppenheimer, a lawyer specializing in international banking and finance. "Many of the managers currently in place do not know what the basic concepts of banking mean. And they are certainly not informed of the latest management methods." As a result, several banks are thinking about Western-style business schools in Eastern Europe to teach basic business concepts.

Prof. Roman Glowacki, the head of Marketing at the Warsaw School of Management, is setting up an executive education program with the help of U.S. business schools. It is expected to become a key training ground for middle managers in Eastern European banks.

In addition, "some banks are

See next page



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CHARLES McHUGH La FOLLETTE *predicts battle lines will soon be drawn in Eastern Europe*

Continued from page 15A

bringing in outside consultants to train their newer hires in Eastern Europe," says Paul Ohana, president of the training firm Panel France S.A.

Bringing in top management is an especially difficult problem that banks are addressing.

"Firms are looking for individuals with strong overseas experience and a clear facility with the local language. That's not an easy combination to come by for these areas," says Bill Battalia, president of Battalia & Associates, a leading global executive search firm based in New York. Many banks are recruiting from within their Latin American ranks to fill East European positions, because dealing with Latin America's infrastructure problems tends to be very good training for business in Eastern Europe.

By making these efforts to surmount infrastructure problems, train middle managers, and search for top management, money center banks are demonstrating their commitment to doing business in Eastern Europe.

Rival Marketing Strategies

Money-center banks have split into two opposite groups when it comes to approaching business opportunities in Eastern Europe.

One faction, epitomized by Citicorp, has an attack strategy that concentrates on gaining market share as soon as possible. The other faction, exemplified by Morgan Bank and Chase Manhattan, has a "go slow" approach that emphasizes doing only high-quality transactions and securing strong relationships with key government officials in Eastern Europe.

When we are in a business negotiation with a Westerner . . . we are afraid to lose our shorts in the deal.

Andrzej Wroblewski
Gazeta Bankowa

The aggressive approach emphasizes doing large amounts of deals immediately for two reasons.

• Firstly, the aggressive banks estimate that there may be as much as $200 billion worth of enterprises in Eastern Europe to be sold in the next decade. Solidarity leader Lech Walesa has said that 85% of Polish state enterprises should be sold in the next five years.

• Secondly, the aggressive firms feel that by gaining market share in privatization deals they will get preferential treatment from Eastern European governments as the retail and commercial markets open up. This seems to be borne out by the sentiment of key government officials. "Clearly, those firms which help us in our efforts to privatize will be given priority in other business activities," says Marek Gadomski of Poland's Finance Ministry.

The aggressive approach is largely patterned after the familiar methods of developing business in the West. Companies hunt for deals, negotiate with businesses directly, and seek government approval of the negotiation only at the end.

Going Slowly

In the "go slow" approach, money center banks emphasize not appearing too greedy. In all of their negotiations, these banks place a premium on appearing to give a fair price and a fair deal.

Though this strategy is a staple of the banking profession, it has become increasingly important in Eastern Europe for two reasons.

• Years of indoctrination have made even the most market-oriented Eastern Europeans distrustful of Western bankers. "There is a visceral, unintentional reaction when we are in a business negotiation with a Westerner, and that is that we are afraid to lose our shorts in the deal," says Andrzej Wroblewski of *Gazeta Bankowa*, Poland's leading financial magazine. As a result, a premium is placed on doing business with a bank known for seeking the best deal for all sides.

• In addition, there is great concern throughout Eastern Europe that privatization will rob the inhabitants of the chance to manage their country's best businesses. As a result, Eastern European governments are extremely cautious about the types of deals they will allow. "We simply can't let it seem that we have given anybody too good a deal," says Mr. Wroblewski of *Gazeta Bankowa*. "Banks which can allay the government's fear of unfair deals will clearly get preferential treatment."

Citicorp Deal

The importance of this sensitivity has proved crucial in Hungary recently. There, Citicorp – an aggressive company – completed an asset sale of Apisz, a paper-goods manufacturer. In a deal similar to a Western-style management buyout, Apisz's management bought two-thirds of the company and Citicorp kept an equity interest in the remaining third.

The deal has come under harsh criticism because Hungarians think the company was sold on the cheap. Worse, the managers who bought the business were Communist Party members who had run the enterprise for decades.

"It really looks bad for Citi," says a rival banker who declined to be named. "It makes it look as if they conspired with the bad guys – the Communists – to get a third of the equity of one of Hungary's best assets at a dirt-cheap price." Some believe the episode will damage Citicorp's relationship in Hungary for some time to come.

It is too early to tell which of the two strategies will win out in Eastern Europe, or if banks will be able to solve the structural problems associated with doing business there. Clearly, however, commercial banks are putting a premium on succeeding in this market – and on avoiding the traps that have stunned them before. □

An interesting thing happens when people think someone else might pick up the tab.

VISA STATEMENT

Account Number: 4000-1234-5678-9010
Name: CHRIS HAMMER

Billing Period: AUG-SEPT
Payment Due Date: 10-15-90

Sale Date	Description	Charges	Credits
09/04	PAYMENT-THANK YOU		18.75
09/12	AL'S ALL-U-CAN-EAT	14.75	
09/24	MAIN STREET GAS 'N GO	12.00	
		24.75	

VISA STATEMENT

Account Number: 4000-1234-5678-9010
Name: CHRIS HAMMER

Billing Period: SEPT-OCT
Payment Due Date: 11-15-90

Sale Date	Description	Charges	Credits
10/02	PAYMENT-THANK YOU		24.75
10/03	CHEZ FANTASTIQUE	105.00	
10/04	AKBAR'S HOME STORE	256.77	
10/04	AIR CHARTERS	750.00	
10/05	MAIN STREET GAS 'N GO	14.00	
10/11	THE BARGAIN FARM	48.77	
10/11	AKBAR'S HOME STORE	4.78	
10/11	AUTO EDDIE'S EMPORIUM	44.00	
10/12	AKBAR'S HOME STORE		4.38
10/13	AL'S ALL-U-CAN-EAT	14.75	
10/13	THE KITSCH MUSEUM	12.00	
10/13	CHEZ FANTASTIQUE	105.00	
10/13	CAJUN KITCHEN	25.43	
10/13	METRO BOWLING SUPPLY	78.00	
10/14	THE BARGAIN FARM	31.77	
10/14	AUTO EDDIE'S EMPORIUM	210.00	
10/14	AUTHENTIC BELT	12.19	
10/15	THE BARGAIN FARM		31.77
10/15	MAIN STREET GAS 'N GO	10.00	
10/16	AKBAR'S HOME STORE	256.77	
10/17	TV & STEREO R STUFF	199.00	
10/17	AL'S ALL-U-CAN-EAT	14.75	
10/18	AUTO EDDIE'S EMPORIUM	14.00	
10/20	THE BARGAIN FARM	5.77	
10/21	CHEZ FANTASTIQUE	145.00	
10/22	MAIN STREET GAS 'N GO	12.28	
10/22	THE BARGAIN FARM	57.77	
10/22	AUTHENTIC BELT	12.19	
10/23	METRO BOWLING SUPPLY		13.43
10/25	AKBAR'S HOME STORE	467.26	
10/25	CAJUN KITCHEN	42.77	
10/25	THE BARGAIN FARM	48.77	
10/27	FASHIONS BY MAIL	35.77	
10/28	MAIN STREET GAS 'N GO	8.00	
10/28	TV & STEREO R STUFF	199.00	
10/28	AKBAR'S HOME STORE	324.00	
10/29	AUTO EDDIE'S EMPORIUM	67.48	
10/29	CHEZ FANTASTIQUE	75.78	
10/30	AIR CHARTERS	478.00	
10/30	THE BARGAIN FARM	115.77	
10/30	TV & STEREO R STUFF	85.00	
10/30	FASHIONS BY MAIL	45.00	
10/30	AUTHENTIC BELT	12.77	

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Guest Comment

Marketing Giant Is No Longer Tethered

By ROBERT P. CADY
Special to the American Banker

Mythological giants have their good side and their bad side. Jack and the Beanstalk's giant was hungry. The genie in the bottle granted three wishes to the lucky finder. Gulliver, a true sleeping giant, was tied up before he could do any damage, but once untied, he proved to be a boon to the Lilliputians.

The concept of using marketing information to improve competitive position is suddenly becoming a hot topic in the executive suite. As in the Gulliver fable, those institutions that have had vision and untied this sleeping giant have found it to be an ally in repelling the invaders.



A Confusing Language

For many senior executives, however, the new marketing information industry is confusing and filled with newspeak. New terms such as geocoding, household segmentation, and the like are unfamiliar. New techniques such as lifestyle analysis (psychographics) add to the confusion.

The upshot of all this is the pressure being brought to the executive decision makers to fund more forms of marketing information services. The first impulse of the traditional balance-sheet banker is to say no, or let's wait and see.

Today, marketing technology and uses of information to support strategy need supporters in high places. Most senior executives in banking still have trouble anointing a marketing executive with the same powers to transform the bank as the DP king.

Cost Analysis Is Tricky

As a result, the allocation of resources is an uphill fight, because marketing does not lend itself to a precise cost analysis or predictive modeling of expenditures.

Executive management is slowly absorbing the new information concepts as they filter through from staff and seniors. This educational process is key to acceptance and eventual adoption of a marketing information philosophy, which we believe is key to the competition during the industry in the 1990s and beyond.

First, what do we mean by information? Second, how are most banks organized to use this information? And third, what does it cost and what can we expect in return? The relevant categories follow:

- Public data.
- Survey data.
- Exchange information.
- Segmentation data.

Public data is perhaps the more mature of all the information categories presented. As the name applies, public data is gotten from the government by a variety of entrepreneurs, massaged in a computer, and sold back to the banks in more palatable formats. By using public data reports, a bank can compare performance in a variety of categories.

Problems with Data

Public data, however, generally does not relate to individual products and are not broken down by local markets. Also, the government is slow-moving and the reports are often received nine months to one year from the time the data is reported.

Survey data is perhaps the second most widely used marketing information after public data. With surveys, we finally arrive in the actual markets working with real customers.

Years ago, survey firms were consulting with local banks that wished proprietary data on a situation in the market. With the passing of time, these companies decided to create a business where they designed the project and sold the results to the banks for an annual retainer.

Many Surveys Available

Gradually, a myriad of surveys began to appear and leadership emerged. Today a bank can spend $5,000 to $10,000 for a specific survey, or well over $100,000 a year if it wishes to take advantage of a firm's bulging survey portfolio.

The best survey, of course, is one the bank designs itself to answer its own needed questions. These can be the most expensive of all, involving consulting expertise, direct mail, or telephone interview techniques.

Survey data is relatively expensive and does not always meet the proprietary needs of a bank. However, the concept is widely established and has gained budget-cutting armor over the years.

Exchange information is a stepchild in the data business. In an exchange, banks who are put off by the error rates of survey data and the expense and the lateness of public data form an exchange.

This group then agrees to a set of definitions for standard prod-

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WORLD BANKING

The Top 500 Banks in the World

U.S. and overseas banks ranked by assets on Dec. 31, 1989 or nearest fiscal year end

Asset Rank 1989	Bank	Assets in US Dollars 12/31/89	Assets in US Dollars 12/31/88	Asset Rank 12/31/88	Gain or Loss	Employees 12/31/89	Operating Offices
101	**Chemical Bank, New York** United States	44,873,000,000	50,233,000,000	61	-28	17,997	1824
102	**Creditanstalt-Bankverein, Vienna** Austria	44,455,420,200	39,406,776,000	100	374	10,932	1855
103	**Royal Bank of Scotland Plc, Edinburgh** United Kingdom	44,418,366,300	36,605,231,990b	110	+7	905	1240
104	**Svenska Handelsbanken, Stockholm** Sweden	44,330,867,000e	38,797,260,000e	102	+45	6,707	1871
105	**ASLK-CGER Bank, Brussels** Belgium	43,097,568,963e	36,516,894,557e	111	+6	1219	8,094
106	**Ashikaga Bank, Ltd., Utsunomiya** Japan	42,715,240,037	42,819,326,472	93	161	4,494	1955
107	**Unibank, Copenhagen** Denmark	42,082,945,000			700	13,800	1990
108	**Hessische Landesbank-Girozentrale, Frankfurt** Germany	41,611,814,555d	38,747,580,268b	103	5	6,000	1963
109	**Banco Santander** Spain	41,337,846,220e	29,480,506,020e	127	+18	N.A.	1857
110	**TSB Bank Plc, London** United Kingdom	40,449,201,000e	29,173,232,000e	128	+18	9,259	25,865
111	**Bank Saderat Iran, Tehran** Iran	39,843,867,470	39,179,665,317	101		2,578	18,000
112	**Bank of Fukuoka, Ltd.** Japan	39,793,852,771	38,535,973,740	105		2,932	4,665
113	**Standard Chartered Bank, London** United Kingdom	39,715,400,000e	42,836,497,600e	82		N.A.	N.A.
114	**Commonwealth Banking Corp., Sydney** Australia	39,600,489,000e	34,354,802,800e	115	+1	2,161	32,303
115	**Bank of Hiroshima, Japan** Japan	39,390,460,639	40,420,969,760	92		195	4,255
116	**Banque Francaise du Commerce Exterieur, Paris** France	38,691,479,273e	36,624,410,668e	109		29	2,464
117	**Bank fuer Gemeinwirtschaft, Frankfurt** Germany	37,811,621,240e	35,957,883,960e	112		269	8,251
118	**Kansallis-Osake Pankki, Helsinki** Finland	37,015,447,800a	34,647,624,000a	114		N.A.	1889
119	**Banco di Sicilia, Palermo** Italy	36,366,421,603e	30,955,122,945e	121	+2	405	5,674
120	**Union Bank of Finland, Ltd., Helsinki** Finland	36,308,625,000a	31,828,080,000a	120		420	9,334
121	**Hachijuni Bank, Ltd., Nagano** Japan	35,834,501,885	33,995,473,200	118		147	3,953
122	**First National Bank, Chicago** United States	35,570,607,000	34,349,090,000	116		6	1,915
123	**Great Western Bank, FSB, Beverly Hills** United States	34,949,576,000	30,837,077,000	122		282	7,524
124	**Bank Hapoalim, Tel-Aviv** Israel	34,632,161,000	35,362,364,400e	107		343	N.A.
125	**Caja de Pensiones para la Vejez, Barcelona** Spain	33,975,879,850e	28,145,369,700e	129	+4	1,566	8,184
126	**NCNB Texas National Bank, Dallas** United States	33,535,253,000	25,551,764,000	139	+13	225	15,112
127	**Banco Espanol de Credito, Madrid** Spain	33,042,766,440a	26,555,829,300a	131f	+4	N.A.	1932
128	**Gunma Bank, Ltd., Maebashi** Japan	31,214,753,421	30,643,947,048	123		145	3,986
129	**Bank of Scotland, Edinburgh** United Kingdom	30,894,365,000e	24,497,194,000e	145	+14	500	13,000
130	**Taiwan Cooperative Bank, Taipei** Taiwan	30,807,698,619	22,932,112,615	154	+24	112	5,400
131	**First National Bank, Boston** United States	29,679,775,000	25,850,438,000	137	+7	207	15,000
132	**Bank Leumi le-Israel, Tel-Aviv** Israel	29,639,866,400e	30,071,247,762e	126		321	12,232
133	**Continental Bank NA, Chicago** United States	29,023,000,000	30,286,760,000	125		N.A.	1,487
134	**National Bank of Canada, Montreal** Canada	28,906,015,296e	23,335,340,396e	149	+15	625	10,784
135	**Banca Popolare di Novara** Italy	28,582,701,395e	18,339,477,385e	181	+1	405	2,366
136	**First Commercial Bank, Taipei** Taiwan	27,916,390,864	21,379,238,466	165	+29	151	5,629
137	**Bank of Taiwan, Taipei** Taiwan	27,675,572,330	23,356,605,400	148	+11	71	5,902
138	**Hamburgische Landesbank-Girozentrale, Hamburg** Germany	27,561,213,880	25,096,177,880	133	4	3,382	1,800
139	**Banco Hispano-Americano, Madrid** Spain	27,365,157,270a	27,789,950,160a	130		N.A.	N.A.
140	**Deutsche Siedlungs- und Landesrentenbank, Bonn** Germany	27,334,426,091				752	1,900
141	**Landesbank Rheinland-Pfalz Girozentrale, Mainz** Germany	26,845,000,000e	25,226,082,480e	135		3	1,878
142	**Banco Nacional de Mexico, Mexico City** Mexico	26,006,398,760a	22,788,266,352	157	+15	241	7,310
143	**Chugoku Bank, Ltd., Okayama** Japan	26,004,838,908	26,479,935,168	132		166	3,414
144	**National Bank of Greece, Athens** Greece	25,974,522,000a	25,823,144,000a	136		515	15,896
145	**Deutsche Genossenschaftsbank-Kommunalbank, Frankfurt** Germany	25,942,140,000a	23,374,826,867a	142	+2	2	354
146	**Nippon Trust Bank, Ltd., Tokyo** Japan	25,643,472,968	26,248,343,400	133		37	2,107
147	**Syngo Bank, Lahi, Kalvo** Japan	25,575,576,624	26,703,666,360	131		151	3,289
148	**Banque Centonale de Zurich** Switzerland	25,571,413,584	23,179,962,678	152	+4	N.A.	N.A.
149	**Cassa di Risparmio di Roma** Italy	25,479,276,000e	20,626,366,400e	171	+22	491	1,488
150	**Yamaguchi Bank, Ltd., Shimonoseki** Japan	25,413,993,647	26,060,853,624	135		156	3,503
151	**Girozentrale und Bank der Oesterreichischen Sparkassen, Vienna** Austria	25,248,598,780a	22,936,062,918a	156	+5	2	344
152	**Allied Irish Banks Plc., Dublin** Ireland	25,186,780,000a	21,039,237,400a	168	+16	400	17,960
153	**Swiss Volksbank, Berne** Switzerland	24,961,843,424	22,988,325,013	153		187	6,191
154	**Banco Brasileiro de Descontos, Sao Paulo** Brazil	24,747,610,730a	14,434,941,186a	189	+89	1,767	1,268,938
155	**Juroku Bank, Ltd., Gifu** Japan	24,746,127,003	22,928,431,616	158	+3	140	3,048
156	**Korea Development Bank, Seoul** Korea	24,566,536,790	17,153,994,360a	176	+46	17	2,296
157	**77 Bank, Ltd., Sendai** Japan	24,211,549,425	24,785,177,508	142		136	3,587
158	**Banque Populaire di Milano, Milan** Italy	24,186,574,324a	19,863,953,760a	177	+19	250	1,503
159	**Glendale Federal Bank, FSB, Calif.** United States	24,043,905,000	24,313,386,000	144		773	1934
160	**Nishi-Nippon Bank, Ltd., Fukuoka** Japan	23,713,366,290	24,197,788,472	145		194	3,756
161	**Hua Nan Commercial Bank, Ltd., Taipei** Taiwan	23,541,544,010	15,532,045,807	180	+64	102	5,095
162	**Caifornia Federal Bank, FSB, Los Angeles** United States	23,269,850,000	25,857,500,000	137		199	5,480
163	**National Commercial Bank, Jeddah** Saudi Arabia	22,850,717,283	20,374,698,917	175	+12	N.A.	N.A.
164	**Oesterreichische Laenderbank, Vienna** Austria	22,855,544,796a	20,777,194,180a	170	+6	139	3,459
165	**Chang Hwa Commercial Bank, Ltd., Taichung** Taiwan	22,725,000,000a	15,127,311,000a	185	+67	139	5,191
166	**Korea Exchange Bank, Seoul** Korea	22,715,107,380a	23,323,498,800a	150		198	8,147
167	**Commercial Bank of Korea Ltd., Seoul** Korea	22,526,241,780a	18,058,503,400a	188	+21	240	8,531
168	**Landesbank Schleswig-Holstein Girozentrale, Kiel** Germany	22,515,739,800a	19,698,735,000a	174	+6	4	2,251
169	**Hang Seng Bank Ltd., Hong Kong** Hong Kong	22,466,713,600at	16,597,120,000at	205	+36	124	6,000
170	**Mellon Bank NA, Pittsburgh** United States	22,454,363,000	21,889,722,000	161		126	8,737
171	**Banco Exterior de Espana, Madrid** Spain	22,357,799,640a	21,573,120,240a	163		755	11,909
172	**Banco Ambrosiano Veneto, Milan** Italy	22,135,033,628e	17,897,326,400e	183	+20	350	7,309
173	**First Nationwide Bank, FSB, San Francisco** United States	22,088,000,000	26,130,421,000	134		311	N.A.
174	**Caisse Centrale des Banques Populaires, Paris** France	21,994,512,000e	19,387,594,592e	181	+6	71	1,792
175	**Hokkaido Bank, Ltd., Sapporo** Japan	21,910,036,813	22,881,838,788	155		142	3,094
176	**Arab Banking Corp., Manama** Bahrain	21,730,000,000e	19,127,000,000e	181	+5	6	4,983
177	**Tanni Bank, Ltd., Seoul** Korea	21,695,130,500a	13,628,342,000a	256	+79	235	3,799
178	**Marine Midland Bank NA, Buffalo, N.Y.** United States	21,406,741,000	20,570,926,000	172		318	11,238
179	**Bank of Kyoto, Ltd.** Japan	21,351,639,251	22,192,191,446	157		118	2,792
180	**Skopbank, Helsinki** Finland	21,309,366,120a	15,241,920,000a	230	+50	1,320	2,600
181	**Allied Irish Bank, Pittsburgh** Ireland	21,206,444,000a	15,854,040,000a	221	+40	353	10,603
182	**Nanto Bank, Ltd., Nara** Japan	20,962,682,490	21,256,478,395	161		121	3,024
183	**Tokyo Sowa Bank, Ltd.** Japan	20,962,173,081	21,990,226,246d	160		98	3,695
184	**Berliner Handels-und-Frankfurter Bank, Frankfurt** Germany	20,960,000,000e	18,777,231,350e	190		19	2,928
185	**Banco Popular Espanol, Madrid** Spain	20,960,736,170a	17,900,216,460a	191	+6	1,643	11,778
186	**First Interstate Bank of California, Los Angeles** United States	20,858,627,000	20,104,051,000	164		339	12,967
187	**Berliner Bank, Berlin** Germany	20,770,963,920a	18,796,064,407a	183		87	4,837
188	**Banco di Santo Spirito, Rome** Italy	20,652,533,189e	18,989,738,157e	178		240	5,885
189	**Hyakujushi Bank, Ltd., Takamatsu** Japan	20,498,423,299	21,497,298,508	164		127	2,589
190	**Bank of Kyoto, Ltd., Seoul** Korea	20,439,476,716	14,931,118,200	196	+47	61	4,364
191	**Deutsche Bank Luxembourg** Luxembourg	20,348,408,170f	17,475,887,102f	198	+7	165	1970
192	**NCNB National Bank of North Carolina, Charlotte** United States	20,327,936,000	16,498,394,000	207	+15	240	8,302
193	**Postipankki, Helsinki** Finland	20,142,112,000a	17,954,472,000a	189		N.A.	N.A.
194	**Chu Hung Bank, Ltd., Seoul** Korea	20,082,201,725a	16,341,916,186a	210	+16	246	9,126
195	**Caja de Madrid** Spain	20,033,940,940a	15,315,400,800a	216		636	6,306
196	**Zentralsparkasse und Kommerzialbank, Vienna** Austria	19,804,344,000a	17,676,480,000a	195		214	5,105
197	**Korea First Bank, Seoul** Korea	19,730,311,886a	16,473,535,825a	209	+11	233	8,944
198	**Iyo Bank, Ltd., Matsuyama** Japan	19,706,280,761	20,500,601,508	173		143	2,927
199	**Christiania Bank og Kreditkasse, Oslo** Norway	19,670,090,500	17,686,872,000a	194		4	4,716
200	**HSBC Samuel Bath, London** United Kingdom	19,264,059,000f	7,448,320,000f	420f	+226	12	1,300

Data Source: The primary source of data is **American Banker's** question-naire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership exceeds 50%. **Total assets** exclude contra accounts and unamortized premiums. **Date of fiscal year:** Data not provided current data are **excluded** from the listing. **Dates of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Austria-lian and New Zealand banks are for June 30, 1989, Sept. 30, 1989 and March 31, 1990. Canadian bank data are for fiscal yearend Oct. 31, 1989, and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Wherever possible, the New York cable rate is used, and this rate is for same date as bank's figures. See "Foreign Currency Exchange Guide and Ex-change Rates" for rates for countries not listed. **Footnotes:** (a)— A sub-sidiary of Compagnie Financiere de Credit Industriel et Commercial. (b)— A subsidiary Compagnie Financiere de Paribas. Paris, a financial holding com-pany. (c)— Consolidated data. (d)— Figures are included in the consolidat-ed figures of parent bank. For that reason, the data for the bank are not included in the aggregate data totals for the Top-500 Banks. (e)— Data are unconsolidated figures of affiliates more than 50% owned by the bank. Banks that did not provide consolidated data are excluded from the listing. (f)— Revised to reflect changes in consolidation in 1989. N.A.— Not available.

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WORLD BANKING

The Top 500 Banks in the World

U.S. and overseas banks ranked by assets on Dec. 31, 1989 or nearest fiscal year end

Asset Rank 1989	Bank	Assets in US Dollars 12/31/89	Assets in US Dollars 12/31/88	Asset Rank 12/31/88	Gain or Loss	Employees 12/31/89	Operating Offices
201	**World-Savings, FSA/LA, Oakland, Calif.** United States	19,263,899,000	16,352,299,000	209	+8	782	2,461
202	**Daishi Bank, Ltd., Niigata** Japan	19,157,592,851	20,455,988,972	174		134	3,118
203	**Bremer Landesbank, Bremen** Germany	19,004,814,500d	17,058,406,200d	203		3	1,173
204	**Shiga Bank, Ltd., Otsu** Japan	18,902,098,900	19,860,942,432	178		125	2,742
205	**Republic National Bank, New York** United States	18,868,403,000	17,790,997,000	193		38	2,672
206	**Sanyo Bank, Ltd., Kumamoto** Japan	18,587,934,262	19,174,124,300	187		130	2,732
207	**American Express Bank Ltd., New York** United States	18,366,000,000s	16,180,000,000s	214	+7	N.A.	N.A.
208	**Nomaland Bank, FSB, San Diego, Calif.** United States	17,752,680,000	16,261,556,000	210	+3	253	4,581
209	**Banco Geral do Deposito, Lisbon** Portugal	17,734,336,464s	15,564,406,199s	224	+15	412	10,104
210	**Banco Itau, Sao Paulo** Brazil	17,385,615,154a	9,339,973,235a	255	+14	209	77,482
211	**Taiwan Business Bank, Taipei** Taiwan	17,299,356,295	12,001,207,204	287	+76	99	4,385
212	**Westdeutsche Genossenschafts-Zentralbank, Duesseldorf** Germany	17,158,973,000a	15,978,423,444	218	+6	3	1,200
213	**Kyo Bank, Ltd., Wakayama** Japan	17,127,994,331	17,580,877,734	100		107	2,657
214	**National Bank of Detroit** United States	16,817,132,000	15,043,409,000	234		152	6,666
215	**Banco do Estado de Sao Paulo** Brazil	16,814,353,695s	9,853,866,648	335	+120	N.A.	N.A.
216	**Credit Lyonnais Bank Nederland, Rotterdam** Netherlands	16,683,430,592d	13,778,449,860d	254	+38	93	3,726
217	**First Union National Bank, Charlotte, N.C.** United States	16,622,378,000	14,789,337,000	242	+25	271	1906
218	**Development bank of Singapore Ltd.** Singapore	16,616,062,756	10,854,388,989	311	+93	45	3,985
219	**Raiffeisen Zentralbank Oesterreich AG, Vienna** Austria	16,459,192,000a	13,772,821,165a	255	+36	14	1908
220	**Banco Nacional de Mexico, Mexico City** Mexico	16,462,328,890	14,085,415,120	249	+29	743	29,482
221	**Hamburger Sparkasse, Hamburg** Germany	16,445,542,196	15,001,736,473	235	+14	208	5,737
222	**State Bank Victoria, Melbourne** Australia	16,409,131,200s	15,964,482,072s	219		N.A.	N.A.
223	**American Savings Bank, Irvine, Calif.** United States	16,290,515,000	15,409,744,000	227	+4	177	4,783
224	**Banque Nationale van Belgische Boerenbond, Leuven** Belgium	16,194,984,365	13,295,484,522s	267	+43	1,032	4,318
225	**Bangkok Bank, Ltd.** Thailand	16,115,030,997	13,820,680,014	253	+28	343	20,838
226	**Israel Discount Bank, Ltd., Tel-Aviv** Israel	16,032,824,890e	15,645,658,420	215		244	7,050
227	**Bank Internasional Indonesia, Ltd., Ogah** Japan	15,856,769,346	15,645,658,420	222		119	2,663
228	**Pittsburgh National Bank** United States	15,842,142,000	15,110,664,000	240	+5	114	4,086
229	**Bank fuer Arbeit und Wirtschaft, Vienna** Austria	15,783,125,468a	14,812,973,464a	241	+12	129	2,132
230	**Westfalenbank, Bochum** Germany	15,756,927,983d	14,051,996,673d	250	+20	N.A.	1902
231	**Hyokugo Bank, Ltd., Teu** Japan	15,599,997,958	17,461,468,231	199		134	2,938
232	**Southeast Bank NA, Miami** United States	15,570,569,000	13,455,562,000	261	+29	221	7,556
233	**Bank of Kinki, Ltd., Osaka** Japan	15,562,980,290	17,189,746,102	200		96	2,500
234	**Banco Internacional, S.A., Mexico City** Mexico	15,650,109,936s	12,917,121,509s	273	+39	747	35,493
235	**Hyakugo Bank, Ltd., Nagoya** Japan	15,510,547,394	15,908,400,880	228		115	2,924
236	**Higo Bank, Ltd., Kumamoto** Japan	15,492,734,980	14,143,076,640	248	+12	N.A.	636
237	**Oesterreichische Genossenschafts-Zentralbank, Frankfurt** Germany	15,482,000,000a	13,983,467,284	306		138	2,894
238	**Hokkoku Bank, Ltd., Kanazawa** Japan	15,434,174,506	15,983,467,284	217		138	2,528
239	**Fukuoka City Bank, Ltd., Fukuoka** Japan	15,352,790,511	16,043,569,896	213		138	2,663
240	**Bergen Bank** Norway	15,302,249,400a	14,691,180,000a	243f	+4	113	1,459
241	**Oesterreichische Postsparkasse, Vienna** Austria	15,192,530,480a	14,200,720,000a	247	+7	N.A.	1,800
242	**Union Bank, San Francisco** United States	15,149,329,000	14,856,224,000	240		169	7,376
243	**Bayerische Hypotheken- und Wechsel-Bank, Munich** Germany	15,079,854,000	13,481,211,000	259	+17	218	4,408
244	**Wachovia Bank & Trust Co. NA, Winston-Salem, N.C.** United States	14,811,137,000s	15,611,312,000s	223		153	4,591
245	**Nordea Bank, Oslo** Norway	14,757,716,000a	11,442,420,663a	296	+55	55	2,335
246	**Banque Internationale a Luxembourg** Luxembourg	14,551,471,770	12,535,156,800	279	+34	207	3,842
247	**Banca Toscana, Florence** Italy	14,457,965,825	13,977,106,653	252	+7	130	2,319
248	**Societe Nationale de Credit a l'Industrie, Brussels** Belgium	14,394,606,985s	11,883,598,894s	289	+29	211	4,434
249	**Credito Bologna** Italy	14,380,365,000	13,065,111,000	271	+23	130	4,819
250	**National Westminster Bank USA, New York** United States	14,352,790,511	13,539,535,335s	301	+52	654	3,371
251	**C.O.B.-Caisse d'Epargne Privee, Brussels** Belgium	14,277,097,000	11,415,141,386	291		32	4,696
252	**Bank of Yokohama, Ltd.** Japan	14,274,987,726	16,196,427,408s	213		31	1,620
253	**Kleinwort, Benson, Lonsdale Plc, London** United Kingdom	14,231,780,596	15,261,932,048	229		134	2,340
254	**Bank of Nagoya, Ltd., Nagoya** Japan	14,196,168,000	13,134,955,200	269	+16	N.A.	1,900
255	**Commonwealth Savings Bank of Australia, Sydney** Australia	14,194,379,103	12,820,379,761s	162		113	3,945
256	**Credit Industriel et Commercial, Paris (b)** France	14,102,367,000	13,943,000,000	231		115	3,500
257	**CrossLand Savings FSB, Brooklyn, New York** United States	14,011,653,018	14,914,161,488	238		115	3,506
258	**Bank of Nagoya, Ltd.** France	13,968,063,942d	11,807,233,111d	294	+37	145	3,007
259	**Societe Generale Alsacienne de Banque, Strasbourg** United States	13,718,240,000	12,399,665,000	282	+24	290	6,913
260	**Sovran Bank NA, Richmond** United States	13,673,462,043	13,622,199,864	257		119	2,523
261	**Palabank, Ltd., Palembang** Japan	13,671,116,246	14,325,181,412	245		113	2,924
262	**Kofuku Bank, Ltd., Osaka** Japan	13,605,974,784	14,034,952,164	251		80	2,465
263	**Tokyo Sowa Bank, Ltd.** Italy	13,592,176,363s	10,559,811,135	316	+54	182	3,546
264	**Cassa di Risparmio di Verona, Vicenza & Belluno, Verona** Italy	13,494,955,907	11,255,196,768	298	+9	75	2,012
265	**Bank of Osaka, Ltd.** Germany	13,388,013,806	11,871,772,693	291	+27	92	4,066
266	**Sparkassen der Stadt Berlin West, Berlin** Luxembourg	13,331,361,041	12,404,462,756f	303	+36	N.A.	N.A.
267	**Dresdner Bank Luxembourg** United States	13,346,430,000	16,084,341,000	214		214	3,724
268	**Great American First Savings, San Diego, Calif.** Finland	13,334,000,800s	10,496,736,000s	318	+51	N.A.	1,092
269	**Osuuspankkien Keskuspankki Oy, Helsinki** Finland	13,195,919,406	14,368,269,624	244		116	2,520
270	**Rafidai Bank, Ltd.** Kuwait	13,189,366,697s	12,340,576,863s	264	+15	58	2,070
271	**Banque Internationale a Luxembourg** Luxembourg	13,133,933,244s	11,113,506,477s	306	+38	50	1,834
272	**Goldome, Buffalo, N.Y.** United States	12,999,150,000	14,962,534,000	236		96	3,568
273	**Citizens National Bank, Laredo** United States	12,931,131,360	10,414,367,000s	340	+48	290	5,547
274	**Citizens National Bank, Amsterdam** Netherlands	12,834,066,332d	10,482,377,598d	319	+46	20	3,415
275	**Bank of Tokyo, Ltd., Amsterdam** Germany	12,761,972,117	12,464,629,468	265		70	1,720
276	**Yoho Bank, Ltd., Fukushima** Japan	12,688,347,725	13,137,903,832	268		103	2,308
277	**Philadelphia Savings Fund Society** United States	12,639,807,000	11,737,914,000	300		130	2,476
278	**Meritor Savings Bank, Philadelphia** United States	12,618,330,000	10,942,620,002	312	+36	243	4,781
279	**Landesgirokasse, Stuttgart** Germany	12,616,598,835s	11,469,658,028s	307	+29	240	4,192
280	**Vereins-und Westbank, Hamburg** Germany	12,612,000,000a	11,573,824,104	276	+9	133	2,499
281	**Kagoshima Bank, Ltd., Kagoshima** Japan	12,522,768,933s	8,758,592,572	391	+91	190	3,900
282	**National Bank of South Australia, Adelaide** Australia	12,519,984,365	11,455,601,000	246		39	1,192
283	**First Bank NA, Minneapolis** United States	12,485,317,000	12,176,058,000	285	+3	156	5,917
284	**Connecticut National Bank, Hartford** United States	12,362,982,037	10,736,308,856	277		143	3,116
285	**Kaiyo Bank, Ltd., Chiba** Japan	12,350,394,798	9,613,650,021	341	+57	205	9,300
286	**Industrial Bank of Korea, Seoul** Korea	12,315,195,062s	11,492,087,888s	296	+13	125	2,752
287	**Erste Oesterreichische Spar-Casse, Vienna** Austria	12,291,349,000a	11,256,527,000	306	+20	210	7,394
288	**Nederlandse Credietbank, Nederland Bank, Atlanta** Netherlands	12,259,990,426	12,816,043,386	270		126	2,416
289	**Shikoku Bank, Ltd., Kochi** Japan	12,248,464,000	11,556,056,000	297	+183	54	1,878
290	**Bank One, Texas NA, Dallas** United States	12,186,194,252s	8,325,670,000s	389	+100	7	N.A.
291	**Banque Internationale a Luxembourgeoise, Luxembourg** Luxembourg	12,170,946,000	10,852,218,000	325	+183	6,516	1970
292	**Seattle-First National Bank** United States	12,148,525,000	10,944,767,000	310	+19	172	5,366
293	**Midlantic National Bank, Newark, N.J.** United States	12,098,753,962s	10,066,409,994s	327	+26	28	1,509
294	**Banque Worms, Paris** France	12,044,250,350	9,632,377,780	340	+47	606	3,215
295	**Sparkasse der Stadt Berlin West, Berlin** Germany	12,040,259,055	12,619,896,648	278		80	2,179
296	**Musashino Bank, Ltd., Omiya** Japan	12,040,259,055	11,755,983,000	345	+50	255	5,092
297	**NCNB National Bank of Florida, Tampa** United States	11,668,376,672s	10,046,788,924s	330	+34	208	3,804
298	**Compagnie Financiere de Paribas et de Depots, Vincennes** France	11,652,230,000	12,001,151,000	286		56	N.A.
299	**Dime Savings Bank of New York, FSB, Garden City** United States	11,605,210,000	11,619,378,000	297		28	4,510
300	**Texas Commerce Bank NA, Houston** United States	11,596,696,113	11,421,444,112	281		94	1,952
301	**Aare Bank, Ltd., Tokushima** Japan	11,512,283,498	11,437,634,000	650	+350	80	2,233
302	**Shinhan Bank, Seoul** Korea	11,512,283,498	4,337,673,404	650	+350	80	2,233

Data Source: The primary source of data is **American Banker's** question-naire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership exceeds 50%. **Total assets** exclude contra accounts and unamortized premiums. **Date of fiscal year:** Data not provided current data are **excluded** from the listing. **Dates of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Austra-lian and New Zealand banks are for June 30, 1989, Sept. 30, 1989, and March 31, 1990. Canadian bank data are for fiscal yearend Oct. 31, 1989, and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Wherever possible, the New York cable rate is used, and this rate is for same date as bank's figures. See "Foreign Currency Exchange Guide and Ex-change Rates" for rates for countries not listed. **Footnotes:** (a)— A sub-sidiary of Compagnie Financiere de Credit Industriel et Commercial. (b)— A subsidiary Compagnie Financiere de Paribas. Paris, a financial holding com-pany. (c)— Consolidated data. (d)— Figures are included in the consolidat-ed figures of parent bank. For that reason, the data for the bank are not included in the aggregate data totals for the Top-500 Banks. (e)— Data are unconsolidated figures of affiliates more than 50% owned by the bank. Banks that did not provide consolidated data are excluded from the listing. (f)— Revised to reflect changes in consolidation in 1989. N.A.— Not available.

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The Top 500 Banks in the World

U.S. and overseas banks ranked by assets on Dec. 31, 1989 or nearest fiscal yearend

Asset Rank 1989	Assets in US Dollars 12/31/89	Assets in US Dollars 12/31/88	Asset Rank 12/31/88	Gain in Rank	Bank Branches 12/31/89	Employees 12/31/89	Operating Since
301	11,427,820,000	13,266,390,000	265	-9	602	1889	
302	11,415,760,211	8,908,744,847	303	+61	92	1,511	1856
303	11,395,742,802	8,129,210,600	308	+95	236	9,276	1954
304	11,315,942,116	11,043,612,103	309	+5	0	486	1970
305	11,294,453,366u	10,193,794,260u	324	+19	161	4,615	1967
306	11,293,189,000	12,898,630,000	274	-134	2,100	1935	
307	11,252,215,910	11,850,747,329	282	-118	2,064	1863	
308	11,163,568,788	9,260,278,198	355	+47	238	4,145	1861
309	11,142,112,000	13,557,319,000	258	-51	0	4,000	1861
310	11,141,246,505	11,440,938,164	300	-82	2,109	1941	
311	11,090,274,163	11,413,654,092	302	-80	1,855	1952	
312	11,088,251,000	11,941,524,520	288	-97	1,520	1933	
313	11,086,429,163t	9,877,005,607t	334	+21	0	144	1969
314	11,066,709,277	11,673,731,212	296	-95	95	1,999	1942
315	10,960,968,040s	8,136,712,000s	397	+82	N.A.	N.A.	1933
316	10,970,763,180	11,813,132,248	293	-96	306	2,569	1944
317	10,892,222,000	8,082,420,205	399	+82	310	4,467	1857
318	10,771,870,000u	17,517,209,000	197	N.A.	2,738	1867	
319	10,710,827,345	11,879,713,152	290	-112	1,864	1932	
320	10,593,161,344u	N.A.	N.A.	449	20,400	1962	
321	10,562,505,000s	8,536,378,788s	379	+58	12	3,463	1919
322	10,461,619,000s	8,538,918,000s	378	+56	141	2,399	1848
323	10,444,961,889u	8,379,184,895u	387	+64	133	2,888	1969
324	10,422,145,293	10,057,993,734	328	+4	218	6,708	1861
325	10,397,157,820s	8,587,544,038s	377	+52	717	8,350	1960
326	10,313,660,905	9,426,851,092	347	+21	N.A.	N.A.	1988
327	10,180,578,000	9,335,075,000	350	+23	210	5,676	1903
328	10,140,623,940st	9,308,268,446st	356	+62	201	2,322	1838
329	10,096,850,000	8,780,525,000	370	+41	138	3,749	1849
330	10,074,657,000	7,899,960,000	409	+97	187	3,665	1932
331	10,055,546,000	8,399,064,000	385	+54	6	2,309	1792
332	10,047,947,254	10,746,117,812	314	-114	12	3,463	1877
333	10,029,298,415	10,349,019,692	322	-103	1,800	1941	
334	10,016,423,081it	8,141,406,819it	396	+62	126	2,525	1908
335	9,952,751,285	10,752,875,012	313	-10	1,252	1943	
336	9,940,144,883	8,678,404,082	373	+37	280	10,939	1946
337	9,917,161,000	8,553,423,000	381	+34	704	4,980	1891
338	9,914,761,727t	7,791,947,857t	411	+73	148	2,852	1932
339	9,887,786,507	9,290,512,000	352	+13	2,272	13,000	1906
340	9,881,417,260	7,203,417,480	436	+96	290	2,147	1965
341	9,880,709,000s	6,879,504,583s	447	+106	92	N.A.	1932
342	9,878,540,000	7,986,626,381	403	+61	N.A.	N.A.	1934
343	9,868,186,450	9,141,472,560	356	+13	3	521	1976
344	9,851,495,000	9,256,911,000	351	-7	189	4,953	1977
345	9,795,972,180	10,194,317,352	323	-82	2,143	1917	
346	9,793,322,000	8,850,680,000	366	+20	2	1,107	1982
347	9,774,756,000	12,497,352,000	280	-98	N.A.	N.A.	
348	9,758,457,000	7,653,423,000	431	+183	212	4,000	1934
349	9,756,754,263	8,265,935,865	391	+42	20	1,076	1907
350	9,747,890,993s	13,332,498,000s	264	-86	92	3,500	1930
351	9,720,404,000	9,877,233,000	333	-18	169	4,954	1792
352	9,680,771,920	8,948,946,160	362	+10	117	1,795	1826
353	9,673,685,000u	9,877,732,679u	332	-21	22	1,324	1755
354	9,663,870,000	7,909,218,000	408	+54	44	2,249	1791
355	9,648,114,700	11,286,150,000s	284	-71	844	19,403	1971
356	9,639,733,100s	7,767,015,200st	412	+56	63	1,232	1968
357	9,638,381,000	9,803,376,000	329	-113	2,263	1850	
358	9,636,619,000s	8,611,603,612st	375	+17	300	4,400	1965
359	9,587,496,000	9,525,066,000	344	-98	1,740	1803	
360	9,581,584,000	12,349,537,000	283	-88	N.A.	N.A.	1926
361	9,570,298,953	7,177,951,308	437	+76	N.A.	N.A.	1863
362	9,521,805,593s	7,434,860,025s	426	+64	125	5,099	1965
363	9,446,980,867	8,031,320,329	400	+37	177	3,503	1859
364	9,367,756,000	6,816,276,000	455	+91	N.A.	1,969	1962
365	9,379,289,953	9,651,751,732	339	-106	2,056	1943	
366	9,346,843,000	10,141,098,000	325	-230	6,597	1999	
367	9,334,522,079	11,752,238,000	285	-20	N.A.	1958	
368	9,282,459,569u	8,467,154,461u	382	+14	N.A.	N.A.	1973
369	9,279,800,984u	8,379,641,554u	386	+14	150	6,154	1919
370	9,277,808,000	10,052,205,000	329	-127	3,852	1814	
371	9,272,603,769	8,780,737,852	360	+86	36	1,143	1959
372	9,243,428,600s	6,823,799,400s	453	+81	N.A.	N.A.	1986
373	9,236,379,000	8,837,735,000	367	-157	3,725	1836	
374	9,205,712,420	10,011,948,032	331	-107	2,109	1912	
375	9,179,896,000	9,137,981,000	357	-209	4,751	1899	
376	9,133,123,380	7,013,963,299t	444	+68	73	2,976	1918
377	9,118,697,700s	5,619,132,800s	534	+157	924	16,826	1888
378	9,108,052,000	9,387,162,000	348	-103	N.A.	N.A.	1978
379	9,073,530,218	8,998,750,264	361	-57	1,453	1951	
380	9,070,939,150	10,412,354,656	327	-107	2,039	1917	
381	9,044,254,953	8,865,701,672	365	-66	1,598	1951	
382	9,012,331,959	9,511,862,676	346	-124	2,024	1939	
383	8,954,496,000	8,653,292,000	374	-151	4,462	1933	
384	8,944,410,759	9,715,050,198	337	-86	1,760	1943	
385	8,938,276,000	8,401,707,000	394	-128	N.A.	1868	
386	8,933,440,000	7,479,345,000	424	+38	140	4,036	1922
387	8,910,063,000	8,417,335,000	393	-6	149	4,308	1994
388	8,842,001,000	7,605,809,000	417	+29	172	2,645	1866
389	8,754,152,000	8,005,547,000	401	+12	N.A.	394	1985
390	8,660,757,000	7,807,076,000	410	+20	101	4,770	1933
391	8,592,819,925s	7,400,923,048s	428	+37	N.A.	2,105	1871
392	8,582,471,000	10,552,806,000	312	-110	1,787	1887	
393	8,511,790,000s	7,577,994,710u	419	+26	2,297	43,914	1906
394	8,501,224,000	7,937,652,000	405	-11	2	4,577	1986
395	8,483,195,474	7,144,917,462	439	+44	110	2,273	1822
396	8,482,819,800	6,860,180,315	449	+53	331	13,300	1966
397	8,469,739,000	7,934,874,000	406	-91	134	4,757	1965
398	8,453,200,000	8,179,172,000	395	-61	61	2,672	1929
399	8,452,222,000	8,794,941,000	517	+118	2	1,233	1985
400	8,401,232,333t	5,545,116,298t	536	+138	100	2,942	1917

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership exceeds 50%. **Total assets** exclude contra accounts and contingent liabilities. **Note:** Banks that did not provide current data are **excluded** from the listing. **Date of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989; Sept. 30, 1988; and March 31, 1990; Canadian bank data are for Oct. 31, 1989, and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Whenever possible, the New York cable rate is used, and this rate is noted in the data. Bank's figures are "Foreign Currency Exchange Guide and Exchange Rate Comparisons" for key to currency abbreviations. **(b)**—A subsidiary of Compagnie Financiere de Credit Industriel et Commercial. **(m)**—A subsidiary Compagnie Financiere de Paribas. Paris, a financial holding company. **(p)**—Consolidated data. **(t)**— Figures are included in the consolidated figures of parent bank. For that reason, the data for the bank are not included in the aggregate data totals for the Top 500 Banks. **(u)**— Data are unaudited. **(y)**—Data are unconsolidated. **Gain in Rank:** Rank change from another bank's data. Gain does not consider banks that did not provide data. **(+)**— Rank based on revised asset total for 1988. **(=)**— Restated to reflect changes in consolidation in 1989. **N.A.**— Not available.

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Continued from page 17A

ucts such as consumer checking, regular savings, etc., and proceed to exchange data on such accounts once each quarter. An exchange report may show the total checking account balances as of the end of a quarter and also display each participant's share of that total.

Since reports are done quarterly, market-share figures can be defined and change noted for as many products as the exchange participants desire.



A GULLIVER OF MARKETING *"A mouse in the land and a source of power banks can harness,"* says Robert P. Cady.

Fees Are Variable

An exchange participant from a large institution probably pays $5,000 to $8,000 a year for the service plus the subscription internal resources to collecting the data. In addition, the participant may contract for any number of proprietary reports.

Many banks fear an exchange, believing that it gives the competition an advantage. Many institutions, however, gladly hand over their numbers, getting back everyone else's numbers in return. There are generally about 25 active exchanges and more are forming as the fear of competitive intelligence overrides the fear of revealing information.

Segmentation data is information on individuals of like characteristics who tend to operate with similar habits. Marketers get murkier with this kind of marketing information. If you identify a group's buying behavior and that group can be associated, for example, with a high rate of CD purchase, than other individuals with the same characteristics may also be good prospects for a CD.

In the past, standard demographic characteristics were used to find these targets, i.e: age, sex, income, etc.

Segmentation Refined

Today, new techniques have been developed that have revolutionized segmentation. Psychographics is the new buzz word. Psychographics is a new way to look at consumers by researching the performance of groups segmented by age, sex, and earnings. Segmentation scheme became less and less predictive as society changed in the Sixties and Seventies.

Simply put, where you live is a bigger indicator of what you buy than your age or income. Thus the developers of the psychographics approach, divided all of us into groups with catchy names (Furs and Station Wagons, Norma Raeville, etc.), some 40 in all. Once your address is in the computer, your mail begins to change as advertisers now assume they know what you like. Norma Raeville residents are hardly likely prospects for a jumbo CD.

Although designed for direct mailers, the psychographic concepts have now come to banking in the form of data bases and mapping systems packaged into a PC that allows a bank to load in its own customer file and make predictions about various areas of geography in terms of product penetration.



Mr. Cady is a principal and cofounder of Exchange Resources Ltd., which develops marketing technology for the financial industry.

Psychographic products are not cheap, often costing as much as $25,000 for the base software and then more for timely updates. A bank may find itself spending six figures annually.

Then, of course, there are other new terms. "Householding" simply refers to analyzing a customer file and organizing it into households, showing products sold by household.

Next comes geocoding, that is, applying a standard code to the address. Once loaded into a mapping system, this code can be accurately plotted on a map. A household geocoded file, created from a bank's usual vertical files, then becomes a marketing customer information file.

An Effective Tool

An MCIF is probably the best tool a bank can have because it says so much about the customer base. It answers such questions as, what products do we sell best? What segments of the market are our best customers? Are our advertising programs working?

It is fair to say that a bank approaching $1 billion in assets is missing at least if it is not doing a great deal of work to upgrade marketing information systems.

The resources of banks are lower than they have been, and broad, shotgun marketing does not cut it. Banks simply do not have to take a back seat either. The power of the PC, and its low cost, makes a great deal of the marketing technology available to the smaller bank. The flexibility of a smaller institution may give it an edge.

How to Get Started

If you are a CEO asking yourself where to start, consider that all of us intuitively use the best source of marketing information and potential increased profits. It is your customer file. Banks often maintain separate departmental systems so that the checking account information on John Doe exists in a separate place from the credit card information on the Doe family.

Once you "household" your files by customer and product, magic inferences are possible. Decisions can be made on what kind of customer you serve best. Is it really the upscale market as the chairman likes to quote, or are you really best at servicing Beer and Pick-up Trucks?

The marketing information industry in banking is young but growing. MCIF, lifestyle analysis, public data, survey data, locational analysis all have vendor organizations. □

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The Top 500 Banks in the World

U.S. and overseas banks ranked by assets on Dec. 31, 1989 or nearest fiscal yearend

Asset Rank 1989		Assets in US Dollars 12/31/89	Assets in US Dollars 12/31/88	Asset Rank 12/31/88	Gain in Rank	Bank Supervision Strength 12/31/89	Employees 12/31/89	Operating Mode
401	Miyazaki Bank, Ltd.	Japan	8,388,444,252	9,530,775,326	343	103	1,807	1932
402	Higashi-Nippon Bank, Ltd., Tokyo	Japan	8,384,696,048	8,811,178,576	369	70	1,780	1924
403	Bank of the Ryukyus, Ltd., Naha	Japan	8,373,396,981	9,545,138,132	342	76	1,881	1948
404	Yamanashi Bank, Ltd.	Japan	8,363,139,094	9,278,108,604	353	91	1,853	1881
405	Banque Cantonale de Berne	Switzerland	8,349,232,464	7,910,452,970	407	+2 - N.A.	N.A.	1834
406	United World Chinese Commercial Bank, Taipei	Taiwan	8,322,059,356p			28	1,288	1974
407	Provident National Bank, Philadelphia	United States	8,321,445,000	7,975,966,000	402	5	3,119	1847
408	Banco Serfin, Mexico City	Mexico	8,320,276,682s	6,505,141,573s	473	+65 N.A.	N.A.	1864
409	Bank of Saga, Ltd.	Japan	8,256,489,525s	8,825,175,252s	368	110	1,727	1955
410	Jyske Bank, Silkeborg	Denmark	8,227,544,512s	7,703,862,433s	414	+4	155	2,515 1967
411	CenTrust Bank, SSB, Miami	United States	8,217,563,000	10,103,977,000	326	49	N.A.	N.A.
412	Michinoku Bank, Ltd., Aomori	Japan	8,202,384,227	8,534,869,160	380	103	1,973	1876
413	National City Bank, Cleveland	United States	8,173,174,000	7,605,767,000	418	+5	84	3,020 1845
414	Banco de Sabadell	Spain	8,158,864,525s	6,493,777,320	474	+60	286	3,987 1881
415	Empire of America Federal Savings Bank, Buffalo, N.Y.	United States	8,142,100,000	11,281,412,000	305	-96	N.A.	N.A. 1854
416	Forsta Sparbanken, Stockholm	Sweden	8,110,036,900	6,372,289,400	483	+64	121	2,432 1931
417	Society National Bank, Cleveland	United States	8,098,899,000	6,061,572,000	505	+88	132	3,630 1845
418	Banca Catalana, Barcelona	Spain	8,059,005,350s	8,915,582,340sv	364		407	3,510 1961
419	Bank of Hawaii, Honolulu	United States	8,003,403,000	6,359,719,000	482	+63	79	3,552 1897
420	Security Pacific Bank Washington, Seattle	United States	7,983,175,000	7,017,554,000	443	+23	160	4,510 1889
421	Coutts & Co., London	United Kingdom	7,932,851,930st	8,352,496,580st	462	N.A.	N.A.	N.A. 1692
422	Bank Bumi Daya, Jakarta	Indonesia	7,932,436,128	6,450,361,832s	478	+56	106	7,711 1959
423	Union de Banques Arabes et Francaises, Neuilly	France	7,804,026,027s	8,232,351,196s	392		5	582 1970
424	Bank of Tokyo Trust Co., New York	United States	7,824,057,000	6,558,746,000s	470	+46	3	398 1955
425	Caja de Ahorros de Catalunya, Barcelona	Spain	7,813,052,350s	5,988,471,300	507	+82	586	2,209 1926
426	Florida National Bank, Jacksonville	United States	7,808,190,000	7,750,519,000	413		185	4,259 1889
427	Boatmen's National Bank, St. Louis, Mo.	United States	7,787,150,000	4,331,429,000	652	+225	57	3,285 1847
428	Thai Farmers Bank, Bangkok	Thailand	7,746,549,187	6,207,081,675	495	+67	318	13,055 1945
429	Banco Espirito Santo e Comercial, Lisbon	Portugal	7,737,983,933	6,827,314,025	452	+23	157	6,659 1937
430	Banque Cantonale de St. Gallen	Switzerland	7,665,447,312	7,453,527,480	425		85	1,068 1868
431	Dresdner Bank Berlin AG	Germany	7,663,244,990u	6,670,770,723u	464	+33	79	1,919 1949
432	Nassauische Sparkasse Wiesbaden, Wiesbaden	Germany	7,615,586,584	6,871,667,967	448	+16	334	1,740 1840
433	Bank of California NA, San Francisco	United States	7,586,854,000	6,666,874,000s	465	+32	56	3,676 1864
434	AmSouth Bank NA, Birmingham, Ala.	United States	7,535,780,000	7,246,891,000	432		155	4,528 1873
435	Stadtsparkasse Munchen, Munich	Germany	7,510,601,468	6,854,606,419	450	+15	116	2,286 1824
436	First City Texas-Houston NA	United States	7,504,343,000	6,279,526,000	490	+54	24	2,566 1866
437	Ljubljanska Banka, Ljubljana	Yugoslavia	7,485,840,000s	7,110,776,235s	441	+4	19	11,268 1955
438	International Commercial Bank of China, Taipei	Taiwan	7,447,288,784u	6,578,445,274u	468	+30	N.A.	N.A. 1912
439	Luzerner Kantonalbank, Luzern	Switzerland	7,434,288,216	7,091,229,495	442	+3	31	990 1850
440	Cassa di Risparmio in Bologna	Italy	7,403,936,654	5,942,335,893s	510	+70	76	1,548 1837
441	United Mizrahi Bank Ltd., Tel-Aviv	Israel	7,401,679,490s	7,565,142,392s	420		81	2,723 1903
442	Banque Cantonale Vaudoise, Lausanne	Switzerland	7,394,070,434	7,480,743,697	423		58	1,469 1845
443	Citicorp Savings, FSB,A, San Francisco	United States	7,393,077,000	6,943,066,000	445	+2	130	2,200 1921
444	Uniao de Bancos Brasileiros, Sao Paulo	Brazil	7,351,015,056			N.A.	N.A.	N.A. 1967
445	Banco Atlantico, Barcelona	Spain	7,326,779,350bu	5,820,018,286bu	514	+69	N.A.	N.A. 1901
446	Caixa d'Estalvis de Catalunya e Imperia, Gence	Italy	7,196,230,300	6,475,865,427u	476	+30	137	2,962 1846
447	Tochigi Bank, Ltd., Utsunomiya	Japan	7,194,244,949	7,279,794,340	431		61	1,529 N.A.
448	Kreissparkasse Koeln, Cologne	Germany	7,187,773,334	6,580,473,736	469	+21	135	2,811 1955
449	Banca delle Svizzere Italiane, Lugano	Switzerland	7,187,680,800s	6,108,416,020s	502	+53	39	1,986 1873
450	Commercial Bank of Greece, Athens	Greece	7,148,199,043u	6,178,704,539u	497	+47	342	7,155 1907
451	Gibraltar Savings, FA, Simi Valley, Calif.	United States	7,147,861,000	13,436,242,000	262		96	N.A. 1886
452	BFG Luxembourg	Luxembourg	7,113,782,1011	6,778,284,4201	457	+5	0	82 1973
453	CIC-Union Europeenne, International & Cie, Paris	France	7,108,496,070u	7,632,584,417u	415		24	247 1964
454	National Bank of Egypt, Cairo	Egypt	7,064,186,000u	6,340,464,000u	485	+31	282	8,165 1898
455	Saudi American Bank, Riyadh	Saudi Arabia	7,060,912,726s	6,253,942,760	491	+36	38	1,019 1980
456	Bank of Kansai, Ltd., Osaka	Japan	7,059,245,275	7,112,914,024	440		67	1,454 1922
457	West LB International, Luxembourg	Luxembourg	7,058,618,300t	6,062,560,000t	504	+47	0	99 1972
458	Household Bank, FSB, Newport Beach, Calif.	United States	7,051,505,000	4,971,387,000	583	+125	112	2,491 1878
459	Greenwood Trust Co., New Castle, Del.	United States	7,050,646,000	6,474,688,000	477	+18	N.A.	4,525 1911
460	Peoples Bank, Bridgeport, Conn.	United States	7,037,923,000	6,294,349,000	488	+28	N.A.	N.A. 1842
461	Hanshin Bank, Ltd., Kobe	Japan	7,033,894,316	7,207,875,208	435		72	1,473 1949
462	Clydesdale Bank Plc, Glasgow	United Kingdom	6,986,868,974t			361	7,000	1987
463	Union Bank of Norway, Oslo	Norway	6,967,826,446s	7,350,353,072	429	96	2,010	1985
464	Banca Popolare di Verona	Italy	6,951,278,571	5,414,670,000	550	+86	105	1,724 1867
465	Commercial Bank of Kuwait	Kuwait	6,904,428,190	6,340,857,350	484	+19	36	1,160 1962
466	Samwa Bank California, San Francisco	United States	6,898,607,000t	6,409,975,000t	479	+13	107	3,319 1972
467	Atlantic Financial Federal, FA, Bala Cynwyd, Pa.	United States	6,873,368,000	7,589,932,000	404		73	N.A. 1982
468	Banca San Paolo di Brescia	Italy	6,787,201,287s	5,792,433,895s	518	+50	107	1,710 1888
469	Skopje Sudeemis, Paris	France	6,776,894,567s	5,574,362,150s	536	+67	193	1945 2,910
470	First Interstate Bank of Arizona NA, Phoenix	United States	6,749,026,000	6,984,434,000	462	191	4,503	1877
471	Bank Dagang Negara, Jakarta	Indonesia	6,748,914,000s	5,989,378,000su	511	+40	164	7,805 1960
472	Caja de Ahorros y Monte de Piedad de Zaragoza	Spain	6,708,778,780	5,507,728,360	540	+68	562	2,923 1876
473	Biwako Bank, Ltd., Otsu	Japan	6,676,641,362	7,217,477,798	434		64	1,264 1942
474	Kyushu Bank, Ltd., Sasebo	Japan	6,642,316,020	7,154,926,752	438		64	1,264 1942
475	First Pennsylvania Bank NA, Philadelphia	United States	6,625,413,000	6,369,053,000	481	+6	92	3,534 1782
476	Gulf Bank, Kuwait	Kuwait	6,621,824,440	6,735,737,535	459		N.A.	N.A. 1960
477	AN-HYP N.V., Antwerp	Belgium	6,608,452,751u	5,434,570,333	549	+72	79	1,344 1881
478	Bank of Okinawa, Ltd., Naha	Japan	6,575,260,104	7,521,979,866	422		79	1,766 1956
479	Credit Suisse (Luxembourg)	Luxembourg	6,561,771,265t	5,364,438,852s	557	+78	0	117 1976
480	Yorkshire Bank Plc, Leeds	United Kingdom	6,526,984,360st	5,759,318,912	526	+47	251	5,699 1859
481	Riggs National Bank, Washington, D.C.	United States	6,508,044,000	6,161,400,000	498	+17	32	2,103 1836
482	Hibernia National Bank, New Orleans, La.	United States	6,507,334,000	5,779,161,000	520	+38	158	3,093 1870
483	Chase Lincoln First Bank NA, Rochester, N.Y.	United States	6,477,400,000	6,239,596,000	493	+10	112	3,571 1850
484	Banco Real, Sao Paulo	Brazil	6,396,673,216u				N.A.	N.A. 1925
485	Meridian, FSB, Phoenix, Ariz.	United States	6,381,942,000	8,348,139,000	348		137	N.A. 1925
486	Banco Pinto & Sotto Mayor, Lisbon	Portugal	6,376,601,980s	5,752,407,000	524	+38	155	6,764 1914
487	Banco Pastor, Corune	Spain	6,367,876,350	5,036,012,280	567	+80	N.A.	N.A. 1776
488	First Interstate Bank of Texas NA, Houston	United States	6,341,309,000	6,718,731,000	460		59	3,110 1956
489	Banque Commerciale pour l'Europe du Nord, Paris	France	6,316,430,431t	6,610,978,870	467		N.A.	N.A. N.A.
490	Caja de Ahorros de Galicia, Corune	Spain	6,312,573,300	4,916,973,600	596	+96	369	2,598 1978
491	First Interstate Bank of Oregon NA, Portland	United States	6,288,909,000	5,780,982,000	519	+28	176	3,970 1905
492	First National Bank of Maryland, Baltimore	United States	6,287,818,000	5,596,614,000	535	+43	145	3,679 1836
493	Trust Company Bank, Atlanta	United States	6,280,287,000	5,802,015,000	515	+22	49	2,852 1891
494	National Bank of Dubai Ltd., Dubai	United Arab Emirates	6,279,668,352	6,016,883,000	506	+12	17	735 1963
495	Motherwell District Municipal Bank Ltd.	United Kingdom	6,245,536,560					1978
496	Overseas Union Bank, Ltd., Singapore	Singapore	6,213,258,289s	4,569,096,060s	617	+121	70	2,108 1947
497	Citizens & Southern National Bank, Fort Lauderdale, Fla.	United States	6,209,060,000	5,302,580,000	560	+63	167	2,781 1937
498	Landesbank Saar-Girozentrale, Saarbrucken	Germany	6,191,510,740u	5,926,470,658u	532	+34	0	623 1941
499	Ulster Bank Ltd., Belfast	United Kingdom	6,180,759,410st	5,279,459,440st	563	+64	N.A.	N.A. 1836
500	Sparkasse in Bremen	Germany	6,168,119,271u	5,457,839,034u	547	+47	85	1,729 1825

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership does not exceed 50%. The consolidation contains accounts and contingent liabilities. **Note:** Banks that did not provide current data are excluded from this ranking. **Date of figures:** Data for most banks are for Dec. 31 1989 and Dec. 31 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989, Sept. 30, 1989, and March 31, 1990. Canadian bank data are for fiscal yearend Oct. 31, 1989. **Exchange rate:** Japanese bank data are for fiscal yearend March 31. 1990. **Exchange rate:** Whenever possible, the New York cable rate is used, and this rate is for same date as bank's financials. Some countries exclusively fix their rate. See "Currency Exchange Guide and Exchange Rate Comparisons" for key to currency abbreviations. **(b)—** A subsidiary of Compagnie Financiere de Credit Industriel et Commercial. **(c)—** A subsidiary Compagnie Financiere de Paribas. Paris, a financial holding company. **(m)—** Consolidated data. **(t)—** Figures are included in the consolidated figures of parent bank. For that reason, the data for the bank are not included in the aggregate data totals for the Top 500 Banks. **(u)—** Data are not consolidated. Assets and liabilities of foreign offices are not owned by another bank. **(v)—** Data are for a bank which does not rank in its data. **(y)—** Bank ranked on revised asset total for 1988. **((y))—** Restated to reflect changes in consolidation in 1989. **N.A.—** Not available.

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Top 500 Banks by Country

Banks outside the U.S. listed geographically in asset-size order within nations

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Australia	
58	Westpac Banking Corp., Sydney	76,104,260,000s
75	Australia & New Zealand Banking Group, Ltd., Melbourne	53,962,264,000s
84	National Australia Bank, Ltd., Melbourne	51,208,252,468s
93	Commonwealth Bank of Australia, Sydney	45,859,716,000s
111	Commonwealth Banking Corp., Sydney	39,600,489,600s
222	State Bank Victoria, Melbourne	16,493,131,806s
253	Commonwealth Savings Bank of Australia, Sydney	14,196,168,000s
280	State Bank of South Australia, Adelaide	12,522,788,000s
315	State Bank of New South Wales, Sydney	10,980,968,040s
	Austria	
102	Creditanstalt-Bankverein, Vienna	44,455,429,200
151	Girozentrale und Bank der Oesterreichischen Sparkassen, Vienna	25,248,828,799u
164	Oesterreichische Landerbank, Vienna	22,855,544,796u
196	Zentralsparkasse und Kommerzialbank, Vienna	19,804,344,000u
219	Raiffeisen Zentralbank Oesterreich AG, Vienna	16,509,192,000u
229	Bank fur Arbeit und Wirtschaft, Vienna	15,783,125,488u
240	Oesterreichische Postsparkasse, Vienna	15,150,930,480u
285	Erste Oesterreichische Spar-Casse, Vienna	12,315,195,062u
	Bahrain	
176	Arab Banking Corp., Manama	21,730,000,000s
343	Gulf International Bank, Manama	9,860, 189,450
	Belgium	
65	Generale Bank, Brussels	67,965,863,400s
85	Banque Bruxelles Lambert, Brussels	50,736,340,610s
95	Credit Communal de Belgique, Brussels	47,856,000,000s
105	ASLK-CGER Bank, Brussels	43,097,568,983s
224	Centrale Raiffeisenkas van Belgische Boerenbond, Leuven	16,194,984,365
246	Societe Nationale de Credit e l'Industrie, Brussels	14,457,265,625
249	C.O.B.-Caisse d'Epargne Privee, Brussels	14,329,595,303s
356	Banque Bruxelles Lambert, Brussels (g)	9,636,732,100s
477	AN-HYP N.V., Antwerp	6,608,452,751u
	Brazil	
35	Banco do Brasil, Brasilia	105,195,168,384u
154	Banco Brasileiro de Descontos, Sao Paulo	24,747,610,752u
210	Banco Itau, Sao Paulo	17,395,615,184
214	Banco Real, Sao Paulo	16,814,353,066u
444	Uniao de Bancos Brasileiros, Sao Paulo	7,351,015,056
484	Banco Real, Sao Paulo	6,396,673,216u
	Canada	
49	Royal Bank of Canada, Montreal	88,573,064,592s
57	Canadian Imperial Bank of Commerce, Toronto	78,511,029,792s
69	Bank of Montreal	66,873,642,716s
73	Bank of Nova Scotia, Toronto	62,340,736,908s
91	Toronto Dominion Bank	47,771,304,312
134	National Bank of Canada, Montreal	28,906,015,296s
	Denmark	
78	Danske Bank, Copenhagen	54,879,685,526s
107	Unibank, Copenhagen	42,982,945,000
317	Sparekassen Bikuben, Copenhagen	10,860,222,000
410	Jyske Bank, Silkeborg	8,227,544,512s
	Egypt	
454	National Bank of Egypt, Cairo	7,064,186,000u
	Finland	
118	Kansallis-Osake Pankki, Helsinki	37,015,447,800s
120	Union Bank of Finland, Ltd., Helsinki	36,581,000,000s
180	Skopbank, Helsinki	21,309,366,100s
183	Postipankki, Helsinki	20,142,111,000s
267	Osuuspankkien Keskuspankki Oy, Helsinki	13,264,000,800s
	France	
7	Credit Agricole Mutuel, Paris	242,311,948,300s
8	Credit Nationale de Paris	231,789,840,000s
12	Credit Lyonnais, Paris	211,005,505,000s
20	Societe Generale, Paris	176,018,715,000s
53	Banque Paribas, Paris (g)	82,272,399,000s
70	Banque Des Reseaux Populaires, Paris	64,767,000,000
77	Banque Indosuez, Paris	55,388,891,000s
98	Credit Commercial de France, Paris	45,863,023,000s
138	Banque Francaise du Commerce Exterieur, Paris	28,494,678,218s
174	Caisse Centrale des Banques Populaires, Paris	21,984,518,536
204	Credit Industriel et Commercial, Paris (h)	14,184,379,500
357	Societe Generale Alsacienne de Banque, Strasbourg	13,968,063,942st
262	Worms et Cie, Paris	12,098,765,400s
296	Banque Regionale d'Escompte et de Depots, Vincennes	11,688,376,672s
321	Credit Industriel d'Alsace et de Lorraine, Strasbourg	10,582,935,000s
358	Lyonnaise de Banque, Lille	9,636,819,000s
423	Union de Banques Arabes et Francaises, Neuilly (e)	7,804,026,027s
453	CIC-Union Europeenne, International & Cie, Paris	7,108,496,070u
489	Banque Sudameris, Paris	6,778,994,567s
489	Banque Commerciale pour l'Europe du Nord, Paris	6,316,400,431t
	Germany	
15	Deutsche Bank, Frankfurt	292,997,135,750s
28	Dresdner Bank, Frankfurt	145,666,029,660s
32	Commerzbank, Frankfurt	113,016,860,000s
33	Deutsche Genossenschaftsbank, Frankfurt	109,354,031,874s
37	Westdeutsche Landesbank Girozentrale, Dusseldorf	104,324,980,000s
38	Bayerische Vereinsbank, Munich	102,306,000,000s
46	Bayerische Hypotheken-und Wechsel-Bank, Munich	89,902,700,011s

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Germany (continued)	
52	Bayerische Landesbank Girozentrale, Munich	82,514,933,800s
86	Norddeutsche Landesbank Girozentrale, Hannover	67,629,966,572s
87	Sudwestdeutsche Landesbank, Stuttgart	46,482,560,000s
106	Hessische Landesbank-Girozentrale, Frankfurt	41,811,814,000s
117	Bank fuer Gemeinwirtschaft, Frankfurt	37,871,611,245s
121	Hamburgische Landesbank-Girozentrale, Hamburg	37,561,000,000
160	Deutsche Siedlungs und Landesrentenbank, Bonn	27,330,426,091
161	Landesbank Rheinland-Pfalz Girozentrale, Mainz	26,640,000,000s
165	Deutsche Girozentrale-Deutsche Kommunalbank, Frankfurt	25,942,140,020s
168	Landesbank Schleswig-Holstein Girozentrale, Kiel	22,515,739,800s
184	Berliner Handels und-Frankfurter Bank, Frankfurt	20,966,080,000s
197	Berliner Bank, Berlin	20,770,983,505s
203	Bremer Landesbank, Bremen	19,004,814,500
212	Westdeutsche Genossenschafts-Zentralbank, Duesseldorf	17,158,970,000s
232	Hamburger Sparkasse, Hamburg	16,445,542,198
230	Westfalenbank, Bochum	15,756,927,983st
256	Sudwestdeutsche Genossenschafts-Zentralbank, Frankfurt	13,622,734,390
264	Sparkasse der Stadt Berlin West, Berlin	13,388,013,806
277	Landesgirokasse, Stuttgart	12,618,300,000
278	Vereins-und Westbank, Hamburg	12,616,568,835s
341	Genossenschaftliche Zentralbank, Stuttgart	11,315,942,116
354	Frankfurter Sparkasse, Frankfurt	10,313,680,900s
352	Stadtsparkasse Koeln, Cologne	9,680,771,920
391	Baden-Wuerttembergische Bank, Stuttgart	8,592,819,925s
431	Dresdner Bank Berlin AG	7,663,244,990u
432	Nassauische Sparkasse Wiesbaden, Wiesbaden	7,615,586,584
435	Stadtsparkasse Munchen, Munich	7,510,601,468
436	Kreissparkasse Koeln, Cologne	7,187,773,394
448	Landesbank Saar-Girozentrale, Saarbrucken	6,191,510,740u
500	Sparkasse in Bremen	6,168,119,271u
	Greece	
144	National Bank of Greece, Athens	25,974,522,000u
450	Commercial Bank of Greece, Athens	7,148,769,043u
	Hong Kong	
27	Hongkong and Shanghai Banking Corp., Hong Kong	132,835,072,000s
169	Hong Kong Bank Ltd., Hong Kong	22,466,713,600st
	India	
339	Bank of India, Bombay	9,887,798,507
393	Bank of Baroda	8,511,790,000s
	Indonesia	
338	Bank Negara Indonesia 1946, Jakarta	9,940,144,883
422	Bank Bumi Daya, Jakarta	7,932,436,128
471	Bank Dagang Negara, Jakarta	6,726,800,714s
	Iran	
81	Bank Melli Iran, Tehran	73,516,646,000
111	Bank Sederet Iran, Tehran	39,843,867,470
	Iraq	
97	Rafidain Bank, Baghdad	45,092,599,700
	Ireland	
152	Allied Irish Banks Plc., Dublin	25,186,780,000s
181	Bank of Ireland, Dublin	21,206,444,000s
	Israel	
124	Bank Hapoalim, Tel-Aviv	34,632,161,000s
322	Bank Leumi le-Israel, Tel-Aviv	29,639,868,400s
441	United Mizrahi Bank Ltd., Tel-Aviv	16,032,000,000s
441	United Mizrahi Bank Ltd., Tel-Aviv	7,401,679,490s
	Italy	
34	Istituto Bancario San Paolo di Torino, Turin	107,663,679,274s
44	Banca Nazionale del Lavoro, Rome	104,486,603,400s
48	Banco Commerciale Italiana, Milan	88,809,129,900s
52	Istituto del Credito Fondiario	76,977,867,000s
60	Credito Italiano, Milan	75,415,864,900s
67	Banco di Napoli, Naples	67,168,324,530
68	Cassa di Risparmio delle Provincie Lombarde, Milan	66,563,981,000s
71	Banco di Roma, Rome	64,628,173,500s
72	Banco di Sicilia, Palermo	36,396,427,833s
136	Banco Popolare di Novara	28,582,701,399s
137	Banco Nazionale dell'Agricoltura, Rome	28,096,206,800s
149	Cassa di Risparmio di Roma, Rome	25,479,123,348u
150	Cassa di Risparmio di Milano, Milan	24,198,534,524s
172	Banco Ambrosiano Veneto, Milan	22,135,033,836s
173	Banco di Santo Spirito, Rome	20,652,503,836u
245	Banco Toscano, Florence	14,551,477,700s
247	Credito Romagnolo, Bologna	14,384,006,980s
248	Cassa di Risparmio di Verona, Vicenza & Belluno, Verona	13,922,176,363s
253	Cassa di Risparmio V.E. per le Provincie Siciliane, Palermo	11,163,598,788
254	Banca Popolare di Bergamo	10,444,000,000
304	Banco Lariano, Como	10,016,423,861
306	Banca Provinciale Lombarda, Bergamo	9,914,781,727
363	Cassa di Risparmio di Firenze, Florence	9,446,960,867
377	Istituto Bancario Italiano, Milan	9,133,123,586s
379	Cassa di Risparmio di Padova e Rovigo, Padova	8,483,196,474
400	Banca d'America e d'Italia, Milan	8,401,232,333s
401	Cassa di Risparmio in Bologna	8,388,444,252
446	Cassa di Risparmio di Genove e Imperia, Genoa	7,196,230,300
464	Banca Popolare di Verona	6,951,278,571
466	Banca San Paolo di Brescia	6,787,201,287s

Top 500 Banks by Country

Banks outside the U.S. listed geographically in asset-size order within nations

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Japan	
1	Sumitomo Bank Ltd., Osaka	404,064,491,132b
2	Dai-ichi Kangyo Bank Ltd., Tokyo	403,386,126,193b
3	Fuji Bank, Ltd., Tokyo	362,575,295,853b
4	Mitsubishi Bank Ltd., Tokyo	358,960,178,697b
5	Sanwa Bank Ltd., Osaka	353,697,139,934b
6	Industrial Bank of Japan, Ltd., Tokyo	256,905,551,985b
9	Tokai Bank Ltd., Nagoya	227,736,519,511b
10	Norinchukin Bank, Tokyo	219,773,014,766b
11	Mitsubishi Trust & Banking Corp., Tokyo	213,485,098,466b
14	Mitsui Bank, Ltd., Tokyo	203,291,460,363b
16	Bank of Tokyo, Ltd.	200,547,945,636b
17	Sumitomo Trust & Banking Co., Ltd., Osaka	190,943,091,882b
19	Mitsui Trust & Banking Co., Ltd., Tokyo	182,629,635,815b
21	Long-Term Credit Bank of Japan Ltd., Tokyo	174,240,317,152b
22	Taiyo Kobe Bank, Ltd., Kobe	172,977,370,280b
23	Yasuda Trust & Banking Co. Ltd., Tokyo	157,813,185,014b
25	Daiwa Bank, Ltd., Osaka	155,494,985,279b
29	Toyo Trust & Banking Co. Ltd., Tokyo	117,492,324,355b
37	Nippon Credit Bank, Ltd., Tokyo	113,690,044,040b
40	Saitama Bank Ltd., Urawa	98,665,525,088b
41	Kyowa Bank, Ltd., Tokyo	97,910,617,230b
55	Shoko Chukin Bank, Tokyo	81,957,549,921
56	Bank of Yokohama, Ltd.	81,122,917,864b
62	Zenshinren Bank, Tokyo	71,498,020,960b
63	Chuo Trust & Banking Co., Ltd., Tokyo	70,683,523,759b
64	Hokkaido Takushoku Bank, Ltd., Sapporo	70,062,233,444b
75	Chiba Bank, Ltd.	57,995,881,827
76	Hokuriku Bank Ltd., Toyama	57,041,458,033b
80	Joyo Bank, Ltd., Mito	53,958,211,264
88	Shizuoka Bank Ltd.	49,174,548,304b
106	Ashikaga Bank, Ltd., Utsunomiya	42,718,240,037
112	Bank of Fukuoka, Ltd.	39,793,892,771
115	Bank of Hiroshima, Ltd.	38,289,482,639
121	Hachijuni Bank, Ltd., Nagano	35,834,501,885
128	Gunma Bank, Ltd., Maebashi	31,214,753,421
143	Chugoku Bank, Ltd., Okayama	26,004,838,908
146	Nippon Trust Bank, Ltd., Tokyo	25,643,472,968
147	Hyogo Bank, Ltd., Kobe	25,575,576,804
150	Yamaguchi Bank, Ltd., Shimonoseki	25,413,993,647
155	Juroku Bank, Ltd., Gifu	24,746,127,003
157	77 Bank, Ltd., Sendai	24,211,549,425
160	Nishi-Nippon Bank, Ltd., Fukuoka	23,713,366,290
175	Hokkaido Bank, Ltd., Sapporo	21,910,036,813
179	Bank of Kyoto, Ltd.	21,361,639,253
182	Nanto Bank, Ltd., Nara	20,982,892,490
183	Tokyo Sowa Bank, Ltd.	20,982,173,081
189	Hyakujushi Bank, Ltd., Takamatsu	20,496,623,299
198	Iyo Bank, Ltd., Matsuyama	19,706,260,761
202	Daishi Bank, Ltd., Niigata	19,157,322,851
204	Shiga Bank, Ltd., Otsu	18,902,098,900
205	Sumiga Bank, Ltd., Numazu	18,587,504,352
213	Kiyo Bank, Ltd., Wakayama	17,027,964,331
227	Ogaki-Kyoritsu Bank, Ltd., Ogaki	15,850,059,340
231	Hyakugo Bank, Ltd., Tsu	15,698,997,958
233	Bank of Kinki, Ltd., Osaka	15,662,880,280
236	Higo Bank, Ltd., Kumamoto	15,615,247,364
237	Hokkoku Bank, Ltd., Kanazawa	15,434,174,506
238	Fukuoka City Bank, Ltd.	15,352,760,511
252	San-in Godo Bank, Ltd., Matsue	14,231,780,586
256	Bank of Nagoya, Ltd.	14,011,953,018
259	Fukuoku Bank, Ltd., Osaka	13,670,492,043
260	Kofuku Bank, Ltd., Osaka	13,671,116,246
261	Tomin Bank, Ltd.	13,665,374,764
263	Bank of Osaka, Ltd.	13,494,955,067
268	Fukui Bank, Ltd.	13,195,919,406
274	Toho Bank, Ltd., Fukushima	12,761,972,117
275	Hiroshima-Sogo Bank, Ltd.	12,660,342,737
279	Kagoshima Bank, Ltd.	12,573,824,104
283	Keiyo Bank, Ltd., Chiba	12,362,682,037
287	Shikoku Bank, Ltd., Kochi	12,250,992,426
294	Musashino Bank, Ltd., Omiya	12,040,259,065
299	Awa Bank, Ltd., Tokushima	11,526,586,113
307	Oita Bank, Ltd.	11,252,215,910
310	Yamanashi Chuo Bank, Ltd., Kofu	11,141,246,505
311	Chiba Kogyo Bank, Ltd.	11,090,274,160
314	Hokuetsu Bank, Ltd., Nagaoka	11,066,769,277
316	Aichi Bank, Ltd., Nagoya	10,970,783,160
319	Bank of Iwate, Ltd., Morioka	10,710,827,345
332	Eighteenth Bank, Ltd., Sapporo	10,047,947,254
333	Akita Bank, Ltd.	10,029,268,415
335	Chukyo Bank, Ltd., Nagoya	9,952,751,286
345	Towa Bank, Ltd., Meebashi	9,795,872,180
365	Aomori Bank, Ltd.	9,379,269,953

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Japan (continued)	
374	Daisen Bank, Ltd., Matsuzaka	9,206,712,426
379	Senshu Bank, Ltd., Kishiwada	9,073,530,218
380	North Pacific Bank, Ltd., Sapporo	9,070,939,150
381	Bank of Ikeda, Ltd.	9,044,254,923
382	Shinwa Bank, Ltd., Sasebo	9,012,331,959
384	Ehime Bank, Ltd., Matsuyama	8,944,410,759
401	Miyazaki Bank, Ltd.	8,388,444,292
402	Higashi-Nippon Bank, Ltd., Tokyo	8,384,696,048
403	Bank of the Ryukyus, Ltd., Naha	8,373,956,981
404	Yamagata Bank, Ltd.	8,362,308,094
409	Bank of Saga, Ltd.	8,258,469,526b
412	Michinoku Bank, Ltd., Aomori	8,202,384,227
447	Tochigi Bank, Ltd., Utsunomiya	7,194,244,949
458	Bank of Kansai, Ltd., Osaka	7,069,245,275
461	Hanshin Bank, Ltd., Kobe	7,033,864,316
473	Shinsko Bank, Ltd., Otsu	6,676,641,382
474	Kyushu Bank, Ltd., Sasebo	6,642,316,020
478	Bank of Okinawa, Ltd., Naha	6,575,250,124
	Jordan	
350	Arab Bank Ltd., Amman	9,747,880,880b
	Korea	
89	Bank of Seoul	48,591,864,300b
156	Korea Development Bank, Seoul	24,566,135,790
166	Korea Exchange Bank, Seoul	22,715,787,380b
167	Commercial Bank of Korea Ltd., Seoul	22,226,241,780b
177	Hanil Bank Ltd., Seoul	21,696,509,500b
194	Cho Hung Bank Ltd., Seoul	20,082,071,725b
197	Korea First Bank, Seoul	19,730,311,666b
272	Citizens National Bank, Seoul	12,931,131,360
284	Industrial Bank of Korea, Seoul	12,355,284,798
300	Shinhan Bank, Seoul	11,512,283,698
303	Korea Housing Bank, Seoul	11,355,742,802
	Kuwait	
265	National Bank of Kuwait	13,188,365,697b
366	Commercial Bank of Kuwait	9,904,428,110
476	Gulf Bank, Kuwait	6,821,824,440
	Luxembourg	
191	Deutsche Bank (Luxembourg)	20,348,408,170
244	Banque Internationale a Luxembourg	14,757,783,063b
265	Dresdner Bank Luxembourg	13,363,044,334t
270	Banque Generale Luxembourg	13,115,833,224a
289	Kredietbank S.A. Luxembourgeoise, Luxembourg	12,186,194,262a
302	Banque et Caisse d'Epargne de l'Etat, Luxembourg	11,415,760,217
313	Commerzbank International, Luxembourg	11,066,429,163t
368	Union Bank of Switzerland (Luxembourg)	9,282,459,559
452	BFG Luxembourg	7,113,782,101t
457	West LB International, Luxembourg	7,056,673,830t
479	Credit Suisse (Luxembourg)	6,561,771,285t
	Malaysia	
325	Malayan Banking Berhad, Kuala Lumpur	10,397,157,620a
	Mexico	
220	Banco Nacional de Mexico, Mexico City	16,462,328,890
384	Banamex, Mexico City	15,690,108,900a
408	Banca Serfin, Mexico City	8,320,276,682a
	Netherlands	
42	Amsbank-Rotterdam Bank, Amsterdam	94,173,280,000b
44	Algemene Bank Nederland, Amsterdam	90,747,388,000b
45	Nabobank Nederland, Utrecht	90,352,796,000b
47	Nederlandse Credit Groep, N.V., Amsterdam	84,507,576,000b
316	Credit Lyonnais Bank Nederland, Rotterdam	16,683,430,592bt
373	Bank Mees & Hope, Amsterdam	12,834,066,332bt
	New Zealand	
324	Bank of New Zealand, Ltd., Wellington	10,422,145,293
	Norway	
199	Christiania Bank og Kreditkasse, Oslo	19,670,090,500
239	Bergen Bank	15,302,248,400b
243	Norske Creditbank, Oslo	14,811,137,000b
483	Union Bank of Norway, Oslo	6,967,826,446b
	Portugal	
209	Caixa Geral de Depositos, Lisbon	17,734,336,464a
369	Banco Portugues do Atlantico, Oporto	9,279,890,984a
429	Banco Espirito Santo e Comercial, Lisbon	7,737,980,003
486	Banco Pinto & Sotto Mayor, Lisbon	6,376,601,080a

Top 500 Banks by Country

Banks outside the U.S. listed geographically in asset-size order within nations

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Saudi Arabia	
163	National Commercial Bank, Jeddah	22,859,571,283
305	Riyad Bank Ltd., Jeddah	11,294,453,366a
455	Saudi American Bank, Riyadh	7,060,912,278a
	Singapore	
218	Development Bank of Singapore Ltd.	16,616,062,798
341	Oversea-Chinese Banking Corp., Ltd., Singapore	9,880,709,068a
362	United Overseas Bank Ltd., Singapore	9,521,826,182a
496	Overseas Union Bank, Ltd., Singapore	6,213,258,228a
	South Africa	
320	Standard Bank of South Africa Ltd., Johannesburg	10,593,161,244a
355	First National Bank of South Africa Ltd., Johannesburg	9,648,114,700
377	Nedcor Ltd., Johannesburg	9,118,697,700a
	Spain	
83	Banco Bilbao Vizcaya, Bilbao	51,842,577,710a
100	Banco Central, Madrid	44,913,236,390a
109	Banco Santander	41,337,846,225a
125	Caja de Pensiones para la Vejez, Barcelona	33,975,879,850a
127	Banco Espanol de Credito, Madrid	33,042,766,460a
139	Banco Hispano-Americano, Madrid	27,365,157,270a
171	Banco Exterior de Espana, Madrid	22,357,799,640a
185	Banco Popular Espanol, Madrid	20,960,736,170a
195	Caja de Madrid	20,033,666,840a
293	Caja de Ahorros y Monte de Piedad de Barcelona	12,044,250,350
300	Banco Intercontinental Espanol, Madrid	9,881,417,260
414	Banco de Sabadell	8,158,904,525a
418	Banca Catalana, Barcelona	8,059,005,350a
425	Caja de Ahorros de Cataluna, Barcelona	7,813,052,280
445	Banco Exterior, Barcelona	7,326,779,350a
472	Caja de Ahorros y Monte de Piedad de Zaragoza	6,708,778,780
487	Banco Bilbao, Gijon	6,357,876,360
490	Caja de Ahorros de Galicia, Coruna	6,312,573,300
	Sweden	
74	Skandinaviska Enskilda Banken, Stockholm	58,868,040,000a
86	Pkbanken, Stockholm	50,344,719,000a
94	Sparbankernas Bank, Stockholm	45,786,468,000a
104	Svenska Handelsbanken, Stockholm	44,330,867,000a
322	Gotabanken, Stockholm	10,461,819,000a
337	Nordbanken, Stockholm	9,243,429,600a
416	Foreta Sparbanken, Stockholm	8,110,036,900
	Switzerland	
28	Swiss Bank Corp., Basle	123,539,256,000a
30	Union Bank of Switzerland, Zurich	114,096,400,000a
217	Credit Suisse, Zurich	89,115,552,000a
148	Banque Nationale de Suisse, Berne	25,571,413,584
153	Swiss Volksbank, Berne	24,861,843,424
353	Bank Leu, Ltd., Zurich	9,673,695,505a

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Switzerland (continued)	
405	Banque Cantonale de Berne	8,349,232,464
430	Banque Cantonale de St. Gallen	7,995,447,312
439	Luzerner Kantonalbank, Lucerne	7,434,288,216
442	Banque Cantonale Vaudoise, Lausanne	7,394,070,434
449	Banca della Svizzera Italiana, Lugano	7,187,680,800a
	Taiwan	
130	Taiwan Cooperative Bank, Taipei	30,807,698,619
136	First Commercial Bank, Taipei	27,913,359,864
137	Bank of Taiwan, Taipei	27,675,572,330
138	Hua Nan Commercial Bank, Ltd., Taipei	23,541,564,010
165	Chang Hwa Commercial Bank, Ltd., Taichung	22,735,649,078a
190	Land Bank of Taiwan, Taipei	20,436,476,716
211	Medium Business Bank of Taiwan, Taipei	17,266,356,256
349	Bank of Communications, Taipei	9,766,754,365
371	Farmers Bank of China, Taipei	9,272,603,760
405	United World Chinese Commercial Bank, Taipei	8,322,059,366a
438	International Commercial Bank of China, Taipei	7,447,268,764a
	Thailand	
225	Bangkok Bank, Ltd.	16,115,030,997
396	Krung Thai Bank Ltd., Bangkok	9,482,819,800
428	Thai Farmers Bank, Bangkok	7,746,549,187
	Turkey	
361	Turkiye Cumhuriyeti Ziraat Bankasi, Ankara	9,555,508,980
	United Arab Emirates	
494	National Bank of Dubai Ltd., Dubai	6,279,668,352
	United Kingdom	
13	Barclays Bank Plc, London	205,461,760,000a
18	National Westminster Bank Plc, London	187,064,290,000a
39	Midland Bank Plc, London	100,591,190,000a
43	Lloyds Bank Plc, London	92,642,820,000a
119	Royal Bank of Scotland Plc., Edinburgh	44,118,396,300a
110	TSB Bank, Plc., London	40,449,201,000a
113	Standard Chartered Bank, London	39,714,480,000a
129	Bank of Scotland, Edinburgh	30,781,760,000a
200	Hill, Samuel Bank, Ltd., London	30,884,365,500a
251	Kleinwort, Benson, Lonsdale Plc, London	19,264,059,000a
328	Morgan Grenfell & Co. Ltd., London	14,274,987,700a
342	S.G. Warburg & Co., Ltd., London	13,240,623,640bt
421	Counts & Co., London	9,878,540,000
462	Clydesdale Bank Plc, Glasgow	7,932,651,930bt
467	Cyprusside Bank Plc, Glasgow	6,986,868,974b
480	Yorkshire Bank Plc, Leeds	6,526,960,360bt
485	Motherwell District Municipal Bank Ltd.	6,245,536,560
499	Ulster Bank Ltd., Belfast	6,180,759,410bt
	Yugoslavia	
437	Ljubljanska Banka! Ljubljana	7,485,840,000s

The Top 100: Largest Asset Increases

Dollar amounts in millions

		Assets 12/31/89	Assets 12/31/88	Percent Increase	World Rank	Reason for Increase
1	Shinhan Bank, Seoul, Korea	11,512.3	4,397.7	161.7	300	The 1989 data include trust operations.
2	Danske Bank, Denmark	54,879.7	23,263.1	135.9	78	Acquired Provinsbanken and Copenhagen Handelsbank at yearend.
3	Bank of New York, United States	44,972.6	21,356.8	110.6	98	Acquired Irving Trust Co., New York.
4	Bank One, Texas NA, Dallas, United States	12,248.5	6,556.1	86.8	288	Bank merged 20 former MCorp subsidiaries 3/89
5	Banco Sao Paulo, Brazil	17,385.6	9,340.0	86.1	210	A 40% local currency gain in short-term interbank investments.
6	Boatmen's National Bank, St. Louis, United States	7,787.2	4,331.4	79.8	427	Acquired Centerre Bank NA, St Louis.
7	Mitsubishi National Bank, Newark, United States	9,758.5	5,633.4	73.2	348	Merged Midlantic National Bank/South and Midlantic National Bank/Merchants
8	Banco Brasileiro de Descontos, Sao Paulo, Brazil	24,747.6	14,434.1	71.5	154	Large % gain, partially merged rate of new cruzado at yearend.
9	Banco do Estado de Sao Paulo, Brazil	16,814.4	9,853.9	70.6	215	A 30% local currency gain in assets.
10	Nedcor Ltd., Johannesburg, South Africa	9,118.7	5,619.1	62.3	377	Acquired the $3.2 billion South African Permanent Building Society.

The Top 1,000: Largest Asset Declines

Dollar amounts in millions

		Assets 12/31/89	Assets 12/31/88	Percent Decrease	World Rank	Reason for Decrease
1	Sal. Oppenheim Jr & Cie, Cologne, Germany	2,896.2	7,555.7	61.7	856	Unconsolidated 1989 data compared with consolidated data for 1988
2	Barclays de Zoete Wedd Ltd., London, United Kingdom	3,925.9	9,030.3	56.5	706	Unconsolidated 1989 data compared with consolidated data for 1988
3	Homestead Savings FS&LA, Millbrae, Calif., United States	2,892.6	5,756.1	49.7	857	Decline in mortgage security holdings accounted for 42% of the drop.
4	Lincoln Savings & Loan Assn., Los Angeles, United States	2,906.3	5,456.7	46.8	855	A troubled thrift seized by regulators.
5	Gibraltar Savings FA, Simi Valley, Calif., United States	7,147.9	13,436.2	46.8	451	A troubled thrift seized by regulators.
6	Metropolitan Federal Bank FSB, Fargo, North Dakota, United States	2,426.4	4,104.7	40.9	943	The 1989 data do not include two thrift subsidiaries.
7	TDB American Express Bank, Geneva, Switzerland	3,700.0	6,155.5	39.9	732	Estimate used for 1989 in March; bank sold and renamed CB-TDB Union Bancaire Privee
8	Bright Banc Savings Assn., Dallas, United States	2,832.1	4,566.8	38.0	869	A troubled thrift seized by regulators.
9	Bergen Bergen Deposit & Trust Co., United States	10,771.7	17,517.4	38.5	318	Earnings problems caused bank to reduce a segment of its deposit base.
10	Commercial Bank of Syria, Damascus	3,431.3	5,373.0	36.1	767	Pound fell over 40% against the dollar

Top 500 Banks: Total Assets

Dollar amounts in billions

	Number Of Banks 12/31/89	Total Assets — Of Banks 12/31/89	Number Of Banks 12/31/88	Total Assets — Of Banks 12/31/88	Percent Change
U.S. Banks	119	$ 1,939.4	116	$ 1,827.6	+ 6.1
Foreign Banks	381	15,082.9	384	14,020.2	+ 7.6
Top 500 Banks	500	17,022.3	500	15,947.8	+ 6.7

To avoid double counting, assets for banks owned by other banks in the top 500 are excluded.

Addendum to Tabulation

Data for some banks were received after American Banker's July 12th deadline for inclusion in today's listing. The banks appear below with the 1989 ranks they would have had if the data for all were received on time. (Dollar Amounts in Millions)

Asset Rank 12/89	Name of Bank	Assets 12/31/89	Asset Rank 12/88
82	State Bank of India, Bombay†	47,176	44,667	88
191	Credit du Nord, Paris, France†	20,440	19,716	179
399	Bank Rakyat Indonesia, Jakarta	8,479	8,183	490
936	Hessische Landesbank Int'l, Luxembourg	2,536	2,349	960

(†)— Data are for the fiscal yearend March 31, 1990. Although not included in the top 500 bank listing, American Banker was able to include the bank in the ranking of the top 100 banking companies that appears on page 27A.
(**)— A subsidiary of Compagnie Financiere de Paribas, Paris.

United States Banks in the Top 500

Listed geographically in asset-size order within states

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Alabama	
434	AmSouth Bank NA, Birmingham	7,535,780,000
	Arizona	
396	Valley National Bank, Phoenix	9,348,843,000
470	First Interstate Bank of Arizona NA, Phoenix	6,740,026,000
485	MeraBank, FSB, Phoenix	6,381,942,000
	California	
50	Bank of America NT&SA, San Francisco	85,340,000,000
61	Security Pacific National Bank, Los Angeles	53,621,365,000
96	Wells Fargo Bank NA, San Francisco	45,344,872,000
99	Home Savings of America, FA, Irwindale	44,924,933,000
123	Great Western Bank, FSB, Beverly Hills	34,949,576,000
159	Glendale Federal Bank, FSB	24,043,905,000
162	California Federal Bank, FSB, Los Angeles	23,269,859,000
175	First Nationwide Bank, FSB, San Francisco	22,088,000,000
186	First Interstate Bank of California, Los Angeles	20,958,627,000
201	World Savings, FSA&LA, Oakland	19,263,898,000
208	Homefed Bank, FSB, San Diego	17,752,680,000
223	American Savings Bank, Irvine	16,290,515,000
241	Union Bank, San Francisco	15,149,329,000
266	Great American Bank, SSB, San Diego	13,346,430,000
306	Coast Savings & Loan Assn., Los Angeles	11,293,189,000
360	Imperial Savings Assn., San Diego	9,581,584,000
367	Columbia Savings & Loan Assn., Beverly Hills	9,334,522,079
433	Bank of America NT&SA, Los Angeles	7,586,000,000
443	Citicorp Savings, FS&LA, San Francisco	7,393,077,000
457	Gibraltar Savings, FA, Simi Valley	7,147,867,000
458	Household Bank, FSB, Newport Beach	7,051,505,000
466	Sanwa Bank California, San Francisco	6,898,837,000
	Connecticut	
282	Connecticut National Bank, Hartford	12,469,317,000
311	Connecticut Bank & Trust Co. NA, Hartford	9,720,404,000
460	Peoples Bank, Bridgeport	7,037,923,000
	Delaware	
364	Chase Manhattan Bank (USA) NA, Wilmington	9,387,758,000
369	American Express Centurion Bank, Newark	8,754,152,000
459	Greenwood Trust Co., New Castle	7,050,646,000
	District of Columbia	
481	Riggs National Bank, Washington, D.C.	6,508,044,000
	Florida	
232	Southeast Bank NA, Miami	15,670,569,000
295	NCNB National Bank of Florida, Tampa	11,755,983,000
375	First Union National Bank of Florida, Jacksonville	9,179,896,000
411	CenTrust Bank, Miami	8,217,560,000
426	Florida National Bank, Jacksonville	7,808,190,000
497	Citizens & Southern National Bank, Fort Lauderdale	6,209,690,000
	Georgia	
286	Citizens & Southern National Bank, Atlanta	12,291,349,000
397	First National Bank, Atlanta	8,469,739,000
457	Trust Company Bank, Atlanta	6,280,287,000
	Hawaii	
419	Bank of Hawaii, Honolulu	8,003,403,000
	Illinois	
122	First National Bank, Chicago	35,570,607,000
133	Continental Bank NA, Chicago	29,023,550,000
346	Harris Trust & Savings Bank, Chicago	9,783,322,000
394	Northern Trust Co., Chicago	8,501,224,000
	Kansas	
301	Franklin Savings Assn., Ottawa	11,427,820,000
	Louisiana	
482	Hibernia National Bank, New Orleans	6,507,334,000
	Maryland	
383	Maryland National Bank, Baltimore	8,954,496,000
492	First National Bank of Maryland, Baltimore	6,287,818,000
	Massachusetts	
131	First National Bank, Boston	29,676,775,000
250	Bank of New England NA, Boston	14,277,097,000
318	Boston Safe Deposit & Trust Co.	10,771,670,000
331	State Street Bank & Trust Co., Boston	10,059,546,000
373	Shawmut Bank NA, Boston	9,236,379,000
	Michigan	
214	National Bank of Detroit	16,817,132,000
312	First Federal of Michigan, Detroit	11,088,251,000
329	Comerica Bank-Detroit	10,096,859,000
344	Michigan National Bank, Farmington Hills	9,851,495,000

Rank 12/89		12/31/89 Assets (U.S. Dollars)
	Michigan (continued)	
357	Standard Federal Bank, Troy	9,638,381,000
390	Manufacturers National Bank, Detroit	8,660,757,000
	Minnesota	
281	First Bank NA, Minneapolis	12,497,203,000
398	Norwest Bank Minnesota NA, Minneapolis	8,453,200,000
	Missouri	
427	Boatmen's National Bank, St. Louis	7,787,150,000
	Nevada	
399	Citibank (Nevada) NA, Las Vegas	8,452,222,000
	New Jersey	
291	First Fidelity Bank NA, Newark	12,148,525,000
340	Midlantic National Bank, Newark	9,758,482,000
392	City Savings Bank, FSB, Somerset	8,582,471,000
	New York	
34	Citibank NA, New York	157,772,000,000
54	Chase Manhattan Bank NA, New York	82,109,155,000
72	Morgan Guaranty Trust Co., New York	63,464,749,000
81	Manufacturers Hanover Trust Co., New York	53,844,000,000
87	Bankers Trust Co., New York	49,950,613,000
98	Bank of New York	44,973,627,000
101	Chemical Bank, New York	44,873,000,000
178	Marine Midland Bank NA, Buffalo	21,495,741,000
205	Republic National Bank, New York	18,998,403,000
207	American Express Bank Ltd., New York	18,395,000,000%
248	National Westminster Bank USA, New York	14,380,365,000
255	Crossland Savings FSB, Brooklyn, New York	14,102,307,000
271	Goldome, Buffalo	12,999,150,000
297	Dime Savings Bank of New York, FSB, Garden City	11,652,200,000
385	Anchor Savings Bank, FSB, Northport	8,938,276,000
415	Empire of America Federal Savings Bank, Buffalo	8,142,100,000
424	Bank of Tokyo Trust Co., New York	7,824,057,000
483	Chase Lincoln First Bank NA, Rochester	6,427,400,000
	North Carolina	
192	NCNB National Bank of North Carolina, Charlotte	20,327,636,000
217	First Union National Bank, Charlotte	16,622,378,000
240	Wachovia Bank & Trust Co. NA, Winston-Salem	15,079,854,000
	Ohio	
387	Ameritrust Co. NA, Cleveland	8,910,063,000
388	Huntington National Bank, Columbus	8,842,001,000
413	National City Bank, Cleveland	8,173,174,000
417	Society National Bank, Cleveland	8,088,898,000
	Oregon	
337	United States National Bank, Portland	9,917,161,000
491	First Interstate Bank of Oregon NA, Portland	6,288,906,000
	Pennsylvania	
170	Mellon Bank NA, Pittsburgh	22,454,393,000
226	Pittsburgh National Bank, Pittsburgh	15,842,142,000
276	Meritor Savings Bank, Philadelphia	12,626,807,000
339	Mellon Bank, Reading	10,074,767,000
359	Philadelphia National Bank	9,387,496,000
370	Fidelity Bank NA, Philadelphia	9,277,808,000
476	Provident National Bank, Philadelphia	6,521,445,000
487	Atlantic Financial Federal, FA, Bala Cynwyd	6,873,298,000
488	First Pennsylvania Bank NA, Philadelphia	6,623,413,000
	Rhode Island	
354	Fleet National Bank, Providence	9,663,870,000
	South Dakota	
309	Citibank (South Dakota) NA, Sioux Falls	11,142,112,000
	Texas	
126	NCNB Texas National Bank, Dallas	33,535,253,000
288	Bank One, Texas NA, Dallas	12,248,464,000
295	Texas Commerce Bank NA, Houston	11,606,210,000
347	First Gibraltar Bank, FSB, Dallas	9,774,794,000
378	Sunbelt Savings, FSB, Dallas	9,108,052,000
435	First City Texas-Houston NA	7,524,343,000
488	First Interstate Bank of Texas NA, Houston	6,341,309,000
	Virginia	
258	Sovran Bank NA, Richmond	13,718,240,000
327	Crestar Bank, Richmond	10,180,578,000
366	Signet Bank/Virginia, Richmond	8,933,440,000
	Washington	
290	Seattle-First National Bank	12,170,846,000
420	Security Pacific Bank Washington, Seattle	7,983,175,000

The Top 100 Banking Companies in the World

Includes holding companies, commercial banks, and savings banks (dollar amounts in millions)

Rank 12/89	Rank 12/88	Total Assets 12/31/89	Total Assets 12/31/88	Change in Rank	Equity Capital 12/31/89	Equity Capital 12/31/88	Equity Capital in Assets 12/31/89	Equity Capital in Assets 12/31/88	Name of Holding Company's Lead Bank (Name of Non-U.S. Bank's Top U.S. Bank Subsidiary)
1	1	403,396	396,937	0	11,740	10,954	2.91	2.83	Dai-Ichi Kangyo Bank of Calif., Los Angeles
2	2	Sumitomo Bank, Ltd., Osaka	368,167	376,086	2	12,840	10,464	3.49	2.78	(Sumitomo Bank of Calif., San Francisco)
3	3	Fuji Bank, Ltd., Tokyo	362,575	364,044	0	11,329	10,733	3.12	2.95	(Fuji Bank & Trust Co., New York)
4	4	Mitsubishi Bank Ltd., Tokyo	359,960	351,251	0	10,413	10,148	2.89	2.89	(Bank of California NA, San Francisco)
5	5	Industrial Bank of Japan, Ltd., Tokyo	356,906	357,578	0	11,006	9,311	3.11	2.67	(Sanwa Bank California, San Francisco)
6	6	Credit Agricole Mutuel, Paris	242,312	207,988	0	8,135	8,574	3.33	3.33	(Industrial Bk of Japan Trust Co., New York)
7	11	Banque Nationale de Paris	231,769	194,516	+4	11,817	9,930	4.88	4.34	
8	7	Tokai Bank Ltd., Nagoya	227,739	225,121	14	6,185	5,498	2.67	2.83	(Bank of the West, San Francisco)
9	8	Citicorp, New York	227,037	203,827	1	6,487	6,160	2.85	2.74	(Tokai Bank of Calif., Los Angeles)
10	12	Norinchukin Bank, Tokyo	219,773	241,947	2	10,076	9,864	4.44	4.84	Citibank NA, New York)
11	10	Mitsubishi Trust & Banking Corp., Tokyo	213,485	210,466	7	1,257	1,385	0.57	0.57	
12	9	Credit Lyonnais, Paris	211,006	176,963	10	5,332	5,134	2.97	2.44	(Mitsubishi Tr & Banking Corp., New York)
13	14	Barclays Plc, London	209,452	180,199	3	6,705	5,907	3.18	3.12	
14	15	Mitsui Bank, Ltd., Tokyo (a)	203,291	219,666	1	10,523	10,325	5.12	5.46	(Barclays Bank of New York NA)
15	16	Deutsche Bank, Frankfurt	202,607	170,290	1	5,461	5,767	2.69	2.63	(Mitsui Manufacturers Bank, Los Angeles)
16	17	Bank of Tokyo, Ltd.	200,548	173,575	1	5,825	4,579	2.90	2.64	
17	18	Sumitomo Trust & Banking Co., Ltd., Osaka	190,943	190,589	1	4,500	4,663	2.36	2.39	(Union Bank, San Francisco)
18	13	Sumitomo Life Insurance Co., Osaka	187,994	179,345	17	3,576	10,752	5.12	6.03	(Sumitomo Tr. & Bkng. Co. USA, New York)
19	20	Mitsui Trust & Banking Co., Ltd., Tokyo	182,630	183,873	16	4,792	3,216	2.08	1.75	(National Westminster Bank USA, New York)
20	21	Société Générale, Paris	176,000	143,857	25	4,038	3,270	2.29	2.28	(Mitsui Trust Bank (USA), New York)
21	22	Long-Term Credit Bank of Japan Ltd., Tokyo	174,240	172,339	21	4,038	3,270	2.29	2.28	
22	19	Tokyo Kobe Bank, Ltd., Kobe (a)	172,978	173,670	19	4,185	4,383	2.42	2.52	(LTCB Trust Co., New York)
23	24	Yasuda Trust & Banking Co., Ltd., Tokyo	157,913	155,514	24	4,663	3,133	2.95	2.01	(Tokyo Kobe Bank & Trust Co., New York)
24	25	Daiwa Bank, Ltd., Osaka	155,495	156,169	23	3,288	3,061	2.11	1.96	(Yasuda Bank & Trust Co., New York)
25	26	Dresdner Bank, Frankfurt	145,666	129,340	27	5,269	4,151	3.62	3.18	(Daiwa Bank Trust Co., New York)
26	27	Compagnie Financiere de Paribas, Paris	138,049	120,111	29	4,269	5,258	3.07	4.38	
27	28	Hongkong & Shanghai Banking Corp.	132,835	113,115	31	5,742	4,595	5.08	4.07	Banque Paribas, Paris
28	29	American Express Co., New York	130,865	142,753	26	3,691	5,023	2.82	3.52	(Marine Midland Bank NA, Buffalo, N.Y.)
29	30	Compagnie Financiere de Suez, Paris (b)	125,328	96,560	63	3,576	2,600	2.85	2.69	(American Express Bank Ltd., New York)
30	31	Swiss Bank Corp., Basle	123,538	102,482	63	+33	6,524	4,822	5.21	7.25
31	32	Toyo Trust & Banking Co., Ltd., Tokyo	117,482	123,204	32	6,166	6,056	4.98	5.91	Banque Indosuez, Paris
32	33	Union Bank of Switzerland, Zurich	117,432	123,204	28	2,582	2,163	2.20	1.76	
33	34	Nippon Credit Bank, Ltd., Tokyo	114,096	110,778	32	3,187	2,717	2.79	2.45	
34	23	Commerzbank, Frankfurt	113,890	118,784	30	4	3,165	2,940	2.78	2.48
35	35	Dai-Ichi Kangyo Bank of New York, FSB, Garden City	113,017	104,217	35	3,877	3,182	3.43	3.03	
36	36	Deutsche Genossenschaftsbank, Frankfurt	109,354	73,789	58	+22	2,109	1,646	1.93	2.23
37	37	Istituto Bancario San Paolo di Torino, Turin	107,664	81,689	52	+15	3,706	3,229	3.44	3.95
38	38	Chase Manhattan Corp., New York	106,346	95,821	38	4,944	4,902	4.65	5.18	(First Los Angeles Bank)
39	39	Banco de Brasil, Brasilia	105,195	63,475	49	+10	7,000	5,270	6.65	6.31	Chase Manhattan Bank NA, New York
40	40	Banca Nazionale del Lavoro, Rome	104,490	91,025	43	+1	3,917	3,114	3.75	3.42	
41	41	Westdeutsche Landesbank Girozentrale, Dusseldorf	104,325	92,100	41	3,064	3,318	2.94	3.52	
42	42	Bayerische Vereinsbank	102,300	90,895	44	+12	2,535	2,274	2.48	2.50	
43	43	Midland Bank Plc, London	100,591	100,758	36	-7	4,323	5,495	4.30	5.43	
44	44	Sakura Bank, Ltd., Osaka, Japan	98,666	96,130	37	-7	2,839	2,600	2.88	2.70	
45	45	Kyowa Bank, Ltd., Tokyo	97,911	104,218	33	-12	3,168	2,728	3.24	2.62	(Kyowa Bank of Calif., Los Angeles)
46	47	Bank of America NT&SA, San Francisco	97,231	93,366	40	-6	5,534	4,149	5.69	4.44	Bank of America NT & SA, San Francisco
47	46	Amsterdam-Rotterdam Bank, Amsterdam (c)	94,173	83,715	46	+1	3,478	2,939	3.69	3.51	
48	48	Lloyds Bank Plc, London	92,943	93,716	39	+9	3,808	5,196	4.11	5.55	
49	49	Algemene Bank Nederland, Amsterdam (c)	90,747	84,814	47	+3	3,398	2,866	3.74	3.53	(LaSalle National Bank, Chicago)
50	50	Rabobank Nederland, Utrecht	90,353	80,465	53	+3	5,336	4,622	5.91	5.74	
51	51	Bayerische Hypotheken und Wechsel-Bank, Munich	89,903	75,697	55	+4	2,631	2,197	2.93	2.90	
52	52	Credit Suisse, Zurich	89,116	75,400	57	+5	4,008	4,396	5.51	5.83	
53	53	Banco Commerciale Italiana, Milan	88,808	82,634	67	+14	3,419	3,174	3.85	5.07	
54	54	Royal Bank of Canada, Montreal	88,573	90,024	45	-9	4,685	4,161	5.56	4.62	(Royal Bank de Puerto Rico, San Juan)
55	55	J.P. Morgan & Co., New York	87,628	82,651	50	-5	4,495	5,778	5.13	6.99	Morgan Guaranty Trust Co., New York
56	56	NMB Postbank Groep, N.V., Amsterdam (d)	84,508	73,318	59	+3	2,764	2,414	3.27	3.29	
57	57	Security Pacific Corp., Los Angeles	83,119	77,136	54	-3	4,637	3,843	5.58	4.98	Security Pacific National Bank, Los Angeles
58	58	Bayerische Landesbank Girozentrale, Munich	82,515	71,696	60	+2	1,951	1,749	2.36	2.44	
59	59	Shoko Chukin Bank, Tokyo	81,958	91,072	42	-17	2,048	2,232	2.50	2.45	
60	60	Banque Indosuez, Paris	81,122	81,777	51	-9	2,796	3,582	3.45	3.13	
61	61	Canadian Imperial Bank of Commerce, Toronto	78,511	71,336	61	4,127	3,789	5.26	5.31	(Canadian Imperial Bank of Commerce (New York)
62	62	Westpac Banking Corp., Sydney	76,104	60,072	73	+11	4,917	4,288	6.46	7.14
63	63	Monte del Paschi di Siena	75,878	66,489	64	+4	3,410	2,621	4.49	3.94
64	67	Credito Italiano, Milan	75,416	56,882	78	+14	2,620	2,434	3.47	4.28
65	64	Cassa Nazionale di Credit Indl'l et Comm'l, Paris	74,824	62,741	69	+4	1,900	1,458	2.54	2.32	(Credit Industriel et Commercial, Paris
66	68	Bank Melli Iran, Tehran	73,517	53,082	85	+19	350	520	0.48	0.98	
67	65	Zaozaan Bank, Tokyo	71,498	85,981	46	-21	1,430	1,661	2.00	1.93	
68	66	Chemical Banking Corp., New York	70,891	66,649	62	-6	3,705	3,967	5.23	5.95	Chemical Bank, New York
69	69	Chase Manhattan Bank, Ltd., Tokyo	70,884	72,641	58	-10	1,194	821	1.69	1.13	
70	70	Hokkaido Takushoku Bank, Ltd., Sapporo	70,062	75,430	56	-14	2,013	1,786	2.87	2.34	
71	71	Genossenschaftsbank, Hannover	67,966	62,006	70	-1	2,081	1,663	3.06	2.68	(Generale Investment (Banking Corp., New York)
72	72	Norddeutsche Landesbank Girozentrale, Hannover	67,630	60,373	72	1,509	1,377	2.23	2.28	
73	73	Banco di Napoli, Naples	67,166	57,333	76	+3	975	975	1.45	1.70	
74	74	Cassa di Risparmio delle Provincie Lombarde, Milan	66,564	55,411	86	4,099	3,731	6.14	5.70	
75	75	NCNB Corp., Charlotte, N.C. (e)	65,770	29,499	138	+63	2,962	1,942	4.50	6.58	NCNB Texas National Bank, Dallas
76	76	Bank of Montreal	64,873	61,816	71	-5	3,192	2,952	4.92	4.79	(Harris Trust & Savings Bank, Chicago)
77	77	Banque Nationale de Paris (Suisse)	64,787	55,243	80	+3	3,760	3,191	5.80	5.78	
78	79	Banque Paribas, Paris	64,628	54,699	82	+4	2,093	1,295	3.24	2.37	
79	78	Bank of Nova Scotia, Toronto	62,341	56,460	79	2,933	2,434	4.70	4.69	(Marine Bank, Chicago)
80	80	Manufacturers Hanover Trust Corp., New York	59,509	71,475	65	-15	3,381	3,251	5.68	4.95	(Scotiabank de Puerto Rico, San Juan)
81	81	Skandinaviska Enskilda Banken, Stockholm	58,898	47,133	93	+4	4,131	3,404	7.02	7.26	Manufacturers Hanover Trust Co., New York
82	82	First Interstate Bancorp., Los Angeles	58,599	57,750	75	-7	2,339	2,240	3.99	3.88	(Manufacturers Hanover Trust Co., New York)
83	83	Citicorp Overseas, Ltd.	57,990	58,138	74	-9	2,152	1,966	3.71	3.21	First Interstate Bank of California, Los Angeles
84	84	Hokuriku Bank, Ltd., Toyama	57,041	54,007	84	1,880	1,589	3.31	2.94	
85	85	Danske Bank, Copenhagen (f)	54,990	53,393	161	+76	3,431	1,569	5.25	6.74	
86	86	Bankers Trust New York Corp.	54,396	54,824	81	-5	2,386	3,499	4.39	6.37	Bankers Trust Co., New York
87	87	Australia & New Zealand Banking Group, Ltd., Melbourne	53,982	44,910	91	+4	3,106	3,056	5.76	6.80	
88	88	Joyo Bank, Ltd., Mito	53,958	50,777	96	1,736	1,612	3.22	3.17	
89	89	Banco Bilbao Vizcaya, Bilbao (g)	51,843	52,465	68	-21	3,550	4,140	6.85	6.63	(Banquest First Nat'l Bank, Santa Fe, N.M.)
90	90	National Australia Bank, Ltd., Melbourne	51,209	40,807	99	+9	4,405	3,333	8.60	8.17	
91	91	Banque Bruxelles Lambert, Brussels	50,736	45,143	90	-1	1,198	884	2.26	1.96	
92	92	Pittsburgh National Bank, Pittsburgh	50,245	48,790	105	+13	2,600	2,052	5.17	4.16	(PKBanken Int'l U.S. Banking, New York)
93	93	Shizuoka Bank, Ltd., Japan	49,175	46,621	88	-5	2,195	2,002	4.46	4.29	
94	94	Bank of Boston, Inc.	48,592	37,270	115	+21	1,556	774	3.20	2.08	(Seoul Bank of Calif., Los Angeles)
95	96	Wells Fargo & Co., San Francisco	48,526	46,372	89	-6	2,861	2,574	5.90	5.55	Wells Fargo Bank NA, San Francisco
96	95	Kredietbank N.V., Brussels	47,856	38,639	111	+15	1,422	976	2.97	2.53	
97	97	Toronto-Dominion Bank	47,771	43,102	95	3,746	3,072	7.84	7.13	(Toronto Dominion B&T Co., New York)
98	98	Bank of New York Co.	47,467	45,522	90	-8	2,764	2,783	5.82	6.14	Bank of New York
99	99	State Bank of India, Bombay (h)	47,176	44,807	92	795	787	1.68	1.72	(State Bank of India (Calif.), Los Angeles)
100	100	First Chicago Corp.	47,040	43,573	93	-7	2,692	2,369	5.72	5.44	First National Bank, Chicago
		TOTALS FOR THE TOP 100 ($ BILLION)	$11,927	$11,062	+7.82%	$434.8	$390.0	3.65%	3.52%	

Data Source: American Banker's world bank survey. Data are checked against annual reports wherever possible. Consolidated data, including affiliates in which ownership is 50% or more, are used wherever possible. Data of figures: Data for most banks are for yearend. Exceptions: Data for Japanese banks are as of March 31, 1990; data for banks in the U.K. and Australasia are as of September 30, 1989; and data for Canadian bank data are for fiscal year ended Oct. 31, 1989. **Total assets** exclude contra accounts and contingent liabilities. **Equity Capital** is total shareholders' equity capital which includes the value of common and perpetual preferred stock, surplus, undivided profits, and capital reserves. Minority interest is excluded, wherever possible. **Equity Capital/Assets** is equity capital as a percentage of total assets. **(a)**—On April 1, Mitsui Bank and Taiyo Kobe Bank merged to form Taiyo Kobe Mitsui Bank. **(b)**—Acquired Victoire Leasing Insurance Group in 1989. **(c)**—In March, Amsterdam-Rotterdam Bank and Algemene Bank Nederland began negotiations for a merger. **(d)**—Formed in 1989 by the merger of Nederlandsche Middenstandsbank (Nederland) and Postbank. **(e)**—In Aug. 1989, NCNB consolidated the operations of NCNB Texas National Bank, Dallas. **(f)**—The bank acquired Provinsbanken and Copenhagen Handelsbank in January 1990. The 1989 data are unconsolidated and the 1988 data are consolidated. **(g)**—Data were received too late for bank's inclusion in today's top 100 banks listing. **(h)**—Revised to exclude minority interest. **(i)**—revised. **(j)**—Pro forma data for bank formed in 1989. **(n)**—Bank bank would have been if it had been included.

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Equity Capital Ratios of the Top 100 Banking Companies in Assets

Equity/Asset Rank		Equity/Asset 12/31/89	Equity/Asset 12/31/88
1	National Australia Bank Ltd., Melbourne	8.60	8.17
2	Toronto Dominion Bank	7.85	7.13
3	Union Bank of Switzerland, Zurich	7.16	6.06
4	Skandinaviska Enskilda Banken, Stockholm	7.02	7.26
5	Banco Bilbao Vizcaya, Bilbao	6.85	6.63
6	Banco do Brasil, Brasilia	6.65	6.31
7	Westpac Banking Corp., Sydney	6.46	7.14
8	Danske Bank, Copenhagen	6.25	6.74
9	Cassa di Risparmio delle Provincie Lombarde, Milan	6.14	5.70
10	Rabobank Nederland, Utrecht	5.91	5.74
11	Wells Fargo & Co., San Francisco	5.90	5.55
12	Bank of New York Co.	5.82	6.14
13	Groupe Des Banques Populaires, Paris	5.80	5.78
14	Australia & New Zealand Banking Group Ltd., Melbourne	5.76	6.80
15	First Chicago Corp.	5.72	5.44
16	BankAmerica Corp., San Francisco	5.69	4.44
17	Manufacturers Hanover Trust Corp., New York	5.68	4.95
18	Security Pacific Corp., Los Angeles	5.56	4.98
19	Royal Bank of Canada, Montreal	5.56	4.62
20	Credit Suisse, Zurich	5.51	5.83
21	Canadian Imperial Bank of Commerce, Toronto	5.26	5.26
22	Chemical Banking Corp., New York	5.23	5.06
23	Compagnie Financiere de Suez, Paris	5.21	7.25
24	Handelsbanken, Stockholm, Sweden	5.17	5.16
25	J.P. Morgan & Co. Inc., New York	5.13	6.99
26	Barclays Plc, London	5.12	5.46
27	National Westminster Bank Plc, London	5.12	6.03
28	Hongkong & Shanghai Banking Corp.	5.08	4.07
29	Swiss Bank Corp., Basle	4.99	5.91
30	Bank of Montreal	4.92	4.79
31	Credit Agricole Mutuel, Paris	4.80	4.67
32	Bank of Nova Scotia, Toronto	4.70	4.60
33	Chase Manhattan Corp., New York	4.65	5.18
34	MCNB Corp., Charlotte, N.C.	4.50	6.58
35	Monte dei Paschi di Siena	4.46	4.29
36	Shizuoka Bank Ltd., Japan	4.46	4.29
37	Citicorp, New York	4.44	4.84
38	Bankers Trust New York Corp.	4.39	4.37
39	American Express Co., New York	4.35	4.52
40	Midland Bank Plc, London	4.32	4.13
41	Deutsche Bank, Frankfurt	4.18	3.79
42	Lloyds Bank Plc, London	4.11	5.55
43	First Interstate Bancorp., Los Angeles	3.99	3.88
44	Banca Commerciale Italiana, Milan	3.85	5.07
45	Banco Nacional de Mexico, Mexico	3.75	5.04
46	Algemene Bank Nederland, Amsterdam	3.74	3.53
47	Chase Bank Ltd.	3.71	3.71
48	Amsterdam-Rotterdam Bank, Amsterdam	3.69	3.51
49	Dresdner Bank, Frankfurt	3.62	3.18
50	Long-Term Credit Bank of Japan Ltd., Tokyo	3.50	2.92
51	Sumitomo Bank Ltd., Osaka	3.49	2.78
52	Credito Italiano, Milan	3.47	4.28
53	Bank of Yokohama Ltd.	3.45	3.13
54	Istituto Bancario San Paolo di Torino, Turin	3.44	3.95
55	Commerzbank, Frankfurt	3.43	3.03
56	Hokuriku Bank Ltd., Toyama	3.33	2.94
57	NMB Postbank Group N.V., Amsterdam -a	3.27	3.29
58	Kyowa Bank Ltd., Tokyo	3.24	2.62
59	Banco di Roma, Rome	3.24	2.37
60	Joyo Bank Ltd., Mito	3.22	3.17
61	Bank of Seoul, Korea	3.20	2.06
62	Credit Lyonnais, Paris	3.18	3.12
63	Industrial Bank of Japan Ltd., Tokyo	3.17	3.33
64	Fuji Bank Ltd., Tokyo	3.12	2.95
65	Sanwa Bank Ltd., Osaka	3.11	2.67
66	Compagnie Financiere de Paribas, Paris	3.07	4.38
67	Generale Bank, Brussels	3.06	2.68
68	Kredietbank N.V., Brussels	2.97	2.53
69	Mitsubishi Trust & Banking Corp., Tokyo	2.97	2.44
70	Yasuda Trust & Banking Co. Ltd., Tokyo	2.95	2.01
71	Westdeutsche Landesbank Girozentrale, Duesseldorf	2.94	2.12
72	Bayerische Hypotheken-und Wechsel-Bank, Munich	2.93	2.78
73	Dai-Ichi Kangyo Bank Ltd., Tokyo	2.91	2.83
74	Bank of Tokyo Ltd.	2.90	2.64
75	Mitsubishi Bank Ltd., Tokyo	2.89	2.89
76	Sakura Bank Ltd., Urawa, Japan	2.88	2.70
77	Hokkaido Takushoku Bank Ltd., Sapporo	2.87	2.34
78	Tokai Bank Ltd., Nagoya	2.86	2.74
79	Nippon Credit Bank Ltd., Tokyo	2.79	2.48
80	Mitsui Bank Ltd., Tokyo	2.69	2.63
81	Banque Nationale de Paris	2.47	2.83
82	Compagnie Financiere de Credit Ind'l et Comm'l, Paris	2.54	2.39
83	Shoko Chukin Bank, Tokyo	2.50	2.45
84	Bayerische Vereinsbank, Munich	2.49	2.50
85	Tokyo Kokin Bank Ltd., Kobe	2.42	2.52
86	Istituto Mobiliare Italiano S.P.A., Rome	2.36	2.39
87	Bayerische Landesbank Girozentrale, Munich	2.36	2.44
88	Societe Generale, Paris	2.29	2.28
89	Banque Bruxelles Lambert, Brussels	2.26	1.98
90	Norddeutsche Landesbank Girozentrale, Hannover	2.23	2.01
91	Toyo Trust & Banking Co. Ltd., Tokyo	2.20	1.76
92	Daiwa Bank Ltd., Osaka	2.11	1.96
93	Mitsui Trust & Banking Co., Ltd.	2.08	1.75
94	Zenshinren Bank, Tokyo	2.00	1.92
95	Deutsche Genossenschaftsbank, Frankfurt	1.93	2.25
96	Chuo Trust & Banking Co. Ltd., Tokyo	1.69	1.13
97	State Bank of India, Bombay	1.66	1.72
98	Banco di Napoli, Naples	1.45	1.70
99	Hanshin Bank, Kobe	0.57	0.57
100	Bank Melli Iran, Tehran	0.48	0.98

Data Source: American Banker's world bank survey. **Table Described:** The top 100 world banking companies in assets on Dec. 31, 1989 listed in order of their equity capital-to-assets ratio on Dec. 31, 1989. **Equity/Assets** is equity capital as a percentage of assets. **Assets:** Total assets less contra accounts and contingent liabilities.
Compiled by American Banker, Copyright, 1990.

Equity Capital Growth at Top 100 Banking Companies in Assets

Equity Growth Rank		Equity Growth 89-'88	Asset growth 89-'88
1	Danske Bank, Copenhagen	118.07%	135.91%
2	Bank of Seoul, Korea	101.03	30.36
3	Banco di Roma, Rome	61.62	18.15
4	MCNB Corp., Charlotte, N.C.	52.52	122.96
5	Yasuda Trust & Banking Co. Ltd., Tokyo	48.63	15.56
6	Hongkong & Shanghai Banking Corp.	46.60	17.43
7	Kredietbank N.V., Brussels	45.70	23.85
8	Chuo Trust & Banking Co. Ltd., Tokyo	45.43	2.69
9	Compagnie Financiere de Suez, Paris	35.30	86.32
10	BankAmerica Corp., San Francisco	33.38	4.12
11	Banco di Brasil, Brasilia	32.83	26.02
12	Westdeutsche Landesbank Girozentrale, Duesseldorf	32.18	10.73
13	National Australia Bank Ltd., Melbourne	32.16	25.49
14	Deutsche Bank, Frankfurt	31.41	18.98
15	Credit Agricole Mutuel, Paris	30.86	16.50
16	Banque Bruxelles Lambert, Brussels	29.53	12.30
17	Deutsche Genossenschaftsbank, Frankfurt	28.13	48.20
18	Dresdner Bank, Frankfurt	28.04	12.62
19	Compagnie Financiere de Credit Ind'l et Comm'l, Paris	27.52	30.47
20	Bank of Tokyo Ltd.	27.21	15.54
21	Pkbanken Stockholm, Sweden	26.71	26.47
22	Banco Nazionale del Lavoro, Rome	25.79	14.79
23	Generale Bank, Brussels	25.14	9.61
24	Bayerische Hypotheken-und Wechsel-Bank, Munich	24.99	18.77
25	Mitsubishi Trust & Banking Corp., Tokyo	23.33	1.43
26	Societe Generale, Paris	23.26	22.40
27	Sumitomo Bank Ltd., Osaka	22.71	2.11
28	Commerzbank, Frankfurt	22.61	6.44
29	Toronto Dominion Bank	21.94	10.83
30	Credit Lyonnais, Paris	21.75	19.44
31	Union Bank of Switzerland, Zurich	21.59	3.00
32	Long-Term Credit Bank of Japan Ltd., Tokyo	20.98	1.10
33	Security Pacific Corp., Los Angeles	20.66	7.79
34	Skandinaviska Enskilda Banken, Stockholm	20.65	24.90
35	Bank of Nova Scotia, Toronto	20.57	10.42
36	Toyo Trust & Banking Co. Ltd., Tokyo	19.37	4.64
37	Hokuriku Bank Ltd., Toyama	18.94	5.62
38	Royal Bank of Canada, Montreal	18.39	1.61
39	Amsterdam-Rotterdam Bank, Amsterdam	18.34	12.49
40	Sanwa Bank Ltd., Osaka	18.20	1.33
41	Mitsui Trust & Banking Co. Ltd., Tokyo	17.91	0.68
42	Groupe Des Banques Populaires, Paris	17.83	17.26
43	Kyowa Bank Ltd., Tokyo	16.13	6.05
44	Rabobank Nederland, Utrecht	15.45	12.29
45	Chiba Bank Ltd.	15.33	0.25
46	Istituto Bancario San Paolo di Torino, Turin	14.77	31.78
47	Westpac Banking Corp., Sydney	14.67	26.69
48	NMB Postbank Group N.V., Amsterdam	14.50	15.27
49	Hokkaido Takushoku Bank Ltd., Sapporo	13.99	-7.12
50	First Chicago Corp.	13.63%	7.95%

Data Source: American Banker survey. **Table Described:** The top 100 world banking companies in assets listed in order of equity capital growth. **Equity growth** is the percentage change in equity capital from yearend 1988 to yearend 1989, expressed as a percentage. **Asset growth** is the percentage change in assets from yearend 1988 to yearend 1989.
Compiled by American Banker, Copyright, 1990.

WORLD BANKING

Alphabetical Listing of Top 500 Banks in Assets

With asset and deposit ranks on Dec. 31, 1989

		Asset Rank	Deposit Rank
77	Bank, LI., Sendai	Japan	157	146
AN-HYP N.V., Antwerp		Belgium	477	445
ASLK-CGER Bank, Brussels		Belgium	105	83
Aichi Bank, Ltd., Nagoya		Japan	316	277
Akita Bank, Ltd.		Japan	353	309
Algemene Bank Nederland, Amsterdam		Netherlands	44	51
Allied Irish Banks, Dublin		Ireland	152	140
AmSouth Bank NA, Birmingham, Ala.		United States	434	436
American Express Bank Ltd., New York		United States	207	195
American Express Centurion Bank, Newark		United States	389	234
American Savings Bank, Irvine, Calif.		United States	223	207
Ameritrust Co. NA, Cleveland		United States	367	369
Amsterdam-Rotterdam Bank, Amsterdam		Netherlands	42	45
Anchor Savings Bank, FSB, Northport, N.Y.		United States	385	357
Aomori Bank, Ltd.		Japan	365	322
Arab Bank Ltd., Amman		Jordan	350	290
Arab Banking Corp., Manama		Bahrain	176	152
Ashikaga Bank, Ltd., Utsunomiya		Japan	106	93
Atlantic Financial Federal, FA, Bala Cynwyd, Pa.		United States	497	498
Australia & New Zealand Banking Group, Ltd., Melbourne		Australia	79	91
Azabu Bank, Ltd., Tokushima		Japan	299	288
BFG Luxembourg		Luxembourg	452	410
Baden-Wuerttembergische Bank, Stuttgart		Germany	391	328
Banca Catalana, Barcelona		Spain	418	363
Banca Commerciale Italiana, Milan		Italy	48	41
Banca Nazionale del Lavoro, Rome		Italy	36	36
Banca Nazionale dell'Agricoltura, Rome		Italy	142	159
Banca Popolare di Milano, Milan		Italy	323	284
Banca Popolare di Milano, Milan		Italy	158	160
Banca Popolare di Novara		Italy	135	129
Banca Popolare di Verona		Italy	464	526
Banca Provinciale Lombarda, Bergamo		Italy	338	378
Banco San Paolo di Brescia		Italy	495	499
Banco Serfin, Mexico City		Mexico	406	696
Banco Vizcaya, Bilbao		Spain	130	130
Banco d'America e d'Italia, Milan		Italy	400	411
Banco di Credito e Commercio, Lugano		Switzerland	440	423
Banco Ambrosiano Veneto, Milan		Italy	172	185
Banco Central, Madrid		Spain	446	399
Banco Bilbao Vizcaya, Bilbao		Spain	83	75
Banco Brasileiro de Descontos, Sao Paulo		Brazil	154	331
Banco Central, Milan		Italy	100	96
Banco Espanol de Credito, Madrid		Spain	127	114
Banco Espirito Santo e Comercial, Lisbon		Portugal	429	416
Banco Exterior de Espana, Madrid		Spain	171	154
Banco Hispano Americano, Madrid		Spain	139	130
Banco Intercontinental Espanol, Madrid		Spain	340	385
Banco Itau, Sao Paulo		Brazil	210	497
Banco Lariano, Como		Italy	308	305
Banco Nacional de Mexico, Mexico City		Mexico	220	379
Banco Pastor, Coruna		Spain	497	499
Banco Pinto & Sotto Mayor, Lisbon		Portugal	486	493
Banco Popular Espanol, Madrid		Spain	185	173
Banco Portugues do Atlantico, Oporto		Portugal	369	362
Banco Real, Sao Paulo		Brazil	494	0
Banco Santander		Spain	109	101
Banco de Sabadell		Spain	414	372
Banco di Napoli, Naples		Italy	67	65
Banco di Roma, Rome		Italy	71	71
Banco di Santo Spirito, Rome		Italy	186	190
Banco di Sicilia, Palermo		Italy	119	112
Banco do Estado de Sao Paulo		Brazil	35	34
Banco do Estado de Sao Paulo		Brazil	215	471
Bancomer, Mexico City		Mexico	234	198
Bangkok Bank, Ltd.		Thailand	225	226
Bank Bumi Daya, Jakarta		Indonesia	422	352
Bank Dagang Negara, Jakarta		Indonesia	471	457
Bank Hapoalim, Tel-Aviv		Israel	124	126
Bank Leu, Ltd., Zurich		Switzerland	353	335
Bank Leumi le-Israel, Tel-Aviv		Israel	132	127
Bank Mees & Hope, Amsterdam		Netherlands	273	289
Bank Mellat, Tehran		Iran	61	55
Bank Negara Indonesia 1946, Jakarta		Indonesia	336	509
Bank One, Texas, NA, Dallas		United States	280	213
Bank Saderat Iran, Tehran		Iran	111	106
Bank fuer Arbeit und Wirtschaft, Vienna		Austria	229	224
Bank fuer Gemeinwirtschaft, Frankfurt		Germany	117	99
Bank of America NT&SA, San Francisco		United States	50	58
Bank of Baroda		India	393	351
Bank of California NA, San Francisco		United States	433	468
Bank of Communications, Taipei		Taiwan	349	424
Bank of Fukuoka, Ltd.		Japan	112	110
Bank of Hawaii, Honolulu		United States	419	397
Bank of Hiroshima, Ltd.		Japan	115	103
Bank of Ikeda, Ltd.		Japan	381	313
Bank of India, Bombay		India	339	290
Bank of Ireland, Dublin		Ireland	181	165
Bank of Kochi, Ltd., Morioka		Japan	319	268
Bank of Kansai, Ltd., Osaka		Japan	456	426
Bank of Kobe, Ltd., Osaka		Japan	233	206
Bank of Kyoto, Ltd.		Japan	179	161
Bank of Montreal		Canada	69	64
Bank of Nagoya, Ltd.		Japan	256	223
Bank of New England NA, Boston		United States	250	291
Bank of New York		United States	98	105
Bank of New Zealand, Ltd., Wellington		New Zealand	324	285
Bank of Nova Scotia, Toronto		Canada	73	70
Bank of Okinawa, Ltd., Naha		Japan	478	438
Bank of Osaka, Ltd.		Japan	263	252
Bank of Saga, Ltd.		Japan	409	359
Bank of Scotland, Edinburgh		United Kingdom	139	120
Bank of Seoul		Korea	89	83
Bank of Taiwan, Taipei		Taiwan	164	150
Bank of Tokyo Trust Co., New York		United States	424	434
Bank of Tokyo, Ltd.		Japan	19	19
Bank of Yokohama, Ltd.		Japan	56	58
Bank of the Ryukyus, Ltd., Naha		Japan	264	244
Bankers Trust Co., New York		United States	119	119
Banque Bruxelles Lambert, Brussels		Belgium	85	76
Banque Cantonale Vaudoise, Lausanne		Switzerland	442	398
Banque Cantonale de Berne		Switzerland	405	344
Banque Cantonale de Bale		Switzerland	430	381
Banque Cantonale de Zurich		Switzerland	148	134
Banque Commerciale pour l'Europe du Nord, Paris		France	489	443
Banque Francaise du Commerce Exterieur, Paris		France	116	156
Banque Generale du Luxembourg		Luxembourg	270	242
Banque Indosuez, Paris		France	87	87
Banque Internationale a Luxembourg		Luxembourg	244	215
Banque Nationale de Paris		France	8	7
Banque Paribas Belgique, Brussels (q)		Belgium	356	318
Banque Paribas, Paris (q)		France	53	46
Banque Regionale d'Escompte et de Depots, Vincennes		France	296	321
Banque Sudameris, Paris		France	469	446
Banque Worms, Paris		France	262	279
Banques et Caisse d'Epargne de l'Etat, Luxembourg		Luxembourg	302	261
Barclays Bank Plc, London		United Kingdom	13	15
Bayerische Hypotheken-und Wechsel-Bank, Munich		Germany	46	38
Bayerische Landesbank Girozentrale, Munich		Germany	52	43
Bayerische Vereinsbank, Munich		Germany	38	33
Bergen Bank		Norway	239	267
Berliner Bank, Berlin		Germany	187	155
Berliner Handels und-Frankfurter Bank, Frankfurt		Germany	184	158
Bhraka Bank, Ltd., Otsu		Japan	427	427
Boatmen's National Bank, St. Louis, Mo.		United States	427	485
Boston Safe Deposit & Trust Co.		United States	240	341
Brenner Landesbank, Bremen		Germany	203	174
C.O.B.-Cassa d'Epargne Prov. Brabant		Belgium	247	221
CIC-Union Europeenne, International & Cie, Paris		France	453	395
Caisse Centrale des Banques Populaires, Paris		France	174	176
Caixa Geral de Depositos, Lisbon		Portugal	102	116
Caja de Ahorros de Catalunya, Barcelona		Spain	425	389
Caja de Ahorros de Pedrosa e Rovigo, Padova		Spain	396	484
Caja de Ahorros y Monte de Piedad de Barcelona		Spain	293	272
Caja de Ahorros y Monte de Piedad de Zaragoza		Spain	472	456
Caja de Madrid		Spain	196	192
Caja de Pensiones para la Vejez, Barcelona		Spain	116	116
California Federal Bank, FSB, Los Angeles		United States	162	180
Canadian Imperial Bank of Commerce, Toronto		Canada	57	52
Cassa di Risparmio V.E. per le Provincie Siciliane, Palermo		Italy	308	305
Cassa di Risparmio delle Provincie Lombarde, Milan		Italy	68	89
Cassa di Risparmio di Firenze, Florence		Italy	391	391
Cassa di Risparmio di Genova e Imperia, Genoa		Italy	446	451
Cassa di Risparmio di Padova e Rovigo, Padova		Italy	399	413
Cassa di Risparmio di Roma, Rome		Italy	149	183
Cassa di Risparmio di Verona, Vicenza & Belluno, Verona		Italy	262	312
Cassa di Risparmio in Bologne		Italy	440	504
CenTrust Bank, SSB, Miami		United States	411	429
Centrale Raiffeisenbank van Belgische Boerenbond, Leuven		Belgium	224	199
Chang Hwa Commercial Bank, Ltd., Taichung		Taiwan	165	164
Chase Lincoln First Bank NA, Rochester, N.Y.		United States	460	460
Chase Manhattan Bank (USA) NA, Wilmington, Del.		United States	364	680
Chase Manhattan Bank NA, New York		United States	54	60
Chemical Bank, New York		United States	104	109
Chiba Bank, Ltd.		Japan	75	70
Chiba Kogyo Bank, Ltd.		Japan	381	361
Cho Hung Bank Ltd., Seoul		Korea	194	220
Christiana Bank og Kreditkasse, Oslo		Norway	193	194
Chugoku Bank, Ltd., Okayama		Japan	143	136
Chuhoy Bank, Ltd., Nagoya		Japan	335	296
Chuo Trust & Banking Co., Ltd., Tokyo		Japan	93	59
Citibank (Nevada) NA, Las Vegas		United States	369	0
Citibank (South Dakota) NA, Sioux Falls		United States	316	782
Citibank NA, New York		United States	24	27
Citicorp Savings, FSB&A, San Francisco		United States	443	495
Citizens & Southern National Bank, Atlanta		United States	286	286
Citizens & Southern National Bank, Fort Lauderdale, Fla.		United States	442	461
Citizens National Bank, Seoul		Korea	272	253
City Savings Bank, FSB, Somerset, N.J.		United States	392	409
Clydesdale Bank Plc, Glasgow		United Kingdom	430	430
Coast Savings & Loan Assn., Los Angeles		United States	306	302
Columbia Savings & Loan Assn., Beverly Hills		United States	407	339
Comerica Bank-Detroit		United States	329	350
Commercial Bank of Greece, Athens		Greece	305	401
Commercial Bank of Korea Ltd., Seoul		Korea	167	214
Commercial Bank of Qatar		Qatar	381	0
Commerzbank International, Luxembourg		Luxembourg	313	275
Commerzbank, Frankfurt		Germany	32	28
Commonwealth Bank of Australia, Sydney		Australia	20	124
Commonwealth Banking Corp., Sydney		Australia	114	118
Commonwealth Savings Bank of Australia, Sydney		Australia	259	219
Connecticut Bank & Trust Co. NA, Hartford		United States	351	315
Connecticut National Bank, Hartford		United States	282	304
Continental Bank NA, Chicago		United States	133	168
Coutts & Co., London		United Kingdom	421	347
Credit Agricole Mutuel, Paris		France	4	4
Credit Commercial de France, Paris		France	95	102
Credit Industriel d'Alsace et de Lorraine, Strasbourg		France	321	368
Credit Industriel et Commercial, Paris (b)		France	254	256
Credit Lyonnais Bank Nederland, Rotterdam		Netherlands	216	187
Credit Lyonnais, Paris		France	12	12

WORLD BANKING

Alphabetical Listing of Top 500 Banks in Assets

With asset and deposit ranks on Dec. 31, 1989

		Asset Rank	Deposit Rank
Credit Suisse (Luxembourg)	Luxembourg	479	414
Credit Suisse, Zurich	Switzerland	47	62
Creditanstalt-Bankverein, Vienna	Austria	102	115
Credito Italiano, Milan	Italy	60	53
Credito Romagnolo, Bologna	Italy	247	268
Crestar Bank, Richmond	United States	327	345
CrossLand Savings FSB, Brooklyn, New York	United States	255	300
Dai-Ichi Kangyo Bank Ltd., Tokyo	Japan	2	2
Daiwa Bank, Ltd., Matsuzaka	Japan	374	320
Daishi Bank, Ltd., Niigata	Japan	291	181
Daiwa Bank, Ltd., Osaka	Japan	25	25
Danske Bank, Copenhagen	Denmark	78	72
Deutsche Bank Luxembourg	Luxembourg	191	172
Deutsche Bank, Frankfurt	Germany	15	9
Deutsche Pacific Bank Westpac, Frankfurt	Germany	33	49
Deutsche Girozentrale-Deutsche Kommunalbank, Frankfurt	Germany	145	128
Deutsche Siedlungs und Landesrentenbank, Bonn	Germany	40	386
Development Bank of Singapore Ltd.	Singapore	218	209
Dime Savings Bank of New York, FSB, Garden City	United States	397	280
Dresdner Bank Berlin AG	Germany	431	370
Dresdner Bank Luxembourg	Luxembourg	265	238
Dresdner Bank, Frankfurt	Germany	26	23
Ehime Bank, Ltd., Matsuyama	Japan	384	333
Eighteenth Bank, Ltd., Nagasaki	Japan	332	304
Empire of America Federal Savings Bank, Buffalo, N.Y.	United States	**415**	**332**
Erste Oesterreichische Spar-Casse, Vienna	Austria	285	273
Farmers Bank of China, Taipei	Taiwan	371	432
Fidelity Bank NA, Philadelphia	United States	370	360
First Bank NA, Minneapolis	United States	281	294
First City Texas-Houston NA	United States	436	502
First Commercial Bank, Taipei	Taiwan	136	147
First Federal of Michigan, Detroit	United States	312	540
First Fidelity Bank NA, Newark, N.J.	United States	143	154
First Gibraltar Bank, FSB, Dallas	United States	347	354
First Interstate Bank of Arizona NA, Phoenix	United States	240	244
First Interstate Bank of California, Los Angeles	United States	186	173
First Interstate Bank of Oregon NA, Portland	United States	491	477
First Interstate Bank of Texas NA, Houston	United States	488	431
First National Bank of Maryland, Baltimore	United States	492	511
First National Bank of South Africa Ltd., Johannesburg	South Africa	98	127
First National Bank, Atlanta	United States	397	418
First National Bank, Boston	United States	131	157
First National Bank, Chicago	United States	122	123
First Nationwide Bank, FSB, San Francisco	United States	173	197
First Pennsylvania Bank NA, Philadelphia	United States	475	492
First Union National Bank of Florida, Jacksonville	United States	375	367
First Union National Bank, Charlotte, N.C.	United States	217	264
Fleet National Bank, Providence, R.I.	United States	354	420
Florida National Bank, Jacksonville	United States	426	425
Foreta Sparbanken, Stockholm	Sweden	416	360
Frankfurter Sparkasse, Frankfurt	Germany	326	376
Franklin Savings Assn., Ottawa, Kan.	United States	301	536
Fuji Bank, Ltd., Tokyo	Japan	4	4
Fukui Bank, Ltd.	Japan	268	247
Fukuoka City Bank, Ltd.	Japan	238	206
Fukuoka Bank, Ltd., Osaka	Japan	259	239
Generale Bank, Brussels	Belgium	65	57
Genossenschaftliche Zentralbank, Stuttgart	Germany	304	262
Gibraltar Savings, FA, Simi Valley, Calif.	United States	451	441
Girozentrale und Bank der Oesterreichischen Sparkassen, Vienna	Austria	151	150
Glendale Federal Bank, FSB, Calif.	United States	159	184
Goldome, Buffalo, N.Y.	United States	271	287
Gotabanken, Stockholm	Sweden	322	314
Great American Bank, SSB, San Diego, Calif.	United States	266	295
Great Western Bank, FSB, Pomona, Calif.	United States	123	135
Greenwood Trust Co., New Castle, Del.	United States	459	459
Groupe Des Banques Populaires, Paris	France	70	69
Gulf Bank, Kuwait	Kuwait	476	428
Gulf International Bank, Manama	Bahrain	343	288
Gunma Bank, Ltd., Kumamoto	Japan	128	120
Hachijuni Bank, Ltd., Nagano	Japan	121	111
Hamburger Sparkasse, Hamburg	Germany	221	188
Hamburgische Landesbank-Girozentrale, Hamburg	Germany	136	121
Hang Seng Bank Ltd., Hong Kong	Hong Kong	179	193
Hanil Bank Ltd., Seoul	Korea	177	212
Hanshin Bank, Ltd., Kobe	Japan	461	402
Harris Trust & Savings Bank, Chicago	United States	346	306
Hessische Landesbank-Girozentrale, Frankfurt	Germany	108	86
Hibernia National Bank, New Orleans, La.	United States	482	467
Higashi-Nippon Bank, Ltd., Tokyo	Japan	402	346
Hiroshima Bank, Ltd., Hiroshima	Japan	235	210
Hill, Samuel Bank, Ltd., London	United Kingdom	200	467
Hokkaido Bank, Ltd., Sapporo	Japan	275	251
Hokkaido Bank, Ltd., Sapporo	Japan	175	163
Hokkaido Takushoku Bank, Ltd., Sapporo	Japan	64	63
Hokuriku Bank, Ltd., Kanazawa	Japan	237	211
Hokusetsu Bank, Ltd., Nagaoka	Japan	314	274
Hokuriku Bank Ltd., Toyama	Japan	76	76
Home Savings of America, FA, Irwindale, Calif.	United States	99	107
Homefed Bank, FSB, San Diego, Calif.	United States	208	217
Hongkong and Shanghai Banking Corp., Hong Kong	Hong Kong	27	26
Household Bank, FSB, Newport Beach, Calif.	United States	458	640
Hua Nan Commercial Bank, Ltd., Taipei	Taiwan	161	153
Huntington National Bank, Columbus, Ohio	United States	398	394
Hyakugo Bank, Ltd., Tsu	Japan	231	204
Hyakujushi Bank, Ltd., Takamatsu	Japan	189	177
Hyogo Bank, Ltd., Kobe	Japan	147	137
Imperial Savings Assn., San Diego, Calif.	United States	360	393
Industrial Bank of Japan, Ltd., Tokyo	Japan	7	7
Industrial Bank of Korea, Seoul	Korea	284	353
International Commercial Bank of China, Taipei	Taiwan	436	486
Israel Discount Bank, Ltd., Tel-Aviv	Israel	226	201
Istituto Bancario Italiano, Milan	Italy	124	400
Istituto Bancario San Paolo di Torino, Turin	Italy	34	39
Iyo Bank, Ltd., Matsuyama	Japan	198	175
Joyo Bank, Ltd., Mito	Japan	80	73
Juroku Bank, Ltd., Gifu	Japan	144	140
Jyske Bank, Silkeborg	Denmark	410	374
Kagoshima Bank, Ltd.	Japan	279	256
Kansallis-Osake Pankki, Helsinki	Finland	118	145
Keiyo Bank, Ltd., Chiba	Japan	283	257
Kiyo Bank, Ltd., Wakayama	Japan	193	193
Kleinwort, Benson, Lonsdale Plc, London	United Kingdom	251	297
Kofuku Bank, Ltd., Osaka	Japan	260	231
Korea Development Bank, Seoul	Korea	156	342
Korea Exchange Bank, Seoul	Korea	166	243
Korea First Bank, Seoul	Korea	197	236
Korea Housing Bank, Seoul	Korea	303	390
Kredietbank N.V., Brussels	Belgium	96	80
Kredietbank S.A. Luxembourgeoise, Luxembourg	Luxembourg	289	260
Kreissparkasse Koeln, Cologne	Germany	448	399
Krung Thai Bank Ltd., Bangkok	Thailand	396	361
Kyowa Bank, Ltd., Tokyo	Japan	41	40
Kyushu Bank, Ltd., Sasebo	Japan	474	417
Land Bank of Taiwan, Taipei	Taiwan	190	179
Landesbank Rheinland-Pfalz Girozentrale, Mainz	Germany	141	131
Landesbank Saar-Girozentrale, Saarbrucken	Germany	498	836
Landesbank Schleswig-Holstein Girozentrale, Kiel	Germany	288	309
Landeskreditbank, Stuttgart	Germany	277	244
Ljubljanska Banka, Ljubljana	Yugoslavia	437	553
Lloyds Bank Plc, London	United Kingdom	43	37
Long-Term Credit Bank of Japan Ltd., Tokyo	Japan	21	20
Luzerner Kantonalbank, Lucerne	Switzerland	439	428
Lyonnaise de Banque, Lyon	France	358	339
Malayan Banking Berhad, Kuala Lumpur	Malaysia	205	205
Manufacturers Hanover Trust Co., New York	United States	81	79
Manufacturers National Bank, Detroit	United States	360	376
Marine Midland Bank NA, Buffalo, N.Y.	United States	178	169
Maryland National Bank, Baltimore	United States	393	392
Medium Business Bank of Finland, Helsinki	Finland	211	235
Meilon Bank NA, Pittsburgh	United States	170	190
Meridian Bank, Phoenix, Ariz.	United States	485	512
Meridian Bank, Reading, Pa.	United States	330	317
Meritor Savings Bank, Philadelphia	United States	276	265
Michigan National Bank, Farmington Hills	United States	344	336
Michinoku Bank, Ltd., Aomori	Japan	412	356
Midland Bank Plc, London	United Kingdom	39	35
Midlantic National Bank, Newark, N.J.	United States	348	340
Mitsubishi Bank Ltd., Tokyo	Japan	5	5
Mitsubishi Trust & Banking Corp., Tokyo	Japan	11	8
Mitsui Bank, Ltd., Tokyo	Japan	14	18
Mitsui Trust & Banking Co., Ltd., Tokyo	Japan	19	17
Miyazaki Bank, Ltd.	Japan	401	369
Monte dei Paschi di Siena	Italy	59	61
Morgan Grenfell & Co. Ltd., London	United Kingdom	328	343
Morgan Guaranty Trust Co., New York	United States	72	82
Motherwell District Municipal Bank Ltd.	United Kingdom	495	415
Musashino Bank, Ltd., Omiya	Japan	294	256
NCNB National Bank of Florida, Tampa	United States	295	284
NCNB National Bank of North Carolina, Charlotte	United States	192	263
NCNB Texas National Bank, Dallas	United States	126	125
NIMB Postbank Group, N.V., Amsterdam	Netherlands	51	48
Nanto Bank, Ltd., Nara	Japan	182	167
Nassauische Sparkasse Wiesbaden, Wiesbaden	Germany	432	365
National Australia Bank, Ltd., Melbourne	Australia	94	94
National Bank of Canada, Montreal	Canada	134	139
National Bank of Detroit	United States	214	232
National Bank of Dubai Ltd., Dubai	United Arab Emirate	494	472
National Bank of Egypt, Cairo	Egypt	454	435
National Bank of Greece, Athens	Greece	64	133
National Bank of Kuwait	Kuwait	269	234
National City Bank, Cleveland	United States	455	464
National Commercial Bank, Jeddah	Saudi Arabia	163	146
National Westminster Bank Plc, London	United Kingdom	18	16
National Westminster Bank USA, New York	United States	248	225
Nedcor Ltd., Johannesburg	South Africa	377	311
Nippon Credit Bank, Ltd., Tokyo	Japan	31	34
Nippon Trust Bank, Ltd., Tokyo	Japan	146	151
Nishi-Nippon Bank, Ltd., Fukuoka	Japan	307	271
Nordbanken, Stockholm	Sweden	372	334
Norddeutsche Landesbank Girozentrale, Hannover	Germany	66	55
Norinchukin Bank, Tokyo	Japan	10	11
Norske Creditbank, Oslo	Norway	243	254
North Pacific Bank, Ltd., Sapporo	Japan	380	327
Northern Trust Co., Chicago	United States	394	473
Norwest Bank Minnesota NA, Minneapolis	United States	91	83
Oesterreichische Laenderbank, Vienna	Austria	164	157
Oesterreichische Postsparkasse, Vienna	Austria	218	219
Ogaki-Kyoritsu Bank, Ltd., Ogaki	Japan	227	202
Oita Bank, Ltd., Oita	Japan	223	191
Osuuspankkien Keskuspankki Oy, Helsinki	Finland	267	496
Oversea-Chinese Banking Corp., Ltd., Singapore	Singapore	341	335
Overseas Union Bank, Ltd., Singapore	Singapore	496	531
PKbanken, Stockholm	Sweden	86	97
Peoples Bank, Bridgeport, Conn.	United States	460	450
Philadelphia National Bank	United States	359	358
Pittsburgh National Bank	United States	228	266
Postipankki, Helsinki	Finland	193	203
Provident National Bank, Philadelphia	United States	497	440
Rabobank Nederland, Utrecht	Netherlands	45	44

WORLD BANKING

Alphabetical Listing of Top 500 Banks in Assets

With asset and deposit ranks on Dec. 31, 1989

		Asset Rank	Deposit Rank
Raiffeisen Bank, Bucharest	Iraq	97	85
Raiffeisen Zentralbank Oesterreich AG, Vienna	Austria	219	228
Republic National Bank, New York	United States	206	208
Riggs National Bank, Washington, D.C.	United States	481	439
Riyad Bank Ltd., Riyadh	Saudi Arabia	198	175
Royal Bank of Canada, Montreal	Canada	49	44
Royal Bank of Scotland Plc, Edinburgh	United Kingdom	103	90
S.G. Warburg & Co., Ltd., London	United Kingdom	342	293
Saitama Bank, Ltd., Urawa	Japan	42	42
San-in Godo Bank, Ltd., Matsue	Japan	252	229
Sanwa Bank California, San Francisco	United States	466	453
Sanwa Bank Ltd., Osaka	Japan	3	3
Saudi American Bank, Riyadh	Saudi Arabia	455	458
Seattle-First National Bank	United States	290	314
Security Pacific Bank Washington, Seattle	United States	420	400
Security Pacific National Bank, Los Angeles	United States	82	84
Senshu Bank, Ltd., Kishiwada	Japan	379	329
Shawmut Bank NA, Boston	United States	373	460
Shiga Bank, Ltd., Otsu	Japan	304	278
Shikoku Bank, Ltd., Kochi	Japan	257	255
Shinhan Bank, Seoul	Korea	300	407
Shinwa Bank, Ltd., Sasebo	Japan	382	330
Shizuoka Bank Ltd.	Japan	88	78
Shoko Chukin Bank, Tokyo	Japan	55	47
Signet Bank/Virginia, Richmond	United States	366	474
Skandinaviska Enskilda Banken, Stockholm	Sweden	74	108
Skopbank, Helsinki	Finland	180	316
Societe Generale Alsacienne de Banque, Strasbourg	France	287	309
Societe Generale, Paris	France	20	21
Societe Nationale de Credit a l'Industrie, Brussels	Belgium	246	222
Society National Bank, Cleveland	United States	417	412
Southeast Bank, Miami	United States	232	227
Sovran Bank NA, Richmond	United States	258	270
Sparbanken, Malmo	Sweden	94	126
Sparekassen Sjlluben, Copenhagen	Denmark	317	355
Sparkasse der Stadt Berlin West, Berlin	Germany	264	233
Sparkasse in Bremen	Germany	300	376
Stadtsparkasse Koeln, Cologne	Germany	352	323
Stadtsparkasse Muenchen, Munich	Germany	435	417
Standard Bank of South Africa Ltd., Johannesburg	South Africa	320	276
Standard Chartered Bank, London	United Kingdom	133	208
Standard Federal Bank, Troy, Mich.	United States	357	416
State Bank Victoria, Melbourne	Australia	222	213
State Bank of New South Wales, Sydney	Australia	315	348
State Bank of South Australia, Adelaide	Australia	280	245
State Street Bank & Trust Co., Boston	United States	331	419
Suedwestdeutsche Genossenschafts-Zentralbank, Frankfurt	Germany	236	205
Suedwestdeutsche Landesbank, Stuttgart	Germany	67	74
Sumitomo Bank Ltd., Osaka	Japan	1	1
Sumitomo Trust & Banking Co., Ltd., Osaka	Japan	17	13
Sunbelt Savings, FSB, Dallas	United States	378	598
Sunuga Bank, Ltd., Numazu	Japan	206	182
Svenska Handelsbanken, Stockholm	Sweden	104	113
Swiss Bank Corp., Basle	Switzerland	28	29
Swiss Volksbank, Berne	Switzerland	135	138
TSB Bank, Plc, London	United Kingdom	110	104
Taiwan Cooperative Bank, Taipei	Taiwan	130	117
Taiyo Kobe Bank, Ltd., Kobe	Japan	72	22
Texas Commerce Bank NA, Houston	United States	298	405
Thai Farmers Bank, Bangkok	Thailand	429	397
Tochigi Bank, Ltd., Utsunomiya	Japan	447	403
Toho Bank, Ltd., Kumamoto	Japan	274	250
Tokai Bank Ltd., Nagoya	Japan	9	10
Tokyo Sowa Bank, Ltd.	Japan	183	166
Tokyo Tomin Bank, Ltd.	Japan	261	236
Toronto Dominion Bank	Canada	91	81
Towa Bank, Ltd., Maebashi	Japan	343	303
Toyo Trust & Banking Co. Ltd., Tokyo	Japan	29	30
Trust Company Bank, Atlanta	United States	483	606
Turkiye Cumhuriyeti Ziraat Bankasi, Ankara	Turkey	361	408
Ulster Bank Ltd., Belfast	United Kingdom	490	454
Uniao de Bancos Brasileiros, Sao Paulo	Brazil	444	973
Unibank, Copenhagen	Denmark	107	98
Union Bank of Finland, Ltd., Helsinki	Finland	120	132
Union Bank of Norway, Oslo	Norway	463	452
Union Bank of Switzerland (Luxembourg)	Luxembourg	368	306
Union Bank of Switzerland, Zurich	Switzerland	30	31
Union Bank, San Francisco	United States	241	241
Union de Banques Arabes et Francaises, Neuilly (w)	France	423	383
United Mizrahi Bank Ltd., Tel-Aviv	Israel	401	404
United Overseas Bank Ltd., Singapore	Singapore	362	348
United States National Bank, Portland	United States	337	373
United World Chinese Commercial Bank, Taipei	Taiwan	386	386
Valley National Bank, Phoenix	United States	366	319
Vereins und Westbank, Hamburg	Germany	265	240
Wechovia Bank & Trust Co. NA, Winston-Salem, N.C.	United States	242	248
Wells Fargo Bank NA, San Francisco	United States	96	96
West LB International, Luxembourg	Luxembourg	457	423
Westdeutsche Genossenschafts-Zentralbank, Duesseldorf	Germany	212	196
Westdeutsche Landesbank Girozentrale, Duesseldorf	Germany	37	32
Westfalenbank, Bochum	Germany	230	186
Westpac Banking Corp., Sydney	Australia	58	67
World Savings, FS&LA, Oakland, Calif.	United States	201	246
Yamagata Bank, Ltd.	Japan	404	357
Yamaguchi Bank, Ltd., Shimonoseki	Japan	150	141
Yamanashi Chuo Bank, Ltd., Kofu	Japan	310	282
Yasuda Trust & Banking Co. Ltd., Tokyo	Japan	23	24
Yorkshire Bank Plc, Leeds	United Kingdom	480	433
Zenshinren Bank, Tokyo	Japan	53	54
Zentralsparkasse und Kommerzialbank, Vienna	Austria	196	171

Foreign Currency Exchange Guide and Exchange Rate Comparisons

Name of Country	Currency	Symbol	Rate 12/31/88	Rate 12/31/89	Gain /Loss
Argentina	Austral	AP	0.000735	0.001300	-68.90
Australia	Dollar	A$	0.776000	0.783000*	-0.88
Austria	Schilling	AS	0.084000	0.080000	+5.00
Bahamas	Dollar	B$	1.000000	1.000000	00.00
Bahrain	Dinar	BahD	2.650000	2.640000	+0.38
Belgium	Franc	BF	0.028100	0.026900	+4.85
Brazil	New Cruzado	BC	0.112000	0.001360	+8,135*
Canada	Dollar	C$	0.852000	0.818000	-3.75
Chile	Peso	CP	0.003000	0.004000	-25.00
Denmark	Krone	DK	0.151000	0.146000	+4.00
Egypt	Pound	EP	0.380000*	0.430000*	-10.65
Ethiopia	Birr	EB	0.460000	0.460000	+0.21
Finland	Markka	FM	0.240000	0.240000	+2.50
France	Franc	FF	0.172000	0.163000	+6.13
Germany	Deutsche Mark	DM	0.580000	0.550000	+5.30
Greece	Drachma	GD	0.006300	0.006700	-5.97
Hong Kong	Dollar	HB	0.128000	0.128000	00.00
India	Rupee	InR	0.058000*	0.064300*	-9.92
Indonesia	Rupiah	IR	0.000560	0.000579	-3.28
Iran	Rial	IR	0.014000	0.014000	00.00
Iraq	Dinar	ID	3.100000	3.200000	-3.13
Ireland	Pound	IP	1.580000*	1.431000*	+10.41
Israel	Shekel	IS	0.530000	0.626000	-15.34
Italy	Lira	L	0.000790	0.000760	+3.14
Japan	Yen	Y	0.008358*	0.007509*	+10.24
Jordan	Dinar	JD	1.560000	2.100000	-25.71
Korea	Won	KW	0.001450	0.001450	+5.00

Figures shown are the dollar values per unit of foreign currency. Most of the currencies are converted into dollars using the New York cable rate for the date shown. Unless otherwise noted, the exchange rates shown are for yearend 1988 and 1989, respectively. Exchange rates for dates other than 12/31/89 and 12/31/88 indicate that most or all banks in a country reported data as of the date indicated. (a)—Banks in country use Swiss franc. (*)—As of 5/25/89 and 5/25/90, respectively. (**)—The official rate for the new cruzado at yearend was $0.0888. Since yearend, the market rate of the new cruzado has fallen 85% to $0.0185 as of 5/25/90. (***)—As of 10/31/89 and 10/31/88, respectively. (*)—As of 6/25/89 and 6/25/88, respectively. (**)—As of 3/31/90 and 3/31/89, respectively. (***)—As of 3/30/89 and 3/30/88, respectively. (*)—Dinar was devalued 10,000-to-1 shortly after yearend.

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Are Banks Missing Global Opportunities?

Continued from page 1A

Citicorp/Citibank, Chase Manhattan Corp., and Bank-America Corp. are the only individual banking companies that have even a modicum of nationwide "brand-name power," which Landor set out to measure in 1988 and again this year. They and Chemical Banking Corp. were famous and esteemed enough to show up in Landor's 1988 pan-European survey as well, though well behind the credit card brands.

Europeans Retreat, Too

"That may seem disappointing, but actually the findings are very decisive and encouraging when you put the U.S. banks' 'image power' in the perspective" of the economic unification of the European Community, said Alan Taylor, managing director of Landor's New York office.

"None of the big European institutions that you would expect to be preparing for [the unified market] post-1992 – Barclays, NatWest, Banque Nationale de Paris, Credit Suisse, Deutsche Bank – scored highly in terms of familiarity or esteem" outside their home markets, he said of the Landor study.

In fact, many European banks recently have been pulling in their horns, having to cope with rising costs and nonperforming loans as have their U.S. counterparts. Japanese banks, big enough to gobble up U.S. banks at will, have confined most of their acquisition activity to California, the market they find most compatible with their skills and styles.

"Gone are the days when we would travel abroad, establish a branch, lend substantial sums of money at low margin, and expect to make a profit," John Kerslake, chief executive officer for North America of Barclays Bank, London, told a recent conference in Florida of the Bankers Association for Foreign Trade. Barclays and other big multinational banks have grown increasingly selective about where they go and what they do.

Barclays, for example, has sold its U.S. consumer finance company, which was once seen as the nucleus for a nationwide banking empire.

"We have determined we wish to be a global business, but in certain selected, international markets," particularly Europe, said Mr. Kerslake.

Opening for Americans

With the big U.S. banks already enjoying recognition on a pan-European scale, "they have at least an equal, and perhaps a greater, opportunity than the European locals to establish pan-European and multinational identities," Mr. Taylor said.

But will any U.S. banks make such a move before competitors from other countries steal the initiative?



U.S. financial institutions have the wherewithal to get ahead internationally through advertising. But, advertising can get too far out in front of an institution's ability to deliver product against it.

Gary DePaolo
BBDO Worldwide

Recent studies of banking competition by the General Accounting Office of the U.S. Congress and the Organization for Economic Cooperation and Development found little interest in global expansion among U.S. or foreign banks, particularly on the most visible, retail level.

But French banker Serge Belanger wrote in the July-August 1990 issue of *The Bankers Magazine* that changes in retail marketing are sure to draw forward-thinking bankers into globalization.

"Changing economics, new marketing techniques, and growing individual mobility are facilitating the internationalization of retailing," said Mr. Belanger, executive vice president and general manager of CIC-Union Europeenne in New York. "Consumer banking is responding to these same forces.

"Armed with global marketing strategies as well as new products, and convinced they can obtain economies of scale, [banks with international ambitions] will build and enlarge their consumer banking operations in whatever countries they identify as most promising."

Chase in the Forefront

Mr. Taylor said the big three U.S. banks are clearly in the process of what marketers call positioning, but that Chase Manhattan Corp., building on one of the industry's most venerable names, has excelled.

"Chase has been doing a remarkably good job in expanding its identity worldwide," he said. "Rather than opening myriad branches, Chase is looking to private banking and other avenues. By reaching a more exclusive clientele, it is reaching opinion leaders, and that will have a percolation effect on retail business and on the overall image of the institution."

Chase is also noted for one of the first "world television commercials" in banking: a 1989 ad for European and U.S. consumption showing investment bankers and clients converging on a meeting in Paris.

Citicorp and BankAmerica are "pursuing similar strategies" outside the U.S., "but have not been as focused as Chase," Mr. Taylor said. He expects that focus to sharpen. Citicorp is creating common systems that will make it possible to deliver similar consumer and corporate services in every country. Advertising of that capability is sure to follow; even without global advertising in the Coca-Cola mode, Citicorp claims to do at least some business with 30 million households worldwide.

Regionals Respond

BankAmerica, having recovered from severe earnings problems in the early 1980s and also



Unlike a consumer product, financial services cannot simply be manufactured and shipped. The services have to be controlled and delivered locally.

John Bennett
Visa U.S.A.

moving toward computer-system uniformity, is rebuilding its international network. It is focusing on the Pacific Rim, as are other California-based regional banks attentive to their customers' international connections.

Security Pacific Corp., for example, has an Asian banking unit with 40 offices, said John Getzelman, chairman of its Seattle subsidiary, Security Pacific Bancorp. Northwest.

"While our emphasis is on building the Security Pacific franchise in the Northwest, we are learning that there are no purely domestic businesses today," he told the Bankers Association for Foreign Trade. "Increasingly, domestic bankers must be international bankers as well.

"We have sharpened our focus on our domestic customers, but kept a global vision of their international needs." The Pacific Northwest, he pointed out, is home to Boeing Corp. and Microsoft Corp. and has become a crossroads for international trade.

In a similar vein, Bank of Boston Corp., which has a strong branch banking network in Latin America but is less of a factor in Europe and Asia, has decided to "do a limited number of things very well, in the most efficient manner possible, driven by our customers' needs," said Kevin J. Mulvaney, executive vice president for international.

Many Strategies Discarded

"Our [past] forays brought with them many successes but also a strategic dustbin with discarded overseas consumer, leasing, and other strategies," he said. "Our answer is a very targeted, cost-effective, realistic, but limited strategy."

"Bankers may have become less focused internationally, but the reality is that their constituencies are operating in a global context," said Mr. Taylor of Landor Associates.

"This is true whether you look at the general public, or the high-net-worth private banking customer, the sophisticated investor, or the business executive. They are all making choices of institutions and brands and relationships, and it behooves bankers to pay attention to how they operate in that context." □

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AMERICAN BANKER

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Analysts Seek Better Way to Size Up Banks

By FRED VOGELSTEIN

Reacting to one of the worst slumps in bank stocks since the real estate debacle of the early 1970s, a growing number of analysts are rethinking the way they examine banks.

They say the recent spate of large, unexpected changes in bank fundamentals has made their current set of financial tests less effective and some of their predictions no more accurate than weather forecasts.

"It's becoming increasingly clear that credit quality considerations are driving the stocks more than traditional factors like predictions of net interest margin or probability of expansion or takeover," said Raphael Soifer, at Brown Brothers Harriman & Co., New York.

"We felt the only way one can really look at asset quality" is to come up with a new test, Mr. Soifer said.

Fleet/Norstar Shock

Most analysts agree that the changes in fundamentals are consequences of stiff regulatory examinations amid declining real estate values and souring leveraged loans.

Analysts and investors still talk with frustration about reports from Fleet/Norstar Financial Corp., for example, which surprised them in April, after an exam by regulators, by reporting a $600 million increase in problem loans for the first quarter.

"No one quite knows how to think about bank stocks anymore," said Roger Hillas, chairman of Meritor Savings Bank, Philadelphia, and a manager of two regional bank stock funds.

"You think something is doing well, and then the roof caves in."

The Surprise Index

Mr. Soifer said he and his colleagues at Brown Brothers developed their new tool with such examples in mind. Their Surprise Index attempts to gauge how well banks have done over time at avoiding bad loans.

The index is based on two five-year sets of data from 1980 to 1989. It is meant to suggest how likely a bank is to make bad loans or deal well with current problem loans.

"The thinking is that banks with better credit processes will deal with those problems better than others," Mr. Soifer said.

Focusing on Dividend Safety

Analysts at Shearson Lehman Brothers Holdings Inc. are focusing on net interest margin and dividend safety.

ANALYSIS: *Follow-up on the news*

See **ANALYSTS** *back page*

INSIDE NEWS

SPECIAL REPORT



JAPANESE BANKS in the U.S. are shifting gears to emphasize earnings from non-asset-related businesses. Meanwhile, most U.S. banks in Japan are treading water in a choppy sea. *Page 1A*

INTERNATIONAL

MAVERICK Japanese politicians are pushed into China with promises of loans. *Page 10*

EARNINGS

BANK OF BOSTON Corp. announced that its second-quarter profits plummeted 96% from the year-earlier level to $4 million. *Page 2*

TECHNOLOGY

SHAMUT NATIONAL continues cutting costs, intent on becoming a low-cost provider of services. *Page 3*

CONSUMER

A CONSTRUCTION LOAN controls system is being touted as a boon for newly cautious lenders. *Page 8*

MORTGAGES

A WHISTLE-BLOWER'S report, which has met with official skepticism, is spurring examiners to take a closer look at how thrifts adjust rates on variable loans. *Page 6*

FINANCE

BANC ONE filed a shelf registration to issue $300 million in new bonds. *Page 20*

COMMENT

MORTGAGE SECURITIES have fundamental value at current levels of yield spreads to Treasuries, according to Joseph C. Hu. *Page 4*

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2 Bills Seek To End Curbs On Branching

By LOUIS GERHARDSTEIN

WASHINGTON Moving to lift the remaining geographic restrictions on U.S. banks and speed the industry's consolidation, two key legislators introduced bills Thursday to allow full interstate banking and branching by 1994.

Observers said the legislation could prove the most significant affecting interstate expansion since the establishment of regional banking compacts in the early 1980s.

Those reciprocal multistate agreements spurred the creation of a new class of banking company, the superregional.

Tearing Down Walls

Sponsors of the bills introduced Thursday said the measures would tear down "the old, archaic walls between states" and increase the size and international competitiveness of U.S. banks.

"The legislation would relax most current restrictions on interstate banking," said Rep. Charles E. Schumer, D-N.Y., sponsor of the legislation in the House. He said his measure would "allow acquisition of banks by out-of-state holding companies after 1992 and authorize interstate branching after 1993."

Appearing at a Capitol Hill press conference with Sen. Christopher Dodd, D-Conn., who introduced an identical bill in the Senate, Mr. Schumer

See page **12**

Norwest Agrees to Buy United Banks of Denver

By NANINE ALEXANDER

CHICAGO — Norwest Corp. said on Thursday that it had agreed to acquire United Banks of Colorado Inc. in a stock swap valued at about $440 million.

The disclosure came as United announced that it lost $89.7 million in the second quarter, after taking a $95 million provision for problem loans. The Denver company also said it would take a $95 million charge in the second half, relating to problem loans and merger-related expenses.

A Big-Time Merger

Norwest's stock closed Thursday at $19.50, down $7.5 cents. United Banks rose $1.375 to $21.125.

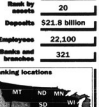
A merger between the two

See **NORWEST** *page* **17**

How Merged Bank Would Stack Up

Head office	Minneapolis
Assets	$33.1 billion
Rank by assets	20
Deposits	$21.8 billion
Employees	22,100
Banks and branches	321

Banking locations



Student Lenders See No Crisis

By YVETTE D. KANTROW

NEW YORK — The financial woes of a Midwest company that issues guarantees on student loans is another in a series of blows to the government-backed program, but bankers see no cause for alarm.

Lenders and others in the business remain confident that the U.S. Department of Education is acting swiftly to resolve the problems of the Higher Education Assistance Foundation, a nonprofit corporation in Overland Park, Kan.

They say they are heartened by a quick decision made earlier this week by the Department of Education and the Office of Management and Budget to send a team to the foundation's computer facilities in Minnesota to review its financial records.

The foundation is struggling because of high default rates on loans. Its failure could result in losses at banks, which could not recoup from the company when student loans go into default.

Citicorp, the nation's largest

See **STUDENT** *page* **8**

U.S. Banks Retreat from Global Ambitions

By JAMES R. KRAUS

Having spent decades expanding their overseas operations, America's big banks are heading into the 1990s dismantling them.

Tougher capital requirements, mounting credit problems, and heightened competition are forcing U.S. banks to scale back their overseas activities. Increasingly, they will have to rely on correspondent banking relationships for their international transactions.

No More Bandwagon

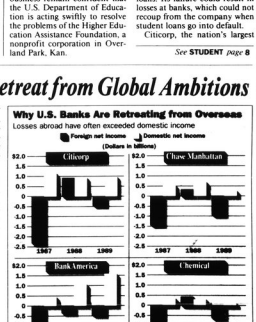
"Money-centers are coming off a decade of troubles in the international arena," John F. McGillicuddy, chairman of Manufacturers Hanover Corp., told bankers at the annual convention of the Bankers Association for Foreign Trade in April.

"So whereas 20 years ago, everyone was trying to get on the

See **U.S.** *page* **10**

Why U.S. Banks Are Retreating from Overseas

Losses abroad have often exceeded domestic income



PEOPLE *in the news*

Departing Schroder Chief Headed for a Homecoming

By JAMES R. KRAUS

When IBJ Schroder Bank & Trust Co. began arranging investment deals in Hungary last year, the bank's president and chief executive downplayed it as "just something we're doing on the side."

Starting next month, Hungarian deals will be more than something on the side for Peter Rona, who is leaving the New York bank to set up in that city an advisory firm specializing in privatizations, joint ventures, and investments in Eastern Europe.



Peter Rona

"I'm not an impulsive man," Mr. Rona said this week. The move "has been like subject of a lot, tot of thought."

Mr. Rona will leave IBJ Schroder next Friday. He will continue to live and work in Manhattan but will be traveling frequently to Eastern Europe for business.

"I wasn't bored at Schroder," he said, "but intellectually, the reconstruction of Eastern Europe is by far and away the most serious and exciting challenge of the next 10 years."

The move represents a homecoming of sorts for the 48-year-old Mr. Rona. Born in Hungary, he was among hundreds of thousands who fled the country in December 1956 after Soviet troops crushed a bloody revolt against Communist rule.

Race to Freedom Recalled

He vividly remembers the street fighting in his Budapest neighborhood and the nighttime crossing over the border into Austria on foot with his mother.

"The border had been plowed up with deep furrows, and it was difficult to run. There was mud everywhere and Russian patrols with dogs. I remember searchlights, flares, and falling into a creek when a Russian patrol approached. Then we ran into Austrian soldiers, and we knew we were across."

After three months in transit camps in Austria, Mr. Rona and his mother settled in Washington.

"Europeans either love the United States or they hate it," he said. "They know it right away, and their feelings don't change. I liked it very much. I found Americans open and generous, and they think big. Europeans are less sincere and genuine, and they can be very petty."

The Prince of Dishwashers

Still, the early years were a hard slog for Mr. Rona. When he was small, his father died. Thereafter, his mother raised him alone.

He spent his teenage years washing dishes and busing tables in restaurants, first to help make ends meet at home, then to help pay his tuition at the University of Pennsylvania in Philadelphia.

The work was menial but strengthened Mr. Rona's attachment to the United States. "People treated me like a prince. They'd say: Here's this kid, he's a refugee," he's working hard, "and he's great. And then they'd add an exclamation point to that."

"It was morally uplifting, and I had this great sense of social support," Mr. Rona said.

After obtaining a law degree from Oxford University, Mr. Rona went to work with the law firm of Arnold & Porter in Washington.

Banking Career Started by Chance

He fell into banking by chance after meeting the man who was then chairman of Schroders PLC London. He invited Mr. Rona to join the bank's U.S. unit, J. Henry Schroder Bank & Trust Co. After Industrial Bank of Japan purchased the U.S. bank, in 1985, Mr. Rona was named president and chief executive.

His fluency in Hungarian, Russian, Italian, and French as well the experience and relationships built up at IBJ Schroder should stand him in good stead when he launches his own company.

He is the latest of several eminent business and political figures who have been fired by the prospect of participating in Eastern Europe's economic restructuring.

"It's amazing how freedom changes people," Mr. Rona said. The Hungarians "have become much more energetic, much more careful, and suddenly developed these proprietary interests. They're much more concerned with ownership than with titles or status." □

NEWS *briefs*

Thrift Cancels Notice on Quitting Home Loan Bank

NEW YORK — American Savings Bank, White Plains, said it had canceled a notice of intent to withdraw from the Federal Home Loan Bank of New York.

The $4.1 billion-asset thrift, which lost $40 million in the second quarter, said it might reinstitute the application.

First Nationwide Financial Announces Record Profit

SAN FRANCISCO — First Nationwide Financial Corp. announced record second-quarter earnings of $41.3 million, up from $3.5 million a year ago.

The six-month figure was $77.2 million, up from $8.4 million. □

Bank of Boston Earnings Plummet

Analysts Not Surprised at 96% Drop in 2d Quarter

By TOM LEANDER

NEW YORK — Beset by problem real estate and highly leveraged transaction loans, Bank of Boston Corp. announced Thursday that its second quarter profits plummeted 96% from the year-earlier level to $4 million.

Meanwhile, BayBanks Inc. said it lost $11.5 million in the second quarter after taking a $63.5 million loan loss provision.

Bank of Boston closed Thursday at $10.875, down 25 cents, and BayBanks closed at $15.50, up $7.5 cents.

'Hardly a Major Surprise'

Bank of Boston's earnings were "lighter than expected, but given the economic climate in New England, hardly a major surprise," said James J. McInerney Jr., an analyst for Keefe, Bruyette, and Woods in New York.

He predicted that regional economic woes would continue to drag on bank earnings for several months.

$200 Million in Chargeoffs

The drop in earnings from the previous year resulted from $200 million in chargeoffs. The figure includes $89 million of chargeoffs on bad real estate loans, $68 million on financing of highly leveraged transactions, and $21 million in loans to lesser-developed countries.

"It looks like they decided it was going to be a big quarter anyway," said Nancy Bush, an analyst for Brown Brothers Harriman in New York, "and decided to go after chargeoffs in a very aggressive way."

Bank of Boston Corp. earnings were also sapped by a $125 million provision for loan losses. The company's reserve for possible credit losses at June 30 was $492 million, or 3.91% of outstanding loans and leases, compared with $967 million or 4% of at March 31. The reserves represented 73% of nonperforming assets as of June 30.

Analysts had expected a rise in nonperforming assets from between $100 million and $200 million. In fact, the chargeoffs caused the company's nonperforming assets to decrease to $1.2 billion from $1.3 billion at March 31.

HLT Financings Decline

On June 30, financings of highly leveraged transactions were $4.2 billion, down from $4.8 billion at March 31. Related nonperforming loans were $281 million at the quarter's end, compared with $236 million at March 31.

Though BayBanks was expected to lose money in the second quarter, analysts said they were surprised by the size of the loss and the loan-loss provision.

The loss reflects the final results of a regulatory exam by the Office of the Comptroller of the Currency, which ended at the

See **EARNINGS** *page* **18**

BANK OF BOSTON CORP.
Boston
(Dollar amounts in millions (except per share))

SECOND QUARTER	2Q '90	2Q '89
Net income	$4.0	$98.0
Per share	0.05	1.27
Net interest income (tax equiv.)	340.3	303.7
Spread	NA	NA
ROA	0.04%	1.09%
ROE	NA	18.95%
Noninterest income	205.3	194.6
Noninterest expense	315.7	298.3
Loss provision	125.0	36.0
Net chargeoffs	200.0	88.0

FIRST HALF	1H90	1H89
Net income	$47.2	$186.9
Per share	0.56	2.44
Net interest income (tax equiv.)	656.9	626.0
Spread	0.00%	0.00%
ROA	0.25%	1.06%
ROE	4.29%	18.54%
Nonintérest income	416.8	355.7
Nonintérest expense	642.2	595.4

BALANCE SHEET	6/30/90	6/30/89
Assets	$37,297.0	$34,697.0
Deposits	$28,982.0	24,017.0
Loans	$21,970.0	20,100.0
Shareholder equity	1,903.0	2,035.0
Loss reserve	892.0	645.0
Reserve/loans ratio	3.91%	2.41%
Nonperf. loans	1,967.0	1,471.0
Nonperf. loans/loans	NA	5.40%
Primary capital ratio	8.40%	8.30%

FDIC Order to Continental

By FRED VOGELSTEIN

Just two months after the Federal Deposit Insurance Corp. spurned an offer by Continental Bank Corp. to buy its own shares, the FDIC has asked the Chicago-based bank to pave the way for the sale of its remaining 20% stake.

The sale would mark the final chapter in one of the largest federal bank bailouts in U.S. history.

The FDIC announced Thursday that it has asked Continental to file a shelf registration with the Securities & Exchange Commission to facilitate the sale of its 26% stake.

However, no deal has been reached, the agency said. Neither the bank or the agency would comment on whether one was imminent.

"It's a procedural step that increases our options so that if the opportunity to sell does come along, we've already satisfied the requirements with the SEC," said Alan Whitney, FDIC spokesman. He said the timing in particular" prompted the FDIC announcement now.

While the FDIC downplayed the filing, Continental Bank officials hailed it as the final leg in a six-year saga.

"This is a milestone with both financial and psychological significance for us," Continental chairman Thomas Theobald said in a prepared statement.

Analysts also viewed the filing as a very positive step.

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TECHNOLOGY/OPERATIONS NEWS

Bankers Quarrel with Report That Urges 24-Hour Trading

By JEANNE IIDA

NEW YORK — Bankers criticized some of the conclusions of a report published last week by the congressional Office of Technology Assessment that admonishes U.S. stock markets for not taking a more aggressive stance in building systems for 24-hour securities trading.

The report warns that domestic stock markets could be eclipsed by the Japanese and the Europeans and that Congress may need to step in to push exchanges in the right direction.

But bankers involved in trading or global trust and custody maintain that market demand – not the government – should determine how quickly 24-hour markets develop.

"I believe there is public interest in 24-hour trading," said Mark Ayvakuluss, vice president in global custody at Citibank, New York, "but I believe it will take place when the market infrastructure and the players deem it appropriate.

Demand Seen as Slight

"We have the technology, but are people beating down my doors for it? I don't think so," he added.

The congressional report, entitled "Trading Around the Clock," evaluates the effects of information technology on securities markets.

Its authors concluded that only a few markets, such as futures, have been aggressively using the available technology to pursue global trading.

"We argue in our report that there is public interest in the performance of markets, and where there is public interest, the government should get involved," said Vary T. Coates, project director at the OTA.

The OTA criticized a new quote system announced by the New York Stock Exchange. It is "an extremely slow step-by-step movement, with the first two or three steps not aimed at rounding-the-globe trading" but only at reorganizing some of the trades that today go to London traders after the New York markets have closed, said Ms. Coates.

"It's not aimed at facilitating traders in other trade zones at trading 24-hours," she said. Other exchanges are even further behind, she said.

Bankers say that markets will be best served if the industry is left to regulate itself. "Congress has mixed agendas in the long run, though it is well-intentioned," said Willard L. Imhof, vice president at Bankers Trust New York Co. "The industry should address this." □

ABA Lobby Wins on Mail Delivery

The American Bankers Association scored a victory Thursday in one of its lobbying efforts to maintain first-class postage service and contain costs.

The Postal Rate Commission ruled against the U.S. Postal Service's proposal to downgrade first-class delivery service. The Postal Service may appeal the ruling.

The proposed change in standards, which would redefine delivery zones, could cause bankers to receive much of their mail a day later than they do now.

Bankers had argued that the measure and another proposal to increase first-class rates by 20% – which will be decided later this year – could have resulted in their paying more for slower service by early 1991.

The commission agreed with the ABA that the Postal Service's market research did not measure customer preferences accurately. □

Shawmut Shrinking Its Back Office

Some Cost-Cutting Steps Buck Industry Trends

By RICHARD LAYNE

A beleaguered Shawmut National Corp. continues on its cost-cutting course, intent on becoming a low-cost provider of banking services.

The supercregional bank last week posted a 55% decline in second-quarter earnings, and its stock has dropped about 30% since June.

But over the weekend, the $28 billion-asset banking company took the final step in consolidating back-office operations.

Part of a Program

The consolidation is one of several cost-control measures chosen by Shawmut as part of a longstanding plan to improve profitability. Some of these steps, including a low-cost approach to branch automation, buck the trend among its big bank counterparts.

The data-center consolidation, begun when Shawmut Bank in Boston merged with Connecticut National Bank in 1988, is a milestone on the track to running all wholesale and retail business under one set of transaction processing systems. The single set of systems will allow the bank and its 480 branches to be managed as one institution.

When the two banks merged, there were 10 data centers. The banking company now has one center, in Hartford, Conn., and the cost savings are projected at millions of dollars a year.

"Cost consciousness comes forward when you merge two large organizations," said Jay W. Roston, senior vice president. Wall Street analysts say the bank has been one of the best at realizing savings in a merger.

One Set of Systems

Shawmut has made few attempts to differentiate itself based on its technology capabilities, observers say. But Shawmut, which gained multiple systems through 1980s acquisitions, is in the vanguard in developing a single set of systems.

The consolidation of back-office processing follows the consolidation of business lines at the two banks.

Management Simplified

"This puts us into a less complex data processing environment, one that is easier to manage," Mr. Roston said.

Shawmut has completed the retail processing consolidation, according to Mr. Roston, who joined Connecticut National in 1984. By yearend, the asset system will be mostly done, awaiting the consolidation of the commercial lending system is to be completed next year, as are the liability systems.

Industry observers have criticized Shawmut for taking a projected four years to complete consolidation. Observers cite lower struggles between operations executives at the merged banks, a struggle eventually won by the Hartford faction.

All Off the Shelf

Since the acquisition, Shawmut has replaced all the transaction processing systems, relying on commercially available products, Mr. Roston said.

His use of such software is iconoclastic. Other major banks spend millions of dollars buying software to run on mainframes. Those banks frequently spend additional millions modifying and upgrading the software to meet their own way of doing business. When the software company improves its product, the bank cannot simply install the new version.

Mr. Roston refuses to take that approach. He buys and installs software, changing the business's procedure when necessary instead of the software.

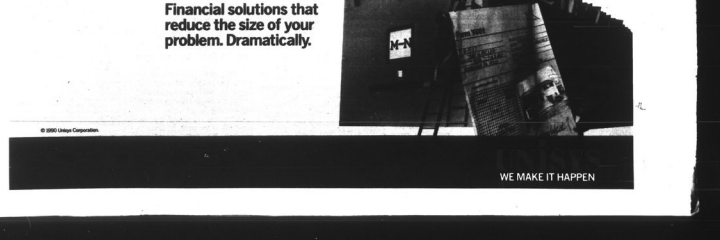
Shawmut is nearing completion on its branch automation system, where its approach was at least partly dictated by a concern with costs.

To encourage what he terms a "more consultative sales culture," Mr. Roston is overseeing the installation of computer terminals at the desks of branch officers. At one time, the bank had opted for more expensive personal computers.

Again, he is bucking a trend. A few large retail banks, including BankAmerica, contend that personal computers provide the best way for branch officials to sell services to customers. Even though PCs are more expensive, operators can compose graphics and financial models. □

"This puts us into a less complex data processing environment, one that is easier to manage."
Jay W. Roston
Shawmut National Corp.

IMAGING. THE END OF THE PAPER CHASE



COMMENT/ *By Joseph C. Hu*

Mortgage-Backed Securities Show Impressive Resiliency

Defying the wide market fear, mortgage-backed securities have performed exceedingly well so far this year versus Treasuries of comparable average lives.

The yield spread between benchmark-coupon GNMAs and the 10-year Treasury has tightened to 118 basis points from 141 basis points at the end of 1989. This tightening was even more impressive in view of the lingering uncertainties caused by pending actions from various federal agencies that could significantly depress prices of mortgage securities.

Further, since early May, the market sentiment has turned more bullish with a 50-basis-point rally in long Treasury yields, and volatility has rebounded to cyclical highs. Both events normally cause mortgage-to-Treasury spreads to widen.

Questions that Investors Ask

Against this background, investors generally ask the following questions:

• At their current yield spreads, are mortgage securities rich to the comparable Treasuries?

• If the present adversary conditions continue, should mortgage securities be sold?

• Even if mortgage securities are rich at current levels of yield spreads, do they continue to have fundamental value? If they do, what sector among them is most attractive?

Belief in Fundamental Value

This article addresses these questions. I continue to believe that, at their current levels of yield spreads to Treasuries, mortgage securities have fundamental value.

While these spreads will no doubt oscillate in the short run, they will continue the tightening trend that started about a year ago.

Any significant widening in yield spreads in the future therefore represents buying opportunity for mortgage securities. The yield spread between benchmark-coupon GNMAs and the 10-year Treasury will narrow further, reaching 100 basis points by the end of this year. In my view, current-coupon passthroughs and certain sequential-pay and companion CMOs present value.

All But Quiet on the MBS Front

In recent weeks, the mortgage-backed securities market has been battered by more than its fair share of bad news. First, there were constant rumors about the liquidation of mortgage securities by the Resolution Trust Corp.

Rarely were the rumors confirmed; even when they were, the amount of rumored liquidation was always grossly exaggerated. The overhang of RTC action has deterred many investors from actively investing in mortgage securities.

Then, there was the growing doubt among investors concerning the continual robustness in the CMO market. The doubt

> **"At their current levels of yield spreads to Treasuries, mortgage securities have fundamental value."**

was caused by a report that was unofficially confirmed by the Office of the Comptroller of the Currency that it will soon issue guidelines restricting commercial banks' investments in exotic CMO securities.

In the past year, commercial banks have been an important factor contributing to tightening mortgage-to-Treasury yield spreads through their investments in CMOs.

Capital Adequacy Revisited

As if things were not bad enough, the Treasury Department and the General Accounting Office recently revisited the issue of capital adequacy at government sponsored enterprises such as Fannie Mae and Freddie Mac.

They openly wondered whether, in order to minimize costs to taxpayers, these enterprises should obtain a top credit rating – otherwise, these enterprises should face termination of government support.

While the concern of capital adequacy is perfectly legitimate, the issue of severing federal government ties to these enterprises has caused some investors to hesitate purchasing securities guaranteed by Fannie Mae and Freddie Mac.

Worse still, in the past two months, the bond market rallied by nearly 50 basis points with Treasury yield volatility rebounding to cyclical highs of recent years. In general, as bearish instruments with mostly negative convexity, mortgage securities usually lag Treasuries in performance in a bullish and volatile environment.

Realizing Relative Value

Despite all the bad news, however, mortgage securities have performed well against Treasuries with comparable average lives. A little more than two months ago, when both the 10-year and 30-year Treasuries were yielding slightly above 9%, the yield spread between the benchmark-coupon GNMA and the 10-year Treasury hovered around 130 basis points.

This spread has actually tightened more than 10 basis points in recent trading sessions. There are at least three fundamental reasons that the relative value of

See **COMMENT** *page 9*

Mr. Hu is senior vice president and head of mortgage research in the mortgage-backed securities department of Nomura Securities International Inc., New York.

FUNNY MONEY/ *By Tom Leander*

No Ticket, No Wash

The Bank of England has started rummaging through its musty archives, looking for a paper trail that could lead to a barrel of gold allegedly deposited there 270 years ago by a Ukrainian soldier.

Vladimir Yvorivsky, a member of the Ukraine's new parliament, estimates that the soldier's legacy of gold would have



Mario Bisbali

LEGACY: Did a Ukrainian patriot leave a barrel of gold to his country almost 300 years ago?

grown in value by now to about 16 trillion British pounds – or $29 trillion. The Ukrainian Soviet republic can't find the receipt, but it could use the money.

Pavel Plubotok, a Ukrainian military leader, bequeathed the gold in his will to support a sovereign and independent Ukraine. On a visit to St. Petersburgh to negotiate Ukrainian independence with Czar Peter the Great, Mr. Polubotok was thrown in prison – and died there.

A spokesmen for the Bank of England, as reported by Reuters, issued a dry-as-dust statement last week saying that the bank, too, has been unable to find any record of the alleged deposit – or the treasure itself. "Now we're digging in our archives to see if we can trace the relevant account relationship," the spokesman said.

So far, the Ukrainian parliament has not demanded the return of the gold from the Old Lady of Threadneedle Street, as Britons affectionately call their central bank. But Mr. Yvorivsky told his fellow legislators that he intends to file an official request in the near future.

Mr. Yvorivsky's valuation of the barrel takes into account accrued interest over nearly three centuries. The Bank of England's spokesman, however, characterized the estimate as "fanciful – to say the least."

* * *

Sybil Made Her Do It

Lawyers who represent accused bank robbers may want to consider adding the "Sybil" defense to their arsenal of strategies.

"Sybil," a popular book published in 1974, tells the unhappy story of a woman afflicted with multiple personalities who led many separate lives.

Juanita Maxwell, 34, told a Florida judge that she suffers from the same malady: She robbed a bank when she was actually somebody else.

Ms. Maxwell, of Clearwater, Fla., is accused of robbing two branches of First Florida Bank in 1988. In pretrial hearings, she claimed she was powerless to prevent the bank jobs because they were actually pulled by "Wanda," one of her alternate personalities. She moved for acquittal on grounds of insanity. Pending the judge's decision, the trial begins next week.

"Wanda" and her other personalities have already helped Ms. Maxwell win an acquittal in a 1979 murder case. Pretrial arguments in this case persuaded Circuit Judge R. Grahe Stouffer to allow the jury to hear the unusual insanity defense.

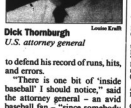
To the prosecutors, it doesn't matter whether Ms. Maxwell knew of the robberies. Their concern is whether "Wanda" knew of the robberies. She held up the two bank branches.

* * *

Thornburgh Bunts

Attorney General Dick Thornburgh has been getting the raspberry lately from spectators who say that the Justice Department is not hustling enough in its offensive against fraud in the savings and loan industry.

Mr. Thornburgh came out of the dugout swinging a heavy bat on Wednesday at the National Press Club in Washington, using some of baseball's colorful lingo



Dick Thornburgh *U.S. attorney general*

Louise Kraft

to defend his record of runs, hits, and errors.

"There is one bit of 'inside baseball' I should notice," said the attorney general – an avid baseball fan – "since somebody is clearly throwing right at my head. That is the charge about a 'do-nothing' Justice Department.' "

Much of the alleged fraud in the thrift crisis took place in the mid-1980s. The clock is running out for the Justice Department because the statute of limitations on these cases will soon expire.

The attorney general took his warm-ups by describing criticism as partisan "beanball," played by politicians from both parties looking for votes.

Defending his record, and the slowness of the pace, he said: "A baseball fan will sit through many a dull inning because he understands the game – and the ever-present chance of a game-winning home run or a ninth-inning rally." □

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We've Never Sold Seasoned Product To Fannie Mae Before. How Was I To Know Their Price For Seasoned Loan Cash Sales Was Better Than Their Posted Quote For Current Production?

Somehow I Missed That Fannie Mae-Will Negotiate A Guarantee Fee With Us Based On The Seasoning And Quality Of The Package.

I Admit Their Flexibility In Pricing Seasoned ARMs And Almost Any Fixed-Rate Mortgages Caught Me Off Guard. This Will Really Help My Portfolio Restructuring.

The Loans On My Shelf Don't Fit Fannie Mae's Current Underwriting Standards. So I Wasn't Sure They'd Even Look At Them.

I Just Plain Forgot How Much Better Their Price Is For An MBS When We Swap Our Loans And Sell The Security.

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I Must Have Overlooked Their PC-Based Delivery And Reporting System. MORNET℠ Makes Our Loan/Pool Delivery And Reporting More Cost- And Time-Efficient. They Can Help Us Stratify Our Loan Portfolio, Too.

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Rate Adjustments Under Scrutiny Amid Report of Overcharges

By STEPHEN KLEGGE

In the wake of a controversial report that thrifts may have overcharged borrowers by as much as $15 billion on adjustable-rate mortgages and other variable-rate loans over the years, federal banking examiners will soon be told to focus on lenders' procedures for rate changes when conducting regularly scheduled compliance reviews.

"This will dovetail nicely with our truth-in-lending review," said Alan J. Dombrow, national bank examiner for the Office of the Comptroller of the Currency.

Mr. Dombrow, who is on a committee of the Federal Financial Institutions Examinations Council that has been looking into the rate-adjustment controversy, has drafted guidelines for the review of adjustable-rate procedures by examiners of banks, thrifts, and credit unions.

Whistle-Blower's Claims

The controversy stems from a report by a former employee of the Federal Savings and Loan Insurance Corp. who studied loans that the agency seized from failed thrifts.

John Geddes, now a private consultant, said he found an error rate of more than 50% among 7,000 variable-rate mortgage and consumer loans he audited while working for the FSLIC's Chicago regional office.

He said the government was ignoring an opportunity to recover revenue from underpriced loans and projected an industry-wide liability that could reach $65 billion if regulators do not deal with overcharging.

Statistics Disputed

Mr. Geddes' statistics have come under heavy fire from the government and the private sector.

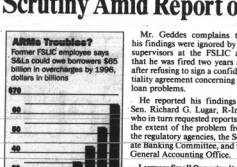
"The scale makes them suspect," said Jonathan Gray, a thrift and mortgage analyst for Sanford Bernstein & Co.

He estimated that the average outstanding balance of adjustable-rate loans since thrifts were permitted to make them in 1982 was in the neighborhood of $100 billion, meaning that extraordinarily large adjustment errors would be required to reach the level asserted by Mr. Geddes. About $380 billion in adjustable-rate loans by thrifts are outstanding today, Mr. Gray said.

Arithmetic Error Suggested

Informed of Mr. Geddes' claims by a reporter, Mr. Gray went so far as to suggest that the consultant might have made a simple arithmetic error such as misplacing a decimal point.

The Federal Deposit Insurance Corp., which now controls the FSLIC portfolio, confirmed that some errors on adjustable-rate loans were made in the Chicago district, but not nearly to



the extent suggested by Mr. Geddes.

"And it doesn't appear you can extrapolate as Mr. Geddes is proposing to," said Allan McCall, assistant director of credit in the liquidation division of the FDIC, who noted no uncorrected adjustable-rate mortgage payment errors outside the Chicago district.

Nevertheless, Mr. McCall said, the agency is now contracting with a servicer who will conduct a further review of the accuracy of the Chicago region loans before taking over the portfolio.

Mr. Geddes complains that his findings were ignored by his supervisors at the FSLIC and that he was fired two years ago after refusing to sign a confidentiality agreement concerning the loan problems.

He reported his findings to Sen. Richard G. Lugar, R-Ind., who in turn requested reports on the extent of the problem from the regulatory agencies, the Senate Banking Committee, and the General Accounting Office.

Lawyers Smell Opportunity

While the issue of accuracy in adjustable-rate mortgage lending is being debated in Washington, it is already attracting the interest of class-action attorneys such as George M. Plews of Indianapolis. He has hired Mr. Geddes as a consultant and expects to file suit next month if a settlement cannot be reached with about 1,000 financial institutions in that state. "There's no reason to believe it's unique to Indiana," Mr. Plews said of the accuracy problem.

"Apparently, the ambulance chasers are onto this," groused James Grohl, a spokesman for the U.S. League of Savings Institutions. He acknowledged that errors are inevitably made and said the trade group holds workshops on rate-setting procedures. But he also challenged Mr. Geddes' statistics as unscientific.

Although Mr. Geddes said he doesn't know if the problem extends beyond the savings and loan industry, Mr. Dombrow's proposed guidelines are intended to be followed by examiners from the Office of Thrift Supervision, the Federal Deposit Insurance Corp., the Federal Reserve Board, and the National Credit Union Association. They would apply to all variable-rate loans, commercial and consumer loans, as well as mortgages, he said.

Mr. Dombrow said examiners would determine how closely an institution's loans followed the loan contract and how well systems performed in arriving at the correct payment.

Inadequate Software Blamed

Mr. Geddes has blamed much of the inaccuracy he found on inadequate data processing software. "I have yet to see a system that can handle a rate change that occurs on a different day [of the month] than the payment day," he said, describing a commonplace situation.

It appears that state contract law would determine whether institutions could recover lost revenue from consumers who were undercharged, Mr. Dombrow said. Supervisors, he said, would order changes in procedure on the basis of their safety and soundness mandate.

"Any consumer loan violation is ultimately a safety and soundness issue, if the issue gets to the courts," he said. □

NEWSMAKERS

Woodward Returns to S. Carolina To Head Fleet's Home Loan Area

By PHIL ROOSEVELT

After two years in Rhode Island helping Fleet/Norstar financial Group consolidate its mortgage banking operations, Andrew D. Woodward Jr. has returned home.

Mr. Woodward remains president of the operations, the second largest in the nation after Citicorp's. But, reflecting a new phase in the evolution of the mortgage group, he recently moved his office from the banking company's headquarters in Providence to its mortgage unit in Columbia, S.C., his native state.

Since August 1988, Mr. Woodward has been folding several Fleet/Norstar mortgage units into two main ones: Fleet Real Estate Funding Corp, Columbia, and Fleet Mortgage Corp., Milwaukee. Among the operations consolidated were mortgage companies in New York and New Hampshire and servicing by some banks.

A Matter of Coordination

With that consolidation complete, Mr. Woodward is now focusing on coordinating the activities of the two remaining companies, which together service about $47 billion of loans.

"We're trying to be one company with two big plants," he said in an interview. "There's extensive coordination of activities between the two plants to make sure we're pricing the same and not competing with each other in the same markets."

He added, "It made more sense for me to travel less and be located where at least one of the companies was located." The



Andrew D. Woodward
Fleet/Norstar

Peggy Turbett

South Carolina site was the natural choice for Mr. Woodward: He had risen through its ranks before moving to Rhode Island two years ago. □

Key Interest Rates

	Week ended 7/20/90	Week ended 7/13/90	Year ago 7/21/89
30-year fixed-rate mortgage	10.06	10.10	10.00
1-year adjustable-rate mortgage	8.32	8.37	8.69

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 7/25	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	99-23	^ 0-02	9.67	-0.01	+119	+1
Fannie Mae 9½%	99-17	0-01	9.68	-0.01	+118	+2
Freddie Mac 9½%	99-01	0-01	9.65	-0.01	+117	+2

Yield: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. (^— Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

SECURITIES

Did OTS Wrongly Seize Franklin? The Wait for Judge's Ruling Begins

By STEPHEN KLEGGE

A challenge to the government's seizure of Franklin Savings Association came to an anticlimactic close last week, with the District Court judge promising a decision in four to five weeks.

The Office of Thrift Supervision placed Franklin in conservatorship on Feb. 16. Many industry observers had considered Franklin a mortgage innovator, and the seizure stunned them. Shareholders led by former Franklin chairman Ernest M. Fleischer filed suit, contending that the action was improper.

Accounting Is Questioned

The case, heard in U.S. District Court in Topeka, Kansas, hinges on accounting issues surrounding what had been a widely respected investment strategy. The $9 billion-asset Franklin Savings rose to fame in the 1980s by investing heavily in mortgage-backed securities and hedging against swings in interest rates.

The Office of Thrift Supervision challenged Franklin's accounting and asserted that the conservatorship was justified because the thrift was being operated in an unsafe and unsound manner.

But lawyers for Mr. Fleischer asked Judge Dale Saffels to rule that the seizure was based on bias by the regulator and that the Resolution Trust Corp., the appointed conservator, has an "incurable conflict of interest" because it controlled institutions on which Franklin had a claim.

Many industry observers had considered Franklin a mortgage innovator.

The court granted Mr. Fleischer a restraining order on March 30 to prevent the thrift from being placed in a receivership.

Chris Pierce, an RTC credit specialist assigned to Franklin, denied a published report that the agency is poised to sell Franklin's residual interests in collateralized mortgage obligations. The long-term plan, however, is to reduce the company's assets. □

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SHERRIE A. SEELEY

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SMALL BUSINESS

Construction Loan System Touted as Aid for the Wary

By LAURYN FRANZONI
Special to the American Banker

Credit crunches. Regional real estate slumps. Construction loan defaults. Thrift industry struggles. Can anyone still make a construction loan to a group of doctors or a small-business owner who needs more space?

"Smaller banks are seeing a niche as thrifts and large banks pull back," said Sean McCracken, vice president of Data Select Systems, Woodland Hills, Calif., an industry supplier. "But it takes a lot of local knowledge."

"Lending institutions are taking a harder look at deals out there," said B.J. Reed, loan administration and servicing manager for the Huntington Mortgage Co., Columbus, Ohio. "It's not the time to be starting a construction business; the developer has to have a longstanding relationship with the bank."

Ms. Reed said her institution, a subsidiary of Huntington Bancshares Inc., offers commercial adjustable-rate mortgages of up to 15 years through the bank's relationship managers. The new product has been relatively easy to introduce and track because of Huntington's use of a Data Select product known as CLCS.

CLCS, a construction loan controls system, automates construction and commercial mortgage lending. It provides all administrative controls, including disbursement, and gives a line-item breakdown. It also manages amortizations and all necessary loan accounting and participation accounting on projects of almost any size.

> **"Lending institutions are taking a harder look at deals out there."**
>
> **B.J. Reed**
> *Huntington Mortgage*

Bankers using the system say it has been the key to holding their own in low-end construction lending.

"We wanted to keep everything on one system," said David Matzenbach, office systems manager for the mortgage company, which installed CLCS three years ago. "We wouldn't be able to make the relationship-based construction loans without its support," Mr. Matzenbach said.

Huntington Mortgage services two levels of lending. Loans in its commercial group average $4 million to $5 million. Loans generated through the bank's relationship managers average $250,000 to $500,000. "We're able to work with the smaller relationship borrower because we have all of the information we need at our fingertips," Ms. Reed said.

"The doctor or small-business owner who wants to expand or build a larger building has to go for a commercial loan these days. And those loans are much harder to come by," she said: "The system's permanent loan module allows us to track amortizations of five to 15 years."

Small loans have given many regulators heartburn in recent days. "This month, we've got eight regulators in here along with our internal auditors," Ms. Reed said. "One asked us for a series of detailed reports, and we had them in his hands in 20 minutes. He was surprised. But that's the level of detail and responsiveness that this dedicated construction lending system has given us."

CLCS runs on IBM system 36, AS/400, and personal computer networks. A mainframe system is expected to be introduced in the fall.

County Bank Backs Off Real Estate

Carl Williams is vice president and manager of the construction loan department at County Bank in Santa Barbara, a $1 billion-asset savings bank serving coastal California. Led by a chairman whose business background was in real estate, the thrift aggressively pursued construction lending for more than a decade. At one recent point real estate lending represented as much as 35% of the institution's portfolio.

"Now we're backing off of the major loans," Mr. Williams said. "If it's more than 36 units, we don't do it." County Bank's average construction loan today is $600,000.

As a Data System customer, Mr. Williams said the commercial loan system contributes significantly to the bank's construction lending profitability and results in favorable regulatory reviews.

"It rmnitors every line item from grading to landscaping," he said. "The system also handles all of the monthly interest billings and generates checks" – functions that used to require hours of labor.

Mr. Williams also said the data on the system draw repeat business. In an industry where repeat customers are nearly the only customers, his 50% retention estimates are enviable. "Our best borrowers are repeat customers. They are developers we know, and they know our system, " he said.

"When a developer knows he'll get 24- to 48-hour turnaround on vouchers and that your system allows efficient operation, it's an advantage," he said.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Student Loan Storm Causes Few Alarms

Continued from page 1

student lender – and, to a lesser extent, Chase Manhaltan Corp. and Manufacturers Hanover Corp. – are among the institutions that have made loans guaranteed by the agency. The foundation has guaranteed $9.6 billion worth of the $51 billion now outstanding in the government's student lending program.

"It certainly appears that the Department of Education will work out a solution for everyone involved," a spokesman for Citicorp said. "We're pretty confident things will be worked out."

> **"We don't anticipate material losses resulting from this problem."**
>
> **John E. Dean**
> *Clohan, Adams & Dean*

A Chase spokesman described the bank's exposure to the foundation as minimal; a Hanover spokesman said that bank had very little exposure.

Few Losses Foreseen

"We don't anticipate material losses resulting from this problem," said John E. Dean, a partner with the Washington law firm of Clohan, Adams & Dean and a member of the Consumer Bankers Association's education funding committee. "It would be reckless to speculate what losses could incur, " he added.

"When stuff like this happens, there is a natural sense of: 'Oh, my God.' " said Benjamin A. LeBorys 2d, a senior vice president at the Signet Banking Corp.'s Signet Bank/Maryland, which has no exposure to the agency. "But I know that ultimately these lenders are not in jeopardy."

Still, the problem comes at a time when the student lending business – which has been attractive to many financial institutions because of the government guarantee – is becoming increasingly difficult. Lenders complain of strict regulations, complex servicing requirements, and increasing delinquencies.

"There are now 13,000 lenders in the program but it is not an industry that will allow that to continue," James W. Gatherd, a vice president at Chase Education Finance, said in an interview last week. He predicted that by 1991, the number of lenders that participate in the government sponsored program may be as low as 3,000.

"Instead of everyone feeling warm and fuzzy about how wonderful student lending is, it's just one hit after another," Mr. LeBorys said. "It gets tougher and tougher to stay in the business long-term."

Under the guaranteed student loan programs, banks and thrift institutions make loans to college students with repayment guaranteed by state-related or private nonprofit agencies. These agencies are reinsured by the federal government.

There is continual talk in Washington of narrowing the interest rate spreads that lenders are allowed on federally insured loans. Legislators are also considering requiring lenders to assume more of the risk of the guarantee program.

Delinquencies Mounting

Delinquencies have also been an increasing problem, putting lenders under pressure to crack down on defaulters, raising the loans' servicing costs.

The foundation's woes illustrate a problem inherent in the government's lending program, which represents 50% of all financial aid granted to students today. The program is designed to ensure that all students – regardless of their economic situation – can obtain funds for education. High delinquencies and default rates are therefore inevitable, some bankers say.

> **"HEAF are not the bad guys. They were doing what they were supposed to do."**
>
> **Benjamin A. LeBorys 2d**
> *Signet Bank/Maryland*

"HEAF are not the bad guys," Mr. LeBorys said. "They were doing what they were supposed to do – serve the nation's youth under a government sponsored program." HEAF had guaranteed a large number of trade school loans, which are believed to be riskier than four-year college loans.

Despite some glitches, student lending remains a viable business at many banks.

"Banks are having problems with real estate loans, but they don't stop making them," said Claude Collier, manager of student lending at Barnett Banks Inc., Jacksonville, Florida. "It's the same thing for student loans."

Barnett recently entered the market by purchasing a $90 million guaranteed-student-loan portfolio from Florida National Bank.

Depending on their volume, bankers say they can realize a return on assets of 0.6% to 1.7%, after taxes, on their student loan portfolios. The skyrocketing cost of higher education is expected to keep demand for student loans keen. And by doing business with college students, many bankers say they are forging potentially lucrative relationships with desirable customers early in their careers. □

First Bank System in Pact with JCB

MINNEAPOLIS — First Bank System Inc. said it has signed an agreement to process credit card transactions in the Midwest for JCB International Co., Japan's largest credit card issuer.

First Bank said it will process transactions and settle claims for JCB's 17 million Japanese cardholders in Colorado, Idaho, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oregon, South Dakota, Washington, and Wisconsin.

As of May, the JCB card was accepted by about 250,000 U.S. merchants, up from about 66,000 a year earlier.

JCB, which is owned by a group of Japanese financial companies, has been aggressive in signing up processors in the United States. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index — Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on July 25 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc., of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns (0 power) 3 to 3 power) star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

Six-month

Citytrust, Bridgeport, Conn.		8.84%
Heritage Svgs Bank, Richmond, Va.		8.82
Maine Savings Bank, Portland		8.78
Columbia SBL, Irvine, Calif.		8.75
Imperial Fed Svgs, San Diego, Calif.		8.70

One-year

Citytrust, Bridgeport, Conn.		9.11%
Maine Savings Bank, Portland		9.00
Heritage Svgs Bank, Richmond, Va.		8.93
Greenwood Bank/Detmit, Bldhld, Conn.	**	8.87
Columbia SBL, Irvine, Calif.		8.82

Five-year

Washington Svgs Bank, Waldorf, Md.	***	9.04%
Greater NY Svgs, Medford, N.Y.	***	9.00
NWA Svgs Bank, Midwest, Va.	*	8.90
Heritage Fed Svgs Bank, Glen Allen, Va.	***	8.88
Heritage Svgs Bank, Richmond, Va.		8.88

Jumbo Rates

One-year

Westwood Savings & Loan, Westwood, Calif.		8.80%
Columbia SBL, Los Angeles		8.70
Columbia SBL, Irvine, Calif.		8.70
First America Fed Svgs Bank, Longmont, Colo.		8.66
Hawthorne Fed Svgs, Los Angeles		8.66

One-year

Calif. Thrift&Loan, Santa Rosa, Calif.	***	8.80%
Columbia SBL, Irvine, Calif.		8.65
Heritage Svgs Bank, Richmond, Va.		8.65
United Svgs Bank, Vienna, Va.	*	8.65
Western Gulf SBL, Bay City, Tex.		8.63

Five-year

Metropolitan Bank for Svgs, Arlington, Va.	***	9.00%
1st General Fin. Ctr. Thrift, San Francisco	***	8.92
Bank Hapoalim, Chicago, Ill.		8.75
Equitable Fed Svgs, Wheaton, Md.	*	8.70
New South Fed Svgs, Birmingham, Ala.	***	8.65

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7300

COMMENT

Continued from page 4

mortgage securities can still be improved.

1. Subsiding demand for mortgage credit: In recent months, the weakness in the housing sector of the economy has become increasingly obvious. Housing starts in April dropped to the lowest level since 1982.

Waning Demand for Housing

Although mortgage interest rates have declined lately, a significant improvement in housing activity is not expected due to the waning demographic demand for housing. The weakening housing activity will lower the demand for mortgage credit, thus reducing the funding pressure for mortgages in the capital markets.

On the other hand, with the funding pressure on Treasuries mounting due to the widening budget deficit, the mortgage-to-Treasury spreads should tighten further.

2. More stable future prepayments at lower levels: Prepayments in the 1990s are expected to be more stable at lower levels than the 1980s. Prepayments are primarily the result of housing transactions and mortgage refinancings.

As housing activity weakens, prepayments will diminish. Further, with the current mortgage rates at slightly above 10%, newly issued securities should experience much less refinancing-related prepayments than those issued in the first half of the 1980s, when mortgage rates hovered mainly above 12%.

Prepayments Stabilizing

Stable prepayments will reduce the negative convexity that is inherent in mortgage securities, thus lowering their yield premium over Treasuries. As an increasing number of market participants begin to appreciate this prospect in prepayments, yield spreads will tighten.

3. Rising demand for mortgage securities: One exciting development resulting from the much-talked-about phenomenon of aging baby boomers is the improvement in personal savings.

Already, the quarterly savings rate – which decreased miserably during most of the 1980s – has been on the rise since its lowest level in the mid-1987. The pressure is gradually building for fund managers to invest this enlarging reservoir of savings.

Mortgage securities, with their low credit risk and high yields relative to other fixed-income securities, are ideal candidates for long-term investments. In the past year, demand for mortgage securities has risen appreciably.

One convincing example of this increasing appetite is the market's ability to take down huge increases in the supply of mortgage securities. Between last June and December (the latest available information), thrifts sold in net $45 billion worth of mortgage securities. The mortgage-securities market was able to digest this amount with yield spreads to Treasuries widening by only 15 basis points.

> **"One exciting development resulting from the much-talked-about phenomenon of aging baby boomers is the improvement in personal savings."**

Investment Strategies

Given the long-term fundamental value of mortgage-backed securities and the near-term positive market sentiment, purchasing current-coupon pass-throughs appears to be an attractive strategy. If interest rates do continue to decline, investors can simply move down in coupon.

Doing so, they can avoid the price compression (or the high negative convexity) that is inherent in premium coupons. In the meantime, with lower coupons, they can continue to participate in the rally.

Further, investors can supplement the portfolio yield by doing dollar rolls. In the current market, dollar rolls can increase the yield of the current coupon by at least 60 basis points.

If, on the other hand, interest rates rise, the current coupon at least provides a high enough current yield to cushion the price decline. Additionally, in that environment, mortgages resist price declines better than comparable Treasuries.

The current-coupon strategy is particularly attractive in a market environment of a tight trading range. (Most interest rate forecasts call for an 8% yield on long Treasuries by the end of this year. This implies that Treasuries will trade in a narrow range of about 50 basis points.)

By definition, a tight trading range implies relatively low volatility. The cash-flow yield of the current coupon – on an option-adjusted basis with a low volatility assumption – is now among the highest of all coupons.

For CMOs, the relative value really resides in the specific collateral and the unique structure of the bonds. In general, however, sequential-pay CMOs are a better value than PACs (or any other classes with prepayment protection), especially when their yield differential at the pricing speed exceeds 25 to 30 basis points.

If investors believe that there will be inherently more stable prepayments in the future, then the risk of any average-life uncertainty of the sequential-pay classes will be worth taking with respect to the reward of an incremental yield of 25 basis points.

In the same vein, certain companion classes also present value. Stability in prepayments will limit the potential of a wide fluctuation in average lives. For that risk, a reward of 50 basis points or higher in yields over those of PACs is more than reasonable. □

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INTERNATIONAL NEWS

GLOBAL *dispatches...*

Japan's Politicians Leak Details of Loans to China

By IRENE KUNII
Reuters

TOKYO — Maverick Japanese politicians, eager to score political points, are rushing into China with promises of official loans. Meanwhile, angry government officials watch powerlessly from their offices.

On Wednesday, Kiichi Miyazawa, a leading member of the ruling Liberal Democratic Party, told Chinese Premier Li Peng in Beijing that Japan and China could exchange notes on the first tranche of an $5.4 billion loan package to Beijing in October.

One week earlier, a former foreign minister, Hiroshi Mitsuzaka, also visiting Beijing, told Chinese leaders that they could expect to receive the first loan installment in September and another early next year.

Government Disputes the Statements

None of this has been officially announced by the government in Tokyo, which insists that the timing and details have not yet been set and that an official envoy, yet to be appointed, would carry the news formally to Beijing.

"They're given a rundown of our policy plans before they leave, but they're not expected to speak out on behalf of the government," one official commented.

Chief Cabinet Secretary Misoji Sakamoto, commenting on Mr. Miyazawa's pledge in Beijing, said: "We won't be able to stop them [from talking], but I'm going to ask the Foreign Ministry to try and streamline traffic." Mr. Sakamoto is the government's top spokesman.

Legislators' Power Noted

The official said there was little that government officials could do about the unsanctioned comments because of the power wielded by the legislators.

At the Houston summit meeting of the Group Of Seven industrialized nations July 9 to 11, Prime Minister Toshiki Kaifu announced Japan would begin releasing the $5.4 billion in loans covering 1990 to 1995.

The package was frozen for about a year to protest Beijing's brutal suppression of a pro-democracy movement in June 1989.

But the other summit nations – the United States, Canada, Britain, France, West Germany, and Italy – declined to lift sanctions against China.

"Japan has just got the summit nations to agree to our loan resumption, but we're not much further along than that," said an official in the ministry's China section. "The resumption plan is under study, and it will take some time."

... *by country*

THE PHILIPPINES

The Philippines is considering options to ease foreign debt payments so that the money can be diverted to rebuilding the country, devastated by last week's earthquake, but President Corazon Aquino wants any action to be agreed upon in advance by creditors, a spokesman said Wednesday.

Any move should not be unilateral, a presidential spokesman, Adolfo Azcuna, told reporters. — **Reuters**

ENGLAND

The debt rating of London-based **Standard Chartered Bank** has been downgraded by the rating agency **Moody's Investors Service.**

Long-term deposits and senior debt were reduced from A1 to A2, and subordinated debt from A3 to Baa2. About $2 billion is affected. — **EMMA**

UNITED STATES

London-based Morgan Grenfell, the merchant bank unit of **Deutsche Bank,** is to set up a joint company with the New York firm of **Gleacher & Co.** to specialize in international mergers and acquisitions as well as corporate advice.

The arrangement will allow Morgan Grenfell to handle U.S. deals that were previously beyond its scope because of poor representation, the company said. — **EMMA**

JAPAN

First Wachovia Corp. announced Thursday that two of its primary banks, First National Bank of Atlanta and Wachovia Bank and Trust Co., have received authorization from Japan's Ministry of Finance to establish a representative office in Tokyo. The office is expected to open early in 1991.

John G. Medlin Jr., chief executive officer of First Wachovia, said the Tokyo office would assist First Wachovia customers doing business with Japan as well as Japanese companies investing in the United States.

"The growth of Japanese direct investment in the United States, particularly in the Southeast, and the trading activities of our domestic customers with Japan have provided First Wachovia attractive business, which will be enhanced by the new office," Mr. Medlin said.

European Media Monitor and Analysis is a Brussels-based news service that provides abstracts from the European financial and business press.

U.S. Banks Retreat from Global Ambitions

Continued from *page 1*

international bandwagon, now the reverse is true."

The latest casualty is Chase Manhattan Corp., one of the most ardent proponents of full-service global banking in the 1980s. The bank last month announced it was slashing operations overseas to reduce costs.

Chase did not provide details, but analysts predicted the cutbacks would fall heavily on Chase's corporate finance operations overseas, especially out of London, where profits have been slim over the past few years.

Regionals Are Challengers

The international downsizing of U.S. money-center banks is part of a broader restructuring aimed at focusing on their home markets, where many face a growing challenge from better-capitalized and more profitable regional banks.

BankAmerica Corp. and Wells Fargo & Co., for example, focus mainly on retail banking in California, while Chemical Banking Corp. has emphasized building its consumer business and and middle-market lending.

"With the steady march toward interstate banking, American banks have to look much more closely at their home market," said John Kriz, a securities analyst with Moody's Investors Service.

Commercial Operations Go

Most big U.S. banks began their overseas retreat in the mid-1980s, when they began selling or closing their overseas commercial operations.

Bankers Trust Co. and J.P. Morgan & Co. led the way, when they both eliminated their commercial lending operations in the early 1980s. The moves were followed to varying degrees by Chemical, BankAmerica, Manufacturers Hanover Trust Co., Wells Fargo, First Chicago Corp. and Continental Bank Corp.

The single exception to the trend is Citicorp, which continues to expand overseas.

Earnings a Problem

The overseas retreat is reflected in U.S. bank earnings.

Almost all major U.S. banks posted massive losses on their international operations last year. For Chase, the loss ran to $943 million; Manufacturers Hanover, $919 million; Chemical, $615 million; BankAmerica, $477 million; and Citicorp, $467 million.

Peter Rona, who will resign Aug. 3 as president of IBJ Schroder Bank and Trust Co. to set up his own consulting company, believes that capital shortages and inefficiencies in U.S. banking are constraining U.S. banks activities overseas and may ultimately reduce American banks to a relatively insignificant role abroad.

> **"U.S. financial firms, particularly banks, have not fared well in today's sophisticated global environment."**
>
> **Rep. John LaFalce**
> *Democrat of New York*

Unusual Situation

"It would be historically unprecedented for a large capital-importing nation to at the same time support a growing international banking industry," Mr. Rona said.

As U.S. banks reduced their commercial banking activities, many have chosen to concentrate on investment banking in the three major capital markets – New York, Tokyo, and London. But even that strategy has run into problems.

In London, Chase, Security Pacific Corp., and Citicorp have closed various market-making operations in government securities, equities, and Eurobonds. In Tokyo, Citicorp and Security Pacific have cut back operations in Japanese equities.

Misjudgment Noted

Although banks say they are only selectively eliminating their securities-related operations, the cutbacks show that many seriously misjudged the cost and complexities of launching a global investment network.

"There is an unmistakable – and disturbing – trend. U.S. financial firms, particularly banks, have not fared well in today's sophisticated global environment and are playing a diminished role in world markets," Congressman John La Falce, D-N.Y., told the Bankers Association convention.

"It is ironic that, as the market becomes more global, U.S. financial institutions are becoming more national in their orientation."

Mr. La Falce is chairman of the House task force on the international competitiveness of U.S. financial institutions.

"While there will be some dislocations short-term, long-term I believe the current restructuring of American banking will result in a better-organized and more profitable industry in the U.S.," said Moody's Mr. Kriz.

John Evans in London contributed to this article.

Reed Warns of World Capital Crunch

MEXICO CITY – Radical political and economic reforms in Eastern Europe are likely to cause a global shortage of the investment capital needed to satisfy growing demands for prosperity and development, said Citicorp's chairman and chief executive officer, John S. Reed.

The fall of the Berlin Wall and the remaking of Europe and the Soviet Union have added 425 million people to the millions in the developing world already competing for a higher standard of living, Mr. Reed said this week at a luncheon meeting of the American Chamber of Commerce.

"You need $40 trillion of capital to support the desires of those people," he said. "It certainly says to you that we are going to be capital short."

Mr. Reed said the rise of democratic governments in Latin America has led Washington to consider closer trade and investment ties. He cited a proposed free-trade agreement between the United States and Mexico.

Mr. Reed, who led the committee that negotiated a key debt-reduction accord with Mexico last year, dismissed its $93 billion debt as "not an issue." But he predicted that investors who took their capital abroad during the 1980s debt crisis will not bring it back to Mexico soon. — **Reuters**

Key International Rates*

	This day-to-day			3-mo. interbank			6-mo. interbank			12-mo. interbank			Prime equivalent		
	7/25	7/26	7/27	7/25	7/26	7/27	7/25	7/26	7/27	7/25	7/26	7/27	7/25	7/26	7/27
United States	8.00	8.00	8.05	8.12	8.12	8.18	8.12	8.12	8.18	7.93	7.93	7.93	10.00	10.00	10.00
Japan	7.56	7.50	7.43	7.75	7.72	7.75	7.87	7.81	7.78	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.00	13.00	13.75	13.25	13.25	13.50	13.12	13.12	13.37	13.50	13.50	13.87	14.75	14.75	14.75
U.K.	14.88	15.00	15.00	15.06	15.06	15.00	15.00	15.00	15.00	14.31	14.31	14.31	15.00	15.00	15.00
West Germany	8.00	8.12	8.12	8.25	8.25	8.31	8.43	8.43	8.43	8.00	8.00	8.00	10.50	10.50	10.50
Switzerland	8.00	8.00	8.25	9.00	9.00	9.00	8.93	8.87	8.93	8.00	8.00	8.00	11.25	11.25	11.25
France	10.12	10.12	9.68	9.93	10.00	10.00	10.00	10.00	10.00	9.50	9.50	9.50	10.00	10.00	10.00
Italy	13.75	11.75	11.00	11.37	11.37	11.37	11.37	11.37	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.00	14.43	8.40	8.75	7.50
6 to 12 months	8.09	13.46	8.65	8.15	7.50
12 to 24 months	8.72	12.79	8.84	7.45	7.50

*Midday quotes in the New York market

Source: Reuters, Telerate & Finance Inc., New York

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Bill Would End State Curbs on Branches

Continued from page 1

called the legislation both "radical" and "overdue."

'New Era' Foreseen

"This will help usher in a new era in U.S. banking," Mr. Schumer said.

To be sure, interstate banking is already at an advanced stage. Many states already have adopted reciprocal interstate banking laws.

Consequently, a federal mandate for interstate banking would most benefit large banks that have been excluded from certain regions, said banking experts.

One implication, these observers said, is that the legislation, if it becomes law, would spur quicker consolidation of the banking industry by allowing a free flow of banking activity – by both branching and by acquisition – across state lines.

In addition, the banks would find it less costly to branch across state lines than to buy a bank or charter a new one, which would promote efficiency in an already cost-conscious banking system, said the bills' sponsors.

But banking lobbyists also warned the measures would be perceived as threatening to many states keen on controlling the pace of change of banking within their borders.

The legislation comes at a time when Federal Reserve Chairman Alan Greenspan, Treasury Secretary Nicholas F. Brady, and Securities and Exchange Commission Chairman Richard C. Breeden all have indicated that structural changes must be made in the banking industry. Mr. Greenspan and Mr. Breeden have voiced "conceptual support" for full interstate banking, Mr. Dodd said.

Major Provisions Listed

The main provisions of the Dodd and Schumer bills, which would apply both to banks and savings institutions, would:

- Authorize the Federal Reserve to approve applications by bank holding companies to acquire out-of-state banks, in effect repealing the Douglas Amendment to the Bank Holding Company Act of 1956. That measure gave states the right to decide whether to allow holding companies to acquire banks within their boundaries.
- Permit interstate branch banking as of Jan. 1, 1994. Individual states could exempt themselves by passing a law to that effect before Dec. 31, 1993.
- Delay until Jan. 1, 1993, "de novo" entry by banks into other states. The delay would give states time to prepare for these new entrants without delaying full interstate banking.

Politics Are Sensitive

The proposed repeal of the Douglas Amendment makes the measure "politically charged" because it "directly challenges a state's right" to oversee financial institutions within its borders, said Richard M. Whiting, general counsel for the Association of Bank Holding Companies.

Full interstate banking would speed up consolidation in the industry and put control of regional assets in the hands of a limited number of major players, suggested Edward E. Furash, president of the Washington-based management consulting firm Furash & Co.

That, in turn, would mean trouble for small local banks, said Stephen J. Verdier, senior legislative counsel for the Independent Bankers Association of America. "You lose any semblance or hint that a bank might have local control," Mr. Verdier said. Large regional banks would have little interest in local lending, he contended.

But this was disputed by Mr. Furash, who believes that interstate banking – while creating large players in a region – will spawn "boutique" banks that put a premium on service.

Mr. Gerhardstein writes for the Medill News Service.



Rep. Charles E. Schumer
Democrat of New York



Sen. Christopher Dodd
Democrat of Connecticut



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Investments In Latin America Seen Surging

By LINDA CORMAN

WASHINGTON — Foreign direct investment in Latin America, which fell off severely in the mid-1980s, is surging, the Institute of International Finance said.

After ranging between $3 billion and $4 billion a year from 1983 through 1986, foreign direct investment will probably rise to about $9 billion a year in 1990 and 1991, according to a study by the research organization that represents about 180 commercial banks and other lenders. The 1990 level would represent a 40% increase over last year.

"The trend is in the right direction. It needs to be accelerated," said Horst Schulmann, managing director of the institute.

Mr. Schulmann attributed the expected rise to a wave of privatizations of state enterprises across the continent – concentrated in Argentina, Brazil, and Mexico. As an example, he cited the recent sale of Argentina's airline to a group of international investors.

The resurgence of foreign investment follows a 1989 trough resulting from the limitations imposed by many Latin American countries on debt-for-equity swaps, Mr. Schulmann said. □

Chase Promotes Hunter

NEW YORK — Chase Manhattan Corp. said Robert Hunter, national financial services executive, has been promoted to executive vice president of Chase Manhattan Bank. Mr. Hunter, 46, will oversee some of Chase's fastest-growing businesses, including private banking, upscale consumer lending, and investment services, the bank said. — **Reuters**

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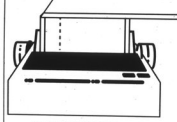

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U.S. May Require Freddie Mac, Fannie Mae to Earn Triple-A Ratings

REUTERS

WASHINGTON — Budget negotiators are weighing a proposal that would require the Federal Home Loan Mortgage Corp., the Federal National Mortgage Association, and other government-sponsored enterprises to obtain triple-A credit ratings, according to congressional and industry officials.

The discussions have upset Freddie Mac and Fannie Mae officials, who argue that the issue should not be settled in secret budget talks between administration officials and congressional leaders.

"I am really concerned about what would be the implications of those proposals," said Leland Brendsel, president and chief executive officer of Freddie Mac.

Crisis Mentality Cited

In testimony Thursday before the House Banking subcommittee on housing and urban development, Mr. Brendsel said requiring a triple-A rating from agencies outside the control of the government would raise the costs of home ownership.

It "appears to be an extreme standard of capital adequacy, since no other domestic lending institutions are currently rated triple-A by two rating agencies."

> **"No other domestic lending institutions are rated triple-A by two rating agencies."**
>
> **Leland Brendsel**
> *Federal Home Loan Bank Board*

Mr. Bredsel gave support to efforts to reduce the risk to taxpayers from government-backed enterprises, but argued that the implications of some of the proposals should be discussed more thoroughly.

"I don't think it should be done in the crisis atmosphere of the budget summit," he said. "It would be a mistake for Congress to react in haste to these doomsday scenarios without understanding the implications of changing our current way of doing business on the mortgage marketplace nationwide."

He warned the committee that the federal government's "crisis mentality" spawned the savings and loan crisis, and said that the same mentality, now applied to his agency, could undermine the availability of housing and mortgages.

He also said the administration's proposed capital and operating requirements ignore Freddie Mac's key role in the housing market.

"Freddie Mac must balance two competing goals – to serve our housing mission while protecting the federal government from risks arising from our operations," he said. "We've helped one in eight American families achieve home ownership. Our record of unbroken profitability is the result of never straying from prudent business practices."

Mortgage Interest Could Rise

James A. Johnson, vice chairman of Fannie Mae, called the rating requirement suggested by the Treasury and Office of Management and Budget irresponsible. He said acceptance of these standards could result in "significant disruption of the housing and mortgage finance markets and the general economy."

Mr. Johnson warned of a potential rise in mortgage interest rates, a drop in the supply of mortgage credit, an increase in the federal government's costs in the S&L bailout, and a worsening of "recessionary tendencies of the economy."

> **"Does that mean rating agencies will have the ability to say you're going to have to cut out low-income lending to obtain a triple-A rating?"**
>
> **David Jeffers**
> *Federal National Mortgage Association*

Mortgage availability would fall, he said, if excessive capital requirements require Fannie Mae and Freddie Mac to shrink or shut down major parts of their operations.

Fannie Mae vice president David Jeffers said the rating proposal could jeopardize the company's low- and moderate-income financing projects. "There is no question that certain types of low income lending are inherently risky," Mr. Jeffers said.

"We have problems with relegating [public policy issues] to a private rating agency," he added. "Does that mean rating agencies will have the ability to say you're going to have to cut out low-income lending in order to obtain a triple-A rating?"

The drastic measures proposed for Freddie Mac and Fannie are a direct result of the ongoing budget crisis. The savings and loan bailout, which will cost taxpayers an estimated $300 billion over the next 30 years, has prompted the administration and lawmakers to seek ways to curb the government's contingent, or off-budget, liabilities.

Fannie Mae, Freddie Mac, and other contingent liabilities, including student and small-business loan guarantees, home mortgage insurance, and farm credit programs, expose the government to $6 trillion of potential liabilities, according to government data. □

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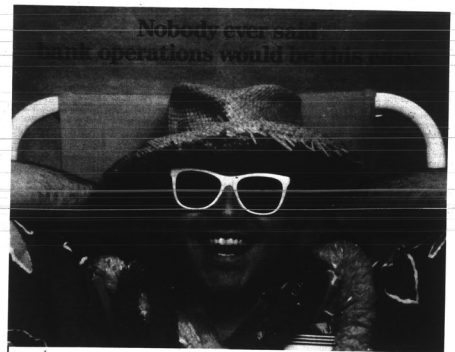

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Citation Notice

File No. 0684/1990 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK, BY THE GRACE OF GOD FREE AND INDEPENDENT. TO The heirs at law, next of kin and distributees of KATHERINE PACTAR, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. The Public Administrator of the State of New York Attorney General of the State of New York. A petition having been duly filed by Peter M.J. Reilly, who is domiciled at 16 Cajanus Drive, Islip, New York 11751 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street New York, on August 23, 1990, at 10:00 a.m., why a decree should not be made in the estate of KATHERINE PACTAR, lately domiciled at 250 East 63rd St., Apt. 1107, New York, New York, 10021 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 16th, 1982, (a copy of which is attached), and order that Letters of Testamentary issue to Peter M.J. Reilly. Dated, Attested and Sealed, June 29, 1990. HON. Renee R. Roth Surrogate, County of New York. Robert M. Reaves Clerk of the Surrogate's Court. Name of Attorney: Phillip L. Waylonis Telephone Number 914-948-4084 Address of Attorney: 100 Prospect Avenue, Valhalla, New York 10595. This citation is served upon you as required by Law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

File No. 5674 — 1988 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT. TO The heirs at law, next of kin and distributees of IRMA FRANCES HOWE, a/k/a Irma F. Howe, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator, County of New York Attorney General of the State of New York. A petition having been duly filed by Mary Elizabeth Howe, who is domiciled at 31 Twin Lakes Road, Hastingsatur, Georgia 30033 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 504, 31 Chambers Street, New York, on August 21, 1990, at 10:00 a.m., why a decree should not be made in the estate of Irma Frances Howe, a/k/a Irma F. Howe, lately domiciled at 262 West 95th Street, in the City of New York, admitting to probate as a will of real and personal property a paper dated August 6, 1986, and ordering that Letters of Testamentary issue to Mary Elizabeth Howe. Dated, Attested and Sealed, July 9th, 1990 (S.S.) HON. RENEE R. ROTH Surrogate, County of New York Attorney: ROBERT M. REAVES Clerk of the Surrogate's Court Name of Attorney: Vincent E. Doyle III Telephone Number (212) 686-8170 Address of Attorney: 276 Fifth Avenue, New York, N.Y. 10001.

Auction Notices

Ronald Zass Auct'r #840731 sells 8/10/90 9 AM at 40-45 Cresent St, LIC, '82 Datsun #JN1HU01S8CT051629 Rec N. Carrideo; 82 Ford at 320 Rockaway, NYC; '92 Olds #1G3AG19TRCD378406 Rec C. Martinez; 81 AM at 330 St, Astoria; '83 Olds #1G3AM19E4DG303115 Rec M. Gonzalez; 87 at 10045 Liberty Ave, Jamaica, '87 Honda #1HMAB7221PC010843, '85 VW #WVWGA0162FW031917 Rc: EDS. Published 7/27 & 8/3/90.

J. Rodriguez Will sell at Public Sale On 8/13/90 9 AM at 3 Montgomery St, Brentwood NY, '83 Mazda #JM1BD2210D0703487 Rec: C. Panzo, '77 Aero Ste. #2641397? Rec J. Santos, '78 Cadi #6F2358Q102135 Rec: V. Balladares. Published 7/27 & 8/3/90.

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Norwest Agrees to Buy United Banks

Continued from page 1

holding companies would be one of the biggest ever in banking, creating the nation's 20th largest. Norwest, an eight-state superregional based in Minneapolis, now ranks 30th, with $26.8 billion in assets. United, which owns 40 banks in Colorado and is the state's largest, ranks 81st, with $6.3 billion in assets.

Norwest said it expects the acquisition would boost earnings by less than 1% in 1991 and boost earnings in 1992.

Analysts said Norwest was paying a fair price, provided that United credit problems do not worsen and Colorado's depressed economy begins to rebound.

Ben B. Crabtree, vice president of research at Dain Bosworth Inc. said that if Norwest can get United Banks' loan-loss provision down to 1% of total loans from 1.25% and trim 20% from noninterest expense, it could add as much as $60 million to pretax earnings.

Extensive Due Diligence

Norwest chief executive Lloyd P. Johnson said more than 300 staff members spent a total of 17,000 hours over the past two weeks engaged in due diligent review of United Banks' loans.

"We reviewed 100% of the real estate owned, 92% of the commercial real estate loans, 92% of the commercial loans, every loan over $100,000, and sampled the rest, including consumer credits," Mr. Johnson said in a telephone interview from United Banks' Denver office. "We have a very experienced due diligence group."

Mr. Johnson said the company had also done an extensive study of the Colorado economy, which he said appears to be improving. He cited the state's unemployment figures, which have

Over 300 Norwest staffers spent a total of 17,000 hours on due diligence.

improved to 5.2% in March 1990 from 6.4% in 1988 and compare favorably with the national rate of 5.3%.

In addition, he pointed to Denver's continued population growth and cited large public works projects including a new airport and a convention center. He declined to comment on cost issues.

Dilution Estimates Questioned

Using the acquisition of First Interstate of Wisconsin earlier this year as an example, William W. McGinnis, analyst for Blunt Ellis & Lowei Inc., said Norwest's dilution predictions could be conservative.

They [Norwest] went in and cleaned up that organization last year," said Mr. McGinnis. While First Interstate was in better shape than United Banks, Norwest cleaned up the loan portfolio, reduced staff, and restructured the company's investment portfolio, he said.

Under the agreement, each share of United common stock will be exchanged for 1.22 shares of Norwest common. Based on a 30-day average of Norwest's stock price before the discussions were announced on July 10, the deal would be valued at $440 million.

United Banks would be the largest acquisition attempted by the $26.8 billion-asset Norwest. It has an agreement to buy First Minnesota Savings Bank, a healthy thrift which had $3.2 billion in assets at the time of the announcement earlier this year. Its recently completed acquisition of First Interstate of Wisconsin Corp. added $2 billion in assets.

After the announcement of talks between the two companies earlier this month, the debt of the Minneapolis-based bankholding company was placed on Standard & Poor's CreditWatch list, with negative implications. The rating agency also listed Denver-based United Banks for possible upgrade. □

Citing $10 Million in Fees, FDIC Goes After Equimark

By BILL ATKINSON

WASHINGTON — The Federal Deposit Insurance Corp. is seeking reimbursement for $10 million in charges that Equimark racked up in the nine months it was managing Nationwest Bancshares Corp.

The agency has begun a review of Equimark's expenses during the time it managed San Antonio-based National Bancshares. FDIC spokesman Alan Whitney declined to discuss the charges being investigated, but he said the examination will include relocation, travel, lodging, and data processing costs.

The FDIC inquiry is the latest in a string of bad news to hit Pittsburgh-based Equimark since May, when it was unable to complete the acquisition of National Bancshares operations from the FDIC. The FDIC inquiry was first reported by *The Wall Street Journal* on Thursday.

That same day, the $3.5 billion-asset Equimark reported a loss of $15.5 million for the second quarter, compared with net income of $4 million in the 1989 period.

The loss, which had been anticipated, was partially offset by a net gain of $14.3 million from the sale of Equimark's credit card operation. □

The FDIC inquiry is the latest in a string of bad news to hit Pittsburgh-based Equimark.

In a written statement by Equimark's general counsel, Libby G. Fishman, the company said it received a letter from the FDIC requesting "additional information and supporting documentation for those expenses."

"The corporation will review this request and respond accordingly," the letter stated.

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Partnership Notices

Substance of Certificate of Limited Partnership filed in New York County Clerk's office 8/1/90: 62 LENOX AVENUE HOUSING ASSOCIATES LIMITED PARTNERSHIP, principal office 240 W. 116th St., NY, NY. Business shall engage in certain real property in County of NY and related activities. Term until Dec. 31, 2032 or earlier per Partnership Agreement (PA). General Partners: Ivan Boesky, same Apartments, Inc., 240 W. 116th St., NY, NY. Limited Partners: 1) New York Equity Fund 1989 Limited Partnership c/o National Equity Fund, Inc., 118 North Clinton St., Chicago, IL 60606, Att'n: Patrick Johnson, cash contribution $10.00, share of profits 21, 1990, at 10:00 a.m., why a decree should not be made in the estate of Irma Frances Howe, a/k/a Irma F. Howe, lately domiciled at 262 West 95th Street, in the City of New York, admitting to probate as a will of real and personal property a paper dated August 6, 1986, and ordering that Letters of Testamentary issue to Mary Elizabeth Howe. Dated, Attested and Sealed, July 9th, 1990 (S.S.) HON. RENEE R. ROTH Surrogate, County of New York Attorney: ROBERT M. REAVES Clerk of the Surrogate's Court Name of Attorney: Vincent E. Doyle III Telephone Number (212) 686-8170 Address of Attorney: 276 Fifth Avenue, New York, N.Y. 10001.

Foundation Notice

NOTICE
The annual report of CHARLES & MARIA DAVIS FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is J. Fred Weintz, Jr.

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NOTICE
The annual report of THE EDWARD AND MARIE POPPITI FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Edward A. Poppiti.

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The annual report of HARBOR LIGHTS FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is J. Fred Weintz, Jr.

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Foundation Notice

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The annual report of KAREN A. AND KEVIN W. KENNEDY FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Kevin W. Kennedy.

NOTICE
The annual report of THE ROBERT K. STEEL FAMILY FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Robert K. Steel.

NOTICE
The annual report of CAROL AND STUART SCHLESINGER FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Stuart J. Schlesinger.

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NOTICE
The annual report of THE JOYCE & GARY WENGLOWSKI FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Gary M. Wenglowski.

NOTICE
The annual report of DAVID M. LEISCHEN FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is David M. Leuchen.

NOTICE
The annual report of THE ROBERT G. WILSON FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Robert G. Wilson.

NOTICE
The annual report of THE MNUCHIN FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is Robert E. Mnuchin.

NOTICE
The annual report of JAMES JO-SEPH KELLY FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004, (212) 902-6897 for inspection during regular business hours by any citizen who requests it within 3 years hereof. The Principal Manager of the Foundation is James J. Kelly.

Auction Notices

DEFAULT IN A Security Agreement Made By Los Rodriguez d/b/a Groceries To Pensfarin Corp. Sale July 27, 1990 At 10:30 A.M. At 3664 Broadway, N.Y., R/T/I In & To Chattels & Fixtures As Per Schedule Subject To Prior Liens Of Secured Party Reserves The Right To Bid. LEO FRANK INC., Auctr. As Agent. DCA #464147

Auction Notices

IN A written statement by Equimark's general counsel, Libby G. Fishman, the company said it received a letter from the FDIC requesting "additional information and supporting documentation for those expenses."

"The corporation will review this request and respond accordingly," the letter stated.

The FDIC inquiry is the latest in a string of bad news to hit Pittsburgh-based Equimark.

The letter said it was Equimark's standard business practice to consider itemized invoices and supporting-expense documentation to National Bancshares.

The flap over expenses comes at a critical time for Alan S. Fellheimer, chairman of Equimark, who is reported to be under intense pressure from directors. After the National Bancshares deal fell through, the company slimmed down its senior management. Among the senior executives to resign were Judith Fellheimer, the chairman's wife and vice chairman of the Equimark subsidiary. □

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LIEN SALE: Aug. 17, 19990 At 4:15 P.M. 10 Pennyfield Ave., Bx, A 1982 Century #CBXEK2707179 Rr: Lou Green & Chris Bank; A 1989 Bayliner #BFIF83SBA989 Rr: Anthony Pierro & Citibank; B. Zerrow-Auctr.

FINANCE

DEALS
Mary Kay May Seek Funds To Repurchase Some Debt

By WILLIAM GOODWIN

Mary Kay Corp. said it is talking to its existing bank group and other potential funding sources about financing the repurchase of a "major portion" of its publicly traded debt.

The bank group, led by Bank of New York Corp., includes Banque Paribas and AmeriTrust Corp.

A Mary Kay spokesman would not say exactly how much the company intends to repurchase of the $172 million principal amount of the 15% discount debentures. He said the negotiations with the banks are in the early stages.

The public debt was issued to help finance the 1985 leveraged buyout of Mary Kay.

"They feel like they've earned better terms than the original LBO terms," the Mary Kay spokesman said. The company hopes to complete the refinancing by late fall, he added.

Mary Kay is not seeking to refinance its existing bank debt, but covenants would probably need to be amended if the company obtains new bank financing for the repurchase of the public debt, the spokesman said.

Mary Kay has $123 million of bank debt outstanding. A "significant portion" of that amount relates to the purchase of Avon Products Inc. stock over the past two years.

The Avon stake, which represents a $70 million investment, is held indirectly by Mary Kay through its 23% interest in Chartwell Associates LP, which in turn owns 26% of Avon.

Chartwell's other general partners are the Fisher Brothers of New York and Gordon Getty.

Most of Mary Kay's LBO-related bank debt has been repaid. It now represents only about a third of the total bank debt, according to the company's spokesman.

Mary Kay has hired First Boston Corp. as financial adviser on the refinancing.

* * *

Deals in Progress

TRUMP UPDATE: Donald Trump's bankers extended a $20 million bridge loan until Aug. 3 to give themselves time to complete documentation on the five-year balloon package for the developer.

The 30-day bridge loan was set to expire Thursday.

The banks agreed last month to loan Mr. Trump an additional $65 million to see him through a cash-flow crisis and avert a possible bankruptcy filing.

The banks also agreed to defer interest payments on about $850 million of Mr. Trump's $2 billion of bank debt. The $20 million bridge loan allowed Mr. Trump to make a bond payment.

The principal Trump banks are units of Citicorp, Bankers Trust New York Corp., Chase Manhattan Corp., and Manufacturers Hanover Corp. □

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Economists Doubt Rally in Bonds
Inflation Fear and High Rates Abroad Seen as Barriers

By RICH MILLER
Reuters

WASHINGTON — The Bush administration could be in for a surprise if it expects that an agreement to cut the federal budget deficit will trigger a bond market rally that pushes down interest rates.

Nagging inflation worries in the United States and higher interest rates overseas will probably prevent that from happening, economists said this week.

"It's conceivable that a budget package will do no more than keep long rates from rising," said David Jones, chief economist at Aubrey G. Lanston & Co.

Agreement Sought

Congressional leaders have been huddling daily with administration officials in an effort to reach an agreement to cut savings and raise revenues to offset next year's budget deficit, currently projected at about $169 billion. Although U.S. bond prices might spurt in a knee-jerk reaction to news of an agreement, economists' fundamentals probably will prevent a major advance from developing, several economists said.

That is bad news for the administration, which is counting on a drop in interest rates to spur the economy and offset the recessionary impact of a cut in the budget deficit.

"We believe that a major move in interest rates will occur if there is a credible, serious deficit-reduction deal that is enforceable," Michael Boskin, chairman of the White House Council of Economic Advisors, said earlier this month.

Competition Noted

But private economists are not so sure. They said that the competition worldwide for scarce global savings limits the chances of a big drop in U.S. bond yields, no matter what happens to the budget.

Morgan Stanley & Co.'s chief economist, John Rashas, calculates that a $50 billion cut in the U.S. budget deficit would move global savings by a mere 0.2%.

That would translate into a drop of only about a quarter point in long-term U.S. interest

> **"We believe that a major move in interest rates will occur if there is a credible, serious deficit-reduction deal that is enforceable."**
> **Michael Boskin**
> *Council of Economic Advisers*

rates, hardly the major move the administration is looking for.

Both administration and congressional budget negotiators already have decided against cutting the deficit in the fiscal year starting Oct. 1 by more than $50 billion out of fears that would throw the already sluggish economy into a recession.

Vow from Greenspan

Federal Reserve Board Chairman Alan Greenspan assured Congress that the central bank would try to keep the eight-year economic expansion going if the deficit is reduced.

"The Federal Reserve will act, as it has in the past, to endeavor to keep the economic expansion on track," Mr. Greenspan said.

If the Fed tries to ignore the markets and aggressively push down short-term interest rates, economists warned that long-term rates are unlikely to follow suit. Instead, they said, the yield curve is likely to steepen as short rates fall and long yields hold steady or even rise.

"Although a budget-driven trading rally could push yields slightly lower, the balance of risks in the bond market is shifting toward somewhat higher yields," said Salomon Brothers economist Richard Berner. He said inflation-wary investors are worried because the U.S. central bank seems to have shifted its priorities from fighting inflation to avoiding recession.

The Fed eases monetary policy a notch this month and Greenspan said it was ready to act again if a credit squeeze threatened to throw the economy off course. That left investors wondering whether the central bank was caving in to political pressure for lower short-term interest rates now and thus risking higher inflation in the long run.

The Bush administration has stepped up pressure on the Fed to lower interest rates because of fears the economy may slip into recession ahead of congressional elections in November.

Strategies Are Varied

Economists said the Fed looks to be easing its credit grip just as Japan and West Germany appear about to tighten theirs. Japanese interest rates are already headed higher and West Germany's omnipresent expert rates in West Germany to follow suit as its monetary union with East Germany stokes up demand.

That will tend to push the dollar lower, which Mr. Greenspan sees to take advantage of higher short-term rates there, and U.S. inflation higher as import prices here rise.

"High overseas interest rates and a weaker U.S. dollar will reinforce the updrift" in bond yields, Salomon's Mr. Berner said.

Economists said the Fed could help the administration's desire for lower rates and the bond market's push for higher yields.

"We obviously will be focusing very closely on how the markets respond, and how the markets evaluate the [budget] package," Mr. Greenspan said. At the end of the day, it's the credit markets which count."

But economists said he may have trouble convincing the administration of that. □

Earnings Dip 96% at Bank of Boston As Regional Economy Takes Its Toll

Continued from page 2

beginning of second quarter.

"The continued weakness in the regional real estate market has led to a reappraisal of values in our loan portfolio," said William M. Crozier, Jr., chairman of BayBanks Inc., in a prepared statement.

BayBanks reported a loss of $13.8 million for first quarter, and earned 18.8 million in second quarter 1989.

Analysts said they were surprised by the size of the loan loss provision increase, given that the company's nonperforming loans only rose 11% to $265 million from $237 million.

BayBanks reserves for loan losses were $145 million at June 30, or 55% of nonperforming loans.

"Now the reserves are much more in line with those of BayBanks' nonperforming loans," said James Moynihan, an analyst for Advest in Boston. He said that the nonperforming loans would drag on bank earnings for the rest of the year.

"They will have difficulty getting back into the black," said Mr. Moynihan.

Compared to other Boston institutions, BayBanks is a large real estate lender. □

BANK AND THRIFT STOCKS

Highlights for Thursday, July 26

TOP 10 GAINERS %

Bancorp of Mississippi, Inc.	8.1
Bankinorth Group, Inc.	7.0
Premier Bancorp, Inc.	6.9
Suburban Bancorp, Inc.	6.6
United Banks of Colorado, Inc.	6.3
First Citizens Bancshares Inc.	4.7
BayBanks, Inc.	4.0
First City Bancorporation	5.1
North Park Bancorporation	4.8
Plaza Commerce Bancorp	4.7

TOP 10 LOSERS %

MNC Financial, Inc.	-10.2
Equimark Corporation	-9.8
Riggs National Corporation	-5.6
State Street Boston Corp.	-5.0
National Penn Bancshares, Inc.	-4.9
Commonwealth Bancorporation	-4.7
Evergreen Bancorp., Inc.	-4.6
First Bancorp. of Ohio	-4.6
UST Corp.	-4.6
Norwest Corporation	-4.9

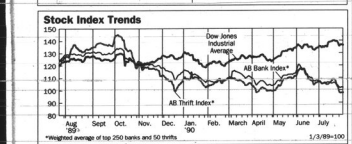
MOST SHARES TRADED

Citicorp	5018500
Chase Manhattan Corporation	1718500
United Banks of Colorado, Inc.	1487600
MNC Financial, Inc.	737800
BankAmerica Corporation	604400

VOLUME AS % OF AVERAGE

Suburban Bancorp, Inc.	4566.6
United Banks of Colorado, Inc.	3962.5
Commonwealth Bancorporation	938.9
Imperial Bancorp	900.5
Financial Trust Corp	649.3

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts — 1/3/89=100

Percentage Changes
Computed from the indexes reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.35	-2.44	2.76	-0.39	-2.57	-4.92	0.17	-6.04	-6.58

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Cap.	Div.	Chg.
29¼	18⅝	1stSourceCorp(R)	8.4	88.5	1Pct	-¼
14⅝	10¼	1STBancorp(NM)	17.4	71.2	2Pct	-⅛
38⅝	20	AmSouthBancorp(R)	8.5	88.8	2¢	-¼
15¾	9⅝	AmericanBanc(R)	8.4	80.0	1Pct	-⅛
29	15½	AmericanExpCo(R)	28.2	94.0	16Pct	-¾
22¾	16¾	AmericanFstTn(R)	9.4	122.8	1Pct	-¼
24½	18	BB&T FinCorp(R)	8.1	112.3	1¢	-¼
15¾	9¾	BalboaInsBncp(R)	7.3	63.4	12¢	-¼
49⅜	36½	BancPonce(R)	30.9	148.5	45¢	-¼
33½	26	BancOneCorp(R)	9.0	171.2	2Pct	-¾
26	18½	BancoPopular(R)	6.3	95.5	1¢	-½
56⅝	42	BancorpHawaii(R)	9.5	950.5	50	-¼
29	18	BancorpNtwMo(R)	7.5	95.0	20	1⅛
36¾	23⅜	BankAmericaCp(R)	5.5	103.1	26	-¼
24	17⅜	BankGranitCorp(NC	13.5	298.8	22	-¼
29¾	24	BankMontreal(R)	NM	901.1	2%	-¼
14¾	8	BankSouthCorp(R)	5.8	86.4	8%	-¼
57¾	39¾	BankersCorp(R)	NM	1063.3	1Pct	-¾
21½	10⅝	BankinorthGroup(Y	5.5	59.8	11¢	⅜
28⅝	14⅝	BankofBostonCp(R)	135.8	40.8	10¢	-¼
55	26⅜	BankofNY(R)	NM	75.0	25¢	-¾
12	8¼	BankofNewEng(R)	212.5	50.4	10¢	-¼
82	66⅝	BankersNtwk(R)	11.2	106.6	69	3
39¾	29⅜	BarnettBanks(R)	10.0	617.2	32¢	-¼
40¾	19¾	BayBanks(R)	8.9	44.3	15¢	-¼
39¼	29	BayerischeWbkNs(MO	9.1	94.8	2Pct	-¼
26	15¼	BoatmensBanc(IL	228.6	105.0	16	-¼
18¾	12⅜	BostonBancorp(R)	7.3	100.2	14¢	-¼
43¾	32	CCB FinCorp(R)	8.5	113.2	33	-¼
22¾	17	CORE Bncshs(R)	7.1	86.6	17	-¼
22⅜	18⅜	CNB Bancshares(R)	10.2	122.7	21¢	-¼
27	20¼	CPB Inc.(R	11.3	158.0	12¢	-¼
38	12⅜	CVB FinCorp(R)	9.9	228.0	13¢	-¼
33¾	20¾	CalFed(NM)	6.4	152.5	2¢	-¼
16⅜	12¾	CentralBcshs(K	6.8	90.7	13¢	-¼
34¼	26⅜	CentralFidBk(R)	10.0	105.2	27	-¼
27	12⅜	CentralJersey(A)	7.7	87.5	13	-¼
44¾	19¾	CentralSoWest(R)	NM	58.0	20¢	-¼
41⅛	22⅜	ChemicalBanking(R	NM	69.8	33¢	-¼
35	30	CitizensBcp(R)	NM	95.0	2Pct	-¼
35¼	12⅜	CitizensBkg(MI	NM	81.7	20¢	-¼
15¾	11¾	CitizensBkg(MO	NM	81.0	18	-¼
28¾	20¾	CitizensNatlBnk(M	7.2	88.1	20¢	-¼
29¾	20¾	CitizensUtilBk(R	8.2	94.5	8%	-¼
15½	8⅝	CitizensUtilBk(R	7.3	108.1	24¢	-¼
27½	17¾	CityNatlCorp(CA	12.7	183.7	19	-¼
22½	12⅜	ColoradoNatlBsh(CO	36.1	85.6	15¢	-¼
18⅜	12⅜	CommBcshs(MO	6.3	103.6	44¢	-¼
39⅜	22	CommerceBnshs(MO	7.3	98.7	23	-¼
20¾	15⅜	CommerceBnsh(PA	9.3	108.2	15¢	-¼
37½	12⅜	Constellation(A)	7.9	44.8	13	-¼
22⅜	12⅜	ContinentalIL	NM	58.5	12¢	-¼
49⅜	36⅜	CoreStatesFin(PA	7.9	140.6	37¢	-¼
34	20¾	CrestarFinCorp(R	7.4	94.0	21¢	-¼
18¾	7¾	CullenFrost(TX	38.4	49.7	10¢	-¼
37¼	29¾	DauphinDeposit(R	8.6	52.0	23¢	-¼
33¾	23¾	DepositGuaranty(MS	8.3	73.3	23¢	-¼
21½	11⅝	DominionBkshs(R	6.8	59.0	8%	-¼
15⅜	4⅜	EquimarkCorp(R	NM	34.5	1¢	-¼
21¼	12	EvergreenBcp(NJ	6.3	103.6	44¢	-¼
15¼	12¼	F & M NatlCorp(R	10.8	165.3	17¢	-¼
14½	12⅜	FNB Corp(R	7.1	107.3	12¢	-¼
26	18¼	FNW Bancorp(A	11.2	108.2	24¢	-¼
29	27⅞	FarmersCapBk(KY	NM	118.4	27¢	-¼
36¾	30¾	FifthThirdBcp(OH	11.2	135.3	32¢	-¼
38¾	32	FinancialTrust(R	7.5	98.3	30¢	-¼
51⅛	38¾	FirstTennNB(R	9.6	98.8	38¢	-¼
19¾	15⅛	FirstAlabamaBk(R	7.2	113.9	17¢	-¼

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Cap.	Div.	Chg.
20¼	11⅛	FirstAmerCorp(TN	NM	67.0	11¢	-¼
26⅜	20¼	FirstBancorp(R	7.8	93.3	25¢	-¼
26⅝	12⅜	FirstBankSystem(MN	NM	153.9	14¢	-¼
16⅜	10⅜	FirstBcshs(MO	6.1	74.0	26¢	-¼
29¼	24	FirstChicNBC	8.4	98.1	25¢	1⅛
36⅛	18	FirstCmwlthFn(PA	9.0	154.4	20¢	-¼
18¾	12¼	FirstCmtrBk(IL	8.5	121.5	12¢	-¼
21¾	18	FirstCommerce(LA	8.2	95.1	18¢	-¼
29	21⅛	FirstCommerce(AL	8.5	91.0	28¢	-¼
30¾	20	FirstCommercial(AL	10.2	112.8	18¢	-¼
21¼	18	FirstCommercial(AR	8.0	116.9	19	-¼
14⅜	11⅛	FirstCommFl(FL	11.1	113.6	16¢	-¼
35¾	21	FirstEastern(PA	7.8	94.3	2%	-¼
27	20¾	FirstEssex(NY	8.1	96.2	60¢	-¼
33⅜	18⅜	FirstFed(MI	NM	81.3	17	-¼
30	20¾	FirstFedBncs(OH	8.2	1382.5	44	-¼
34¾	19¾	FirstFidel(NJ	10.1	77.6	20¢	½
19¾	13¾	FirstFidelBancCp(MI	8.3	154.4	15¢	-¼
24⅜	17¾	FirstFidelBncrp(NC	10.0	169.3	7¢	-¼
29⅛	19	FirstFinBncsCin	8.2	130.3	20¢	-¼
7	5¾	FirstInterstate(A	7.7	101.1	5¢	-¼
24	14¼	FirstMidAmCp(MI	8.3	154.4	15¢	-¼
24⅜	17¾	FirstMichBk(R	10.0	169.3	7¢	-¼
44¾	31⅜	FirstNBAbilene(TX	7.6	79.7	26¢	-¼
44	26	FirstNiagara(A	6.1	97.9	2¢	-¼
19⅜	13⅜	FirstSecurity(KY	11.4	109.1	13¢	-¼
18	13¾	FirstSecurity(NC	12.3	182.5	13¢	-¼
33⅜	28¼	FirstSecurity(UT	7.6	79.7	26¢	-¼
28¾	21⅛	FirstTennessee(TN	8.0	95.8	23¢	-¼
28⅜	21⅜	FirstUnionCorp(NC	7.8	92.7	38¢	-¼
30¾	24¾	FirstVirginia(VA	7.9	111.6	25	-¼
19¾	10⅜	FirstWachovia(GA	10.3	105.5	4¢	-¼
35	27⅜	FirstarCorp(R	7.3	115.1	29	-¼
20¾	17¾	FirstbankIL(IL	17.4	111.7	19	-¼
50¾	42¾	FirstofAmerica(MI	8.0	101.1	47	-¼
19¾	13⅜	FleetNorst(R	13.7	95.3	17¢	-¼
25	19¾	FortWayneNatCp(IN	8.5	104.9	20	-¼
29¾	20¾	FourthFinCp(KS	14.9	147.4	29¢	-¼
21⅜	16	FulbrtnCo(PA	7.7	119.9	16	-¼
16¼	10¾	GBC Bancorp(CA	8.4	206.2	18¢	-¼
15¾	9	GreatSoBcshs(MO	13.4	67.9	9	-¼
6⅜	4⅜	HawkeyeBancorp(IA	4.0	107.5	4	-¼
21¼	14⅜	HeritageFedBcp(IL	9.1	120.4	16	-¼
21⅜	14⅜	HiberniaCorp(LA	17.2	106.6	14¢	-¼
20¼	14⅛	HuntingtonBancshs(O	7.6	109.3	14¢	-¼
19¾	14⅜	IBT Bncp(IL	8.7	91.4	12¢	-¼
27¼	15	ImperialBancorp(CA	8.4	61.4	10¢	-¼
20⅜	12⅜	IndependenceFd(DC	9.0	96.3	17¢	-¼
30¾	21	IntegraBncp(IN	8.1	95.6	24¢	-¼
20¾	14⅜	InterWestBncp(OR	4.7	126.2	16¢	-¼
48	33	J.P. Morgan(NY	NM	157.0	20¢	-¼
28¼	17¾	JeffersonBkshs(WV	16.5	87.3	17¢	-¼
19¾	13¾	KeyCorp(NY	8.0	105.3	52¢	-¼
23¾	23¾	KeyCorp(W	7.4	105.2	25¢	-¼
19¾	13¾	KeyCorp(OH	7.8	127.4	28¢	-¼
35¾	28¾	KeystoneHeritCp(P	9.8	148.9	28¢	-¼
19¾	12⅜	LaSalleBancorp(IL	11.2	108.2	24¢	-¼
29¾	22	LakeShore(IL	18.7	191.5	22¢	-¼
18¾	15¾	LeesburgBcshs(MO	7.8	61.8	10¢	-¼
30¾	24¾	LibertyNatlBncp(KY	16.0	111.7	25¢	-¼
18¾	13¾	LincolnFstCp(IN	8.1	95.2	20¢	-¼
29¾	9¾	MBC FinancialHd(O	10.0	61.3	9¢	1¼
18⅜	13¾	MagnaGroup(IL	9.5	96.2	13¢	-¼
60	41¼	ManufctrsNtlBd(MI	6.5	98.7	44¢	-¼
44¾	28¾	ManufacturersBk(MI	NM	76.3	32¢	-¼
21	19¾	MarineCo(WI	12.1	131.6	20	-¼
14¾	9¾	MarineBcshs(MO	8.1	105.2	15	-¼
37⅜	30¾	MarshallBkNy(NY	8.6	112.5	30¢	-¼
37¾	30¾	MarshallIsl&Tr(MI	5.1	82.4	30¢	-¼
39¾	23¾	MercantileBanc(MO	38.3	92.4	24	-¼

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of July 26, 1990, ($ billions)

Monetary Aggregates*	7/16/90	7/09/90	Change from 7/02/90	6/25/90	6/18/90
M1- weekly average	$ 807.9	$ 810.5	-$2.6	$ 817.7	$ 809.4	$ 807.5
M2- weekly average	3,272.7	3,270.0	+0.3	3,277.5	3,271.2	3,269.5
M3- weekly average	4,051.6	4,058.0	-6.4	4,058.7	4,054.5	4,058.0
M1- annual change:						
Latest 13 weeks	+2.5%					
Latest 26 weeks	+4.0%					
Latest 52 weeks	+3.4%					
Other data	7/25/90	7/11/90	Change	7/04/90	6/27/90	6/20/90
Business Loans†						
3 New York City banks	$ 57.6	$ 58.9	+ $.68	$ 58.8	$ 58.7	$ 57.9
All large banks	320.4	321.3	-0.9	320.2	321.6	321.6
Demand Deposits						
9 New York City banks	$ 33.3	$ 33.0	+0.3	$ 33.6	$ 49.0	$ 47.3
All large banks	NA	222.7	+00.0	221.4	224.5	224.5
Commercial Paper						
All issuers	542.9	538.9	+4.0	541.1	542.6	542.6
Finance companies	396.1	392.0	+4.2	392.4	393.7	398.3
Non-finance companies	146.8	146.9	-0.1	147.7	148.9	152.0

(*)— Seasonally adjusted; (**)— Excludes bankers' acceptances and commercial paper.

Key Rates (July 26, 1990)

	7/26	7/25	7/19
Federal Funds-domestic range:	7¾-8	7¾-7⅞	8-8⅛
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.60	7.60	7.65
6 Month Posted	7.60	7.60	7.65
1 Year Posted	7.70	7.70	7.80
Eurodollar deposits²			
3 Month	8.00	8.00	8¼-⅛
6 Month	8.00	8.00	8¼-⅛
1 Year	8¼	8¼	8¼-⅛
LIBOR³			
3 Month	8¼	8¼	8¼-⅛
6 Month	8¼	8¼	8¼-⅛
1 Year	8¼	8¼	8¼-⅛

Mid-afternoon quotes, New York market. (†)— Largest offering rates at selected NYC banks. (¹)— Late London bid (²)— Annualized money market basis - source: Manufacturers Hanover Tr.

Top 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Cap.	Chg.
24⅜	16¼	AmericanFd	8.3	94.6	15⅜
45⅜	30¾	AquaAmerica(NY	8.3	71.5	45⅜
28¼	13¾	CalFed(re	37.5	24.7	13¾
45¼	30¾	CenFedFncl(CA	9.8	71.8	45¼
20¼	4	CoastSavingsFn(CA	NM	27.5	4
24	17¼	DimeSB(NY	NM	25.9	17¼
24	14¾	DowneySavings(CA	25.6	109.9	15¾
24	16¾	FedNatMortA(DC	10.5	0.0	16¾
27	18¼	FirstFedFnCorp(CA	7.3	122.9	22¼
23¼	12	FirstNiles(OH	8.3	32.4	13
25¾	11⅜	GLENFED(CA	3.3	30.0	12
24⅜	12⅜	GoldenWestFn(CA	10.2	160.7	23
24¾	15¾	GreatWestern(re(CA	14.1	96.2	15¾
14¾	8¾	HomeSecurities(CA	NM	11.5	8¾
47¼	12¾	HomeFed(CorpCA	NM	28.4	12¾
22¼	16¼	HomeFed(IA	12.5	27.5	16¼
43⅜	23¾	SantaAnnaLeaseBn(CA	11.4	21.5	24¾
23¾	17⅜	SecurityBancorp(MI	30.9	41.4	17⅜
54¼	32¾	SecurityPac(re(CA	5.3	88.5	33
42¾	26¼	SouthernPacific(CA	NM	54.0	26¼
42¾	16¼	SignetBanking(A	4.9	58.0	16¼
28¾	20¾	SoundFncl(re(WA	NM	139.2	21¾
27¾	18⅝	SouthCoastMtg(SC	7.1	92.0	18⅝
27¾	18⅝	SouthCoastSvg(SC	43.1	9	18⅝

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for 225 banks and thrifts with assets and/or commercial banking firms and the 25 largest publicly traded thrifts as determined by total assets. The tables also include price-earnings ratios, dividend yields, and market capitalizations for each bank stock as well as a percentage of average shares traded daily over the past year.

Data source: SNL SECURITIES, Charlottesville, VA. 804/977-1600, producer of the tables. Research has it Network, Vienna, VA, provides SNL with the daily prices.

STOCKS

Analysts Seeking Better Methods To Size Up Banks

Continued from page 1

cusing on a dividend safety test to help them analyze bank stocks better.

"We were looking for a way to get a handle on the fact that price-earnings ratios and price-book ratios have become less meaningful. We wanted to come up with a different measure," said Charles Cranmer, the Shearson analyst primarily responsible for the new method.

The Shearson system assigns a loss-potential rating to each high-risk aspect of a bank's loan portfolio. Factoring in the earnings stream, the loan loss reserve, and the equity base, the system comes up with a rating that Shearson says helps it judge how well a bank could cover its dividend under financial strain.

New Tools for Bank Analysts

- **The Surprise Index:** Banks' propensity to make bad loans over time
- **Dividend cover ratio & dividend safety quotient:** How likely is a dividend cut?
- **Product line analysis:** Analyze banks more on product competitiveness

Looking at Product Lines

Analysts at Dean Witter Reynolds Inc. say tinkering with current methods is not enough.

Dean Witter analyst Richard Bove said such issues as cash flow and loan portfolio quality get too much attention from bank investors and analysts. They should start thinking more about the competitiveness of product lines, as do analysts of industrial corporations, he said.

'There Aren't Any New Ways'

Not everyone in the analysis community, however, is enthralled with the new techniques and approaches.

"There aren't any new ways. In [slump] periods like this, once an institution gets into trouble, there is a limit on the amount of valid analysis you can do," said Lacy Shockley, an analyst at Smith Barney, Harris Upham & Co.

Track Record a Poor Indicator?

She said a bank's success in avoiding bad loans during the 1980s is no good indicator of its lending officers' skills in today's much tougher environment.

Referring to Dean Witter's approach, she said that analyzing a bank's product lines goes only so far. "You could love Bank of New England's product lines, but that doesn't mean you want to buy the stock," she said.

Dividend Puzzle

Using dividend safety to gauge whether to invest in a stock would be helpful, she said – if one could analyze dividend safety.

But a bank's maintaining or cutting its dividend is often a discretionary, unanalyzable move by the board of directors, Ms. Shockley said.

No Way to Know

Furthermore, she said, in today's unstable environment, even bank management often has no way of knowing how safe the dividend is.

Finally, she said, decisions to maintain a dividend don't necessarily mean a bank's fundamentals are sound.

* * *

THURSDAY'S MARKET

The Dow Jones industrial average was down about 25 points in late afternoon trading, but the performance of major bank stocks was mixed. Several had the strongest day since reports of the industry's mostly feeble earnings in the second quarter.

J.P. Morgan & Co. was up $7.5 cents, to $38. Bankers Trust New York Co. gained $7.5 cents, to $40, and Chase Manhattan Corp. rose 37.5 cents, to $20.12, in midafternoon trading.

But the strongest performance of the day was that of First City Bancorp. of Texas, Houston: It rose $1.25, to $21, regaining some of the ground lost recently in a steep slide.

"I think this stock finally got to a point where all the negatives didn't look so overwhelming," said Frank W. Anderson, the banking analyst at Stephens Inc., Little Rock, Ark.

"Some investors said that at $18 a share, which is 50% of book value, maybe this had been overdone a little."

— Gordon Matthews

CAPITAL

MNC Looking to Banks for Fresh Capital

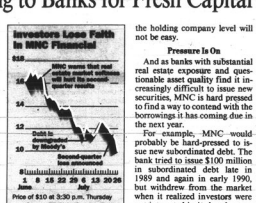
By KELLEY HOLLAND

Shunned by the public capital markets, MNC Financial Inc. has turned to its banking peers for recapitalization.

The Baltimore-based superregional has begun to seek almost $1 billion in new cash infusions, according to sources. Within the next year, the bank has roughly $2.3 billion in maturing short-term debt.

Officials at MNC will not comment on their fund-raising activities. But officials at J.P. Morgan & Co. officials said the bank was arranging a $750 million collateralized credit facility, and MNC's board has reportedly voted to accept a $200 million equity injection from a group led by one of its directors.

Investors Lose Faith in MNC Financial



Positive Signs

So far, the signs are encouraging. Five bank companies – J.P. Morgan, the agent; BankAmerica Corp.; Manufacturers Hanover Corp.; Union Bank of Switzerland; and one other Swiss bank – have reportedly committed to participating in providing the line of credit. However, officials at J.P. Morgan declined to confirm the names of banks participating.

In the secondary market Thursday, MNC's 9⅛% subordinated capital notes were offered at a yield of 14%, up 30 basis points from the 13.7% offering yield Wednesday. "I don't think this is a Bank of New England," said Ann L. Robinson, a vice president at Donaldson, Lufkin & Jenrette. "I think it's pretty solid."

Losses Still Piling Up

But MNC has some distance to go. For one thing, it is losing money. Most recently, the bank reported a $74.7 million loss for the second quarter after adding $233 million to its reserve for possible credit losses.

For another, the lack of profitability is making it next to impossible for MNC to raise new capital in the markets – and that could be a problem, given its high level of short-term liabilities.

At the end of the second quarter, MNC had $1.58 billion in commercial paper outstanding, according to Edward Thompson, a vice president at Thomson BankWatch. And it has more than $800 million in variable-rate notes maturing in the next 12 months.

Liquidity at Banks

To be sure, MNC's subsidiary banks are liquid, benefiting from large deposit bases. In fact, at the end of the second quarter, MNC's loan-to-assets ratio was 56%, down from 68% at the end of 1989.

And MNC has several eminently marketable subsidiaries it could sell, including an asset based financing company and a mortgage subsidiary.

But MNC would prefer to hold onto those assets, and to do so it needs holding company level funds. In today's jittery capital markets, issuing securities at the holding company level will not be easy.

Pressure Is On

And as banks with substantial real estate exposure and questionable asset quality find it increasingly difficult to issue new securities, MNC is hard pressed to find a way to contend with the borrowings it has coming due in the next year.

For example, MNC would probably be hard-pressed to issue new subordinated debt. The bank tried to issue $100 million in subordinated debt late in 1989 and again in early 1990, but withdrew from the market when it realized investors were not interested in its bonds at an acceptable price.

Instead, MNC privately placed $74 million in subordinated debt in Japan. The placement went smoothly – but unfortunately for the rating-sensitive Japanese investors, it was completed just days before Moody's cut MNC's subordinated debt rating to Baa3 from Baa1.

* * *

MARKET MONITOR

Standard & Poor's Corp. lowered its ratings on debt of Security Pacific Corp. on Wednesday, citing the higher risks borne by holding companies than by banks. Security Pacific's senior debt rating was lowered to A-minus from AA and its subordinated debt rating was lowered to A-plus from AA-minus. The preferred stock rating was cut to A from A-plus.

* * *

First Chicago Corp. has priced a $70 million offering of three-year securities backed by credit-card receivables with a coupon of 8.875% and a yield spread of 69.5 basis points over comparable Treasuries. □

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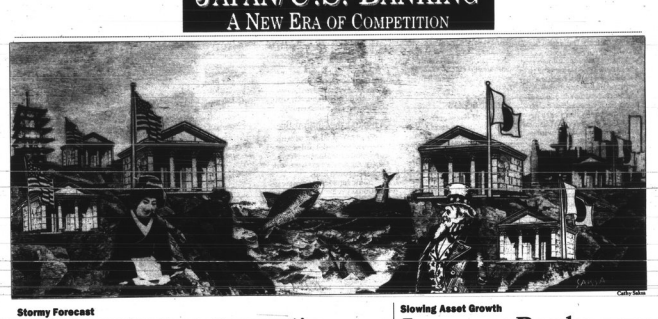
A NEW ERA OF COMPETITION

TOP BANKS

Rankings of the top 500 banks in the world, by deposits, starting on page 18A.



Cathy Sakin

Stormy Forecast

U.S. Banks Are Struggling To Find a Role in Japan

By JOHN EVANS

TOKYO — In the land of the rising sun, U.S. banks are encountering some stormy weather.

The reasons aren't hard to find. Hamstrung partly by regulatory constraints at home, U.S. banks here often are pitted against Japanese institutions many times their size.

The high cost of living and stratospheric real estate values in land-hungry Japan keep relentless upward pressure on overhead. Foreigners say the Japanese have been reticent to open their markets.

And over the last several years, U.S. banks also have had to face a special disadvantage: the historic decline of the dollar against the yen.

Putting Strategy First

With strategic considerations paramount, most banks likely will keep paddling to remain afloat in a sea of red ink. But many have able to ignore the bottom line are bailing out, seeking refuge in niches – such as securities dealing and investment management – or curtailing operations and slicing costs to the bone.

Of course, cutting costs only goes so far. The Japanese branches of six leading U.S. banks posted net losses in fiscal 1989, including BankAmerica, First Interstate and ContinentalBank Corp. And at least for the foreseeable future, the pickings in Japan likely will remain painfully thin.

"Out of 82 foreign banks here, no more than 10 will prove successful," said Michael Connors, managing director of Barclays Bank PLC in Tokyo.

Another measure of how tough it is to make money in Japan is the earnings data on the foreign institutions operating here. Despite combined assets of $140 billion, the 82 foreign banks here earned a miserly $1.34 million apiece last year – down from an average of $2.2 million in 1988, according to calculations by KPMG Peat Marwick, the international accounting firm.

Citing one reason for the sagging performance, BankAmerica Corp.'s senior vice president in Japan, Robert Johnson, calculates that between 1985 and 1989, the cost base of American banks here doubled because of the yen's big surge against the greenback. In 1985, the yen traded at about 238 to the dollar. Now, the exchange rate is about 150 to the dollar.

Problem of Access

Foreign bankers also grouse about limited access to the Japanese marketplace. Indeed, U.S. banks control less than 1% of banking assets in Japan, while the Japanese have a 15% share of

See page 3A

Slowing Asset Growth

Japanese Banks Alter U.S. Plans

By SAM ZUCKERMAN

SAN FRANCISCO — Japanese banks hit the United States like a tsunami in the 1980s. But this year, with the Japanese pounded by economic problems at home, the tidal wave is losing force.

"They are reassessing their strategy," said Donald W. Magnusen, executive vice president and capital markets group manager for Portland, Ore.-based U.S. Bancorp. "They seem to be less aggressive in their pricing and less aggressive in their asset building."

The current slowdown is probably no more than a trough until the next swell washes through, bankers and analysts said. In short, the Japanese are here to stay.

But at least in the near-term, they said, Japanese banks will emphasize higher-yielding assets and fee income rather than simply an increase in size.

"We're not very anxious to increase assets. Earnings from nonasset-related businesses are growing faster," said one Japanese banker, citing real estate investments, corporate acquisitions, project finance and trade finance as among the businesses his bank is targeting.

Startling Growth

Even as they slow their asset growth, however, the Japanese are building for the future. According to an internal memo of the Ministry of Finance – a copy of which was obtained by American Banker – 15 Japanese banks are planning to open or upgrade 27 offices in 13 cities across the United States.

Said Anthony Walton, general manager of stateside operations for Australia's Westpac Banking Corp.: "The Japanese have pinpointed the U.S. as an absolute key target market. They are going to be a dominating force in the year 2000."

Among the 15 banks planning to expand their assets here, the memo said, Mitsubishi Bank Ltd. – the world's fourth

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largest with $360 billion in assets – has the most ambitious plans. Mitsubishi reportedly is planning to open loan production offices in Atlanta, Philadelphia, Boston, Minneapolis, Detroit, Dallas and St. Louis.

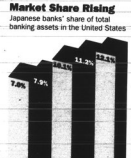
Japanese banking sources said the expansion was intended to broaden the banks' relationship with medium-size businesses in the United States and Japanese subsidiaries around the country. Japanese banks also want a network they can use to do business nationwide as barriers to interstate banking fall.

From 1982 to 1989 Japanese bank assets in this country more than quadrupled to $421 billion – more than 12% of total U.S. banking assets – according to Federal Reserve data. The growth rate exceeded 19% a year.

During the decade, the 15 or so major Japanese city banks

Market Share Rising

Japanese banks' share of total banking assets in the United States



Source: American Banker

were joined by more than 30 regional banks and trust companies.

By 1989, 41 Japanese banks – from leviathan Dai-Ichi Kangyo Bank Ltd., the world's largest, to the relatively small Tokyo Tomin Bank Ltd. – were operating a total of 198 branches, agencies, subsidiaries, representative offices, and other offices in 14 states and the District of Columbia.

But this year, rising interest rates, a soft yen, volatile stock market conditions at home, and rocky banking conditions here have caused some Japanese banks to downshift – at least temporarily. Thus, while in the fiscal year ended June 1990 the banks will show continued strong expansion as a result of major acquisitions late last year, experts predict Japanese bank-asset growth in the United States could slow to the low single digits in fiscal 1991, the lowest in years.

"Some bank headquarters are thinking seriously about decreasing total assets" in this country, said Juichi Tsuda, who manages the Los Angeles agency of Industrial Bank of Japan (IBJ).

Said a branch manager of a major Japanese bank: "Headquarters is very nervous. They have told branch managers to be prepared to sell assets."

American banks, saddled with poor earnings and portfolios filled with problem loans, are in no position to take advantage of the Japanese retrenchment by aggressively adding assets.

"There is an opportunity, but it's an opportunity that very few [banks] will have the potential to realize," said S. Waite Rawls, vice chairman and international capital markets chief for Chicago-based Continental Bank Corp.

Barrage of Blows

Japanese banks are readjusting in reaction to a series of blows that has hit them just as beefed up capital adequacy regulations of the Bank for International Settlements are being phased in. The BIS' total capital standard of 8% becomes mandatory early in 1993.

Banks in Japan have historically been less profitable than their U.S. or European counterparts, with returns on assets typically under 0.4%. They compensated with high leverage ratios and tremendous capitalization on the Japanese stock market, where price/earnings multiples of 40 or 50 were common.

Now some of those props have disappeared.

A Sea of Problems

The main problems Japanese banks face include:

● Skyrocketing domestic interest rates. Late last year the central bank, the Bank of Japan, fearful of inflation, forced short-term interest rates above 7% – higher than they'd been in years. Though banks had to pay more for funds, interest rates charged to customers moved up more slowly, creating "extreme pressure on margins," said Thomas E. Gove, an analyst with Thomson Bankwatch Inc., owned by the company that publishes American Banker.

● Weakness in the stock market. In the five months that ended in April, the Nikkei average, the Tokyo stock market's main index, plunged nearly 30%. Though prices have partly recovered, banks – among the biggest institutional shareholders – were badly shaken. "We're very nervous about the stock market," said a Japanese banker in California.

Much of the value of Japanese banks' "hidden assets" – unrealized gains on their stock – was wiped out. Under BIS regulations, 45% of those gains count as capital, so the market plunge eliminated large chunks of capital.

Meanwhile, analysts said the recovery in share prices in Tokyo over the last few months had bolstered Japanese banks' capital ratios.

In fact, said Thomas Hanley, banking analyst at New York-based Salomon Brothers Inc., 11 of Japan's 15 biggest banks have already met or surpassed the minimum 8% BIS ratio.

● Falling yen. For the first time in years, the Japanese have had to deal with a weak currency. The yen has dropped about 15% against the dollar in the past year. That has raised the value of dollar-denominated international assets and lowered that of yen-denominated capital, eroding capital-to-asset ratios.

These factors – combined with the possibility that Japan's inflated real estate prices may be due for a correction – are putting tremendous pressure on Japanese banks to raise more money. But under current conditions, it's tough to sell stock.

Japanese banks have been able to raise very little," said David D. Hale, chief economist at Kemper Financial Services Inc. The Japanese government recently announced a plan to let banks sell subordinated notes, but capital raised this way will cost much more than equity.

Thinking the Unthinkable

Short of capital and with no easy way to build it, some Japanese banks find themselves operating for the first time with an asset growth limit.

"Some Japanese banks are intentionally reducing assets worldwide, especially in international business," said Keizo Yoshida, president and chief executive of Sumitomo Bank of California.

"Within the past year, the major change [for Sumitomo Bank's branches and agencies in the United States] is a limit on the increase of the loan portfolio," Mr. Yoshida said. "Ten percent would be the ceiling. In the past, we increased much more."

Problems in the home market, of course, are not the only ones Japanese banks have confronted. In the past year, market conditions in the U.S. have deteriorated, especially in commercial real estate and leveraged transactions where the Japanese have big stakes.

Like their U.S. counterparts, the Japanese are setting tougher standards for real estate and leveraged transaction loans, afid rejecting deals they previously would have jumped at.

"They are reacting to the same problems we're reacting to," said U.S. Bancorp's Mr. Magnusen.

Credit quality problems are increasing at precisely the time when the Japanese are putting more stress on profitability and higher margins.

Bankers' Dilemma

Today, Japanese bankers in this country find are torn between desire for the kinds of profits to be had in highly leveraged transactions and the real estate markets and their concern for credit quality. For most of them, there is no easy way out.

"After leveraged buyouts, they have been trying very hard to find a new way to go," said Sumitomo Bank's Mr. Yoshida. "I don't believe they have found it."

Campeau Shock

The collapse of Robert Campeau's Federated Department Stores buyout was a watershed event for the Japanese. The credits were widely syndicated among city bank and second tier institutions, and buyers were said to be shocked to find themselves holding the bag.

Since then, the Japanese have become "more selective in participating in syndications," said Haruo Moto, a strategic planner at Union Bank, San Francisco, which is 77% owned by Bank of Tokyo.

In the recent $775 million buyout of Saks & Co. by Investcorp., the only Japanese institutions to participate were Bank of Tokyo and Sumitomo Trust & Banking Co. Ltd. Bank of Tokyo bought a $30 million stake and Sumitomo a $25 million, according to sources familiar with the deal.

Caution on Real Estate

The Japanese are not abandoning real estate lending. "We are accustomed to this market. We have expertise," said one Japanese banker.

Nevertheless, pressure from regulators and overbuilding in some markets have forced them, like their U.S. counterparts, to proceed with extra caution. Underwriting is more rigorous. And preference is going to safer credits, such as refinancings of standing properties, over riskier construction loans.

For some Japanese institutions, lending to midsize and smaller U.S. companies has become a more important priority.

Smaller Borrowers Targeted

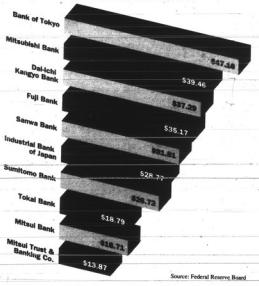
Bank of Tokyo, Mitsubishi Bank, and Sanwa Bank Ltd., which own commercial banks in California, have traveled farther down this road. Dai-Ichi Kangyo and Fuji Bank Ltd. bought major U.S. leasing companies as a way to enter the middle market. Those and other large subsidiaries or leasing units remain far behind.

All in all, it's an anxious time for Japanese bankers in the United States, though their underlying strength is little diminished.

"Every branch manager has headaches or stomach aches," said a Japanese banker in California. "Banking is much harder now." □

Japanese Banks in the United States

Ten largest ranked by total assets, in billions of dollars



Source: Federal Reserve Board

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Cracking Japan

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American assets.

In recent years, Washington has stepped up pressure on the Japanese to open their markets more quickly. And under an agreement in late June designed to whittle down its trade surplus with the United States, Japan has agreed to a range of reforms, including one that spurs consumer spending by making it easier to borrow on bank credit cards beginning in 1992.

Even so, the pace of reform likely will continue to be slowed by *keiretzu*, a Japanese business practice under which domestic corporations and banks tactily agree to work closely together.

Persistence Likely

Despite these obstacles, strategic commitments and the margins value of having a base in Japan will compel some U.S. banks to keep on trying.

BankAmerica's Mr. Johnson notes that although brutal competition has crimped profitability in Japan, the country represents the second largest source of business in the institution's worldwide network after its home base.

"We have a good branch network in Asia," he says.

"Asia/Pacific is an advantage we have to play."

Other bankers say conditions in Japan dictate tight control of costs and a razor-sharp strategic focus.

Staff Has Been Slashed

Timothy McGinnis, senior vice president and general manager for Chase Manhattan Bank in Japan and Asia, said Chase has been engaged in an 18-month program to reduce costs – a move that has sliced staff from a high of 650 to a current 545.

Chase and other American giants such as Citibank have an advantage over their foreign competitors: They first gained a beachhead in Japan in the period following World War II as military banks for the occupying U.S. forces. That activity proved a solid base for expansion.

Mr. McGinnis points to his bank's role as the major clearing bank for all U.S. dollar transactions generated in Japan. Chase handles 97% of all such clearances in the greenback for both Japanese and foreign banks and has retained leadership in the arena by spending on advanced automation systems for currency settlements.

A Steady Business

"Chase almost acts as a Federal Reserve Bank in Tokyo through our clearing," Mr. McGinnis said. "This type of business is a solid annuity. It provides steady income streams."

To survive in Tokyo, "you have to have strong niches like this," he said.

Another bank with a tight focus is Citicorp's Citibank, the only foreigner attempting to break into Japanese consumer banking. After a four-year battle, Citibank recently won the right to share in the teller-machine network of Japan's 12 money-center banks.

This will give Citibank, which operates nine branches in Japan, access to more than 20,000 cash dispensers throughout the nation beginning in December. Industry watchers say the move is crucial to Citibank's expansion plans.

Changes by Others

Meanwhile, other U.S. banks have significantly realigned their activities in Japan.

Wells Fargo sold its Tokyo branch last year and concluded a business venture with Nikko Securities Ltd., one of Japan's Big Four brokerage houses. In April, the concerns formed Wells Fargo Nikko Investment Advisers to handle the vast investment flows between the U.S. and Japan.

Separately, the San Francisco bank entered an arrangement with Asian megabank Hongkong and Shanghai Banking Corp. Plans call for Hongkong Bank to service Wells Fargo clients through its 1,500-branch network.

Continental, in shedding most of its staff in Japan, is looking toward specialized services. Says Timothy Wood, the bank's general manager in Tokyo: "We have made the decision to discard high-volume, low-value-added services." □

U.S. Banks in Japan

Earnings and assets for fiscal year ended March 1989

	Net income (millions of dollars)	Total assets (billions of dollars)
Citibank	$47.8	$6.2
Bank of America	(6.3)	0.76
Manufacturers Hanover	11.2	1.0
Bankers Trust Co.	7.7	2.4
Chase Manhattan	7.7	5.7
First Chicago	(4.8)	2.3
Wells Fargo	2.5	1.1
Mellon Bank	(0.03)	0.08
Continental Bank	(0.80)	0.50
Chemical Bank	(1.4)	0.43
Security Pacific	2.1	0.76
First National Bank of Boston	(2.1)	0.79
First Interstate	(0.04)	0.27

Source: KPMG Peat Marwick

1989 Highlights of the year

The ordinary and extraordinary shareholders' meetings of Banca Popolare di Milano, were held on 28th April 1990 and chaired by Prof. Avv. Piero Schlesinger (1,476 shareholders were present). During the extraordinary meeting, a number of changes to the Bank's Statutes were approved. Its Report and Accounts for the year ended 31st December 1989 (the 124th since the Bank's establishment) were approved by an overwhelming majority during the ordinary meeting.

As far as banking services are concerned, the positive results for the year show:

Customer deposits	**ITL 12,040.1 billion**	**+17.6%**
Total deposits (including banks)	**ITL 20,425.2 billion**	**+20.4%**
Funds administered (total deposits & securities held for banks and customers)	**ITL 35,598.3 billion**	**+18.4%**
Loans and advances	**ITL 8,084.5 billion**	**+12.4%**

During 1989, the notable increase in the Bank's operations continued in parallel with a widespread expansion to the territory it serves which resulted from the consolidation of Banca Popolare di Apricena (with 25 branches, mostly in Puglia). This expansion followed a similar merger with Banca Popolare di Bologna e Ferrara which took place in 1988.

The Bank also strengthened its international presence with the opening of the London Branch, situated in the heart of the City of London, and with the relocation of the New York Branch to new and more prestigious offices.

The first part of an increase to the share capital of the Bank was conducted very satisfactorily, producing an inflow of ITL 134 billion. To this amount, must be added ITL 66 billion resulting from the conversion into shares of warrants issued in 1989.

As a result of the increase in share capital and the allocation to reserves approved during the shareholders' meeting, Banca Popolare di Milano's net worth increased to ITL 1,247.5 billion (+20.5%).

A rise in income coupled with profits derived from the sale of minority participations (in particular the sale of the Bank's shareholding in Nuovo Banco Ambrosiano), produced an increase in the Bank's internal cashflow.

In fact, after having provided for extraordinary losses realised during the year (of which ITL 90.9 billion related to Bipiemme Leasing), a profit before tax of ITL 283.5 billion was recorded. After the deduction of taxes, a 32.1% jump in net profit to ITL 168 billion was achieved.

The shareholders' meeting, while retaining ITL 77 billion for the Bank's reserves, also approved the distribution of ITL 66.5 billion from profits to pay a dividend of ITL 460 per share to the 144.6 million shares in issue (as against the ITL 525 distributed to each of the issued 104.3 million shares in the previous year).

Banca Popolare di Milano

Cooperative Ltd. Liability Co.
Established in 1865
Piazza F. Meda, 4
1 - 20121 Milano

Case Studies

Footholds in the U.S. Come in Varied Shapes

Aggressive Japanese banks have established a substantial presence in the U.S., some by creating and expanding independent branch networks and others through link-ups with American institutions. Some have set up shop primarily to serve Japanese companies operating here, while others are going head-to-head with their U.S. counterparts, providing a wide array of products and services.

The following case studies spotlight the U.S. activities of three Japanese banks.

One focuses on the strategic alliance between Mitsui Taiyo Kobe Bank and Los Angeles-based Security Pacific Corp., a relationship that likely will create significant opportunities for both sides.

Another offers a progress report on giant Dai-Ichi Kangyo Bank's thrust into the middle market with its acquisition from Manufacturers Hanover Corp. of CIT Group, a leasing company with 59 offices in 25 states.

The section wraps up with an exploration of Tokai Bank's commitment to service, a stance that prompted the bank to follow one of its customers, Toyota Motor Corp., halfway around the world and set up a representative office in Lexington, Ky.

Tokai Bank

Following A Customer Overseas

In the highly competitive banking industry, customer service is the buzzword of the moment.

But would an American bank follow one of its customers thousands of miles to set up a branch in a small city in Japan, Britain or Germany?

That is exactly what Tokai Bank Ltd. did in 1986 when it opened a representative office in Lexington, Ky., near a plant owned by its largest customer, Toyota Motor Corp.

The bank's principal reason for being in Kentucky is to serve Japanese companies, including its client Toyota.

At first glance, the office seems simply a reflection of the bank's long-standing service commitment to Toyota. But the Lexington office also is an example of Tokai's nose for business, at home or abroad.

Serving Globally

"Tokai Bank seeks to serve our customers worldwide, not just in Japan," said Ukio Sakai, deputy general manager of Tokai's regional headquarters in New York City.

"The main reason [for the Lexington office] is to serve the Japanese corporations, including of course Toyota. But there are also many related parts providers, many in the form of joint ventures in that area, and other companies too."

Among the joint ventures serviced by the Tokai office are American Brake Industry Corp., a venture between General Motors Corp. and Akebono Brake; Central Manufacturing Co., between Kelsey-Hayes Co., Chuo Seiki and Toyota Tsusho; and MHK Associated Spring Suspension Components Inc., between Toyota, Hitachi Automotive Products USA Inc., Mazak Corp. – a part of Yamazaki Mazak – and Topy Corp.

The office acts as Tokai's eyes and ears in the Lexington area, said assistant vice president Shigeyoshi Kuribayashi.

Approvals in New York

The office "can't provide loans on its own, just solicit loans," Mr. Kuribayashi said. According to Mr. Sakai, 90% of the loans solicited by the office can be approved in New York.

"The office reports weekly," Mr. Kuribayashi said. "And on some topics where we want to know as early as possible, like plans to expand operations where there may be funding needs, they make a separate report."

Asked if the offices also serve as an early warning system for problems in the foreign branches of a client company, Mr. Kuribayashi chuckled. "I think that's a good idea. We will have to add it to our strategy."

Four Offices Are Agencies

Tokai, which has its world headquarters in Nagoya, Japan, also has four branches as agency offices in the United States, in New York, Chicago, Los Angeles, and Atlanta. Agency offices can make loans but cannot take deposits. The offices range in size from 200 employees in the New York office to 14 at the newest office, in Atlanta.

In addition to the Lexington office, Tokai has four other representative offices here, in Dallas, Minneapolis, San Francisco, and Columbus, Ohio.

They usually have about five employees, of whom one or two are Japanese, Tokai officials said. The San Francisco, Minneapolis, and Columbus offices were just opened in April.

"Columbus itself is not a big city, but it has great opportunity for us, because there are lots of big corporations, around 40 Fortune 500 companies. Minneapolis has the same thing, 27 Fortune 500 companies." □

Randy Welch is a business writer based in Denver.

Mitsui Taiyo Kobe

American Flavor In Its Alliance With Security

Under a Japanese business practice known as *keiretsu*, it is not uncommon for companies to buy a small piece of one another as a way of obtaining referrals and preferential treatment.

But Mitsui Taiyo Kobe Bank has given this strategy a decidedly American spin. In May the bank – the world's second largest, with assets of $402 billion – purchased a 5% equity interest in Security Pacific Financial Services System Inc., San Diego-based unit of $86 billion Security Pacific Corp.

The sale further cemented the relationship between the two Pacific Rim giants. Before that deal in May, they had shared private banking services. And other crossover deals are in the work, including Security Pacific's pending acquisition of 20% of Los Angeles-based Mitsui Manufacturers Bank, a $1.5 billion-asset middle-market subsidiary of Mitsui Taiyo.

Opportunities Created

But most important, the strategic alliance probably will mean substantial opportunities for both sides.

In line with the recent agreement, Security Pacific will get the opportunity to service Mitsui bank customers in North America. The Security Pacific unit is targeting $300 million in extra business by the end of 1993.

And under the pending acquisition, Mitsui Manufacturers is looking to expand its share of the middle market.

Services Expanded

"We expect to grow in our segment of the middle market and to be able to present more services to our client base," says Jerry W. Johnston, a former Security Pacific executive vice president who became Mitsui Manufacturers' president and chief operating officer following an acquisition agreement in November 1989. For Mitsui Manufacturers, the middle market means companies with revenues of under $100 million.

Security Pacific Financial Services, with $14 billion in assets of its own, provides a range of consumer and commercial financing and leasing services. Not included in the deal with Mitsui Taiyo were the unit's insurance, venture capital, and international operations. All three fell outside the Japanese bank's primary interest of providing financial-service products for its American customers.

The unit's acquisition marked the culmination of almost 20 years of interaction between Richard J. Flamson 3d, chairman and chief executive officer of Security Pacific, and Kenichi Kamiya, his counterpart at Mitsui Taiyo Kobe Bank. The pair met when Mr. Kamiya ran Mitsui's North American operation in New York and Mr. Flamson headed Security Pacific's international department.

Message to the Market

Aside from the obvious desire to strengthen their business ties across the Pacific, Security Pacific gained strategic advantages from the sale.

According to Nicholas B. Binkley, president and chief operating officer of Security Pacific Financial Services, the selling price of $85 million represented 15 times operating earnings, or 2.5 times higher than Security Pacific Corp.'s price-earnings ratio at the time of the sale.

"We had been disappointed in the stock market's ability to understand the value of Security Pacific Corp.," Mr. Binkley said.

"We're a major regional institution as well as a money-center bank and a big player in the world's capital markets. As a hybrid, we were confusing the analysts. By selling a small piece of Security Pacific for what we considered a very attractive price, we were trying to get the market to read our value more clearly."

Adding Value to Lending

With the transaction, Security Pacific also is aiming to add value to commercial lending Mitsui provides to Japanese manufacturers of high-technology equipment, such as copiers and printing presses.

These companies market their goods through dealers in the United States, Mr. Binkley said. What Security Pacific will add, he said, is a financial package that the dealers can rely on when selling those goods.

"We have specialized programs and a nationwide delivery system for that business and an understanding [of the U.S. market] that the Japanese don't have or can't buy," he said. □

Shimon-Craig Van Collie is a financial writer based in Oakland, Calif.

The strategic alliance probably will mean substantial opportunities for both sides.

Jerry W. Johnston
President/CEO
Mitsui Manufacturers Bank

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Suzanne Christy
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Editors

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Dai-Ichi Kangyo

CIT Deal Marks Foray Into Middle Market

Even among the deliberative Japanese, Dai-Ichi Kangyo Bank has a reputation of being extremely cautious.

So its decision to plunk down $1.4 billion last September for control of a unit of Manufacturers HanoverCorp. and a small percentage of the troubled bank's stock initially may have appeared out of character.

In fact, however, there were none but prudent reasons for the investment, the largest so far by a Japanese bank in a U.S. financial entity.

"We have a very high potential business chance in the middle- market area" with the acquisition, said Shigeki Toma, a senior vice president at DKB, the world's largest bank with assets of $312 billion. "But because of limited resources in the United States we could not enter into this market by ourselves."

A Major Stake

Dai-Ichi paid $1.28 billion for a 60% stake in CIT Group – a leasing company with 59 offices in 25 states – and roughly $149 million for 4.9% of Manufacturers Hanover's shares.

Manufacturers Hanover relinquished control of CIT to help raise desperately needed capital and vastly improve its financial standing.

For Dai-Ichi, the CIT franchise provides the Japanese megabank both an instant presence in U.S. wholesale banking and in the increasingly attractive lease-finance business, and a ready-made nationwide branch network able to service the U.S. needs of Japanese corporate clients.

A Complete Service

Through CIT, DKB can help a Japanese customer develop a strategy for the American market and even recommend a city and project site. The unit can also finance construction and arrange the purchase or lease of equipment such as automobiles and aircraft.

And if the financial requirements of a certain customer are too large for CIT alone, the subsidiary can call upon DKB.

In 1989, CIT earned $126 million on assets of $10.1 billion. Results were little changed from the year before, when CIT earned $120 million on assets of $9.3 billion.

In 1987, DKB had attempted to build middle-market share on its own with $200 million purchase of a portion of the loan portfolio of U.S. Trust Corp., a New York-based trust bank. But Dai-Ichi quickly realized that the costs of starting from scratch were prohibitive. With little assurance that the effort would reach fruition, the bank was unwilling to assume the huge expense of hiring and training employees to staff new offices.

DKB had already decided that buying into the U.S. middle market would be less expensive and more efficient when Hanover approached the Japanese bank with an offer to sell CIT.

Meanwhile, DKB said, if the opportunity arises, it would consider investment in other Hanover operations.

For now, however, DKB, Hanover and CIT are still getting acquainted. DKB has not visibly altered the CIT corporate hierarchy, nor is that in its plans. Chief executive Albert R. Gamper Jr. still presides, reporting to Yuko Oana, DKB's senior managing director for international planning, who in September will take over as chairman of CIT and Dai-Ichi Kangyo Bank of California.

Some Japanese Involved

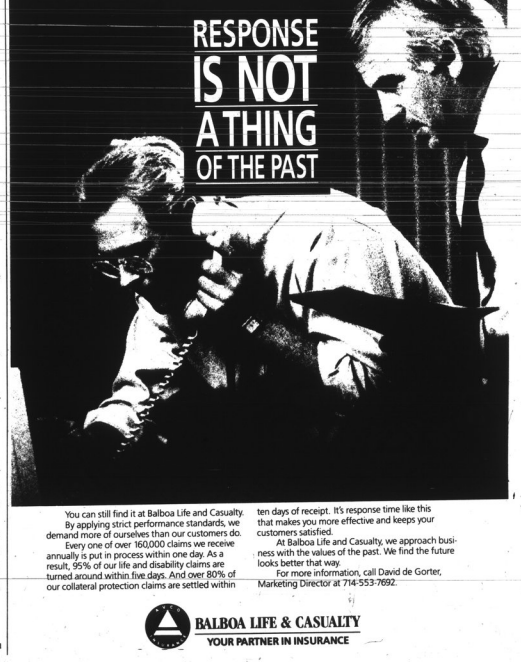
The Japanese bank has sent 10 of its executives to work in CIT's administration and back-office operations. The highest-ranking DKB official involved in CIT's day-to-day operations is senior executive vice president Takasuke Kaneko.

"What they got for their money," James K. McDermott, head of research at New York-based Keefe, Bruyette & Woods, said of the deal, "is a very high-quality middle-market lender. CIT has a very high name recognition in the marketplace and I think the Japanese made a very wise investment." □

Jonathan Burton is a business writer based in New York



ALBERT R. GAMPER JR. *still runs CIT as chief executive, but he now reports to a Japanese chairman, Yuko Oana.*



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People to Watch

Japanese Bankers in U.S. Take a Fresh Approach

By JAMES R. KRAUS

As Japanese banks plan their next moves in the U.S. and struggle to overcome mounting difficulties at home, they are increasingly looking to several key players to provide leadership and direction. The following profiles offer both a glimpse of Japanese strategies here and abroad, and a look at the people behind them.

Stateside, several Japanese have already made their mark. For example, Osamu "Sam" Yamada of Bank of California, has broken with Japanese management practices to run things American-style.

In Japan, meanwhile, the mantle of leadership is being taken up by an eclectic group of senior executives. One of these, Yoh Kurosawa, the newly appointed president of Industrial Bank of Japan and a lover of German choir music, is jockeying to position his bank as the Japanese financial markets prepare for deregulation.

Long-Term Credit Bank

CEO Picks Up On American Ways

In 1985, Koji Hirao of Long Term Credit Bank told a corporate finance seminar in Washington that "white knights, poison pills, golden parachutes, and other colorful terms of M & A are all Greek to the Japanese business community."



Peggy Turbett

KOJI HIRAO: *Back in 1985, "no one believed we would play such a role."*

But Mr. Hirao, general manager of the bank's New York branch, has learned to speak Greek, or the American banking equivalent.

He has also propelled Long Term Credit Bank in the United States away from its traditional role as a wholesale lender and into mergers and acquisitions, project finance, leasing, and other fast-developing businesses.

He Spotted the Trends

Mr. Hirao, now 60, spotted the trends early on.

"We set our strategic plan for international banking about seven or eight years ago, and we started earlier than anyone else," he says.

"We felt that Japan was going to produce large capital surpluses and that the bank would be able to advise Japanese companies or financial institutions on making investments in the U.S."

To capture this business, in 1984 Mr. Hirao set up a Tokyo-based merchant banking group with units focusing on Tokyo and international capital markets, international corporate finance, mergers and acquisitions, project finance, and aircraft and real estate finance.

He applied the same merchant-banking philosophy to the United States after noticing in the mid-1980s that direct investment in manufacturing and real estate was beginning to replace Japanese purchases of U.S. securities.

Alliances in United States

In 1985 the bank struck a critical alliance with New York-based Peers & Co., the investment banking boutique, to expand mergers and acquisitions activity.

In June 1988 Long Term Credit Bank acquired Greenwich Capital Markets Inc., the Connecticut-based U.S. primary dealer.

And late last year the bank moved again by setting up LTCB-MAS, a joint venture with Miller, Anderson & Sherrerd of a Bala Cynwyd, Pa., a fund manager with a portfolio of some $20 billion worth of equities.

Philanthropic Investments

Mr. Hirao has also stepped up Long Term Credit Bank's contributions to U.S. academic institutions and research projects.

The bank has contributed a $1 million scholarship fund to the University of Pennsylvania's Wharton School and $500,000 to set up a chair of political economy at New York University. Long Term Credit Bank also participated in a $250,000 donation for a pilot project for the magnetic-levitation train being developed by Pittsburgh.

The contributions have a certain measure of self-interest. Academic endowments help raise the bank's profile and cement good relations with the future U.S. business elite, while contributions to research lay the groundwork for industrial projects in which the bank is likely to become involved.

We felt that Japan was going to produce large capital surpluses and that the bank would be able to advise Japanese companies . . . on making investments in the U.S.

Koji Hirao
Long Term Credit Bank

Strategy Paid Off

In business, Mr. Hirao's strategy has paid off handsomely. In the 12 months that ended June 30, 1989, assets rose 24% to $10.5 billion, making Long Term Credit Bank the 11th-biggest foreign bank in the United States. Its $6.5 billion in syndications made it third among foreign banks in this country in lead managing syndicated corporate loans, according to *Loan Pricing Report*.

Long Term Credit was also second among Japanese banks in Japan-U.S. mergers and acquisitions, with 14 deals worth $580 million. Worldwide, the bank ranked first in mergers and acquisitions, with $2.55 billion worth of deals.

Back in 1985, Mr. Hirao says, "no one believed we would play such a role." □

Mitsui Taiyo Kobe Bank

Strategist Expects Merger to Flower



Peggy Turbett

MIKIHIKO BANNO *is wary of "quick decisions and quick profits."*

Mikihiko Banno, general manager in the United States of Mitsui Taiyo Kobe Bank, likes to point to the pink cherry blossom logo on his business card.

One blossom is open, symbolizing the present. The other is a bud that is still closed.

"That," he says, "is the future."

Man in the Spotlight

As the man named to carry out the April merger between the U.S. operations of Mitsui Bank and Taiyo Kobe Bank, Mr. Banno's job is to make that bud unfold.

Others will be watching closely to see just how he succeeds. They will also be watching to see whether the megamerger, which on April 1 this year created the world's second-largest bank, offers any lessons to other banks considering similar moves.

A Simple Equation

For Mr. Banno, the logic of the merger is simple.

"The merger doubled our capabilities, doubled our manpower and gives us far more assets to work with," Mr. Banno said.

Size, he adds, is important to Mitsui Taiyo Kobe, a bank that wants to be able to offer every banking service it can to everyone who asks for it.

Analysts say such a strategy can only work for a very large bank with big resources. Mitsui Taiyo Kobe is counting on the merger to provide the needed clout.

U.S. Shift Near Completion

The merger linked Mitsui, one of the oldest names in banking in Japan, with Taiyo Kobe, a relative upstart created after a merger of Taiyo Bank and the Bank of Kobe in 1973.

Combining the two operations has just begun in Japan. But in the United States, where Mitsui Taiyo Kobe now has a combined $20 billion in assets and is the 10th-largest foreign bank, the blending is virtually complete.

Despite the Japanese bank's fondness for size, Mitsui Taiyo Kobe's assets are unlikely to grow quickly, Mr. Banno said.

New Capital Requirements

For one thing, new international capital requirements oblige banks to increase their capital in proportion to their assets. This, he said, will not always be possible.

Secondly, Mr. Banno's plan is to move into more-profitable fee-based businesses, such as mergers and acquisitions, trust banking, and investment advisory services.

Third, the bank is developing its real estate investment services for Japanese property buyers, many of whom are closely studying hotels, condominiums and offices being sold off in the wake of the savings and loan crisis.

Strategic Alliance

On the West Coast, where Mitsui Taiyo Kobe has only a small presence, the bank has struck a strategic alliance with Security Pacific Corp., selling the U.S. bank a 20% stake in Mitsui Manufacturers, its California subsidiary, in a bid to gain support for expansion into lending to small and medium-size companies.

Mr. Banno's plan is to move into more-profitable fee-based businesses, such as mergers and acquisitions, trust banking, and investment advisory services.

"The arrangement gives us expertise. Security Pacific is far better equipped to do business in the U.S. than we are," Mr. Banno said.

But probably the last thing on his mind is making a fast buck, said the 54-year-old executive.

"We like to move deliberately. Quick decisions and quick profits can be dangerous. You risk getting your hands burned," he said. □

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Bank of California

Exec Eases Ties To Tokyo Parent

If you want to be successful in Japan, you have to do things the Japanese way. If you want to succeed in America, do things the American way," says Osamu "Sam" Yamada, the 60-year chairman, president and chief executive of Bank of California. Mr. Yamada practices what he preaches. Named to head Bank of California after he helped engineer its acquisition by Mitsubishi Bank in 1984, Mr. Yamada laid down his terms.

He would run things on his own without having to shuttle back and forth to Tokyo to get approval for every loan and he would run Bank of California as an American bank.

A Quick Decision

"Most Japanese banks depend on Tokyo's decision. Sometimes they have to wait a week; sometimes a month. We decide today and move tomorrow," Mr. Yamada says.

One of a new breed of internationally minded Japanese bankers, Mr. Yamada first came to the United States in 1978 to head Mitsubishi Bank's New York Branch. In 1982, he returned to Tokyo as general manager of the bank's international planning division.

Named head of Bank of California in 1974, he decided to take the bank out of retail banking, where it did not have enough branches to compete with the big California banks, and focus instead on lending to small and medium-size corporations, trust banking, trade finance, and correspondent banking.

Who Knows the Owner?

Contrary to Japanese management practices, Mr. Yamada also gave Bank of California executives broad leeway to develop business as they see fit, played up the bank's California roots, played down its links to Mitsubishi, and emphasized doing business with U.S. companies rather than Japanese ones.

"A lot of small and medium-size companies don't even know we are owned by a Japanese bank," Mr. Yamada said.

Unlike other Japanese banks, where a high proportion of executives are sent over from Japan, only seven out of Bank of California's 3,700 employees are Japanese. Only two of the nine members of the bank's policy making committee are Japanese. All Japanese are required to use only English, even on their lunch breaks.

The strategy appears to be working and profits have been climbing steadily.

State's Sixth Largest Bank

In 1984, Bank of California had $3.6 billion in assets and posted $20.5 million in losses.

Last year, after merging in 1988 with Mitsubishi Bank of California to create the state's sixth-largest bank with $6.9 billion in assets, the bank earned $64 million, giving a 0.66% return on assets.

Assets are now at $7.5 billion and climbing. By 1991, Mr. Yamada says, Bank of California will have $10 billion in assets and a 1.00% return on assets.

Much of the growth in assets will come by providing bigger loans to bigger companies, Mr. Yamada said.

Analysts do not track Bank of California since it is not listed but say that the bank still has a way to go to establish itself in the California market.

"Bank of California has been a bank that's sort of been in limbo. It's not a small community bank and it's not a big bank. I can't really figure out what their market is," said Alan Hoeffler, an analyst with Alan Hoeffler & Co. in Palo Alto.

A Different Style

But they added that Mr. Yamada's views on doing business the American way do set him apart from other Japanese bankers who cluster together socially, rely on Tokyo for instructions, and spend only a few years here before going home.

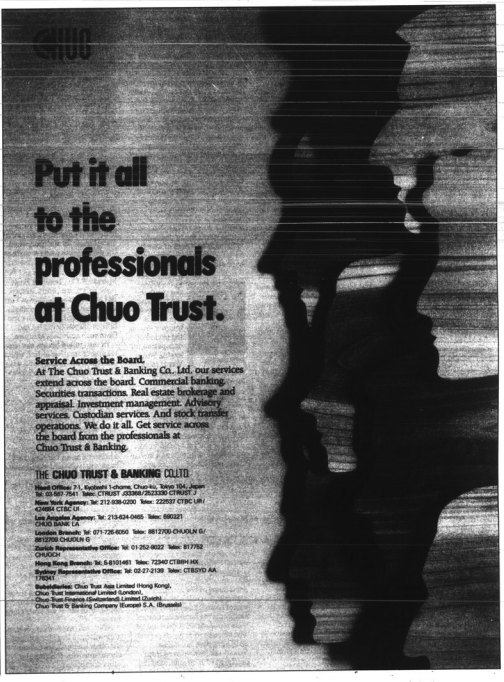
"It's his claim to fame. He's kind of a turnaround from other Japanese bankers who like to do things Japanese style," said another analyst.

Sometimes, though, even Mr. Yamada goes too far. When he showed up in jogging shoes at the bank one morning, security guards politely but firmly refused to allow him in until he changed. □



Peggy Turbett

OSAMU "SAM" YAMADA *insisted on freedom to run his bank his way.*



People to Watch

Executives Navigate Shifting Currents in Japan

By JOHN EVANS

Citicorp in Japan

CEO to Reap Gains Of ATM Accord

Masamoto Yashiro, a former Exxon executive who heads Citibank's consumer bank operations in Japan, last month hit the financial services equivalent of an oil gusher.

After a protracted, four-year campaign – most of which Mr. Yashiro was not on hand to oversee – the U.S. bank clinched an agreement late in June with Japan's big 12 money-center banks for access to their network of 20,000 automated teller machines.

That deal represents a major advance in Citibank's plans to establish a consumer banking presence in Japan, part of its global retail network. It has already established 700 branches in Europe.

In Japan, where Citibank has nine branches, the long-term target is to have as many as 50 by the mid to late 1990s, opening them at the rate of four to five a year. Currently, Citibank has only 20 ATM machines in Japan, but it will be plugged into the main national network by December.

Mr. Yashiro, 61, who joined Citibank in early 1989 after a 30-year marketing career with Exxon that culminated in the presidency of its Japanese affiliate, is under no illusion about the problems of building a presence in Japan.

It's "one of the most difficult markets in the world," he said, with soaring real estate prices making retail facilities extremely costly, and staff costs that can prove equally prohibitive.


Masamoto Yashiro

In fact, Citibank made a few false starts before he was recruited. That included its attempt in 1987 to buy a small and troubled regional bank, the Heiwa Sogo Bank. If Citicorp, attracted by the bank's branch network, had clinched the deal, it would have marked the first-ever acquisition of a Japanese bank by a foreign company. Instead, Sumitomo Bank Ltd. outbid Citicorp in a brief takeover tussle.

Mr. Yashiro's charge from Citicorp officials is along those lines: Find a way for Citibank to expand further into Japan's consumer banking. The acquisition route has now been discarded. Japanese bank stocks sell on price-earnings multiples of 40 to 50, putting them out of the reach of virtually every foreign company.

For the Japanese executive, the answer was clear – a step-by-step approach, recognizing that the bank has to start as a "niche player," building its branch presence in Japan bit by bit each year. Mr. Yashiro believes that Citibank can prosper in Japan, "where other large U.S. banks have had less success," because of a couple of key factors.

First is the sheer size of Citibank and its ability to "import" successfully financial products and services from its activities elsewhere. Then there's a consumer perception that the bank's size and ability to offer innovative services are advantages in a competitive Japanese market.

As an example of innovative offerings, Mr. Yashiro points to its multiple-currency account, called Multi-money, which originated in the bank's Hong Kong subsidiary. The Japan team

Mr. Yashiro is under no illusion about the problems of building a presence in Japan.

modified the account to fit local needs, with the version in Tokyo offering customers a depositary choice of six currencies plus gold.

Given the difficulties of reaching Japan's 120 million people without a broad branch network, Citibank is also pushing telephone banking, which is popular in Japan. Electronic links such as phone banking and ATMs ease the pressure to create physical branches, and some observers in Tokyo say Citibank is eyeing another strategy to avoid the hefty investment costs required for branches.

In a cooperative arrangement with Mitsubishi Bank Ltd. last month, Citibank agreed to rent nearly half of the total office space of the Japanese bank's branch in Osaka, Western Japan. Mitsubishi, Japan's fourth-largest bank, has also offered space in as many as 10 other branches, insiders say, a proposal Citibank is currently considering. Tokyo officials insist that no decision has been made.

In exchange, Citibank may help Mitsubishi expand in the United States, insiders say.

While Citibank has never disclosed the likely costs of trying to establish a 30-branch network in prime areas, U.S. bankers in Tokyo say that, relatively speaking, expenditures anywhere under $50 million a year would be "peanuts."

Mr. Yashiro insists, however, that Citibank is taking the long view of its consumer business. He stresses that there will be "consistent execution" and commitment to its expansion in Japan, which will help the bank "in its effort to create a global consumer bank." □

Industrial Bank of Japan

Banker's Passions: Stocks and Brahms

By almost any standard, Yoh Kurosawa, the newly appointed president of Industrial Bank of Japan Ltd., is an unusual banker.

Deputy president of IBJ since 1984, he has become an outspoken expert on Latin American debt problems. He's a lover of German choir music and a noted wit. Mr. Kurosawa is also an avid tennis player. His favorite racket is a gift from Hans Androsch, Austria's former minister of finance, and Mr. Kurosawa spends up to three hours at a clip out on the courts with high-profile opponents such as Alexander Haig, former U.S. Secretary of State.

Mr. Kurosawa is hoping he can transpose this endurance and drive into the banking world as his institution prepares itself for a major transition. In Japan, banks are maneuvering to develop securities powers as Article 65, a banking law modeled on America's own Glass-Steagall Act, is dismantled.

Similarity Is Historical

The similarity of the two banking laws – both of which strictly delineate the powers of banks and those of securities concerns – is not coincidental.


Yoh Kurosawa

U.S. authorities regulated the Japanese banking system in this manner during the period of occupation following World War II in an effort to stamp out the old military-industrial complex.

Learning About Jokes

Turning to a lighter memory of the U.S., Mr. Kurosawa recalls his stint at Harvard Business School in the 1950s.

"What Harvard taught me was a sense of humor and how to argue and debate," he recalls. "At first, I just couldn't understand American humor and had to ask friends after classes what the jokes were about."

The IBJ president has since honed his humorous talents to a keen and even biting edge – unusual in Japan, where politeness and the dislike of causing offense are deeply ingrained in the national character.

Industry watchers say Mr. Kurosawa's elevation to the presidency of IBJ in a recent management reshuffle underscores how IBJ and other banks are preparing for ferocious turf wars as Article 65 is dismantled. The changes were not expected until next year, but Kanoo Nakamura, who moved from president to chairman, said the IBJ board decided to speed up the timetable.

Under IBJ's new lineup, Kisaburo Ikeura, the former chairman, will remain on the board as an adviser and Hideo Ishihara, managing director, becomes deputy president.

Gaining securities powers is especially important for IBJ, Mr. Kurosawa says. It's the biggest of Japan's three specialist long-term credit banks, institutions that traditionally have been wholesale-oriented with virtually no consumer banking capabilities. IBJ operates with 23 branches in Japan.

A Link to Securities

In prewar Japan, IBJ was a banking powerhouse with huge influence, including close links with Japan's 200 largest corporations and a major interest in Nikko Securities Ltd., one of Japan's Big Four securities houses. IBJ still has extensive corporate relationships and has invested much in the coming securities battle in Japan.

These powers are regarded within the bank as an essential complement to its existing activities. Its London-based securities arm, IBJ International Ltd., is one of the major forces in international securities markets like Eurobonds. Its operations are part of a strategy to develop knowhow and global distribution for the time when the parent bank gains securities powers in Tokyo.

Like U.S. banks such as J.P. Morgan & Co., Bankers Trust New York Corp., and Citicorp, IBJ has taken advantage of London's completely deregulated system to build securities capabilities despite being barred from such activities at home.

In the United States, the closest approximation to IBJ, which ranks seventh in the world with $260 billion in assets, is Morgan, which Mr. Kurosawa much admires.

View of Morgan

"I've got lots of respect for J.P. Morgan and what [chairman] Dennis Weatherstone is doing," Mr. Kurosawa says, commenting on the New York bank's drive to add major securities operations to its traditional wholesale banking capabilities.

The banker said he has set 1993 as the year for IBJ to become a true universal bank, dealing freely in securities in Tokyo, New York, London, and other financial centers. IBJ also plans to exercise trust bank powers by then, when Japan's is expected to dismantle the remaining barriers.

The implementation of these powers will no doubt mark the pinnacle of Mr. Kurosawa's long career.

After that, the banker presumably will have time for some of his other interests, including choral music by Brahms and other composers. □

Bank of Tokyo

Chief Calls Tune For U.S. Unit

Want to know what Bank of Tokyo is up to in the United States? Ask one architect of the institution's master plan, Deputy President Tomatsu Yamaguchi.

The bank – the largest foreign bank here with $50 billion in U.S. assets and, overall, in the top 20 among all holding companies – plans even more expansion, Mr. Yamaguchi said. At least in the short term, that means bigger operations in California, New England, Atlanta, and Illinois, he said.

No Retail Base

Observers in Japan say the expected activity is an attempt to counterbalance the lack of a retail banking base at home, a major source of low-cost funding for Japanese institutions.

In fact, the industry in Japan lately has been abuzz with speculation that Bank of Tokyo will eventually be forced to merge with a Japanese partner.

Mr. Yamaguchi, a seasoned manager who returned to Tokyo last year after heading the bank's New York office, insists a merger is not in the offing. But he allows that the United States is a crucial element in the bank's game plan.

For example, he said, Bank of Tokyo was elated in June when it acquired Bank of New England Corp.'s leasing group. This added close to $1 billion to its total assets, which, at around $228 billion globally, make it the world's 19th biggest banking company.


T. Yamaguchi

Said Mr. Yamaguchi: "The leasing acquisition was important for us. The leasing business is very closely connected with the investment banking so, without leasing capability, we couldn't expect to offer a 100% service to our [U.S.] customers."

At the same time, he said, the Boston-based company was a valuable target because of its middle-market and international business profiles.

"Japanese banks, including our own, are trying to expand our business relationships with middle-size corporate customers," Mr. Yamaguchi said. A similar motive was behind Bank of Tokyo's acquisition of Union Bank of California two years ago, he said.

Currently, Bank of Tokyo's asset mix in the United States comprises about $20 billion on the West Coast and $30 billion on the East Coast. □

Securities Barriers in Japan Are Eroding

Competitors Fear Banks' Power

By BRIAN ROBINS
Special to the American Banker

It may,be at least two years before Tokyo enacts significant reform in the segmented Japanese financial system, paving the way for the nation's biggest commercial banks to gain entry to the securities business. Even so, a consensus is beginning to emerge about likely changes to Article 65 – roughly Japan's equivalent of the U.S. Glass-Steagall Act.

Financial experts say Japan's Ministry of Finance eventually will allow the wholly owned subsidiaries of banks and securities companies entry into each other's protected turf. The subsidiaries, they say, would be separated from their parent companies by firewalls, which would insulate the banking entities from any losses at the securities units, and vice versa.

Japan's finance ministry appears to be slowing deregulation to protect smaller institutions.

The addition of securities powers could give Japan's biggest banks virtually unlimited sway over Japanese financial markets – threatening to shove aside the U.S. and European banks that have been historically placing securities in the hands of Japanese institutional investors.

For U.S. and other foreign banks in Tokyo, an ending of the Article 65 divisions would be a double-edged sword. The U.S. and the European Community are pressing Japan to open its financial system to foreigners, eliminating barriers such as the securities-banking separation.

But gaining those freedoms could unleash Japan's behemoth banks – the top 10, by assets, are the world's largest banks – to dominate both banking and securities.

Indeed, foreign bankers in Japan fear that the Japanese banks, which have set up primary dealerships for government bonds in the United States, would zero in on such business domestically.

No wonder a senior British banker in Tokyo, only half-jokingly, "Long may Article 65 remain."

In recent months, the finance ministry has received from advisory committees a series of reports on deregulation. The most recent report, from the pro-securities Industry Financial Systems Research Council, recommended that banks be permitted to underwrite commercial paper but not be allowed to enter the equity underwriting sector or the direct trading of securities.

Until the most recent report, securities houses had firmly rejected any reform proposals because, industry watchers say, banks stood to gain the most. By contrast, banks have appeared more willing to permit securities houses into their back yard – though most would limit them to the wholesale market.

Japanese bankers generally believe that deregulation will enable them to compete more effectively in the international arena. Toru Kusukawa, deputy president of Fuji Bank Ltd., recently advanced that idea at a hearing of the U.S. Senate Banking Committee.

"As long as Japan and the U.S. have a policy separating banking and securities businesses," Mr. Kusukawa said, "it will become increasingly difficult for banks in either country to compete on an equal basis with European banks, which conduct universal banking."

There are signs that the finance ministry agrees with this argument, but it appears to be placing a premium on protecting smaller institutions, even if that means slowing deregulation.

Despite the securities houses' intransigence about sharing their market, all of the bigger banks already have equity links with small securities firms. And the banks are in the process of bolstering these houses either through capital injections or by transferring skilled staff to them.

In trust banking, deregulation is expected to proceed quickly, given the fact that trust banks have operations, such as pension fund management, that have allowed them to develop some expertise in the securities area. Moreover, Japanese regulators seem to think that these institutions will not be unfairly hurt by new rivals, having already been exposed to competition through the growth of investment advisory companies.

But one unhappy group in this deregulation effort may be the long-term trust banks.

The long-term credit banks want unrestricted ability to underwrite equities, thus restoring a privilege that was taken away when the universal Japanese banking system was dismantled after World War II. □

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Regionals May Not Be Ready for Rate Decontrol

Their Home Franchises Have Long Been Insulated by Government

By BRIAN ROBINS
Special to the American Banker

For generations, Japan's regional banks have profited from their tight grip over highly insulated home-market franchises.

As reforms proceed, however, the regionals – smaller, local banks which have until now focused mainly on consumer lending and lending to small and medium sized corporations – may find themselves without the capital or expertise to expand. That's one reason why Japan's Ministry of Finance is resisting U.S. pressure to deregulate domestic interest rates on bank deposits.

While interest ceilings on deposits of more than 10 million yen (about $65,000) have been abolished, Japan fears that much of its banking industry could be dangerously exposed if smaller deposits, on which the regionals heavily depend, are similarly deregulated.

Prosperity and Control

Some regional banks' prosperity has been linked directly to interest-rate regulation, which imposes ceilings on deposit accounts. Deposit rates as low as 2.5% are being offered by banks at a time when Japan has an official discount rate of 5.25% – meaning that depositors effectively represent a source of reduced-price funding (and a strong economic stimulus) for the regionals.

Still, many industry watchers are questioning the future for most regionals under Japan's evolving financial system. Just as in the United States, Japan could see a significant depletion of smaller banks in the coming decade, primarily through mergers and acquisitions initiated by the big Tokyo banks.

But while consolidation in the United States has been spurred largely by interstate banking, Japan's merger wave will be based on intensifying competition in a system long grown soft from heavy regulatory protection and a lack of competition.

Regionals Seen Losing

"There is little doubt that the regional banks will be the big losers in the shift toward deregulation," one bank analyst said. "There are some impressive operators in this area, but the majority are surprisingly unsophisticated."

Some bankers and analysts suggest that Japan has too many banks, especially smaller banks. But officials at the Ministry of Finance bristle at that notion.

"That argument just does not make sense," a senior ministry official said. "Per capita, Japan already has fewer banks than the U.S. And to opt for further consolidation is not necessarily in the best interests of the financial and capital markets."

Many industry watchers are questioning the future for most regionals under Japan's evolving financial system.

Tight regulation and fierce regional loyalties have ensured regional banks substantial clout inside their geographic home bases. But recently, some larger city banks, such as Sanwa Bank and Mitsubishi Bank, have pressured the finance ministry to permit greater competition between banks over their charges for fund transfers.

More Pressure on Regionals

In Japan, the minimum cost per transaction is $4, but with increased competition, that amount likely would drop. Most likely to encounter problems under such a scenario would be regional banks, many of which have relatively high cost structures.

Most regional banks reported flat profit performances for fiscal 1989, which ended in March, with little optimism for the near term.

Even so – and despite open talk among major Tokyo banks about the need for acquisitions – substantial consolidation isn't expected any time soon. Given the strong regional loyalties in the financial sector, pursuing mergers in Japan has proved remarkably difficult, except among small savings cooperatives.

And there are strong regional players whose success – often based largely on the cheap funding they get from the low, regulated deposit rates – would make them expensive acquisition targets.

Yamaguchi Bank, a $27 billion-asset institution based in the Hiroshima area of southern Japan, has a capital adequacy ratio of more than 11%, ranking it among the highest of any bank in Japan. But regionals like Yamaguchi have almost 60% of their deposits in controlled accounts, and the proportion is almost 70% at smaller regionals.

With interest rate deregulation looming, Yamaguchi is moving quickly to introduce automated teller machines and other electronic systems to remain competitive. And the bank has some time: It should be three years before interest rates are completely decontrolled, according to the finance ministry.

U.S. Backs Decontrol

The United States, which complains that such interest rate regulation helps protect Japanese banks, would like such controls to disappear in the next year.

Other healthy regional banks, such as Tokyo Sowa Bank, Hyogo Bank, and Chiba Bank, are similarly upgrading systems in preparation for intensifying competition and further deregulation. □

Question and Answer

Real Estate Worries Hit Japan

Across the United States, headlines are proclaiming a slump in real estate and a collapse of earnings at many banks that lent heavily to developers.

Could the same troubles strike Japan, where the world's largest banks have vast holdings of some of the world's most expensive real estate? These portfolios, as in the United States, appreciated dramatically during the 1980s, and represent a risk for the 1990s.

The American Banker's Brian Sullivan posed this question to Hiromi Tokuda, one of Japan's leading bankers. Mr. Tokuda is president of the leading banking organization in Japan, the Institute for Financial Affairs Inc., known as the Kinzai. He has worked for the Ministry of Finance, and served as an insurance regulator, a regional tax commissioner, a banking regulator, and a commercial banker, and is currently chairman of the board of councilors of the Nomura Research Institute.

In a wide-ranging question-and-answer session, Mr. Tokuda outlined the dangers faced by Japanese banks in the real estate market, and why he believes regulators there – unlike their counterparts in the United States – will handle the situation before it gets out of control.



HIROMI TOKUDA, *says Japanese regulators would handle any real estate problems before they reached the crisis stage.*

AMERICAN BANKER: Do you think Japanese banks will soon face real estate troubles similar to those encountered by their counterparts in the United States?

TOKUDA: Prices in the Japanese real estate market have increased rapidly. But we do not expect prices to drop as sharply as in the United States.

The price of land is determined by two factors: productivity per area and interest rates. Based on these factors, the current price of Japanese real estate is probably only twice as much as it should be.

AB: When have land prices in Japan risen sharply, and what have been the causes?

TOKUDA: We have experienced two large rises in land prices.

One time, the rise was triggered by a jump in oil prices in 1973. But what has triggered the second increase, which is still going on, seems to have been advances of the foreign financial institutions into the Tokyo markets. There is a short supply of office space in Tokyo and increased demand has put upward pressure on prices.

The first time, land prices went up dramatically in all areas of Japan. But the second rise is a little bit different because this time we are experiencing the sharp rise of land prices particularly in the metropolitan areas such as Tokyo and Osaka.

Since the first of the year, the government has been making every effort to suppress prices in Japan. However, the government action this time is a little bit too late: It just wasn't able to keep up with the sharp increase in land prices.

AB: Historically speaking, what have regulators done to prevent rising land prices and keep banks from being hurt in the real estate markets?

TOKUDA: The first sharp rise in land prices was triggered because there was too much money in the market, and the banks were lending too much money to businesses.

At the time, I was in charge of the banking bureau of the Ministry of Finance, and we took a forceful administrative position to depress price increases.

We issued notifications to the banks that the growth rate of loans related to real estate should not exceed the growth rate of the aggregate of loans in a specific bank. Because of these measures, Japanese banks managed to decrease the number of real estate-related loans.

As a result, we didn't see too many nonperforming loans.

AB: What suggestions have you made about the recent increase in real estate prices?

TOKUDA: In *Nikkei Shimbun*, the Japanese economic newspaper, I expressed my concerns about both the sharp increases in land prices and the need to suppress real estate-related loans.

But this time, there is a loophole to this policy. We have to realize that so-called nonbank banks are very powerful in Japan. The real estate allocated to nonbank banks for the past three years accounts for 30% of total real estate loans. So even if you try to suppress real estate loans from the banks . . . nonbanking institutions may be able to lend money.

Thus, the Ministry of Finance finally tightened regulations over nonbank banks last spring.

AB: Is the Ministry of Finance strong enough to force changes in policy quickly enough to avert major real estate losses if prices drop? In the United States, regulators have struggled to prevent such losses in both the banking and thrift industries.

TOKUDA: There is a striking difference between the Japanese banking structure and the status of the S&L industry in the United States. I think that most of the S&L crisis in California resulted from California regulatory authorities' misconduct. There is an incredible level of misconduct in California.

To change policy [in the United States] requires some legislation. It requires some legal action. But in Japan, because of the Ministry of Finance, we just make a change by issuing a notification to the banks. □

Guest Comment

Overhauling the Image of the Bank

By JAMES H. DOWLING
Special to American Banker

At one time, the American public equated banks with safety and stability. In the industry's halcyon days, a bank was a place where a 16-year-old girl could go to start an account with the contents of her piggy bank.

But in recent years, changes in the banking world have transformed that perception. The era of leveraged buyouts, savings and loan failures, and a wave of mergers and buyouts of retail banking establishments have led the public to adopt a far less trusting, more critical posture.

A Key Challenge

Japanese banks in the U.S. often are subject to the same scrutiny, and thus face a key challenge. As they continue to assume a higher profile here through making acquisitions and diversifying services, it is imperative that they define and manage both their corporate image, bringing their practices in line with expectations of the American market.

In an age of increasing globalization, banks – like other corporations – have tended to diversify their services. Some have thrived, while others have been swallowed by rivals. These days, the institutions that remain often are not familiar local names, and in many American cities the bank on the corner might well be German or Japanese.



But to the public, few foreign banks have strong individual identities.

Importance of Credibility

For banks, as for other corporations, image-making in the United States today is commonly defined as constituency relations. A typical list of constituents might include customers, employees, the local community, and the many guardians of the public trust, such as consumer groups and local, state, and federal regulators.

In the United States, a bank, like any other business, is expected to declare, "We are what we say we are," and then match actions to the words. And these actions must go far beyond the products and services that businesses ordinarily provide.

Americans expect businesses, financial institutions included, to act as good corporate citizens. In fact, banks, insurance companies, and other financial services organizations tend to be leaders in corporate community involvement.

But Japanese banks are in a somewhat different position in the United States.

Until recently, their principal product has been inexpensive money lent to other financial institutions as support for large financial transactions. They have rarely been the lead bank in a transaction; they have been secondary or tertiary lenders. This has been a very lucrative but largely anonymous business.

But because of increased public awareness of strong Japanese presence in the U.S. financial community, it is no longer possible for Japanese banks to remain inconspicuous sources of cheap money.

Meanwhile, the higher their profile, the more acute their need to cultivate a distinctive image.

A recent study by Greenwich Associates measured the perceptions of banks by other institutions within the banking industry. Most Japanese banks scored very low.

At home, each Japanese bank has a distinctive reputation; one may be known primarily for retail banking services, another for project financing. That same distinctiveness needs to be transferred and tailored to the American market.

That does not necessarily mean changing what the bank does. It means identifying the constituencies it most wants to reach, and then targeting them for special communication, for example by means of internal publications such as annual reports. □



PUBLIC PERCEPTION *of banking has changed substantially, according to James H. Dowling.*

Mr. Dowling is president and chief executive officer of Burson-Marsteller.

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Guest Comment

A Rocky Road to Hiring Foreign Talent

By GEORGE HOLZBERGER and JOHN D. PLATTE
Special to the American Banker

While Japanese businesses have been fast to globalize their products, marketing strategies, and distribution systems, they have not globalized their workforces as quickly.

Historically, the Japanese have been less sophisticated about Western human resource procedures than they have been about operations and marketing.

Yet things may be changing. On balance, the Japanese financial institutions we work with today are becoming much more savvy about issues involved in attracting, motivating, and retaining exceptional local executives.

Frustrating Experience

Recruiting Westerners for Japanese banks has always been an interesting experience; it is also frequently frustrating.

There are three issues that most often become stumbling blocks to recruiting American talent:

- Career path.
- Compensation, including stock options, bonus, and perks.
- Hours.

Looking at career path first, it may seem fairly obvious that Westerners have different expectations when it comes to their work and careers. Generally, the American executive's world view is driven by individual achievement and rapid career movement.

The Japanese, on the other hand, are traditionally driven more by collective achievement and hire managers for lifetime careers with slower career advancement.

Both perceptions and patterns are changing.



American baby boomers are growing more accustomed to lateral moves and some Japanese are breaking with tradition and deciding to leave a job with one company for another. Yet these differences remain impediments to Americans thinking about working for a Japanese bank.

The major obstacle in terms of career path is the American employee's perception regarding the rotation of Japanese expatriate managers. Most Japanese expatriate managers are still sent to a post in the U.S. for a period of three to five years. When it comes time for a top-level Japanese divisional manager to return home, Americans under him who feel they have earned their stripes would naturally hope to be promoted.

While the chances of this happening may be increasing, the reality is that few Japanese banks will hold out the possibility of a senior level promotion as a carrot to attract or motivate a highly qualified American executive.

Recruiting Difficult

However, following the lead of Japanese industrial companies, many Japanese financial institutions have aggressive plans to reduce their expatriate staffs and increase the number of Americans in top management.

But they continue to be stymied in recruiting efforts.

Nevertheless, there are a few notable examples of Americans leading American operations of Japanese financial institutions and of Americans being recruited at a senior level to build a major part of the company's business.

Among them are Max Chapman, the new cochairman of Nomura Securities Co.'s U.S. operations; John Copenhaver, managing director-swaps at Sumitomo Bank Capital Markets; and David Schwartz, vice president and head trader, swaps, for Mitsubishi Bank (New York).

Today, when recruiters start an assignment for a Japanese bank, the base compensation parameters are not as restrictive as they once were. Yet they are still all over the lot.

Also, most Japanese banks do not offer executive stock options, a standard form of incentive pay in many American firms, nor do most Japanese banks pay large bonuses.

Precedents Being Set

With a few Americans now leading U.S. operations or divisions of Japanese financial companies, precedents are being set in terms of higher compensation. Americans at the helm are communicating directly to Japanese leadership in Tokyo about bonuses tied to individual and company performance and about stock options, perks, and the difficulties of retaining superior talent.

While the Japanese are sometimes uncomfortable with such direct communication, they are changing the ways they operate.

Another major impediment to recruiting top American talent to Japanese banks has to do with a different perspective on work and commitment, or subservience to their jobs and their company's goals: Not only is the time difference a problem for Americans working in New York who deal with Japanese working in Tokyo, but the Japanese generally work much longer hours than Americans.





RECRUITERS *John D. Platte, top, and George Holzberger see Japanese using more savvy in recruiting and retaining Western executives.*

Western executives expect to balance their careers with family, recreation, and civic involvements, while the Japanese and their families accept long commutes and endless business dinners, evenings and weekends at work as part of a normal lifestyle and career.

Americans frequently complain about late-night decision-making. Some actually perceive this practice as a way to continue making decisions behind Americans' backs.

Delay Misinterpreted

When there are significant delays in getting feedback about candidates, we run the risk of losing the interest of the best candidates, who may think the client is not committed to hiring someone for the position.

In our experience there are some specialized areas into which it is easier to recruit Americans. Generally these are product or transaction areas such as swaps, asset securitization, mergers and acquisitions, real estate, and other areas with a specific focus that need highly regarded American expertise to get the Japanese off the ground.

A Shift in Function

Japanese banks are addressing unique cultural aspects of the human resources and personnel function more aggressively. Jack Benton, head of human resources for the Bank of Tokyo's U.S. operations, Paul Frank at Industrial Bank of Japan, and Frank Lynch at Long-Term Credit Bank are examples of an aggressive new generation of American human resource executives working for Japanese companies. □

Mr. Platte is a managing director of Russell Reynolds Associates Inc., an executive recruiting concern based in New York. George Holzberger, an executive director with Reynolds, specializes in recruiting for Asian financial services companies.

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Guest Comment

U.S. Employees of Japan Banks Often in the Dark

By GEORGE C. FIFIELD and T. LEE POMEROY
Special to the American Banker

The effectiveness of the local management teams of Japanese companies and the performance of the U.S. subsidiaries are affected by three issues: development of the local senior management team; broadening of the decision-making process, and strengthening of the human resource management function.

The issues were identified in a survey of 32 Japanese companies by Egon Zehnder International with the University of Michigan. While the issues are relevant to all Japanese companies, the report did point out significant differences among the individual subsidiaries.



To test the applicability of the overall conclusions to the banking industry, the researchers approached several high-ranking executives of Japanese banks in the United States.

Each individual was asked to comment on performance objectives and the bank's formal performance appraisal system; participation in decision making, and professional development and career opportunities.

The broad survey reported that American executives in most Japanese banks have only a limited knowledge of their performance objectives and usually receive no one-on-one review of their performance. In Japan, there is little formal feedback, therefore few Japanese superiors in the United States provide written reviews or meet with subordinates to discuss ratings.

Ellen Michelfelder, executive vice president of the Bank of California (a subsidiary of Mitsubishi Bank) and one of nine executive vice presidents reporting to the chief operating officer, indicated her experience with the bank was very different.

A Different Perspective

"I am judged on my performance and on my contribution to the success of the bank," she asserted. "Performance is emphasized here; it is recognized, measured, and rewarded. People who do not perform and contribute do not last."

Another American, a senior vice president at a Japanese bank in New York, said performance objectives were unclear, but gave his Japanese employer credit for recognizing this as a problem and giving him responsibility for mapping out this previously uncharted territory.

"There is no feedback here in terms of performance, though," he said. "When it's bonus time, you just find an envelope on your desk; there is no explanation."

According to a top American executive at another New York-based Japanese bank, performance objectives are defined, but they are not spelled out the way they are in American institutions: "A good portion of the problem is related to communication and understanding the nuances. Japanese are not as direct as Americans."

A One-Way Situation

In the words of one veteran American executive: "I have been with this company for 15 years and have had only one evaluation. I have been advised of my performance in informal ways, but I always must take the initiative. I get criticism from the Japanese, but I am never told, 'You have done well.' "

Howard Hawkins, a vice president of the Industrial Bank of Japan in Los Angeles, said: "Objectives here are very clearly stated; I know what is expected of me."

Mr. Hawkins also observed that there was an annual performance review between an employee and his immediate supervisor in a private session.

The survey concluded that no clear pattern exists. In some companies, Americans exercise strong responsibilities and substantial authority; in others, they function within narrowly defined roles. □

Mr. Fifield and Mr. Pomeroy are principals of Egon Zehnder International, a global executive search firm.

BANCO di NAPOLI

HIGHLIGHTS OF THE 1989

ANNUAL ACCOUNTS AT 31st DECEMBER 1989 (in billions of lire)

	1982	1983	1984	1985	1986	1987	1988	1989
BALANCE SHEET								
Total assets	26.869	35.931	43.212	50.575	60.430	69.339	74.946	85.128
Loans and advances	14.211	19.952	26.022	33.806	41.082	46.103	50.271	54.863
Dep. and borrowed funds	21.743	30.031	36.401	44.124	51.765	59.122	62.820	69.567
Various provisions	918	1.260	1.744	2.235	2.782	3.317	3.571	3.880
(of which: funds earmarked for the staff)	480	614	867	1.288	1.672	1.935	2.197	2.287
Capital and reserves	505	614	812	822	1.129	1.170	1.200	1.226
PROFIT AND LOSS ACCOUNT								
Gross income	951	1.181	1.405	1.593	1.921	1.856	1.986	2.086
Operating profit	284	325	458	516	665	501	586	671
Gross profit	241	358	508	608	720	617	671	813
Additional allocation to staff pension fund	(51)	(58)	(128)	(179)	(197)	(184)	(206)	(254)
Gross profit net of above allocation	190	300	380	429	523	433	465	559
Other allocations	(183)	(292)	(367)	(412)	(468)	(371)	(391)	(455)
Net profit	7	8	13	17	55	62	74	104

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Guest Comment

Innovations Help Meet Personnel Needs

By MAY KYOKO MUKUDA and ALLAN BIRD
Special to the American Banker

The dramatic rise in Japanese foreign direct investment during the 1980s has brought enormous pressure to bear on the international human-resource management capabilities of Japanese multinational corporations.

One result has been experimentation with an innovative strategy of hiring foreign managerial trainees, bringing them back to Japan, treating them like standard Japanese employees, and then, two to three years down the road, sending them on international assignments, many back to their home countries.

As they moved into the 1980s, most Japanese multinationals relied on a highly centralized system that concentrated control of international operations in Japan and relied on Japanese sent from the head office to manage foreign subsidiaries. This was possible because internationally active companies were predominantly exporters with subsidiaries acting as sales offices.

Role Was as Liaison

Japanese expatriate managers sent abroad during this period found themselves serving in a liaison position where their primary role was to interpret parent company policies for local managers whose responsibilities were, in turn, to implement those policies.

However, as the multinationals moved more of their manufacturing facilities offshore, and as far-flung production operations began to require higher levels of coordination among subsidiaries, they found their cadre of international managers inadequate in both number and capabilities.

In many ways, the international staffing difficulties that multinationals are experiencing derive directly from the very strategies and techniques that have purportedly made Japanese companies so successful. Practices appropriate to the domestic labor force and widely accepted within Japan are not flexible enough for application to international operations.

Fast Growth Changes Needs

Rapid growth and success have imposed constraints that may make it particularly difficult for multinationals to effectively staff foreign operations. The development of an internal labor market makes it difficult to bring in new staff on the basis of immediate need or to retain them over time.

The inflexibility of the traditional Japanese human resource development approach is brought into sharp focus when the employees hired are host-country nationals working in foreign subsidiaries.

Being non-Japanese, local people are clearly outsiders working at the geographic and organizational fringes of the company. They are not exposed to large doses of the unique company philosophy.

They have also missed the intensive socialization of going through new-employee orientation – living in company dorms and attending parent company social events. Moreover, few local people are fluent in Japanese, restricting their access to the benefits of a traditional Japanese socialization strategy.

Not Family Members

Consequently, they view themselves and are viewed by their Japanese counterparts not as members of the family but as hired hands to work in the subsidiary, never the parent company.

Not surprisingly, many multinationals have experienced high levels of turnover.

Simultaneously, the multinationals have inadvertently been exploring the limits of a large Japanese expatriate cadre. Japanese expatriates have suffered a barrage of criticisms.

The three most common: slow decision making; the inability of Japanese staff to respond quickly to the local business environment; and nationality, race, or gender discrimination.

A Different Approach

In the early 1980s, a number of Japanese companies began experimenting with a new approach to human resource development in their international operations. They sought to develop a cadre of foreign managers who would be capable of correcting the shortcomings of the Japanese expatriate staff and yet possess many of the characteristics that headquarters felt were missing in the local staff.

They identified five specific characteristics to be sought after and developed within this new corps of managers:

- Loyalty to headquarters and the parent company.
- Familiarity with the operating style of headquarters.
- Effective international skills in the foreign subsidiary.
- Sound functional skills in marketing, finance, operations, management, etc.
- Proficiency in Japanese.

The approach to developing a cadre of foreign managers within the international division consisted of four steps: overseas recruitment by the parent company; bringing the new foreign recruit to the head office for training and initial assignment; assignment to the international division within the head office; and assignment back to home country or to a third country.

Starting with Students

To identify and attract foreigners, personnel managers in the parent company began by contacting business students in the United States and Europe.

Compensation and benefit packages are loosely tailored to match those of Japanese employees of similar age and educational background.

Once hired, new recruits are brought to Japan for training and initial assignment. In some cases, they may even go through new-employee training of a few days to a few months.

At the close of the training phase, initial assignment is made, usually to some position within the international division. The initial assignment is also frequently the time during which a foreign employee makes the acquaintance of senior executives within the company.

After two or three years, the foreign employee is then considered for assignment overseas, either as part of a project team or for an extended stay. Assignment can be either as a Japanese expatriate or as a local manager.

Under the traditional approach to international staff development, hiring needs of the subsidiary unit are the primary consideration. The new approach focuses on the long-term international staffing needs of the parent company.

Not surprisingly, differences can be found in the type of training that foreign personnel receive at headquarters.

As noted earlier, under the traditional approach, training tends to be for one week to two months. The content of curriculum includes a general understanding of the parent company and its global operations.

More detailed instruction is provided regarding how the host country subsidiary fits into the overall global plan. The nature of the visit itself is one of making contacts, not establishing relationships.

By contrast, under the new approach, headquarters training and experience is of significantly longer duration – from two to four years. Instruction is frequently administered through a formal training course or through on-the-job training and job rotation.

Moreover, foreign staff assimilate substantially more detailed information about the parent company and its operations.

Finally, the nature of the stay at headquarters is that of building relationships with mentors and key managers.

The new approach to developing foreign managers for the international division offers a number of advantages over the more traditional approach. Foreign hires recruited straight from colleges and business schools enter the company uncontaminated by extensive experience and exposure to work in the host country.

Hiring foreigners directly from college offers a second advantage. Because they are still quite young, many are willing to work within the Japanese system of slow promotions in exchange for job security and the opportunity to journey down less-traveled paths. □

Ms. Mukuda is manager in the financial management consulting group at KPMG Peat Marwick. Mr. Bird is an assistant professor of management and international business at New York University's Stern School of Business.





CONSULTANT *May Kyoko Mukuda, top, and Allan Bird point out potholes in recruiting middle-level managers for Japanese overseas operations.*

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Cash & Banks	30,348,878,767	471,065,136
Investments	12,738,448,637	197,801,218
Loans & Discounts	52,738,448,637	1,022,012,249
Other Assets	3,293,771,993	120,567,265
TOTAL	82,329,254,394	1,907,979,996
LIABILITIES		
Deposits	61,485,809,288	1,424,892,290
Other Liabilities	15,757,391,597	364,748,889
Capital	4,873,053,511	112,838,817
Surplus Profits & Reserves	7,876,139,511	95,500,132
TOTAL	82,329,254,394	1,907,979,996

Guest Comment

Cultures Clash on Pay

BY BRYAN DUNN
Special to the American Banker

Pay for performance is not an expression heard around many Japanese banks – even today. In fact, if there is a message, it is "pay for loyalty," with a little "pay what you have to" thrown in.

This flies in the face of every tenet of effective Western compensation philosophy. Yet the Japanese banks have been able to attract and retain legions of American employees.

The top fifteen Japanese banks (excluding subsidiaries) in the United States employ 9,000 people, the vast majority of whom are American. However, it's only been in the past few years that a handful of those Americans played any significant management role.

In fact, many would argue that even in what are ostensibly management jobs they have limited control over such key decisions as hiring, firing, and compensation.

Japanese banks, unlike most other foreign banks in the United States, have their nationals filling all significant management roles.

Even when there are Americans in key positions, they rely heavily on their Japanese "shadows" to get decisions made – in Japan, at the other end of a fax machine.

A Different Tradition

Pay decisions, like others, are based on comfortable, familiar Japanese traditions. That includes heavy reliance base salary determined by tenure; large semiannual bonuses paid to all employees as the same percentage of salary, and vague discussions about pay and performance.

Still uncomfortable and unfamiliar to Japanese managers are:

- Pay distinctions based on performance.
- The concept that different jobs at the same organizational level have different worth.
- The idea that incentives (long- or short-term) have a role in changing behavior.
- Candid performance and pay discussions with employees.

Harmony Is Goal

The Japanese strive for harmony, uniformity, and consistency. Pay programs that differentiate among employees are anathema to Japanese managers.

In considering Japanese compensation policies, it is safe to ignore the legendary salaries paid to a select few with unique technical specialties who were "bought" at what the market would bear in the 1980s – when the market would bear a lot.

In fact, the Japanese have been accused of being niggardly in their pay practices.

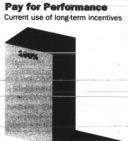
They have also tended to create broad classes of employee – administration, operations, banking – and to limit differentials within or across those classes except for tenure and experience. While Americans and Europeans have spent millions of dollars developing sophisticated job evaluation systems, the Japanese have relied on a simple program that avoids distinctions rather than promoting them.

Western Procedure

Most U.S. and many European banks devote considerable attention to the process by which salaries are adjusted each year.

- First, performance appraisals are prepared and reviewed with each employee.
- Then, managers put forward salary increase recommendations on the basis of a merit-increase grid that considers performance and employees' level in their salary grade (strong performers who are low in their grade get the largest increases).

Pay for Performance
Current use of long-term incentives



SOURCE: TOWERS PERRIN GROUP SURVEY

- These proposals are reviewed for internal consistency and equity – to ensure that the best performers get the biggest raise.
- Finally, managers tell each employee what raise has been approved.

Japanese Pay Adjustments

The Japanese are not comfortable with such individual performance reviews, often have no formally graded salary structure, and do not easily make pay distinctions based on performance. For them, the process of adjusting pay is much more like a union cost-of-living increase. Truly performance-based incentive systems are a rarity in Japanese banks.

However, as astute business people, the Japanese recognize that sometimes they have to do as the "natives" do. For example, U.S. subsidiaries of Japanese banks provide essentially American-style incentive compensation for employees who work in such areas as foreign exchange trading and investment banking. But even in these areas, a recent survey showed, the bonus portion of compensation is significantly less than in American banks.

This all relates to the fact that the Japanese find it hard to understand that someone could or would work harder or smarter simply for more money. In the Japanese view, people naturally work their best, because that is their obligation or out of a sense of honor or gratitude – but never just for more money. The implication that someone would work better to obtain a reward is considered an insult.

Long-term Incentives

Also, the use of long-term incentives is philosophically "foreign" to Japanese managers. Stock options and other forms of long-term incentives common in the United States simply do not exist in Japan.

Nor do they among Japanese banks in the United States. A recent survey by TPF&C, a Towers Perrin company, of long-term incentive practices by the U.S. subsidiaries of foreign institutions showed that none of the Japanese banks had such devices.

Thirty-five percent of the other foreign banks did – as do all the top 25 U.S. banks.

Change Is Slow

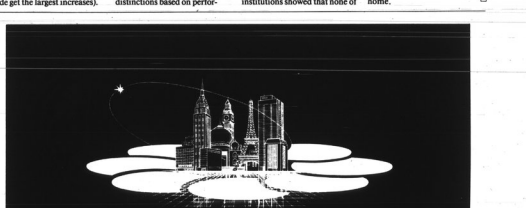
In the past few years, a number of the big Japanese banks have hired accomplished Americans to serve as the chief human resources officers. They have been mandated to Americanize the banks, starting with compensation.

The changes have begun. In the past year, a number of incentive bonus programs have been instituted, job evaluation programs have been studied, and the performance appraisal element of the merit review process has been tried.

But progress has been slow and frustrating. It will probably continue to be so as long as the Japanese banks fill most management positions with expatriates and rotate them home. □



BRYAN DUNN *says Japan's banks resist Western pay practices.*



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Guest Comment

Adjusting to Regulators as Adversaries

By KAREN D. SHAW
Special to American Banker

A writer once described America and England as two countries separated by a common language. Had he been a banker, he would have said the same thing about American and Japanese banking – they're separated by a common structure.

The framework of Japanese banking was established by Americans after World War II, echoing the system they knew. However, that structure was superimposed on Japanese traditions and culture, and by now Japanese and American banking are quite different. Unless Japanese bankers are sensitive to these differences, their success in this market will be limited.

At home, Japanese bankers explore new products with Finance Ministry officials and then either change them to meet government concerns or negotiate differences away. In return, the industry is protected from unwanted competition and, whenever possible, from market volatility.



An Unexpected Adversary

When they enter the U.S. market, Japanese bankers bring the same expectations of a friendly, interactive regulatory environment. Lulled by the structural similarities between the U.S. and Japanese systems, they are generally unprepared for the adversarial relationship between business and government that is a hallmark of American capitalism.

The key to long-term success for Japanese banks in the U.S. market will be the ability to adapt their strategic view of bank regulation to the significant differences in the United States.

Perhaps the most critical difference between the U.S. and Japanese financial systems – and the one that will prove of prime strategic importance in the early 1990s – is the existence of an explicit federal safety net spread beneath insured banks. No other nation has so extensive (and expensive!) a deposit insurance system.

Both domestic and foreign bankers long ignored the deposit insurance system, which had been a silent element of a stable banking system. This quiet, of course, was shattered by the thrift crisis, which turned a spotlight on the true dimensions of the government's obligations for bank and thrift activities.

Insurance Is the Driver

As a result, the deposit insurance issue now drives all questions of bank regulation, and what one will be key to any proposals to revise the structure of bank powers.

Deposit insurance issues are critical, not only to an understanding of the structure of the U.S. financial system, but also – on a more immediate level – to the effective operation of a correspondent banking network in the United States.

Japanese banks must understand the meaning of government enforcement actions.

Extrapolating from their home-country experience, Japanese bankers generally view enforcement actions as a positive expression of government concern. They read the literal language of the regulatory order and, in many cases, have inferred that it means the government will take responsibility for the bank's future.

Differing Views

In Japan, this would mean the government would not let the bank disgrace itself further.

In the United States, an enforcement order has a very different meaning. It is a warning to other sailors to steer clear.

It should also be a sharp reminder to other banks of the new enforcement powers granted bank and thrift regulators under the Financial Institutions Reform, Recovery, and Enforcement Act.

Another marked difference between the U.S. and Japanese banking systems is the importance of the state regulatory framework in the United States.

A Preference for States

Anachronisms in U.S. banking law that predate passage of the International Banking Act in 1978 led many foreign banks to choose state charters. This was done to avoid geographic and other restrictions.

While foreign banks now operate in the same nationwide legal environment as domestic institutions, the state charters that are a legacy of the pre-1978 days may have renewed value.

A majority of states permit their banks broader powers than those authorized under federal law. The new Delaware business statute, for example, follows a less-public-step change in that state's laws that permitted banks there to underwrite and deal in a full range of securities.

California banks can underwrite mutual funds as well as insurance, and also develop real estate. It is critical to note that the vast majority of these state-authorized services can prove substantial sources of fee-based income, since they authorize agency or underwriting activities not otherwise permissible.

Japanese Are Cautious

American banks are moving aggressively to capitalize on opportunities available to state-chartered institutions, but Japanese banks still view these state powers as vaguely illegitimate.

This means that a source of potentially significant revenue is being ignored – revenue that will prove particularly critical as asset quality worries and increased funding costs diminish the profitability of traditional lending.

State charters may be particularly critical if the proposed federal barriers to trade in financial services are enacted into law later this year. The Senate Banking Committee has approved a measure called the Fair Trade in Financial Services Act. It is likely to end up attached to a "must pass" bill that will get through Congress later this year.

The bill would give federal bank and securities regulators increased authority to deny applications from companies based in countries that block "effective market access" to U.S. competitors. As approved by the Senate Banking Committee, existing operations would enjoy a limited grandfather status, protecting them from an arbitrary exercise of this new power.

State-chartered banks would not be subjected to this standard. But growing tension between the United States and Japan over trade in financial services could force regulators to use this power, particularly for new entrants or for applications that would result in a significant expansion by a major Japanese bank or securities company.

Congressional action on this measure is unlikely until late this year. Even then, it will take months for the Administration to present Congress with a list of countries potentially subject to the measure's sanctions.

This gives Japanese as well as other Asian institutions a window of opportunity to expand their activities and open state affiliates that could provide a safe haven from future federal restraint.

One of the most frequently-overlooked issues affecting the future of foreign banks in the United States is the question of community commitment. Mandatory community investment is alien to Japanese institutions. It could prove the most significant deterrent to expanded Japanese market share, should their banks fail to meet the new, far more stringent rules.

Barriers Are Changed

Before 1978, foreign banks could operate without the interstate banking barriers restricting U.S. institutions. Since then, the same rules governing U.S. banks have been applied, although some states continue to wall themselves off from any foreign bank entry. □

Ms. Shaw is president of the Institute for Strategy Development.

Guest Comment

Regionals Are Playing Follow-the-Client

By BRUCE ARONSON
Special to the American Banker

When considering the topic of "Japanese banks," we tend to focus on the activities of a small number of Japan's largest and most famous banking institutions.

Within the past few years, however, a far greater number of Japan's regional banks have established offices in the United States. The increasing presence is beginning to draw greater attention to this lesser-known group of financial institutions.

The opening on June 5 of the New York representative office of the Toho Bank Ltd. brought to 43 the number of Japanese regional banks to establish a New York presence. This number consists of 34 out of a total of 64 traditional regional banks and nine former "sogo," or mutual, banks.

A change in Japanese law in February 1989 permitted the mutual banks to apply for conversion to commercial banks and 66 of the 68 sogo banks have completed this process. Thus the ranks of the Japanese regional banks have recently swelled to 130 institutions.

The 43 offices of Japanese regional banks in New York consist of 20 branches and 23 representative offices, with five banks now in the process of upgrading their representative offices to branch status. As recently as 1986, there were only three such branches in New York. In addition to New York, there are two agencies and one branch of regional banks in Los Angeles.

There are a number of reasons why the Japanese regional banks were eager to establish offices overseas. With the internationalization of the Japanese economy extending to the regional level in the early 1980s, the corporate customers of these regional banks began to expand overseas.

In addition, with the globalization of the world economy and the gradual liberalization of Japanese regulations governing activities of financial institutions, Japanese regional banks gradually accumulated substantial overseas assets.

Dollar-denominated assets consisted primarily of securities such as U.S. treasuries, highly rated corporate bonds, and participations in large syndicated loans to U.S. borrowers. As these assets increased, there was a corresponding increase in the necessity of gaining experience and training personnel in international operations and establishing offices in overseas markets.

The Japanese government's approval of the gradual overseas expansion of regional banks occurs within the context of the significant liberalization of Japan's financial markets over the past several years. Ironically, it was U.S. pressure on Japan to open its financial markets to U.S. banks that provided a strong impetus for this financial liberalization.

The Japanese government acts as a gatekeeper in permitting a steady stream, but not a flood, of overseas expansion by regional banks. The primary regulator of Japan's banking industry is the Ministry of Finance, which must grant preliminary approval before any Japanese bank can make an ap-

See next page

UNFRIENDLY *regulators in the United States are a surprise to the Japanese, says Karen D. Shaw.*

Continued from page 16A

plication overseas for a representative office or branch.

Such approvals are granted for overseas offices in June and December. In the case of overseas offices of regional banks, the ministry has required the establishment of a representative office as a first step, with eventual upgrading to branch status.

Continued close scrutiny by Japan's ministry ensures that any regional bank approved for an overseas office is fully qualified. For a branch, this now includes satisfactory capital ratios under the risk-based standard defined by the Bank for International Settlements.

As a result, all such ministry-approved banks have been successful in being licensed as branches by the State of New York. No Japanese regional banks have attempted to apply for federal branch licenses.

Despite some friction in the financial area between Japan and the federal government, New York and other states have consistently maintained policies of encouraging participation in local financial markets by sound foreign banking institutions. The success of this policy is reflected in the continuing and increasing prominence of New York as the world's leading financial center.

Several years ago, the Japanese regional banks would have preferred to open their first overseas branch in London. However, partly because of the entry of Japanese regional banks and other foreign banks, New York has gained prominence over London as the leading international center for the sale of participations in loan syndications and other activities.

Given the same choice of locations today, Japanese regional bankers view New York as the more attractive financial center.

Participations Are Focus

The strategy for a regional bank branch operating in New York is straightforward, and centers on expanding the types of U.S.-oriented operations conducted in Japan. The main loan activities consist of buying participations in syndicated loans from U.S. money-center banks and Japanese city banks. They also engage in direct loans to U.S. affiliates of their Japanese customers.

On the investment side, they purchase securities (primarily government and top-rated corporate bonds) for the U.S. investment banks and to some extent from Japanese securities companies.

With their main income derived from participations in syndicated loans and investment securities, a newly established New York branch of a Japanese regional bank would generally plan on turning a profit in the fourth or fifth year of operation.

On the funding side, New York branches of Japanese regional banks obtain funds on the open market and also through the private placement of certificates of deposit with institutional investors (typically U.S. affiliates of Japanese institutional investors, who are familiar with the regional banks).

The Japanese regional banks have generally been welcomed by the U.S. financial community. The reason is that they are valuable customers, and do not compete with U.S. banks. The purchase of participations in syndicated loans from U.S. money-center banks provides a substantial portion of the depth of the New York market that makes large syndicated loans possible.

Japanese regional banks also purchase securities from U.S. investment banks, and in addition utilize U.S. banks for clearing and custody services. There is intense competition among large U.S. and Japanese banks to provide these services to incoming Japanese regional banks.

As indicated, for example, by the increased attendance at recent receptions for New York openings of Japanese regional bank offices, the banks are no longer considered simply as a novelty with unpronounceable names. Rather, it is clear that the U.S. financial community views the Japanese banks as representing a real business opportunity.

Many U.S. commercial banks and investment banks have established or strengthened Japan desks to target these customers.

Although Japanese regional bankers hope to eventually provide direct loans to U.S. corporations, it is highly unlikely that they will be in a position to do so in the foreseeable future. Rather, they will continue to purchase participations in syndicated loans.

Assets Are Limited

The expansion of the regional banks' U.S. operations will proceed on a step-by-step basis, in keeping with the conservative nature of the institutions. New activities in the United States would include areas such as the establishment of U.S. leasing affiliates and, further down the road, trust subsidiaries.

They obviously have a long road ahead in the United States, as the combined assets of all the New York branches of the regional banks would not approach the assets of a single New York branch of a Mitsubishi or Sanwa.

The expansion of Japanese regional banks in the United States is likely to continue, given the benefit derived by the banks and their substantial contribution to the local economy of New York.

The pace and form of expansion, however, is changing. Over the last year or two, the number of regional banks upgrading their New York representative offices to branch status has increased, while the number of new representative offices has declined significantly. □



GLOBAL VIEW *is new for Japan's regionals, Bruce Aronson writes.*

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The Top 500 Banks in the World

U.S. and overseas banks ranked by deposits on Dec. 31, 1989 or nearest fiscal yearend

Rank 12/89	Rank 12/88	Bank	Country	Deposits 12/31/89 (U.S. Dollars)	Exchange Rate (U.S. Dollars)	Deposits 12/31/88 (Banker's Currency)	Deposits 12/31/89 (U.S. Dollars)	Rank 1989	Gain or Loss
1	1	Dai-Ichi Kangyo Bank Ltd., Tokyo	Japan	314,760,128,477's	0.006289	¥50,052,483,000	312,468,781,888s	1	
2	2	Sumitomo Bank Ltd., Osaka	Japan	298,242,189,900s	0.006289	¥45,832,754,000	296,000,827,792s	2	
3	3	Mitsubishi Bank Ltd., Tokyo	Japan	279,806,752,894s	0.006289	¥43,012,753,000	277,515,476,784s	4	+1
4	4	Fuji Bank, Ltd., Tokyo	Japan	278,642,534,526s	0.006289	¥44,306,234,000	283,586,361,228s	3	
5	8	Semwa Bank Ltd., Osaka	Japan	275,972,466,553s	0.006289	¥43,881,777,000	269,032,270,402s	5	
6	5	Industrial Bank of Japan, Ltd., Tokyo	Japan	273,287,990,000s	0.006289	¥43,914,390,000	271,367,906,130s	6	
7	7	Banque Nationale de Paris	France	192,525,991,000s	0.173000	FF1,112,967,000,000	158,549,122,000s	13	+6
8	6	Mitsubishi Trust & Banking Corp., Tokyo	Japan	192,294,268,943s	0.006289	¥30,576,287,000	185,955,116,200s	9	
9	9	Deutsche Bank, Frankfurt	Germany	184,376,642,070s	0.590000	DM312,506,173,000	154,974,576,400s	15	+6
10	10	Tokai Bank Ltd., Nagoya	Japan	170,081,994,247s	0.006289	¥26,467,323,000	166,504,722,800s	10	
11	11	Norinchukin Bank, Tokyo	Japan	176,325,604,709	0.006289	¥28,037,781,000	210,756,455,544	7	
12	12	Credit Lyonnais, Paris	France	176,098,987,000s	0.173000	FF1,019,019,000,000	148,642,271,595s	17	+5
13	13	Sumitomo Trust & Banking Co., Ltd., Osaka	Japan	171,664,091,182s	0.006289	¥27,295,928,000	171,732,182,899s	8	
14	14	Credit Agricole Mutuel, Paris	France	169,711,546,800s	0.173000	FF980,991,600,000	141,973,000,000s	19	+5
15	15	Barclays Bank Plc, London	United Kingdom	167,727,600,000s	1.610000	£103,806,000,000	167,727,600,000s	14	
16	16	National Westminster Bank Plc, London	United Kingdom	163,014,110,000s	1.610000	£101,251,000,000	153,645,648,000s	16	
17	17	Mitsui Trust & Banking Co., Ltd., Tokyo	Japan	157,219,984,875's	0.006289	¥25,317,075,000	159,239,693,750s	11	
18	18	Mitsui Bank, Ltd., Tokyo	Japan	157,894,948,303s	0.006289	¥25,106,527,000	159,039,693,480s	12	
19	19	Bank of Tokyo, Ltd.	Japan	152,933,845,497s	0.006289	¥24,317,000,000	152,147,474,403s	22	+3
20	20	Long-Term Credit Bank of Japan Ltd., Tokyo	Japan	148,398,357,055s	0.006289	¥23,596,495,000	147,426,407,488s	18	
21	21	Societe Generale, Paris	France	141,977,467,000s	0.173000	FF820,675,000,000	123,187,087,000s	24	+3
22	22	Tokyo Kobe Bank, Ltd., Kobe	Japan	136,546,298,943s	0.006289	¥20,576,287,000	128,835,116,200s	20	
23	23	Dresdner Bank, Frankfurt	Germany	135,670,007,545s	0.590000	DM229,949,267,026	120,317,120,000s	25	+2
24	24	Yasuda Trust & Banking Co., Osaka	Japan	135,105,775,719s	0.006289	¥21,482,871,000	135,138,381,945s	21	
25	25	Daiwa Bank, Ltd., Osaka	Japan	131,680,308,355s	0.006289	¥20,938,195,000	134,466,778,400s	23	
26	26	Hongkong and Shanghai Banking Corp., Hong Kong	Hong Kong	118,524,980,000s	0.128000	HB$25,331,000,000	191,841,280,000s	26	+2
27	27	Citibank NA, New York	United States	111,487,000,000			104,996,000,000	27	
28	28	Commerzbank, Frankfurt	Germany		0.590000	DM180,794,000,000	104,208,000,000s	32	+2
29	29	Swiss Bank Corp., Basle	Switzerland	100,866,736,000s	0.648000	SF155,657,000,000	89,572,067,805s	32	+3
30	30	Toyo Trust & Banking Co. Ltd., Tokyo	Japan	100,172,770,539s	0.006289	¥15,928,251,000	100,184,007,332s	28	
31	31	Union Bank of Switzerland, Zurich	Switzerland	97,469,997,000s	0.648000	SF149,027,267,000	93,793,145,200s	31	
32	32	Westdeutsche Landesbank Girozentrale, Duesseldorf	Germany	96,532,850,000s	0.590000	DM163,615,200,000	86,730,534,186s	34	+2
33	33	Bayerische Vereinsbank, Munich	Germany	96,532,850,000s	0.590000	DM162,700,000,000	85,989,734,700s	33	
34	34	Nippon Credit Bank, Ltd., Tokyo	Japan	88,179,752,186s	0.006289	¥14,021,274,000	96,753,830,308s	29	
35	35	Midland Bank Plc, London	United Kingdom	87,034,800,000s	1.610000	£54,080,000,000s	87,034,800,000s	30	
36	36	Banca Nazionale del Lavoro, Rome	Italy	84,811,188,000s	0.000789	L.107,482,000,000	76,309,515,000s	40	+4
37	37	Lloyds Bank Plc, London	United Kingdom	84,355,950,000s	1.610000	£52,395,000,000	82,911,264,000s	36	
38	38	Bayerische Hypotheken-und Wechsel-Bank, Munich	Germany	84,000,000,000s	0.590000	DM141,000,000,000	71,186,441,000s	42	+5
39	39	Istituto Bancario San Paolo di Torino, Turin	Italy	79,614,718,017s	0.000789	L.100,905,853,000	61,899,778,395s	52	+13
40	40	Kyowa Bank, Ltd., Tokyo	Japan	78,619,006,963s	0.006289	¥12,548,737,000	78,896,761,000s	39	
41	41	Banco Commerciale Italiano, Milan	Italy	77,885,994,300s	0.000789	L.98,688,700,000	54,179,804,500s	60	+19
42	42	Credit Suisse Bank Ltd., Zurich	Switzerland	77,003,434,194s	0.648000	SF118,744,160,000	76,932,495,200s	37	
43	43	Bayerische Landesbank Girozentrale, Munich	Germany	76,595,775,910s	0.590000	DM129,823,349,000	68,858,730,000s	45	+2
44	44	Royal Bank of Canada, Montreal	Canada	75,386,706,300s	0.852000	C$89,186,275,000	72,146,963,196s	42	
45	45	Amsterdam-Rotterdam Bank, Amsterdam	Netherlands	74,034,000,000s	0.534000	FL139,200,000,000	77,084,640,000s	43	
46	46	Banque Paribas, Paris (q)	France	74,909,000,000s	0.173000	FF433,000,000,000	62,029,650,000s	51	+5
47	47	Shoko Chukin Bank, Tokyo	Japan	74,561,230,000s	0.006289	¥11,852,000,000	74,561,230,000s	38	
48	48	NMB Postbank Groep, N.V., Amsterdam	Netherlands	74,656,900,000s	0.534000	G142,475,000,000			
49	49	Deutsche Genossenschaftsbank, Frankfurt	Germany	73,500,000,000s	0.590000	DM124,576,741,000	45,252,481,987's	71	+22
50	50	Bank of America NT&SA, San Francisco	United States	73,295,000,000			69,640,000,000	44	
51	51	Algemene Bank Nederland, Amsterdam	Netherlands	72,777,000,000s	0.534000	G139,118,000,000	65,986,150,000s	54	+7
52	52	Canadian Imperial Bank of Commerce, Toronto	Canada	67,199,362,332s	0.852000	C$78,872,491,000	59,376,031,848s	53	+1
53	53	Credito Italiano, Milan	Italy	66,740,584,800s	0.000789	L83,321,400,000,000	50,645,830,500s	63	+10
54	54	Zweckhinnen Bank, Tokyo	Japan	66,713,396,562	0.006289	¥10,606,242,000	66,713,396,562	46	
55	55	Norddeutsche Landesbank Girozentrale, Hannover	Germany	63,657,289,761s	0.590000	DM107,893,711,459	56,780,612,993s	57	+2
56	56	Rabobank Nederland, Utrecht	Netherlands	63,581,328,000s	0.534000	G121,472,000,000	62,618,528,000s	57	
57	57	Generale Bank, Brussels	Belgium	63,112,712,400s	0.028160	BF2,246,004,000,000	57,839,442,000s	56	
58	58	Bank of Yokohama, Ltd.	Japan	62,463,845,272's	0.006289	¥9,931,000,000	62,463,845,272's	49	
59	59	Chuo Trust & Banking Co., Ltd., Tokyo	Japan	62,310,267,402s	0.006289	¥9,907,818,000	66,142,311,624s	47	
60	60	Chase Manhattan Bank NA, New York	United States	61,720,245,000			58,241,477,000	55	
61	61	Monte dei Paschi di Siena	Italy	61,240,461,400s	0.000789	L77,318,429,000	52,400,211,100s	59	
62	62	Credit Suisse, Zurich	Switzerland	60,704,640,000s	0.648000	SF93,680,000,000	66,549,571,095s	48	
63	63	Hokkaido Takushoku Bank, Ltd., Sapporo	Japan	59,212,352,378s	0.006289	¥9,938,202,000	58,962,542,000s	50	
64	64	Bank of Montreal	Canada	56,166,594,516s	0.852000	C$65,923,233,000	54,290,812,996s	59	
65	65	Banco di Napoli, Naples	Italy	54,941,186,632	0.000789	L69,587,055,300,000	51,198,105,000s	61	
66	66	Bank Melli Iran, Tehran	Iran	54,327,924,000	0.014000	R3,880,566,000,000	46,008,886,000	67	+1
67	67	Westpac Banking Corp., Sydney	Australia	51,993,784,800s	0.776000	A$67,032,300,000	41,711,271,300s	76	+9
68	68	Bank of Nova Scotia, Toronto	Canada	51,567,585,436s	0.852000	C$60,524,443,000	47,970,654,866s	64	
69	69	Groupe Des Banques Populaires, Paris	France	48,729,746,628	0.173000	FF281,674,836,000	40,632,253,527	77	+8
70	70	Chiba Bank, Ltd.	Japan	48,646,243,188	0.006289	¥7,737,000,000	48,646,243,188	58	
71	71	Banco di Roma, Rome	Italy	48,523,421,100s	0.000789	L61,499,900,000,000	45,775,458,000s	69	
72	72	Danske Bank, Copenhagen	Denmark	47,289,697s	0.151000	DK313,226,000,000	50,275,362,000s	144	+72
73	73	Joyo Bank, Ltd., Mito	Japan	46,402,856,958	0.006289	¥7,378,422,000	43,786,563,032	72	
74	74	Hokuriku Bank Ltd., Toyama	Japan	45,767,332,958	0.006289	¥7,187,359,000	45,887,972,516	68	
75	75	Banco Bilbao Vizcaya, Bilbao	Spain	44,927,287,460's	0.009130	SPA3,920,842,000,000	43,764,705,420s	74	
76	76	Banque Bruxelles Lambert, Brussels	Belgium	44,432,377,109s	0.025400	BF1,749,306,185,349	39,273,150,899s	79	+3
77	77	Suedwestdeutsche Landesbank, Stuttgart	Germany	44,000,000,000s	0.590000	DM74,581,000,000	38,004,305,400s	79	+2
78	78	Shizuoka Bank Ltd.	Japan	42,779,614,398s	0.006289	¥6,802,292,000s	40,135,349,788s	70	
79	79	Manufacturers Hanover Trust Co., New York	United States	42,736,000,000			40,976,000,000	60	
80	80	Kredietbank N.V., Brussels	Belgium	42,471,897,000s	0.028500	BF1,490,242,000,000	34,598,057,143s	90	+10
81	81	Banco Dominion Bank	Canada	41,981,784,792	0.852000	C$49,182,846,000	41,981,784,792	81	
82	82	Morgan Guaranty Trust Co., New York	United States	40,963,451,000			45,417,746,000	70	
83	83	Bank of Seoul	Korea	40,784,107,775s	0.001470	KW27,744,291,000,000	32,023,788,845	98	+15
84	84	Security Pacific National Bank, Los Angeles	United States	40,662,000,000			36,096,333,000	83	
85	85	Refidain Bank, Baghdad	Iraq	39,842,170,300	3.100000	ID12,852,313,000	43,416,230,400	74	
86	86	Hessische Landesbank-Girozentrale, Frankfurt	Germany	39,799,375,366s	0.590000	DM67,440,637,200	37,982,203,407's	83	
87	87	Banque Indosuez, Paris	France	38,692,661,000s	0.173000	FF223,657,000,000	31,930,378,959s	99	+12
88	88	ASLK-CGER Bank, Brussels	Belgium	38,661,341,324s	0.028160	BF1,369,869,798,000	35,320,770,000s	92	+4
89	89	Cassa di Risparmio delle Provincie Lombarde, Milan	Italy	38,432,190,000s	0.000789	L48,710,000,000,000	52,103,395,000s	62	
90	90	Royal Bank of Scotland Plc, Edinburgh	United Kingdom	37,207,208,600s	1.610000	£23,219,400,000	31,192,417,000s	100	+10
91	91	Australia & New Zealand Banking Group, Ltd., Melbourne	Australia	37,569,196,400s	0.776000	A$48,413,400,000	28,482,240,400s	93	+2
92	92	Banco Central, Madrid	Spain	37,298,259,460s	0.009130	SPA4,086,242,000,000	35,991,551,880s	89	
93	93	Ashikaga Bank, Ltd., Utsunomiya	Japan	37,225,754,351	0.006289	¥5,919,000,000	37,225,754,351	85	
94	94	National Australia Bank, Ltd., Melbourne	Australia	36,829,115,200s	0.776000	A$47,460,200,000	30,662,864,700s	103	+9
95	95	Banco de Bilbao, Brasilia	Brazil	36,513,000,000s	0.112000	CR$4,061,250,000,000	36,513,000,000s	91	+16
96	96	Wells Fargo Bank NA, San Francisco	United States	36,462,605,000			35,106,059,000	88	
97	97	PKbanken, Stockholm	Sweden	36,401,501,000s	0.161000	SK222,941,000,000	29,000,471,000s	106	
98	98	Unibank, Copenhagen	Denmark	35,806,026,000s	0.151000	DK237,129,000,000			
99	99	Bank fuer Gemeinwirtschaft, Frankfurt	Germany	35,644,584,536s	0.590000	DM60,414,550,061	33,783,506,786s	93	
100	100	Standard Chartered Bank, London	United Kingdom	35,564,596,000s	1.610000	£22,083,600,000	34,387,796,400s	91	

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliated in which ownership exceeds 50%. **Total deposits** are funds due depositors, banks (including central banks), and national, state, and local governments. *Note:* Banks that did not provide current data are excluded from the listing. **Date of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989, Sept. 30, 1989, and March 31, 1990. Canadian bank data are for fiscal yearend Oct. 31, 1989; and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Wherever possible, the New York cable rate is used, and this is the rate for most banks' figures. See "Foreign Currency Exchange Guide and Exchange Rate Comparisons" for key to currency abbreviations. (a)—A subsidiary of Compagnie Financiere de Credit Industriel et Commercial. (q)—A subsidiary of Compagnie Financiere de Paribas, Paris, a financial holding company. (s)—Consolidated data. (t)—Figures are included in the consolidated figures of parent bank. For that reason, the data for the bank are not included in the aggregate data totals for the Top 500 Banks. (u)—Data are not consolidated for affiliates more than 50% owned. (w)—Bank is owned by another bank, which does not consolidate. **Total deposits** in U.S. dollars for the 1988 figures are based on revised asset total for 1988. (§)—Restated to reflect changes in consolidation for 1988 or 1989. (¶)—Rank that did not previously appear in the Top 500. "Gain or loss" portion of total deposits was estimated by American Banker.

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The Top 500 Banks in the World

U.S. and overseas banks ranked by deposits on Dec. 31, 1989 or nearest fiscal yearend

Rank 12/89	Rank 12/88	Bank	Country	Deposits 12/31/89 (U.S. Dollars)	Exchange Rate (U.S. Dollars)	Deposits 12/31/88 (Banker's Currency)	Deposits 12/31/89 (U.S. Dollars)	Rank 1989	Gain or Loss
101		Banco Santander	Spain	34,789,950,470s	0.009130	SP3,810,480,000,000	20,276,120,300s	143	+42
102		Credit Commercial de France, Paris	France	34,559,789,763s	0.173000	FF199,767,571,000	25,660,112,978s	113	+11
103		Bank of Hiroshima, Ltd.	Japan	34,524,746,455	0.006289	¥5,488,704,000,000	35,479,481,956	95	
104		TSB Group Plc., London	United Kingdom	34,505,296,000s	1.613000	P21,392,000,000	23,719,896,000	121§	+17
105		Bank of New York	United States	34,411,451,000			16,665,898,000	167	+62
106		Bank Sederet iran, Tehran	Iran	33,929,214,345	0.014000	R2,423,515,310,377	33,719,901,508	94	
107		Bankers Trust Co. of America, FA, irwindale, Calif.	United States	33,100,655,000			32,100,655,000	104	
108		Skandinaviska Enskilda Banken, Stockholm	Sweden	32,826,488,000s	0.161000	SK202,649,000,000	31,162,177,000s	101	
109		Chemical Bank, New York	United States	32,312,000,000			30,296,000,000	95	
110		Bank of Fukuoka, Ltd.	Japan	32,254,432,015s	0.006289	¥5,128,706,000,000	32,254,432,015s	97	
111		Banco di Sicilia, Palermo	Italy	30,897,938,537	0.000789	L39,160,233,000,000	29,357,376,168	105	
112		Svenska Handelsbanken, Stockholm	Sweden	29,802,227,000s	0.161000	SK185,107,000,000	29,597,037,000s	114	+2
113		Banco Espanol de Credito, Madrid	Spain	29,191,497,730s	0.009130	SP3,199,271,000,000	23,316,598,150s	124	+10
114		Creditanstalt-Bankverein, Vienna	Austria	28,979,815,200	0.084000	AS344,997,800,000	26,096,072,000	112	
115		Caja de Pensiones para la Vejez, Barcelona	Spain	28,974,456,720s	0.009130	SP3,174,444,000,000	24,526,852,440s	118	+2
116		Taiwan Cooperatives Bank, Taipei	Taiwan	28,162,763,650	0.038380	T$733,797,450,320	21,013,145,300	137	+20
117		Bankers Trust Co., New York	United States	28,088,650,000s	0.756000	A$37,154,300,000	24,611,126,000s	117	
118		Bank of Scotland, Edinburgh	United Kingdom	27,979,127,970			33,261,737,000s	96	
119		Hamburgische Landesbank-Girozentrale, Hamburg	Germany	27,496,143,500s	1.679000	P16,376,500,000	21,645,774,000s	133	+13
120		Gumma Bank, Ltd., Maebashi	Japan	26,730,535,970	0.006289	DM40,305,963,000	23,956,073,383	120	
121		First National Bank, Chicago	United States	26,403,340,000	0.006289	¥4,239,767,000,000	26,969,742,072	109	
122		Commonwealth Bank of Australia, Sydney	Australia	25,883,172,000s	0.756000	A$34,237,000,000	23,413,464,400s	125	
123		MCNB Texas Banks Inc., Dallas	United States	25,621,426,000			20,474,765,000	140	+15
124		Bank Hapoalim, Tel-Aviv	Israel	24,939,824,160s	0.530000	I$47,056,272,000	24,939,824,160s	115	
125		Bank Leumi, Tel-Aviv	Israel	24,847,000,960s	0.530000	I$46,862,356,000	24,979,771,816s	116	
126		Deutsche Girozentrale-Deutsche Kommunalbank, Frankfurt	Germany	24,711,419,476s	0.590000	DM41,883,792,728	22,182,688,855s	126	
127		Bank of Taiwan, Taipei	Taiwan	24,301,422,033	0.038380	T$633,179,313,000	20,388,750,785	142	+13
128		Banco Hispano Americano, Madrid	Spain	24,001,963,950s	0.009130	SP2,628,915,000,000	19,822,795,150s	138	+8
129		Landesbank Rheinland-Pfalz Girozentrale, Mainz	Germany	23,777,000,000s	0.590000	DM40,300,000,000	22,211,433,440s	127	
130		Union Bank of Finland, Helsinki	Finland	23,446,604,400s	0.233000	FM80,144,000,000	18,666,666,667s	150	
131		National Bank of Greece, Athens	Greece	23,386,165,300s	0.006500	GD3,711,831,000	23,386,165,300s	135	+3
132		Banque Cantonale, Geneva	Switzerland	23,168,946,456	0.648000	SF35,754,547,000	21,026,884,618	136	+2
133		Citizens Bank, Ltd., Okayama	United States	23,117,889,000			21,588,000,000	130	
134		Japan Bank, Ltd., Tokyo	Japan	23,102,086,088	0.006289	¥3,673,412,000,000	23,395,077,504	108	
135		Hyogo Bank Ltd.	Japan	23,057,252,833	0.006289	¥3,666,297,000,000	23,057,252,833	111	
136		Swiss Volksbank, Berne	Switzerland	22,894,635,889	0.648000	SF35,331,228,224	21,207,227,330	134	
137		Canadian Imperial Bank, Montreal	Canada	22,792,375,000s	0.852000	C$26,753,000,000	19,889,847,110s	146	
138		Allied Irish Banks Plc., Dublin	Ireland	22,530,800,000s	1.580000	IP14,280,000,000	18,122,033,306s	151	+11
139		Industrial Bank of Japan (Trust)	Japan	22,498,182,700	0.006289	¥3,577,384,000	22,498,182,700	119	
140		Banco Popolare di Novara	Italy	22,490,620,947s	0.000789	L28,505,225,000,000	17,956,256,000s	147	
141		Nordbanken, Stockholm	Sweden	22,061,157,000			17,687,897,000	164	+21
142		Jyuoku Bank, Ltd., Gifu	Japan	21,943,730,330	0.006289	¥3,497,970,000,000	19,035,796,210	129	+9
143		Kansallis-Osake-Pankki, Helsinki	Finland	21,362,880,000s	0.246000	FM86,841,000,000	22,015,804,000s	130	
144		Saudi American Bank, Jeddah	Saudi Arabia	21,317,289,000	0.266500	SAR80,297,000,000	17,996,171,242	152	
145		First Commercial Bank, Taipei	Taiwan	21,353,446,595	0.038380	T$556,369,114,000	15,076,761,377	187	+40
146		Bank of Ireland	Ireland	21,344,801,721	1.580000	I$13,976,000,000	21,880,644,000	131	
147		Hang Seng Bank Ltd., Hong Kong	Hong Kong	20,692,838,400s	0.129000	HB161,862,800,000	31,263,000,000s	148	+26
148		Osterreichische Landesbanken Sparkassen, Vienna	Austria	20,567,943,643s	0.084000	AS244,856,471,944	17,271,347,268s	241	+91
149		Nippon Trust Bank, Ltd., Tokyo	Japan	20,566,237,000	0.006289	¥3,269,317,000,000	20,566,237,000	122	
150		Habib-Nippon Bank, Ltd., Fukuoka	Japan	20,355,650,323	0.006289	¥3,236,707,000,000	20,904,133,984	139	
151		Banco Exterior de Espana, Madrid	Spain	19,924,483,878	0.009130	SP2,182,000,000,000	15,285,280,253	164	+64
152		Banco Exterior de Espana, Madrid	Spain	19,812,485,200s	0.009130	SP2,170,040,000,000	19,491,582,800s	147	
153		Bayerische Hypo	Germany	19,734,328,333s	0.590000	DM33,446,000,000	19,778,750,000s	161	+6
154		Banque Francaise du Commerce Exterieur, Paris	France	19,648,594,024s	0.173000	FF113,575,688,000	18,481,132,000s	154	
155		Oesterreichische Landesbanken, Vienna	Austria	19,440,000,000s	0.084000	AS230,796,732,000	14,592,160,800s	192	+35
156		Berliner Handels-und-Frankfurter Bank, Frankfurt	Germany	19,158,957,838s	0.590000	DM32,472,000,000	17,097,830,000s	162	+6
157		Credito Agrario del Agricoltura, Rome	Italy	19,122,232,832s	0.000789	L24,236,036,543,000	17,866,240,997	159	
158		Banco Popolare di Milano	Italy	19,077,685,072s	0.000789	L24,204,848,000,000	18,126,119,485s	153	
159		Bank of Kyoto, Ltd.	Japan	18,824,788,232	0.006289	¥2,993,298,000,000	19,946,098,168	145	
160		Bank of Bahrain & Kuwait, Manama	Bahrain	18,686,000,000s			18,686,000,000s	149	+9
161		Hokkaido Bank, Ltd., Sapporo	Japan	18,685,413,780	0.006289	¥2,971,126,376,173	19,280,559,018	149	
162		Chang Hwa Commercial Bank, Ltd., Taichung	Taiwan	18,547,886s	0.038380	T$486,075,960,000	11,586,509,625s	238	+74
163		Bank of Ireland, Dublin	Ireland	18,508,594,000s	1.580000	I$11,711,400,000	13,871,895,800s	170	+7
164		Bank of Yokohama, Ltd.	Japan	18,395,759,324	0.006289	¥2,923,478,963,000	19,401,948,360s	140	
165		Nanto Bank, Ltd., Nara	Japan	18,352,928,979	0.006289	¥2,918,211,000,000	18,870,644,653	154	
166		Continental Bank NA, Chicago	United States	18,178,226,000			17,763,339,000	162	
167		Manufacturers Hanover Trust Co., Buffalo, N.Y.	United States	18,087,000,000			16,699,085,000	168	
168		Banco Popular Espanol, Madrid	Spain	18,003,456,130s	0.009130	SP1,971,901,000,000	15,386,384,160s	181	+11
169		Zentralsparkasse und Kommunalbank, Vienna	Austria	17,947,368,984	0.084000	AS213,680,000,000	14,133,200,000s	172	+1
170		Deutsche Bank Luxembourg	Luxembourg	17,879,646,275s	0.028000	LF638,558,795,520	15,404,139,124	176	+6
171		Security Pacific National, California, Los Angeles	United States	17,849,795,000			16,613,623,000	170	
172		Bremer Landesbank, Bremen	Germany	17,809,000,000s	0.590000	DM29,980,100,000	15,811,171,800s	174	
173		Iyo Bank, Ltd., Matsuyama	Japan	17,398,348,778	0.006289	¥2,745,802,000,000	17,805,109,360	160	
174		Caisse Nationale des Banques Populaires, Paris	France	17,180,471,467	0.173000	FF99,350,000,000	14,775,574,000s	180	+10
175		Hyakujuni Bank, Ltd., Takamatsu	Japan	17,110,859,640	0.006289	¥2,720,760,000,000	17,903,794,532	158	
176		Sogo Bank, Ltd., Tokyo	Japan	17,091,591,944	0.006289	¥2,713,691,000,000	17,091,591,944	163	
177		Land Bank of Taiwan, Taipei	Taiwan	17,057,846,303	0.038380	T$444,446,229,881	12,661,978,200	221	+42
178		Bank of Kochi, Kochi	Japan	17,000,155,912s	0.006289	¥2,701,609,830,000	15,966,302,420s	173	
179		Daishi Bank, Ltd., Niigata	Japan	17,004,575,240	0.006289	¥2,703,860,000,000	17,004,575,240	169	
180		Creditanstalt-Bankverein, Vienna	Austria	16,359,498,787	0.006289	¥2,601,283,000,000	16,624,746,668	189	
181		Cassa di Risparmio di Roma, Rome	Italy	16,311,794,000s	0.000789	L20,643,554,000,000	13,171,760,400s	193	+27
182		Glendale Federal Bank, FSB, Calif.	United States	15,869,180,000			15,300,863,000	183	
183		Banco Central Hispanoamericano, Madrid	Spain	15,214,526s	0.009130	SP1,666,500,000,000	11,167,114,300s	205	+24
184		Westfalenbank, Bochum	Germany	15,362,304,231s	0.590000	DM25,037,803,781	13,548,562,864st	204	+18
185		Credit Lyonnais Nederland, Rotterdam	Netherlands	15,321,000,000s	0.534000	G28,700,554,000	13,458,056,842st	222	+36
186		Hamburger Sparkasse, Hamburg	Germany	15,199,265,385	0.590000	DM25,761,466,754	14,000,000,000	197	
187		Mellon Bank, FSB, Los Angeles	United States	15,194,340,000			14,000,000,000	185	
188		Mellon Bank NA, Pittsburgh	United States	15,022,808,000			15,003,197,000	175	
189		Bank fuer Arbeit und Wirtschaft, Vienna	Austria	15,017,998,040s	0.084000	AS178,785,691,949	13,081,493,700s	211	+20
190		Sanwa Bank, Ltd.	Japan	14,991,701,500s	0.009130	SP1,636,000,000,000	14,933,333,333s	236	+34
191		Kiyo Bank, Ltd., Wakayama	Japan	14,922,954,274	0.006289	¥2,372,866,000,000	15,447,649,733	178	
192		Christiania Bank og Kreditkasse, Oslo	Norway	14,883,812,291	0.151000	NK98,741,200,000	14,092,936,000s	190	
193		American Express Bank Ltd., New York	United States	14,778,000,000s			14,778,000,000s	167	
194		Westdeutsche Landesbank Zentralbank, Duesseldorf	Germany	14,689,820,000s	0.590000	DM24,898,000,000	13,907,930,290	196	
195		Skandinaviska, Stockholm	Sweden	14,661,000,000s	0.161000	SK90,800,000,000	14,620,000,000s	186	+23
196		Bancomer, Mexico City	Mexico	14,496,027,180s	0.000372	MP$6,967,815,000,000	11,718,456,240s	236	+38
197		Centrale Raiffeisenkas van Belgische Boerenbond, Leuven	Belgium	14,339,977,561	0.028160	BF510,319,485,756	11,767,706,735s	235	+36
200		Republic National Bank, New York	United States	14,250,340,000			13,897,318,000	196	

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliated in which ownership exceeds 50%. **Total deposits** are funds due depositors, banks (including central banks), and national, state, and local governments. *Note:* Banks that did not provide current data are excluded from the

The Top 500 Banks in the World

U.S. and overseas banks ranked by deposits on Dec. 31, 1989 or nearest fiscal year end

Rank 1989	Rank 1988	Bank	Country	Deposits 12/31/89 ($ thousands)	Exchange Rate (Nation's Currency)	Deposits 12/31/88 ($ thousands)	Deposits 12/31/88 (Nation's Currency)	Rank in Nation	Gain in Rank
201		Israel Discount Bank, Ltd., Tel-Aviv	Israel	13,918,552,070s	0.530000	526,261,419,000	13,908,960,692s	197	
202		Daiwa Bank, Ltd., Osaka	Japan	13,882,439,224	0.006289	Y2,207,416,000,000	13,615,712,952	203	+1
203		Footjenski, Halsband, Schmidt	Germany	13,761,018,600s	0.246000	FI45,939,100,000	13,297,324,000s	12	+13
204		Hyakugo Bank, Ltd., Tsu	Japan	13,715,706,256	0.006289	Y2,180,904,000,000	13,586,028,908	180	
205		Sudwestdeutsche Genossenschafts-Zentralbank, Frankfurt	Germany	13,688,927,480	0.580000	DM23,601,572,000	12,108,809,442	20	
206		Fukuoka City Bank, Ltd.	Japan	13,654,809,869	0.006289	Y2,171,221,000,000	14,133,089,232	195	
207		American Savings Bank, Irvine, Calif.	United States	13,638,461,000			13,401,460,000	207	
208		Bank of Kinki, Ltd., Osaka	Japan	13,617,200,649	0.006289	Y2,165,241,000,000	15,045,461,392	188	
209		Development Bank of Singapore Ltd.	Singapore	13,602,575,342	0.526000	S$25,860,417,000	7,703,686,194	340	+131
210		Higo Bank, Ltd., Kumamoto	Japan	13,516,821,923	0.006289	Y2,149,280,000,000	13,705,760,915	185	
211		Hokkoku Bank, Ltd., Kanazawa	Japan	13,463,415,732	0.006289	Y2,140,788,000,000	14,435,256,200	193	
212		Hanil Bank Ltd., Seoul	Korea	13,443,924,690s	0.001470	KW9,143,527,000,000	9,314,511,564	26	+75
213		State Bank Victoria, Melbourne	Australia	13,391,103,600s	0.756000	A$17,713,100,000	11,789,916,588s	234	+21
214		Commercial Bank of Korea Ltd., Seoul	Korea	13,308,052,589s	0.001470	KW9,053,097,000,000	11,116,088,20s	31	+41
215		Banque Internationale a Luxembourg	Luxembourg	13,179,991,496s	0.028000	L7,470,713,982,000	10,174,859,499s	274	+59
216		Caixa Geral de Depositos, Lisbon	Portugal	13,146,148,303s	0.006680	PE1,964,692,859,535	13,726,304,471s	206	+23
217		Homestead Bank, FSB, San Diego, Calif.	United States	13,034,251,000			11,538,328,000	242	+25
218		Oesterreichische Postsparkasse, Vienna	Austria	12,974,334,160s	0.084000	AS154,458,740,000	13,381,000,000s	206	
219		Commonwealth Savings Bank of Australia, Sydney	Australia	12,941,886,400t	0.756000	A$17,113,000,000	11,975,581,200t	230	+12
220		Chu Hung Bank, Ltd., Seoul	Korea	12,941,802,662s	0.001470	KW8,803,947,399,000	10,991,792,731s	254	+34
221		C.G.B.-Caisse d'Epargne de Flandre, Brussels	Belgium	12,852,077,279s	0.028100	BF457,360,298,189	12,362,893,137s	248	
222		Societe Nationale de Credit a l'Industrie, Brussels	Belgium	12,845,568,320	0.028100	BF457,137,862,619	13,010,195,474	214	+34
223		Bank of Nagoya, Ltd.	Japan	12,845,012,073	0.006289	Y2,042,457,000,000	13,526,210,196	205	
224		Societe Generale Alsacienne de Banque, Strasbourg	France	12,748,860,455st	0.173000	FF73,682,835,000	10,604,129,946st	263	+39
225		National Westminster Bank USA, New York	United States	12,740,471,000			11,389,004,000	245	+20
226		Bangkok Bank, Ltd.	Thailand	12,737,725,553	0.036000	TB326,095,527,000	10,846,359,471	25	+75
227		Southeast Bank NA, Miami	United States	12,715,951,000			10,287,300,000	271	+44
228		Raiffeisen Zentralbank Oesterreich AG, Vienna	Austria	12,693,700,000s	0.084000	AS151,080,000,000	13,010,455,455s	210	+22
229		San-in Godo Bank, Ltd., Matsue	Japan	12,512,526,221	0.006289	Y1,980,589,000,000	13,053,221,100	212	
230		Korea First Bank, Seoul	Korea	12,472,375,431s	0.001470	KW8,484,609,,000	11,081,679,796s	252	+22
231		Kofuku Bank, Ltd., Osaka	Japan	12,306,837,811	0.006289	Y1,956,899,000,000	12,933,986,552	215	
232		National Bank of Detroit	United States	12,288,133,000			11,989,495,000	230	
233		Sparkasse der Stadt Berlin West, Berlin	Germany	12,275,823,403	0.580000	DM20,777,327,802	11,970,191,740	24	+26
234		National Bank of Kuwait	Kuwait	12,196,796,629s	3.410000	KD3,576,773,205	11,373,093,728s	246	+12
235		Medium Business Bank of Taiwan, Taipei	Taiwan	12,140,407,638	0.036360	NT$11,383,211,106,000	8,561,994,047	34	+73
236		Tokyo Tomin Bank, Ltd.	Japan	11,965,319,331	0.006289	Y1,902,579,000,000	12,366,156,512	224	
237		First Nationwide Bank, FSB, San Francisco	United States	11,955,000,000			11,787,457,000	231	
238		Dresdner Bank Luxembourg	Luxembourg	11,900,270,105	0.580000	DM20,169,949,330	10,064,172,075	277	+39
239		Fukutoku Bank, Ltd., Osaka	Japan	11,840,193,387	0.006289	Y1,882,683,000,000	12,087,902,524	229	
240		Vereins-und Westbank, Hamburg	Germany	11,794,951,167s	0.580000	DM19,737,125,000	10,270,982,625s	27	+32
241		Union Bank, San Francisco	United States	11,637,086,000			11,911,940,000s	233	
242		Banque Generale du Luxembourg	Luxembourg	11,614,388,584s	0.028000	LF414,799,592,275	9,940,724,826s	279	+39
243		Korea Exchange Bank, Seoul	Korea	11,584,655,460s	0.001470	KW7,880,718,000,000	12,828,279,800s	218	
244		Landesgirokasse, Stuttgart	Germany	11,565,106,000	0.580000	DM19,941,501,000	9,805,956,193	28	+41
245		State Bank of South Australia, Adelaide	Australia	11,467,849,896s	0.780000	A$14,534,664,000	7,954,307,008	331	+86
246		World Savings, FSB/LA, Oakland, Calif.	United States	11,457,351,000			10,141,780,000	276	+30
247		Fidui Bank, Ltd.	Japan	11,426,126,803	0.006289	Y1,815,927,000,000	11,962,200,000	241	
248		Wachovia Bank & Trust Co. NA, Winston-Salem, N.C.	United States	11,344,443,000			10,517,860,000	265	+17
249		Banca Toscana, Florence	Italy	11,310,441,240t	0.000780	L14,335,160,000,000	10,159,192,350t	264	+26
250		Toho Bank, Ltd., Fukushima	Japan	11,270,309,363	0.006289	Y1,792,067,000,000	11,576,983,124	240	
251		Hiroshima-Sogo Bank, Ltd.	Japan	11,136,460,625	0.006289	Y1,770,625,000,000	11,477,487,138	243	
252		Bank of Osaka, Ltd.	Japan	11,117,875,333	0.006289	Y1,767,797,000,000	11,395,282,016	244	
253		Commercial Bank of Seoul	Korea	11,112,717,000	0.001470	KW7,560,300,000,000	9,521,422,258	237	+40
254		Norske Creditbank, Oslo	Norway	11,073,887,000s	0.151000	NK73,337,000,000	11,625,784,000s	237	
255		Shikoku Bank, Ltd., Kochi	Japan	11,011,711,972	0.006289	Y1,750,948,000,000	11,362,764,868	247	
256		Credit Industriel et Commercial, Paris (h)	France	10,960,870,083	0.173000	FF63,298,239,000	11,143,394,000	184	
257		Kaiyo Bank, Ltd., Chiba	Japan	10,852,116,019	0.006289	Y1,725,571,000,000	11,244,085,218	248	
258		Musashino Bank, Ltd., Omiya	Japan	10,796,446,902	0.006289	Y1,715,126,000,000	11,243,072,332	249	
259		Kagoshima Bank, Ltd.	Japan	10,768,189,314	0.006289	Y1,712,226,000,000	11,235,556,824	250	
260		Banque Internationale a Luxembourgeoise, Luxembourg	Luxembourg	10,747,896,483st	0.028000	LF377,398,268,960	9,722,130,000st	283	+23
261		Banque et Caisse d'Epargne de l'Etat, Luxembourg	Luxembourg	10,697,443,735	0.028000	LF382,051,561,948	8,348,506,865	316	+55
262		Genossenschaftliche Zentralbank, Stuttgart	Germany	10,686,065,151	0.580000	DM18,111,974,832	10,428,485,046	266	+4
263		NCNB National Bank of South Carolina	United States	10,587,546,000			11,054,884,000	252	
264		First Union National Bank, Charlotte, N.C.	United States	10,507,659,000	----		8,784,792,000	301	+37
265		Meritor Savings Bank, Philadelphia	United States	10,503,153,000	----		12,230,344,000	205	
266		Pittsburgh National Bank	United States	10,263,240,000	----		10,045,593,000	279	+13
267		Bergen Bank	Norway	10,249,004,200s	0.151000	NK67,874,200,000	10,503,314,400s	257	
268		Awa Bank, Ltd., Tokushima	Japan	10,248,780,804	0.006289	Y1,629,636,000,000	10,984,414,224	255	
269		Credito Romagnolo, Bologna	Italy	10,246,030,213s	0.000789	L12,986,096,593,850	8,577,898,764t	307	+38
270		United States Trust Co., Boston	United States	10,193,946,000	----		9,779,424,000	267	+16
271		Olta Bank, Ltd.	Japan	10,117,076,586	0.006289	Y1,608,694,000,000	10,402,011,156	267	
272		Caja de Ahorros y Monte de Piedad de Barcelona	Spain	10,085,947,520	0.009130	SP1,104,704,000,000	7,947,983,080	25	+63
273		Erste Oesterreichische Spar-Casse, Vienna	Austria	10,006,632,130s	0.084000	AS119,125,382,496	9,278,660,193s	291	+18
274		Hokuetsu Bank, Ltd., Nagaoka	Japan	9,973,932,637	0.006289	Y1,585,993,000,000	10,363,247,351	268	
275		Commerzbank International, Luxembourg	Luxembourg	9,921,597,871	0.580000	DM10,816,267,586	8,936,936,225t	295	+20
276		Standard Bank of South Africa Ltd., Johannesburg	South Africa	9,899,359,372u	0.391000	SA25,296,527,000	N.A.		
277		Aichi Bank, Ltd., Nagoya	Japan	9,889,885,165	0.006289	Y1,572,537,000,000	10,614,757,162	262	
278		Frankfurter Sparkasse, Frankfurt	Germany	9,778,852,612	0.580000	DM16,574,326,461	8,900,981,172	296	+18
279		Banque Worms, Paris	France	9,764,129,342s	0.173000	FF56,440,000,000	9,162,887,314s	296	+43
280		Dime Savings Bank of New York, FSB, Garden City	United States	9,758,151,000			8,652,256,000	304	+24
281		Chiba Kogyo Bank, Ltd.	Japan	9,738,126,533	0.006289	Y1,548,587,000,000	10,008,997,468	274	
282		Yamanashi Chuo Bank, Ltd., Kofu	Japan	9,680,142,002	0.006289	Y1,539,218,000,000	9,937,956,882	282	+14
283		Seattle-First National Bank	United States	9,660,699,000			8,870,643,000	297	
284		NCNB National Bank of Florida, Tampa	United States	9,637,057,000			7,387,750,000	351	+67
285		Bank of New Zealand, Wellington	New Zealand	9,497,118,863	0.580400	NS16,363,058,000	9,395,988,174	298	+3
286		Citizens & Southern National Bank, Atlanta	United States	9,466,485,000			8,454,041,000	312	+26
287		Goldome, Buffalo, N.Y.	United States	9,375,653,000			10,529,276,000	264	
288		Gulf International Bank, Manama	Bahrain	9,368,236,600	2.650000	BD3,497,444,000	9,243,613,600	332	+32
289		Bank Mees & Hope, Amsterdam	Netherlands	9,245,458,096st	0.524000	G17,644,004,000	8,199,550,089st	321	+32
290		Arab Bank Ltd., Amman	Jordan	9,230,390,576s	1.560000	JD5,916,917,000	9,549,699,822	322	
291		Bank of New England NA, Boston	United States	9,208,787,000			10,904,043,000	257	
292		Riyad Bank Ltd., Jeddah	Saudi Arabia	9,156,569,324u	0.266000	SAR34,430,714,000	8,405,159,890u	314	+22
293		S.G. Warburg & Co., Ltd., London	United Kingdom	9,125,124,000			7,267,422,000	328	+35
294		First Bank NA, Minneapolis	United States	9,104,370,000			10,674,580,000	261	
295		Great American Bank, FSB, San Diego, Calif.	United States	9,073,940,000			10,786,473,000	260	
296		Chukyo Bank, Ltd., Nagoya	Japan	9,060,813,860	0.006289	Y1,440,740,000,000	9,858,894,736	284	
297		Kleinwort, Benson, Lonsdale Plc, London	United Kingdom	9,045,224,725s	1.610000	£5,618,152,000	8,117,126,783s	329	+73
298		Bank of Iwate, Ltd., Morioka	Japan	9,001,508,590	0.006289	Y1,431,310,000,000	9,874,957,264	283	
299		Bank of India, Bombay	India	8,994,917,885	0.058000	InR515,084,787,977	8,394,156,703	315	+16
300		CrossLand Savings FSB, Brooklyn, New York	United States	8,994,087,000			8,791,305,000	302	

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership exceeds 50%. **Total deposits** are funds due depositors, banks (including central banks), and national, state, and local governments. **Note:** Banks that did not provide current data are excluded from the listing. **Date of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989. Sept. 30, 1989, and March 31, 1990. Cane dian bank data are for fiscal yearend Oct. 31, 1989; and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Whenever possible, the New York cable rate is used, and this rate is for same date as bank's figures. See "Foreign Currency Exchange Guide and Exchange Rate Comparisons" for key to currency abbreviations. **(h)**— A subsidiary of Compagnie Financiere de Credit Industriel et Commercial. **(s)**— A subsidiary of Compagnie Financiere de Paribas. Paris, a financial holding company. **(st)**— Consolidated data. **(t)**— Figures are included in the consolidated figures of parent bank. For that reason, the data for the bank are not included in the aggregate totals below. **(u)**— Data are not consolidated. **(y)**— Restated to reflect changes in consolidation in 1988. **(z)**— Restated to reflect changes in consolidation in 1989.

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The Top 500 Banks in the World

U.S. and overseas banks ranked by deposits on Dec. 31, 1989 or nearest fiscal yearend

Rank 1989	Rank 1988	Bank	Country	Deposits 12/31/89 ($ thousands)	Exchange Rate (Nation's Currency)	Deposits 12/31/88 ($ thousands)	Deposits 12/31/88 (Nation's Currency)	Rank in Nation	Gain in Rank
301		Cassa di Risparmio V.E. per le Provincie Siciliane, Palermo	Italy	8,962,284,165	0.000789	L11,358,786,548,420	7,498,321,564	350	+49
302		Coast Savings & Loan Assn., Los Angeles	United States	8,904,590,000			7,498,321,564	350	
303		Trans Bank, Ltd., Nanaimo	Japan	8,875,910,971	0.006289	Y1,411,339,000,000	9,803,298,000	299	
304		First National Bank of South Africa Ltd., Johannesburg	South Africa	8,870,000,000u	0.391000	SA22,682,100,000	10,062,343,200u	276	
305		Malayan Banking Berhad, Kuala Lumpur	Malaysia	8,798,671,810s	0.370000	M$23,699,113,000	7,596,214,797s	346	+41
306		Kredietbank, Luxembourg	Luxembourg	8,794,240,749	0.028000	LF313,446,666,987	7,997,361,977s	329	+22
307		Landesbank Schleswig-Holstein Girozentrale, Kiel	Germany	8,663,378,870s	0.580000	DM14,885,983,000	7,911,560,000s	35	
308		Akita Bank, Ltd.	Japan	8,616,024,335	0.006289	Y1,370,015,000,000	8,851,361,392	320	
309		First Fidelity Bank NA, Newark, N.J.	United States	8,615,564,000			7,987,390,000	330	
310		Nedcor Ltd., Johannesburg	South Africa	8,599,000,000u	0.371000	$R23,177,900,000	8,599,000,000u	290	+150
311		Cassa di Risparmio delle Venezie, Vicenza & Belluno, Verona	Italy	8,553,077,023s	0.000789	L10,840,401,804,090	6,407,302,933	390	+78
312		Banc One, Texas NA, Dallas	United States	8,525,136,000			8,043,863,000	327	+254
313		Gotabanken, Stockholm	Sweden	8,451,373,000s	0.161000	SK52,493,000,000	7,275,505,000s	356	+42
314		Connecticut Bank & Trust Co. NA, Hartford	United States	8,450,063,000			7,509,700,000	349	+34
315		Skopbank, Helsinki	Finland	8,441,979,764s	0.246000	FM34,316,990,909	7,695,780,000s	344	+38
316		Meridian Bank, Reading, Pa.	United States	8,394,187,000			8,010,077,000	315	+66
317		Banque Paribas Belgique, Brussels (g)	Belgium	8,394,983,800s	0.028100	BF298,388,000,000	8,394,983,800s	368	+50
318		Valley National Bank, Phoenix	United States	8,370,860,000			7,536,752,000	345	
320		Daisan Bank, Ltd., Matsuzaka	Japan	8,338,824,082	0.006289	Y1,325,938,000,000	8,630,762,000	306	
321		Banque Regionale d'Escompte et de Depots, Vincennes	France	8,315,636,153s	0.173000	FF48,067,851,000	7,908,526,800s	333	+12
322		Aomori Bank, Ltd.	Japan	8,225,785,596	0.006289	Y1,307,964,000,000	8,452,952,572	311	
323		Commerzbank Koln, Cologne	Germany	8,205,442,110	0.580000	DM13,907,525,000	7,702,879,520	341	+18
324		Connecticut National Bank, Hartford	United States	8,196,372,000			8,045,863,000	326	+2
325		Bank Leu, Ltd., Zurich	Switzerland	8,154,813,456u	0.648000	SF12,584,586,667	6,649,072,270u	305	
326		Deutsche Genossenschaftsbank und Landeszentrenbank, Bonn	Germany	8,122,023,685	0.580000	DM13,766,141,000			
327		North Pacific Bank, Ltd., Sapporo	Japan	8,075,566,542	0.006289	Y1,284,078,000,000	9,361,537,500	289	
328		Baden-Wurttembergische Bank, Stuttgart	Germany	8,039,426,501s	0.580000	DM13,626,146,612	6,961,624,471s	364	+36
329		Sanshu Bank, Ltd., Kishiwada	Japan	8,032,892,727	0.006289	Y1,277,286,000,000	8,284,134,532	325	
330		Shinwa Bank, Ltd., Utsunomiya	Japan	7,991,558,080	0.006289	Y1,270,720,000,000	8,427,189,424	313	
331		Banco Brasileiro de Descontos, Sao Paulo	Brazil	7,955,644,465s	0.113000	BC7,102,542,000,000	8,786,375,716s	357	+6
332		Empire of America Federal Savings Bank, Buffalo, N.Y.	United States	7,947,151,000			8,325,671,000	318	
333		Chime Bank, Ltd., Osaka	Japan	7,937,856,310	0.006289	Y1,262,181,000,000	8,737,637,760	302	
334		Nordbanken, Stockholm	Sweden	7,934,387,800s	0.161000	SK49,219,800,000	5,929,190,200s	419	+85
335		Overseas Union Banking Corp., Ltd., Singapore	Singapore	7,901,664,384s	0.526000	S$15,029,780,000	7,901,664,384s	347	+112
336		Michigan National Bank, Farmington Hills	United States	7,888,735,000			7,684,145,000	343	+7
337		Bank of Ikeda, Ltd.	Japan	7,858,111,740	0.006289	Y1,249,660,000,000	7,786,344,084	339	+2
338		Columbia Savings & Loan Assn., Beverly Hills	United States	7,816,662,764			8,086,717,000	324	
339		Compagnie de Banque, Lyon	France	7,820,119,000s	0.173000	FF45,203,000,000	6,033,094,961st	410	+71
340		Midlantic National Bank, Newark, N.J.	United States	7,791,480,000			7,217,355,000	362	+162
341		Boston Safe Deposit & Trust Co.	United States	7,782,273,000			15,464,313,000	177	
342		Korea Housing Bank, Seoul	Korea	7,740,409,992s	0.001470	KW5,265,585,000,000	5,995,803,000s	434	+82
343		Morgan Grenfell & Co. Ltd., London	United Kingdom	7,724,535,280st	1.610000	£4,797,948,000	7,165,959,880st	354	+89
344		Swiss Credit Corporation de Banque	Switzerland	7,648,155,944	0.648000	SF11,804,253,000	7,226,451,325	358	+14
345		Hyundai Bank, Seoul	Korea	7,617,919,000s	----		7,787,178,000s	337	
346		Higashi-Nippon Bank, Ltd., Tokyo	Japan	7,524,664,109	0.006289	Y1,212,381,000,000	7,979,104,476	329	
347		Coutts & Co., London	United Kingdom	7,500,771,360st	1.610000	£4,720,975,000	5,776,481,984st	427	+80
348		United Overseas Bank Ltd., Singapore	Singapore	7,598,777,996s	0.526000	S$14,446,346,000	5,987,746,773s	416	+68
349		State Bank of New South Wales, Sydney	Australia	7,572,348,504s	0.756000	A$10,016,234,000	7,469,039,808s	365	+130
350		Comerica Bank-Detroit	United States	7,561,148,000			7,217,355,000	363	
351		Bank of Bali	Indonesia	7,559,272,000s	0.058000	InR130,334,000,000	7,287,123,831s	355	+4
352		Bank Bumi Daya, Jakarta	Indonesia	7,558,217,466s	0.000560	IR13,496,811,814,000	6,981,000,000s	402	+250
353		Industrial Bank of Korea, Seoul	Korea	7,557,497,660	0.001470	KW5,141,154,871,000	6,210,725,353	395	+42
354		First Gibraltar Bank, FSB, Dallas	United States	7,555,575,000			6,484,642,000	310	
355		Sjaelsoboanken Bikuben, Copenhagen	Denmark	7,428,445,000	0.151000	DK49,195,000,000	6,610,976,300	375	+20
356		Michinoku Bank, Ltd., Aomori	Japan	7,398,508,320	0.006289	Y1,186,880,000,000	7,702,982,440	342	
357		Yamagata Bank, Ltd.	Japan	7,393,534,211	0.006289	Y1,164,499,000,000	8,039,183,492	327	
358		Prabhudas Lilladher Bank	India	7,361,814,000	----		7,131,118,000	360	+2
359		Bank of Saga, Ltd.	Japan	7,243,406,092u	0.006289	Y1,151,758,000,000	7,787,178,000s	338	
360		Forsta Sparbanken, Stockholm	Sweden	7,222,604,900	0.161000	SK44,860,900,000	5,417,761,400s	450	+90
361		Krung Thai Bank, Bangkok	Thailand	7,211,475,000s	0.036000	TB186,000,000,000	6,147,540,000s	419	+57
362		Banco Portugues do Atlantico, Oporto	Portugal	7,210,250,140u	0.006680	PE1,079,378,764,867	6,487,031,036u	381	+43
363		Sanwa Bank, Ltd., Osaka	Japan	7,171,063,295u	0.006289	Y1,140,205,000,000	7,733,240,000u	272	+9
364		Bank of the Ryukyus, Naha	Japan	7,158,215,268	0.006289	Y1,138,212,000,000	8,270,429,852	319	
365		Nassauische Sparkasse, Wiesbaden	Germany	7,156,536,381	0.580000	DM12,339,381,000	6,276,046,319	394	+29
366		Miyazaki Bank, Ltd.	Japan	7,121,695,045	0.006289	Y1,132,405,000,000	7,787,178,000s	339	
367		First Union National Bank of Florida, Jacksonville	United States	7,090,055,000	----		7,122,471,000	362	
368		Credit Industriel d'Alsace et de Lorraine, Strasbourg	France	7,081,582,000s	0.173000	FF40,934,000,000	6,116,360,000s	335	
369		Amsterdam-Rotterdam Bank	Netherlands	7,072,134,000			6,542,938,000	377	+8
370		Dresdner Bank Berlin AG	Germany	7,054,299,417u	0.580000	DM11,956,439,791	6,085,998,000u	403	+33
371		Anchor Savings Bank, FSB, Northport, N.Y.	United States	7,027,918,000			6,734,031,000	371	
372		Banco Popular	Spain	7,002,946,000u	0.009130	SP766,993,000,000	5,932,268,000u	444	+72
373		United States National Bank, Portland	United States	6,994,001,000			6,095,867,000	401	+28
374		Ayala Bank, Manila	Philippines	6,986,535,000s	0.151000	DK46,211,249,000	6,533,276,516s	379	+5
375		Stadtsparkasse Munchen, Munich	Germany	6,979,131,084	0.580000	DM11,829,035,735	6,186,000,000s	396	+21
376		Manufacturers National Bank, Detroit	United States	6,946,034,000			6,521,981,000	380	+4
377		Bank of Hawaii, Honolulu	United States	6,940,435,000			6,521,981,000	380	+4
378		Banco Provincial Lombardo, Bergamo	Italy	6,934,746,863t	0.000789	L8,789,286,254,714	5,784,152,973t	425	+47
379		Mexico, Mexico City	Mexico	6,933,703,924	0.000372	MP18,638,989,043,000	7,610,938,000	345	
380		Fidelity Bank NA, Philadelphia	United States	6,919,305,000			6,706,244,000	373	
381		Banca Svizzera Italiana, Lugano	Switzerland	6,882,519,360	0.648000	SF10,636,804,000	6,762,866,785	370	
382		Harris Trust & Savings Bank, Chicago	United States	6,854,158,000			6,706,244,000	374	
383		Union de Banques a l'Ouest, Poitiers, Neuilly (w)	France	6,813,925,915s	0.173000	FF39,386,850,000	7,568,521,624s	346	
384		Banco Popolare di Bergamo	Italy	6,806,646,546u	0.000789	L8,626,445,340,299	5,551,887,000u	446	+56
385		Banque Internationale a Luxembourg, Deposit, Modest	France	6,783,726,990	0.009130	SP743,015,000,000	5,485,484,340	446	+61
386		United World Chinese Commercial Bank, Taipei	Taiwan	6,713,196,225s	0.036360	T$176,476,451,907			
387		Luzerner Kantonalbank, Lucerne	Switzerland	6,737,202,864	0.648000	SF10,396,918,000	6,456,671,200	386	
388		Kreissparkasse Koln, Cologne	Germany	6,712,866,788	0.580000	DM11,571,144,000	7,145,961,783	359	+11
389		Caja de Ahorros de Catalunya, Barcelona	Spain	6,703,209,480	0.009130	SP734,198,000,000	5,760,000,000	439	+50
390		Seoul Bank, Seoul	Korea	6,700,425,642	0.001470	KW4,541,198,934,239	6,871,439,400	365	
391		Cassa di Risparmio di Firenze, Florence	Italy	6,682,516,390	0.000789	L8,446,253,960,000	5,836,328,160	429	+29
392		Marshall & Ilsley Bank, Milwaukee	United States	6,631,568,000			6,783,932,000	369	
393		Imperial Savings Assn., San Diego, Calif.	United States	6,624,904,000			6,329,541,000	317	
394		Huntington National Bank, Columbus, Ohio	United States	6,566,863,000			6,095,783,000	409	+15
395		CIC-Union de Banques, Compagnie Financiere & Cie, Paris	France	6,531,434,215u	0.173000	FF37,753,955,000	7,145,961,783	358	
396		Banco Lariano, Como	Italy	6,520,776,804t	0.000789	L8,264,909,353,466	5,417,490,364t	451	+55
397		Bangkok Bank, Bangkok	Thailand	6,517,875,000s	0.036000	TB166,897,292,818	5,098,827,128	473	+76
398		Banque Cantonale Vaudoise, Lausanne	Switzerland	6,503,760,067	0.648000	SF10,036,713,000	6,536,277,117	376	
399		Banco Atlantico, Barcelona	Spain	6,461,338,360u	0.009130	SP707,726,000,000	5,071,807,110t	472	+73
400		Security Pacific Bank Washington NA, Seattle	United States	6,438,119,000	----		5,986,248,000	433	+33

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports wherever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership exceeds 50%. **Total deposits** are funds due depositors, banks (including central banks), and national, state, and local governments. **Note:** Banks that did not provide current data are excluded from the listing. **Date of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989, Sept. 30, 1989, and March 31, 1990. Canadian bank data are for fiscal yearend Oct. 31, 1989; and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Whenever possible, the New York cable rate is used, and this rate is for same date as bank's figures. See "Foreign Currency Exchange Guide and Exchange Rate Comparisons" for key to currency abbreviations. **(g)**— A subsidiary of Compagnie Financiere de Paribas, Paris, a financial holding company. **(h)**— Consolidated data. **(t)**— Figures are included in the consolidated figures of parent bank. For that reason, the data for the bank are not included in the aggregate totals below. **(u)**— Data are not consolidated. **(w)**— Restated to reflect changes in consolidation in 1989.

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The Top 500 Banks in the World

U.S. and overseas banks ranked by deposits on Dec. 31, 1989 or nearest fiscal yearend

Rank 12/89	Rank 12/88	Name	Country	Deposits in millions (U.S. Dollars)	Exchange rate	Deposits (Nat'l currency)	Deposits 12/31/1988 (U.S. Dollars)	Rank in 1988	Gain in Rank
401		Commercial Bank of Greece, Athens	Greece	6,419,452.251c	0.006300	GD1,020,547,976.294	5,340,791,266u	454	+53
402		Istituto Bancario Italiano, Milan	Italy	6,422,677.788t	0.000789	L8,140,276,030.822	5,833,870,044t	421	+19
403		Yochigi Bank, Ltd., Utsunomiya	Japan	6,419,867.801	0.006369	Y1,007,809,000.000	6,511,876,100	362	
404		United Mizrahi Bank Ltd., Tel-Aviv	Israel	6,418,695,380s	0.530000	IS12,110,746,000	6,559,333,168s	376	
405		Texas Commerce Bank NA, Houston	United States	6,416,672,000	1.000000		6,453,537,000	387	
406		Hanshin Bank, Ltd, Kobe	Japan	6,361,637,950	0.006299	Y1,011,550,000.000	6,486,649,220c	364	
407		Commercial Bank of Kuwait	Kuwait	6,355,326,120	3.410000	KD1,863,752,000	6,781,092,252	426	+19
408		Turkiye Cumhuriyet Ziraat Bankasi, Ankara	Turkey	6,331,458,148	0.000436	TP14,521,693,000,000	4,614,335,868t	507	+99
409		City Savings Bank, PSB, Somerset, N.J.	United States	6,305,261,000			7,365,181,000	343	
410		BFG Luxembourg	Luxembourg	6,297,462,389t	0.580000	DM10,673,665,066	6,064,585,502t	408	
411		Banca d'Americe e d'Italia, Milan	Italy	6,291,011,706t	0.000789	L7,973,396,967,263	4,092,106,855t	560	+149
412		Society National Bank, Cleveland	United States	6,280,633,000			7,497,396,000	337	+34
413		Cassa di Risparmio di Padova e Rovigo, Padova	Italy	6,264,330,127	0.000789	L7,939,581,193,183	5,440,611,568	449	+36
414		Credit Suisse (Luxembourg)	Luxembourg	6,246,019,508t	0.028600	F2,223,072,125,296	1,124,615,191v	470	+56
415		Motherwell District Municipal Bank Ltd.	United Kingdom	6,231,886,680	1.640000	P3,799,537,000			
416		Standard Federal Bank, Troy, Mich.	United States	6,187,305,000			5,272,603,000	458	+42
417		Kyushu Bank, Ltd., Sasebo	Japan	6,142,397,121	0.006299	Y976,689,000.000	6,671,105,764	374	
418		First National Bank, Atlanta	United States	6,139,163,000			6,017,771,000	413	
419		State Street Bank & Trust Co., Boston	United States	6,137,917,000			5,380,489,000	453	+33
420		Pinet National Bank, Providence, R.I.	United States	6,111,457,000			5,539,747,000	442	+22
421		Banca della Svizzera Italiana, Lugano	Switzerland	6,109,843,808s	0.648000	SF9,428,771,000	5,313,216,396s	482	+61
422		First Interstate Bank of Arizona NA, Phoenix	United States	6,105,115,000			5,818,569,000	423	+1
423		West LB Internationale Luxembourg	Luxembourg	6,077,282,362c	0.590000	LF10,300,393,834	5,279,129,049t	447	+34
424		Bank of Scotland, Edinburgh	United Kingdom	6,068,824,256	0.038380	TB157,864,102,542	6,093,106,092	402	
425		Florida National Bank, Jacksonville	United States	6,055,327,000			6,066,295,000	407	
426		Bank of Kansai, Ltd., Osaka	Japan	5,977,348,605	0.006299	Y950,445,000.000	6,279,479,406	406	
427		Shinsko Bank, Ltd., Otsu	Japan	5,939,375,623	0.006299	Y944,407,000.000	6,338,807,798	391	
428		Gulf Bank, Kuwait	Kuwait	5,930,846,335	3.410000	KD1,735,000,000	6,026,645,000	411	
429		CenTrust Bank, SSB, Miami	United States	5,922,475,000			6,297,378,000	393	
430		Clydesdale Bank Plc, Glasgow	United Kingdom	5,883,076,868t	1.619000	P3,833,772,000	N.A.	N.A.	N.A.
431		First Interstate Bank of Texas NA, Houston	United States	5,881,038,000			6,075,573,000	405	
432		Farmers Bank of China, Taipei	Taiwan	5,876,285,402	0.036000	TB150,573,987,000	4,060,040,765	555	+123
433		Yorkshire Bank Plc, Leeds	United Kingdom	5,875,331,140st	1.610000	P3,649,274,000	5,119,010,288	471	+38
434		Bank of Tokyo Trust Co., New York	United States	5,805,020,000			5,497,629,000v	445	+11
435		National Bank of Egypt, Cairo	Egypt	5,795,404,000u	0.388000	EP15,014,000,000	5,383,783,000u	457	+22
436		AmSouth Bank NA, Birmingham, Ala.	United States	5,787,896,000			5,692,601,000	432	
437		Bilnhari Bank, Seoul	Japan	5,721,804,417	0.001470	KW3,882,383,957,000	2,751,894,000	797	+314
438		Bank of Okinawa, Ltd., Naha	Japan	5,712,506,257	0.006299	Y908,333,000.000	6,476,641,056	385	
439		Riggs National Bank, Washington, D.C.	United States	5,697,560,000	.....	.....	5,253,756,000	460	+21
440		Provident National Bank, Philadelphia	United States	5,682,972,000	.....	.....	6,432,758,000	389	
441		Gibraltar Savings, FA, Simi Valley, Calif.	United States	5,686,358,000	.....	.....	7,573,947,000	341	
442		Banco Pastor, Spain	Spain	5,676,467,410	0.009130	SP821,567,000,000	4,452,593,000	547	+162
443		Banque Commerciale pour l'Europe du Nord, Paris	France	5,678,413,328t	0.173000	FF32,823,209,975	5,161,666,863t	398	
444		Norwest Bank Minnesota NA, Minneapolis	United States	5,665,443,000			5,540,745,000	439	
445		AN-HYP N.V., Antwerp	Belgium	5,641,160,378s	0.028100	BF200,753,038,374	4,610,800,193	508	+63
446		Banque Sudameris, Paris	France	5,627,670,105s	0.173000	FF32,529,885,000	5,417,175,105s	505	+59
447		Banco Espirito Santo e Comercial, Lisbon	Portugal	5,610,731,313	0.006680	PE839,929,837,298	5,140,156,500	468	+21
448		Hibernia National Bank, New Orleans, La.	United States	5,604,612,000			4,733,616,000	497	+49
449		N.M. Rothschild & Sons Ltd., London	United Kingdom	5,573,073,935s	1.687000	P3,306,505,000	4,449,552,769	488	
450		Peoples Bank, Bridgeport, Conn.	United States	5,576,065,000	.....	.....	5,065,375,000	474	+24
451		Cassa di Risparmio di Genova e Imperia, Genoa	Italy	5,573,890,000t	0.000789	L7,064,500,000,000	4,454,553,000u	545	+94
452		Union Bank of Norway, Oslo	Norway	5,568,964,565s	0.151000	NK36,880,560,000	5,984,557,224	417	
453		Sanwa Bank California	United States	5,564,162,000t	.....	.....	5,137,153,000t	461	+16
454		Ulster Bank Ltd., Belfast	United Kingdom	5,556,037,550st	1.610000	P3,450,955,000	4,006,000,064st	573	+119
455		National City Bank, Cleveland	United States	5,529,397,000	.....	.....	5,512,360,000	443	
456		Caja de Ahorros y Monte de Piedad de Zaragoza	Spain	5,518,108,090	0.009130	SP604,393,000,000	4,790,201,860	492	+37
457		Mia Bank, Ltd., Yokkaichi	Japan	5,516,679,355	0.006299	Y877,195,000.000	6,083,622,100	426	
458		Saudi American Bank, Riyadh	Saudi Arabia	5,505,690,814s	0.266000	SAR20,735,679,000	5,529,096,492	433	
459		Greenwood Trust Co., New Castle, Del.	United States	5,493,442,000			4,291,049,000	534	+75
460		Shawmut Bank NA, Boston	United States	5,451,740,000			5,099,670,000	476	+16
461		Citizens & Southern National Bank, Fort Lauderdale, Fla.	United States	5,447,691,000			4,605,646,000	511	+50
462		Alahli Bank of Kuwait	Kuwait	5,422,568,854	3.410000	KD1,590,196,145	5,965,176,196	436	
463		Stadt-Sparkasse Duesseldorf	Germany	5,417,488,674	0.590000	DM9,180,235,040	4,912,750,652c	491	+28
464		Kanto Bank, Ltd., Tsuchiura	Japan	5,367,428,907	0.006299	Y853,463,000.000	5,271,149,068	459	
465		Barnett Bank of South Florida NA, Miami	United States	5,357,370,130	.....	.....	4,965,085,000	479	+22
466		Barclays Bank, Madrid	Spain	5,330,413,550t	0.009130	SP583,835,000,000	2,468,109,420t	810	+344
467		Hill, Samuel Bank, Ltd., London	United Kingdom	5,309,996,000t	1.619000	P3,392,000,000	4,446,769,000t	519	+52
468		Bank of California NA, San Francisco	United States	5,307,898,000	.....	.....	4,868,000,000v	486	+18
469		Banque Misr, Cairo	Egypt	5,296,255,820u	0.388000	EP13,720,870,000	4,519,152,624	514	+45
470		Nigata Chuo Bank, Ltd.	Japan	5,228,844,403	0.006299	Y831,427,000.000	5,556,903,548	439	
471		Banco do Estado de Sao Paulo	Brazil	5,215,896,784s	0.112000	BC46,570,507,000	4,610,203,605	509	+38
472		National Bank of Dubai Ltd., Dubai	United Arab Emirates	5,209,692,160	0.272000	UD19,153,280,000	4,992,148,464	485	+13
473		Northern Trust Co., Chicago	United States	5,208,610,000	.....	.....	5,155,804,000	466	
474		Signet Bank/Virginia, Richmond	United States	5,207,778,000	.....	.....	5,000,448,000	482	+3
475		Societe de Banque Suisse (Luxembourg)	Luxembourg	5,201,846,364t	0.028000	BF185,780,227,271	4,321,582,852v	529	+54
476		Samuel Montagu & Co., Ltd., London	United Kingdom	5,176,843,919st	1.610000	P3,215,431,000	3,316,992,000st	652	+176
477		Hambros Bank, Ltd., London	United Kingdom	5,157,800,000s	1.640000	P3,145,000,000	3,822,742,000u	590	+113
478		Shinsizu Bank, Ltd.	Japan	5,156,231,609	0.006299	Y819,981,000.000	4,830,774,896	489	+11
479		Taihoku Bank, Ltd., Tokyo	Japan	5,152,521,074	0.006299	Y819,466,000.000	5,794,240,000	417	
480		Deutsche Bank Berlin	Germany	5,145,209,460t	0.590000	DM8,720,694,000	4,398,943,308t	523	+43
481		Credit Foncier Vaudois, Lausanne	Switzerland	5,144,650,200	0.648000	SF7,939,200,000	4,629,373,176	500	+19
482		First Interstate Bank of Oregon NA, Portland	United States	5,132,209,000	.....	.....	4,835,390,000	488	+6
483		Thurgauische Kantonalbank	Switzerland	5,127,925,195st	0.648000	SF7,913,466,350	4,941,286,402	482	
484		Caja de Ahorros de Galicia, Coruna	Spain	5,083,255,320	0.009130	SP556,764,000,000	4,296,477,780	532	+48
485		Boatmen's National Bank, St. Louis, Mo.	United States	5,080,552,000	.....	.....	3,180,418,000	673	+188
486		National Bank of Abu Dhabi	United Arab Emirates	5,044,946,336s	0.272000	UD18,544,288,000	4,584,926,688s	526	+40
487		Caja de Ahorros de Valencia	Spain	5,006,472,020	0.009130	SP548,354,000,000	4,404,360,480	522	+35
488		International Commercial Bank of China, Taipei	Taiwan	4,983,216,462u	0.036000	TB129,834,452,000	4,615,731,000u	513	+25
489		Banca San Paolo di Brescia	Italy	4,976,948,091u	0.000789	L6,307,919,000,000	4,412,491,695u	519	+30
490		Habib Bank Ltd., Karachi	Pakistan	4,946,421,000u	0.047000	PR105,243,000,000	5,089,729,416u	479	
491		Kagawa Bank, Ltd., Takamatsu	Japan	4,939,682,472	0.006299	Y785,448,000.000	5,459,577,344	448	
492		First Pennsylvania Bank NA, Philadelphia	United States	4,930,350,000	.....	.....	4,756,990,000	496	+3
493		Banco Pinto & Sotto Mayor, Lisbon	Portugal	4,926,500,000s	0.006680	PE737,500,000,000	4,536,644,340	513	+20
494		Banco Popular de Puerto Rico, San Juan	United States	4,926,304,000	.....	.....	4,715,833,000	499	+5
495		Citizens Savings, FSB&A, San Francisco	United States	4,906,184,000	.....	.....	4,697,833,000	501	+6
496		Osuuspankkien Keskuspankki Oy, Helsinki	Finland	4,901,008,800s	0.246000	FM19,922,800,000	4,377,864,000s	525	+29
497		Banco Ibis, Sao Paulo	Brazil	4,877,100,368	0.112000	BC43,545,539,000	4,786,694,197	490	
498		Atlantic Financial Federal, FA, Bala Cynwyd, Pa.	United States	4,876,399,000	.....	.....	4,963,062,000	481	
499		The Nippon Bank, Ltd., Morioka	Japan	4,857,434,930	0.006299	Y772,370,000.000	5,574,576,252	437	
500		type Bank, Antwerp	Belgium	4,856,361,060s	0.028100	BF172,824,237,000	1,846,847,508v	950	+450

Data Source: The primary source of data is **American Banker's** questionnaire to the 1,200 largest banks in the world. Data were checked against annual reports whenever possible. Consolidated data, if available, are used for all banks that own over 50% of other banks. The consolidation includes only those affiliates in which ownership exceeds 50% **Total deposits** are funds due depositors, banks (including central banks), and national, state, and local governments. **Note:** Banks that did not provide current data are **excluded** from the listing. **Date of figures:** Data for most banks are for Dec. 31, 1989 and Dec. 31, 1988. **Exceptions:** Data for Australian and New Zealand banks are for June 30, 1989, Sept. 30, 1989, and March 31, 1990. Canadian bank data are for fiscal yearend Oct. 31, 1989; and all Japanese bank data are for fiscal yearend March 31, 1990. **Exchange rates:** Whenever possible, the New York cable rate is used, and this rate is for same date as bank's deposits. See "Foreign Currency Exchange Used and Exchange Rate Comparisons" for key to currency abbreviations. **(b)**— A subsidiary of Compagnie Financiere de Credit Industriel et Commercial. **(g)**— A subsidiary of Compagnie Financiere de Paribas, Paris, a financial holding company. **(s)**— Consolidated data. **(t)**— Figures are included in the consolidated figures of parent bank. For that reason, the data for the bank are not included in the aggregate data totals for the 500 banks. **(u)**— Banks are not consolidated for affiliates more than 50% owned. **(v)**— Bank is owned by another bank which does not consolidate subsidiaries. **(z)**— Bank's deposits are based on revised asset total for 1988. **(§)**— Restated to reflect changes in consolidation in 1989.

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Banks Ranked After the First 500

With deposits on Dec. 31, 1989

Rank 12/89	Name	Country	12/31/89 Deposits (U.S. Dollars)
501	Fukushima Bank, Ltd.	Japan	3,665,655,362
502	Credito Commerciale, Milan	Italy	3,688,370,648t
503	Bank of Hawaii, Honolulu	United States	3,669,538,000
504	Yokushima Bank, Ltd.	Japan	3,667,247,982
505	INB National Bank, Indianapolis	United States	3,667,168,000
506	Trust Company Bank, Atlanta	United States	3,663,868,000
507	Caja de Ahorros Vizcaina, Bilbao	Spain	3,661,002,180
508	Bank Negara Indonesia, Jakarta	Indonesia	3,657,360,426
509	Union Bank of India, Bombay	India	3,654,821,869u
510	Banco Totta & Acores, Lisbon	Portugal	3,653,038,007
511	Credito Varesino, Varese	Italy	3,647,114,767t
512	Bank of New York, Fort Worth, Tex.	United States	3,639,776,000
513	Banco San Geminiano e Prospero, Modena	Italy	3,638,403,386
514	Transohio Savings Bank, Cleveland	United States	3,633,227,000
515	Kreditanstalt, Basle	Switzerland	3,632,756,400
516	Bank in Liechtenstein, Vaduz	Liechtenstein	3,631,843,362u
517	Liechtenstein Landesbank, Vaduz	Liechtenstein	3,494,007,811
518	Bank of Tokyo, Ltd., Akita	Japan	3,493,986,018
519	Agrobanco, Lima	United States	3,484,439,000
520	Arab National Bank, Riyadh	Saudi Arabia	3,483,646,856s
521	Washington Mutual Savings Bank, Seattle	United States	3,476,335,000
522	Continental Bank, Norristown, Pa.	United States	3,477,884,000
523	Landesbank, Luxembourg	Germany	3,476,933,130
524	FirWest Savings & Loan Assn., Newport Beach, Calif.	United States	3,468,224,000
525	Equitable Bank, Baltimore	United States	3,456,719,000
526	Hemisphere National, PSB, Newport Beach, Calif.	United States	3,454,839,000
527	American Savings Bank, FSB, White Plains, N.Y.	United States	3,451,894,000
528	Bank of Nova Scotia, Orlando, Fla.	United States	3,451,000,000
529	Sparkasse Saarbruecken	Germany	3,444,932,365
530	Banca del Gottardo, Lugano	Switzerland	3,437,898,948u
531	Banque Nationale de Paris (Luxembourg)	Luxembourg	3,437,000,000
532	Jurgensches Kantonalbank, Interlaken	Switzerland	3,400,390,840
533	TDB Kantonalbank Thun, Bern, Geneva	Switzerland	3,400,000,272t
534	Columbia Savings, FS&LA, Englewood, Colo.	United States	3,389,404,000
535	Compagnie Central Bank Co., Ltd., Basle	Switzerland	3,389,361,000
536	Allied Bank Ltd., Johannesburg	South Africa	3,381,388,400s
537	Bank of America NT&SA, San Francisco	United States	3,379,390,000
538	Bank of Kuwait and the Middle East	Kuwait	3,378,000,170
539	Banco Central Hispanoamericano de Credit, Marseilles	France	3,362,237,181s
540	American Savings & Loan Assn. of Florida, Miami	United States	3,361,611,000
541	National Bank of New Zealand, Ltd., Wellington	New Zealand	3,356,100,000st
542	Caja de Ahorros y Monte de Piedad Municipal de Bilbao	Spain	3,353,892,400
543	Shonai Bank, Ltd., Tsuruoka	Japan	3,352,189,069
544	Ethniki General Bank of Greece, Athens	Greece	3,350,951,100v
545	Pusan Bank	Korea	3,349,660,141
546	Sitibank del Friuli, Udine	Italy	3,342,868,171
547	Banca Popolare Veneta, Padova	Italy	3,341,248,708
548	Stadtsparkasse Duisburg	Germany	3,334,107,226
549	Sovran Bank/Maryland, Bethesda	United States	3,331,760,000
550	Norstar Bank NA, Buffalo, N.Y.	United States	3,329,666,000
551	Richfield Savings & Trust, FSB, Glendale, Calif.	United States	3,327,714,000
552	Sovran Bank/Central South, Nashville, Tenn.	United States	3,323,192,000
553	Sovereign Bank, FSB, Wyomissing	United States	3,322,514,000
554	Banco Borges & Irmao, Oporto	Portugal	3,321,000,000
555	Bank Austria, Vienna	Austria	3,283,412,770t
556	Zuger Kantonalbank, Zug	Switzerland	3,272,400,544
557	Rheingaer Savings Bank, New York	United States	3,269,328,640
558	Banco Fonsecas & Burnay, Lisbon	Portugal	3,267,397,596
559	Banco Nacional Ultramarino, Lisbon	Portugal	3,265,057,860u
560	First Interstate Bank of Ohio, Akron	United States	3,262,040,000
561	United Bank of Kuwait, Ltd., London	United Kingdom	3,257,700,000
562	Banque Internationale Luxembourg, Luxembourg	Luxembourg	3,250,778,824v
563	Bank of Yokohama, Ltd., Tokyo	Japan	3,246,764,400
564	First-Citizens Bank & Trust Co., Raleigh, N.C.	United States	3,239,040,000
565	Credit Agricole, Paris	France	3,238,453,656s
566	Chase Manhattan Bank (USA) NA, Wilmington, Del.	United States	3,213,865,000
567	Washington Federal Savings & Loan Assn., Portland, Ore.	United States	3,212,000,000
568	Banque Scalbert Dupont, Lille	France	3,207,535,467
569	Banque Cantonale Vaudoise et Caisse d'Epargne et Canton de Geneve	Switzerland	3,204,035,200
570	Industrial Bank of Japan Trust Co., New York	United States	3,201,000,000
571	Downey Savings & Loan Assn., Newport Beach, Calif.	United States	3,192,465,000
572	Kreissparkasse	Germany	3,188,335,028
573	Citizens & Southern National Bank, Charleston, S.C.	United States	3,184,061,000
574	Commercial Bank, FSB, Miami	United States	3,183,770,000
575	Midlantic National Bank/North, West Paterson, N.J.	United States	3,181,582,000
576	Kuopion Seudun Osuuspankki Oy	Finland	3,180,960,700s
577	Pacific First Federal Savings Bank, Tacoma, Wash.	United States	3,177,294,000
578	Shokusan Bank, Ltd., Yamagata	Japan	3,170,649,662
579	Banca Agricola Mantovana, Mantova	Italy	3,159,748,177u
580	Caisse d'Epargne et Prevoyance	Italy	3,158,526,534
581	Central Bank of Kuwait	Kuwait	3,152,354,000
582	Banco Serfin, Mexico City	Mexico	3,146,901,288s
583	Commercial Bank NA, Roanoke, Va.	United States	3,140,000,000
584	Oesterreichische Credit-Institut, Vienna	Austria	3,139,864,413t
585	Commercial Bank of Virginia, Richmond	United States	3,136,873,000
586	First Interstate Bank of Washington NA, Seattle	United States	3,117,392,000

Banks Ranked After the First 500

With deposits on Dec. 31, 1989

Rank 12/89	Bank Name	12/31/89 Deposits $US (billions)
501	TSB Scotland, Plc., Edinburgh	United Kingdom 3,113,693,352
502	Lloyds Bank Canada, Toronto	Canada 3,107,859,548
503	First Interstate Bank of Nevada NA, Reno	United States 3,106,743,000
504	Nagoya Bank, Ltd., Nagoya	Japan 3,097,446,000
505	Caja de Ahorros Provincial de Guipuzcoa, San Sebastian	Spain 3,096,384,720
506	Bank One Indianapolis NA	United States 3,091,448,000
507	Mercantile Bank NA, Clayton, Mo.	United States 3,066,659,000
508	Citibank Espana, Madrid	Spain 3,058,850,4000
509	Bank Leumi Trust Co., New York	United States 3,056,354,432
510	Banque de l'Etat de Fribourg	Switzerland 3,046,001,630
511	Manufacturers & Traders Trust Co., Buffalo, N.Y.	United States 3,023,324,000
512	Banco de Madrid	Spain 3,023,254,2741
513	Sparkasse Bonn	Germany 3,010,864,879(x)
514	First National Bank, Louisville, Ky.	United States 3,008,809,000
515	Citizens Federal Bank, FSB, Miami	United States 2,989,776,000
516	United Bank, Ltd., Karachi	Pakistan 2,985,279,823(x)
517	Daito Bank, Ltd., Koriyama	Japan 2,980,721,892
518	Cassa di Risparmio di Parma	Italy 2,976,080,634(x)
519	Fifth Third Bank, Cincinnati	United States 2,968,153,000
520	Stadtsparkasse Wuppertal, Wuppertal	Germany 2,966,354,422
521	Ishikawa Bank, Ltd., Kanazawa	Japan 2,963,182,331
522	Yamagata Bank, Ltd., Yamagata	Japan 2,963,037,899
523	Kantonalbank Schwyz	Switzerland 2,950,538,400
524	Sparkasse Krefeld	Germany 2,950,270,220
525	Discount Bank & Trust Co., Geneva	Switzerland 2,948,925,350
526	Chubu Bank, Ltd., Shizuoka	Japan 2,945,937,400
527	Deposit Guaranty National Bank, Jackson, Miss.	United States 2,945,751,000
528	Saudi British Bank, Riyadh	Saudi Arabia 2,943,236,130
529	Bank of Ayudhya, Ltd., Bangkok	Thailand 2,941,885,270
530	Sparkasse Bielefeld	Germany 2,940,425,576
531	Solothurner Kantonalbank, Solothurn	Switzerland 2,940,396,948
532	Central Bank of the South, Birmingham, Ala.	United States 2,933,514,000
533	Deutsche Verkehrs-Kredit Bank, Frankfurt	Germany 2,928,075,618
534	American Express Centurion Bank, Newark	United States 2,920,000,000
535	Sparkasse Bochum	Germany 2,918,310,177
536	Trinkaus & Burkhardt, Duesseldorf	Germany 2,917,925,350
537	Lincoln Savings & Loan Assn., FA, Los Angeles	United States 2,907,920,000
538	San Jacinto Savings Assn., Houston	United States 2,907,000,000
539	Tajima Bank, Ltd., Toyooka	Japan 2,866,279,312
540	Tottori Bank, Ltd.	Japan 2,866,600,247
541	Credit General S.A. de Banque, Brussels	Belgium 2,861,682,322
542	Banque San Paolo, Paris	France 2,855,502,398
543	Monte de Piedad y Caja de Ahorros de Ronda	Spain 2,854,000,000
544	Bank South NA, Atlanta	United States 2,876,322,000
545	Hudson City Savings Bank, Paramus, N.J.	United States 2,870,671,981
546	Credit Populaire du Maroc, Casablanca	Morocco 2,868,464,000
547	STS-Bank Ltd., Helsinki	Finland 2,855,287,960
548	British Bank of the Middle East, Hong Kong	Hong Kong 2,849,000,000
549	Union Trust Co., Stamford, Conn.	United States 2,848,493,000
550	Banca di Roma International S.A., Luxembourg	Luxembourg 2,847,000,000
551	Sparkasse Pforzheim	Germany 2,842,915,000
552	Cassa di Risparmio di Venezia, Venice	Italy 2,836,682,321
553	Society for Savings, Hartford, Conn.	United States 2,831,844,000
554	Home Savings Assn.-of Kansas City, FA, Mo.	United States 2,827,784,000
555	Home Owners Federal Savings & Loan Assn., Boston	United States 2,822,396,000
556	Manhattan Savings Bank, New York	United States 2,808,207,000
557	Banque Cantonale du Valais, Sion	Switzerland 2,806,000,000
558	Uniao de Bancos Portugueses, Oporto	Portugal 2,796,561,312
559	Bank of Oman Ltd., Dubai	United Arab Emirates 2,786,784,000(x)
560	Fuso Bank, Ltd., Tottori	Japan 2,780,443,348
561	Georgia Federal Bank, FSB, Atlanta	United States 2,775,000,000
562	Stadtsparkasse Muenster (West)	Germany 2,753,401,676
563	Banca Popolare Commercio e Industria, Milan	Italy 2,751,275,471
564	Citizens First National Bank, Ridgewood, N.J.	United States 2,743,388,000
565	Guaranty Federal Savings Bank, Dallas	United States 2,742,963,000
566	Capitol Federal Savings & Loan Assn., Topeka, Kan.	United States 2,739,938,000
567	Kreissparkasse Goeppingen	Germany 2,735,562,770
568	Shanghai Commercial Bank, Ltd., Hong Kong	Hong Kong 2,735,333,696
569	Ostgota Enskilda Bank, Linkoping	Sweden 2,712,753,400
570	Bright Banc Savings Assn., Dallas	United States 2,707,743,000
571	Barclays Bank of New York NA	United States 2,707,000,000
572	Central Trust Co. NA, Cincinnati	United States 2,700,551,000
573	Banque Paribas Nederland, Amsterdam (g)	Netherlands 2,699,000,000
574	Banque Brusselles Lambert France, Paris	France 2,689,313,631
575	Community Savings & Loan Assn., Omaha, Neb.	United States 2,687,000,000
576	Society Bank & Trust, Toledo	United States 2,674,870,000
577	Bank of Baltimore	United States 2,666,597,000
578	Mercantile Credit Co. Ltd., Hampshire	United Kingdom 2,650,543,000(x)
579	Credit Industriel de l'Ouest, Nantes	France 2,646,010,532(x)
580	Florida Federal Savings Bank, St. Petersburg	United States 2,643,236,000
581	Banco de Ponce, P.R.	United States 2,637,914,000
582	Oldbury (South Dakota) NA, Sioux Falls	United States 2,636,000,000
583	Stadtsparkasse Augsburg	Germany 2,626,999,156
584	Banca del Monte di Bologna e Ravenna, Bologna	Italy 2,624,000,000
585	Sears Savings Bank, Glendale, Calif.	United States 2,624,691,000
586	Qatar National Bank, Doha	Qatar 2,613,412,000
587	Wilmington Trust Co., Del.	United States 2,612,000,000
588	Rochester Community Savings Bank, N.Y.	United States 2,612,964,000
589	San Francisco Federal Savings & Loan Assn.	United States 2,611,000,000
590	United Overseas Bank, Geneva	Switzerland 2,596,560,489(x)
591	Homestead Savings, FSALA, Millbrae, Calif.	United States 2,593,236,000
592	First Wisconsin National Bank, Milwaukee	United States 2,576,607,000
593	Bank of N.T. Butterfield & Son, Ltd., Hamilton	Bermuda 2,573,180,625(x)
594	Trustmark National Bank, Jackson, Miss.	United States 2,571,454,000
595	Williamsburgh Savings Bank, Brooklyn, New York	United States 2,569,642,000
596	Old Kent Bank & Trust Co., Grand Rapids, Mich.	United States 2,568,066,000
597	Banque Nationale de Paris Plc, London	United Kingdom 2,566,478,460(x)
598	Signet Bank/Maryland, Baltimore	United States 2,565,857,000
599	St. Paul Federal Bank for Savings, Chicago	United States 2,560,000,000
600	Caisse Epargne Bordeaux et de Gironde, Bordeaux	France 2,549,987,476
601	Equibank, Pittsburgh	United States 2,535,916,000
602	Imperial Bank, Los Angeles	United States 2,512,238,000
603	Chicorp Investment Bank (Luxembourg)	Luxembourg 2,509,496,400
604	First Security Bank of Utah NA, Salt Lake City	United States 2,504,707,000
605	Sendai Bank, Ltd.	Japan 2,500,806,272
606	Farm & Home Savings Assn., Nevada, Mo.	United States 2,489,071,000
607	United Savings Assn. of Texas, FSB, Houston	United States 2,484,633,000
608	Old Stone Bank, FSB, Providence, R.I.	United States 2,482,619,000
609	Copenhagen Handelsbank International	Luxembourg 2,472,977,976
610	Banco Guipuzcoano, San Sebastian	Spain 2,429,045,600
611	Hypotheek- en Spaarmaatschappij van Antwerpen, Antwerp	Belgium 2,427,489,000
612	Bank of Hanlen, Ltd., Osaka	Japan 2,418,862,802
613	Rhode Island Hospital Trust National Bank, Providence	United States 2,417,711,000
614	Fuji Bank & Trust Co., New York	United States 2,414,405,000(x)
615	Star Bank NA, Cincinnati	United States 2,410,707,000
616	West One Bank, NA, Boise	United States 2,407,595,000
617	Astoria Federal Savings & Loan Assn., Queens, New York	United States 2,406,531,546
618	Citibank Canada, Toronto	Canada 2,406,431,176(x)
619	Daegu Bank, Ltd., Taegu	Korea 2,405,855,520
620	Al Rajhi Banking & Investment Corp., Jeddah	Saudi Arabia 2,404,000,000
621	Citytrust, Bridgeport, Conn.	United States 2,400,921,000
622	First of America Bank-Southeast Michigan NA, Detroit	United States 2,382,936,000
623	Stadtsparkasse Aachen	Germany 2,362,544,281
624	First Federal Savings & Loan Assn., Pittsburgh	United States 2,369,187,000
625	NCNB National Bank of South Carolina, Columbia	United States 2,363,400,000
626	SouthTrust Bank of Alabama NA, Birmingham	United States 2,363,206,000
627	Community Federal Savings & Loan Assn., St. Louis, Mo.	United States 2,373,000,000
628	Third Federal Savings & Loan Assn., Cleveland	United States 2,368,876,000
629	Valley Bank of Nevada, Las Vegas	United States 2,368,121,000
630	Valley Federal Savings & Loan Assn., Van Nuys, Calif.	United States 2,361,607,000
631	Puget Sound National Bank, Tacoma, Wash.	United States 2,360,113,000
632	Caja de Ahorros y Monte de Piedad de Salamanca	Spain 2,359,488,860
633	Banco de Fomento, Madrid	Spain 2,345,022,240
634	Amwest Savings Assn., Bryan, Tex.	United States 2,344,182,000
635	Banca dello Stato del Cantone Ticino, Bellinzona	Switzerland 2,342,995,184
636	Landesbank Saar-Girozentrale, Saarbrucken	Germany 2,341,774,952(x)
637	Banca Popolare Dell'Etruria del Lazio SCaRL, Arezzo	Italy 2,339,603,653
638	Norstar Bank, Melville, N.Y.	United States 2,339,410,000
639	Unibank, Plc., London	United Kingdom 2,327,897,230
640	Morgan Bank (Delaware), Wilmington	United States 2,325,260,000
641	Citibank (Arizona), Phoenix	United States 2,325,000,000
642	First Minnesota Savings Bank, FSB, St. Paul	United States 2,303,800,000
643	Banca Agricola Mantovana, Milan	Italy 2,301,375,940
644	Bank of Boston Connecticut, Waterbury	United States 2,297,777,000
645	Caja de Ahorros de Asturias, Oviedo	Spain 2,296,240,000
646	Kyoto Kyowa Bank, Ltd., Kyoto	Japan 2,295,793,161
647	Akita Akabono Bank, Ltd.	Japan 2,295,185,624
648	Hamilton Bank, Lancaster, Pa.	United States 2,290,285,000
649	Caja de Ahorros del Penedes, Villafranca del Penedes	Spain 2,285,914,620
650	Froet National Bank, San Antonio, Tex.	United States 2,285,000,000
651	Northeastern Bank of Pennsylvania, Wilkes-Barre	United States 2,283,011,000
652	First National Bank of Commerce, New Orleans, La.	United States 2,277,000,000
653	First American National Bank, Nashville	United States 2,269,813,000
654	Toho Sogo Bank, Ltd., Matsuyama	Japan 2,266,807,160
655	Citibank AG, Frankfurt	Germany 2,265,465,000
656	Lincoln Savings Bank, FSB, New York	United States 2,264,960,000
657	Greater New York Savings Bank, New York	United States 2,263,862,000
658	Oak Tree Savings Bank, SSB, New Orleans, La.	United States 2,256,907,000
659	Fortune Savings Bank, Clearwater, Fla.	United States 2,251,711,000
660	Bank Julius Baer & Co., Ltd., Zurich	Switzerland 2,248,828,920
661	Whitney National Bank, New Orleans, La.	United States 2,248,018,000
662	Seaman's Bank for Savings FSB, New York	United States 2,242,416,000
663	Banco Herrero, Oviedo	Spain 2,242,127,140
664	Stadt-und Kreissparkassen Erlangen	Germany 2,242,000,000(x)
665	Key Bank NA, Albany, N.Y.	United States 2,237,541,000
666	Boatmen's First National Bank, Kansas City, Mo.	United States 2,230,669,000
667	Bank Western, FSB, Denver	United States 2,231,557,000
668	Abu Dhabi Commercial Bank	United Arab Emirates 2,230,000,000
669	Kreissparkasse Herford	Germany 2,230,276,910
670	Landes-Hypothekenbank Tirol, Innsbruck	Austria 2,230,216,610
671	Wakayama Bank, Ltd.	Japan 2,224,708,594
672	Northern Bank Ltd., Belfast	United Kingdom 2,215,941,490(x)
673	Sparkasse Karlsruhe	Germany 2,215,261,782
674	Exchange National Bank, Chicago	United States 2,203,884,000
675	Yohoku Bank, Ltd., Morioka	Japan 2,203,528,636
676	Banca Popolare di Sondrio	Italy 2,186,347,484
677	Sal. Oppenheim jr. & Cie., Cologne	Germany 2,184,037,116
678	First Fidelity Bank NA/North Jersey, Totowa, N.J.	United States 2,144,445,000
679	Guardian Savings & Loan Assn., Houston	United States 2,154,446,000
680	Ziraat Bankasi, Istanbul	Turkey 2,152,167,288
681	Champion Federal Savings & Loan Assn., Bloomington, Ill.	United States 2,148,635,140
682	Yagi ve Kredi Bankasi, Istanbul	Turkey 2,148,000,000
683	Pitkaenen International (Luxembourg)	Luxembourg 2,143,960,436
684	First City Texas-Dallas NA	United States 2,143,000,000
685	Pima Savings & Loan Assn., Tucson, Ariz.	United States 2,128,117,000
686	Barclays de Zoete Wedd Ltd., London	United Kingdom 2,127,718,040(x)
687	Banco de Andalucia, Seville	Spain 2,126,005,000
688	Caja de Ahorros de Navarra, Pamplona	Spain 2,124,222,320
689	Banco Comercial Transatlantico, Barcelona	Spain 2,121,996,410
690	New Jersey National Bank, Pennington	United States 2,121,260,000
691	Caja General de Ahorros y Monte de Piedad de Granada	Spain 2,104,529,910
692	Caja de Ahorros y Monte de Piedad Municipal de Ygo	Spain 2,098,860,180
693	Merchants National Bank & Trust Co., Indianapolis	United States 2,096,313,000
694	Southern National Bank, Lumberton, N.C.	United States 2,090,430,000
695	Christiana Bank, Luxembourg	Luxembourg 2,086,520,800(x)
696	HomeFed Bank, FSB, Honolulu	United States 2,081,110,000
697	Sacramento Savings & Loan Assn., Calif.	United States 2,074,869,000
698	Banco Bank of Central Florida NA, Orlando	United States 2,068,002,000
699	Bernalt Bank of Pinellas Cty., St. Petersburg, Fla.	United States 2,065,125,000
700	Liberty National Bank & Trust Co., Louisville, Ky.	United States 2,060,445,000

Banks Ranked After the First 500

With deposits on Dec. 31, 1989

Rank 12/89	Bank Name	12/31/89 Deposits $US (billions)
701	River Bank America, New York	United States 2,059,645,000
702	Credito Emiliano, Reggio Emilia	Italy 2,058,238,000
703	Dollar Bank, FSB, Pittsburgh	United States 2,055,804,000
704	Coral Gables Federal Savings & Loan Assn., Fla.	United States 2,053,137,000
705	F. van Lanschot, Bankiers, 's-Hertogenbosch	Netherlands 2,051,010,408
706	Multibanco Comermex, S.A., Mexico City	Mexico 2,047,752,120
707	Danske Bank International, Luxembourg	Luxembourg 2,047,518,751
708	Banco Valencia NA	United States 2,047,380,000
709	Handelsbank N.W./Zurich	Spain 2,046,334,290
710	Union Bank of Switzerland, Geneva	Switzerland 2,045,463,000
711	M.M. Warburg-Brinckmann, Wirtz & Co., Hamburg	Germany 2,041,481,400
712	United Carolina Bank, Whiteville, N.C.	United States 2,027,757,000
713	Rhode Island Hospital Trust National Bank, Providence	United States 2,417,711,000
714	Midwest Savings Assn., FA, Minneapolis	United States 2,017,883,000
715	First Financial Bank, FSB, Stevens Point, Wis.	United States 2,016,000,000
716	Citizens Federal Savings & Loan Assn., Dayton, Ohio	United States 2,009,469,000
717	Banco Economico, Salvador	Brazil 2,007,702,750
718	Bank One Milwaukee NA, Wis.	United States 1,998,796,000
719	Union National Bank, Pittsburgh	United States 1,998,075,000
720	Union Planters National, Memphis, Tenn.	United States 1,993,183,000
721	First Eastern Bank NA, Wilkes-Barre, Pa.	United States 1,989,748,000
722	Zions First National Bank, Salt Lake City, Utah	United States 1,981,894,000
723	Hows Bank, Ltd., Oita	Japan 1,977,651,518
724	Miyazaki Taiyo Bank, Ltd., Miyazaki	Japan 1,974,256,561
725	Okinawa Kaiho Bank, Ltd., Naha	Japan 1,972,486,349
726	Chiba Bank, Ltd., Chiba	Japan 1,971,500,876
727	Commerce Bank of St. Louis NA, Clayton, Mo.	United States 1,970,000,000
728	Banco di Chiavari e della Riviera Ligure, Genoa	Italy 1,946,530,844
729	Valley Bank of Nevada, Las Vegas	United States 1,940,121,000
730	United States Trust Co., New York	United States 1,941,995,000
731	Bank One Cleveland NA, Ohio	United States 1,940,149,000
732	Banco de Santander-Puerto Rico, Hato Rey	United States 1,939,100,000
733	Sparebanken Nord-Norge	Norway 1,937,481,000
734	Nordfinanz-Bank Zurich	Switzerland 1,935,000,000
735	Cregin Federal Bank for Savings, Chicago	United States 1,922,937,000
736	Bank of Yokohama, Ltd., Yokohama	Japan 1,921,184,184
737	Barnett Bank of Palm Beach Cty., West Palm Beach, Fla.	United States 1,919,134,000
738	Bank of Massachusetts, A Trust Co., Harrisburg, Pa.	United States 1,910,942,000
739	Banca del Monte di Lombardia, Milan	Italy 1,910,942,833
740	Santa Barbara Savings & Loan Assn., Calif.	United States 1,907,000,000
741	National State Bank, Elizabeth, N.J.	United States 1,902,775,000
742	Bank One of Denver NA	United States 1,900,000,000
743	San Antonio Savings Assn., Tex.	United States 1,901,593,000
744	Caja de Ahorros y Monte de Piedad de Baleares, Palma de Mallo	Spain 1,897,907,886
745	Texas Commerce Bank Dallas NA	United States 1,894,148,000
746	Fukuho Bank, Ltd., Fukui	Japan 1,892,548,776
747	Provinsbanken International (Luxembourg)	Luxembourg 1,892,186,549
748	Wing Lung Bank Ltd., Hong Kong	Hong Kong 1,882,631,424
749	Bank of Maharashtra, Poona	India 1,875,965,000
750	Union Bank of Finland International, Luxembourg	Luxembourg 1,874,379,473

Top 1000: Largest Deposit Gains

Rank 12/89	Bank Name	Deposits 12/31/89	Deposits 12/31/88	Percent Deposit Change
1	Banco Economico, Salvador, Brazil	2,007,857,232	552,416,980	263.4
2	Amsterdam-Rotterdam Bank, Amsterdam	2,690,529,408	790,575,000	240.3
3	Ippo Bank, Amboy, Belgium	4,856,361,060	1,845,947,926	163.1
4	Chemical Bk N Jersey NA, Morristown, USA	4,024,524,000	1,698,163,000	137.0
5	Bank of Ireland, Dublin	47,297,399,601	20,075,983,000	135.3
6	Team Bank NA, Fort Worth, USA	3,839,776,000	1,591,160,000	135.7
7	Banco Atlantico, Spain	5,330,413,000	2,488,109,400	114.0
8	Bank One, Texas, NA, Dallas, USA	8,525,136,000	4,033,803,000	111.3
9	Banque Populaire, Luxembourg	3,924,417,609	1,879,680,000	108.8
10	Shinsei Bank, Seoul, Korea	5,721,894,417	2,791,866,000	107.9
11	Bank of New York, USA	34,411,451,000	16,695,898,000	106.5
12	Bank Bali, Jakarta, Indonesia	7,568,217,466	3,686,606,000	105.2
13	Oak Tree Savings Bank, New Orleans, USA	2,256,907,000	1,163,068,000	94.0
14	Ginguettes and Bank of U.S., Vence	20,667,943,643	11,571,342,266	77.7
15	Development Bank of Singapore Ltd.	13,602,579,342	7,703,889,194	76.6
16	Dai-Ichi Kangyo Bk Nederland, Amsterdam	4,633,055,262	2,624,254,175	76.5
17	Banco Sanitander, Spain	34,789,856,870	20,316,130,300	71.2
18	Societe Nancelienne Varin-Bernier, France	3,725,041,709	2,184,200,000	70.5
19	Midlantic National Bank, Newark, USA	7,791,480,000	4,658,275,000	67.3
20	Hedcor Ltd., South Africa	8,599,000,000	5,251,095,000	63.8
21	Deutsche Genossenschaftsbank, Germany	73,506,791,706	45,252,491,087	62.4
22	Cheng Hwa Commercial Bank, Taiwan	18,855,561,686	11,596,539,820	61.0
23	Bank One Milwaukee NA, USA	1,998,796,000	1,246,821,000	60.4
24	Scotmore's National Bank, St. Louis, USA	5,080,052,000	3,180,418,000	59.7
25	Chase Manhattan Bk (USA) NA, Wilmington	3,213,865,000	2,025,912,000	58.6

The Top 1000: Largest Deposit Declines

Rank 12/89	Bank Name	Deposits 12/31/89	Deposits 12/31/88	Percent Deposit Change
1	Sal. Oppenheim Jr.& Cie, Cologne, Germany	2,184,037,116	6,807,381,081	67.92
2	Landesbank S-H Girozentrale, Kiel, Germ.	8,663,378,870	17,276,580,000	49.85
3	Boston Safe Deposit & Trust Co., USA	7,792,273,000	15,464,310,000	49.60
4	Banco Serfin, Mexico City	3,146,901,089	5,179,927,000	39.24
5	Shawmut National Bank, Dallas, USA	1,785,477,000	2,879,766,000	37.97
6	TDB American Express Bank, Switzerland	3,400,000,272	5,231,451,925	35.01
7	Sunbelt Savings, FSB, Dallas, USA	3,718,284,000	5,727,208,000	34.91
8	Lincoln S&L Assn., Los Angeles, USA	2,907,920,000	4,462,000,000	34.05
9	Banque Nationale de Paris Plc, London	2,566,478,460	3,727,623,192	31.15
10	National Bank of New Zealand, Wellington	3,356,100,000	4,869,000,000	28.92
11	Credit Industriel et Commercial, Paris	10,950,670,083	15,143,394,004	27.69
12	Arab Bank Ltd., Amman, Jordan	9,230,360,520	12,549,699,000	26.45
13	United Svgs. Assn. of Texas, Houston USA	2,484,633,000	3,368,661,000	26.24
14	Cassa di Risp. della Prov. Lombarda, Milan	36,432,190,000	52,103,385,000	26.24
15	Fuji Bank & Trust Co., New York, USA	2,414,405,000	3,252,946,000	25.32
16	Gibraltar Savings FA, Simi Valley, USA	5,698,358,000	7,573,847,000	24.92
17	Sears Savings Bank, Glendale, USA	2,624,691,000	3,440,297,545	23.71
18	United States Trust Co., New York, USA	1,941,095,000	2,495,464,000	22.21
19	Northeast Savings FA, Hartford, USA	3,847,120,000	4,909,967,000	21.65
20	Imperial Savings Assn., San Diego, USA	6,624,900,000	8,539,541,000	20.47
21	Commercial Fed. S&L Assn., Omaha, USA	2,680,267,550	3,367,094,000	20.40
22	Union Bank of Finland Int'l, Luxembourg	1,874,379,472	2,341,623,649	19.95
23	Multibanco Comermex, Chihuahua, Mexico	2,047,752,120	2,544,500,682	19.52
24	First Nationwide Bank, San Francisco, USA	11,525,000,000	14,797,407,000	19.38
25	Amwest Savings Assn., Bryan, Tex., USA	2,344,522,000	2,886,300,000	19.05

Top 500 Banks by Country

Banks outside the U.S. listed geographically in deposit-size order within nations

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Australia	
67	Westpac Banking Corp., Sydney	51,993,784,800s
91	Australia & New Zealand Banking Group, Ltd., Melbourne	37,589,186,400s
94	National Australia Bank, Ltd., Melbourne	36,829,115,400s
118	Commonwealth Banking Corp., Sydney	26,088,650,800s
124	Commonwealth Bank of Australia, Sydney	25,693,172,000s
213	State Bank Victoria, Melbourne	13,391,103,600s
219	Commonwealth Savings Bank of Australia, Sydney	12,941,588,400f
245	State Bank of South Australia, Adelaide	11,467,849,896s
349	State Bank of New South Wales, Sydney	7,572,348,504s
	Austria	
115	Creditanstalt-Bankverein, Vienna	28,979,815,200
190	Girozentrale und Bank der Oesterreichischen Sparkassen, Vienna	20,587,943,643u
197	Oesterreichische Laenderbank, Vienna	19,386,925,486u
217	Zentralsparkasse und Kommerzialbank, Vienna	17,924,760,000u
191	Bank fuer Arbeit und Wirtschaft, Vienna	15,017,998,048u
218	Oesterreichische Postsparkasse, Vienna	12,976,526,100
228	Raiffeisen Zentralbank Oesterreich AG, Vienna	12,690,720,000u
273	Erste Oesterreichische Spar-Casse, Vienna	10,006,532,130s
	Bahrain	
162	Arab Banking Corp., Manama	18,695,000,000s
286	Gulf International Bank, Manama	9,268,226,600
	Belgium	
57	Generale Bank, Brussels	63,112,712,400s
76	Banque Bruxelles Lambert, Brussels	44,432,377,108s
80	Kredietbank N.V., Brussels	42,471,887,000s
88	ASLK-CGER Bank, Brussels	38,493,341,324s
199	Centrale Raiffeisenkas van Belgische Boerenbond, Leuven	19,430,977,651
221	C.O.B.-Caisse d'Epargne Privee, Brussels	12,802,077,279s
222	Societe Nationale de Credit a l'Industrie, Brussels	12,845,568,320
318	Banque Paribas Belgique, Brussels (q)	8,384,963,800s
445	AN-HYP N.V., Antwerp	5,641,160,378u
500	Ippa Bank, Antwerp	4,856,301,060s
	Brazil	
95	Banco do Brasil, Brasilia	36,516,887,456u
331	Banco Brasileiro de Descontos, Sao Paulo	7,955,644,480s
471	Banco Bradesco, Sao Paulo	5,275,896,784s
497	Banco Itau, Sao Paulo	4,877,100,368
	Canada	
44	Royal Bank of Canada, Montreal	75,986,706,300s
52	Canadian Imperial Bank of Commerce, Toronto	67,190,362,332s
84	Bank of Montreal	56,166,594,516s
98	Bank of Nova Scotia, Toronto	31,907,525,436s
81	Toronto Dominion Bank	41,903,784,762
139	National Bank of Canada, Montreal	22,702,279,536s
	Denmark	
72	Danske Bank, Copenhagen	47,297,269,801s
98	Unibank, Copenhagen	35,806,026,000
355	Sparekassen Bikuben, Copenhagen	7,428,445,000
374	Jyske Bank, Silkeborg	6,986,928,399s
	Egypt	
435	National Bank of Egypt, Cairo	5,795,404,000u
469	Banque Misr, Cairo	5,296,255,820u
	Finland	
132	Union Bank of Finland, Ltd., Helsinki	23,446,604,400s
145	Kansallis-Osake-Pankki, Helsinki	21,362,886,000s
203	Postipankki, Helsinki	13,761,018,600s
316	Skopbank, Helsinki	8,441,979,764s
496	Osuuspankkien Keskuspankki Oy, Helsinki	4,901,008,800s
	France	
7	Banque Nationale de Paris	192,525,991,000s
13	Credit Lyonnais, Paris	176,039,987,000
14	Credit Agricole Mutuel, Paris	169,711,546,800s
71	Societe Generale, Paris	141,977,407,000s
46	Banque Paribas, Paris (q)	74,909,000,000s
69	Groupe Des Banques Populaires, Paris	48,729,746,628
87	Banque Indosuez, Paris	38,692,661,000s
102	Credit Commercial de France, Paris	34,559,786,783s
156	Banque Francaise du Commerce Exterieur, Paris	19,648,594,504s
176	Caisse Centrale des Banques Populaires, Paris	17,180,471,467
224	Societe Generale Alsacienne de Banque, Strasbourg	12,746,880,655s
256	Credit Industriel et Commercial, Paris (h)	10,950,670,093
279	Banque Worms, Paris	9,764,129,000s
321	Banque Regionale d'Escompte et de Depots, Vincennes	8,315,636,153s
339	Lyonnaise de Banque, Lyon	7,820,119,000s
368	Credit Industriel d'Alsace et de Lorraine, Strasbourg	7,081,382,000s
383	Union de Banques Arabes et Francaises, Neuilly (e)	6,813,925,915s
396	CIC-Union Europeenne, International & Cie, Paris	6,531,434,215s
443	Banque Commerciale pour l'Europe du Nord, Paris	5,678,415,329s
446	Banque Sudameris, Paris	5,627,670,105s
	Germany	
9	Deutsche Bank, Frankfurt	184,378,642,070s
23	Dresdner Bank, Frankfurt	136,670,067,545s
28	Commerzbank, Frankfurt	106,668,460,000s
32	Westdeutsche Landesbank Girozentrale, Duesseldorf	96,532,850,000s
33	Bayerische Vereinsbank, Munich	95,993,000,000s

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Germany (continued)	
38	Bayerische Hypotheken-und Wechsel-Bank, Munich	83,191,093,345s
43	Bayerische Landesbank Girozentrale, Munich	76,595,775,910s
45	Deutsche Genossenschaftsbank, Frankfurt	73,936,761,705s
55	Norddeutsche Landesbank Girozentrale, Hannover	63,657,289,761s
77	Sudwestdeutsche Landesbank, Stuttgart	44,002,790,000s
86	Hessische Landesbank-Girozentrale, Frankfurt	39,789,975,988s
99	Bank fuer Gemeinwirtschaft, Frankfurt	30,644,564,436s
121	Hamburgische Landesbank-Girozentrale, Hamburg	26,730,535,870
128	Deutsche Girozentrale-Deutsche Kommunalbank, Frankfurt	24,711,416,475u
131	Landesbank Rheinland-Pfalz Girozentrale, Mainz	23,777,000,000s
155	Berliner Bank, Berlin	19,734,326,333s
158	Berliner Handels und-Frankfurter Bank, Frankfurt	19,158,657,838s
174	Bremer Landesbank, Bremen	17,688,250,000
186	Westfalenbank, Bochum	15,362,904,291st
188	Hamburger Sparkasse, Hamburg	15,190,265,388
196	Westdeutsche Genossenschafts-Zentralbank, Duesseldorf	14,689,820,000u
205	Sudwestdeutsche Genossenschafts-Zentralbank, Frankfurt	13,988,927,460
233	Sparkasse der Stadt Berlin West, Berlin	12,258,623,403
240	Vereins-und Westbank, Hamburg	11,644,901,167s
244	Landeskgirokasse, Stuttgart	11,505,590,000
262	Genossenschaftliche Zentralbank, Stuttgart	10,086,065,151
278	Frankfurter Sparkasse, Frankfurt	9,778,852,612
308	Landesbank Schleswig-Holstein Girozentrale, Kiel	8,663,378,870s
323	Stadtsparkasse Koeln, Cologne	8,205,442,110
326	Deutsche Siedlungs und Landesrentenbank, Bonn	8,122,023,685
328	Baden-Wuerttembergische Bank, Stuttgart	8,039,426,501s
365	Nassauische Sparkasse Wiesbaden, Wiesbaden	7,156,338,401
370	Dresdner Bank Berlin AG	7,054,289,477u
375	Stadtsparkasse Munchen, Munich	6,979,131,094
388	Kreissparkasse Koeln, Cologne	6,712,886,269
463	Stadt-Sparkasse Duesseldorf	5,407,488,674
480	Deutsche Bank Berlin	5,145,209,460f
	Greece	
133	National Bank of Greece, Athens	23,385,165,300u
401	Commercial Bank of Greece, Athens	6,429,452,251u
	Hong Kong	
26	Hongkong and Shanghai Banking Corp., Hong Kong	118,924,980,000s
149	Hang Seng Bank Ltd, Hong Kong	20,682,838,400nf
	India	
299	Bank of India, Bombay	8,994,917,885
351	Bank of Baroda	7,559,372,000s
	Indonesia	
352	Bank Bumi Daya, Jakarta	7,558,217,466
	Iran	
66	Bank Melli Iran, Tehran	84,327,924,000
106	Bank Saderat Iran, Tehran	33,926,214,345
	Iraq	
85	Rafidain Bank, Baghdad	39,842,170,300
	Ireland	
140	Allied Irish Banks Plc., Dublin	22,530,800,000s
165	Bank of Ireland, Dublin	18,508,594,000s
	Israel	
126	Bank Hapoalim, Tel-Aviv	24,939,824,160s
127	Bank Leumi le-Israel, Tel-Aviv	24,847,800,980s
201	Israel Discount Bank, Ltd., Tel-Aviv	13,918,552,070s
404	United Mizrahi Bank Ltd., Tel-Aviv	6,418,695,380s
	Italy	
36	Banca Nazionale del Lavoro, Rome	84,811,188,000s
42	Istituto Bancario San Paolo di Torino, Turin	79,674,718,017s
41	Banca Commerciale Italiana, Milan	77,865,384,300s
53	Credito Italiano, Milan	65,740,584,600s
61	Monte dei Paschi di Siena	61,004,240,481s
65	Banco di Napoli, Naples	54,904,160,652
71	Banco di Roma, Rome	48,523,421,100s
89	Cassa di Risparmio delle Provincie Lombarde, Milan	38,432,190,000s
112	Banco di Sicilia, Palermo	29,987,222,184s
142	Banca Popolare di Novara	22,490,620,947s
150	Banca Nazionale dell'Agricoltura, Rome	19,122,232,835s
160	Banca Popolare di Milano, Milan	19,097,625,072s
180	Banco di Santo Spirito, Rome	17,060,155,812nv
183	Cassa di Risparmio di Rome, Rome	16,287,764,106s
185	Banco Ambrosiano Veneto, Milan	15,511,214,526s
249	Banca Toscana, Florence	11,310,441,240f
269	Credito Romagnolo, Bologna	10,246,030,213s
281	Cassa di Risparmio V.E. per le Provincie Siciliane, Palermo	8,962,084,165
312	Cassa di Risparmio di Verona, Vicenza & Belluno, Verona	8,553,077,323u
378	Banca Provinciale Lombarda, Bergamo	6,934,746,863f
384	Banca Popolare di Bergamo	6,808,646,545u
391	Cassa di Risparmio di Firenze, Florence	6,662,516,360
396	Banco Lariano, Como	6,520,776,804f
402	Istituto Bancario Italiano, Milan	6,422,677,788f
411	Banca d'America e d'Italia, Milan	6,291,01,706f
413	Cassa di Risparmio di Padova e Rovigo, Padova	6,264,330,127
451	Cassa di Risparmio di Genova e Imperia, Genoa	5,573,890,000
489	Banca San Paolo di Brescia	4,976,948,091s

Top 500 Banks by Country

Banks outside the U.S. listed geographically in deposit-size order within nations

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Japan	
1	Dai-Ichi Kangyo Bank Ltd., Tokyo	314,780,126,477s
2	Sumitomo Bank Ltd., Osaka	288,242,189,900s
3	Mitsubishi Bank Ltd., Tokyo	278,806,752,864s
4	Fuji Bank, Ltd., Tokyo	276,642,534,526s
5	Sanwa Bank Ltd., Osaka	275,972,495,503s
6	Industrial Bank of Japan, Ltd., Tokyo	213,287,598,710s
8	Mitsubishi Trust & Banking Corp., Tokyo	192,294,998,943s
10	Tokai Bank Ltd., Nagoya	179,030,994,347s
11	Norinchukin Bank, Tokyo	176,329,604,709
12	Sumitomo Trust & Banking Co., Ltd., Osaka	171,664,091,192u
15	Mitsui Trust & Banking Co., Ltd., Tokyo	159,219,064,675u
18	Mitsui Bank, Ltd., Tokyo	157,884,948,303s
20	Long-Term Credit Bank of Japan Ltd., Tokyo	152,933,845,497s
22	Taiyo Kobe Bank, Ltd., Kobe	148,398,267,355u
24	Yasuda Trust & Banking Co. Ltd., Tokyo	136,538,177,226u
25	Daiwa Bank, Ltd., Osaka	135,105,773,719s
27	Tokyo Trust & Banking Co. Ltd., Tokyo	131,689,308,355u
34	Nippon Credit Bank, Ltd., Tokyo	100,172,703,539u
40	Kyowa Bank, Ltd., Tokyo	88,179,782,186s
42	Saitama Bank Ltd., Urawa	78,919,006,993s
47	Shoko Chukin Bank, Tokyo	77,003,434,194s
54	Zenshinren Bank, Tokyo	64,764,053,363
58	Bank of Yokohama, Ltd.	65,193,396,562
59	Chuo Trust & Banking Co., Ltd., Tokyo	62,403,267,402u
63	Hokkaido Takushoku Bank, Ltd., Sapporo	56,212,352,378u
70	Chiba Bank, Ltd., Chiba	49,598,243,104s
73	Joyo Bank, Ltd., Mito	46,402,866,998
74	Hokuriku Bank, Ltd., Toyama	45,201,302,003s
78	Shizuoka Bank Ltd.	42,778,014,389s
82	Ashikaga Bank, Ltd., Utsunomiya	37,292,254,351
103	Bank of Hiroshima, Ltd.	34,524,749,456
110	Bank of Fukuoka, Ltd.	32,254,432,034
111	Hachijuni Bank, Ltd., Nagano	30,872,908,537
122	Gunma Bank, Ltd., Maebashi	26,683,884,663
136	Chugoku Bank, Ltd., Okayama	23,102,088,998
137	Hyogo Bank, Ltd., Kobe	23,051,052,833
141	Yamaguchi Bank, Ltd., Shimonoseki	22,496,167,976
144	Juroku Bank, Ltd., Gifu	21,998,733,500
148	77 Bank, Ltd., Sendai	21,244,801,721
151	Nippon Trust Bank, Ltd., Tokyo	20,504,017,242u
152	Nishi-Nippon Bank, Ltd., Fukuoka	20,355,650,323
161	Bank of Kyoto, Ltd.	18,824,760,602
163	Hokkaido Bank, Ltd., Sapporo	18,685,413,780
166	Tokyo Bank, Ltd.	18,385,759,324
167	Nanto Bank, Ltd., Nara	18,352,626,972
175	Iyo Bank, Ltd., Matsuyama	17,268,348,778
177	Hyakujushi Bank, Ltd., Takamatsu	17,110,859,640
178	Shiga Bank, Ltd., Otsu	17,067,891,944
181	Daishi Bank, Ltd., Niigata	17,004,575,540
182	Suruga Bank, Ltd., Numazu	16,359,468,787
193	Kiyo Bank, Ltd., Wakayama	14,922,854,274
202	Ogaki-Kyoritsu Bank, Ltd., Ogaki	13,982,439,224
204	Hyakugo Bank, Ltd., Tsu	13,715,705,256
206	Fukuoka City Bank	13,654,808,862
208	Bank of Kinki, Ltd., Osaka	13,617,200,649
210	Higo Bank, Ltd., Kumamoto	13,516,821,920
212	Hokkoku Bank, Ltd., Kanazawa	13,483,415,732
223	Bank of Nagoya, Ltd.	12,845,012,073
229	San-in Godo Bank, Ltd., Matsue	12,512,525,291
231	Kofuku Bank, Ltd., Osaka	12,306,837,811
236	Tokyo Tomin Bank, Ltd.	11,965,319,337
239	Fukutoku Bank, Ltd., Osaka	11,840,193,387
247	Fukui Bank, Ltd., Fukui	11,402,126,803
250	Toho Bank, Ltd., Fukuhoka	11,270,309,363
251	Hiroshima Sogo Bank, Ltd.	11,135,480,025
252	Bank of Osaka, Ltd.	11,117,675,333
255	Shikoku Bank, Ltd., Kochi	11,011,711,972
257	Keiyo Bank, Ltd., Chiba	10,952,116,019
258	Musashino Bank, Ltd., Omiya	10,786,446,902
259	Kagoshima Bank, Ltd.	10,768,189,341
268	Awa Bank, Ltd., Tokushima	10,248,780,804
270	Oita Bank, Ltd.	10,117,076,692
274	Hokuetsu Bank, Ltd., Nagaoka	9,973,932,637
277	Aichi Bank, Ltd., Nagoya	9,889,685,193
281	Chiba Kogyo Bank, Ltd.	9,799,136,533
282	Yamanashi Chuo Bank, Ltd., Kofu	9,680,142,002
296	Chukyo Bank, Ltd., Nagoya	9,060,813,860
298	Bank of Iwate, Ltd., Morioka	9,001,508,590
303	Towa Bank, Ltd., Maebashi	8,875,910,971
307	Eighteenth Bank, Ltd., Nagasaki	8,678,662,775
309	Akita Bank, Ltd.	8,616,024,335
320	Daisan Bank, Ltd., Matsuzaka	8,338,624,082
322	Aomori Bank, Ltd.	8,225,785,596
327	North Pacific Bank, Ltd., Sapporo	8,075,596,542
329	Senshu Bank, Ltd., Kishiwada	8,034,499,372
330	Shinwa Bank, Ltd., Sasebo	7,991,558,080
333	Ehime Bank, Ltd., Matsuyama	7,937,856,309
337	Bank of Ikeda, Ltd.	7,859,111,740

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Japan (continued)	
346	Nigeshi-Nippon Bank, Ltd., Tokyo	7,624,664,109
356	Michinoku Bank, Ltd., Aomori	7,338,508,320
357	Hokuriku Bank, Ltd.	7,323,534,911
359	Bank of Saga, Ltd.	7,243,406,062u
364	Bank of the Ryukyus, Ltd., Naha	7,158,215,292u
366	Miyazaki Bank, Ltd.	7,121,695,045
403	Tochigi Bank, Ltd., Utsunomiya	6,419,867,801
406	Hanshin Bank, Ltd., Kobe	6,381,637,040
417	Kyushu Bank, Ltd., Sasebo	6,142,397,121
426	Bank of Kansai, Ltd., Osaka	5,977,348,035
427	Biwako Bank, Ltd., Otsu	5,939,375,623
438	Bank of Okinawa, Ltd., Naha	5,712,936,237
457	Mie Bank, Ltd., Yokkaichi	5,516,679,354
464	Kanto Bank, Ltd., Tsuchiura	5,367,436,807
470	Niigata Chuo Bank, Ltd.	5,228,844,403
478	Shimizu Bank, Ltd.	5,156,251,609
479	Taiheiyo Bank, Ltd., Tokyo	5,153,621,674
491	Kagawa Bank, Ltd., Takamatsu	4,939,682,472
499	Kita-Nippon Bank, Ltd., Morioka	4,857,434,930
	Jordan	
290	Arab Bank Ltd., Amman	9,230,390,520s
	Korea	
83	Bank of Seoul	40,784,107,770s
212	Hanil Bank Ltd., Seoul	13,440,834,000s
214	Commercial Bank of Korea Ltd., Seoul	13,308,052,590s
220	Cho Hung Bank Ltd., Seoul	12,941,802,662s
230	Korea First Bank, Seoul	12,472,373,431s
243	Korea Exchange Bank, Seoul	11,586,462,000u
253	Citizens National Bank, Seoul	11,112,171,000
342	Korea Development Bank, Seoul	7,740,406,960
353	Industrial Bank of Korea, Seoul	7,557,497,680
390	Korea Housing Bank, Seoul	6,675,562,433
397	Shinhan Bank, Seoul	5,721,804,417
	Kuwait	
234	National Bank of Kuwait	12,186,796,629s
407	Commercial Bank of Kuwait	6,355,326,120
428	Gulf Bank, Kuwait	5,930,949,320
462	Alahli Bank of Kuwait	5,422,566,854
	Luxembourg	
172	Deutsche Bank Luxembourg	17,879,646,275f
215	Banque Internationale a Luxembourg	13,179,991,496s
238	Dresdner Bank Luxembourg	11,900,270,105f
242	Banque Generale du Luxembourg	11,614,398,584s
260	Kredietbank S.A. Luxembourgeoise, Luxembourg	10,754,996,463st
261	Banque et Caisse d'Epargne de l'Etat, Luxembourg	10,697,443,735
275	Commerzbank International, Luxembourg	9,921,597,871
306	Union Bank of Switzerland (Luxembourg)	8,713,440,206s
410	BFG Luxembourg	6,297,462,389f
414	Credit Suisse (Luxembourg)	6,246,019,526f
423	West LB International, Luxembourg	6,077,232,362s
475	Societe de Banque Suisse (Luxembourg)	5,201,846,364f
	Malaysia	
305	Malayan Banking Berhad, Kuala Lumpur	8,768,671,810s
	Mexico	
198	Bancomer, Mexico City	14,496,027,180u
379	Banco Nacional de Mexico, Mexico City	6,933,703,924
	Netherlands	
45	Amsterdam-Rotterdam Bank, Amsterdam	75,751,912,000s
48	NMB Postbank Group, N.V., Amsterdam	74,656,900,000s
51	Algemene Bank Nederland, Amsterdam	72,897,832,000s
56	Rabobank Nederland, Utrecht	63,651,328,000s
187	Credit Lyonnais Bank Nederland, Rotterdam	15,223,538,296st
289	Bank Mees & Hope, Amsterdam	9,245,458,06st
	New Zealand	
285	Bank of New Zealand, Ltd., Wellington	9,497,118,863
	Norway	
194	Christiania Bank og Kreditkasse, Oslo	14,909,921,200
254	Norske Creditbank, Oslo	11,073,887,000s
267	Bergen Bank	10,249,004,200s
452	Union Bank of Norway, Oslo	5,568,964,560s
	Pakistan	
490	Habib Bank Ltd., Karachi	4,946,421,000s
	Portugal	
216	Caixa Geral de Depositos, Lisbon	13,124,148,302s
362	Banco Portugues do Atlantico, Oporto	7,210,250,149s
447	Banco Espirito Santo e Comercial, Lisbon	5,610,731,313
493	Banco Pinto & Sotto Mayor, Lisbon	4,926,500,000s

Top 500 Banks by Country

Banks outside the U.S. listed geographically in deposit-size order within nations

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Saudi Arabia	
146	National Commercial Bank, Jeddah	21,368,214,082
282	Riyad Bank Ltd., Jeddah	9,158,569,504u
458	Saudi American Bank, Riyadh	5,515,660,614s
	Singapore	
209	Development Bank of Singapore Ltd.	13,922,575,342
335	Overseas-Chinese Banking Corp., Ltd., Singapore	7,905,664,390s
348	United Overseas Bank Ltd., Singapore	7,598,777,996s
	South Africa	
278	Standard Bank of South Africa Ltd., Johannesburg	9,891,059,357u
304	First National Bank of South Africa Ltd., Johannesburg	8,786,093,100
311	Nedcor Ltd., Johannesburg	8,599,000,900s
	Spain	
75	Banco Bilbao Vizcaya, Bilbao	44,927,287,460u
93	Banco Central, Madrid	37,298,259,460s
101	Banco Santander	34,798,855,870s
114	Banco Espanol de Credito, Madrid	29,181,497,730u
118	Caja de Pensiones para la Vejez, Barcelona	28,974,456,720s
130	Banco Hispano-Americano, Madrid	24,007,961,960u
154	Banco Exterior de Espana, Madrid	19,812,466,200s
170	Banco Popular Espanol, Madrid	18,003,456,130s
192	Caja de Madrid	14,941,701,500s
272	Caja de Ahorros y Monte de Piedad de Barcelona	10,085,947,520
363	Banco Catalana, Barcelona	7,171,000,290u
372	Banco de Sabadell	7,052,646,080u
385	Banco Intercontinental Espanol, Madrid	6,783,726,950
397	Caja de Ahorros de Catalana, Barcelona	6,703,209,480
398	Banco Atlantico, Barcelona	6,461,638,380u
442	Banco Pastor, Coruna	5,678,467,410
456	Caja de Ahorros y Monte de Piedad de Zaragoza	5,518,108,090
466	Barclays Bank, Madrid	5,330,413,500t
484	Caja de Ahorros de Galicia, Coruna	5,063,256,320
487	Caja de Ahorros de Valencia	5,006,472,020
	Sweden	
97	PKbanken, Stockholm	35,893,501,000s
109	Skandinaviska Enskilda Banken, Stockholm	32,535,486,000u
113	Svenska Handelsbanken, Stockholm	29,802,227,000s
197	Sparbanksbank Bank, Stockholm	14,502,882,000s
314	Gotabanken, Stockholm	8,451,373,000s
334	Nordbanken, Stockholm	7,924,387,800s
360	Forsta Sparbanken, Stockholm	7,222,804,900
	Switzerland	
29	Swiss Bank Corp., Basle	100,885,736,000u
31	Union Bank of Switzerland, Zurich	96,977,909,016u
62	Credit Suisse, Zurich	60,704,640,000s
134	Banque Cantonale de Zurich	23,168,946,456
138	Swiss Volksbank, Berne	22,894,635,889
325	Bank Leu, Ltd., Zurich	8,154,813,456u
344	Banque Cantonale de Berne	7,646,155,944

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Switzerland (continued)	
381	Banque Cantonale de St. Gallen	6,882,519,352
387	Luzerner Kantonalbank, Lucerne	6,737,302,864
398	Banque Cantonale Vaudoise, Lausanne	6,503,790,067
421	Banca della Svizzera Italiana, Lugano	6,109,843,809s
481	Credit Foncier Vaudois, Lausanne	5,144,650,200
483	Thurgauische Kantonalbank, Weinfelden	5,127,926,195u
	Taiwan	
117	Taiwan Cooperative Bank, Taipei	28,162,782,650
129	Bank of Taiwan, Taipei	24,301,422,033
147	First Commercial Bank, Taipei	21,353,446,595
153	Hua Nan Commercial Bank, Ltd., Taipei	19,924,483,976
164	Chang Hwa Commercial Bank, Ltd., Taichung	18,655,561,686u
179	Land Bank of Taiwan, Taipei	17,067,846,303
235	Medium Business Bank of Taiwan, Taipei	12,104,407,228
386	United World Chinese Commercial Bank, Taipei	6,773,186,224u
424	Bank of Communications, Taipei	6,098,824,256
432	Farmers Bank of China, Taipei	5,876,265,493
488	International Commercial Bank of China, Taipei	4,983,216,462u
	Thailand	
226	Bangkok Bank, Ltd.	12,717,725,553
361	Krung Thai Bank Ltd., Bangkok	7,215,306,600
397	Thai Farmers Bank, Bangkok	6,512,894,420
	Turkey	
408	Turkiye Cumhuriyeti Ziraat Bankasi, Ankara	6,331,458,148
	United Arab Emirates	
472	National Bank of Dubai Ltd., Dubai	5,218,662,160
486	National Bank of Abu Dhabi	5,044,046,336s
	United Kingdom	
15	Barclays Bank Plc, London	167,127,660,000u
16	National Westminster Bank Plc, London	163,014,110,000s
35	Midland Bank Plc, London	86,034,800,000s
37	Lloyds Bank Plc, London	84,355,900,000s
90	Royal Bank of Scotland Plc., Edinburgh	37,562,208,000s
100	Standard Chartered Bank, London	35,554,066,000s
104	TSB Bank, Plc., London	34,505,296,000s
120	Bank of Scotland, Edinburgh	27,496,143,500s
283	S.G. Warburg & Co., Ltd., London	9,125,124,000
297	Kleinwort, Benson, Lonsdale Plc, London	9,045,224,720s
343	Morgan Grenfell & Co. Ltd., London	7,724,526,280u
347	Coutts & Co., London	7,600,771,360s
415	Nothernwest District Municipal Bank Ltd.	6,231,896,080
430	Clydesdale Bank Plc, Glasgow	5,883,076,888t
433	Yorkshire Bank Plc, Leeds	5,875,331,140t
449	N.M. Rothschild & Sons Ltd., London	5,578,073,955s
454	Ulster Bank Ltd., Belfast	5,556,037,550t
467	Hill, Samuel Bank, Ltd., London	5,309,996,000t
476	Samuel Montagu & Co., Ltd., London	5,176,843,910t
477	Hambros Bank Ltd., London	5,157,800,000s

Deposits of Banks in Top 500 by Country

Dollar amounts in millions

	Total Deposits 12/31/89	Total Deposits 12/31/88	Banks in Top 500 12/31/89	Banks in Top 500 12/31/88
Australia	212,795	171,122	9(1)	9(2)
Austria	137,549	114,452	8	8
Bahrain	27,983	24,549	2	2
Belgium	247,430	202,150	10	8(1)
Brazil	54,996	38,725	4	3
Canada	319,886	291,581	6	6
Denmark	97,519	86,475	4	8
Egypt	11,092	5,284	2	1
Finland	71,913	63,742	5	4
France	970,409	821,562	20(3)	20(4)
Germany	1,308,912	1,150,836	37(4)	38(3)
Greece	29,815	28,612	2	2
Hong Kong	118,505	101,841	2(1)	2(1)
India	16,554	38,879	2	5
Indonesia	7,558	11,328	1	2
Iran	88,257	79,729	2	2
Iraq	39,842	43,418	1	1
Ireland	41,039	32,997	2	2
Israel	70,125	70,805	4	4
Italy	708,390	605,994	28(5)	29(6)
Japan	5,256,038	5,332,789	108	111
Jordan	9,230	12,500	1	1

	Total Deposits 12/31/89	Total Deposits 12/31/88	Banks in Top 500 12/31/89	Banks in Top 500 12/31/88
Korea (South)	143,342	115,547	11	10
Kuwait	29,906	28,648	4	4
Luxembourg	44,205	55,546	12(8)	12(6)
Malaysia	8,769	7,596	1	1
Mexico	21,430	16,888	2	2
Netherlands	286,957	246,177	6(2)	7(2)
New Zealand	9,497	9,397	1	2(1)
Norway	41,801	44,689	4	4
Pakistan	4,964	5,009	1	1
Portugal	30,872	23,205	4	3
Saudi Arabia	36,033	33,330	3	3
Singapore	29,107	19,161	3	3
South Africa	27,276	20,996	3	3
Spain	303,793	250,559	20(3)	16(1)
Sweden	136,423	118,356	7	7
Switzerland	356,932	342,875	13	14(1)
Taiwan	165,251	119,287	11	9
Thailand	26,446	21,882	3	3
Turkey	6,331		1	1
United Arab Emirates	10,254	11,077	2	2
United Kingdom	672,819	645,632	35(7)	18(4)
United States	1,351,611	1,347,376	108(6)	107(1)

Total Deposits — Excludes the deposits of banks whose figures appear in the consolidated data of parent bank. **Banks in Top 500** — Figures in parenthesis are the number of banks whose figures also appear in the deposits reported by their parent banks. Therefore, the deposits of these banks are not included in the deposit total.

United States Banks in the Top 500

Listed geographically in deposit-size order within states

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Alabama	
436	Amsouth Bank NA, Birmingham	5,787,896,000
	Arizona	
319	Valley National Bank, Phoenix	8,370,880,000
422	First Interstate Bank of Arizona NA, Phoenix	6,105,115,000
	California	
50	Bank of America NT&SA, San Francisco	73,296,000,000
84	Security Pacific National Bank, Los Angeles	40,597,338,000
87	Wells Fargo Bank NA, San Francisco	36,492,806,000
107	Home Savings of America, FA, Irwindale	33,100,055,000
126	Great Western Bank, Beverly Hills	23,117,886,000
173	First Interstate Bank of California, Los Angeles	17,849,795,000
184	Glendale Federal Bank, FSB	15,869,180,000
189	California Federal Bank, FSB, Los Angeles	15,194,340,000
207	American Savings Bank, Irvine	13,639,467,000
217	Homefed Bank, FSB, San Diego	13,034,251,000
227	First Nationwide Bank, FSB, San Francisco	11,926,000,000
241	Union Bank, San Francisco	11,437,089,000s
246	World Savings, FSB/A.J. Oakland	11,457,331,000
295	Great Americans Bank, SSB, San Diego	9,073,940,000
302	Coast Savings & Loan Assn., Los Angeles	8,904,990,000
338	Columbia Savings & Loan Assn., Beverly Hills	7,828,652,764
393	Imperial Savings Assn., San Diego	6,624,900,000
441	Gibraltar Savings, FA, Simi Valley	5,686,358,000
453	Seman Bank California, San Francisco	5,564,182,000t
468	Bank of California NA, San Francisco	5,307,898,000t
495	Citicorp Savings, FS&LA, San Francisco	4,906,194,000
	Connecticut	
315	Connecticut Bank & Trust Co. NA, Hartford	8,450,053,000
354	Connecticut National Bank, Hartford	7,118,277,000
450	Peoples Bank, Bridgeport	5,576,065,000
	Delaware	
459	Greenwood Trust Co., New Castle	5,493,442,000
	Dsitrict of Columbia	
439	Riggs National Bank, Washington, D.C.	5,702,583,000
	Florida	
227	Southeast Bank NA, Miami	12,715,951,000
264	NCNB National Bank of Florida, Tampa	9,837,057,000
367	First Union National Bank of Florida, Jacksonville	7,080,000,000
425	Florida National Bank, Jacksonville	6,095,322,000
429	BankTrust Bank, Sarasota	5,922,473,000
461	Citizens & Southern National Bank, Fort Lauderdale	5,447,881,000
466	Barnett Bank of South Florida NA, Miami	5,307,370,130
	Georgia	
286	Citizens & Southern National Bank, Atlanta	9,488,585,000
418	First National Bank, Atlanta	6,139,163,000
	Hawaii	
377	Bank of Hawaii, Honolulu	6,940,435,000
	Illinois	
123	First National Bank, Chicago	26,403,340,000
166	Continental Bank NA, Chicago	18,178,239,000
362	Harris Trust & Savings Bank, Chicago	6,854,159,000
473	Northern Trust Co., Chicago	5,208,610,000
	Louisiana	
448	Hibernia National Bank, New Orleans	5,804,612,000
	Maryland	
392	Maryland National Bank, Baltimore	6,631,568,000
	Massachusetts	
143	First National Bank, Boston	22,061,157,000
291	Bank of New England NA, Boston	9,208,787,000
341	Boston Safe Deposit & Trust Co.	7,782,273,000
419	State Street Bank & Trust Co., Boston	6,137,917,000
460	Shawmut Bank NA, Boston	5,451,740,000
	Michigan	
232	National Bank of Detroit	12,288,133,000
336	Michigan National Bank, Farmington Hills	7,898,726,000
350	Comerica Bank-Detroit	7,361,148,000
376	Manufacturers National Bank, Detroit	6,946,024,000

Rank 12/89		12/31/89 Deposits (U.S. Dollars)
	Michigan (continued)	
418	Standard Federal Bank, Troy	6,187,305,000
	Minnesota	
294	First Bank System Inc., Minneapolis	9,104,370,000
444	Norwest Bank Minnesota NA, Minneapolis	5,664,443,000
	Missouri	
485	Mercantile Bancorp National Bank, St. Louis	5,080,552,000
	New Jersey	
310	First Fidelity Bank NA, Newark	8,615,304,000
340	Midlantic National Bank, Newark	7,791,480,000
409	City Savings Bank, FSB, Somerset	6,305,261,000
	New York	
27	Citibank NA, New York	111,487,000,000
60	Chase Manhattan Bank NA, New York	61,795,245,000
79	Manufacturers Hanover Trust Co., New York	42,736,000,000
82	Morgan Guaranty Trust Co., New York	41,953,451,000
109	Bank of New York	34,411,451,000
169	Chemical Bank, New York	32,312,000,000
119	Bankers Trust Co., New York	27,979,571,000
189	Marine Midland Bank NA, Buffalo	16,921,995,000
195	American Express Bank Ltd., New York	14,778,000,000s
200	Republic National Bank, New York	14,265,340,000
225	National Westminster Bank USA, New York	12,740,471,000t
280	Dime Savings Bank of New York, FSB, Garden City	9,759,151,000
300	Goldome, Buffalo	9,375,653,000
302	CrossLand Savings FSB, Brooklyn, New York	8,994,087,000
332	Empire of America Federal Savings Bank, Buffalo	7,947,151,000
371	Anchor Savings Bank, FSB, Northport	7,077,918,000
434	Bank of Tokyo Trust Co., New York	5,805,020,000t
	North Carolina	
348	Wachovia Bank & Trust Co. NA, Winston-Salem	11,344,443,000
363	NCNB National Bank of North Carolina, Charlotte	10,585,048,000
364	First Union National Bank, Charlotte	10,557,959,000
	Ohio	
350	AmeriTrust Co. NA, Cleveland	7,072,134,000
394	Huntington National Bank, Columbus	6,546,861,000
412	Society National Bank, Cleveland	6,280,633,000
457	National City Bank, Cleveland	5,528,397,000
	Oregon	
373	United States National Bank, Portland	6,994,001,000
482	First Interstate Bank of Oregon NA, Portland	5,132,208,000
	Pennsylvania	
180	Mellon Bank NA, Pittsburgh	15,022,808,000
265	Meridan Bank, Philadelphia	10,003,133,000
266	Pittsburgh National Bank	10,263,540,000
317	Meridan Bank, Reading	8,394,187,000
368	Philadelphia National Bank	7,261,814,000
380	Fidelity Bank NA, Philadelphia	6,918,305,000
440	Provident National Bank, Philadelphia	5,692,972,000
494	First Pennsylvania Bank NA, Philadelphia	4,933,350,000
496	Atlantic Financial Federal, PA, Bala Cynwyd	4,876,399,000
	Puerto Rico	
494	Banco Popular de Puerto Rico, San Juan	4,926,304,000
	Rhode Island	
420	Fleet National Bank, Providence	6,111,457,000
	Texas	
125	NCNB Texas National Bank, Dallas	25,623,426,000
313	Banc One, Texas NA, Dallas	8,525,136,000
364	First Gibraltar Bank, FSB, Dallas	7,055,071,000
406	Texas Commerce Bank NA, Houston	6,416,672,000
431	First Interstate Bank of Texas NA, Houston	5,881,038,000
	Virginia	
270	Sovran Bank NA, Richmond	10,193,846,000
346	Crestar Bank, Richmond	7,631,619,000
474	Signet Bank/Virginia, Richmond	5,204,778,000t
	Washington	
283	Seattle First National Bank	9,660,869,000
400	Security Pacific Bank Washington NA, Seattle	6,436,119,000

10 Countries with Most Deposits Among the Top 500 Banks

Dollar amounts in billions

		No. of Banks 12/31/89	Total Deposits 12/31/89	% of 500's Deposits 12/31/89	No. of Banks 12/31/88	Total Deposits 12/31/88	% of 500's Deposits 12/31/88
1	Japan	108	5,256.0	38.6	111	5,332.7	41.5
2	United States	108	1,351.6	10.0	107	1,347.4	10.5
3	Germany	37	1,308.9	9.7	38	1,150.8	9.0
4	France	20	970.4	7.2	20	821.6	6.4
5	Italy	28	708.4	5.2	29	606.0	4.7
6	United Kingdom	35	672.8	5.0	18	645.6	5.0
7	Switzerland	13	356.9	2.6	14	342.9	2.7
8	Canada	6	315.9	2.3	6	291.6	2.3
9	Spain	20	303.8	2.2	16	250.6	2.0
10	Netherlands	6	287.0	2.1	7	246.2	1.9

Top 500 Banks: Total Deposits

Dollar amounts in billions

	Number Of Banks 12/31/89	Total Deposits 12/31/89	Number Of Banks 12/31/88	Total Deposits 12/31/88	Deposit Growth 12/89
U.S. Banks	108	$ 1,351.6	107	$ 1,347.4	+0.31
Foreign Banks	392	12,213.8	393	11,489.2	+6.31
Top 500 Banks	500	13,565.4	500	12,836.6	+5.68

To avoid double counting, deposits for banks owned by other banks in the top 500 are excluded.

Addendum to Tabulation

Data for some banks were received after American Banker's July 12th deadline for inclusion in today's listing. These banks appear below with the 1989 ranks they would have had if all the data were received earlier. (Dollar amounts in Millions)

Deposit Rank 12/89	Name of Bank	Total Deposits 12/31/89	Total Deposits 12/31/88	Deposit Growth 12/89
109	State Bank of India, Bombay†	32,889	31,099	102
167	Cassa di Risparmio di Torino, Italy*	15,407	13,466	206
219	Credit du Nord, Paris, France*	13,070	13,885	292
273	Bank Rakyat Indonesia, Jakarta	3,887	2,949	718
857	Hessische Landesbank Int'l, Luxembourg	2,273	1,901	942

(*)—Data are for the fiscal yearend March 31, 1990. (†)— Data were received too late for this bank to be placed on the Asset Rank Addendum list published yesterday. Its assets were $20,411 million at yearend 1988. It would have ranked 163d. In 1989, the bank had $16,671 million in assets and ranked 204th. (‡)— A subsidiary of Compagnie Financiere de Paribas, Paris.

Alphabetical Listing of Top 500 Banks in Deposits

With deposit and asset ranks on Dec. 31, 1989

		Deposits Rank	Assets Rank
77 Bank, Ltd., Sendai	Japan	148	157
AN-HYP N.V., Antwerp	Belgium	445	477
ASLK-CGER Bank, Brussels	Belgium	88	105
Aichi Bank, Ltd., Nagoya	Japan	297	316
Akita Bank, Ltd.	Japan	309	333
Alahli Bank of Kuwait	Kuwait	402	504
Algemene Bank Nederland, Amsterdam	Netherlands	51	44
Allied Irish Banks Plc., Dublin	Ireland	140	152
Amsouth Bank N.A., Birmingham, Ala.	United States	436	434
American Express Bank Ltd., New York	United States	195	207
American Savings Bank, Irvine, Calif.	United States	222	223
Ameritrust Co. NA, Cleveland	United States	369	387
Amsterdam-Rotterdam Bank, Amsterdam	Netherlands	45	42
Anchor Savings Bank, FSB, Northport, N.Y.	United States	371	385
Aomori Bank, Ltd.	Japan	320	355
Arab Bank Ltd., Amman	Jordan	290	300
Arab Banking Corp., Manama	Bahrain	162	176
Ashikaga Bank, Ltd., Utsunomiya	Japan	193	206
Atlantic Financial Federal, FA, Belle Cymond, Pa.	United States	498	467
Australia & New Zealand Banking Group, Ltd., Melbourne	Australia	91	79
Awa Bank, Ltd., Tokushima	Japan	268	299
BFG Luxembourg	Luxembourg	452	452
Baden-Wuerttembergische Bank, Stuttgart	Germany	328	391
Banca Catalana, Barcelona	Spain	363	418
Banca Commerciale Italiana, Milan	Italy	47	46
Banca Nazionale del Lavoro, Rome	Italy	36	36
Banca Nazionale dell'Agricoltura, Rome	Italy	159	142
Banca Popolare di Bergamo	Italy	384	393
Banca Popolare di Milano, Milan	Italy	160	148
Banca Popolare di Novara	Italy	142	135
Banca Provinciale Lombarda, Bergamo	Italy	378	338
Banca San Paolo di Brescia	Italy	485	468
Banca Toscana, Florence	Italy	249	246
Banca d'America e d'Italia, Milan	Italy	411	260
Banca della Svizzera Italiana, Lugano	Switzerland	421	449
Banco Ambrosiano Veneto, Milan	Italy	185	172
Banco Atlantico, Barcelona	Spain	396	445
Banco Bilbao Vizcaya, Bilbao	Spain	75	63
Banco Brasileiro de Descontos, Sao Paulo	Brazil	331	345
Banco Central, Madrid	Spain	92	100
Banco Espanol de Credito, Madrid	Spain	79	67
Banco Espirito Santo e Comercial, Lisbon	Portugal	447	429
Banco Exterior de Espana, Madrid	Spain	154	171
Banco Hispano-Americano, Madrid	Spain	130	139
Banco Intercontinental Espanol, Madrid	Spain	385	340
Banco Itau, Sao Paulo	Brazil	497	210
Banco Lariano, Como	Italy	396	334
Banco Nacional de Mexico, Mexico City	Mexico	370	382
Banco Pastor, Coruna	Spain	442	487
Banco Ponto & Sotto Mayor, Lisbon	Portugal	493	495
Banco Popular Espanol, Madrid	Spain	170	185
Banco Popular de Puerto Rico, San Juan	United States	514	517
Banco Portugues do Atlantico, Oporto	Portugal	362	369
Banco Santander	Spain	101	109
Banco de Sabadell	Spain	372	414
Banco di Napoli, Naples	Italy	65	67
Banco di Roma, Rome	Italy	71	71
Banco di Santo Spirito, Rome	Italy	180	188
Banco di Sicilia, Palermo	Italy	112	119
Banco do Brasil, Brasilia	Brazil	95	35
Banco do Estado de Sao Paulo	Brazil	471	215
Bancomer, Mexico City	Mexico	93	140
Bangkok Bank, Ltd.	Thailand	226	225
Bank Bumi Daya, Jakarta	Indonesia	264	302
Bank Hapoalim, Tel-Aviv	Israel	126	124
Bank Leu, Ltd., Zurich	Switzerland	329	342
Bank Leumi le-Israel, Tel-Aviv	Israel	127	132
Bank Mees & Hope, Amsterdam	Netherlands	269	273
Bank Melli Iran, Tehran	Iran	66	69
Bank One, Texas NA, Dallas	United States	313	288
Bank Sederel Iran, Tehran	Iran	106	111
Bank fuer Arbeit und Wirtschaft, Vienna	Austria	191	229
Bank fuer Gemeinwirtschaft, Frankfurt	Germany	99	117
Bank of America NT&SA, San Francisco	United States	50	50
Bank of Baroda	India	315	305
Bank of California NA, San Francisco	United States	468	433
Bank of Communications, Taipei	Taiwan	424	349
Bank of Fukuoka, Ltd.	Japan	110	114
Bank of Hawaii, Honolulu	United States	377	419
Bank of Hiroshima, Ltd.	Japan	103	120
Bank of Ikeda, Ltd.	Japan	337	381
Bank of India, Bombay	India	299	321
Bank of Ireland, Dublin	Ireland	165	181
Bank of Iwate, Ltd., Morioka	Japan	298	319
Bank of Kansai, Ltd., Osaka	Japan	426	406
Bank of Kinki, Ltd., Osaka	Japan	208	233
Bank of Kyoto, Ltd.	Japan	161	168
Bank of Montreal	Canada	64	69
Bank of Nagoya, Ltd.	Japan	223	250
Bank of New England NA, Boston	United States	291	250
Bank of New York	United States	105	98
Bank of New Zealand, Ltd., Wellington	New Zealand	286	324
Bank of Nova Scotia, Toronto	Canada	66	73
Bank of Okinawa, Ltd., Naha	Japan	438	478
Bank of Osaka, Ltd.	Japan	252	263
Bank of Saga, Ltd.	Japan	359	409
Bank of Scotland, Edinburgh	United Kingdom	120	129
Bank of Seoul	Korea	83	89
Bank of Taiwan, Taipei	Taiwan	129	137
Bank of Tokyo Trust Co., New York	United States	434	424

		Deposits Rank	Assets Rank
Bank of Tokyo, Ltd.	Japan	19	16
Bank of Yokohama, Ltd.	Japan	58	56
Bank of the Ryukyus, Ltd., Naha	Japan	364	403
Bankers Trust Co., New York	United States	119	97
Banque Bruxelles Lambert, Brussels	Belgium	76	85
Banque Cantonale Vaudoise, Lausanne	Switzerland	398	442
Banque Cantonale de Berne	Switzerland	344	405
Banque Cantonale de St. Gallen	Switzerland	381	430
Banque Cantonale de Zurich	Switzerland	134	148
Banque Commerciale pour l'Europe du Nord, Paris	France	443	489
Banque Francaise du Commerce Exterieur, Paris	France	139	115
Banque Generale du Luxembourg	Luxembourg	242	270
Banque Indosuez, Paris	France	67	77
Banque Internationale a Luxembourg	Luxembourg	215	244
Banque Misr, Cairo	Egypt	469	503
Banque Nationale de Paris	France	8	8
Banque Paribas Belgique, Brussels (g)	Belgium	318	356
Banque Paribas, Paris (g)	France	46	53
Banques Regionales d'Escompte et de Depots, Vincennes	France	331	296
Banque Sudameris, Paris	France	446	469
Banque Worms, Paris	France	279	292
Banque et Caisse d'Epargne de l'Etat, Luxembourg	Luxembourg	261	302
Barclays Bank Plc, London	United Kingdom	15	13
Barclays Bank, Madrid	Spain	466	520
Barnett Bank of South Florida NA, Miami	United States	465	511
Bayerische Hypotheken-und Wechsel-Bank, Munich	Germany	38	46
Bayerische Landesbank Girozentrale, Munich	Germany	43	52
Bayerische Vereinsbank, Munich	Germany	33	38
Bergen Bank	Norway	307	239
Berliner Bank, Berlin	Germany	156	187
Berliner Handels und-Frankfurter Bank, Frankfurt	Germany	158	184
Bikuko Bank, Ltd., Obu	Japan	427	421
Boatmen's National Bank, St. Louis, Mo.	United States	486	427
Boston Safe Deposit & Trust Co.	United States	341	318
Bremer Landesbank, Bremen	Germany	174	203
C.O.B.-Caisse d'Epargne Privee, Brussels	Belgium	272	249
CIC-Union Europeenne, International & Cie, Paris	France	356	453
Caisse Centrale des Banques Populaires, Paris	France	176	174
Caixa Geral de Depositos, Lisbon	Portugal	216	209
Caja de Ahorros de Cataluna, Barcelona	Spain	389	425
Caja de Ahorros de Galicia, Coruna	Spain	484	490
Caja de Ahorros de Valencia	Spain	467	516
Caja de Ahorros y Monte de Piedad de Barcelona	Spain	272	293
Caja de Ahorros y Monte de Piedad de Zaragoza	Spain	456	472
Caja de Madrid	Spain	192	195
Caja de Pensiones para la Vejez, Barcelona	Spain	116	125
California Federal Bank, FSB, Los Angeles	United States	189	162
Canadian Imperial Bank of Commerce, Toronto	Canada	52	58
Cassa di Risparmio V.E. per le Provincie Siciliane, Palermo	Italy	301	308
Cassa di Risparmio delle Provincie Lombarde, Milan	Italy	89	68
Cassa di Risparmio di Firenze, Florence	Italy	391	363
Cassa di Risparmio di Genova e Imperia, Genoa	Italy	451	446
Cassa di Risparmio di Padova e Rovigo, Padova	Italy	413	395
Cassa di Risparmio di Roma, Rome	Italy	183	149
Cassa di Risparmio di Verona, Vicenza & Belluno, Verona	Italy	312	292
CenTrust Bank, SSB, Miami	United States	429	411
Centrale Raiffeisenkas van Belgische Boerenbond, Leuven	Belgium	199	224
Chang Hwa Commercial Bank, Ltd., Taichung	Taiwan	164	165
Chase Manhattan Bank NA, New York	United States	60	54
Chemical Bank, New York	United States	109	101
Chiba Bank, Ltd.	Japan	70	75
Chiba Kogyo Bank, Ltd.	Japan	281	311
Cho Hung Bank, Ltd., Seoul	Korea	220	194
Christiania Bank og Kreditkasse, Oslo	Norway	194	199
Chugoku Bank, Ltd., Okayama	Japan	136	143
Chukyo Bank, Ltd., Nagoya	Japan	296	306
Chuo Trust & Banking Co., Ltd., Tokyo	Japan	59	63
Citibank NA, New York	United States	27	24
Citicorp Savings, FS&LA, San Francisco	United States	495	443
Citizens & Southern National Bank, Atlanta	United States	286	286
Citizens & Southern National Bank, Fort Lauderdale, Fla.	United States	461	497
Citizens National Bank, Seoul	Korea	253	272
City Savings Bank, FSB, Somerset, N.J.	United States	409	397
Clydesdale Bank Plc, Glasgow	United Kingdom	430	462
Coast Savings & Loan Assn., Los Angeles	United States	302	306
Columbia Savings & Loan Assn., Beverly Hills	United States	338	307
Comerica Bank-Detroit	United States	350	329
Commercial Bank of Greece, Athens	Greece	401	450
Commercial Bank of Korea Ltd., Seoul	Korea	214	167
Commercial Bank of Kuwait	Kuwait	406	495
Commerzbank International, Luxembourg	Luxembourg	275	313
Commerzbank, Frankfurt	Germany	28	32
Commonwealth Bank of Australia, Sydney	Australia	124	93
Commonwealth Banking Corp., Sydney	Australia	118	114
Commonwealth Savings Bank of Australia, Sydney	Australia	219	253
Connecticut Bank & Trust Co. NA, Hartford	United States	315	351
Connecticut National Bank, Hartford	United States	324	282
Continental Bank NA, Chicago	United States	168	133
Coutts & Co., London	United Kingdom	347	421
Credit Agricole Mutuel, Paris	France	17	17
Credit Commercial de France, Paris	France	102	95
Credit Foncier Vaudoise, Lausanne	Switzerland	481	530
Credit Industriel d'Alsace et de Lorraine, Strasbourg	France	368	321
Credit Industriel et Commercial, Paris (h)	France	256	254
Credit Lyonnais Bank Nederland, Rotterdam	Netherlands	187	216
Credit Lyonnais, Paris	France	12	12
Credit Suisse (Luxembourg)	Luxembourg	414	479
Credit Suisse, Zurich	Switzerland	62	47
Creditanstalt-Bankverein, Vienna	Austria	115	102
Credito Italiano, Milan	Italy	53	60

Alphabetical Listing of Top 500 Banks in Deposits

With deposit and asset ranks on Dec. 31, 1989

		Deposits Rank	Assets Rank
Credito Romagnolo, Bologna	Italy	269	247
Crestar Bank, Richmond	United States	345	327
Cross-Land Savings FSB, Brooklyn, New York	United States	300	255
Dai-Ichi Kangyo Bank Ltd., Tokyo	Japan	1	1
Daiwa Bank, Ltd., Matsuzaka	Japan	320	374
Daishi Bank, Ltd., Sendai	Japan	181	202
Daiwa Bank, Ltd., Osaka	Japan	25	25
Den Danske Bank, Copenhagen	Denmark	72	78
Deutsche Bank Berlin	Germany	480	525
Deutsche Bank Luxembourg	Luxembourg	172	191
Deutsche Bank, Frankfurt	Germany	9	15
Deutsche Genossenschaftsbank, Frankfurt	Germany	49	33
Deutsche Girozentrale-Deutsche Kommunalbank, Frankfurt	Germany	128	145
Deutsche Siedlungs und Landesrentenbank, Bonn	Germany	326	140
Development Bank of Singapore Ltd.	Singapore	209	218
Dime Savings Bank of New York, FSB, Garden City	United States	280	297
Dresdner Bank AG	Germany	370	431
Dresdner Bank Luxembourg	Luxembourg	236	265
Dresdner Bank, Frankfurt	Germany	23	26
Ehime Bank, Ltd., Matsuyama	Japan	303	304
Eighteenth Bank, Ltd., Nagasaki	Japan	307	332
Empire of America FSB, Federal Savings Bank, Buffalo, N.Y.	United States	332	415
Erste Oesterreichische Spar-Casse, Vienna	Austria	273	285
Farmers Bank of China, Taipei	Taiwan	432	371
Fidelity Bank NA, Philadelphia	United States	380	370
Fuji Bank, Ltd., Tokyo	Japan	4	4
First Commercial Bank, Taipei	United States	294	281
First Fidelity Bank, Newark, N.J.	United States	97	136
First Gibraltar Bank, FSB, Dallas	United States	354	347
First Interstate Bank of Arizona NA, Phoenix	United States	422	470
First Interstate Bank of California, Los Angeles	United States	173	186
First Interstate Bank of Oregon NA, Portland	United States	462	491
First Interstate Bank of Texas NA, Houston	United States	431	466
First National Bank of South Africa Ltd., Johannesburg	South Africa	304	355
First National Bank, Boston	United States	418	397
First National Bank, Chicago	United States	133	131
First National Bank, Dallas	United States	123	122
First National Bank, San Francisco	United States	237	173
First Pennsylvania Bank NA, Philadelphia	United States	492	475
First Union National Bank of Florida, Jacksonville	United States	367	375
First Union National Bank, Charlotte, N.C.	United States	264	217
First National Bank of Providence, R.I.	United States	420	354
Florida National Bank, Jacksonville	United States	426	407
Forsta Sparbanken	Sweden	360	416
Frankfurter Sparkasse, Frankfurt	Germany	278	326
Fuji Bank, Ltd., Tokyo	Japan	4	4
Fubui Bank, Ltd.	Japan	247	268
Fukuoka City Bank, Ltd.	Japan	206	238
Fukuoka Sogo Bank, Ltd., Osaka	Japan	282	265
Generale Bank, Brussels	Belgium	57	55
Genossenschaftliche Zentralbank, Stuttgart	Germany	262	304
Gibraltar Savings, FA, Simi Valley, Calif.	United States	441	451
Girozentrale und Bank der Oesterreich. Sparkassen, Vienna	Austria	150	151
Glendale Federal Bank, FSB, Calif.	United States	413	395
Goldome, Buffalo, N.Y.	United States	287	271
Gotabanken, Stockholm	Sweden	314	327
Great American Bank, SSB, San Diego, Calif.	United States	295	266
Great Western Bank, FSB, Beverly Hills	United States	135	123
Greenwood Trust Co., New Castle, Del.	United States	469	498
Groupe Des Banques Populaires, Paris	France	69	70
Gulf Bank, Kuwait	Kuwait	428	478
Gulf International Bank, Manama	Bahrain	288	343
Hachijuni Bank, Ltd., Nagano	Japan	122	130
Habib Bank Ltd., Karachi	Pakistan	460	510
Hachigo Bank, Ltd., Nagano	Japan	111	99
Hambros Bank Ltd., London	United Kingdom	477	551
Hamburgische Landesbank, Hamburg	Germany	188	221
Hamburgische Landesbank-Girozentrale, Hamburg	Germany	121	126
Hang Seng Bank Ltd., Hong Kong	Hong Kong	149	169
Hanil Bank Ltd., Seoul	Korea	228	196
Hanshin Bank, Ltd., Kobe	Japan	408	461
Harris Trust & Savings Bank, Chicago	United States	382	389
Hessische Landesbank-Girozentrale, Frankfurt	Germany	86	108
Hibernia National Bank, New Orleans, La.	United States	448	482
Higashi-Nippon Bank, Ltd., Tokyo	Japan	346	406
Higo Bank, Ltd., Kumamoto	Japan	210	235
Hill, Samuel Bank, Ltd., London	United Kingdom	467	507
Hiroshima-Sogo Bank, Ltd.	Japan	251	275
Hokkaido Bank, Ltd., Sapporo	Japan	163	175
Hokkaido Takushoku Bank, Ltd., Sapporo	Japan	83	64
Hokuetsu Bank, Ltd., Kanazawa	Japan	211	227
Hokuetsu Bank, Ltd., Nagaoka	Japan	274	314
Hokuriku Bank, Ltd., Toyama	Japan	74	76
Home Savings of America, FA, Irwindale, Calif.	United States	107	93
Homefed Bank, FSB, San Diego, Calif.	United States	217	208
Hongkong and Shanghai Banking Corp., Hong Kong	Hong Kong	36	37
Hua Nan Commercial Bank, Ltd., Taipei	Taiwan	153	161
Huntington National Bank, Columbus, Ohio	United States	384	369
Hyakugo Bank, Ltd., Tsu	Japan	204	231
Hyakujushi Bank, Ltd., Takamatsu	Japan	177	189
Hyogo Bank, Ltd., Kobe	Japan	137	147
Imperial Savings Assn., San Diego, Calif.	United States	393	360
Industrial Bank of Japan, Ltd., Tokyo	Japan	6	6
Industrial Bank of Korea, Seoul	Korea	353	284
International Commercial Bank of China, Taipei	Taiwan	488	438
Ippa Bank, Antwerp	Belgium	500	560
Israel Discount Bank, Ltd., Tel-Aviv	Israel	201	226
Istituto Bancario Italiano, Milan	Italy	402	376
Istituto Bancario San Paolo di Torino, Turin	Italy	39	34
Iyo Bank, Ltd., Matsuyama	Japan	175	198

		Deposits Rank	Assets Rank
Joyo Bank, Ltd., Mito	Japan	73	80
Juroku Bank, Ltd., Gifu	Japan	144	155
Jyske Bank, Silkeborg	Denmark	374	410
Kagawa Bank, Ltd., Takamatsu	Japan	491	537
Kagoshima Bank, Ltd.	Japan	241	264
Kansallis-Osake Pankki, Helsinki	Finland	145	118
Kanto Bank, Ltd., Tsuchiura	Japan	464	514
Kenyo Bank, Ltd., Chiba	Japan	257	283
Kiki-Kyogyo Bank, Ltd., Morioka	Japan	499	546
Kiyo Bank, Ltd., Wakayama	Japan	193	213
Kleinwort, Benson, Lonsdale Plc, London	United Kingdom	297	251
Kofuku Bank, Ltd., Osaka	Japan	231	260
Korea Development Bank, Seoul	Korea	342	156
Korea Exchange Bank, Seoul	Korea	243	166
Korea First Bank, Seoul	Korea	230	197
Korea Housing Bank, Seoul	Korea	360	303
Kreditbank N.V., Brussels	Belgium	80	90
Kredietbank S.A. Luxembourgeoise, Luxembourg	Luxembourg	260	289
Kreissparkasse Koeln, Cologne	Germany	339	446
Krung Thai Bank Ltd., Bangkok	Thailand	361	366
Kyowa Bank, Ltd., Tokyo	Japan	40	41
Kyushu Bank, Ltd., Sasebo	Japan	417	474
Land Bank of Taiwan, Taipei	Taiwan	179	190
Landesbank Rheinland-Pfalz Girozentrale, Mainz	Germany	131	141
Landesbank Schleswig-Holstein Girozentrale, Kiel	Germany	308	348
Landeskreditbank, Stuttgart	Germany	244	277
Lasalle Bank Plc, Lombard	United States	327	43
Long-Term Credit Bank of Japan Ltd., Tokyo	Japan	20	21
Luzerner Kantonalbank, Lucerne	Switzerland	387	438
Lyonnaise de Banque, Lyon	France	329	354
Malayan Banking Berhad, Kuala Lumpur	Malaysia	305	325
Manufacturers Hanover Trust Co., New York	United States	45	48
Manufacturers National Bank, Detroit	United States	376	390
Marine Midland Bank NA, Buffalo, N.Y.	United States	265	269
Maryland National Bank, Baltimore	United States	392	353
Medium Business Bank of Taiwan, Taipei	Taiwan	157	183
Mellon Bank NA, Pittsburgh	United States	190	170
Meridian Bank, Reading, Pa.	United States	317	330
Meritor Savings Bank, Philadelphia	United States	310	291
Merrill Lynch Mortgage Bank, Farmington Hills	United States	336	344
Michinoku Bank, Hirosaki	Japan	277	309
Midland Bank Plc, London	United Kingdom	35	39
Midlantic National Bank, Newark, N.J.	United States	340	345
Mie Bank, Ltd., Yokkaichi	Japan	457	508
Mitsubishi Bank Ltd., Tokyo	Japan	3	3
Mitsubishi Trust & Banking Corp., Tokyo	Japan	8	11
Mitsui Bank, Ltd., Tokyo	Japan	18	14
Mitsui Trust & Banking Co., Ltd., Tokyo	Japan	31	31
Miyazaki Bank, Ltd.	Japan	366	401
Monte dei Paschi di Siena	Italy	91	91
Morgan Grenfell & Co. Ltd., London	United Kingdom	343	328
Morgan Guaranty Trust Co., New York	United States	32	72
Motherwell District Industrial Bank, Ltd.	United Kingdom	415	495
Musashino Bank, Ltd., Omiya	Japan	258	294
N.M. Rothschild & Sons Ltd., London	United Kingdom	449	505
NCNB National Bank of Florida, Tampa	United States	284	295
NCNB National Bank of North Carolina, Charlotte	United States	183	182
NCNB Texas National Bank, Dallas	United States	125	126
NIBB Postbank Groep, N.V., Amsterdam	Netherlands	48	51
Nanto Bank, Ltd., Nara	Japan	167	182
Nassauische Sparkasse Wiesbaden, Wiesbaden	Germany	366	432
National Australia Bank, Ltd., Melbourne	Australia	94	84
National Bank of Abu Dhabi	United Arab Emirate	486	531
National Bank of Canada, Montreal	Canada	134	134
National Bank of Detroit	United States	232	214
National Bank of Dubai, Dubai	United Arab Emirate	457	494
National Bank of Egypt, Cairo	Egypt	435	454
National Bank of Greece, Athens	Greece	183	144
National Bank of Kuwait	Kuwait	234	269
National City Bank, Cleveland	United States	455	413
National Commercial Bank, Jeddah	Saudi Arabia	163	163
National Westminster Bank Plc, London	United Kingdom	16	18
National Westminster Bank USA, New York	United States	225	248
Nedcor Ltd., Johannesburg	South Africa	311	377
Niigata Chuo Bank, Ltd.	Japan	270	512
Nippon Credit Bank, Ltd., Tokyo	Japan	34	31
Nippon Trust Bank, Ltd., Tokyo	Japan	151	146
Nishi-Nippon Bank, Ltd., Fukuoka	Japan	152	160
Nordbanken	Sweden	334	372
Norddeutsche Landesbank Girozentrale, Hannover	Germany	66	66
Nortbnchuiik Banken, Tokyo	Japan	11	10
Norske Creditbank, Oslo	Norway	254	243
North Pacific Bank, Ltd., Sapporo	Japan	327	380
Northern Trust Co., Chicago	United States	479	384
Norwest Bank Minnesota NA, Minneapolis	United States	444	398
Oesterreichische Kontrollbank, Vienna	Austria	157	164
Oesterreichische Postsparkasse, Vienna	Austria	218	240
Ogaki-Kyoritsu Bank, Ltd., Ogaki	Japan	202	227
Oita Bank, Ltd.	Japan	271	307
Okasapankkien Keskuspankki Oy, Helsinki	Finland	496	267
Oversea-Chinese Banking Corp., Ltd., Singapore	Singapore	335	341
Pkbankiun, Stockholm	Sweden	97	86
Peoples Bank, Bridgeport, Conn.	United States	450	460
Philadelphia National Bank	United States	358	364
Pittsburgh National Bank	United States	266	228
Postipankki, Helsinki	Finland	203	183
Provident National Bank, Philadelphia	United States	440	407
Rabobank Nederland, Utrecht	Netherlands	56	45
Rafidain Bank, Baghdad	Iraq	85	97
Raiffeisen Zentralbank Oesterreich AG, Vienna	Austria	228	219

WORLD BANKING

Alphabetical Listing of Top 500 Banks in Deposits

With deposit and asset ranks on Dec. 31, 1989

		Deposits Rank	Assets Rank
Republic National Bank, New York	United States	200	205
Riggs National Bank, Washington, D.C.	United States	439	481
Riyad Bank Ltd., Jeddah	Saudi Arabia	282	305
Royal Bank of Canada, Montreal	Canada	44	49
Royal Bank of Scotland Plc., Edinburgh	United Kingdom	90	103
S.G. Warburg & Co., Ltd., London	United Kingdom	293	342
Saitama Bank Ltd., Urawa	Japan	42	40
Samuel Montagu & Co., Ltd., London	United Kingdom	476	539
San-in Godo Bank, Ltd., Matsue	Japan	229	252
Sanwa Bank California, San Francisco	United States	453	466
Sanwa Bank Ltd., Osaka	Japan	5	5
Saudi American Bank, Riyadh	Saudi Arabia	458	405
Seattle-First National Bank	United States	283	290
Security Pacific Bank Washington, Seattle	United States	400	435
Security Pacific National Bank, Los Angeles	United States	84	82
Senshu Bank, Ltd., Kishiwada	Japan	329	379
Shawmut Bank NA, Boston	United States	480	373
Shiga Bank, Ltd., Otsu	Japan	178	204
Shikoku Bank, Ltd., Kochi	Japan	295	287
Shimizu Bank, Ltd.	Japan	478	525
Shinhan Bank, Seoul	Korea	427	300
Shimwa Bank, Ltd., Sasebo	Japan	330	382
Shizuoka Bank Ltd.	Japan	78	88
Shoko Chukin Bank, Tokyo	Japan	47	55
Signet Bank/Virginia, Richmond	United States	474	386
Skandinaviska Enskilda Banken, Stockholm	Sw.den	108	74
Skopbank, Helsinki	Finland	316	190
Societe Generale Alsacienne de Banque, Strasbourg	France	224	257
Societe Generale, Paris	France	21	20
Societe Nationale de Credit a l'Industrie, Brussels	Belgium	222	246
Societe de Banque Suisse (Luxembourg)	Luxembourg	475	522
Society National Bank, Cleveland	United States	377	331
Southeast Bank NA, Miami	United States	227	232
Sovran Bank NA, Richmond	United States	270	258
Sparbanken Sverige, Stockholm	Sweden	77	94
Sparekassen Bikuben, Copenhagen	Denmark	355	317
Sparkasse der Stadt Berlin West, Berlin	Germany	265	286
Stadt-Sparkasse Duesseldorf	Germany	463	527
Stadtsparkasse Koeln, Cologne	Germany	352	352
Stadtsparkasse Munchen, Munich	Germany	375	435
Standard Bank of South Africa Ltd., Johannesburg	South Africa	276	320
Standard Chartered Bank, London	United Kingdom	100	113
Standard Federal Bank, Troy, Mich.	United States	416	357
State Bank Victoria, Melbourne	Australia	213	222
State Bank of New South Wales, Sydney	Australia	349	315
State Bank of South Australia, Adelaide	Australia	345	280
State Street Bank & Trust Co., Boston	United States	419	331
Sudwestdeutsche Genossenschafts-Zentralbank, Frankfurt	Germany	205	236
Sudwestdeutsche Landesbank, Stuttgart	Germany	77	66
Sumitomo Bank Ltd., Osaka	Japan	2	2
Sumitomo Trust & Banking Co., Ltd., Osaka	Japan	13	17
Suruga Bank, Ltd., Numazu	Japan	182	206
Svenska Handelsbanken, Stockholm	Sweden	113	104
Swiss Bank Corp., Basle	Switzerland	29	28
Swiss Volksbank, Berne	Switzerland	138	153
TSB Bank, Plc., London	United Kingdom	104	110
Taiheiyo Bank, Ltd., Tokyo	Japan	524	524
Taiwan Cooperative Bank, Taipei	Taiwan	117	130
Tokyo Kobe Bank, Ltd., Kobe	Japan	22	22
Texas Commerce Bank NA, Houston	United States	405	298
Thai Farmers Bank, Bangkok	Thailand	397	426
Thurgauische Kantonalbank, Weinfelden	Switzerland	483	526
Tochigi Bank, Ltd., Utsunomiya	Japan	403	447
Toho Bank, Ltd., Fukushima	Japan	250	274
Tokai Bank Ltd., Nagoya	Japan	10	9
Tokyo Sowa Bank, Ltd.	Japan	166	183
Tokyo Tomin Bank, Ltd.	Japan	236	261
Toronto Dominion Bank	Canada	81	91
Towa Bank, Ltd., Hiroshima	Japan	393	396
Toyo Trust & Banking Co. Ltd., Tokyo	Japan	30	29
Turkiye Cumhuriyeti Ziraat Bankasi, Ankara	Turkey	408	361
Ulster Bank Ltd., Belfast	United Kingdom	454	499
Unibank, Copenhagen	Denmark	98	107
Union Bank of Finland, Ltd., Helsinki	Finland	132	120
Union Bank of Norway, Oslo	Norway	452	483
Union Bank of Switzerland (Luxembourg)	Luxembourg	300	368
Union Bank of Switzerland, Zurich	Switzerland	31	30
Union Bank, San Francisco	United States	241	241
Union de Banques Arabes et Francaises, Neuilly (w)	France	383	423
United Mizrahi Bank Ltd., Tel-Aviv	Israel	404	441
United Overseas Bank Ltd., Singapore	Singapore	348	362
United Stations National Bank, Portland	United States	373	337
United World Chinese Commercial Bank, Taipei	Taiwan	386	406
Valley National Bank, Phoenix	United States	319	366
Vereins-und Westbank, Hamburg	Germany	386	278
Wachovia Bank & Trust Co. NA, Winston-Salem, N.C.	United States	248	242
Wells Fargo Bank NA, San Francisco	United States	96	96
West LB International, Luxembourg	Luxembourg	423	457
Westdeutsche Genossenschafts-Zentralbank, Duesseldorf	Germany	196	212
Westdeutsche Landesbank Girozentrale, Duesseldorf	Germany	36	37
Westfalenbank, Bochum	Germany	186	230
Westpac Banking Corp., Sydney	Australia	67	58
World Savings, FSB/A, Oakland, Calif.	United States	246	201
Yamagata Bank, Ltd.	Japan	327	404
Yamaguchi Bank, Ltd., Shimonoseki	Japan	141	150
Yamanashi Chuo Bank, Ltd., Kofu	Japan	292	310
Yasuda Trust & Banking Co. Ltd., Tokyo	Japan	24	23
Yorkshire Bank Plc, Leeds	United Kingdom	433	480
Zenshiren Bank, Tokyo	Japan	72	62
Zentralsparkasse und Kommerzialbank, Vienna	Austria	171	196

Foreign Currency Exchange Guide and Exchange Rate Comparisons

Name of Country	Currency	Symbol	Rate 12/31/88	Rate 12/31/89	Gain Loss
Argentina	Austral	AP	0.000735	0.001300	-98.80
Australia	Dollar	AS	0.776000*	0.783000*	-0.86
Austria	Shilling	AS	0.084000	0.080000	+5.00
Bahamas	Dollar	B$	1.000000	1.000000	00.00
Bahrain	Dinar	BaD	2.650000	2.640000	+0.38
Belgium	Franc	BF	0.028100	0.029800	+4.85
Brazil	New Cruzado	BC	0.113200*	0.001360*	+6.33*
Canada	Dollar	C$	0.852000*	0.818000*	+4.16
Chile	Peso	CP	0.003600	0.004000	-11.00
Denmark	Krone	DK	0.151000	0.145000	+4.14
Egypt	Pound	EP	0.396000*	0.432000*	-10.65
Ethiopia	Birr	EB	0.485000	0.495000	+0.21
Finland	Markka	FM	0.240000	0.240000	+2.50
France	Franc	F	0.173000	0.163000	+5.78
Germany	Deutsche Mark	DM	0.590000	0.560000	+5.36
Greece	Drachma	GD	0.006500	0.006700	-5.97
Hong Kong	Dollar	HS	0.128000	0.128000	--
India	Rupee	InR	0.056000*	0.064300*	-9.92
Indonesia	Rupiah	IR	0.000560	0.000579	-3.39
Iran	Rial	Ri	0.014000*	0.014000*	--
Iraq	Dinar	IQ	3.100000	3.200000	-3.13
Ireland	Pound	IP	1.580000*	1.431000*	+10.41
Israel	Shekel	IS	0.530000	0.626000	-15.34
Italy	Lira	L	0.000785	0.000765	+3.14
Japan	Yen	Y	0.006286*	0.007508*	-16.24
Jordan	Dinar	JO	1.560000	2.100000	-25.71
Korea	Won	KW	0.001470	0.001460	+5.00

Figures shown are the dollar values per unit of foreign currency. Most of the currencies have changed into dollars using the New York cable rate for the dates shown. Unless otherwise noted, the exchange rates shown are for December 1988 and 1989, respectively. Exchange rates for dates other than 12/31/88 and 12/31/89 indicate that most or all banks in a country reported data as of the date indicated. (a)— Banks in country use Swiss francs. (*)— As of 9/30/89 and 9/30/88, respectively. (**)— The official rate for the new cruzado at yearend was $0.088. Since yearend, the market rate of the new cruzado has fallen 85% to $0.0168 as of 6/30/90.

(***)— As of 10/31/89 and 10/31/88, respectively. (†)— As of 6/30/89 and 6/30/88, respectively. (††)— As of 3/31/90 and 3/31/89, respectively. (†††)— As of 3/30/89 and 3/30/88, respectively. (*)— The official rate for the new cruzado at yearend was $0.088. Since yearend, the market rate of the new cruzado has fallen 85% to $0.0168 as of 6/30/90.

(**)— Dinar was devalued 10,000-to-1 shortly after yearend.

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Lenders Seeking Payment If Loan Becomes HLT

By STEVEN LIPIN

The $1 billion in bank financing lined up for Kansas Gas and Electric Co.'s bid for Kansas City Power & Light Co. was significant for the banking community because it was the first hostile takeover financed by banks in many months, and, at the same time, avoided the tag of highly leveraged transaction.

But the bank facility – led by First Chicago Corp. and Westpac Banking Corp. – is important for another reason: It is the largest loan to date that has included language protecting lenders if the loans are ever classified as HLTs.

Even as leveraged lending picks up from its lows, a growing number of lenders are including the protective "event risk" language that ensures banks some kind of extra com-

ANALYSIS: *Follow-up on the news*

pensation if the loans slip into the classification.

"We're trying to make it a standard clause," said one money-center banker. "It doesn't make a difference who the borrower is."

Standard Language on the Way

No less than several banks have included the language, and bankers said many new non-HLT loans will include the provisions. Eventually, bankers said, it could be standard operating language for deals that at the margin are not HLTs but could fall into that category.

"Lenders are calling the shots to a much greater degree," said Dennis Amato, senior vice president at Continental Bank. "The concern is if a loan becomes an HLT, that banks get paid for it."

Limited Capital for HLTs

Bankers note that regulatory and shareholder pressure has limited the amount of capital devoted to HLTs. But if loans are reclassified either because of additional leveraging or because regulators deem the loans HLTs after origination, banks want to be rewarded for the increased risk.

"It's a typical market response to a new regulatory constraint," said Christopher L. Snyder, president of Loan Pricing Corp.

While no formal agreement has been developed for the new loans, a number of common themes have emerged:

● Step-up pricing. The interest rates on the Kansas Gas loans increase 50 basis points if the loan becomes an HLT. In a $300 million loan for Mark IV Industries by Continental Bank and

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INSIDE NEWS

WASHINGTON

THE FDIC will appeal a recent court ruling that the agency overstepped its authority in declaring 12 subsidiaries of Texas American Bancshares insolvent. *Page 2*

THE ENVIRONMENTAL liability debate has focused on lenders, but apparently the federal government is also looking for ways to avoid having to pay for the cleanup of properties it has inherited from failed banks and thrifts. *Page 8*

CONSUMER

ACTIVISTS SAY NCNB has not done enough for low-income consumers in Texas, in view of all the tax breaks it received to move into that market. *Page 6*

INTERNATIONAL

A **HONG KONG** billionaire will acquire a 50% stake in a New York investment company that is purchasing $3 billion in junk bonds and preferred stock from Columbia Savings and Loan Association. *Page 14*

FINANCE

SHARPLY LOWER earnings at Coast Savings Financial and Great American Bank are causing analysts to question the viability of these California institutions. *Page 20*

TECHNOLOGY

INCREASED USE of satellite communications may pay dividends even for banks that sidestep the technology and stick with phone company services. *Page 3*

COMMENT

THE COURTS have often applied legal and economic principles with questionable validity to impose new obligations on lenders, write Henry A. Hubschman and Jesse M. Caplan. *Page 5*

PEOPLE

JAMES C. GRANT, chief technologist at Royal Bank of Canada, has encouraged the development of what he calls hybrid bankers: technologists who are also businessmen. *Page 2*

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AP/Wide World

BIRTH OF A BAILOUT: Banking, politics, and the economy felt the aftereffects of the law President Bush signed last August.

Despite Flaws, Slow Start, Bailout Is Picking Up Steam

By ROBERT M. GARSSON
First of a Series

WASHINGTON — When President Bush walked into the Rose Garden on a sun-filled day last Aug. 9, the world seemed bright with promise. He was about to sign a bank savings and loan bill that not only would make huge sums of money avail-

The Thrift Bailout Law



able for costly cleanup, but would also bring authentic reform to an industry long accustomed to lax supervision and phony accounting.

That heady moment proved short-lived, however, as the Bush administration hit the ground crawling in the days that followed. The first eight months of the bailout were characterized by bureaucratic infighting and little action in dealing with the hundreds of insolvent institutions that dotted the financial landscape.

Size of Problem Unanticipated

Today, as the Financial Institutions Reform, Recovery, and Enforcement Act nears its anniversary, the bailout appears to have been overtaken by cash shortages, political bickering, and a growing realization that the thrift problem was much deeper than anyone ever imagined.

Yet for all the law's apparent flaws, many observers believe that its reform elements are working exactly as intended and that the cleanup, despite its

See BAILOUT page 12

Visa Is Firing New Volley At American Express Card

By YVETTE D. KANTROW

NEW YORK – Having spent millions to persuade consumers to choose its card, Visa U.S.A. is opening another front in its war with American Express Co.

On Wednesday, Visa will begin a mass-market campaign attacking the rates that merchants pay for what it sarcastically calls the "privilege" of accepting American Express cards.

If a merchant's customers are paying with American Express cards, the ad states, "call 800-Visa-511, and we'll show you how to turn a bigger profit."

Wheel of Comparison

Respondents will receive a Visa "profit-improvement calculator," which is a cardboard wheel they can use to compare what they spend on American Express transactions with what they spend on Visa transactions.

"We want to remind merchants that they pay more for American Express, and hopefully they will show a preference for Visa," a spokesman for the bank card association said. The ad is scheduled to run in *The Wall Street Journal, Business Week, Time, Forbes,* and other business and trade publications.

To accept credit cards, merchants typically pay their banks or other service providers fees, known as discounts. These discounts are a percentage of each credit card sale and vary by the retailer's industry and sales

See VISA page 6

Avantor, We Hardly Knew Ya

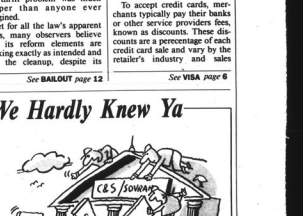
By KENNETH CLINE

ATLANTA — Last fall, when Citizens and Southern Corp. and Sovran Financial Corp. announced plans to merge, they proudly revealed the name for the joint company: Avantor Financial Corp.

The doubts started to set in during the ensuing months, as the companies' top executives got an earful of snickers and criticism from employees, customers, journalists, and investors.

"Nobody told us that Avantor is a wonderful name," said Dennis C. Bottorff, president and chief operating officer of Sovran, which is based in Norfolk, Va.

During a meeting with analysts this year in Atlanta,



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PEOPLE *in the news*

James C. Grant Engineers PC Network for Royal Bank

By JEANNE IIDA

James C. Grant, chief technologist at Royal Bank of Canada, is a hard-driving engineer who has encouraged the development of what he calls hybrid bankers – technologists who are also businessmen.

His vision has helped make the Canadian bank one of the top business performers in North America.

With the largest branch network in North America, Royal Bank is now engaged in an ambitious project that is rivaled in scope only by those of one or two U.S. banks. It plans to install 15,000 personal computers in its 1,560 branches by year-end and redesign those branches to create a sales-oriented environment.

Mr. Grant is well-suited for the mission. He spent spent four and a half years heading retail operations of the bank before becoming senior vice president of operations in October 1984 and executive vice president of systems and technology in February 1987.



James C. Grant

A winner in 1989 of the prestigious information management award from Carnegie Mellon University, Mr. Grant is a hands-on manager who draws innovative ideas from his staff, then pushes hard for those ideas with top management.

"He doesn't just sit in a mahogany office," said Kenneth Morrison, vice president of technology and distribution in corporate banking at the Royal Bank, which is based in Toronto.

"He's a gentleman demanding respect," said Frank Lablans, vice president of retirement income services at Royal Bank. At the same time, "he's aggressive, he likes new directions and new things – he's a go-getter."

Several years ago, Mr. Grant designed a weeklong course on the benefits of technology that all of the banks' top 200 employees, including the chairman, attended.

The cross-fertilization of technology and traditional banking talent has led to some changes at the bank. Many of its top executives in retail banking, corporate banking and credit card services are now systems people who requested transfers.

When he headed the retail unit, Mr. Grant positioned the area for its rapid growth of the past few years through a shrewd use of technology and keen sense of the banking and investment habits of consumers.

Sophisticated Systems that U.S. Banks Lack

Royal Bank's share of the Canadian retail market has grown over the past four years to 25.5% from 23.75%. The bank offers network services such as electronic data interchange to large corporate customers and has had integrated customer profile information for years. Most U.S. banks are just beginning to build such systems.

"Jim's been a key player in the bank's success," said Mr. Lablans.

When asked about his private life, Mr. Grant jokes, "What private life?" but concedes he is an avid squash player who makes time for three to five games a week.

Born in Nova Scotia, Mr. Grant has an electrical engineering degree from St. Francis Xavier College there. For five years he worked as an air traffic controller, "keeping planes from bumping into each other over the North Atlantic." □

NEWS *briefs*

First Union's Florida Chief To Oversee Credit Policy

JACKSONVILLE, Fla. — Billy J. Walker, chairman and chief executive officer of First Union National Bank of Florida, said he is taking on additional responsibility as chairman of the credit policy committee. He said the move reflects a growing commitment to commercial lending following the company's acquisition by First Union Corp. of Charlotte, N.C.

Mr. Walker, who is also a vice chairman of the $38 billion-asset parent, is preparing to step down as Florida CEO next March.

Pacific First of Seattle To Sell Utah Branches

TORONTO — Royal Trustco said its subsidiary, Pacific First Financial Corp. of Seattle, will sell its 17 Utah branches to First Security Corp. of Salt Lake City, Utah, for $3.25 million. The sale is subject to regulatory approval.

Pacific First acquired the Utah operations in June when it acquired American Savings and Loan of Oregon. But Royal Trustco President Michael Cornellissen said that Utah was "not in line with our strategy to focus on the West Coast."

Through Pacific First, Royal Trust operates 163 branches in four states. . .

Synovus to Buy Fairbanco

COLUMBUS, Ga. — Synovus Financial Corp. signed a letter of intent to acquire Fairbanco Holding Co. Inc., parent of the $68 million-asset Fairburn (Ga.) Banking Co. Terms were not disclosed.

The $2.7 billion-asset Synovus owns 14 banks in three Southeastern states. □

FDIC to Appeal Texas Decision

Seeks to Vindicate Handling of 12 Bank Closings

By BILL ATKINSON

WASHINGTON — The Federal Deposit Insurance Corp. will appeal a recent court ruling that the agency overstepped its authority in declaring 12 subsidiaries of Texas American Bancshares insolvent, a senior FDIC legal official said.

The agency is trying to recover from a stunning defeat in June when U.S. District Judge Barefoot Sanders awarded Fort Worth-based Texas American $5 million in damages.

Illegal Seizure Is Claimed

Texas American sued the FDIC about a year ago, shortly after its 24 subsidiary banks were declared insolvent. Judge G. Clark, the FDIC's senior litigation counsel, said Friday an appeal should be filed within the next two weeks.

Texas American argued that 12 of the banks were solvent and should not have been seized. The FDIC claimed that the 12 healthy banks would have become insolvent if the agency took Texas American's flagship bank in Fort Worth.

After declaring all 24 banks insolvent, the FDIC sold them as a package to an investor group that offered to pump money into the network.

Further Lawsuits Pending

The case is complex and could affect the FDIC's procedures in closing solvent subsidiaries of troubled holding companies.

In addition to Texas American, the FDIC is wrestling with a $70 million suit filed by Dallas-based MCorp that alleges that the FDIC overstepped its bounds by shutting profitable units when the main bank failed. The suit is still pending.

Judge Sanders, presiding over the U.S. District Court for the Northern District of Texas, Dallas, ruled that the solvent banks were not treated equally as other creditors, and ruled in favor of Texas American.

Alfred J.T. Byrne, the FDIC's recently appointed general counsel, called the decision "a setback, and an important one," back that we need to address forthright and carefully." □

Bank Panel Hears of Ailing Student Loan Guarantors

Reuters

WASHINGTON — U.S. Education Under Secretary Ted Sanders told the Senate Banking Committee on Friday that five to seven student loan guarantee agencies besides the ailing Higher Education Assistance Foundation are in a weakened condition.

HEAF, Overland Park, Kan., which is one of the nation's largest guarantors of student loans, faces serious financial problems because of higher default rates, and the Department of Education is negotiating for its takeover.

Mr. Sanders said the department is in intensive negotiations with one or more entities interested in assuming HEAF's obligations. He told the committee the maximum cost to the U.S. taxpayers of a takeover of HEAF would be $100 million.

Sallie Mae Solution

One possible solution would be for the Student Loan Marketing Association to become the guarantor of HEAF loans originated under the guaranteed student loan program. After *The Wall Street Journal* reported last Friday that Sallie Mae had bid to take over HEAF's assets, the agency issued a statement confirming only that the Education Department had invited proposals to resolve HEAF's difficulties.

A decision on HEAF's future should be made "in the near term," Mr. Sanders said in a subsequent interview. He declined to be more specific.

Committee Chairman Donald Riegle, D-Mich., argued that "once again it appears the federal government has explicitly or implicitly guaranteed risks stemming from the behavior of financial institutions over which it has little or no control."

Default Rate Soared

Mr. Riegle, at the start of the hearing on HEAF and Sallie Mae, said there was no adequate mechanism for the federal government to require sufficient capital or to step in more directly in the event of insolvency of privately run student loan guarantors. The Senate panel learned that the default rate on student loans grew 352% from 1983 to 1989, from $441 million to $2 billion.

Louis Gerhardstein of the Medill News Service contributed to this article.

Correction

A listing of the largest banks in Japan (July 26, page 24A) contained incorrect data for Sumitomo Bank Ltd., Osaka. Sumitomo had assets of $364.2 billion on Dec. 31, 1989, to rank as the second-largest in Japan and the world. Dai-Ichi Kangyo Bank, Tokyo, was the largest with $403.4 billion. Both banks were listed correctly in the ranking of the world's 50 largest banks, which began on page 14A.

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TECHNOLOGY/OPERATIONS NEWS

Software Gives Banks Way To Generate More EDI Fees

By JEANNE IIDA

NEW YORK — GE Information Services is introducing software today that gives banks an opportunity to generate additional fee income from customers making corporate-to-corporate electronic payments.

The software, called Merge, will allow banks to offer an account reconciliation service to corporations that make payments through electronic data interchange, or EDI.

The product could help alleviate bankers' concerns that their opportunities for fee income are limited in EDI.

A Divided Function

Financial EDI is the payments portion of the EDI trading cycle, in which trade documents are exchanged among business partners by computer. Financial EDI consists of two parts – the payment itself and the remittance information used for accounting.

Corporations using financial EDI often choose to send the payment through their bank over the Automated Clearing House system and the data over a value-added network. By separating the data, corporations can get advance notice of payments.

This splintering of the transaction has caused bankers to be concerned that they will play only a minor role in the emerging market for EDI services.

Information Is Integrated

With the GE software, corporations will still send remittance information over a value-added network. But the bank will be able to pull the dollars and data information together at the end of the cycle, presenting a single document to the bank.

"Corporations want to look to their banks to do reconciliation for them; they don't want to have to look at it themselves," said Mary L. Burchette, product manager at the GE information unit in Rockville, Md.

She added that the software "doesn't change the ability of banks to send remittance information for those corporations that decide to split the dollars and the data. But it does allow them to get back a piece of that."

Time-Consuming Process

Reconciliation can be time-consuming because payments and remittance information do not always correspond. A corporation may pay for several invoices in a single lump sum.

"Corporations want to look to their banks to do reconciliation for them."
Mary L. Burchette
GE Information Services

First Interstate Bank of California and Bank America Corp.'s Seafirst subsidiary, Seattle, are the first companies to use an earlier GE product, called BPS Central, that allows banks to offer electronic payment instruction services.

"Customers want their banks to be flexible," said Katherine Claypool, vice president and manager of product management in the financial technologies division at Seafirst. "If my customer wants me to be able to reconcile, I want to do that.

"I'm interested in how do I make my service more attractive," she added. Seafirst plans to announce a financial EDI service by October.

The license fee for Merge is $20,000 for the first copy. □

Banks Tap into Satellite Savings

But Price Discounts Keep Phone Lines in Service

By RICHARD LAYNE

NEW YORK — Increased use of satellite communications may pay dividends even for banks that sidestep the technology and stick with phone company services.

Two banks with a large presence in Florida, Barnett Banks Inc. and First Union Corp., have elected to use satellite communications instead of phone lines to communicate with their multistate branches. The switch will save them millions of dollars in expenses and remove some technological impediments to the introduction of new products and services.

But sensing the potential magnitude of the satellite competition, some phone companies are reportedly cutting prices on their services. Ensuing price wars will create opportunities for banks who stick with traditional phone-company suppliers, observers say.

Satellite Plan Abandoned

One major bank has abandoned a plan to use satellites called VSATs (very small aperture terminals) for sending data between headquarters and branches because of price reductions guaranteed by its phone suppliers.

Atlanta-based Citizens and Southern Corp. earlier this year installed two VSATs, each about three feet in diameter, on its data center and on a nearby branch. As originally envisioned, the satellites would have provided inexpensive links with the bank's 517 branches in several southern states.

But installing two small satellite dishes was enough to gain sizable price cuts from the phone companies, which would be squeezed out or bypassed by the new technology, the C&S executives said.

"Phone companies tend to respond better when you mention the "B" word – bypass," said a manager at C&S who asked not to be identified.

"Land lines were slightly cheaper than satellite," said Henry Garcia, C&S senior vice president. C&S spent $30 million on voice and data communications for its branches in 1989. In calculating savings, C&S also considered the high initial costs in purchasing satellite dishes for its extensive branch network.

"Satellites offer flexibility and price protection that you can't get in a current terrestrial-based network."
William T. Howe
Barnett Computing

The company, which last October acquired the bank, has switched the last regulatory hurdle to merge with Sovran Financial Corp., would not disclose which communications companies it is negotiating with for price cuts. Sovran has not announced any satellite plans, and C&S declined to discuss whether the two banks' branches would be connected through a single data network.

The Benefits of Satellites

Industry observers report a significant drop in the cost of leased, private lines. "We've seen an 80% drop in prices in the past few years from some communications companies," said Daniel Briere, a telecommunications specialist with TeleChoice Inc., Manchester, Conn.

Even with that drop, Mr. Briere said satellite communications are more attractive for some companies. "In a lot of instances, VSATs are becoming the ideal type of leased line replacements," he said. "If you are transmitting to 200 sites, the cost of leased lines can be incredible."

First Union was the first bank to adopt satellite communications for its network of branches. The bank began to install satellites three years ago and estimates the savings from the satellite network at $5 million through 1992. The bank plans to complete its 800-branch network by August 1.

Barnett began installing satellite dishes in its 564-branch network in April and now has 50 VSATs in Florida and Georgia. The bank said that using satellites will save as much as 20% annually on its telecommunications budget, which totaled $300 million in 1989.

Like Barnett and First Union, C&S originally had reasons besides cost savings for shifting to satellite communications. One advantage was said that satellites have more flexibility than phone lines.

With satellites, a bank can significantly increase the amount of data transmitted easily to branches. This speed allows a retail service to be introduced in branches or at automated teller machines quickly, because data processing and communications support are readily available.

"Satellites offer flexibility and price protection that you can't get in a current terrestrial-based network," said William T. Howe, president of Barnett Computing Co., a unit of the bank holding company.

Because Barnett owns its satellite dishes, its costs are more predictable than with leased lines, he said. □

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COMMENT/*By Paul Nadler*

Banking Industry Follows In the Railroads' Tracks



To get a picture of what is happening to financial institutions today, just look at the main line of the old New York Central Railroad as it wends its way up to Albany from New York City.

Though the roadbed is wide enough for the four tracks that trains used to keep busy, now there are only two – and for a while, part of the route was served by just one track!

Downscaling Needed

In sum, the railroad had too much invested in capital facilities for today's needs, so major downscaling was needed to avoid substantial losses.

Looking at the communities that have far too many bank and thrift offices – many of them large, expensive structures that devoured a lot of capital – one has to conclude that banking, too, must downsize. And though it is much easier to rip up rails than to find other uses for structures built as banks, finding those uses is part of the prize for rationalizing bank and thrift operations and making them prosper again.

The reduction in the number of bank and thrift offices started with the merger-and-acquisition movement of the late 1980s. Now, the sale of troubled thrifts and banks to more profitable ones will undoubtedly speed up the process.

Looking at Who Failed

There is another way that the trend in railroads gives lessons for banking. This involves analysis of which organizations have failed.

As a graduate student in history, this writer became the world's leading expert on the abandoned railroads of Wisconsin. (I can claim the title because I am the only person who ever studied them.)

For my work, I had to examine every railroad in Wisconsin that had ever been abandoned – and there were lots of them. I found that though railroad building had started in the 1820s, every railroad ever abandoned in Wisconsin had been chartered and built after 1890.

In other words, the builders of the first 70 years had been an economic need. But those who got into financial trouble had entered the field late, hoping to profit by generating new needs – or from the financing process, without regard to what the railroad would earn once completed.

Fast Growth Presaged Failure

Similarly, the vast majority of the banks and thrifts that have recently gotten into trouble grew from small shops into large institutions in the 1980s, under conditions that gave them virtually unlimited access to deposits and considerable freedom in their use.

As the president of a surviving thrift said of competition that had gone the Resolution Trust Corp. route: "They were growing more in one year during the 1980s than we had grown in 100 years!"

Many Closings Ahead

Just as railroads have abandoned entire lines (giving the nation the opportunity to acquire a huge network of hiking and biking paths) and have downsized trackage on the lines still running, banking is likely to see a continued mergers and acquisitions and the closing of a tremendous number of branches.

Those branches cost a fortune to operate, and they are not needed in an era of automated teller machines, automatic borrowing through lines of credit and home equity loans, and centralized lending operations in headquarters.

Extensive Layoffs

And it is not just bank buildings that will have to be rationalized, although that will do a lot to reduce noncredit expenses. As banks try to boost profitability, the number of employees being laid off is staggering.

The chief executive of one major bank told a bank analyst friend of mine, for example, that the merger he has in mind could save his bank $300 million a year!

It is doubtful that banking will ever again need as many people as it employed as recently as a year ago.

To resist the trend would be folly, the kind lampooned in a 19th century satire in which candlemakers petition to force people to close their blinds in the daytime so more candles will be used.

Banking will rationalize itself into fewer and fewer companies. Some will be small, some medium-size, and some large – but far fewer will be redundant, as many have been up to now.

In banking and 'thrift operations as in railroads, our economy appears unable or unwilling to support excess capacity. A healthy, rationalized financial system is far superior to one that tries to do all things for all people, inside and outside the bank, but whose survival is in jeopardy every day. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

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COPY EDITORS
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"SOUND OFF"

Securities and Exchange Commission Chairman Richard C. Breeden recently suggested to Congress that the government should consider selling deposit insurance to consumers at a market rate. Mr. Breeden said such a system would allow each depositor to choose what level of insurance he or she desired and could help cut the deficit. The *American Banker*'s Chicago bureau chief, Nanine Alexander, asked the following question:

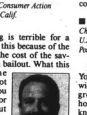
***Q** What is the political viability of such a proposal among legislators, with the public, and within the banking community?*

■ **Michael Heffer**
Senior staff
San Francisco Consumer Action
San Francisco, Calif.

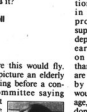
The timing is terrible for a proposal like this because of the publicity of the cost of the savings and loan bailout. What this says to the public is: not only will you have to pay for the bailout, but you will have to pay directly for insurance. It's similar to the 25-cent surcharge on deposits (a proposal abandoned by the Bush administration last year). Only this would be worse because people are in a state of shock.

An important concern of ours would be how this would affect consumers of different income levels. Would low-income consumers be priced out of insurance coverage because they couldn't afford it?

■ **John Mitchell**
Chief economist
U.S. Bancorp.
Portland, Ore.



I'm not sure this would fly. You can just picture an elderly widow appearing before a congressional committee saying how she didn't know that she had to get insurance on her life savings. That's one of the problems with a separate transaction notion.



I like the idea of lowering the amount that's covered, because not many families have $100,000. What we're supposed to try to do is to protect the family savings. This proposal would presumably affect higher income individuals, those with assets above the insurance limits. And we can also look at making it more difficult to broker deposits.

One thing that's good about the impulse behind the proposal is that you want to give people incentives to pay attention to where they put their money.

■ **Larry A. Frieder**
Professor of banking and finance
Florida A & M University
Tallahassee, Fla.

You'd get a public outcry whether you charge consumers for insurance or if you reduce it.



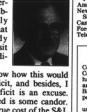
There are some assumptions implied in Breeden's proposal. He supposes that depositors are earning more on accounts than they should and that savers are benefiting inappropriately by the current system. I wouldn't suggest lower coverage, but something should be done about multiple accounts. One solution would be to have separate deposit accounts that the banks would only be able to invest in safe securities like Treasury bills.

The insurance system as it exists isn't rational. The public perception is that the insurance system is endangered, that we have losses greater than the insurance fund. There is concern that the insurance system would break down and the taxpayer will end up picking up the tab.

I can't see the banks supporting such a proposal. It tends to increase the amount of government involvement in the operation of commercial banks. The Breeden proposal would increase the bureaucracy, restructuring it in a more problematic fashion. I think banks would find such a system impractical to implement.

■ **Holmes Foster**
Chief executive officer
Banks of Iowa
Des Moines, Iowa

From the industry standpoint, such a proposal drives money out of the bank to nonbank entities that are not insured. I think that does the public a disservice. The public probably isn't aware that they already pay for deposit insurance indirectly.



I don't know how this would help the deficit, and besides, I think the deficit is an excuse. What we need is some candor. What is the true cost of the S&L bailout? Where is the accounting? Is it going to pay off depositors, is it the expense of regulation?

And don't blame this all on fraud. The thrift industry was vulnerable to deregulation. The regulators were warned and they ignored it. The Federal Home Loan Bank Board encouraged a lot of these problems when they began to reach for ways to help thrifts avoid the interest rate squeeze. □

COMMENT/*By Henry A. Hubschman and Jesse M. Caplan*

A Voice of Reason on Lender Liability



Henry A. Hubschman



Jesse M. Caplan

The 1980s was a decade in which commercial litigation exploded, at least in part as a result of novel legal theories that imposed civil liability and openended financial exposure on commercial institutions where no similar theories of legal liability previously existed.

Among the lawsuits of choice in the 1980s were those characterized as "lender liability" actions. Lender liability in its simplest form involves a lawsuit brought by a borrower, generally against an institutional lender, to recoup damages suffered, for example, as a result of the lender's calling the borrower's loan or exercising other restrictive clauses in the loan agreement.

A review of the legal and factual bases for these suits reveals that the courts often have applied legal and economic theories with questionable validity to impose new obligations on lenders.

A Coherent Framework

Fortunately, in the midst of this wilderness a voice of reason now offers a coherent theoretical framework based on sound economic principles to help the courts restore a measure of certainty to lender-borrower relationships, and, it is to be hoped, promote a more efficient financing structure beneficial both to lenders and borrowers.

In a recent article in the Yale Law Journal, "The Economics of Lender Liability," Professor Daniel Fischel, director of the University of Chicago's center for law and economics, observes that in each of two highly publicized lender liability cases, the court effectively rewrote the loan agreement negotiated between the lender and borrower.

In both State National Bank of El Paso v. Farah Manufacturing Co. Inc. (an $18.9 million verdict against the bank), and KMC Co. Inc. v. Irving Trust Co. (a $7.5 million verdict against the bank), the court looked beyond the contract itself to impose vaguely defined and economically unjustifiable rights and duties between the parties.

As Prof. Fischel observes, the basis for these and other similar court decisions is a fundamental misunderstanding of basic economic principles that govern the efficient conduct of lender-borrower relationships.

The Hidden Contract

In his article, Prof. Fischel demonstrates that strict/ct contract clauses enabling the lender to call an outstanding loan, or otherwise curtail the actions of a borrower, are in reality mutually agreed-upon mechanisms that provide the lender with protection against outside events and borrower misbehavior, and the borrower with its needed financing at a reasonable rate of interest.

While every lender must at the outset assess the probability of default (and the likely recovery in the event of default), the lender's ability to make accurate assessments is severely limited by two factors: outside (or exogenous) events, such as dramatic changes in market or industry conditions; and debtor misbehavior, such as the withdrawal of assets from the company and risky investments.

According to Prof. Fischel, these two factors are closely related in that as "exogenous events adversely affect the borrower, the probability of debtor misbehavior increases," primarily because the borrower has less of its own and more of the lender's funds at risk.

Because of the potential for borrower misbehavior, which experience shows increases with a "troubled" borrower, a lender will ordinarily demand greater compensation (a higher rate of interest) from such a borrower in exchange for the loan.

Prof. Fischel correctly observes, however, that to "decrease the amount of compensation demanded, borrowers will attempt to allay lenders' concerns by agreeing to various monitoring and bonding mechanisms," including various types of loan covenants limiting the discretion of the borrower.

While "these covenants undoubtedly restrict borrower discretion, they are the result of arm's-length negotiations between companies in a competitive credit market and under such circumstances, both the lender and borrower benefit.

Specifically, the lender benefits because the bonding mechanisms "protect the lender from increased default risk resulting from debtor misbehavior and/or exogenous events," while the borrower benefits "because the compensation lenders demand for bearing default risk is reduced."

This is not to suggest that the lender-borrower relationship should never be limited by re-

See **LENDER** *page* **13**

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Mr. Hubschman is a partner at the Washington, D.C., law firm of Fried, Frank, Harris, Shriver & Jacobson. Mr. Caplan is an associate.

CONSUMER NEWS

COMMUNITY RELATIONS

Activists Say NCNB Ignores Low-Income Sector in Texas

By KENNETH CLINE

ATLANTA — Citing the liberal tax breaks that NCNB Corp. received when it entered Texas, community activists are contending that the North Carolina company has not done enough for low-income consumers in its newest market.

The Texas chapter of the Association of Community Organizations for Reform Now recently issued a study in conjunction with the Southern Finance Project of Charlotte, N.C., showing that less than one-half of 1% of NCNB's mortgage originations in major Texas markets went to low-income neighborhoods last year. Only $945,000 of $190 million in mortgages originated in Austin, Dallas-Houston, and San Antonio were for people living in low-income census tracts, the groups charged.

NCNB was the largest institution and the only commercial bank mentioned in the study, which also criticized the practices of First Gibraltar Bank, Houston; Guaranty Federal Savings Bank, Dallas; American Federal Savings Bank, Dallas; Franklin Federal Bancorp, Austin; and Houston-based United Savings of Texas.

Acorn followed up the study with testimony at a June 23 hearing of the House Banking Committee in Austin. Ernest Brown, a member of the Texas Acorn board, commented on "the skillful manner in which NCNB has used public resources to expand its franchise in the Lone Star State."

The Acorn study estimated that NCNB received nearly $4 billion in federal assistance while buying up failed banks and thrifts in Texas, including $2.8 billion in tax benefits from the First Republic Bank deal. Considering this federal assistance, Acorn argued, NCNB has not done enough for low-income communities in Texas.

Catherine Bessant, NCNB's director of community investment, said, "Our performance is not as bad as this study indicates."

The Acorn study only sampled major urban markets, according to Ms. Bessant. Last year, NCNB made $636 million in home loans across the state, she said, with $16 million, or 2.5%, devoted to low-income neighborhoods. "We see our focus as being a statewide market."

Ms. Bessant also said that last year NCNB began developing new products and marketing programs for low-income customers that are now beginning to come on the market. So far this year, she said, NCNB has made $21 million in home loans to low-income customers, or 7% of its Texas total.

Ms. Bessant added that NCNB "has not felt a significant amount of pressure from [Acorn's] study," despite the congressional hearing.

A House Banking Committee spokesman in Washington confirmed that NCNB has not been singled out for special attention. "I don't think the concentration is on NCNB at the moment," the spokesman said. "Community reinvestment concerns with this committee have been broad-based."

Acorn, meanwhile, intends to lobby Congress to force financial institutions that buy failed banks and thrifts to have community reinvestment plans ready before they close the deal, said Elizabeth Wolff, Acorn's head organizer in Texas.

Shawmut to Offer Fixed Loans to Poor

Shawmut National Corp. said last week it would offer a fixed-rate mortgage to complement its adjustable-rate product for low-income homebuyers in Boston.

Both products carry below-market rates.

The fixed-rate, 30-year mortgage will be priced a half percentage point below current rates and will carry no points. It will become available on Sept. 17.

Shawmut has been offering an adjustable-rate mortgage since early March. The interest rate is fixed for five years at 1% below the market rate. At the end of the fifth year, the rate adjusts annually, but not more than 1%. Over the life of the loan, the rate will not increase more than 4%.

"We've recognized that no single mortgage product could meet the needs of all local residents," said Shawmut Bank president John P. Hamill.

"Our adjustable-rate mortgage product is sensitive to the issue of long-range affordability, but we know that an ARM is not for everyone," Mr. Hamill said. "For some low-income families, a fixed rate may offer more stability and security."

The mortgage offerings are part of an $8 million commitment that Shawmut made in January.

Buyers of homes and condominiums may apply for both loans at Boston branches of Shawmut Bank and the Provident Institution for Savings, and at Shawmut Mortgage Co.

CoreStates Grant To Aid Minority Bank

CoreStates Financial Corp. said it plans to make a $250,000 grant to a coalition that will use the funding to purchase common stock in the minority-controlled United Bank of Philadelphia.

Once certain conditions are met, the Urban Coalition will proceed with the stock purchase. CoreStates is the parent of Philadelphia National Bank and First Pennsylvania Bank. □

Visa Fires a Volley at American Express

Continued from *page 1*

volume.

Discount fees for Visa transactions typically range from 2% to 4%; for American Express transactions, they range from 2.5% to 5%.

Visa has long attacked American Express in both its consumer and trade advertising. Officials at American Express see the latest campaign as just another example of what a spokesman called "frustration marketing."

"It tells us very clearly that, at merchants and cardholders alike, we are everywhere. Visa wants to be," the American Express spokesman said, referring to Visa's current slogan, "It's everywhere you want to be."

Rates No Secret

"Our discount rates are not a secret," he continued. "And we have not raised our rates in over 13 years."

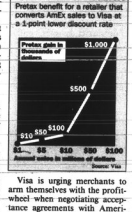
Discount rates are heavily influenced by interchange fees – the charges that banks pay each other to settle credit card transactions. Interchange fees are set by MasterCard International and Visa and typically increase each year.

Visa recently announced plans to increase some of its interchange fees by 20% to 25% as of April 1991. Bradford Morgan, a Visa executive vice president, said that while that will cause an increase in discount rates, Visa's rates will remain below those charged by American Express.

According to Mr. Morgan, Visa does not expect the campaign to persuade merchants to sever relationships with American Express. Rather, the association hopes retailers will show a preference for Visa, and demonstrate it by removing American Express signs from their counters and training salespeople to ask for the Visa card.

Visa's Pitch to Retailers

Prize: benefit for a retailer that converts AmEx sales to Visa at a 1-point lower discount rate



Visa is urging merchants to arm themselves with the profits-to-wheel when negotiating acceptance agreements with American Express.

"There is a conception among merchants that they have to accept American Express and that they have to pay whatever American Express has been charging," Mr. Morgan said.

American Express has long dealt directly with the merchant community, while MasterCard and Visa have relied on their member banks to sell their services to merchants. As a result, Mr. Morgan said, many retailers believe that to reach upscale consumers, they must accept American Express.

The campaign includes data showing that Visa reaches more affluent households than American Express. American Express has half as many cardholders with household incomes over $50,000 as Visa does, according to the ad.

But American Express says its cardholders are bigger spenders than Visa's. American Express cardholders charge an average of $3,000 each year, while Visa's charge $1,700, the American Express spokesman said.

Approach Called Flippant

"It's sort of flippant for Visa to tell retailers not to accept American Express," he said.

American Express has reported increases in the number of merchants that accept its card. As of June 30, 1990, 3.1 million merchants worldwide took the card, 14% more than did so a year earlier. The company does not disclose how many of those merchants are in the United States.

At the end of 1989, eight million locations accepted MasterCard worldwide, up from 7.2 million in 1988. Visa also reported that eight million locations accepted its card worldwide as of the end of 1989, an increase from 6.6 million a year earlier. □

Bank One Texas Opts for Gas Station ATMs

By STEVE KLINKERMAN

DALLAS — In an unusual expansion strategy, Bank One Texas has struck an agreement to place 350 automated teller machines in Diamond Shamrock gas stations across the state.

The arrangement is a departure from most existing automated teller machine networks in Texas, which were established by bank and thrift consortiums and tend to be concentrated at supermarkets and convenience stores such as 7-Eleven.

Bank One Texas, owned by Banc One Corp., Columbus, Ohio, is at somewhat of a competitive disadvantage in Texas. It operates 120 branch offices, less than half the banking locations held by rival NCNB Texas' National Bank.

High Visibility

In establishing the network of teller machines, Bank One Texas hopes to bolster its market presence as well as earn transaction fees.

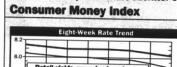
By the time the installations are completed in mid-1991, the bank will have almost 400 automated teller machines in Texas outside its branches.

Under terms of the deal, Diamond Shamrock will supply floor space for the machines at its sites, most of which include small convenience stores. Bank One Texas will install and operate the machines, provide cash-vault services to each site, and pay vending fees.

According to Alfred Domonick Jr., executive vice president of the Texas bank, the institution also gains the right to place its logo on the major signs at each of the 350 Diamond Shamrock sites it will serve. □

AMERICAN BANKER /*Bank Rate Monitor's*™

Consumer Money Index



Retail and Jumbo CDs

Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 largest banks and thrifts in each of the nation's 10 largest markets on July 25. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Retail Yields

	6-month	1-year	5-year
New York	7.92%	8.13%	8.42%
Los Angeles	7.96	8.18	8.06
Chicago	7.67	7.82	8.17
San Francisco	7.96	8.16	8.23
Philadelphia	7.93	8.04	8.14
Detroit	7.56	7.87	7.99
Boston	8.10	8.24	8.29
Houston	7.56	7.85	7.95
Dallas	7.61	7.72	7.87
Washington	8.27	8.43	8.42
BRM NATIONAL AVERAGE	7.96	8.03	8.14

Jumbo Rates

	6-month	1-year	5-year
New York	7.71%	7.91%	8.10%
Los Angeles	7.93	7.99	7.81
Chicago	7.68	7.76	8.07
San Francisco	7.93	8.02	8.14
Philadelphia	7.84	7.94	7.97
Detroit	7.60	7.79	7.89
Boston	7.99	8.00	8.06
Houston	7.65	7.75	7.95
Dallas	7.74	7.79	7.96
Washington	7.96	8.09	8.40
BRM NATIONAL AVERAGE	7.83	7.89	8.05

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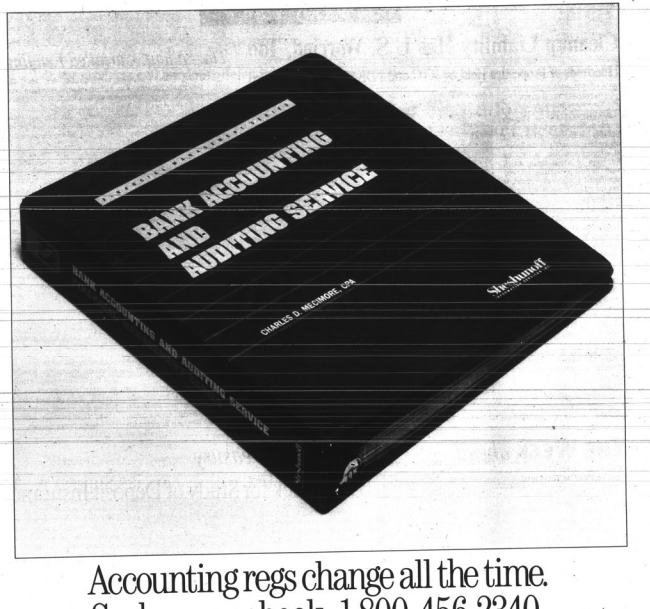

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Cleanup Liability Has U.S. Worried, Too

Hundreds of Properties Held by RTC and FDIC Could Be Affected

By LOUIS GERHARDSTEIN
Special to the American Banker

WASHINGTON — Though much debate on environmental liability has focused on the effect on lenders, apparently the federal government, too, is looking for ways to avoid being stuck with the cost of cleaning up contaminated properties — those it has inherited from failed banks and thrifts.

According to the Federal Deposit Insurance Corp. and the Resolution Trust Corp., a recent decision by the U.S. Court of Appeals for the 11th Circuit has expanded the scope of liability so that "any person in the property's chain of title following contamination may be potentially held liable."



Steven A. Seelig
FDIC

For about 50 FDIC properties, cleanup costs may exceed value by a factor of three, Mr. Seelig says.

Agencies Back Garn Bill

Representatives of both agencies recently appeared before the Senate Banking Committee to endorse a proposal by Sen. Jake Garn, R-Utah, that would limit a bank's liability for cleaning up property on which it has foreclosed.

Under the 1980 Superfund law, which empowers the Environmental Protection Agency to sue the owners of hazardous waste dumps, banks are liable for the entire cleanup cost related to a contaminated property. Sen. Garn's proposal would limit bank liability to the market value of the property after cleanup, a Garn aide said.

Sen. Garn has collected 19 cosponsors, but it is uncertain that the 101st Congress, which has less than seven weeks left, can consider the bill.

In the House, Rep. John J. LaFalce, D-N.Y., has collected 263 signatures for a similar bill he has introduced.

Claims Against U.S. Could Rise

Because federal laws require the FDIC and the RTC to liquidate assets of failed thrifts and banks in receivership, environmental claims against the government could increase as more FDIC and RTC property is foreclosed, the FDIC said.

The agency says it has identified among its holdings about 270 properties, valued at $365 million, that pose potential environmental problems. For about 50, cleanup costs may exceed value by a factor of three, said Steven A. Seelig, director of the FDIC's division of liquidation.

400 Problem Properties

Assets held by the FDIC for liquidation now total about $26 billion.

The RTC says its regional offices have identified 300 properties among its holdings with such problems as asbestos, storage tanks above or below ground, and hazardous waste or trash buried in landfill.

The liability problems of the FDIC and the RTC are strongly linked to those of private banks, said John J. Byrne, senior counsel for the American Bankers Association. Consequently, Mr. Byrne discounted the possibility that the federal agencies may try to "carve" themselves out of the liability chain without also protecting the private institutions.

Mr. Gerhardstein writes for the Medill News Service.

The Fallout: Curtailed Lending

WASHINGTON — Adding to an already dry credit climate, potential liability for environmental cleanup has prompted banks to curtail loans to certain kinds of businesses, according to the American Bankers Association.

Community banks are steering clear of loans to small businesses "most frequently associated with environmental pollution," according to a recent poll of the ABA's Community Bankers Council.

"Holding lenders liable for cleanup costs caused by their borrowers' misdeeds is having a tremendous negative effect on commercial lenders who use real estate as collateral," said Charles M. Mitschow, regional president of Marine Midland Bank, Buffalo.

Businesses that Are Shunned

Testifying for the ABA last week before the Senate Banking Committee, Mr. Mitschow said the businesses most typically affected by banks' reluctance to make loans on environmental grounds include gas stations, dry cleaners, auto repair shops, printing shops, pest control companies, and farms that use pesticides.

Even if the lender is not directly responsible for cleanup costs, "such liability creates credit risks by reducing the borrower's ability to repay the bank and by impairing the value of the collateral," said Mr. Mitschow, a former member of the ABA's small-business banking committee.

Even if a bank decides not to foreclose, the contaminated property collateral will generally decline in value and make it tougher for the owner to repay his loan to the bank, said bankers.

— **Louis Gerhardstein**

THE WEEK *ahead*

MONDAY, JULY 30

Funding needs for the Resolution Trust Corp. are being addressed at a House Banking Committee hearing on the thrift liquidation agency. Treasury Secretary Nicholas F. Brady and RTC Chairman L. William Seidman will testify. 202-225-4247. In the afternoon, the RTC task force, chaired by Rep. Bruce Vento, D-Minn., meets to review the RTC plan to accelerate the sale of insolvent S&Ls.

Restructuring the S&L industry is the focus of a hearing by the Senate Judiciary antitrust, monopolies, and business rights subcommittee, chaired by Sen. Howard Metzenbaum, D-Ohio. 202-224-5225.

TUESDAY, JULY 31

Restructuring the financial services industry is the topic of a hearing by the Senate Banking Committee. Witnesses include FDIC Chairman Seidman and Comptroller of the Currency Robert L. Clarke. 202-224-7391.

Single-family home sales figures for June are released by the Commerce Department.

WEDNESDAY, AUGUST 1

Bank and thrift fraud is discussed at a hearing of the Senate Banking Committee. 202-224-7391.

International trends of U.S. nonbank financial institutions are discussed at a hearing of the House Banking international competitiveness task force, chaired by Rep. John LaFalce, D-N.Y. 202-225-4247.

THURSDAY, AUGUST 2

Fannie Mae's and Freddie Mac's financial condition is explored in a hearing on "government-sponsored enterprises" by the Senate Banking Committee. The Federal National Mortgage Association and the Federal Home Loan Mortgage Corp. are among the enterprises now under pressure to increase their capital levels and improve their credit ratings. 202-224-7391.

Japan's banking system is assessed in a second day of hearings by the House Banking international competitiveness task force.

Lender liability and environmental issues are discussed in a hearing of the House Energy and Commerce transportation and hazardous materials subcommittee. 202-225-2927.

Regulatory impediments to the development of affordable housing are discussed in a hearing of the House Banking policy research and insurance subcommittee. 202-225-4247.

FRIDAY, AUGUST 3

No significant events are scheduled. □

INSIDE *the treasury*

Bush's Pick for Study of Deposit Insurance

The latest arrival to Washington's financial policymaking circle – and one likely to have some significant impact on the restructuring of the banking system – is that of Jerome H. Powell.

Mr. Powell, an investment banker and lawyer, is President Bush's choice to be assistant secretary of the Treasury for domestic finance. If confirmed by the Senate, Mr. Powell would oversee much of the department's forthcoming study of financial institutions and deposit insurance.

The White House announced last week that it intended to nominate Mr. Powell, who has been a full-time consultant at the Treasury since May. Mr. Powell, 37, would replace David W. Mullins, who became a Federal Reserve Board governor at that time.

Role in Deposit Insurance Study

As the assistant secretary for domestic finance, Mr. Powell would oversee the department's debt operations, a Treasury study of how to encourage corporations and investors to think longer term, as well as the financial institutions and deposit insurance study.

Three deputy assistant secretaries – John Dugan for financial institutions, Michael Basham for federal financing, and French Hill for corporate finance – would report to him.

Since May, Mr. Powell has been bringing himself up to par on Treasury issues, said a department spokesman. As a consultant he is barred from taking part in policymaking, the spokesman said.

The Brady Connection

Before joining the Treasury, Mr. Powell was senior vice president in investment banking at Dillon, Read & Co. in New York, where Treasury Secretary Nicholas F. Brady worked before coming to Washington. Former colleagues of Mr. Powell at the firm declined to comment on his nomination, saying they did not want to influence the confirmation process.

While observers speculated that Mr. Powell was chosen because he had worked with Mr. Brady at Dillon Read, Mr. Powell was not a member of the Brady Commission, which studied the 1987 stock market crash and from which Mr. Brady has drawn other Dillon Read associates to the Treasury.

Before joining Dillon Read in 1984, Mr. Powell was a lawyer for the firms of Werbel & McMillin (1983-84) and Davis Polk & Wardwell (1981-83). In 1979-80, he clerked for Judge E.A. van Graafeiland of the U.S. Court of Appeals for the Second Circuit and in 1975-76, was a legislative assistant for former Sen. Richard Schweiker, R-Pa.

Mr. Powell received a J.D. in 1979 from Georgetown University Law Center and a B.A. in 1975 from Princeton University. Mr. Powell did not return phone calls, and a Treasury spokesman said he would not speak to the press until after he was confirmed.

Another Possible Opening

While the administration takes steps to replace Mr. Mullins, another post may be opening up at Treasury.

Under Secretary Robert Glauber, testifying last week before a House task force on the competitiveness of U.S. banks overseas, mentioned that his two-year leave from his tenured post as professor of finance at the Harvard Business School will end in January.

"I haven't discussed extending it," Mr. Glauber reportedly told the task force. He was responding to questions as to when Treasury expected to finish the deposit insurance study he is overseeing.

A Treasury spokesman said that Mr. Glauber had not decided to leave but that it was a "definite possibility." Mr. Glauber would have to give up his tenured post if he does not return in January. The desire to hold on to that position would prompt his leaving Treasury, not any displeasure with his job, the spokesperson said.

Mr. Glauber, 50, joined Treasury as a consultant in November 1988 and was appointed and confirmed as under secretary the next May. — **Linda Corman**

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S&L Bailout Picks Up Steam After Slow Start

Continued from *page 1*

painfully slow start, is finally on track.

"FIRREA has imposed healthy living on thrifts," said Jonathan Gray, a thrift industry analayst for Sanford C. Bernstein & Co.

In particular, he said, it has established sensible accounting, capital, and regulatory standards for the industry, and it has taken savings associations out of high-risk businesses and forced them to concentrate on home lending.

Checkered History

"The history of the industry is that it makes money on financing homes and loses money on everything else," Mr. Gray said.

Bert Ely, an Alexandria, Va.-based analyst, believes the Resolution Trust Corp., the agency created to oversee the cleanup, reached a turning point on April 12 when its oversight board approved a new plan to begin disposing of failed thrifts rapidly.

Now, said Mr. Ely, "the next two years are absolutely critical. If they maintain the pace, they can dispose of the banking segment – the deposits and good assets. They will still have a pool of bad assets, but at least they can make a start."

For the RTC to forge ahead, however, it will need a fresh infusion of cash.

Cleanup Cost Escalates

The cost of the bailout is proving higher than projected last year, and the agency will run out of money as early as the next cal-

Lawmakers sense voters are looking for someone to blame.

endar quarter if it maintains its present pace. Funding for the bailout is likely to play a major role in the budget summit between the White House and Congress.

In the meantime, Mr. Ely worries that too many people are giving up on the RTC too quickly and ignoring the real progress the agency has made.

The agency's image is likely to continue to deteriorate in the next few weeks as a spate of anniversary stories appear. Mr. Ely believes most will be highly critical.

Industry Tarnished

The savings and loan industry's image has also deteriorated. Lawmakers routinely denounce "S&L kingpins" with the vehemence once reserved for drug lords or organized crime chieftains, and bankers and S&L executives alike fear that the ugly mood could lead to punishing legislation. Already, Congress is on the verge of passing a bill that would set life sentences for some types of S&L crime.

If lawmakers are in an angry mood, it is probably because they sense voters are looking for someone to blame for the burgeoning cost of the bailout.

"It comes up in every town meeting, every single forum," said Rep. Floyd Flake, D-N.Y. "It comes up more than any issue I remember, and the com-



"The profitable commercial banks are heavy in credit cards and consumer loans."

Patrick Forte
Association of Thrift Holding Cos.



"It [the bailout] comes up more than any issue I remember, and the comments are always negative."

Rep. Floyd Flake
New York Democrat

ments are always negative. The taxpayers are fed up with having to pay for it."

"The escalating cost just boggles the mind," added Rep. Carroll Hubbard, D-Ky.

For the 2,500 thrifts that have thus far survived the bailout, life has never been more difficult.

Some industry leaders argue that the bailout law dooms the industry by limiting investment alternatives and hiking already brutal deposit insurance premiums. "It's hard to think of anyone east of the Mississippi, over $3 billion in assets, that has a chance to be a survivor, unless they are owned by a commercial or industrial parent," said Patrick Forte, president of the Association of Thrift Holding Companies.

"The profitable commercial are heavy in credit cards and consumer loans," he said. "And that isn't available to thrifts anymore. It's very troubling."

The bailout law has clearly changed the way savings institutions do business, both for better and for worse, according to S&L executives.

"It has eliminated the weak competitors, and that has had a healthy effect," said Robert Adelizzi, president and chief executive officer of HomeFed Corp., San Diego. As a result, "there certainly has been a moderation of the rates we have to offer" to pull in deposits, he added.

But Mr. Adelizzi believes the ill effects of the law far outweigh the benefits, at least for the industry's survivors. In particular, he said, the bill set draconian limits on the industry's ability to invest directly in real estate development.

The bill requires thrifts to divest real estate development activities – a business that in the past has accounted for more than a quarter of HomeFed's profits – by 1994. "And it punishes us every step of the way," said Mr. Adelizzi, noting that institutions are required to take charges against capital each year it takes to exist the business.

And the timing could hardly be worse, coming as it has on the heels of a softening real estate market. "It's just very hard to get out of that business in this real estate market," said David Sullivan, president and chief executive officer of Mechanics and Farmers Savings Bank, Bridgeport, Conn.

But it is the cleanup, estimated to cost $125 billion in present-value terms, that has generated the most heated controversy.

Results Slow in Coming

The size of the problem is proving larger than anticipated, and the solutions that once seemed so simple – letting the Federal Deposit Insurance Corp. dispose of the mountain of bad assets with relentless efficiency it applied to insolvent banks – has not yet worked.

Despite the flurry of activity at the RTC since April, Atlanta lawyer John Aldridge worries that "very little has been done to deal with the tumor – the defaulted commercial loans."

Most of the agency's deals so far have involved the sale of a deposit base plus good assets – one- to four-family mortgages, for example, that are current on their payment. But it is the bad assets, repossessed real estate and and nonperforming commercial real estate loans; that the RTC was created to deal with.

What the RTC needs now, Mr. Aldridge said, is a victory, a big victory that would show the world it can dispose of assets in blocks of $250 million to $500 million at a clip.

"But even if they hit a home run, if they knocked one out of the park and were able to do 10 deals of $500 million each, what about the next $395 billion of assets? People just don't realize the magnitude of the problem."

RTC Adds to Problems

While the RTC's problems have been compounded by the softening real estate markets in once strong regional economies such as that of New England, it appears that the thrift law and the RTC itself have exacerbated the problems in commercial real estate.

"It's certainly had an impact on the market," said Joseph E. Robert, president of J.E. Robert Cos.. "When you are driving along at 65 miles an hour and you break suddenly with people behind you, there are going to be accidents."

Mr. Robert said that the bailout law is not the cause of the downturn in the real estate markets, but that it has deepened the problem. Tough new capital rules, for example, have forced thrifts to slim down. "A vast amount of real estate has been put on the market all at once, and that has had a depressing effect" on values, he said.

The RTC has also been hurt, Mr. Aldridge said, by the reluctance of some investors to jump into what they fear will prove a "political fishbowl," in which participants are scrutinized closely through the process of partisan politics.

Many investors believe the same properties will still be available years from now, when values have fallen still further and the RTC is feeling increased pressure to unload assets; even at bargain-basement prices.

Outside the thrift industry, the bailout law has had a considerable impact. Commercial banks, for example, have been subjected to higher deposit insurance premiums. This is one major reason that Kenneth Guenther, executive vice president of the Independent Bankers Association of America, believes the negative effects of the bill outweigh its positive attributes.

Also worrisome, he said, is the highly charged political atmosphere that is building as the cost of the bailout rises.

Many investors believe RTC properties will be available later at cheaper prices.

"This attitude of 'Don't let it happen again' is leading to a tightening of the regulatory screws," Mr. Guenther said.

But the fallout from the bailout is affecting the entire political process, said James Butera, a Washington-based lawyer and thrift lobbyist. "It has created regional tensions, class tensions, and tensions between Republicans and Democrats," he said.

Thus, lawmakers in the Northeast are angry that their constituents are paying taxes to bail out institutions in the Southwest. Rep. Joseph P. Kennedy 2d, D-Mass. has introduced a bill that would create new taxes on the wealthy to pay for the bailout. And almost daily, lawmakers stand up on the floors of the House and Senate to point fingers at the other party for its role in bringing on the crisis.

In the end, it is on the progress of the bailout that the thrift law ultimately will be judged.

The RTC "has made a hell of a lot more progress than most of us think," said Mr. Robert of J.E. Robert Cos. Realistically, he added, the agency faces a problem that will take seven to 10 years to work out. "Look how long it took to work out the REITs," he said, referring to the real estate investment trusts that started to go bust in the 1970s. □

RTC Offers $973 Million In Mortgages

By RICHARD CHANG
Staff Reporter

The Resolution Trust Corp. is requesting bids on $973 million of fixed-rate mortgages as it launches a pilot project to sell $10 billion of performing loans seized from insolvent thrifts.

Richard Reed, assistant director of marketing in the RTC's Eastern regional office in Atlanta, said in an interview that the office sent out bid packages at the end of last week to 417 potential investors.

The 417 include secondary-market agencies, investment banks, commercial banks, thrifts, and mortgage companies.

Sales to Start Aug. 22

The loans, seized from seven thrifts, will be sold in separate packages on consecutive days beginning Aug. 22. Many of the loans are expected to be repackaged into mortgage-backed securities.

Winning bidders will gain the right to service the loans – collecting and distributing monthly payments – for a fee.

The loans will be the first sold with RTC representations and warranties. These were issued earlier but are being revised to satisfy reservations by the Federal National Mortgage Association and Federal Home Loan Mortgage Corp.

The biggest issue is whether Fannie Mae and Freddie Mac will accept the representations and warranties, Mr. Reed said.

Fannie Mae and Freddie Mac are likely to offer higher prices for the loans than individual Wall Street firms, since the agencies' securities carry an implicit government guarantee and can command higher prices, analysts said.

The revised representations and warranties will issued by Aug. 12, Mr. Reed said. "We anticipate very aggressive bids as the loans are good, clean, performing."

Unlike loans sold previously by the RTC, every loan in this sale has been reviewed by outside firms since April. "We will be using full data on the portfolios plus computer tapes that will show not only financial information, but also loan documentation and deficiencies that have resulted from our due-diligence work," Mr. Reed said.

Winning contracts will be selected on the day of the bidding. Subsequent sales will be made as loans become available.

19 Thrifts in Program

Holdings of 19 thrifts are now in the pilot program. These include the seven institutions in the current sale: City Federal Savings and Loan Association, Birmingham, Ala.; Commonwealth Federal Savings and Loan Association, Fort Lauderdale, Fla.; Duval Federal Savings Association, Jacksonville, Fla.; Security Homestead Association, New Orleans; Unifirst Savings, Jackson, Miss; Horizon Financial, Southampton, Pa., and Baltimore Federal Savings and Loan Association. □

COMMENT

Lender Liability: Voice of Reason

Continued from *page 5*

straints on the lender. But as Prof. Fischel argues, the focus of the courts' analyses in lender liability cases should be on the issue of lender misbehavior.

According to Prof. Fischel, lender misbehavior occurs only when a lender behaves opportunistically to extract concessions from the borrower not previously agreed to by the parties.

One of the main problems with recent lender liability decisions is that the courts have held that lenders opportunistically extracted concessions from the borrower – even though their actions were agreed upon by the parties and authorized by the underlying loan agreement. In these situations, the courts have granted borrowers additional rights and imposed upon lenders additional duties not previously negotiated between the parties.

Defining "Good Faith"

The purported justification for imposing these additional rights and duties generally is a

"The court effectively rewrote the loan agreement negotiated between the lender and borrower."

finding that the lender violated its "duty of good faith," a deceptively simple concept.

Notably, although the Uniform Commercial Code imposes a duty of good faith on all contracts, as Prof. Fischel points out, "no consensus exists on precisely what the duty of good faith means."

Prof. Fischel offers a definition of the duty of good faith anchored firmly in basic economic principles relevant to the lender-borrower relationship. The duty of good faith should be "equivalent to a prohibition of opportunistic behavior."

In Prof. Fischel's words, "lenders are entitled to the benefit of their bargain but are precluded from using contractual terms as a pretense for extracting benefits for which they have not bargained."

According to Prof. Fischel's approach, a lender would not be liable simply because it exercised a bonding mechanism – even a severely restrictive bonding mechanism – which impacted adversely on the borrower (like calling a loan). Instead, a lender would be liable only if it exercised the bonding mechanism to extract from the borrower a benefit for which the lender had not originally bargained.

Unfortunately, as Prof. Fischel concedes, "distinguishing opportunistic from non-opportunistic behavior can be very complicated if not impossible." In any event, in many of the lender liability decisions to date, the court imposed liability on a lender simply because the lender exercised its rights under the bonding mechanism.

As a result, Prof. Fischel observes that rather than "deterring opportunistic behavior by lenders, [the] courts simply eviscerated bonding mechanisms that benefit both borrowers and lenders."

Fiduciary Duties

The need to have courts begin analyzing lender liability cases with due regard to the economic principles underlying the lender-borrower relationship is especially urgent because, as Prof. Fischel points out, some courts have held that lenders owe a quasi-fiduciary duty to their borrowers.

Fiduciary duties impose substantial obligations, as they customarily govern agency relationships – where one party agrees to act on behalf of the other. By applying fiduciary principles in the typical lender liability context, the courts effectively have ignored the economic principles upon which loan transactions are predicated.

Furthermore, borrowers filing lender-liability actions typically demand, and are awarded, huge actual damages based on claimed lost profits that are not economically justifiable.

Prof. Fischel argues that it is fundamentally inconsistent, in most cases, for a borrower to claim on the one hand that it was unable to obtain an alternate source of credit, while on the other hand arguing for huge damages to make up for lost profits.

The duty to mitigate losses, and the failure of many borrowers to do so (or, more tellingly, even to be able to do so), demonstrates the lack of economic justification in routinely awarding borrowers damages based upon lost profits.

"No consensus exists on precisely what the duty of good faith means."

Daniel Fischel
University of Chicago

Finally, Prof. Fischel observes that while a huge damage award based on lost profits actually provides a borrower with a windfall, such windfalls actually negatively impact all other lenders and borrowers.

Lenders will inevitably attempt to minimize the risk of borrower misbehavior and huge damage awards by increasing the costs of borrowing or by refusing to extend credit at all. As a result, Prof. Fischel notes that "society as a whole will suffer because valuable investment opportunities are lost."

Prof. Fischel's article is perhaps more a series of observations based on sound economic principles than a voice in the wilderness. Nonetheless, courts faced with lender liability suits would be well advised to give due regard to the basic economic principles underlying the lender-borrower relationship. □



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GLOBAL *dispatches...*

Rabobank of Netherlands Returning to E. Germany

NEW YORK — **Rabobank Nederland,** the large Dutch agricultural lending bank, is returning to East Germany after a 45-year absence.

The bank announced this month that it would resume banking services in East Germany by opening a Leipzig office.

The office will be opened by Rabobank's West German subsidiary ADCA-Bank AG, which now has offices in Hamburg, Dusseldorf, Frankfurt, and Munich.

ADCA-Bank had headquarters in Leipzig until 1945, when the bank was seized by Soviet occupation forces.

ADCA-Bank, established in 1856, had some 160 offices in Germany at the end of World War II.

Most of the office were in areas that became part of the German Democratic Republic.

Rabobank officials at the bank's headquarters in Utrecht, Holland, said that Rabobank's agribusiness finance experience and banking ties with Dutch businesses combined ADCA-Bank AG's historical connection to the German market will enable ADCA-Bank to take advantage of the opportunities created by the German monetary and economic union.

The Rabobank Group, triple-A rated by both major credit rating agencies, ranks among the world's 50 largest banks.

ADCA-Bank had total assets of $14.-billion at the end of 1989.

In the United States, Rabobank has been a lender to agribusiness since 1981. — **James R. Kraus**

... by country

AUSTRALIA

The release of June's current-account figures, showing a sizable downturn in Australia's imports, drew opposite reactions Friday from the private sector and the government.

Will Bailey, chief executive of **Australia and New Zealand Banking** Group Ltd., called in Adelaide for easing of monetary policy, while a government official in Melbourne was skeptical about the desirability of easing.

Mr. Bailey said that, although the unadjusted deficit of $1.58 billion was at the high end of expectations, the 14% drop in imports was healthy.

"These figures are supportive of the argument that we can start to see some sort of easing [of monetary policy] take place," he said.

However, Australian Treasurer Paul Keating said in Melbourne that monetary policy would not be eased if it risked rekindling demand that would affect the downward trend in the deficit in current account.

"While the government is conscious of the pressures of a firm monetary policy, we cannot risk rekindling demand in a way which would threaten the downward trend in the current account and inflation," Mr. Keating told the Irish/Australian chamber of commerce. — **Reuters**

JAPAN

The Ministry of Finance is considering liberalizing interest rates on Japanese demand deposits in two stages, an official said.

It may first set a minimum deposit on which banks will be allowed to pay unregulated interest at their discretion, and then wait to see the effects on the banking industry before entirely abolishing interest rate regulations, he said.

The ministry has asked for discussions on the issue by an advisory panel, which is expected to submit a schedule for deregulation in early 1991, the official said. Rates are unregulated on term deposits of one million yen (about $6,500) and over. — **Reuters**

The president of the now-merged Mitsui Bank Ltd., Kenichi Suematsu, apologized to the Finance Ministry on Friday for the bank's secret compensations for customer losses, a bank spokesman said.

A spokesman for **Mitsui Taiyo Kobe** Bank Ltd., the result of a merger between Mitsui Bank and Taiyo Kobe Bank Ltd. in April, confirmed that Mitsui Bank covered various client losses after the 1987 Black Monday share market crash.

Finance Minister Ryutaro Hashimoto told a news conference Friday morning that the ministry had been informed about the incident and that the bank had punished the employees involved. — **Reuters**

WEST GERMANY

A consortium of West German banks led by Deutsche Bank is to arrange a $300 million loan to Hungary to help the country with short-term liquidity problems. The loan will be 90% guaranteed by the West German government and will take the form of a revolving credit running at 12 months at "normal terms."

Hungary, the most indebted of the Eastern European countries in per capita external debt, recently saw its bond issues downgraded below investment grade. Analysts said the West German loan's having to be guaranteed by Bonn showed that Hungary would continue to have problems raising money from banks. — **EMMA**

European Media Monitor and Analysis is a Brussels-based news service that provides abstracts from the European financial and business press.

Hong Kong Group Investing in U.S.

Acquiring Half of the Buyer of Columbia Junk Bonds

By JAMES R. KRAUS

NEW YORK — Hong Kong billionaire Li Ka-Shing will invest $150 million to acquire a 50% stake in a New York-based investment company that is purchasing $3 billion in junk bonds and preferred stock from Columbia Savings and Loan Association, Beverly Hills, Calif.

Cheung Kong (Holdings) Ltd., Hutchison Whampoa Ltd., and a third company controlled by Mr. Li will buy half of the partnership in Gordon America L.P.

Cheung Kong, a real-estate giant, and Hutchison Whampoa, one of Hong Kong's major trading houses, will each own 20% of Gordon America. A company owned by Mr. Li's family will acquire 10%.

"We look at this investment as a window into corporate America and into further investment opportunities."
Li Ka-shing
Hong Kong investor

Stake in Investment Bank

Hutchison Whampoa already has a stake in Gordon Investment Corp., a Toronto-based investment bank set up in 1987.

Gordon America is still awaiting approval from the Office of Thrift Supervision to acquire the $3 billion portfolio from Columbia.

Under a deal announced last week, Gordon would pay $300 million cash and $2.7 billion in promissory notes bearing 10.5% interest.

Columbia, the $8.2 billion asset Beverly Hills-based thrift, is said to have the largest junk bond portfolio held by a U.S. savings and loan.

Columbia moved to dismantle its portfolio after it posted heavy losses following a plunge in junk bond prices last year.

Thomas I.A. Allen, a partner with Gordon Capital in Toronto, said Gordon Capital plans to hold the junk bond portfolio as a long-term investment.

Mr. Allen added that Gordon Capital would not make other U.S. investments until it has first "digested" the Columbia portfolio.

However, Richard Li, Mr. Li's son and managing director of Hutchison's corporate fund management committee, described the move as diversification out of investments in Hong Kong.

"We look at this investment as a window into corporate America and into further investment opportunities," Mr. Li told told reporters in Hong Kong Friday.

According to Mr. Li, the junk bond portfolio that will be acquired from Columbia includes about 300 securities issued by 175 companies. The securities bear yields of 14% to 18%. □

Protracted Loan Problems Seen in Britain

Britain's big banks are following their U.S. counterparts and running into growing problems with their domestic loan portfolios.

At a press conference in London on Friday, Lloyds Bank chairman Sir Jeremy Morse said domestic loan problems were likely to continue into next year, abating only if British interest rates ease.

Lloyds is the first major bank to report its first-half earnings. The bank reported Friday a sharp rise in pretax profits for the first half of the year but increased its loan charges to $344.7 million, up sharply from $109 million in 1989 first half.

"We're not in crisis conditions but there is certainly a trend toward asset deterioration."
David Andrews
IBCA Ltd.

A Virtual Recession

Lloyds officials said that Britain's economy was now virtually in recession as a result of slowdowns in the construction and housing industries.

Brian Pitman, Lloyds' chief executive, said high interest rates and a slowdown in consumer spending would continue to weaken earnings at small and medium-size companies as well as large, listed companies.

Most of Lloyds' first-half provisions against loan losses were for loans to publicly traded companies. Executives declined to name any of their borrowers that had run into financial difficulties.

Other major British banks are due to release their first-half results this week.

More Provisions Likely

However, several large British banks, such as Midland Bank PLC, have already indicated that they may have to increase loan loss provisions for their domestic portfolios following a downturn in real estate prices and a general slowdown in the British economy.

"We're not in crisis conditions but there is certainly a trend toward asset deterioration. We expect provisions against domestic loan losses to rise," said David Andrews, a director with IBCA Ltd., the London-based credit rating agency.

The rise in loan loss provisions follows a 25%-a-year surge in bank lending in Britain between February 1986 and February 1989.

The rise includes a 500% surge in real estate-related lending between 1984 and 1989 that has been hit hard by bankruptcies among developers.

Mr. Andrews predicted more bankruptcies unless high British interest rates came down but added that a decline in rates is not likely to come soon. — **James R. Kraus**

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/27	7/26	7/25	7/27	7/26	7/25	7/27	7/26	7/25	7/27	7/26	7/25	7/27	7/26	7/25
United States	8.00	8.00	8.06	8.06	8.12	8.12	8.06	8.12	8.18	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.56	7.56	7.50	7.78	7.75	7.75	7.90	7.87	7.81	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.50	13.50	13.50	13.25	13.25	13.50	13.12	13.12	13.37	13.48	13.59	13.59	14.75	14.75	14.75
U.K.	15.00	14.93	15.00	15.06	15.06	15.00	15.00	15.00	14.93	14.33	14.31	14.31	15.00	15.00	15.00
West Germany	8.06	8.00	8.12	8.31	8.25	8.25	8.43	8.43	8.43	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.06	9.00	8.75	9.06	9.06	9.00	9.00	9.00	9.00	6.00	6.00	6.00	11.25	11.25	11.25
France	10.12	10.12	9.87	9.93	9.93	10.00	10.00	10.00	10.06	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.75	11.75	11.00	11.37	11.37	11.37	11.37	11.37	11.37	12.50	12.50	12.50	13.00	13.00	13.00

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	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
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6 to 12 months	7.99	13.31	8.60	8.10	7.83
12 to 24 months	8.64	12.63	8.85	7.46	7.54

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

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Citation Notice

File No. 2261-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK, BY THE GRACE OF GOD FREE AND INDEPENDENT, TO the heirs at law, next of kin and distributees of Paulette Godard Remarque, deceased, if living and if any of them be dead, to their heirs at law, next of kin and distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator of the County of New York Attorney General of the State of New York A petition having been duly filed by Richard L. Kay and S. Andrew Schaffer, who maintain offices at 40 East 88 Street, New York, NY 10128 and 14 Washington Mews, New York, NY. 10003. YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 304, 31 Chambers Street New York, on August 15, 1990, at 10:00 a.m., why a decree should not be made in the estate of Paulette Godard Remarque, late of Switzerland at Casa Remarque 6613 Porto Ronco Ronco Switzerland, admitting to probate as a will of real and personal property a paper dated July 24, 1986, (a copy of which is attached), and offering that letters of Testamentary issue to Richard L. Kay and S. Andrew Schaffer Esqs and for such other relief sought. Dated, Attested and Sealed, June 20, 1990. (L.S.) HON. ROBERT D. Lippe Surrogate, County of New York Robert M. Reaves, Clerk of the Surrogate's Court Name of Attorney Richard L. Kay and S. Andrew Schaffer Esqs Address 40 East 88 Street, New York, NY 10128 Telephone Number (212) 427-1400 Attorney for Petitioner

File No. 2123/90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT. TO The heirs at law, next of kin and distributees of CARRIE E. VOTTELER whose names and whereabouts are unknown and, after due diligence, cannot be ascertained, if they be living, or if they died subsequent to the decedent herein, to their heirs at law, distributees, executors, administrators, creditors, lienors, or successors in interest. Public Administrator of the County of New York A petition having been duly filed by JOHN F. KELLY, who is domiciled at 63 East Main Street (P.O. Box 632), Fonda, New York 12068 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 304, 31 Chambers Street, New York, on August 16, 1990, at 10:00 a.m., why a decree should not be made in the estate of CARRIE E. VOTTELER, late-ly domiciled at 11 Stuyvesant Oval, New York, New York 10009 In the County of New York admitting to probate as a will real and personal property a paper dated November 14, 1980, and offering that Letters of Testamentary issue to JOHN F. KELLY, and that Preliminary Letters Testamentary granted by this Court to JOHN F. KELLY on May 16, 1990, be revoked. Dated, Attested and Sealed, July 10, 1990. (L.S.) HON. ROBERT D. Lippe Surrogate, County of New York Robert M. Reaves Clerk of the Surrogate's Court Name of Attorney: Robert Dowling Address: Fonda Telephone Number (212) 840-1681 Address of Petitioner: 63 East Main Street, P.O. Box 632 New York 10036. This citation is served upon you as interested party. You are not obliged to appear in person. You have a right to have an attorney appear for you, if you fail to appear it will be assumed that you do not object to the relief requested.

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Ronald Zaza Auct'r Lic #840731 sells 8/11/90 9 AM at 111 Eastmore Rd Wht Plns '83 Datsun #JN1PB14S5DU102894 Rr: D. McGregor, 79 Pine #2J3Y3V7S8BJ Re: F. Candella, '89 Hyundai #KM8LF31HKU148708 Re: N. Valencia & Marine Midland; 10 AM at 153-28 Rockaway Blvd Jam, '82 Toyota #JT2TE72E8C0772682 Re: A. Ramirez; 10 AM at 18-27 27th Ave Astoria, '83 Dodge #1B3BD46C5DF011729 Re: L. Palacios, '74 Chevy #1Q8TH4N216555 Re A. Germain; 12 PM at 1000 E. 233rd St Bronx '84 Re A. Nasser; 3 PM at 35-10 14th Ave, Bklyn, '82 Chevy #2G1AL45F4L4C13486 Re: G. Tolentino; 4 PM at 352 9th Ave, NYC, '88 Mitsubishi #JA3BP44DBJZ021069 Re: M. Sanchez; '83 Buick #1G4AK47R4DH832106 Rr: R. Niovino. Published 7/30 & 8/6/90.

DEFAULT In Security Agreement Made By Jesse W Jones, Executive Director Of Lawson Equities Inc. to Ali Ahmzi & Waleed Abbasi I Will Sell On 7/31/90 At 10:30 AM At 3116 Lawson Blvd., Oceanside, NY All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

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Ronald Zaza Auct'r Lic #840731 sells 8/6/90 9 AM at 170 So. Service Rd. Wht Plains, '73 Dodge #W14AE53076655 Rr: A. Ballinelli. Published 7/23 & 7/30/90.

Avantor: The Rise and Rejection of a Name Transplant

Continued from page 1

C&S's headquarters city, Mr. Bottorff and other top Avantor brass gamely sat through the laughter that followed one questioner's observation that Avantor sounds like "a brand of Italian shoe."

Finally, last week, the plug was pulled on Avantor, and a new name — "C&S/Sovran Corp." — was announced.

The decision is likely to fuel an industry debate about the exotic new names many banks have adopted in recent years, such as Synovus, Alerion, Crestar, and Altus. Some critics complain that such names are too artificial to inspire loyalty from customers or employees.

"In the industry today, given the mergers and loan situation, and given the concerns for safety and soundness in general at regional banks, if you have as strong reputation as C&S and Sovran, you need to stay with that identity and not change it," said a chastened Mr. Bottorff.

He agreed that fancy monikers may be of some value in turnaround situations, where a bank's former name is considered a liability. But he added, "I think people should be very careful today about adopting the new exotic names for these institutions that have a tradition of safety and soundness."

Over 1,000 New Names

More than 1,000 banks and thrifts have changed their names during the past two years, mostly as a result of mergers and acquisitions or turnaround campaigns.

The new names have become increasingly exotic. For example, in New Orleans, American Bank & Trust Co. became Premier Bank; "alerion" means "heraldic eagle" in French.

The best of the names in some ways touch on or relate to ideas or concepts we've heard before, something that customers use in some way. Avantor did none of that," said Steve Rivkin of Riv-kin Associates. The firm, based in Midland Park, N.J., names banks and services for financial institutions.

Edwin F. Lefkowith, president of Lefkowith Inc. in New York, says bank names should retain enough "real name content" to win over dubious customers.

"The moment you're required to explain it, you're obviously on thin ice," Mr. Lefkowith said. His firm has developed new names for AmSouth Bancorp., Birmingham; Crestar Financial Corp., Richmond, and Team Bank, Dallas, among others.

The Avantor name, described as an amalgam of the Italian for "forward" and Nordic "tor" ("high place"), was created by Denver-based Clenn Monigle & Associates, which had developed the Sovran name in 1983 when the merger of Virginia National Corp. and First & Merchants Bancorp, Richmond.

Mr. Monigle's company also fashioned the new monikers for Sovran and for Synovus Financial Corp. in Columbus, Ga., and Altus Bank in Mobile, Ala.

Creator Not Surprised

Mr. Monigle on Friday played down the decision to yank Avantor.

It "is not a surprising turn of events," since C&S/Sovran officials had changed their criterion from a "corporate" to a "brand" name" to one that incorporates their successful franchises, he said.

"This is an occurrence that frequently happens," Mr. Monigle said. "Management gets to a point where they're extremely hesitant to turn lose time-honored name franchises."

As previous press coverage made clear, the top four officers of C&S/Sovran Corp. decided to adopt the name Avantor shortly before the merger was announced last Sept. 26.

Some industry experts believe that should have waited longer.

"It was untimely to try to solve such a complicated problem during the throes of merger communications. The fact that Avantor had such a very short life didn't surprise me," Mr. Lefkowith said.

Industry experts estimate that changing names will cost $300,000 to $300,000 in the idea.

'Sounds Like "Star Trek"'

Avantor clearly never caught on with investors or analysts. "It sounds like something out of 'Star Trek,' as opposed to a bank," said Henry E. Coffey Jr., banking analyst with J.C. Bradford & Co. in Nashville. "I'm not the only one who's more than pleased at the new name."

"I don't have a clearcut definitive reason to explain the aversion Wall Street had to Avantor, but we did," said Anthony R. Davis, with Wheat First Securities Inc. in Richmond.

Mr. Monigle, who developed Avantor name, defends his creation from such critics. "The whole analyst world detests change."

'Everyone Is an Expert'

"Everyone in the world thinks they're a name expert, and they just love to take potshots" at names like Avantor, Mr. Monigle said. "We always expect the hubbub."

But the hubbub was heard at C&S/Sovran. As part of the transition planning for the merger, a team was assembled to develop policy on corporate identity. About a month ago, the team presented five options, which included keeping the Avantor name, ditching it, and various compromises between those extremes, Mr. Bottorff said.

On July 17, both the C&S and Sovran boards voted to change Avantor in favor of C&S/Sovran Corp.

According to Mr. Bottorff, a shift in strategy for the merged company – from a decentralized to a more consolidated entity – played a role, as did cost considerations. It would have been very expensive to promote the Avantor name, but C&S/Sovran is already familiar to the public, Mr. Bottorff said.

"C&S and Sovran are names that investors, customers and members," said Mr. Coffey of J.C. Bradford. "They have fond memories of both companies." □

Bank Call Notice

Consolidated Report of Condition of

BANKAMERICA TRUST COMPANY OF NEW YORK

of 280 Park Ave., N.Y., New York and Foreign and Domestic Subsidiaries, a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Amount in Thousands
Cash and balances due from depository institutions:	
a. Noninterest-bearing balances and currency and coin	$217
b. Interest-bearing balances	1,193
Federal funds sold and securities purchased under agreements to resell:	
a. Federal funds sold	17,200
Premises and fixed assets	182
Other assets	251
TOTAL ASSETS	$19,135
LIABILITIES	
Deposits:	
a. In domestic offices	$4,957
(1) Noninterest-bearing	4,957
Other liabilities	9,438
TOTAL LIABILITIES	$7,395
EQUITY CAPITAL	
Common stock	$ 500
Surplus	24,000
Undivided profits and capital reserves	(13,042)
TOTAL EQUITY CAPITAL	$11,739
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK AND EQUITY CAPITAL	$19,135

I, Larry Lefkowith, Vice President/Controller of the above-named bank do hereby declare that this Report of Condition has been prepared in accordance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

LARRY MICHAELS

We, the undersigned directors, attest the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in accordance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

DON M. JACOBEY
DAVID S. DUNAHEE
RICHARD P. FULP

Directors

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The annual return of THE BRUNO WALTER MEMORIAL FOUNDATION, INC. for the fiscal year ended April 30, 1990, is available at its principal office, located at c/o Alan Spiegel, 477 Madison Ave., New York, NY 10022, for public inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Nanciel Field.

NOTICE

The annual report of THE DEBORAH FOUNDATION, INC. for the fiscal year ended February 28, 1990 is available at its principal office located at 1 West 64 Street, New York, NY 10023, tel. 212-877-8500 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Gail Methado, Secretary.

ABA Attacks Downgrade of Postal Service

By JEANNE IDDA

NEW YORK — The American Bankers Association blasted the Postal Service for its announcement late Thursday that it will go ahead with plans to downgrade delivery standards on first-class mail.

The agency's action runs counter to a recommendation made earlier Thursday by the Postal Rate Commission. The panel advised the Postal Service to drop its plan to redraw the geographical boundaries for overnight, two-day, and three-day service.

In its ruling, the commission also criticized the post office for not estimating the costs of the program to customers.

The End of Next Day Delivery

The action's immediate result is that some mail that has been delivered the next day will take a day longer. The Postal Service planned to make that service shift last weekend.

Postmaster General Anthony Frank said the post office would first change delivery standards for first-class mail.

"This area of business are fully revised, bankers will receive much of their mail a day later than they do today. Bankers are the largest single users of first-class mail service.

"This is a blatant disregard for the distinguished panel appointed by the president to look after the welfare of the mailing public," said Richard M. Nelson, vice president of Wachovia Bank and Trust Co., and a member of the ABA group following the commission. □

Armacost Takes Post at Investment Company

SAN FRANICSO — Samuel H. Armacost, a former president and chief executive officer of BankAmerica Corp., has become a general partner in the investment company Weiss Peck & Greer.

Since leaving BankAmerica in 1986, Mr. Armacost had worked with Merrill Lynch Capital Markets, most recently as a managing director. He said he served on the investment committee of a BankAmerica-Weiss Peck & Greer joint venture in the venture capital field in the 1970s.

Weiss Peck & Greer also specializes in investment management and management buyouts. The company has offices in Chicago, New York, San Francisco, and Palo Alto, Calif. Mr. Armacost will be based in San Francisco. □

Florida Federal Announces Provision of $36.3 Million; Student Loans Cited

ST. PETERSBURG, Fla. — Florida Federal Savings Bank said it plans to take a $36.3 million loan-loss provision for its fiscal fourth quarter, which ended June 30.

The provision will include $17.5 million for loans and associated costs related to the resolution of legal claims relating to student loans problems.

Florida Federal said that for fiscal years 1989 and 1990, it will have recorded a total of $54.3 million in student loan-loss provisions. It said when the fourth-quarter provision is officially recorded, it will eliminate remaining shareholders' equity, which was $1.3 million on March 31.

Florida Federal said court-ordered restitution and fines on the student loan matter and a civil settlement agreement for additional restitution and release from further civil claims have amounted to $20.2 million.

At yearend 1989, Florida Federal was the fifth-largest thrift in the state, with $2.6 billion in deposits.

The company said the Office of Thrift Supervision, following regularly scheduled examination, required it to increase general reserves. As of June 30, nonperforming assets totaled $140 million, down from $188 million a year earlier.

Florida Federal said it expects to report results for the fourth quarter and year in late September.

The company also said it hopes to avoid the court-ordered resolution program announced by federal regulators on July 10, which is designed to arrange the sale or recapitalization of undercapitalized thrifts.

It said it is "encouraged" by the continued interest of investors who may infuse capital into Florida Federal if an acceptable agreement can be reached with regulators. — Reuters

Japanese Banker Joins Drive to Aid Homeless

LOS ANGELES — Yutaro Hayashi, chairman and chief executive officer of Mitsui Manufacturers Bank, has joined the leadership group of the Union Rescue Mission's Second Century Campaign to aid homeless people.

Mr. Hayashi said he was the first top executive of a Japanese-owned company to join the campaign, which has raised $10 million of its $14 million goal. He is actively soliciting the support of others in the Japanese community. □

DEALS

Language Hedges Possible HLT Exposure

Continued from page 1.

Security Pacific National Bank that had a number of new features, the pricing also increased by 50 basis points.

● Fees. In both the Mark IV credit and a $30 million loan by NCNB Texas to Zale Corp., the fees increase if the loan is reclassified as an HLT. The Mark IV fees increase marginally, while those on the Zale loan jump 75 basis points.

● Security liens. Like the Kansas Gas deal, many non-HLT loans are unsecured. Some new language includes so-called springing liens, bankers said. Those change the terms to secure the loans with assets or stock of the company.

● Restructuring loans. In one of the first two deals of this type, a $72.5 million package led by Manufacturers Hanover Trust Co. for Envirosource Inc., the language stated that if the loan is reclassified as highly leveraged, "the company and the banks shall commence negotiations in good faith on the extent to which fees, interest rates, and/or margins should be increased to reflect the then current market requirements for HLTs."

● Terminating loans. In at least one deal, the loan is terminated if it is classified as an HLT, one banker confirmed. He did not disclose the name of the company, and said that course of action is not likely to become widespread.

● Interest rate protection. In the Mark IV credit, the company must hedge additional amount of the loan through interest rate protection if it becomes an HLT.

The tougher covenants have not gone over well with borrowers, bankers said, because of the increased cost and the need to renegotiate terms.

"It's a very sensitive topic for borrowers," said one banker.

But because the balance of power has shifted in banking from borrowers to lenders as capital becomes scarce, "borrowers have to be more accommodative," said a Japanese banker. "Because of the power shift, borrowers may have to accept everything."

One borrower who was persuaded to include the loan provisions said his banker "was very adamant" about the language. "But we weren't crazy about the idea."

A number of bankers noted that the public debt markets have begun to devise ways of protecting investments by including so-called event-risk covenants. They said the new HLT language is akin to the puts, coupon step-ups, and other protections found in recent issues.

In fact, many agreements have had a form of event-risk covenant for some time: The language calls for a higher interest rate on loans if the credit rating drops or the leverage ratios change.

But one banker whose institution is adding the new covenants said the loans noted that the rating provision is not foolproof.

"A company could be an investment-grade company but classified as an HLT," he said. "And sometimes you can't get ratings step-ups all the time."

Avoiding Overexposure

Regulatory scrutiny of banks' HLT portfolios could be a driving force behind the new loan provisions, analysts say. Banks are skittish about increasing their overall HLT exposure and have to be compensated for any increase.

"Banks don't want to go out on a limb," said Fay Wong, a vice president at Fitch Investors Service.

What could trigger a loan that is not an HLT to be put into the HLT classification? The most likely scenarios are a releverage or a regulatory review of loans that leads to a reclassification.

While many loans do include limitations on additional leverage, a strategic acquisition, for example, could make sense from a corporate viewpoint but tip the company's debt into a highly leveraged category.

Bankers noted that regulators could look at an acquisition facility – Kansas Gas, for instance – and determine that the initial capital structure is not explicitly that of an HLT.

Even if a leverage ratio is less than 75%, "a bank or bank holding company is considered to be involved in a highly leveraged transaction when credit is extended or an investment is made in a business where the financing transaction involves the buyout, acquisition, or recapitalization of an existing business," regulators wrote. □

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How Lenders Protect Themselves

BORROWER	BANKS	HLT PROVISION
Kansas Gas $1 billion	First Chicago Corp. Westpac Banking Corp.	Coupon steps up 50 basis points
Mark IV Industries $300 million	Continental Bank Security Pacific Corp.	Coupon steps up 50 basis points; Commitment fee steps up to 37.5 from 25 b.p.
Zale Corp. $30 million	NCNB Texas	Fee increases by 75 b.p.
Fleming Cos. $50 million	Morgan Guaranty	Renegotiate
SCI Systems $150 million	First Alabama Bank.	Renegotiate

Sources: Loan Pricing Corp., American Banker

JPS Textile Recapitalizing, But Process Proves Costly

By STEVEN LIPIN

As part of a new $325 million bank facility, JPS Textile Inc. has amended its existing credit agreement for the recapitalization of the company.

But the company is paying top dollar for the restructuring funds, which will go toward buying back the company's high-yield bonds. JPS is paying a high fee of 350 basis points up front for its $325 million in bank financing for the purchase of the company's junk bond, a clear signal that the price of leveraged money is up.

RJR Deal Set Pattern

After RJR Nabisco Inc.'s banks charged between 350 and 400 basis points for the $2.25 billion in new loans, the fees of other deals have begun to jump.

JPS, a Greenville, S.C.-based maker of carpeting and apparel for automobiles and homes, is considering the $325 million in high-yield bonds and preferred stock at a significant discount to face value as a part of a recapitalization.

Manufacturers Hanover Trust Co. has provided the company with a commitment letter for the $325 million to buy the loans back.

As part of the new facility, banks amended the existing $160 million bank package to loosen covenants that the company was close to violating, a company spokesman said.

Compliance Held Narrow

When Moody's Investors Service downgraded the company's debt, it said JPS "only stayed in compliance with financial covenants by a slim margin in 1989, and interest expense was significantly higher than anticipated."

Since that time, the company's operations have suffered, noted William Mendenhall, a Moody's analyst. "Its three businesses –apparel, autos, and housing – are all in a cyclical decline," he said.

Analysts said the recapitalization was brought on by the fact that the company was overleveraged and was poised to violate its net worth and interest-coverage covenants of its existing $120 million bank line.

Without relief, the move will significantly reduce the indebtedness of JPS, although exposure by banks would increase. □

Bank Loan Discourages Hostile Takeover of Bankers' Clients

Even as banks led by Westpac Bank Corp. and First Chicago Corp. finance a $31 billion hostile takeover attempt by Kansas Gas and Electric Co. for Kansas City Power & Light Co., some banks are becoming sensitive to funding hostile deals of potential clients.

A $300 million loan for Mark IV Industries Inc. has broken new ground in accommodating banks, bankers concerned about hostile takeovers, and signaling the shifting balance of power between lenders and borrowers.

In the groundbreaking covenant, if Mark IV attempts a hostile takeover of any client of any of the syndicate banks, banks can put the loan back to Mark IV and exit the facility. The loan was arranged by Continental Bank and Security Pacific National Bank.

While provisions prohibiting banks from participating in a hostile takeover attempt is not a new phenomenon, it has become more common, Loan Pricing Corp. noted that this is one of first agreements to specifically prohibit the reverse.

Some observers found the tough language of the loan agreement odd since Mark IV, an Amherst-New York-based conglomerate of small manufacturing companies, has grown predominantly through acquisitions and divestures.

Bankers told of the covenant said that it could put the company in a precarious situation because member banks could be very large, and the client list could cover a wide swath of companies.

Officials at Mark IV, Continental and Security Pacific did not return calls for comment. — Steven Lipin

BANK AND THRIFT STOCKS

Highlights for Friday, July 27

TOP 10 GAINERS %

Banks of Mid-America, Inc.	8.8
Planters Corporation	5.3
Fidelcor, Inc.	4.4
Summit Bancorporation	4.2
National Bancorp of Alaska	4.1
First Colonial Bankshares	4.0
1st Source Corporation	3.9
Keystone Heritage Group, Inc.	3.5
Firstar Corporation	3.5
Mid-America Bancorp	3.4

TOP 10 LOSERS %

First Security Corporation	-7.3
BayBanks, Inc.	-6.5
First Citizens Bancshares Inc.	-5.8
Northeast Bancorp, Inc.	-5.7
National Westminster Bancorp	-5.6
Equimark Corporation	-5.4
Sumitomo Bank of California	-5.3
Imperial Bancorp	-4.8
Bank of New England Corp.	-4.6
National Community Banks, Inc.	-4.2

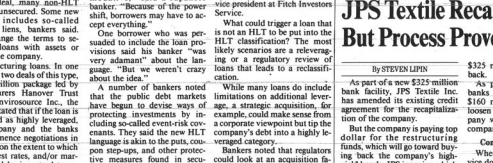
MOST SHARES TRADED

Citicorp	2849600
United Banks of Colorado, Inc.	1648300
FleetNorstar Financial Group	621700
MNC Financial, Inc.	501600
Chase Manhattan Corporation	476300

VOLUME AS % OF AVERAGE

United Banks of Colorado, Inc.	3254.0
United Missouri Bancshares Group	955.7
CNB Bancshares, Inc.	597.3
National Community Banks, Inc.	567.0
F & M National Corporation	562.3

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.76	-2.12	1.27	-1.00	-2.78	-6.40	-1.79	-6.17	-9.21

TOP 225 BANKS (4 PM PRICES)

52 Wk. Hi	Lo	Name	PE	Mkt. to-bid	Chg.	Chg.
27¼	20¼	MercantileBnkshr MD	8.8	130.0	20%	-½
50¾	47¼	MerchantsBancWI	12.3	188.4	50	---
32	21½	MerchantsNatIN	10.5	85.3	21¾	-½
29¼	14¾	MeritBankMinneapMN	6.7	80.0	14¾	---
57¾	38½	MichiganNatlCorp MI	2.5	58.1	29	---
18¾	14½	MidAmericaInd	10.1	97.2	15¼	-¼
23¾	18¾	MidlinInc.-OH	8.8	137.1	18¾	---
47¾	32¾	MidlothBCorp MD	8.6	34.2	32¾	-¾
25¼	8¾	MultiBank-MI	NM	48.7	9	¼
35¼	26½	NBD Bancorp MI	9.0	121.8	30¼	-¼
54¾	34¾	NCNB Corp-NC	7.0	125.1	36	---
18½	14¼	NCalifCommBcpCA	14.2	152.7	14¼	---
41½	33¾	NationalCityCp-OH	8.2	138.2	38	---
38	30	NationalPenn-PA	9.9	115.5	30	---
31½	25¼	NationBancorpMAM	10.1	121.5	31½	1¼
20¾	16¾	NatlCommerce-TN	9.9	174.5	20	---
44¾	17	NatlCommunity-NJ	5.7	83.9	17	-¼
10¾	10¼	NorthFultonBcp-MT	5.6	66.7	10¾	---
72	18½	NortheastBanc-CT	NM	46.9	18¼	-¾
37¾	27¾	NorthernTrust-IL	9.3	173.4	29¾	-¼
23¾	17¾	NorwestCorp-MN	7.6	140.1	19¾	¼
23¾	20¼	OhioBancorp-OH	8.9	94.3	22¾	---
25¾	20¼	OldKentFinCp-MI	6.0	112.2	24¼	-¼
25¾	20¼	OldKentFinCp-MI	6.0	112.2	24¼	-¼
18¾	14¾	OldNatlBncpIN	7.1	86.6	20¾	---
48½	28¾	PNC BnCorp-PA	7.5	146.6	29¾	---
21¾	15¾	PacificBanc-CA	15.3	95.7	15¾	---
13¾	9¾	PacificMercan-CA	8.1	147.6	10¾	¼
19¾	14¾	PacificNorthwst-IA	6.8	120.0	14¾	---
27	26	PlewsNatlNtwk	9.8	125.9	27	---
15	10	PremierBancCp-LA	8.5	158.3	11	---
8½	3	PremierBancorp-LA	20.8	81.9	3¾	---
10¾	8¾	PremierFinSvc-DE	9.7	125.4	9	---
6	5	ProvidentBksNJ-NJ	NM	38.0	6¾	---
14¾	11¾	PulaskiFinCp-MO	11.1	107.1	20	---
52¼	42¾	RepublicNY Corp.-NY	148.5	139.9	49	---
32¾	25¾	RiggsNatlCorp-DC	7.2	91.9	13	---
21¼	20¼	RiverFoxInd.-IL	12.6	280.0	20¾	---
23¾	23¾	SBTBancorp-PA	11.2	209.4	24¾	---
23¾	17¾	SecurityBancorp-MI	7.9	133.2	17¾	---
23¾	19¾	SecurityBancp-GA	9.1	86.1	20¾	---
28¼	8¾	SheltonNatlCorp-MA	NM	52.7	10	---
42¾	38¾	SignetBanking-VA	4.0	65.6	38¾	---
38¾	28¼	SocietyCorp-OH	NM	107.0	31¼	-¾
38¾	28¼	SouthCarolinaNCp-SC	9.7	91.4	28¾	---
28¾	7½	SoutheastBnCorp-FL	NM	41.9	8¾	-¾
15¾	11¾	SouthernNatlCp-KY	8.6	103.5	14¾	---
25¼	18¼	SouthtrustCorp-AL	6.8	89.8	17¾	---
19¾	14¾	SovereignBncp-PA	8.6	116.4	19¾	---
26¾	18¼	Star Banc Corp.-OH	8.9	115.9	19¾	---
23¾	19¾	StateBkDoylestwn-PA	9.3	137.1	20¾	---
24¼	6¾	StatewideBanc-NJ	NM	42.7	6¾	---
24¾	18¾	SummitBancorp-NJ	13.5	87.2	19¾	---
34¾	25	SumitomoBank-CA	5.7	89.9	27	-¼
25¾	15¾	SunbanksInc-GA	7.1	97.2	15¾	---
21¾	12	SummitBancorp-KY	6.1	89.1	12¾	¼
12¾	8¾	SurTrustBancp-GA	7.7	118.8	8¾	---
29¾	14¾	SunwestFinSvcs-NM	17.4	76.0	18¾	-¾
25¾	19¾	SuntrustBanksInc-FL	9.8	117.2	19¾	---
19	14¾	SynovusFinCorp-GA	15.8	260.6	18¾	-¼
21¾	17¾	TheFirstFinCorp-DE	8.2	125.0	17¾	---
33	25¾	TrustCoBankCorpNY	8.8	153.8	29¼	---
24¾	19¾	TrustcorpInc-OH	8.3	137.3	19¾	---
24	18¾	TrustmarkCorp-MS	6.5	76.5	18¾	---
30¾	25¾	U.S. BancorpOR	8.3	123.2	27¾	---
43	33¾	U.S.TrustCorp.-NY	12.2	186.8	35¾	---
7¾	6¾	UCBFinancialCp-NJ	7.1	139.1	6¾	---
18¼	9¾	UST Corp.-MA	5.9	81.2	10¼	---
22¾	16¾	UnitedBancorp-AZ	7.5	73.1	16¾	---
15¾	7½	UnitedPartnersTN	NM	65.6	8¾	¼
35¼	24¾	WachoviaBnkShrs-NC	8.0	130.0	29¾	---
50¾	47¼	WainwrightBnkshr-MA	12.3	188.4	50	---
32	21½	WainwrightBnkshr-MA	10.5	85.3	21¾	-¼
29¼	14¾	WashBancorp-WA	6.7	80.0	14¾	---
57¾	38½	WashingtonFedSvc-WA	2.5	58.1	29	---
18¾	14½	WellsFargo-CA	10.1	97.2	15¼	-¼
23¾	18¾	WellsLaw-OH	8.8	137.1	18¾	---
47¾	32¾	WestBancCorp-KY	8.6	34.2	32¾	-¾
25¼	8¾	WestCoastBncp-OR	NM	48.7	9	¼
35¼	26½	WestAmBancorp-CA	10.1	121.8	30¼	-¼
54¾	34¾	WestBancorp-ME	9.9	115.5	30	---
18½	14¼	WestCoastBancp-OR	14.2	152.7	14¼	---
41½	33¾	WestCoastBancp-OR	8.2	138.2	38	---
38	30	WestAmerBncp-CA	9.9	115.5	30	---
31½	25¼	WestAmerBncp-CA	10.1	121.5	31½	1¼
20¾	16¾	WestAmerBncp-CA	9.9	174.5	20	---
44¾	17	WestAmerBncp-CA	5.7	83.9	17	-¼
10¾	10¼	WestAmerBncp-CA	5.6	66.7	10¾	---
72	18½	WestAmerBncp-CA	NM	46.9	18¼	-¾
37¾	27¾	WestAmerBncp-CA	9.3	173.4	29¾	-¼
23¾	17¾	WestAmerBncp-CA	7.6	140.1	19¾	¼
23¾	20¼	WestAmerBncp-CA	8.9	94.3	22¾	---
25¾	20¼	WestAmerBncp-CA	6.0	112.2	24¼	-¼
25¾	20¼	WestAmerBncp-CA	6.0	112.2	24¼	-¼
18¾	14¾	WestAmerBncp-CA	7.1	86.6	20¾	---
48½	28¾	WestAmerBncp-CA	7.5	146.6	29¾	---
21¾	15¾	WestAmerBncp-CA	15.3	95.7	15¾	---
13¾	9¾	WestAmerBncp-CA	8.1	147.6	10¾	¼
19¾	14¾	WestAmerBncp-CA	6.8	120.0	14¾	---
27	26	WestAmerBncp-CA	9.8	125.9	27	---
15	10	WestAmerBncp-CA	8.5	158.3	11	---
8½	3	WestAmerBncp-CA	20.8	81.9	3¾	---
10¾	8¾	WestAmerBncp-CA	9.7	125.4	9	---
6	5	WestAmerBncp-CA	NM	38.0	6¾	---
14¾	11¾	WestAmerBncp-CA	11.1	107.1	20	---
52¼	42¾	WestAmerBncp-CA	148.5	139.9	49	---
32¾	25¾	WestAmerBncp-CA	7.2	91.9	13	---
21¼	20¼	WestAmerBncp-CA	12.6	280.0	20¾	---
23¾	23¾	WestAmerBncp-CA	11.2	209.4	24¾	---
23¾	17¾	WestAmerBncp-CA	7.9	133.2	17¾	---
23¾	19¾	WestAmerBncp-CA	9.1	86.1	20¾	---
28¼	8¾	WestAmerBncp-CA	NM	52.7	10	---
42¾	38¾	WestAmerBncp-CA	4.0	65.6	38¾	---
38¾	28¼	WestAmerBncp-CA	NM	107.0	31¼	-¾
38¾	28¼	WestAmerBncp-CA	9.7	91.4	28¾	---
28¾	7½	WestAmerBncp-CA	NM	41.9	8¾	-¾
15¾	11¾	WestAmerBncp-CA	8.6	103.5	14¾	---
25¼	18¼	WestAmerBncp-CA	6.8	89.8	17¾	---
19¾	14¾	WestAmerBncp-CA	8.6	116.4	19¾	---
26¾	18¼	WestAmerBncp-CA	8.9	115.9	19¾	---
23¾	19¾	WestAmerBncp-CA	9.3	137.1	20¾	---
24¼	6¾	WestAmerBncp-CA	NM	42.7	6¾	---
24¾	18¾	WestAmerBncp-CA	13.5	87.2	19¾	---
34¾	25	WestAmerBncp-CA	5.7	89.9	27	-¼
25¾	15¾	WestAmerBncp-CA	7.1	97.2	15¾	---
21¾	12	WestAmerBncp-CA	6.1	89.1	12¾	¼
12¾	8¾	WestAmerBncp-CA	7.7	118.8	8¾	---
29¾	14¾	WestAmerBncp-CA	17.4	76.0	18¾	-¾
25¾	19¾	WestAmerBncp-CA	9.8	117.2	19¾	---
19	14¾	WestAmerBncp-CA	15.8	260.6	18¾	-¼
21¾	17¾	WestAmerBncp-CA	8.2	125.0	17¾	---
33	25¾	WestAmerBncp-CA	8.8	153.8	29¼	---
24¾	19¾	WestAmerBncp-CA	8.3	137.3	19¾	---
24	18¾	WestAmerBncp-CA	6.5	76.5	18¾	---
30¾	25¾	WestAmerBncp-CA	8.3	123.2	27¾	---
43	33¾	WestAmerBncp-CA	12.2	186.8	35¾	---
7¾	6¾	WestAmerBncp-CA	7.1	139.1	6¾	---
18¼	9¾	WestAmerBncp-CA	5.9	81.2	10¼	---
22¾	16¾	WestAmerBncp-CA	7.5	73.1	16¾	---
15¾	7½	WestAmerBncp-CA	NM	65.6	8¾	¼

TOP 25 THRIFTS (4 PM PRICES)

52 Wk. Hi	Lo	Name	PE	Mkt. to-bid	Chg.	Chg.
24¾	18¼	AhmansonCA	8.1	91.0	19¼	-½
45¾	35¾	ApacheSavingsAZ	8.2	71.5	40¾	---
28¼	12¾	CalFedInc-CA	35.8	23.6	12¾	-¾
15¾	65¾	CitizensBkgCp-OH	6.6	87.2	65¾	---
20¼	4	CoastSavingsFin-CA	NM	31.8	4	---
13¾	7¾	FirstCityBncp-TX	NM	20.8	8¾	---
24	14¾	DowneySavings-CA	25.8	110.7	16¾	---
14¾	10¾	FedFinBkCorp-CA	7.1	121.5	12	---
15	10¾	FedNatlMtg-CA	6.2	32.8	13¼	---
25¼	12¾	GLENFED Inc	10.7	28.4	15¾	---
23¾	23¾	GoldenWstFn-CA	10.1	158.0	23¾	---
24¾	15¾	GreatWesternFn-CA	6.5	97.2	15¾	---
14¾	10¾	HawkeyeBncp-IA	11.8	45.2	10¾	---
47¾	19	HomeFedCorp-CA	NM	72.9	19¾	2¼
17¾	12¾	HomeFedBkAsh-FL	17.5	139.4	12¾	---
16¼	11	NBB Bancorp-MA	10.5	51.6	11¾	---
13¾	8¾	PeoplesBkMC-CT	8.4	53.6	8¾	---
28¼	11	PeoplesMichstn-NY	7.6	38.2	11¾	---
28¾	19¾	PriorityBancp-GA	8.2	100.0	19¾	---
22¾	7¾	SocietyFinSvgs-CT	4.8	35.0	7¾	---
22¾	7¾	SocietyFinSvgs-CT	4.8	35.0	7¾	---
13¾	7½	StandardFedBk-MI	6.3	53.9	8	---
24¾	15¾	StandardFedBk-MI	10.7	28.4	15¾	---
31¾	23¾	WashingtonFedSL-WA	9.0	109.4	28¾	---
14¾	10¾	WorldSavings-CA	11.8	45.2	10¾	---

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and for 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding. The minimum size for inclusion in the market value group is over $650.0 mil. and for thrifts $121.45 mil.) 52 Wk Hi Lo: the moving average high and low prices for the last 52 weeks. PE: price earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Bank Value is adjusted for announced earnings and dividends. Div.: The price at which the stock last traded. If no trades for the day, the latest bid. 4P Bank and Thrift Indexes: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights show largest percent gainers/losses in price; and two volume indicators most shares traded and dollar volume as a percentage of average shares traded daily over the past year.

Data source: BIRL Securities, Cincinnati, O., 513-621-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

New Bank and Thrift Securities

Most recent offerings

Issuer Manager	Offer Date	Amount ($ Mil.)	Sec. Type	Offer Price (Current)	Offer Yield (Current)	Maturity Date
BankAmerica Merrill Lynch Capital Markets	7/06/90	$150.0	Sr Sub	99.75	9.78	6/01/00
Bank of San Francisco Painewebber	7/04/90	$4.0	CAS	8.38	---	---
NCNB Merrill Lynch Capital Markets	7/03/90	$200.0	Sh	100.0	10.20	7/15/15
First Wachovia Merrill Lynch Capital Markets	7/17/90	$109.3	COM	23.75	---	---

Most recent SEC Filings

Issuer	Filing Date	Amount ($ Mil.)	Sec. Type	Bank Weighting
Pioneer Federal Bancorp	5/04/90	22.0	COM	Shearson Lehman Hutton
Evergreen Bancorp	4/05/90	10.0	COM	Ryan - Beck
Financial Center Bancorp	3/01/90	8.0	COM	Keefe, Bruyette & Woods
FFED Financial	3/19/90	14.0	COM	Blunt, Ellis & Loewi

Secs. Type: type of security issued. Cap. Notes: Capital Notes. Cum. Pfd.: Cumulative Preferred. Conv. Pfd.: Convertible Preferred. Conv. Sub.: Convertible Subordinated Debt. Sr Sub.: Senior Subordinated Debt. and COM.— Common Shares. DP— Depositary Pref. PS— Preferred Shares. PC— Pairs. Sh.- Shares. Units— Units. Notes: $50B— Subject Debt.

Data Source: Securities Data Company, Newark, N.J. (201) 622-3100

Key Rates

	(July 27, 1990)	
	7/27	7/26
Federal Funds-domestic range-	8.00	7¹⁵/₁₆–8
Prime Rate - Top 25 Banks	10.00	10.00
Broker Loan Rate	9.25	9.25
Discount Rate - FRBNY	7.00	7.00
Certificates of Deposit¹		
3 Month Posted	7.60	7.60
6 Month Posted	7.60	7.65
1 Year Posted	7.70	7.70
Eurodollar deposits²		
3 Month	7¹⁵/₁₆ –	8.00
6 Month	7¹⁵/₁₆ –	8.00
1 Year	8%	8%
LIBOR³		
3 Month	8¼	8%
6 Month	8¼	8%
1 Year	8%	8%

Mid-afternoon quotes, New York market. (¹)— Largest offering rates at selected NYC banks (²)— Late London bid (³)— Annualized money market basis - source: Manufacturers Hanover Tr.

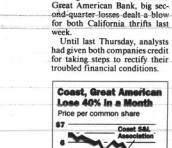
STOCKS

In California, 2 Thrifts Take Beating in July

By FRED VOGELSTEIN

Though banking analysts have not been high on Coast Savings Financial Inc. and Great American Bank, big second-quarter losses dealt a blow for both California thrifts last week.

Until last Thursday, analysts had given both companies credit for taking steps to rectify their troubled financial conditions.



With the announcement of their losses and mounting concern about the stability of the California real estate market, analysts are now finding more reasons to question their viability than praise their restructuring efforts. Each thrift's stock has fallen roughly 40% since the beginning of the month.

A Changing View

Few analysts put the risk of Coast's demise in the same category as Great American's, but they cited a cause for concern. Just three months ago, some said Coast was a good stock for bottom-fishers.

While nonperforming assets declined more than expected, Coast's ratio of tangible capital to tangible assets fell dangerously near the legal limit of 1.5%, said Bruce Harting, an analyst with Salomon Brothers Inc. The ratio declined to 1.6% from 1.84%, he said.

Mr. Harting said he is also concerned because Coast's reserves for problem loans are at 17%, below the 24% average for thrifts.

Moody's Cuts Rating

On Thursday, Coast reported a loss of $28.7 million, or $1.89 a share, for the second quarter. The news prompted Moody's Investors Service on Friday to downgrade the rating on the thrift's subordinated debt to B3 from Ba3.

Great American, which two weeks ago agreed to sell most of its California branches and loans to Wells Fargo & Co., has been discussed as a seizure candidate since regulators said it must raise $350 million.

With most of its California business gone, Great American's survival depends on a quick turnaround in the Arizona economy, analysts say. It is becoming increasingly clear that won't happen, they say.

Great American, which also reported results on Thursday, said nonperforming assets rose to $1.8 billion and it lost $107.9 million, or $4.49 a share.

Shares in Great American were trading late Friday at $1.75, unchanged for the day but down $1.50 for the month.

Coast's shares were trading at $3.25, down 75 cents for the day and $3.375 for the month.

* * *

FRIDAY'S MARKET

The Dow Jones industrial average was down 22 points near the close Friday. Among bank stocks, a wave of short selling drove shares of PNC Financial Corp. and Fleet/Norstar Financial Corp. sharply lower.

Meanwhile, mounting concerns about real estate in California pushed beleaguered HomeFed Corp. shares down almost 20%. The stock was off $2.625 to $10.25 in late afternoon action.

The selloff pushed PNC, Fleet, and HomeFed to 52-week lows by late afternoon. Most other bank stocks also traded lower.

"The rumor was that PNC and Fleet ... were being swarmed over by shorts," said Nancy Bush, an analyst at Brown Brothers Harriman Inc.

PNC was off $1.125 to $28.125, and Fleet was off $1.25 to $16.375.

James Moynihan, an analyst at Advest Group Inc., said there were rumors that regulators from the Office of the Comptroller of the Currency were revisiting Fleet. The Providence, R.I.-based company reported a huge increase in nonperforming assets at the end of the first quarter, following a regulatory exam. □

CAPITAL

Banc One Plans $300 Million Bond Issue

By KELLEY HOLLAND

Seeking to refill its war chest for future acquisitions, Banc One Corp. is in the process of increasing its capital base by over $600 million.

The superregional bank, based in Columbus, Ohio, has filed a shelf registration to issue $300 million in new bonds, and it recently completed a common stock offering that raised over $300 million.

"We should have Tier 2 to balance out our Tier 1," said Richard D. Lodge, senior vice president and head of funds management. Under new risk-based capital guidelines, Tier 2 capital can account for up to half a bank's regulatory capital.

Timing Depends on Market

Banc One will probably be in the market before the end of the year, he said. But the specific timing "will be a function of what the market does."

Underwriters for the offering have not been named. Banc One last issued debt about a year ago.

Clearly, the bank has a pressing need for capital. Banc One finished the first quarter with an average equity-to-assets ratio of 8.64%, by the end of the second, the ratio had risen to 8.74%.

But the bank has grown rapidly through a series of acquisitions, the lastest of which was its purchase of Texas branches of the former MCorp. And to secure regulatory approval for new acquisitions, Banc One needs to maintain capital ratios well above the required minimums.

"It's more war chest money," Mr. Lodge said.

Analysts generally applaud Banc One's acquisition strategy. The bank is run by "very smart people," said Virginia A. Adair, an analyst at Merrill Lynch Capital Markets. Banc One will probably continue to make acquisitions, he said, and probably in the Midwest, too, she said. "It's prudent to have the capital available to take the opportunities when you see them."

When it does come to market, Banc One will join an elite group. Bank bond investors are demanding painfully high yields on bonds of all but the strongest institutions, and only banks with strong capital ratios can tap the market at reasonable prices.

* * *

MARKET MONITOR

BankAmerica Corp. priced $125 million in subordinated debt in a deal lead managed by Merrill Lynch Capital Markets. The 9.7% bonds, due in 2000, were priced 130 basis points over comparable Treasuries. In the secondary market, BankAmerica's bonds were freed to trade Friday morning and were bid at 135 basis points over Treasuries.

* * *

First Chicago Corp. has issued $100 million in 10-year subordinated notes at a spread of 165 basis points over comparable Treasuries. Salomon Brothers Inc. was lead manager on the deal.

* * *

Signet Banking Corp. ratings were lowered by Standard & Poor's Corp., which cited the concentration of the Richmond-based bank in commercial real estate and construction loans. Signet's senior debt rating was lowered to BBB-plus from A-minus, and its subordinated debt rating was lowered to BBB from BBB-plus. Ratings on the subsidiary banks' certificate of deposit and LOC-backed issues were lowered to A-minus/A2 from A/A1.

The rating agency also lowered ratings on debt of Bay-Banks Inc. because of continued weakness in New England real estate. BayBanks' senior debt rating dropped to BB-plus from BBB-minus, and the ratings of its subsidiary bank's certificates of deposit dropped to BBB-minus/A3 from BBB/A2.

* * *

Bank of Boston Corp. was downgraded by Moody's Investors Service on grounds of disappointing second quarter earnings and continuing asset quality pressures.

Bank of Boston's senior debt rating was lowered to Ba2 from Ba1, and its subordinated debt rating to B1 from Ba3. The subsidiary banks' ratings on long term LOC-backed obligations were lowered to Ba1 from Baa3; on short-term LOC-backed obligations to Not Prime from Prime-3, and on short-term deposits to Prime-2 from Prime-2.

"We are obviously disappointed with the Moody's downgrade," said Bank of Boston's chief financial officer, Peter J. Manning. "We are continuing to aggressively attack our credit issues."

* * *

Discount window borrowings at the Richmond Federal Reserve on July 25 were up 65%, to $365 million, compared with the level a week earlier, according to a Federal Reserve official. □





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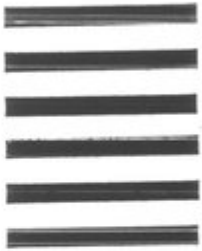

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TOP 25 BANKS AT MIDYEAR
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AMERICAN BANKER

VOL. CLV NO. 148 — Tuesday, July 31, 1990 — 155th year

Will Congress Let Banks Hike Deposit Fees?

By SANFORD ROSE

Banks are on a collision course with Congress over the question of realistic pricing of deposit services. A growing number of regional and even money-center institutions are discovering to their surprise and chagrin that they are losing money on basic consumer non-interest-checking accounts and that the only way to turn this situation around is by raising fees by some extensive amount.

Such an action is bound to arouse the ire of populist-minded legislators. Given the prevailing mood of Congress, which is profoundly antibank, the populists may be able to persuade many of their colleagues to take actions that will impede the rationalization of deposit-fee structures.

Comment

Sadly, banks have only recently discovered that they are losing money on consumer non-interest checking. The conventional wisdom in the industry is that these accounts either are good earners or at worst breakeven products. But this notion is based in large part on the failure to take into account the full extent of direct and indirect costs.

Thus, branch managers have generally been of the opinion that they are making good money because their gross margins for outstrip direct branch costs. Now these managers and their superiors are beginning to realize that margins fall considerably short of total applicable expenses – both direct branch and nonbranch and all indirect.

Determining the Credit

The profitability of deposits is determined by first calculating what is called an earnings credit. That is, the branches raise deposits which are then sold to the bank's treasury department for resale to the lending units. And the branches are paid a transfer rate based on a yield or cost curve for wholesale monies, for which retail deposits substitute.

A short-maturity deposit will obviously earn the short-term wholesale-funds cost minus the direct interest cost of the deposit. And a long-term deposit will of course earn the long-term rate on wholesale funds minus its direct interest cost.

Since demand deposits bear no interest cost and most consumer deposits are effectively long-term funds – i.e., they are not likely to migrate into interest-sensitive accounts in the short-run – these balances generally earn the full transfer rate for.

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INSIDE NEWS

WASHINGTON

L. WILLIAM SEIDMAN said he expects the thrift crisis to cost taxpayers $175 billion to $200 billion, excluding interest costs – double what the Treasury recently estimated. *Page 2*

THE FED is going to the mat to defend its 18-year-old "source of strength" doctrine, under which bank holding companies may be ordered to draw on their assets to bolster sickly affiliates. *Page 2*

INTERNATIONAL

TOKAI BANK'S New York branch has hired John Shane from Chemical to head its swap team, in a bid to strengthen its corporate finance and treasury management operations. *Page 12*

CONSUMER

THE MOST ATM network is teaming up with Inhouse Data Systems to bring debit card services to supermarkets in the Middle Atlantic states. *Page 6*

TECHNOLOGY

TELECOMMUNICATIONS providers are reducing prices and offering volume discounts because of increased competition and advanced technologies. Accordingly, many banks are relying on just one or two service suppliers. *Page 3*

REAL ESTATE

MODERN PORTFOLIO theory is beginning to play a role in the management of banks' commercial property loans. The Comptroller's office is also interested in new ways of assessing real estate values. *Page 8*

PEOPLE

CAROL PARRY is returning to the banking industry as head of a middle-market lending unit at Manufacturers Hanover. Page 2

COMMENT

EVEN A MODEST CRA commitment can go a long way. It is never too late to start, advises Kenneth H. Thomas. *Page 4*

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S&L Law Is Reshaping Marketplace

Banks Taking Business Away from Thrift Industry

By STEVE KLINKERMAN and SAM ZUCKERMAN
Second of a Series

In New Orleans, Oak Tree Savings Bank is being forced to shed $1 billion worth of real estate subsidiaries.

In Atlanta, capital-starved Fulton Federal Savings Bank is awaiting federal takeover.

In California, Wells Fargo & Co is acquiring 130 thrift branches and dramatically increasing its mortgage originations.

Across the nation, the thrift-bailout law is changing how banks and thrifts do business. The year since the law's passage has brought some of the most far-reaching changes seen in the nation's banking system in the past half century.

Those changes amount to what California's banking superintendent, James E. Gilleran, calls "the demise of the thrift industry" as it has been known.

Less Able to Compete

Amid the tumult, the outlines of a reshaped lending and deposit-taking industry are emerging. Although there are some notable exceptions, thrifts generally are losing market share to banks. The thrifts are more focused on mortgage lending. And in many instances, they are less able to compete.

"It's going to take a long time for managers and institutions to adapt," said Michael Wilson, deputy director of research for the U.S. League of Savings Insti-

See **DIET** page **14**



Bankers Seem Skittish on Buyout As Aug. 9 Deadline Nears on UAL

By WILLIAM GOODWIN

Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting on possible bank financing for the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 billion deal.

Sources said Citicorp has in fact withdrawn from the bank group – at least for the time being – though it was not immediately clear why. A Citicorp spokeswoman declined to comment.

These rumblings come at a time when a spokesman for the union group said it is close to finding an outside investor, which could draw skittish banks back into the deal.

Equity Is Sticking Point

Chemical told the other banks on Friday that it was pulling out because the union group had failed to attract an outside equity investor, a source said. For that reason, Chemical did not attend the Friday meeting of bankers.

Citicorp and Chase Manhattan Corp. also canceled out of the meeting, leaving only Bankers Trust New York Corp. and Manufacturers Hanover Corp.

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Loan Quality Was Key at Top 10 in Quarter

Scorecard for Nation's Top Banks

Company	Total assets ($ in billions)	% of loans* nonperforming	20 net income ($ in millions)	Percent Change
Citicorp	$227.752	5.29%	$248.0	-37.2%
BankAmerica	103.960	3.85	212.0	-12.0
Chase	102.371	5.98	52.0	-62.0
Security Pacific	94.510	3.75	195.2	5.8
J.P. Morgan	93.103	3.09	207.0	0.5
Chemical	75.216	6.74	113.1	-12.1
NCNB Corp.	66.188	1.90	137.4	50.2
Man. Hanover	63.548	6.75	33.0	-68.9
Bankers Trust	57.341	10.39	174.0	-0.6
First Interstate	55.082	5.16	95.1	-7.8

*Includes real-estate owned

Sources: Thomson Bank-watch Inc. and American Banker

BY JED HOROWITZ

NEW YORK — Second-quarter results for most of the nation's largest banks were about as bad as Wall Street had expected – an outcome curiously welcomed by bank stock investors. In today's climate, they said, the avoidance of catastrophe is cause for mild celebration.

"The expectations were that things would be bad but that the downside could be even worse," said Nancy Young, who tracks bank stocks for the College Retirement Equity Fund. "To report that things were only bad was good."

A Losing Combination

For the second consecutive quarter, results were battered by the combination of poorly per-

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PEOPLE *in the news*

Hanover Lures Carol Parry Back to Banking Industry

By FRANKLIN SMITH

Carol Parry – a onetime social worker, personnel consultant, and Chemical Banking Corp. executive – is returning to the financial services industry as a senior vice president of Manufacturers Hanover Corp. in New York.

She is taking charge of a middle-market business unit in Manufacturers Hanover Trust Co.'s regional banking group.

Ms. Parry, 49, was a senior vice president and director of private banking at Chemical. She left Chemical last year to become a partner of Personnel Corporation of America, a human resources consulting firm based in Norwalk, Conn. There she combined her training in social work with banking and management skills.

She left the Connecticut company last October to form her own consulting firm.

At Manufacturers Hanover, Ms. Parry will be responsible for relationships in the Tristate New York metropolitan area with small and midsize businesses whose annual sales range from $3 million to $40 million. Some 450 people in the business banking unit will report to Ms. Parry.

"I like consulting and being on my own, but I miss the banking side," Ms. Parry said in an interview. "I like the middle market – and the job fits my talent."


Carol Parry

Edward D. Miller, the Manufacturers Hanover vice chairman who oversees the regional banking group, called her "a great competitor" and said, "We are delighted she is now on our side."

'A Good Match for My Talent'

Her appointment signals the importance Manufacturers Hanover is placing in the increasingly competitive middle of the corporate market. "Carol's broad experience, strategic outlook, and dynamic style will help us to become even more aggressive in this important marketplace," Mr. Miller said in a statement.

"It's a business I'm very comfortable in running," Ms. Parry said. "The job is a good match for my talent."

Depth of Background

Ms. Parry brings 25 years of management experience – in the financial services industry, in the public sector, and as a management consultant at McKinsey & Co. From 1978 to 1989, she was one of the architects of Chemical Bank's successful middle-market and small-business strategy.

She was one of the first women to attain the rank of senior vice president at Chemical Bank, in 1981.

Prior to joining Chemical, Ms. Parry held high positions at social service agencies in New York.

A graduate of Tufts University, Ms. Parry has a master's degree in social work from the University of Connecticut. She attended the advanced management program at Harvard Business School.

NEWS *briefs*

Governors Call for Probe Of Crisis in Thrift Industry

MOBILE, Ala. — A panel representing state governors approved a call for the Bush administration to set up an independent commission to investigate the crisis in the savings and loan industry and suggest ways to keep it from hurting other financial institutions.

Over the objections of Republicans, the National Governors Association executive committee passed a statement proposed by Democrats calling for an impartial panel to "examine the root causes and impacts of the crisis" and to come up with ways to "decisively stop the drain on taxpayer money." — Reuters

New Jersey Shuts Down Ten Building and Loans

TRENTON — New Jersey Banking Commissioner Jeff Connor on Monday closed the state's 10 remaining uninsured building and loan associations, as required by a 1987 law.

State law required Mr. Connor to close by Monday savings institutions lacking federal deposit insurance. He named a conservator to oversee the closings.

The 10 institutions have aggregate assets of nearly $8 million, the state's more than 280 state and federal financial institutions have assets totalling more than $160 billion.

Merchants National Says It'll Buy Palmer Bancorp

INDIANAPOLIS — Merchants National Corporation announced that it has agreed to acquire Palmer Bancorp Inc.

The agreement provides for a purchase price of $122.75 per share and is subject to approval.

Palmer Bancorp is also permitted to pay to shareholders a semiannual dividend of $2.40 per share, prorated to the closing, which is anticipated to occur during the first quarter of next year.

Palmer Bancorp, whose principal subsidiary is Palmer American National Bank, had total assets of approximately $185 million on June 30. □

Seidman Says Bailout Could Cost $200 Billion Plus Interest

By DEBRA COPE

WASHINGTON — Acknowledging that the highest cost estimates for the thrift bailout are realistic, the chairman of the Resolution Trust Corp. said Monday he expected the savings and loan crisis to cost taxpayers between $175 billion and $200 billion, excluding interest costs.

The estimates by the chairman, L. William Seidman, are virtually double the bailout costs of between $90 billion and $130 billion recently publicized by the Treasury Department. Mr. Seidman made his estimates to reporters following a Congressional hearing.

Interest Swells Total

If interest costs over the next decade are added to the Seidman numbers, the S&L costs soar to more than $500 billion and confirm that the highest estimates yet by thrift-industry observers of the bailout have now been endorsed as accurate by the RTC.

In wide-ranging testimony, Mr. Seidman, who also chairs the Federal Deposit Insurance Corp., told the House Banking Committee that the FDIC's Bank Insurance Fund ratio of assets to reserves is at a historically low level, and said "there is considerable stress in the system" as commercial banks absorb new real estate woes and continue to struggle with Third World debt problems.

However, he said he did not think it would be appropriate to say that the problems faced by commercial banks would lead to another crisis like the savings and loan crisis.

Faster Sales Ahead

In a bid to counter criticism of the RTC's track record in selling distressed assets of failed thrifts, Mr. Seidman said he would unveil on Wednesday a stepped-up strategy to move through its burgeoning inventory.

Dubbed "Operation Cleanup," the next phase of the thrift


L. William Seidman
FDIC Chairman

rescue effort will combine a wide range of strategies to "make selling the primary business of the RTC," Mr. Seidman said in a recent telephone interview.

The regulator also said the RTC would need up to $100 billion in the fiscal year beginning Oct. 1 to cover S&L losses and the RTC's short-term financing of the rescue program. The RTC will be out of working capital funds shortly after Oct. 1, and its pool of money to cover deposit insurance losses would run dry after Jan. 1, 1991, he said.

Options Explained

Deputy Treasury Secretary Robert Glauber, testifying beside Mr. Seidman, said Congress must fund the shortfall before it adjourns this year. He laid out three options, including provide the RTC "permanent, indefinite authority to complete the job of resolving failed thrifts." The government has incurred the obligation to make good on deposits, so it has no choice but to provide this funding, he said.

Alternatively, Mr. Glauber said, Congress could provide enough funds to cover the RTC's needs for fiscal year 1991 or a shorter period. An appropriation of $5 billion plus increased borrowing authority would enable to the RTC to continue its work without interruption through January, he said. □

Fed Files Appeal To Preserve A Key Doctrine

By LINDA CORMAN

WASHINGTON — The Federal Reserve Board is going to the mat to defend its 18-year-old "source of strength" doctrine, holding that the Fed may order bank holding companies to draw on their assets to bolster sickly affiliates.

The Fed has asked an appeals court to reconsider a decision, reached in May in the so-called MCorp case, that rejected the source-of-strength doctrine. The Fed argues that it needs this doctrine to insure the safety and soundness of the bank holding companies it oversees.

MCorp Chose Bankruptcy

The MCorp case originated two years ago when the Fed sought to have $400 million in assets from the Dallas-based bank holding company transferred to ailing bank subsidiaries. MCorp refused and subsequently filed for bankruptcy. When the Fed pressed its claim, a federal district court in Houston ruled that the central bank could not invoke its source-of-strength doctrine in the midst of a bankruptcy proceeding.

On appeal, a three-judge panel of the Fifth Circuit Court of Appeals in New Orleans not only upheld the district court's decision but rejected the source-of-strength doctrine altogether.

In its motion, filed in late June, the Fed argued that the panel's decision invalidated a long-standing and critically important regulatory policy for safeguarding the stability of banking institutions. "The 'source of strength' doctrine is the Federal Reserve Board's principal means of ensuring that bank holding companies maintain the capital adequacy of their subsidiary banks. It is an enforcement tool of vital importance to bank safety."

However, some banking experts now argue that the source-

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TECHNOLOGY/OPERATIONS NEWS

Streamlining Telecommunications

Trend Is Toward Using Fewer Carriers, Poll Shows

By KAREN GULLO

Because of increased competition and advanced technologies, telecommunications providers are reducing prices and offering volume discounts.

Taking advantage of the cost-saving opportunities, many institutions are relying on just one or two service providers, according to the *American Banker*'s 1990 technology survey. Thirty-five percent of the bankers surveyed said they use a single provider, and 29% use two.

Trans Data Corp., the newspaper's research affiliate in Wayne, Pa., gathered the data by questioning operations and technology executives of 333 banks with at least $75 million in deposits.

Bigger Banks Use More Carriers

The larger the bank and the greater its geographical reach, the more likely it is to use multiple communications carriers.

Thirty-eight percent of banks with $2 billion or more in deposits report using four or more providers; only 5% of banks that size use one company. Conversely, 37% of banks with assets of $100 million to $250 million report using a single company; 12% use four or more.

Using a single supplier for telecommunications services has several advantages, according to bankers. It promotes consistency across the bank in telephone services and concentrates the management and servicing of a network.

"We want to deal with a single vendor," said Lawrence K. Dorf, executive vice president in charge of telecommunications at Security Pacific Automation Co., a subsidiary of Security Pacific Corp.

The Los Angeles-based banking company is implementing a communications system that will provide high-speed links for its California branches and eventually its locations around the world.

Although Security Pacific now uses leased-line service from several vendors for voice and data communications, Mr. Dorf said the plan is to use one vendor that can provide connectivity to networks in other parts of the country and the world.

Price Incentives

Telecommunications companies are offering price incentives to consolidate their suppliers.

Large banks are more aggressive in merging networks than small banks.

Carriers such as American Telephone & Telegraph Co. offer volume discounts to companies that sign long-term contracts for customized data and telecommunications services. Several banking companies, including Chemical Banking Corp., Citicorp, and First Chicago Corp., are taking advantage of these offerings.

When banks merge, they often consolidate their data centers. But banks are also choosing to consolidate their voice and data networks. A whopping 70% of banks that have merged in the past two years are merging data communications networks, the survey found. Another 20% plan to merge networks by 1991.

Half the surveyed banks that are merging operations are merging phone networks, too; 20% say they plan to do so next year.

Large banks are more aggressive in merging communications networks than small banks, according to the survey. Seventy percent of the banks with assets of $2 billion or more said they are merging networks, while only 25% of banks with assets of $75 million to $100 million are doing the same.

SunTrust Banks Inc., Atlanta, a $30 billion-asset superregional, is consolidating five networks for 750 branch locations in three states. The networks support ATMs, teller automation, branch data entry, trust processing and branch operations. The bank plans to merge the five networks into one with 15 hub locations.

"We went through three big mergers, and we've reduced our costs through consolidation," said Thomas Vaughn, SunTrust's telecommunications chief. "Now we're seeing ourselves stabilizing costs. That's what we think our charge should be."

Merging Voice, Data Systems

SunTrust merged the voice and data communications departments of the bank a few years ago. "By merging the two functions you cut some of the reporting out, and have one decision-making process. It also saves money on staff," Mr. Vaughn said.

The *American Banker* survey showed that 26% of banks have consolidated voice and data communications or plan to do so. This is true of most with more than $750 million in deposits, but of only 17% of the smaller banks.

Many banks are switching from private networks – using phone company lines dedicated to the bank – to virtual networks. In a virtual network, the telephone company allocates part of its public network to the bank.

The motivation is reduced maintenance costs. With mergers and acquisitions, banks found themselves saddled with their own mini-telephone companies. Extra staff was needed to maintain and service the network. With a virtual network, the carrier takes control of system maintenance.

Huntington National Bank, Columbus, Ohio, is installing a virtual network that is expected to improve transmission quality and be easier to maintain. The bank's old network was a patchwork of private lines, and some branches were unable to complete one out of every four call attempts.

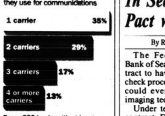
The virtual network, from AT&T, solves that problem. New locations can be added more quickly and easily because the phone company uses its existing phone lines instead of installing new ones.

Virtual networking is in use at 32% of the banks with deposits of $2 billion or more. Small and midsize banks were much less apt to use the technology.

Larger banks are also experimenting with a technology known as ISDN, or integrated services digital network. ISDN merges voice and data communications on the same phone line.

Twenty-nine percent of the banks with assets of $2 billion or more and 22% between $750 million and $2 billion are using ISDN. □

Single Carrier Wins
Banks tell how many suppliers they use for communications



Base: 333 banks with at least $75 million in deposits

Source: American Banker Technology Survey, 1990

Home Loan Bank In Seattle Signs Pact with EDS

By RICHARD LAYNE

The Federal Home Loan Bank of Seattle has signed a contract to have EDS Corp. supply check processing services, which could eventually incorporate imaging technology.

Under terms of the five-year contract, Dallas-based EDS will operate the bank's processing centers in Seattle and Salt Lake City and supply services to the bank's member institutions. EDS item processing centers in Oakland and San Diego will do the actual check processing.

"The decision to contract out for the processing was made to bring to the table a long-range quality of service that exceeded our own, at a cost that was competitive to our customers," said Jeffrey Bell, senior vice president of the Home Loan bank.

The bank has assets of $10 billion and is one of 12 regional institutions established to promote mortgage lending and support savings and loans.

Icing on the Cake

The Seattle bank did not specifically list imaging among the checks in its contract. But EDS plans to make imaging available through its service bureaus next year.

EDS is the first data processing service company to announce that it will supply image processing.

Savings Expected

Image processing of checks is a technology that has only recently become available commercially. The technology, adopted by a handful of banks so far, promises considerable savings in operating costs.

According to a study by Trans Data Corp., an affiliate of the *American Banker*, only 13% of banks plan to install imaging systems for check processing by 1992. □

ANOTHER

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COMMENT/ *By Kenneth H. Thomas*

How Directors Can Improve CRA Compliance Ratings

Your next Community Reinvestment Act compliance examination may not only be the toughest but also the most important. What board members do or don't do before that exam can make a difference between a favorable and unfavorable rating.

The next exam is likely to be your toughest because the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 – the thrift-bailout law – has put new teeth into the 1977 reinvestment act. This has resulted in a revised method of examination consisting of five performance categories for the original 12 Community Reinvestment Act assessment factors.

Ratings Will Be Public

Why will your next exam be your most important? The bail-out law also mandates that, for the first time, the ratings from all CRA exams commencing on or after July 1, 1990, be made public. Your bank will be given one of four ratings: outstanding, satisfactory, needs improvement, or substantial noncompliance.

Even if no branching or merging is planned, the board should shoot for one of the two highest "favorable" ratings. A publicly disclosed "unfavorable" rating can have adverse side effects, not only in the public relations area but also more serious ones if the rating is misconstrued as an evaluation of safety and soundness.

Room for Improvement

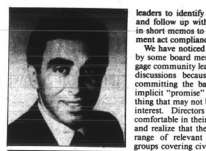
We have reviewed Community Reinvestment Act statements and policies and made follow-up presentations before several bank and thrift boards during the last few months. We have found there is always room for improvement, even in the most conscientious boards. And, at the other extreme, where little to no Reinvestment Act concern exists, we have found that even a modest commitment can go a long way.

It is never too late to start, even if little or nothing has been done by the board on the Community Reinvestment Act to date.

Information Available

What can the board do to improve your bank's rating? The most important first step is for board members to understand the reinvestment act basics – what is and is not required. The following publications available from the Federal Deposit Insurance Corp.'s office of consumer affairs (800-424-5488) should be in the hands of all bank directors: "Final Uniform Interagency CRA Guidelines," revised "CRA Examination Procedures," and "Expanded CRA Questions and Answers."

Probably the greatest deficiency at the board level that we have noted is a lack of meaningful involvement in key reinvestment act issues. The rubber-stamp approval of management's statement and policy is not enough.



"Even a modest commitment can go a long way. It is never too late to start."

Areas of Board Concern

The board must become legitimately involved in at least three areas:

• Delineation and modification as necessary of the Community Reinvestment Act local community. The use of a county or metropolitan area as the CRA community is often not appropriate for a community bank and may in fact be a source of examiner criticism.

Deposit and loan sample plottings or a ZIP code printout may suggest a smaller local area as being appropriate. The relatively expensive procedure of "geocoding" files by census tract, although preferred when available, may not be necessary in many cases.

Talking to the Community

• Board members should talk regularly to local community leaders to identify credit needs and follow up with suggestions in short memos to the reinvestment act compliance officer.

We have noticed a reluctance by some board members to engage community leaders in such discussions because they fear committing the bank to some implicit "promise" to do something that may not be in its best interest. Directors should be comfortable in their discussions and realize that there is a wide range of relevant community groups covering civic, religious, small-business, and real estate interests.

Innovation Needed

• Developing new and innovative methods for meeting local community credit needs, especially unmet ones in low-income and moderate-income areas. Directors may clip an article or pick up a brochure on a new credit product at another bank and attach it to a short memo to the Community Reinvestment Act compliance officer, with a suggestion or related idea appropriate for the bank's local community. The focus may even be on modifying one of the bank's existing loan products to make it more responsive to identified credit needs.

Documentation Is Vital

All such board efforts must be documented in board minutes and the compliance officer's file as appropriate.

Every board meeting should have a "CRA Compliance Update" section developed in concert with the compliance officer, where there is a discussion of a specific aspect of the Community Reinvestment Act statement or policy, or on one of the above areas.

Keep in mind the advice of one Community Reinvestment Act examiner to whom we spoke: "If it wasn't documented, it wasn't done!" □

Mr. Thomas is president of K.H. Thomas Associates, a bank consulting firm based in Miami.

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CRIME BLOTTER/ *By Tom Leander*

Bank Liable in Attack on Teller

A jury verdict in Tacoma, Wash., last week may cause bank managements all over the country to wonder whether they are providing enough security for employees on bank premises.

The jury in Pierce County, Washington, awarded $3.4 million to Ingrid Brassinga, a teller at a branch of the former United Bank, a savings bank. Ms. Brassinga's throat was slashed in the bank parking lot by an assailant who ran off with her purse and was never captured. As a result of the attack, Ms. Brassinga sustained brain damage from loss of blood.

At the civil trial, it was learned that employees had complained to the bank about crime in the vicinity of their branch. The bank responded to these complaints by releasing a memo with suggestions including that employees walk in pairs.

Ms. Brassinga's lawyer argued that the attack would not have occurred if bank managers had hired a security guard and listened to employees' concerns.

The jury decided that the memo containing helpful suggestions did not absolve the bank from responsibility for Ms. Brassinga's attack.

United changed its name to Security Pacific Savings Bank on Dec. 30, 1988.

* * *

Indictment for Bribery

A grand jury in Salt Lake City has indicted a local businessman and his wife on charges of attempted bribery of a bank officer.

According to the indictment, the bribe was offered to the banker in May for him to lend money to an admitted fraud artist who had already been convicted of selling falsified shares in a gold mining operation.

The indictment charges James and Maxine Hutchinson with offering money and services to H. Paul Matthews, an employee of Zions Bank in Provo, Utah, if Mr. Matthews "would cause" the bank to make a loan to Jerome C. Gatto.

According to the indictment, Mr. Hutchinson tried to bribe the loan officer once and Mrs. Hutchinson offered him money on two occasions.

Mr. Gatto was convicted in 1987 of selling shares in two California gold mines that he said he owned. One of the mines was not producing, and Mr. Gatto did not own the other.

He was sentenced in a California federal court to seven years in prison for securities fraud. Currently, Mr. Gatto is on parole and managing a Salt Lake City social club, prosecutors said.

The Hutchinsons could not be reached for comment.

* * *

Best-Laid Plans Gang Agley

Tyrone McGraw, a 29-year-old carpet technician from Pomona, Calif., hatched a plot last February to kidnap the manager of the Newhall Savings office in Palmdale, Calif., after recarpeting the premises.

A U.S. district court jury last week found Mr. McGraw guilty of attempted bank robbery and kidnapping. For his bungled crime, Mr. McGraw faces 15 years to life in an uncarpeted prison cell.

Mr. McGraw's accomplice was a fellow carpet technician, 29-year-old Brian Simms. Mr. Simms pleaded guilty to the same charges and faces 12 years in prison.

The two were plying their trade at the Newhall branch when they decided to the pull off the crime, Mr. Simms testified. They stormed the Palmdale home of the Newhall branch manager, holding the manager and her husband at gunpoint.

After 36 hours, they forced the manager to open the branch. As she entered, she pulled a silent alarm, alerting police. The lawmen arrived shortly thereafter to arrest Mr. McGraw and Mr. Simms.

* * *

Reassurances from Sununu

White House Chief of Staff John Sununu tried to reassure the nation's governors on Sunday that federal action is forthcoming to prosecute those responsible for the savings and loan disaster.

Mr. Sununu also promised leaders of the National Governors Association that the federal government is working to close the worst thrift associations.

The association's nine-member executive committee adopted a position Sunday calling for the creation of a commission to study the cause and impact of the multi-billion-dollar savings and loan debacle.

"Realistically, the President and Congress aren't going to convene a commission to oversee what they are doing – but they probably should," said Gov. James Blanchard of Michigan. □

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CREDIT UNIONS

Hungarians Take a Cue From Polish Movement

By ELLEN MEMMELAAR

Hungary is following the lead of Poland in bringing a credit union movement to Eastern Europe.

A delegation from Hungary recently spent time in the United States as part of a worldwide tour, and a conference is scheduled next week in Budapest to discuss the future of credit unions.

Meanwhile, the Polish movement is gaining momentum. Poland hopes to establish 12 credit unions by yearend and could have more than 20 in two years, said Peter Marion, director of technical programs for the World Council of Credit Unions. The group, based in Madison, Wis., is working with both countries to support the cooperative approach to financial institutions.

Change Is Coming More Slowly to Hungary

Hungary has been moving more slowly than Poland to make the changes necessary for a free-market economy. "Hungary is taking a planned approach to economic reforms," said Dale Magers, project development coordinator at the World Council. "The Polish government just jumped in with both feet."

> **"Hungary is taking a planned approach. The Polish government just jumped in with both feet."**
>
> **Dale Magers**
> *World Council of Credit Unions*

When the Communist regime was overthrown in Hungary last year, four of the country's six major banks were directly controlled by the government, and the other two were operated by foreign interests, said Mr. Magers.

Instead of doing business with the banks, many citizens used a cooperative, of which there are 260 across the country. These cooperatives, which resemble credit unions in a number of ways, have two million members and $180 billion in domestic and foreign assets, he said.

At the conference next week, credit union representatives and Hungarian officials will discuss the role that credit unions will play in the country over the next several years, Mr. Magers said.

The gathering follows a trip to the United States in June by members of the Hungarian government, the National Federation of Savings and Credit Cooperatives, the National Federation of Agricultural Cooperatives and Producers, and the Cooperative Research Institute and Foundation.

They visited the Credit Union National Association headquarters in Madison as well as credit unions in Wisconsin and Illinois. The group also visited credit union organizations in Canada, Ireland, and Korea.

A group from Poland made similar rounds in November.

Team Will Analyze Economic, Political Climate

The World Council will assemble a technical team to work with the Hungarian group to conduct a detailed analysis of the current economic and political conditions that pertain to savings and credit union development. The group will also help prepare a long-term development program, according to a spokesman for the trade association.

Hungary's activities closely resemble those of Poland in establishing credit unions. In June, a technical team of 12 credit union specialists from Ireland, Canada, and the United States went to Poland to meet with government officials, finance experts, church officials, and sociologists.

Five-Year Plan to Start Up Credit Unions

The work resulted in a five-year plan for the Polish credit union movement and the establishment of a foundation that will help finance the start-up of credit unions across the country. The trip and research were partly funded by a grant from the U.S. Congress.

Poland has about 10,000 government-controlled cooperative organizations and a central bank, Polska Kasa Opieki SA, which does relatively little consumer business.

Many Poles have used the shoebox method of saving because the institutions did not pay interest on savings accounts. No interest was paid on loans, either.

"With credit unions, it's going to be a brave new world on both interest and savings," Mr. Marion said.

Democratic Structure of Groups Has Appeal

Other obstacles in Poland include inflation and daily changes in laws governing corporate activity.

U.S. credit union executives continue to hold informal talks with other countries in Eastern Europe. Credit unions are attractive to these governments in transition because of their democratic structure. Unlike bank customers, the members of a credit union elect their own board members and executives.

Also, credit unions aid the movement of these countries toward free-market economies by requiring only minimal amount of government intervention. □

Team Effort on Debit Cards in Supermarkets

By YVETTE D. KANTROW

NEW YORK – The Most automated teller machine network is teaming up with Deluxe Data Systems to bring debit card services to supermarkets in the Middle Atlantic region.

The two companies will work together to promote the Edge, Deluxe Data's electronic payment system for supermarkets. Regional stores that install the Edge can accept the Most ATM card for payment and instantly authorize customers' checks.

A Deal of Mutual Benefit

"We've each been doing our own thing in point-of-sale," said Richard G. Lyons, senior vice president of Internet Inc., the Reston, Va.-based company that operates Most. "But neither one of us has had the success we believe we could have if we worked together when dealing with the retailer."

> **"We've each been doing our own thing in point-of-sale."**
>
> **Richard G. Lyons**
> *Internet*

Most, which represents 425 financial institutions, is the nation's fourth-largest ATM network. Deluxe, based in Brown Deer, Wis., is one of the largest third-party providers of electronic funds transfer services.

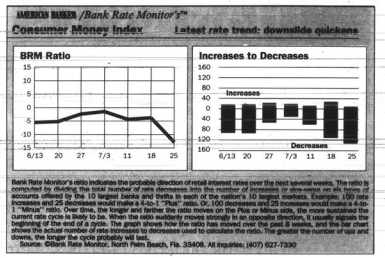
The two companies are looking for supermarkets for tesuing. Under the marketing agreement, Deluxe can offer supermarkets Most's 14 million cardholders as a built-in customer base.

The system provides an array of optional payment services, including credit card acceptance, frequent-shopper programs, and off-line debit card programs.

New Five-year Contract

Most has relied on Deluxe Data for terminal driving and other services since 1983. It signed a new five-year contract with Deluxe three months ago.

Most also recently signed an agreement with Visa U.S.A. Most's banks have the option of working with Deluxe or Visa, but "Visa doesn't have a full-blown supermarket product yet," Mr. Lyons said. □



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Tuesday, July 31, 1990

Portfolio Theory Touted as Way to Reduce Lenders' Risk

By ANDREW REINBACH

Banks can help manage their commercial mortgage portfolio risks by taking a page from modern portfolio theory, according to academics and real estate managers at pension funds who have applied the theory.

And it's not just the private sector that's interested in the new methods of assessing real estate values. The Office of the Comptroller of the Currency also says there's value in the new forms of analysis.

"We've thought that it can apply to real estate," said Stephen M. Cross, the office's director for industry and financial analysis, who is responsible for monitoring and analyzing the condition of banks.

"With securities, these principles are employed routinely. There's no reason to believe that they can't be employed on a loan portfolio, or that the banks wouldn't benefit."

Banks have been reluctant to use the technique, though, relying more on their own credit analysis rather than esoteric models.

A New Way of Assessing Risk

Modern portfolio theory compares corporate performance to risk in a diversified portfolio of assets. It attempts to create a level-playing field from which to compare investment alternatives.

The Comptroller's office in its effort to identify banks with problem loan portfolios, has developed and applied a computer program that employs several aspects of modern portfolio analysis, according to Mr. Cross.

Real estate practitioners expressed support for the idea. "It was the absence of portfolio management that produced the real estate situation we're in now," said James R. DeLisle, a senior vice president with Equitable Real Estate Investment Management Inc., Atlanta.

Adjusting Investment Strategy

How did this analysis – used widely in the stock, options, and bond markets – filter into real estate?

Real estate portfolio managers saw their returns fall in the past few years as the overhang of new real estate swamped the market. An index that measures the performance of institutional portfolios dropped from an 8.7% return in 1986 to 3.7% in 1989, according to Frank Russell Co., publisher of the index. Returns started falling in 1987, and clients of the commingled real estate funds started withdrawing their funds.

The result was waves of selling at the commingled funds of Prudential Insurance Co., the Rreef Funds, Equitable Life Assurance, and Aetna – right into the markets that caused the poor performance figures.



James R. DeLisle
Equitable Real Estate

The insurance companies responded by hiring modern portfolio theory practitioners from other institutions – including universities. They moved into powerful positions once they'd completed in-depth studies of the real estate portfolios.

Prudential Insurance Co., for instance, hired Charles H. Wurtzebach from the University of Texas in 1986. Eventually, he designed an investment strategy of real estate equity funds worth about $12 billion.

Many major pension fund advisers now consider such people necessary for real estate portfolio managers hoping to attract pension fund money. These portfolio theoreticians advocate a statistically based approach to creating a systematic model for portfolio diversification.

The Old-Fashioned Way

However, even though many banks' mortgage portfolios are troubled, banks have taken few such steps – aside from traditional, seat-of-the-pants diversification by property type and developer. And they don't see much reason to.

"I don't see the value of measuring risk or calculating the likelihood of defaults," said John M. Fulton, senior vice president of real estate at Society National Bank, Cleveland. "In theory it may work, but if we don't feel comfortable with our knowledge and the market we're in, we shouldn't be in business."

Society National lends by property type allocation goals, said Mr. Fulton, and manages the portfolio by increasing lending to areas that fall short of those goals.

It saw total nonperforming loans grow from $203.8 million in the second quarter of 1989 to $212 million in the second quarter of 1990. Society doesn't break out its commercial real estate loans from other commercial loans.

Pension fund managers don't think much of the typical bank's unsystematic approach to portfolio management. "Up till now, any way to manage risk has been considered zippo by banks," said Susan Hudson-Wilson, a vice president at Boston-based Aldrich, Eastman & Waltsch, a pension fund adviser. "They're missing a big way to play."

Diversifying the Portfolio

Real estate – and by extension, mortgages – has two sorts of risk: interest rate and default, says Roger Ibbottson, professor of finance at Yale University.

Banks, he said, routinely use duration theory – the measurement of how long it will take to get half your money back – to hedge their interest rate risk by matching maturities of assets and liabilities. In practice, banks use interest rate swaps and straddles to accomplish this, he said.

Default risk is tougher to manage, and for this reason, real estate executives favor various diversification strategies, including diversification by property type, developer, geography and economy.

Believers say fully diversified portfolios create less volatile and more predictable returns than investment portfolios concentrated in a single region or industry. Such a strategy, say experts, makes the portfolio vulnerable to economic downturns in any of those areas.

Diversifying according to the portfolio's exposure to economic activities is the area most pension funds managers feel is most helpful in avoiding portfolio volatility. They say it will work even for local banks lending on a purely regional level.

"What a bank has to do is very carefully analyze all the sorts of economics within its region, and compare and contrast them," said Ms. Hudson-Wilson. "Every region has enough regional diversity within it to take advantage of diversification."

But experts are working along more esoteric lines, which would be of great value to banks. "It would be of value to use options theory as one way to approach a mortgage portfolio where there's some danger of default," said Fischer Black, the father of options theory and a Goldman, Sachs & Co. partner. "The way to think about it is as a portfolio of options."

Another Option

Sheridan Titman and Walter Torous, professors at UCLA's Anderson Graduate School of Management, published a paper on this subject in the June 1989 issue of "The Journal of Finance."

With this approach, the roles of lender and property owner are reversed for analytical purposes. According to the theory, although the lender merely holds a lien on a property, the lender is really the owner, since it put up the money for the property.

The property owner, in this instance, is actually the holder of an option to continue owning the property – in essence, holder of a series of puts and calls. As long the periodic payments are made, the owner's calls are exercised. But if the value of a property becomes less than the cost of carrying it, the incentive to default, or exercise the put, grows.

Properties can be plugged into this model by employing statistics on debt coverage and loan-to-value ratio. As cash flows fall and values fall relative to the loan, the risk of default can be quantified, experts say.

Each mortgage could then be analyzed for its default risks and priced accordingly. On the portfolio level those risks, expressed in options theory, could be added up to create a risk profile for the entire portfolio.

New mortgages could then be analyzed in terms of how those risk characteristics affect the portfolio, as well as how the mortgage could be designed to fit the portfolio risk targets.

"I would use this model as a benchmark," said coauthor Walter Torous. "Good judgment and experience can't be substituted for with this model. But it would force bankers to think about a model and allows systematic categorization. That would allow them to more effectively utilize their experience and judgement."

This sort of analysis, said Mr. DeLisle, could then be used as another diversification element. "You manage with diversification, and underwrite and quantify it with options theory," he said. "The options help you with the problem of puts, and the quantification helps you manage." □

DEALMAKERS

Safety First Urged for Construction Loans

By ANDREW REINBACH

Ralph Carestio, NCNB National Bank's corporate executive vice president for real estate, tells a story to explain how banks and real estate fell together into today's mess.

"A banker and a developer would sit down together, and the developer's thinking: 'Ralph here sees 500 deals a week; if he thinks I've got a good deal, it must be good.'

"Meanwhile, the banker is thinking: 'George here has been building in this area for twenty years; he's always made money. If I don't lend him the money for it, someone else will.'"

The fable "is a lot closer to the truth than a lot of us would like to believe," Mr. Carestio said.



Ralph Carestio
NCNB National Bank

Bad Results

In the overheated, competitive lending environment of the 1980s, that sort of decision-making process seemed almost unavoidable. But it had bad results.

"We all had a tendency to rely on the track record of a developer and say, 'These guys can pull it off,'" Mr. Carestio said. "But when all was said and done, the numbers tell you what happened."

Bankers will have to abandon that kind of thinking, he said.

He sees an immediate future of "very traditional takeout deals with an insurance company waiting in the wings and where there's no credit or occupancy risk, only construction risk."

$100 Million for IBM

Mr. Carestio, 46, used one of his recent loans to illustrate what he means. It's a $100 million construction loan, which will become a permanent loan at the end of development, for a research-and-development building being built in Austin, Tex., by International Business Machines Corp.

The loan is a traditional drawn-down construction loan with an interest rate that floats about 175 basis points over the NCNB certificate of deposit, which currently offers 7.9% for one year for a $100,000 certificate.

IBM has elected not to swap into a fixed-rate loan – for the time being.

"I expect they'll let it float until they've built out and they like the interest rates available," Mr. Carestio said.

In this case, the IBM lease substitutes for an insurance company mortgage commitment. The building, now about a month into construction, is already leased to IBM for 15 years, with an option for another 25 years. This gives NCNB 10 years of cash flow beyond the cost of the mortgage.

'I Like to Know I'm Being Paid'

"We wanted the lease to be long enough to market the paper," Mr. Carestio said. "We haven't sold it yet, but we probably will."

Loans such as this appeal to him today, he said. "All of us took more entrepreneurial risk in the 1980s than we should have," he said. "These days, I like to know I'm being paid."

"A good real estate lender has got to be a bit cynical and a good poker player," he said. "You need to be detached and analytical. You don't need to be pointing fingers at good guys and bad guys, but you have to be tough-minded." □

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INDEX *of top stories*

The following is a selective index, arranged by subject, of the top stories in *American Banker* last week. The date of appearance precedes each item. This column was compiled by Matt Barthel.

COMMENTARY

7/23 A powerful few set the stage for the S&L debacle, writes Paul Nadler. *Page 4*

7/24 The idea that banks should be asked to raise still more equity capital – an idea floated by Fed Chairman Alan Greenspan during recent congressional hearings – has to be considered one of the most palpably absurd notions to come down the pike in recent memory, says Sanford Rose. *Page 1*

7/24 Thrifts have a role to play in the revival of the real estate industry, says Barry J. Zadworny. *Page 4*

7/25 Legislation is needed to give lenders protection from unfair liability under the Superfund law, write Alfred Pollard and Thomas Greco. *Page 4*

7/26 Party squabbles over who is to blame for the savings and loan crisis are only diverting attention from the S&L cleanup, writes William M. Isaac. *Page 4*

7/27 Mortgage securities have fundamental value at current levels of yield spreads to Treasuries, according to Joseph C. Hu. *Page 4*

COMMERCIAL REAL ESTATE

7/23 Donald Trump's crumbling real estate empire will be examined Aug. 9 at a hearing called by House Banking Committee Chairman Henry B. Gonzalez, who said aggressive oversight is needed now to ensure that banks do not go the way of the thrift industry. *Page 2*

7/24 Swapping distressed junk bonds for some of the issuer's real estate is a new technique that has caught the eye of some banks looking to capitalize on the weaknesses of high-yield bond issuers. *Page 10*

COMMUNITY RELATIONS

7/23 Is the requirement that banks provide credit to poor communities headed for a collision with tougher regulatory exams? *Page 1*

COMPETITION / BANK

7/27 Moving to lift the remaining geographic restrictions on U.S. banks and speed the industry's consolidation, two key legislators introduced bills to allow full interstate banking and branching by 1994. *Page 1*

7/27 Having spent decades expanding their overseas operations, America's big banks are heading into the 1990s dismantling them. *Page 1*

7/27 Japanese banks in the U.S. are shifting gears to emphasize earnings from businesses whose assets are not related. Meanwhile, most U.S. banks in Japan are treading water in a choppy sea. *Page 14*

COMPETITION / NONBANK

7/26 Firewalls, the regulations that are meant to insulate banks from the problems of their nonbank affiliates, may not be necessary after all. *Page 1*

CONSUMER SERVICES

7/23 In the search for lucrative markets, more banks are aggressively pursuing the personal accounts of top executives and professionals. *Page 6*

7/24 Bank of Hawaii gives its customers the benefit of the doubt. Anyone with a checking account in "satisfactory" order is considered qualified to carry the bank's debit card. *Page 8*

7/25 Another battle over insurance powers for commercial banks is shaping up – this time in Pennsylvania. *Page 8*

7/26 Mutual funds are far more profitable for a bank than certificates of deposit, according to a study by a Boston-based consulting firm. *Page 8*

7/27 A construction loan controls system is being touted as a boon for newly cautious lenders. *Page 8*

DEPOSIT INSURANCE

7/25 Sunday morning interview programs – and the media in general – are confronting what could be a most damaging issue to bankers: the health of the Federal Deposit Insurance Corp. *Page 1*

EARNINGS

7/23 CalFed Inc. became the second California thrift in three days to report a large loss stemming from problem commercial realty loans, heightening concerns that the state's real estate market is headed for trouble. *Page 1*

7/26 The 2,505 savings institutions that remain operating in the private sector lost $271 million in the first three months of 1990, the Office of Thrift Supervision reported. *Page 1*

7/27 Norwest Corp. said that it had agreed to acquire United Banks of Colorado Inc. in a stock swap valued at about $440 million. *Page 1*

7/27 Bank of Boston Corp. announced that its second-quarter profits plummeted 96% from the year-earlier level to $4 million. *Page 2*

FINANCE

7/23 RJR Nabisco's bank group reoffered at least $1.4 billion of the new $2.25 billion credit to the secondary market, indicating that the big banks would like to lay off much of the new loan. *Page 14*

7/24 In a setback to the Bank of New England's efforts to raise much-needed capital, Fleet/-Norstar Financial Group said it had withdrawn from negotiations to purchase the company's Maine National Bank unit. *Page 1*

7/24 Major bank and thrift stocks retreated sharply as the Dow Jones industrial average plummeted over 100 points before closing down 56.44 points. *Page 1*

7/24 Westpac Banking Corp. and First National Bank of Chicago committed $1 billion to finance an unsolicited $27-a-share offer by Kansas City Power & Light Co. for Kansas Gas and Electric Co. *Page 22*

7/25 Insiders at Valley National Corp. apparently believe the sun is about to shine again on the Phoenix bank. Top officials there spent $700,000 to buy a large number of its shares in recent months, coinciding with a rise in the company's stock

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price. *Page 24*

7/26 Columbia Savings and Loan Association announced it sold its junk-bond portfolio to an investor consortium for $3 billion in cash and notes, but analysts predicted regulators would still seize the troubled thrift. *Page 1*

7/26 Lending activity will not pick up as a result of the Fed's move to lower rates, according to bankers and analysts. *Page 24*

7/27 Reacting to one of the worst slumps in bank stocks since the real estate debacle of the early 1970s, a growing number of analysts are rethinking the way they examine banks. *Page 1*

7/27 The financial woes of a Midwest company that issues guarantees on student loans is another in a series of blows to the government-backed program, but bankers see no cause for alarm. *Page 1*

7/27 Shunned by the public capital markets, MNC Financial Inc. has turned to its banking peers for recapitalization. *Page 20*

HOME MORTGAGES

7/27 A whistle-blower's report, which has met with official skepticism, is spurring examiners to take a closer look at how thrifts adjust rates on variable loans. *Page 6*

INTERNATIONAL

7/23 Eastern Europe continued to soak up Western bank loans in the second half of 1989, but at a slower pace than in the first half. *Page 10*

7/23 With Japanese banks playing catch-up in technology, U.S. banks are rushing to sign global custody contracts with Japanese investors. *Page 1*

7/23 Defying predictions that the Japanese would curb their expansion in the United States, 15 banks are planning to open or upgrade 27 offices in 13 cities across the country, according to an internal memo of the Ministry of Finance. *Page 1*

7/24 U.S. bankers are giving thumbs-down to Mexico's program to privatize state-owned banks. *Page 14*

7/25 Bank of Ireland said Tuesday it planned to start a new bank in Boston in an effort to expand its franchise in New England. *Page 14*

7/26 Thirty months before Europe's vaunted economic integration, *American Banker's* annual ranking of the world's 100 largest banking companies reveals that European institutions grew much faster than their U.S. and Japanese counterparts in 1989. *Page 1*

7/26 Bankers are seeking new marketing opportunities amid the continued globalization of financial markets and the decline of planned economies in Eastern Europe. *Page 14*

7/26 Brazil's chief debt negotiator reiterated that the government would not pay arrears on its huge foreign debt before it starts negotiations with creditors. *Page 16*

7/27 Having spent decades expanding their overseas operations, America's big banks are heading into the 1990s dismantling them. *Page 1*

7/27 Japanese banks in the U.S. are shifting gears to emphasize earnings from businesses whose assets are not related. Meanwhile, most U.S. banks in Japan are treading water in a choppy sea. *Page 14*

7/27 Maverick Japanese politicians are rushing into China with promises of loans. *Page 10*

INTERSTATE BANKING

7/26 Many, but not all, of Pennsylvania's major banking companies have decided to forgo the protection of that state's tough new antitakeover statute. *Page 1*

7/27 Moving to lift the remaining geographic restrictions on U.S. banks and speed the industry's consolidation, two key legislators introduced bills to allow full interstate banking and branching by 1994. *Page 1*

INVESTMENT BANKING

7/23 In an announcement long on promises and short on specifics, Citicorp unveiled a "reconfiguration" of its troubled commercial and investment banking activities. *Page 1*

LEGAL / CRIME

7/25 The White House supports increased penalties for financial institution crimes, including the life sentence that a Senate bill would impose for the most serious offenses by so-called savings and loan kingpins, Attorney General Dick Thornburgh said. *Page 2*

LEGISLATION / REGULATION

7/23 Donald Trump's crumbling real estate empire will be examined Aug. 9 at a hearing called by House Banking Committee Chairman Henry B. Gonzalez, who said aggressive oversight is needed now to ensure that banks do not go the way of the thrift industry. *Page 2*

7/23 The Federal Housing Finance Board lifted stock-dividend caps for seven of the 12 Federal Home Loan banks. *Page 8*

7/23 Is the requirement that banks provide credit to poor communities headed for a collision with tougher regulatory exams? *Page 1*

7/23 The Office of Thrift Supervision released data showing that the long, steady contraction of thrift industry deposits and assets continued into the first two months of 1990. *Page 1*

7/24 NCNB Corp. of Charlotte will probably avoid paying some $950 million in taxes over five years as part of a 1988 agreement to take 40 failed First RepublicBank Corp. banks off the hands of the federal government. *Page 1*

7/24 Southeast Banking Corp., the second-largest holding company in Florida, said it had reached agreements with the Office of the Comptroller of the Currency and the Federal Reserve Bank of Atlanta to boost its capital by about $10 million at yearend and to strengthen its real estate lending, credit review, and reserve policies. *Page 1*

7/25 Sunday morning interview programs – and the media in general – are confronting what could be a most damaging issue to bankers: the health of

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GLOBAL *dispatches...*

Ex-Noriega Banker Guilty In Money Laundering Plot

By TOM LEANDER

Amjad Awan, the former assistant director in Miami of the Latin American division of Bank of Credit and Commerce International and a former personal banker to Manuel Noriega, was convicted Sunday of a scheme to launder $32 million in drug profits.

Mr. Awan, who worked for BCCI in Miami, once served as personal banker for the ousted Panamanian leader. Mr. Awan was convicted of conspiracy and 14 counts of money laundering.

Five others were also convicted in the case, including Mr. Awan's former lawyer John Hume, who said Sunday he will file an appeal.

Through its London office, BCCI released a statement Sunday saying, "BCCI is sympathetic to the families if its former employees. It is important to note that the evidence presented in the trial by the U.S. government established conclusively that the offenses charged were contrary to the expressed written policies of BCCI."

The bank's statement also noted that the government introduced evidence in the seven-month trial that the money laundering transactions were not known to BCCI's senior management or to its board of directors.

BCCI Subsidiaries Pleaded Guilty

Two BCCI subsidiaries pleaded guilty to money laundering charges in January and forfeited $15 million to the government, the largest penalty ever assessed against a bank.

The conspiracy charge carries a maximum penalty of five years in prison, and each money laundering count carries a maximum penalty of 20 years in prison. Mark Jackowski, the assistant U.S. attorney who prosecuted the case, said it is likely each defendant will spend at least 10 years in prison. All six defendants were taken to the Hillsborough County Jail to await sentencing.

The bankers were arrested Oct. 6, 1988, at a bogus bachelor party staged by the U.S. Customs service to lure the bankers to Tampa. They were accused in a $32 million money laundering scheme staged by customs agents during a two-year sting operation.

... by country

PERU

Peru's new president, Alberto Fujimori, announced over the weekend a bank holiday for Monday and today but said savers need not be alarmed.

"Rest assured that this will not affect savings in any way," said Mr. Fujimori, who was inaugurated on Saturday.

He said economy minister Juan Carlos Hurtado Miller would make the government's first major economic announcements sometime this week. Bankers and businessmen have expected Mr. Hurtado Miller to announce a big devaluation of the currency and a rise in oil prices. — **Reuters**

SWEDEN

Manufacturers Hanover Corp. said it would close its Swedish subsidiary, Manufacturers Hanover Bank Sverige, in Stockholm.

"The implementation of this action, which is in line with the recently announced strategic redirection and restructuring program of [our] wholesale global businesses, will take place over several months," Manufacturers Hanover said in a statement. — **Reuters**

SPAIN

Spain's largest banking group, **Banco Bilbao Vizcaya,** announced first-half net profits of $487 million, up 12.9% from the period last year. The bank's results were affected by government-imposed credit ceilings and a tax clampdown on onepayment life policies. But the bank said that restructuring in the first half meant growth would not be affected by such factors.

Margins had also been squeezed by the introduction of the high-interest accounts known as *supercuentas*, part of a bank war going on in Spain.

Meanwhile, **Banco Central,** Spain's No. 2 bank, reported that pretax profits rose by 18%, to $277 million, in the first half. Banco Central is one of the few banks that has not introduced *supercuentas*. — **EMMA**

SOVIET UNION

The time is right for the Soviet Union to join the International Monetary Fund, Foreign Minister Eduard Shevardnadze said Saturday.

"Our country regards its membership in the IMF as a logical continuation of its policy of wider involvement in global economic cooperation," Mr. Shevardnadze told IMF Managing Director Michel Camdessus, according to Tass, the official Soviet news agency.

Mr. Shevardnadze said the absence of the Soviet Union "undermines the universal character of this organization."

He told Mr. Camdessus that Moscow had considered joining as long ago as 1945, and had ignored warnings that remaining outside the agency would isolate the country.

Mr. Camdessus responded positively to Mr. Shevardnadze's proposal for talks, Tass said. — **Reuters**

European Media Monitor and Analysis is a Brussels-based news service that provides abstracts from the European financial and business press.

Tokai Building U.S. Swap Team

Adds Clout by Hiring a Top Trader from Chemical

By JAMES R. KRAUS

NEW YORK — In a bid to strengthen its corporate finance and treasury management operations, Tokai Bank Ltd.'s New York branch has hired John Shane from Chemical Banking Corp. as vice president in charge of the bank's swap team.

Mr. Shane, 30, was cohead since 1987 of Chemical Bank's trading desk for pricing and hedging U.S. dollar interest rates. He was recruited by Tokai in Tokyo, where from April to July he helped set up Chemical Bank's options operation.

Further Growth Planned

Eiichi Kimata, general manager of the New York branch, said Tokai was planning to add another two or three swap experts to the 12 in place.

"Lending is getting more complicated and needs to be supported [with swaps]. In order to develop our business, we need to build up our activity in derivatives," Mr. Kimata said.

Mr. Shane is only the latest of several senior executives recruited by Tokai from other banks. Earlier this year, the bank

> **"We're moving from being a user of swaps to being a provider."**
>
> **Roger Livesy**
> *Tokai International*

hired Joseph Geraghty from Swiss Bank Corp. to oversee corporate finance and William Bernstein from Drexel Burnham Lambert to head public finance.

Source of Profits

Like other Japanese banks, Tokai is turning to swaps and other so-called "derivative" products in an effort to strengthen profits.

Swaps permit a borrower to exchange either the currency or interest rate paid on a loan or bond for another currency or interest rate.

Swaps were first used around 10 years ago but have grown increasingly widespread as borrowers have turned to capital markets around the world for the cheapest funding.

The bank's London securities unit, Tokai International Ltd., is also planning to strengthen its activities in derivatives.

In a major catch, Tokai International said last week that it had hired Kaveh Alamouti, former vice chairman at Salomon Brothers Inc. in London, to head various Tokai operations.

Roger Livesy, deputy manager of Tokai International in London, said that he planned to recruit more professionals, but he declined to say how many.

"We're moving from being a user of swaps to being a provider," Mr. Livesy said.

"We will have a heavyweight team in place over the next few months," he added. □

Earnings Strong at 2 Top German Banks

By JAMES R. KRAUS

Buoyant economic growth in West Germany has bolstered first-half operating earnings at two of the largest West German banks.

Dresdner Bank AG, West Germany's second-largest bank, with $145.6 billion in assets, reported Monday that pretax first-half group operating profits rose 8.9% to $586 million.

On Friday, Commerzbank AG, the country's third-largest bank, with $113 billion in assets, announced a 17.5% rise in partial group operating profits, to $373.6 million.

"Partial" operating profits exclude profits and losses in trading for the banks' own accounts and provisions for loan losses.

Further Gains Expected

The two banks said they expect to post improved earnings for the remainder of the year.

To keep pace with growing business, Commerzbank increased its capital by $64 million, to $4 billion.

Dresdner does not plan to increase its capital; because the bank's existing shareholder equity will let it increase business 25% in the next two years, said Dresdner's chairman, Wolfgang Roeller.

"These banks are in such good shape, it's almost embarrassing. The basic message the results send out is one of solid growth that is likely to continue for the whole of the year," said Rodney S. Schwartz, a director with Lehman Brothers International in London.

Sources of Improvement

Analysts attributed the rise in earnings at both banks to increased lending, higher commissions, and greater cost control.

Group net commission earnings rose 10.6% and net interest and dividend income 10.9% at Commerzbank, while general operating expenses rose only 4.9%. Dresdner bank did not break down its results.

Despite the optimistic outlook for both banks, analysts said that interest income at West German banks is coming under pressure as interest rates rise.

Possible Pressure on Spreads

"If interest rates continue to rise, spreads will come under pressure and writedowns on securities [held by the banks] could be quite heavy," said Alison Homer, a director with IBCA Ltd. in London.

"Demand for loans is quite strong but results [for 1990] will be adversely affected by the rise in interest rates," Mr. Schwartz said.

West German interest rates have been rising steadily in response to greater demand for credit. This, in turn, has contributed to a weakness in the value of securities already traded.

As so-called "universal banks," Dresdner and Commerzbank trade in as well as underwrite securities. □

Key International Rates*

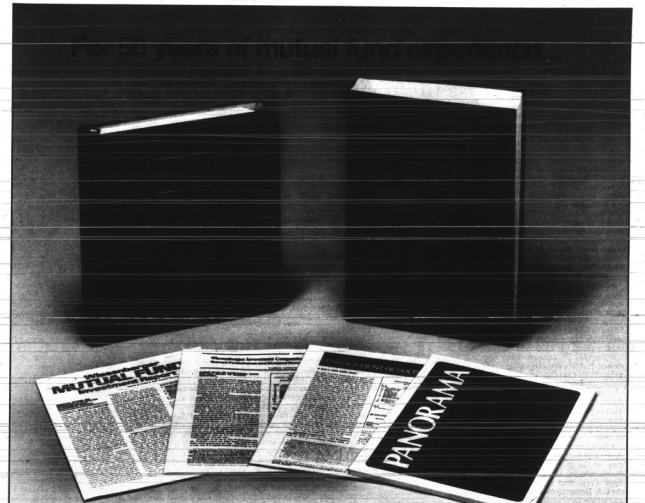
	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	7/26	7/27	7/30	7/26	7/27	7/30	7/26	7/27	7/30	7/26	7/27	7/30	7/26	7/27	7/30
United States	8.00	8.00	8.06	8.00	8.06	8.12	8.00	8.06	8.12	7.00	7.00	7.00	10.00	10.00	10.00
Japan	11.75	7.56	7.50	11.38	7.78	7.75	11.50	7.90	7.81	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.50	13.50	13.25	13.13	13.25	13.50	13.00	13.12	13.37	13.48	13.48	13.59	14.75	14.75	14.75
U.K.	15.06	15.00	15.00	15.06	15.06	15.00	15.00	15.00	14.87	14.33	14.31	15.00	15.00	15.00	15.00
West Germany	8.13	8.06	8.06	8.30	8.31	8.25	8.44	8.43	8.40	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.00	9.06	8.87	8.94	9.06	9.00	8.94	9.00	9.00	6.00	6.00	6.00	11.25	11.25	11.25
France	9.75	10.12	9.81	9.94	9.93	9.99	9.94	10.00	10.06	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.75	11.75	13.00	11.38	11.37	11.50	11.58	11.37	11.50	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.90	14.35	8.40	8.72	7.87
6 to 12 months	7.94	13.25	8.60	8.10	7.90
12 to 24 months	8.58	12.70	8.85	7.50	7.60

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York



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Diet of Reform Thinned S&L Ranks, But Superstars Thrive

Continued from page 1

tutions.

Partly because of the thrift rescue law and partly because of the financial crisis that led to its enactment, a number of forces have battered the thrift industry:

• Restrictions on lending and investment activities have caused thrifts to shed enormous quantities of assets, including real estate investments and risky commercial loans. More than $14 billion of junk bonds ultimately will be unloaded.

• Higher capital standards have constrained loan growth at thrifts. In many cases, institutions have been forced to shrink. The thrift law further spurred industry contraction by providing funds to close 207 institutions. Most of their deposits wound up in commercial banks.

• Deposit insurance is much more expensive. And thrifts get less dividend income from the stock of the 12 district Federal Home Loan banks, which were forced to help pay for thrift closings. Both factors have crimped thrift profits.

• Capital formation has slowed dramatically. According to Securities Data Co., only $1.8 billion of debt and equity was sold in public markets by thrifts during the first half of 1990. That is a whopping 64% decline from the $4.9 billion of financing sold during the same period in 1989.

• Banks are invading thrift industry turf. U.S. banks are snapping up the majority of failed thrifts sold by the Resolution Trust Corp. And according to the U.S. Department of Housing and Urban Development, banks now regularly outpace thrifts in mortgage originations.

On the brighter side, the RTC rescues have helped bring down deposit interest rates in a number of markets, widening lending margins.

Changes in Texas, California

But overall, the thrift reform law has diminished the competitive prowess of the U.S. thrift industry. "It has been very considerably reduced," said Henry Peltz, a thrift analyst with Keefe, Bruyette & Woods Inc.

Nowhere are the thrift rescue's effects more evident than in Texas and California, two of the nation's largest lending markets.

In Texas, surviving thrifts and many of those rescued under the Southwest Plan are reeling from new capital requirements and lending restrictions. They are abandoning growth plans and instead are looking for ways to shrink.

Banks Jump at Opportunity

"No capital is available, other than in federally assisted transactions, so a lot of institutions are downsizing," said Tom King, president of the Texas Savings and Loan League.

In response, banks are roaring into Texas thrift territory. Over the past year, banks have snapped up 19 Texas savings and loans sold by the RTC. In one instance, Bank One Texas gained $2.7 billion of deposits and tripled the number of branches it operates in the Dallas-Fort Worth area when it bought the failed Bright Banc Savings Association.

At the same time, big Texas banks are carving out chunks of the state's mortgage lending market. NCNB Texas National Bank, for example, more than quadrupled its volume of mortgage originations in 1989.

Big Thrifts Expanding

"We are deploying resources into a market that the savings and loans are exiting," said Timothy Hartman, chairman of NCNB Texas, in a recent interview.

The only big thrifts expanding in Texas are the most solidly capitalized institutions created under the Southwest Plan, including First Gibraltar Bank and United Savings Association. Roughly six dozen failing thrifts still are awaiting rescue.

In California, which holds almost a third of the nation's thrift assets, the industry has steadily lost ground since passage of the thrift reform law.

Deposits Slip

During the year that ended last Dec. 31, the number of California thrifts fell from 193 to 179. Total assets fell 6.5%, to $369.6 billion.

Since then, the RTC has sold or liquidated 19 thrifts. Fifteen others are under RTC control. Awaiting resolution are major institutions such as the $9.6 billion-asset Imperial Savings Association and the $4.7 billion-asset Santa Barbara Savings & Loan Association.

From June 1989 to June 1990, total thrift deposits in the Golden State slipped from $274.3 billion to $264.6 billion. Deposit market share dropped 3.6 percentage points, to 52.1%, according to the Federal Reserve Bank of San Francisco.

Those figures do not include recent thrift takeovers by banks. In addition to the $6.4 billion of deposits and 130 branches that Wells is buying from the ailing Great American Bank, San Diego, Security Pacific Corp. acquired $5 billion of deposits and 83 branches from the failed Gibraltar Savings of Simi Valley, Calif.

At the same time, California banks are pushing into the state's mortgage lending market. Bank of America, First Interstate Bancorp, Security Pacific and Wells Fargo have expanded their mortgage portfolios at double-digit rates over the past year — Wells alone increased its originations by 52%.

The thrift rescue law — the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 — "was a massive change for us," said Scott A. McAfee, residential real-estate manager for Security Pacific National Bank. "With the new capital rules, banks were put on an equal footing with thrifts. Mortgages are now a business banks can compete in."

Superstars Thrive

Still, California has a number of successful thrifts capable of going toe to toe with any bank in the state.

These superstars include Home Savings of America, Great Western Bank, and First Nationwide Bank. The giant thrifts are well capitalized and profitable. And they remain among the state's leaders in mortgage originations.

But the thrift reform law has affected even these healthy institutions. They are paying higher premiums for deposit insurance. And they have seen dividends on Home Loan Bank stock decline.

"Our earnings would be better were it not for the higher premiums and dividend reductions," said Herb Sandler, cochief executive of Golden West Financial Corp., Oakland.

A Lone Survivor

In other markets, the passage of the thrift reform law hastened a virtual industry extinction.

In Arizona, all but one of the big thrifts has been seized by the government. And observers say the lone survivor, a subsidiary of Great Western Savings Bank, probably will meet the same fate.

Together holding more than $20 billion of assets, the Arizona thrifts "have been blown off the landscape," said a Phoenix investment banker, Robert W. Stallings.

Most of the failed Arizona thrifts will be absorbed by banks, experts predict. Already, Bank of America Corp. has acquired the 62-branch franchise of Western Savings & Loan Association, Phoenix.

If there is one category of thrifts that has fared best under the reform law, it is the institutions that never strayed from traditional mortgage lending and which managed to generate earnings and substantial capital in the process.

In Oklahoma City, for example, Local American Bank already has 73% of its loans tied up in mortgages and is reporting steady profits.

"We are a traditional savings company," said its chief executive officer, Edward Townsend. "The thrift law's impact on our business has been transparent."

But the majority of the nation's thrifts are still struggling to conform with the law.

In New Orleans, for example, Oak Tree Savings Bank fell out of compliance with capital standards four weeks ago. Because of the reform law, Oak Tree no longer could count a portion of its subsidiary investments as capital. So the thrift is selling at least 11 real estate units that together employ 4,500 people.

"They hung a 'For Sale' sign around my neck and put a gun to my head," said Jerry Barton, chairman of Oak Tree.

The law demands high portfolio concentrations of mortgage assets. And the risk-based capital standards agreed upon by international banking authorities have put additional pressure on thrifts to focus on mortgage loans.

"We're going to concentrate on residential lending because of the capital requirements," said Ray Martin, chairman and chief executive of Los Angeles-based Coast Savings Financial.

In hundreds of other cases, however, thrifts will never get to the point of revising lending strategies. They cannot meet the higher capital standards imposed by the reform law and are in danger of failing.

In Atlanta, for example, Fulton Federal raised $85 million of financing from public markets in the spring of 1989 but hasn't raised a penny since the reform law was passed.

'For Us . . . a Disaster'

In obeying the law's demand to write off goodwill, which was counted as capital, Fulton Federal fell out of compliance with the law's higher capital standards. Now the thrift is helpless to fend off federal takeover.

"The capital markets are no longer open to thrifts in our situation," said spokesman James Wallace. "For us, the thrift law has been a disaster." □

> **The reform law has "very considerably reduced" the competitive prowess of the thrift industry.**
> **Henry Peltz**
> *Keefe Bruyette*

> **"Our earnings would be better were it not for the higher premiums and dividend reductions."**
> **Herb Sandler**
> *Golden West*

> **"We are a traditional savings company. The thrift law's impact on our business has been transparent."**
> **Edward Townsend**
> *Local American Bank*

Fed Fights to Preserve Key Doctrine

Continued from page 2

of-strength doctrine is of limited importance to the Fed since adoption of the cross-guarantee provisions of the 1989 thrift-bailout legislation.

Mark A. Weiss, a partner in the Washington law firm of Covington & Burling, said those provisions allow the Federal Deposit Insurance Corp. to assess healthy bank subsidiaries of a bank holding company for the bailout costs of its failed bank subsidiaries.

Most assets of a holding company are derived from the assets of its banking subsidiaries, Mr. Weiss pointed out, meaning that these assets are already available to shore up weak subsidiaries. The only power Federal regulators gain from the source-of-strength doctrine is the ability to draw on assets of nonbank subs to bolster weak subsidiaries, Mr. Weiss said.

The Fed claims the appeals court panel made its decision on the basis of inadequate information. The board said the panel decided that enforcing the source-of-strength doctrine would "waste" the holding company's assets, fail to account for the company's separate corporate status, and destroy shareholder rights.

The Fed claims the appeals court had misinterpreted data on the amount of assets the bank holding company had to transfer to shore up its subsidiaries.

Jurisdictional Questions

The Fed claims the Appeals Court overstepped its jurisdiction in invalidating the source-of-strength doctrine, since the lower court had only enjoined the Fed from invoking the doctrine while MCorp was in bankruptcy proceedings.

The Fed also contests the court's jurisdiction, arguing that it had not yet issued a final administrative decision but merely a complaint against MCorp.

Howard W. Coyne – a partner in Arnold & Porter, which represents MCorp – said the appeals panel was right to strip the Fed of its source-of-strength doctrine. Mr. Coyne pointed out that Congress expressly denied this power to the Fed in the 1989 thrift-bailout law, and the courts should not grant what Congress has withheld.

In its motion, however, the Fed cited the bailout legislation as upholding its source-of-strength doctrine. □

Will Congress Let Banks Hike Checking Deposit Fees?

Continued from page 1

say, two-to-three-year monies.

After calculating the appropriate earnings credit, the bank determines overall profitability by of course adding fees and subtracting the costs of account administration. Whether the resulting number is positive or negative depends to a considerable degree on the average size of balances.

The noninterest costs of administering checking accounts are essentially fixed. Customers with high-balance accounts don't generally write more checks than those with low balances. They just write larger ones. Therefore, profitability tends to vary directly with account size.

But average balance size is often so low that banks cannot cover their handling costs. Booz-Allen & Hamilton found that, at a more or less typical Southeast regional institution, average balance size was only about $500.

Since the transfer rate on this account – averaged over a five-year period to offset the effect of sharp interest rate changes, either up or down – amounted to 9%, the average credit self-evidently totaled $45. But the full noninterest expenses of administration amounted to around $200 – again a typical figure.

> **"Small balance sizes condemn banks to losses on consumer checking."**

Losing 3%

Thus, an earnings gap of $155 had to bridged with fees. Those actually levied by this bank raised the gross margin – earnings credit plus fees – to approximately $185. So the bank still ended up losing about $15 per account, which worked out to some 3% of deposit liabilities.

This loss, it turned out, was higher than on any other deposit product, from CDs to IRAs, while just about breaking even on money-fund and brokerage and statement savings. About the only consumer account it managed to make reasonable money on was passbook savings.)

While the bank knew that it wasn't getting rich on basic checking, it nonetheless entertained the illusion that, at the very least, it was breaking even. Of course its branch managers felt that they were making a lot of money because direct branch costs per account – basically teller and platform expenses – were only about $95.

Adding in other direct costs – e.g., advertising, check processing, and statement generation – raised expenses to some $155. Thus inclusive of all direct costs, the account was profitable, to the tune of $30.

Killed by the Indirect

What made it unprofitable were the indirect costs, which the institution characteristically underestimated. These, Booz-Allen discovered, totaled about $45, including about $20 for regional branch administration and another $25 for corporate overhead – e.g., auditors and the costs of covering the salaries of those in the chairman's office.

> **"Because of low average balance size and inadequate fees, banks may be losing between 3 and 4 cents per dollar on consumer checking accounts."**

In order to at least break even on consumer demand deposits, the bank will have to take in about $1.5 in additional fees. Considering that its fee structure is already somewhat elevated, this may prove a rather formidable task.

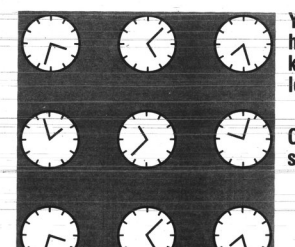
Other banks are in a similar fix. Although some have average balance levels considerably higher than $500, they may still be losing money. For example, at one New York institution with a fair-sized branch network, the average balance size is $1,000; but the bank's earnings come to a *negative* 3.8% of liabilities, reports Booz-Allen.

An Anemic Fee Level

The amount of the earnings credit on the account is of course higher at this bank than at the Southeast regional, but so are expenses, totaling about $215. The bank's basic problem is a very low level of fees, stemming in all likelihood from an imperfect analysis of costs.

Whether the bank can raise its fees sufficiently is problematic. It depends on whether its larger New York competitors, some of which are also losing money on basic checking, understand their plight.

And it also depends quite crucially on whether Congress will countenance the rather hefty fee hikes that will be required in virtually every city – money-center and nonmoney-center – in order to cover fully loaded costs and also provide banks with acceptable profits on basic consumer checking accounts. □



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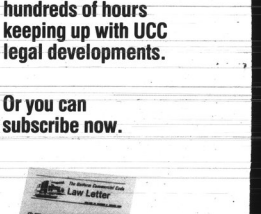

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Iowa Bank Buys Back Shares

DES MOINES — Banks of Iowa Inc. said it has completed the previously announced repurchase of its Class B shares owned by First Bank System Inc., Minneapolis. The repurchase followed the June 21 termination of an agreement for First Bank System to acquire Banks of Iowa pursuant to changes in interstate banking laws.
— Reuters

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the Federal Deposit Insurance Corp. *Page 1*

7/25 The Office of the Comptroller of the Currency tossed the banking industry on its ear this year with a series of tough real estate exams. But meanwhile, the agency has been undergoing a shake-up of its own. *Page 1*

7/25 Several major financial institutions are preparing bids for $500 million blocks of assets held by the Resolution Trust Corp. *Page 1*

7/25 In an effort to convince skeptical markets that he had not give up the fight against inflation, Federal Reserve Board Chairman Alan Greenspan reiterated that the July 13 easing of short-term interest rates was forced by recent signs of overly restrictive lending practices by banks. *Page 1*

7/26 Firewalls, the regulations that are meant to insulate banks from the problems of their nonbank affiliates, may not be necessary after all. *Page 1*

7/26 The 2,505 savings institutions that remain operating in the private sector lost $271 million in the first three months of 1990, the Office of Thrift Supervision reported. *Page 1*

7/26 Many, but not all, of Pennsylvania's major banking companies have decided to forgo the protection of that state's tough new antitakeover statute. *Page 1*

7/26 Columbia Savings and Loan Association announced it sold its junk-bond portfolio to an investor consortium for $3 billion in cash and notes, but analysts predicted regulators would still seize the troubled thrift. *Page 1*

7/26 Treasury Secretary Nicholas F. Brady told the Senate Banking Committee it would have to wait several months before hearing his department's advice on how to reform the financial system. *Page 2*

7/27 Moving to lift the remaining geographic restrictions on U.S. banks and speed the industry's consolidation, two key legislators introduced bills to allow full interstate banking and branching by 1994. *Page 1*

MARKETING

7/26 Bankers are seeking new marketing opportunities amid the continued globalization of financial markets and the decline of planned economies in Eastern Europe. *Page 14*

MERGERS & ACQUISITIONS

7/24 NCNB Corp. of Charlotte will probably avoid paying some $950 million in taxes over five years as part of a 1988 agreement to take 40 failed First RepublicBank Corp. banks off the hands of its federal government. *Page 1*

7/24 In a setback to Bank of New England's efforts to raise much-needed capital, Fleet/-Norstar Financial Group said Monday it had withdrawn from negotiations to acquire the company's Maine National Bank unit. *Page 1*

7/25 Several major financial institutions are preparing bids for $500 million blocks of assets held by the Resolution Trust Corp. *Page 1*

7/26 Many, but not all, of Pennsylvania's major banking companies have decided to forgo the protection of that state's tough new antitakeover statute. *Page 1*

7/27 Norwest Corp. said that it had agreed to acquire United Banks of Colorado Inc. in a stock swap valued at about $440 million. *Page 1*

REGIONAL BANKING

7/23 CalFed Inc. became the second California thrift in three days to report a large loss stemming from problem commercial realty loans, heightening concerns that the state's real estate market is headed for trouble. *Page 1*

SECURITIES

7/26 Mutual funds are far more profitable for a bank than certificates of deposit, according to a study by a Boston-based consulting firm. *Page 8*

STATISTICAL SECTIONS

7/26 Thirty months before Europe's vaunted economic integration, *American Banker*'s annual ranking of the world's 100 largest banking companies reveals that European institutions grew much faster than their U.S. and Japanese counterparts in 1989. *Page 1*

TECHNOLOGY

7/23 With Japanese banks playing catch-up in technology, U.S. banks are rushing to sign global custody contracts with Japanese investors. *Page 3*

7/24 Speech-recognition technology, once a fanciful idea, is finding its way into major banks in the United States and abroad. *Page 3*

7/25 Swift-2, a long-delayed upgrade to the international interbank messaging system, has users reporting improved service and some early cost savings. *Page 3*

7/26 Mellon Bank, a leader in transaction processing services, predicts its fee growth will outpace the industry this year and is restructuring its $646 million service unit to help achieve that goal. *Page 3*

7/27 Shawmut National continues cutting costs, intent on becoming a low-cost provider of services. *Page 3*

THRIFTS

7/24 Roger Hillas, chairman of Meritor Savings Bank, has been conducting a strategic reenrichment seminar he took over two years ago. Part of the toll was a $13.6 million loss in the second quarter. *Page 2*

7/26 The 2,505 savings institutions that remain operating in the private sector lost $271 million in the first three months of 1990, the Office of Thrift Supervision reported. *Page 1*

7/26 Columbia Savings and Loan Association announced it sold its junk-bond portfolio to an investor consortium for $3 billion in cash and notes, but analysts predicted regulators would still seize the troubled thrift. *Page 1*

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Loan Quality Separated Winners from Losers in Quarter

Continued from page 1

forming loans and weak wholesale banking fees.

Profits fell from the year-earlier period at seven of the 10 largest U.S. banks. But it was loan quality – not consumer earnings, which can be skewed by one-time charges and gains – that truly separated the winners from the losers.

Only a few banks managed to pare their nonperforming or performing loans or to shelter themselves against future surprises by buoying their reserves.

Nowhere was victory more apparent, analysts said, than at BankAmerica Corp., which at the end of the quarter climbed past Chase Manhattan Corp. to become the second-largest bank company in the nation. The San Francisco-based bank actually pared its portfolio of nonaccrual loans to $3.1 billion at the end of the second quarter from $4 billion at the end of the first.

While charging off $580 million of nonperforming loans, BankAmerica also managed to add $210 million to its reserve against possible losses and still report $267 million of earnings. That was down 10% from the year-earlier period, but excluding a special gain recorded last year from payments on some Brazilian debt that had been on nonaccrual status, the bank's profit increased 2.6% year.

"At BofA we saw solid fundamentals from top to bottom," said Brent Erensel, a Donaldson, Lufkin & Jenrette Inc. analyst.

Morgan Misses Pitfalls

Another winner was J.P. Morgan & Co., which appears to have avoided most of the real estate and highly leveraged loan traps that snared many banks.

Morgan's nonaccrual loans fell 19% from the end of the first quarter to $876 million, largely through chargeoffs, sales, and swaps of Third World debt. Excluding loans to Third World countries, the nation's fifth-largest bank company's nonperforming portfolio to $147 million from $154 million during the quarter.

On the reverse side, Morgan showed strength by reporting the second quarter in a row and rebounded somewhat from its first-quarter setback in the revenues derived from corporate finance. Morgan's $207 million of earnings, buoyed by $234 million from trading, was virtually unchanged from the $206 million it earned a year ago.

Trading profits and a conservative approach to recognizing credit problems also were the profits for Bankers Trust New York Corp. Bankers' gains in trading bonds, currencies, and swaps were $243 million, up $50 million from the first quarter and down just $29 million from the company's sunning trading gains in the first quarter.

Sizable Chargeoff on LDC Loans

Bankers Trust charged off a sizable $157 million of loans – all but $28 million to Third World nations – and recognized $179 million of nonrefinancing country loans as nonperforming. Its reserves of $415 million for loans exceeding Third World borrowers covers 2.4% of all such loans.

"It looked like a fairly typical BT quarter – good market-sensitive revenue coupled with maintenance of excellent asset quality credentials, at least relatively speaking," said James McDermott, an analyst at Keefe, Bruyette & Woods Inc.

Ironically, both Morgan and Bankers Trust – major rivals in wholesale and investment banking – won praise for flexing their muscles in trading, an area once derided by analysts as too volatile to offer comfort to investors. In the current environment, it seems, such concerns are fading.

Meanwhile, giants such as Citicorp and Chase continued to disappoint many investors.

Frustration at Citicorp

Nowhere was frustration more deeply expressed than at Citicorp, where internal expenses soared 15%, credit quality sharply deteriorated, and reserve coverage continued at levels deemed minimal by most analysts. The only big revenue gains were seen in the vaunted consumer bank, which rose 17% from the year-earlier quarter to $266 million. Overall, Citicorp reported net income of $248 million, down 37.2%.

The nation's largest bank company added $904 million to its $4.9 billion portfolio of nonperforming assets, numbers that exclude loans to lesser-developed countries. (Nonperforming Third World assets dropped $652 million because of the 20% writeoff of Brazilian loans mandated for all banks by regulators.)

Real estate loans made up 30% of Citicorp's total loans in nonperformers, and Citicorp executives – like several of their counterparts – at least relatively speaking," said James McDermott, an analyst at Keefe, Bruyette & Woods Inc.

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Frustration at Citicorp

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The nation's largest bank company added $904 million to its $4.9 billion portfolio of nonperforming assets, numbers that exclude loans to lesser-developed countries. (Nonperforming Third World assets dropped $652 million because of the 20% writeoff of Brazilian loans mandated for all banks by regulators.)

Real estate loans made up 30% of Citicorp's total loans in nonperformers, and Citicorp executives – like several of their counterparts – at least relatively speaking," said James McDermott, an analyst at Keefe, Bruyette & Woods Inc.

Ironically, both Morgan and Bankers Trust – major rivals in wholesale and investment banking – won praise for flexing their muscles in trading, an area once derided by analysts as too volatile to offer comfort to investors. In the current environment, it seems, such concerns are fading.

Meanwhile, giants such as Citicorp and Chase continued to disappoint many investors.

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Top 25 Bank Holding Companies

Based on total assets as of June 30, 1990, compared with March 31, 1990 (dollar amounts in millions)

Asset Rank 6/30/90	Asset Rank 3/31/90		Total Assets 6/30/90	Total Assets 3/31/90	Change	Net Income 6/30/90	Net Income 3/31/90	Change
1	1	Citicorp, New York	227,752	233,071	-2.28	248.0	395.0	-37.2
2	2	BankAmerica Corp., San Francisco	103,960	101,067	2.86	212.0*	241.0*	-12.0
3	3	Chase Manhattan Corp., New York	102,371	106,517	-3.89	52.0	137.0	-62.0
4	5	Security Pacific Corp., Los Angeles	94,510	86,453	9.32	195.2	184.5	5.8
5	4	J.P.Morgan & Co., Inc., New York	93,103	90,771	2.57	207.0	206.0	0.5
6	6	Chemical Banking Corp., New York	75,216	74,150	1.44	113.1	129.6	-12.7
7	8	NCNB Corp., Charlotte, N.C.	66,188	63,683	3.93	137.4	91.5	50.2
8	7	Manufacturers Hanover Corp., New York	63,546	59,713	6.42	39.0	108.0	-98.9
9	9	Bankers Trust New York Corp.	57,261	59,257	-3.25	174.0	175.0	-0.6
10	10	First Interstate Bancorp., Los Angeles	55,082	57,419	-4.07	95.1	95.0	0.1
11	11	Wells Fargo & Co., San Francisco	51,713	50,170	3.08	232.4	147.4	57.7
12	12	First Chicago Corp.	50,362	49,992	0.74	87.4	134.4	-35.0
13	13	First Union Corp., Charlotte, N.C.	48,954	47,848	2.32	70.4	114.3	-38.4
14	14	PNC Financial Corp., Pittsburgh	47,825	46,710	2.38	108.9	125.8	-13.2
15	15	First Union Corp., Charlotte, N.C.	38,385	39,084	-1.79	86.9	73.7	17.9
16	16	Bank of Boston Corp.	37,297	37,286	0.03	3.5	97.9	-96.4
17	17	Mellon Bank Corp., Pittsburgh, Pa., Providence,R.I.	34,139	35,504	-3.84	60.1	90.2	-33.4
18	18	Mellon Bank Corp., Philadelphia	31,670	33,759	2.56	89.0*	99.0	-10.1
19	19	SunTrust Banks, Inc., Atlanta	31,257	30,914	1.11	88.5	85.9	3.0
20	20	Barnett Banks, Inc., Jacksonville, Fla.	31,128	29,321	6.16	59.5	64.3	-9.0
21	20	First Fidelity Bancorp., Newark, N.J.	29,846	29,212	-1.08	16.1	62.8	-189.0
22	22	Continental Bank Corp., Chicago	29,500	29,026	1.74	(57.0)	64.0	-189.1
23	24	Republic New York Corp.	29,199	28,161	11.81	52.6	43.8	20.1
24	23	Banc One Corp., Columbus, Ohio	27,921	27,245	2.48	104.0	91.3	13.9
25	21	Norwest Corp., Minneapolis	26,770	24,681	8.46	92.0	82.0	12.0
		TOTALS FOR THE TOP 25	**$1,465,017**	**$1,468,022**	**1.16**	**$2,350.6**	**$3,077.0**	**-23.6**
		DROPPING OUT OF THE TOP 25						
	25	NBD Bancorp., Inc., Detroit	26,040	25,700	3.66	68.0	66.0	3.0
		Pro forma ranking—merger in progress						
13	13	**Citi/Nonwest**	50,138	49,900	12.89	79.8	123.6	-35.4

Data Sources: Mid-year 1990 earnings releases from the nation's top banking companies. Net income is income after taxes and minority interest, but before preferred dividends, extraordinary items, and other significant transactions. Data also excluded is income from discontinued operations. Unless otherwise noted, net income for the second quarter of 1990 and 1990 are as reported in 1990. Total assets for March 31, are as reported in the first quarter 1990 earnings releases. Net income for the first quarter of 1990 may differ from previously reported figures because of restatements. *The credit was $50 million for the second quarter of 1990 and $60 million for the second quarter of 1989. (P)—Excludes $74 million gain on the sale of its consumer finance company subsidiary. (P)— Merger expected to be completed Aug. 31. The pro forma numbers for Citicorp and Avantor Financial Corp., were changed earlier this month.

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New York USO Elects Chemical Bank Officer

NEW YORK - Oliver M. Mendell, senior vice president of Chemical Bank, New York, has been elected president of USO of Metropolitan New York.

USO operates three New York-area centers, two at the JFK International Airport and one in the Times Square. USO, founded in 1941 to promote the well-being of the armed forces, is a nonprofit, nongovernmental organization supported entirely by private donations.

Mr. Mendell also serves on the USO World Board of Governors in Washington. □

Chase's reserve coverage for non-LDC nonperformers is also deemed relatively weak by most analysts at 46%.

NCNC Profit Up 50.2%

NCNB Corp., one of three superregionals to penetrate the ranks of the 10 largest U.S. banks, outperformed its competitors with a 50.2% earnings gain in the second quarter, largely because it recognized $60 million of earnings from its loss-protected Texas subsidiary.

Although loans and income grew, the North Carolina giant also suffered credit quality problems. Nonperforming assets climbed 16% from March 31 to $692 million, or 1.94% of all loans and leases, which virtually grew 19% to $64 million. NCNB, however, added $85 million to its reserves, bringing them to a strong 94.8% of nonperforming loans and 76% of nonperforming assets.

In a prospectus dated last week for a note offering, NCNB said it expects credit problems to continue throughout the year because of a slowdown in the economy and real estate markets in the Carolinas and Florida as well as increased scrutiny from regulators.

Security Pacific Corp. also saw nonperforming assets, which primarily include loans and foreclosed real estate, climb $170 million – or 13.8% – to 1.98% of all assets. The bulk of its problems were related to some leveraged buyout borrowers in London and Australia, though Arizona real estate continued to plague the nation's fourth-largest bank company.

Nonperformers Seen Rising

While analysts continued to be impressed with the Los Angeles-based bank's expense controls and rise in fee and nonfee income, they predicted that nonperforming loans would continue to expand.

Predictability, in fact, is one of two positives that kept the bank stocks from tumbles after results were reported. The other, say analysts, is that share prices have been depressed to a point where it pays to buy the stocks to take advantage of dividend yields.

"The fundamentals remain ugly in the current environment," said Mr. Ernsel of Donaldson Lufkin, "but the valuations currently reflect this. With particular regard to dividend yield, these stocks have never sold this inexpensively." □

DEALS

Banking Group Getting Cold Feet as Aug. 9 Deadline Nears on UAL

Continued from *page 1*

in attendance, according to banking sources familiar with the proceedings.

Chase declined to comment on whether it also withdrew from the bank group. Chase and Citibank led the abortive $6.79 billion UAL stock deal halted last October when they could not obtain sufficient bank financing.

A Concern of All the Banks

All five banks have been concerned, to varying degrees, about the lack of equity in the proposed union buyout, which would require about $4 billion in bank financing.

In the current environment for highly leveraged transactions, banking for an equity component of 40% or more is recent history.

In the case of UAL, banks – at the least – want a layer of financing that is subordinate to the bank debt, sharing the risk with other financing sources.

Investors Sought

The buyout group, led by former Chrysler Corp. vice chairman Gerald Greenwald,* has asked UAL's airframe and engine suppliers, including Boeing Co. and General Electric Co., to invest in the buyout. The group has also discussed sale/leaseback financing with Guinness Peat Aviation and others.

A spokesman for the group confirmed a quote by Mr. Greenwald printed Monday in *The Wall Street Journal*, saying that the group is close to an agreement with the suppliers on some of the necessary financing.

The spokesman refused to comment on the amount of financing, or what form it would take.

Chemical would rejoin the financing effort if the buyout group obtains an outside equity investor, sources said. However, it is unclear whether Chemical would be satisfied with outside financing unless it takes the form of equity.

Chemical decided to pull out because it did not want to be portrayed as supporting a deal lacking an equity component, a banking industry source said.

The five banks agreed earlier this month to lead the financing effort, although no commitments were made and no fees were received.

Indeed, at least some of the banks were uncomfortable with public disclosure of their role, stressing that there was, in fact, no deal yet.

The buyout group has a little over a week left to obtain financing. It may have to seek an extension of the Aug. 9 deadline from UAL's board of directors.

So far, however, the buyout group has not requested an extension, although it is widely expected that the board would grant one. □

ABA Panel Calls For Deficit Plan

By ROBERT TRIGAUX

WASHINGTON — Economists from 12 major banks said that new surges in federal borrowing because of cash demands of the Resolution Trust Corp. make it more urgent than ever that the Bush administration and Congress reach early agreement on a credible program for reducing the federal deficit.

Without such an agreement, long-term interest rates will increase and the economy will flounder, said the economic advisory committee of the American Bankers Association.

Growth Expected in '91

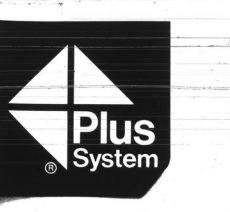
In its semiannual economic review, the committee said growth will remain limited this year but rise in 1991. The group forecast gross national product increases of 1.5% for 1990 and 2.4% in 1991 on a fourth-quarter-to-fourth-quarter basis.

Seeing little likelihood of short-term interest rates easing anytime soon, the committee said the Federal Reserve would remain adamant in pursuing a lower inflation goal but would find it difficult to push inflation below 4%.

'Not a Credit Crunch'

The group also noted the banking industry's caution about commercial real estate lending and whether concerns about credit quality are affecting lending to small and mid-sized businesses. It concluded that lending standards have been tightened primarily due to worry over the slower economy.

"It is credit caution, not a credit crunch," said the panel's chairwoman, Kathleen B. Cooper, chief economist at Security Pacific National Bank, Los Angeles. □



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Focus On A Changing Industry

Home MORTGAGES

Read It Fridays in AMERICAN BANKER

BANK AND THRIFT STOCKS

Highlights for Monday, July 30

TOP 10 GAINERS %

Bank of New England Corp.	10.0
First Security Corporation	5.9
Jefferson Bankshares, Inc.	5.6
Chemical Financial Corporation	5.0
Statewide Bancorp	4.1
First Community Bancorp, Inc.	3.9
Huntington Bancshares Inc.	3.6
Sunwest Financial Services	3.1
Mark Twain Bancshares, Inc.	2.6
UST Corp.	2.5

TOP 10 LOSERS %

Northeast Bancorp, Inc.	-9.1
Equimark Corporation	-8.6
Santa Monica Bank	-8.2
Banks of Mid-America, Inc.	-8.1
BayBanks, Inc.	-7.9
Central Jersey Bancorp	-6.9
Midlantic Corporation	-6.8
Shawmut National Corporation	-6.3
Summit Bancorporation	-6.0
First City Bancorporation of	-5.4

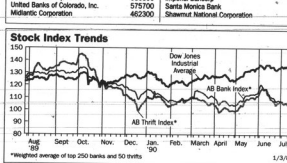
MOST SHARES TRADED

Shawmut National Corporation	1398700
Citicorp	1316100
BankAmerica Corporation	586800
United Banks of Colorado, Inc.	575700
Midlantic Corporation	462300

VOLUME AS % OF AVERAGE

United Banks of Colorado, Inc.	1080.8
Mark Twain Bancshares, Inc.	946.2
Imperial Bancorp	725.4
Santa Monica Bank	688.3
Shawmut National Corporation	636.0

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

1/3/89=100

Percentage Changes

Computed from the indices reported 1,5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.65	0.43	1.34	-0.60	-1.93	+7.19	-0.68	-3.11	-9.88

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¼	18¾	1stSourceCorp/In	6.5	98.2	19¾	-¾
19¼	10¾	AffiliatedHmsCo	17.4	71.2	12½	-¾
28½	20	AmSouthBancorp	8.4	87.8	23¾	-¼
19¼	13½	AmcoreFin/IL	8.4	80.0	14½	-¼
29	15¾	AmeribankInc/MN	27.0	92.6	18¾	-¼
22¼	16¾	AssociatedBanc-WI	8.9	122.9	19½	-½
18¾	14¼	BOK Financial	NM	113.0	18¾	
15¼	8¾	BaltimoreBncp-MD	8.6	60.7	11¾	-¼
49¾	36¾	BancOne/Col,Oh	9.8	148.5	45¾	-¾
20	13¾	BancOne/Cncp-Oh	10.6	108.3	18¾	-¼
39	18¾	BancorpHawaii	8.4	97.4	18¾	-¼
56¾	42	BancorpSouth/Ms	9.5	190.3	56	-¼
23¼	18	BancorpnMiss-MS	7.5	95.0	20	
39¾	23¾	BankAmerCorp/CA	7.4	101.6	25¾	-¼
24	17¾	BankGrandBr/Cop/MS	13.5	236.6	22	
29¾	24	BankNewEngland/MA	NM	94.1	29	-¼
14¼	8	BankSouthCorp-GA	9.9	74.5	14¼	
39¾	20¾	BankersTrustNY	NM	139.4	39¾	-¾
21¾	10¾	BarnesGroup/Cop/CT	5.4	58.3	11¼	
29¾	24¾	BayBanksInc/MA	NM	94.5	29¼	-¼
55	29¾	BeneficNY	NM	72.9	29¾	-¾
12	8¾	BerkshireBk/MA	NM	119.2	8¾	-¼
82	66	BestonBoston/A	11.2	197.9	68½	-1½
39¾	29¾	BirmingBk/Inc-AL	9.6	113.1	29¾	-¾
40½	13¾	BogNatnBa-MI	NM	39.9	13¾	-¼
39¼	29	BostonBcp/BostonMA	8.1	95.2	30¾	
26	15¼	BrookhvnBancrp	228.6	105.0	16	-¼
16¾	12¾	BrunsBancBank	7.3	105.2	14¼	
43¾	32	CCB Fin/Corp-NC	8.6	114.9	33½	½
22¾	16¾	CCNB Corp/In	7.0	97.2	16¾	-¼
22¾	18¾	CNB Bancshares-IN	10.2	122.7	21¼	
27	20¼	CPB Inc-HI	11.3	158.0	22¾	
28	12¾	CVB Fin/Corp-CA	8.7	223.9	13½	-¼
19¾	20¼	CalFed/Spcn-CA	6.4	152.5	21	
18¼	12¾	CentralBcshs-AL	6.9	94.0	14¼	
34¼	25¾	CentralFidelty-VA	7.6	165.4	25¾	-¼
27	11¾	CentralJersey/-NJ	7.1	84.6	11¾	-¾
44¾	19¾	ChaseManhattan-NY	NM	58.6	19¾	
41¾	22¾	ChemicalBanking-NY	NM	68.4	23¾	-¼
35	30	ChemicalCorp/-NJ	9.1	99.8	31½	½
35¼	20¼	Citicorp-NY	NM	79.2	20¼	-¼
25¾	15¾	CitizensBancorp-MD	7.4	81.0	16	-¼
29¼	20¾	CitizensBnkHrg-MI	7.3	69.5	21	
15½	8¾	CitizensNat	NM	118.7	8¾	-¼
34¾	21¾	CitizensSouthn-GA	7.0	105.3	23¾	-¾
27½	17¾	CityNatnCorp/-CA	10.2	184.4	18¾	-¼
22¾	12¾	ColoradoNatBnk-CO	37.5	84.2	15	
58¾	38¾	CommerceBncp-NJ	9.2	97.8	41¾	-¼
29¾	22½	CommercialBnkhs-MO	7.1	96.6	22½	-¾
20¾	15¾	CommunityBk-NJ	7.8	97.3	16¾	-¼
37¼	12¾	ConsolidatedIn-NJ	7.6	42.4	12¾	-¾
28¾	12¾	CoreStates-PA	NM	56.3	13	-¼
49¾	36¾	CoreStates/Cncp-PA	7.8	140.1	37¼	
34	20¾	CrestarFin/Cncp-IN	7.7	92.9	21¼	
18¼	7¾	CullenFrost-TX	36.4	49.7	10¾	
37¾	29¾	DauphinDeposit-PA	8.2	126.4	29¾	-¼
32¼	23	DepositGuaranty-MS	8.0	71.0	23	
25½	11¾	DominionBnshs-VA	8.8	75.2	12	-¼
15¾	4	EquimarkCorp-PA	NM	30.0	4	-¾
21¾	12	EvergreenBncp-NY	6.2	86.6	12½	-½
15¾	12¾	F & M Nat'l Corp-VA	10.6	165.3	13	-¼
14½	12½	FNB Corp-PA	8.7	104.7	12¾	
26	19½	FNW Bancorp-IL	11.2	185.8	24¼	
27¾	17¾	FarmersCapBnk/-KY	11.9	116.4	27¾	
39¾	30¾	FifthThirdBncp-OH	10.9	167.4	31½	-¼
38¾	22	FinancialTrust-IN	9.3	126.5	33¾	
51¼	38¾	FirstBancWst/-NE	9.5	106.8	38¾	
19¼	15¾	FirstBancorp-PR	9.0	113.9	17¾	

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
20¼	15	FirstNwYorkCorp-TN	NM	64.8	11	-¼
34½	22¾	FirstNationcp-OH	7.8	93.3	23½	-¾
23¾	13¾	FirstNwHampshire	8.5	136.3	14½	-¼
40¾	26¾	FirstChicago-IL	8.1	79.2	27	-¼
29½	24	FirstCitizensNC	10.2	96.3	25¾	
30½	18	FirstCitybncTx-TX	3.0	53.4	19¾	-1¼
18¾	12¾	FirstCmrcInc-IL	8.0	130.2	13	
23¾	18	FirstCommerce-LA	8.2	92.6	18	-¼
29½	21¼	FirstCommerBc-NC	8.3	110.3	21¾	
22	17¾	FirstCommerce-AL	10.2	112.8	18½	
21	18	FirstCommerce-MI	8.0	130.3	19	
19¼	14¼	FirstCommunity-IL	11.3	116.2	16¾	-¼
35¼	20¾	FirstEastern-PA	7.8	94.2	21	
72	57¾	FirstEmpire-NY	7.8	92.2	57¾	-2¾
30¾	18	FirstFidelity-NJ	NM	76.5	18	-¼
20	11	FirstFedAm-OH	13.4	189.3	41	-1
34¾	27¾	FirstFedNorth-IL	9.9	76.2	29¾	
26¾	20¾	FirstFinancial-IN	10.4	214.6	24¾	
21¾	16¾	FirstFinancial-IL	9.3	186.5	17¾	-¼
24	20	FirstHawaiian-HI	NM	92.9	35¼	
7	5¾	FirstHorizon-TN	8.4	98.2	5¾	
18¾	14¾	FirstIndianBncp-IN	8.3	115.4	15¾	-¼
34¾	17¾	FirstMidAm-IL	6.2	97.3	20¾	
26¾	19	FirstMichBnk-MI	6.1	105.3	19¾	-¼
44	28	FirstNiagara-NY	6.2	107.2	29¾	
19¼	13¾	FirstSecurity-KY	8.3	102.5	13¾	
18	13¾	FirstSecurity-NC	12.3	162.5	13¾	
19¾	13¾	FirstSecurity-TN	7.5	78.2	14¼	
28¾	21¾	FirstTennessee-TN	7.9	95.3	23¼	
39¾	18¾	FirstUnionCp-NC	7.4	68.4	17¾	
35¾	24¼	FirstVirgInc-VA	7.8	108.3	24½	-¼
45¾	37¼	FirstWisconsin-WI	10.2	154.1	40¾	
35	27¾	FirstarCorp-WI	7.4	118.1	29¾	-¾
20¾	17¼	FirstbankMI-IL	17.4	111.7	19	
56¾	42½	FirstcNortheast-MI	7.8	97.9	45¾	-¾
29¾	18¾	FleetBoston-MA	12.6	89.3	18¾	-¼
25	19¼	FortWayneNat'l-IN	8.6	104.9	20	
25¾	19¾	FourthFinCp-OH	8.5	111.5	19¾	
21¾	15¾	FultonFCorp-PA	7.5	118.1	15¾	-¼
24¼	18¾	GBC Bancorp-CA	8.3	209.5	18¼	-¼
15¾	9	GrandeCo/SunwestMS	18.3	71.1	9¾	
41¾	29¾	HawkeyeBancorp-IA	4.0	108.3	29¾	
21¾	14¾	HeritageFin/Svc-IL	9.5	126.0	18¼	
26	14¼	HiberniaCorp-LA	17.2	108.5	14¾	
20¾	13¾	HuntingtonBncSh-OH	7.4	106.2	14¼	
32¾	22¾	INBFCorp-IN	8.4	97.8	22¾	
27¼	14¾	ImperialBancorp-CA	6.2	88.8	14¾	
26¼	18	IndianaFedCp-IN	9.1	97.0	17¾	
30¾	21	IntegraFin/Cp-PA	14.7	95.8	21¼	
24¾	18	InvestBancp-OH	8.7	126.2	18¾	
48	33	J.P. Morgan-NY	NM	158.5	39¼	
20¾	14¾	JacksonNatnl-MI	17.7	93.3	18¾	
15¾	12	KeyCentralBn-WV	9.8	102.6	12	
19¾	15¾	KeyCorp-NY	7.3	104.1	15¾	
26	21¼	KeystoneFin-PA	8.9	139.6	23¼	
24¾	18¾	LaSalleNatnBk-IL	8.9	97.0	19¾	
14¾	8¾	LaSalleStreet-IL	15.7	191.3	9¾	
18	10¾	LandmarkBncshs-MD	7.6	60.4	10¾	
30¾	24¾	LibertyNatnl-KY	18.0	111.7	25¾	
27	19¾	LincolnFstCp-IN	6.8	82.8	19¾	
29¾	8¾	MBC Financial-IN	9.5	58.2	9¾	
18	13¾	MagneBncp-IL	8.5	96.2	13¾	
60	41¾	ManufacturersNat-MI	6.5	99.0	44¾	
44¾	28¾	ManufacturersNt-WI	NM	76.2	31¾	
21	16¼	MarineCorp-IL	12.3	133.2	20¼	
20¾	14¾	MarTrustBnkshrs-MD	8.0	100.4	14¾	
37¾	30¾	MarshallBkNtl-WI	8.6	112.5	30¾	
37¾	24¾	MercantileBncp-MO	38.3	92.4	24	
28¾	23¾	MercantileBnkshr-MD	8.3	92.4	24	

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18¼	MercantileBncpCo	NM	103.4	21¼	-¾
14	11¼	MetroBkshrs/-MI	8.2	95.9	12	
17¾	12¾	MetroCarolina-NC	7.4	87.8	12¾	
62	52	MetroCourtlea-NJ	7.1	101.0	54	
32¼	28	MetroMidwstAM-MO	8.9	108.1	28	
27¼	22	MeyerBancorp-MI	18.6	113.1	23	
36	22¼	MidwCapCorp-IN	7.8	144.5	24¾	-¼
28¼	19½	MidwFidelityCp-IL	7.5	141.2	20	-¼
30¾	11¾	MidwStCorp-AZ	127.9	73.3	19¾	-¼
15¾	6¾	MidwestBncp-IL	7.1	134.2	11¾	
33	26¾	Westcorp-NY	8.4	98.2	30¼	
17¾	12¾	WestcoastBncp-CA	8.3	105.3	24¼	-¼
18	17¾	WesternAmericBn-CA	13.3	163.8	23¾	
19¾	14¾	WestmarkBncp-MI	8.6	134.2	19¾	
13½	9¼	WorthenBanking-AR	8.5	122.3	12¾	-¼
22¾	17¾	WyomingBncp-WY	7.7	101.1	20¼	

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
24¼	16¼	AlmancorCA	8.1	82.2	19¾	-¼
45¾	30¾	AppleBancorp-NY	8.3	71.9	40¾	
28¼	11¾	CalFed/Inc-CA	31.6	72.1	11¾	-1¼
55¾	40½	CitizensNtlgCp-CA	9.5	70.1	44½	-½
19¾	14¾	CoastSavingsFin-CA	NM	67.8	15¾	
17¾	9¾	DimeCp/Bk-NY	NM	20.5	5¾	
25¾	14¾	DowneyFinancial-CA	25.4	149.1	24¾	-¼
27	18½	FirstFedFnCorp-CA	7.3	122.9	22¼	-¼
21¼	12	FirFedMich/Ad-MI	6.3	83.7	13¾	
35¾	11¾	GLENFED-CA	3.2	29.4	11¾	
34¾	22¾	GoldenWestFn-CA	10.0	157.2	23¾	-¼
24¾	15¾	GreatWesternFn-CA	14.2	96.9	15¾	
14¾	9¾	GreenwichFinCp-NY	NM	19.2	9¾	
47¾	10	HomeFedCorp-CA	NM	25.1	11¾	-1¾
21¾	12¾	HomeSavingsAm-MI	17.1	84.5	18	-¾
18½	11	NBB Bancorp-MA	11.8	50.9	11¼	-¼
32¾	5¾	People's Bank/CT	30.3	40.2	7¾	-¼
26¾	11	PeoplesHeritage-ME	7.8	38.2	11¾	
18¾	10¾	ReadingAndBatesCp	7.3	46.7	18¾	-¼
22¾	7¾	SociedadEspaCp-CT	4.6	35.0	7¾	
19¾	9¾	SPBancorp/Cp-FL	NM	56.8	9¾	-¾
12¾	7½	StandardFed/Bk-MI	6.2	53.1	7¾	-¼
26¾	15¾	WashingtonFed-MA	10.5	61.9	15¾	-¾
31¾	23¾	WashingtonFed/Wk	9.7	194.2	27¾	-¾
11¼	7¾	WestcorpCo	11.4	37.3	8¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 75 largest publicly traded thrifts as measured by the market value of all common shares outstanding. (As of March 31, 1990, the market value cutoff for banks was $69.6 mil. and for thrifts $121.45 mil.) **52 Wk Hi Lo:** The moving 52-week high and low prices for the stock. **PE:** Price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for stock dividends and earnings. **Mkt. to bk:** Book value of the current day's closing price to the stock's book value per share. Book value per share is the net worth as adjusted for preferred earnings and dividends. **Chg.:** The price at which the stock last traded. If no trades for the day, the bid price is listed. **Chg.:** The change in the closing price from the previous day. Data is based on market value and the top 50 thrifts in market value, respectively. Highlights are largest percentage increases in price; and losses are indicators most shares traded and today's volume as a percentage of average. Based on last 65 trading days.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended July 28

LARGEST PRICE GAINERS*	% change	7/28/90	7/21/90
Bank of New England Corp.	11.11%	$ 2.25	$ 2.50
South Carolina Nat'l Corp.	9.77	16.63	18.25
Banks of Mid-America Inc.	8.82	8.50	9.25
First Nat'l Bancorp	8.12	18.50	20.00
Great American Bank SSB	7.89	1.63	1.75
LARGEST PRICE LOSERS*	**% change**	**7/28/90**	**7/21/90**
HomeFed Corp.	-30.44%	$ 14.38	$ 10.00
Coast Savng Fin'l Inc	-27.91	5.38	3.88
Equimark Corp.	-26.46	5.50	4.06
MNC Financial Inc.	-17.71	12.00	9.88
CalFed Inc.	-13.45	14.88	12.88
LARGEST CHANGES IN VOLUME*	**Multiple**	**Average**	**Last week**
United Banks of Colorado	12.94	290,467	3,686,498
Imperial Bancorp	7.15	57,815	413,100
First Peoples Fin'l Corp.	4.96	27,343	135,600
Puget Sound Bancorp	4.06	155,630	631,500
Citizens Bancorp	3.99	43,510	173,600

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gains (**PRICE GAINERS**), price losses, and the five with largest increases in the average volume for the previous week are identified. The percentage change calculated by dividing last week's close by the previous week's close. (**V**)= The multiple of last week's trading volume to the average weekly volume over the previous 13 months.

Data Source: *Salomon Brothers Inc., New York.*

Key Rates

(July 30, 1990)

	7/30	7/27	7/23
Federal Funds-domestic range:	7¹³/₁₆—8	8.00	8¹/₁₆-8¼
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Postet	7.50	7.60	7.60
6 Month Posted	7.50	7.60	7.65
1 Year Posted	7.65	7.70	7.75
Eurodollar deposits²			
3 Month	7¹/₁₆	7¹³/₁₆	8.00
6 Month	7¹/₁₆	7¹³/₁₆	8¹/₁₆
1 Year	7¹³/₁₆	8¼	8¼
LIBOR²			
3 Month	8	8¼	8¼
6 Month	8	8¼	8¼
1 Year	8¹/₁₆	8¼	8¼

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (²)— Late London bid (³)— Annualized money market basis - source: Manufacturers Hanover Tr.

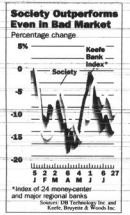
STOCKS

Ohio's Society Looks Attractive To Risk-Averse

By GORDON MATTHEWS

NEW YORK — A year after Society Corp. completed its surprising acquisition of Trustcorp., Toledo, Ohio, the Cleveland superregional banking company has regained some market luster despite the subsequent slide in bank stocks.

Its stock has declined, but not so much as others. Since bank equities began skidding last October, Society shares have fallen 17.8% while the index of 24 major banks maintained by Keefe,



Bruyette & Woods Inc. has tumbled 25.2%.

In midday trading on Monday, Society was priced at $31, unchanged from Friday and off 9% from yearend.

Worries About Earnings

Society's appeal on Wall Street was at a low point on Aug. 4, 1989, when it took over ailing Trustcorp. Society had not been on most lists of possible acquirers, and the market worried about the 10% earnings dilution that might be experienced by shareholders as well as the status of the assets being acquired.

Today, nonperforming assets remain above historic levels at Society, but cost savings and gains in efficiency that should help its earnings in the longer run are beginning to appear.

Society, like a number of other Midwestern banks, now looks attractive to risk-averse investors who are considering bank equities. It has a strong capital position, a relatively low-risk balance sheet, and a good record for maintaining credit quality.

Repurchase Program

The picture brightened for Society's shares in February when it agreed to buy, for $20 million, its adjustable rate preferred stock and a warrant held by Marine Midland Banks Inc.

The move launched a 500,000-share stock repurchase program that has lessened the dilution of the Trustcorp deal. So far, Society has bought back about 4.5% of its shares.

For some analysts, the stock is a buy. Anthony J. Polini of A.G. Edwards & Sons Inc., St. Louis, said the stock price now fully discounts both the Trustcorp acquisition and Society's own lower takeover appeal "but does not necessarily reflect its strong growth potential in earnings and dividends per share over the next three years."

Some Analysts Neutral

Also maintaining a buy recommendation is First Boston Corp.

But some analysts remain cautiously neutral on the stock and the company. "The true operating earnings capacity of Society will not be evident until the fourth quarter of 1990, or later," said Henry C. Dickson of McDonald & Co. Inc., Cleveland.

Also neutral on the stock is Norman Jaffe of Fox-Pitt Kelton Inc., New York, who is "hesitant to give the company the full benefit until management articulates how $25-$30 million of savings from line of business realignment are to be achieved."

Another reason for investor caution is an upcoming regulatory examination of Society.

* * *

MONDAY'S MARKET

Major bank and thrift stocks, as well as the rest of the stock market, posted declines on Monday as investors worried that the economy is slipping into a recession. Nearly all bank equities were in the loss column by midafternoon.

The biggest decliners were First City Bancorp., Houston, Texas, off $1.25, to $19.50; Comerica Inc., Detroit, Mich., off $1.75, to $42; and Midlantic Corp., Edison, N.J., off $1, to $11.875; and Shawmut National Corp., Hartford, Conn., off $62.5 cents, to $9.375, on sales of 1.36 million shares.

Analyst said concerns about further weakness in the real estate accounted for most of the declines. □

CAPITAL

MNC's Securitization Costs Could Climb

By KELLEY HOLLAND

Just as its need to securitize assets is growing, MNC Financial Inc. could well find the process more expensive.

In the worst case, MNC's securitization costs could increase as much as 50 basis points because of investor concerns about its credit quality, according to traders and capital market specialists.

That would be especially painful because MNC is an active user of asset securitization as a capital management strategy, having securitized almost $4 billion in the public markets since 1987.

Process Likely to Continue

Higher costs will probably not lead MNC to stop securitizing assets. But the profitability of the strategy will be reduced at the very time MNC most needs to strengthen earnings and generate equity capital internally.

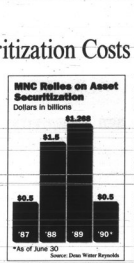
Recent events are going to lead to "a minimal increase in the cost of letters of credit and it will require that we pay more normal rates relative to Treasuries," said Vernon H.C. Wright, senior vice president and chief corporate finance officer at MNC.

"Our yields have been lower, as much as five to 10 basis points lower than the market norms." Traders said there was a five-to-seven points difference.

No Slowing Expected

Mr. Wright said the bank would not necessarily slow the pace of asset sales despite rising costs. "We always look to securitization as an alternative funding source, and we continue to do so," he said. He declined to quantify the increased cost.

MNC was downgraded below investment grade by Moody's Investors Service after it announced a second-quarter loss. Thomson BankWatch reduced



its rating on the bank to C/D in July, after cutting it to B/C in April, one portfolio manager said.

Morgan Arranging Credit

Last week, J.P. Morgan & Co. said it was arranging a $750 million line of credit for the Baltimore, Md.-based bank.

MNC's problems could force it to pay more to continue its asset securitizations, market sources said. The bank will have to pay more to obtain letters of credit, and it may even have to pay an outsider to service its asset-backed deals.

"The cost of securitization is going to go up for MNC," said an investment banker specializing in asset-backed transactions.

MNC's subsidiary, Maryland National Bank, was a pioneer in asset securitization. In the past, MNC has used letters of credit to enhance the credit quality of its public securitizations, and serviced its own deals.

Now, though, MNC may have to pay up for letters of credit from banks wary of insuring MNC assets.

"If the quality of the seller deteriorates, the quality of the servicing may drop and losses may increase," said Scott J. Ulm, a vice president in asset finance at First Boston Corp. "Letter-of-credit providers would be concerned about that."

Indeed, in order to make its asset-backed securities more attractive to investors, MNC may have to pay another bank to service the deals or to stand ready to service the deals if MNC's credit quality deteriorates further, market sources said.

Fees for servicing deals backed by credit card receivables are typically lower than those for servicing deals backed by other assets, but outside servicers can demand payments from 0.25% to 1.5% of the assets being securitized, market sources said.

Mr. Wright said there was no evidence from the market or the ratings agencies that MNC would need a back-up servicing agent.

Admittedly, only very weak institutions typically need to arrange for outside servicing of asset-backed transactions. And specialists in asset-backed securities are divided on whether MNC would need to do so.

But investors are already evincing some concern about the credit quality of the loans underlying MNC's outstanding issues. One trader said yield spreads on MNC's deals were two to three basis points wider in very light trading last week.

* * *

MARKET MONITOR

Capital-strapped Crossland Savings offered to sell about $350 million of adjustable-rate mortgage-backed securities on Friday, market sources said. About 60% of the securities had been sold as of early afternoon, one trader said.

"For a long time, we've been trying to shore up our capital position," said Ramesh Gupta, chief financial officer of Crossland. — **Phil Roosevelt**



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AMERICAN BANKER

VOL. CLV NO. 149 — Wednesday, August 1, 1990 — 155th year

Some Banks Opt Not to Travel The PC Route

By JEANNE IIDA

A few leading-edge banks are installing multimillion-dollar networks of personal computers in their branch offices, and many more are considering such outlays.

Proponents of the new approach say PCs can change the way branch personnel work, allowing them to market more effectively. But some bankers contend that branch personnel do not need PCs to cross-sell products.

Traditional systems with a controller supporting scores of dumb terminals "get the same thing accomplished as a PC," said George P. DiNardo, executive vice president and technology chief at Meiton Bank Corp.

ANALYSIS: *Follow-up on the news*

Controller-based systems are more sophisticated than ever before, observers say. And although controllers are expensive, the overall cost of such systems is considerably less than that of a PC network. A system of 10 PCs can cost one and a half to three times that of 10 terminals attached to a controller.

The cost of replacing an entire branch network with PCs can cost a large banking company tens of millions of dollars.

Two leaders in the migration to PCs, BankAmerica Corp. and Royal Bank of Canada, are near completion of personal computer networks. Analysts say each banking company will spend $50 million to $100 million on the project.

Security Pacific Corp. and Banc One Corp. are among the large companies following suit.

Advocates Cite Functionality

The main benefit of PCs is functionality, these advocates argue. Personal computer networks will open a whole range of new opportunities for selling products, they contend, because users have access to graphic, standard spreadsheet, and word processing software.

"Smart banks know you have to put in PCs to give people the functionality to serve customers," said Michael Simmons, executive vice president and chief of technology at Bank of Boston. "It's the coming trend."

During his tenure as technology chief at BankAmerica, Mr. Simmons oversaw the plan to install 21,000 PCs in the branches by early 1991. He is heading a similar effort at Bank of Boston, which has not established a timetable for its project.

Shawmut National Corp. and

See **TRADITIONAL** *page* **10**

INSIDE NEWS

WASHINGTON



M. DANNY WALL defended his handling of the 1988 sale of 15 Texas thrifts to James Fail. He told a Senate panel that a lobbyist with ties to then Vice President Bush did not influence his decision. *Page 2*

FINANCE

SALLIE MAE shares fell $2.25 by late afternoon Tuesday as investors bailed out of the once highly regarded stock. *Page 24*

TECHNOLOGY

THE GENERAL Accounting Office contends that poorly planned information systems at the Resolution Trust Corp. could delay as well as raise the cost of the thrift cleanup. *Page 3*

INTERNATIONAL

NATIONAL WESTMINSTER, Britain's No. 2 bank, faces a tough second half, according to its chairman, Lord Alexander. *Page 14*

CONSUMER

THE BIGGER the bank, the greater the likelihood that it charges above the average for a regular retail checking account, according to an ABA survey of 448 commercial banks. *Page 2*

MANY CUSTOMER service representatives, who have a key role in cross-selling bank products, do not receive even basic training. *Page 8*

COMMENT

THE CRISIS in banking has far more serious implications for the economy, and the nation, than simply another taxpayer bailout, writes Lowell L. Bryan. *Page 4*

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Seidman Sees $2 Billion Loss at FDIC

By BILL ATKINSON

WASHINGTON — In the strongest indication to date that the cost of bank failures will rise dramatically, Federal Deposit Insurance Corp. Chairman L. William Seidman said on Tuesday that the bank insurance fund is likely to suffer a net loss of $2 billion this year.

The net decline, to about $11 billion after accounting for interest and premium income, would reflect gross payouts from the insurance fund of about $6 billion. That would be 50% more than the FDIC's $4.1 billion in gross liquidation and insurance losses in 1989 but still below the $7.4 billion it paid out in 1988.

No Specific Predictions

While Mr. Seidman was not specific in his predictions of possible bank failures and their timing, he called the $2 billion loss "a reasonable estimate."

It could be caused by one or more large bank failures or an increase in failures of smaller institutions.

Mr. Seidman said the number of banks on the FDIC's problem list continues to exceed 1,000, where it has hovered since last year. The agency has closed 113

See **SEIDMAN** *page* **15**

Citicorp Defection Seen Derailing UAL Buyout

By WILLIAM GOODWIN

Citicorp's departure from the bank group leading the financing for the proposed $4.4 billion union-led buyout of UAL Corp. appears to have all but doomed the deal for now, banking sources said Tuesday.

Unless the buyout group can come up with an outside equity investor before its Aug. 9 deadline, the bankers said, it was hard to see how the deal could be completed.

Citicorp and Chemical Banking Corp. both pulled out of the bank group Friday, sources said, because the unions had failed to come up with an equity investor.

It remained unclear Tuesday whether Chase Manhattan Corp. had also balked. Chase, along with Citicorp and Chemical, did not attend a UAL bank meeting Friday.

That would leave only Bankers Trust New York Corp. and Manufacturers Hanover Corp. remaining in what was originally a five-bank group. None of the five banks would comment.

UAL Stock Plunges

A number of UAL's investors, evidently concluding that the deal had hit a major roadblock, bailed out of the stock Tuesday. The company's shares plunged $16.875 following a report in this newspaper that Citicorp and Chase were likely to pull out of the deal. The stock was down as much as $21 before rebounding somewhat late in the day.

UAL Investors Losing Faith

Price per common share



The union group proposed to buy out the airline holding company in March for $201 in cash and securities, looking for roughly $4 billion from the banks. This offer was scaled down from management's aborted $300-a-share bid that failed noisily last March.

Citicorp's departure from the bank group is considered to be

See **CITICORP** *page* **22**

Year-Old Resolution Trust Corp. Is Under Pressure to Move Assets

By DEBRA COPE
Third of a Series

Nobody can say the Resolution Trust Corp. isn't trying.

One year into the massive job of mopping up failed savings and loans, the agency has racked up some impressive achievements: 211 thrifts shut or sold at a cost of $25 billion; 257 lined up in conservatorship; more than $60 billion in 1.7 million deposit accounts protected, and nearly $50 billion of assets transferred to private hands.

The Thrift Bailout Law



When Assets Are Liabilities

In S&L sales, the RTC often gets stuck with bad assets

Assets retained by RTC (46%)



Assets transferred to buyers (54%)

Data from 207 cases resolved through June 30

Source: RTC

But the real work is just beginning. The RTC starts its second year with a mountain of distressed real estate, troubled loans, and other sour assets that totaled $37 billion at the end of June and could ultimately top $100 billion.

Bush administration officials estimate an additional 250 to 550 thrifts could ultimately require aid, bringing total failures into the range of 700 to 1,000. The Office of Thrift Supervision has already earmarked 621 thrifts with $343 billion in assets and $249 billion in deposits that may eventually need assistance.

Moving impaired assets, the residue of S&Ls deemed "resolved" by the RTC, won't be easy – especially in an increas-

See **RTC** *page* **18**

BNE Discussing Membership in Home Loan Bank

By TOM LEANDER

Bank of New England Corp. is holding discussions on becoming a member of the Federal Home Loan Bank of Boston, the *American Banker* has learned.

The unusual membership would have attractions for both sides. Bank of New England would gain the ability to borrow at low rates from the district banks, providing another source of liquidity. The Home Loan Bank would gain by far its largest commercial bank member – $23 billion in assets – at a time when many of its thrift constituents are going out of business.

Law Expanded Eligibility

Under the thrift bailout law, membership eligibility in the Federal Home Loan Bank System was expanded to include credit unions and commercial banks that have at least 10% of their assets in residential mortgage loans.

"This is something that more and more commercial banks are

See **BANK** *page* **11**

PEOPLE *in the news*

FDIC's General Counsel: 'An Unbridled Optimist'

By BILL ATKINSON

In charge of what has become one of the largest legal departments in the country, Alfred J.T. Byrne jumpstarts himself every morning with coffee and cigarettes.

The newly named general counsel of the Federal Deposit Insurance Corp. needs all of the extra lift he can get. The 46-year-old lawyer oversees 750 attorneys employed by the FDIC and Resolution Trust Corp., the agency responsible for holding and liquidating failed savings and loans. Further, he coordinates about 900 outside law firms working for these agencies, and he oversees the work on an estimated 100,000 pending lawsuits filed either by or against the FDIC and RTC.

"The reason I'm here? I'm probably an unbridled optimist, by choice," said Mr. Byrne, digging another cigarette from his pack.

After six weeks on the job, Mr. Byrne is realizing the magnitude of the task. The agency, for example, cannot keep track of all of its pending cases because its computerized management system was not prepared to handle the crush of suits that came flooding in after the Financial Institutions Reform, Recovery, and Enforcement Act that was signed into law on Aug. 9, 1989.

Mr. Byrne either wants the system upgraded, or a new one installed.

"We will pull out all of the stops to achieve that goal," he said.

He is also looking for ways to slice overhead, especially fees paid to outside law firms that represent the agency. This year the agency expects to pay outside firms $500 million for their work.

In addition, Mr. Byrne wants to hire 350 to 400 new lawyers by 1991 to lighten the load of his overworked troops, who have impressed him: "I considerably underestimated the challenges for the legal division," he admitted.



Alfred J.T. Byrne

Mark Rosen, deputy general counsel at the FDIC, agrees that the task is formidable. He said Mr. Byrne "stepped into a buzz saw. But I think he has a very pragmatic, can-do attitude."

Most recently, Mr. Byrne was a partner in the Washington office of the law firm of Dechert Price & Rhoads. From 1987 to 1989, he was resident partner in the firm's London office. His clients there included major European banks with U.S. lending activities.

Byrne Met All the FDIC's Specs

"We chose him because he was the best qualified to meet our needs," said L. William Seidman, the FDIC's chairman. "We needed someone who had experience with legal administration in terms of running cases and lawyers. We needed someone who was highly respected in the profession, and we needed someone who the White House would approve. He met all of the specs."

Insiders say Mr. Byrne is already logging long hours, typically from 7 a.m. to 7 p.m., six days a week.

"Paper doesn't sit on his desk," said a senior FDIC attorney. "You put something on his desk and it is read. He's not fooling around."

It remains to be seen if Mr. Byrne can keep the pace up, but agency attorneys are hoping the smoke will continue to rise and the coffee to pour. □

NEWS *briefs*

Lincoln Bancorp Decides To Shed Its Tainted Name

ENCINO, Calif. — Lincoln Bancorp, a healthy banking company that had been fighting perceptions that it was associated with the failed Lincoln Savings and Loan Association, changed its name Tuesday to CU Bancorp.

Its subsidiary, Lincoln National Bank, became California United Bank.

CU Bancorp's stock will begin trading Friday on Nasdaq.

Lincoln Bancorp's chief executive officer, John J. Keating, is not related to Charles Keating, chairman of Lincoln Savings, an Irvine, Calif., institution that is in receivership.

Carolina Thrift's Proposal To Sell Assets Is Delayed

RALEIGH, N.C. — First Federal Savings and Loan Association of Raleigh said the Office of Thrift Supervision had delayed a ruling on its restructuring and recapitalization plan pending delivery of more information about a proposed sale of the thrift's nonperforming assets.

"While we had hoped for OTS approval of our capital plan this month, we see this development as a positive sign," said Willard Koss, president of the $580 million-asset First Federal.

The capital plan calls for the sale of bad assets – primarily real estate – to an unaffiliated company. If the plan receives OTS approval, First Federal will engage PaineWebber Inc. on a best-efforts basis to assist in the placement of securities. □

Wall Defends Bluebonnet S&L Sale

Metzenbaum's Allegations Denied in Senate Hearing

By ROBERT M. GARSSON

WASHINGTON — The former top thrift regulator, M. Danny Wall, stoutly defended his handling of the 1988 sale of 15 Texas thrifts to James Faul, telling a Senate panel Tuesday that a lobbyist with ties to then-Vice President George Bush did nothing during his actions.

Mr. Wall also disputed allegations that Mr. Faul put only $1,000 of his own money into a deal that the federal government sweetened with $1.85 billion in subsidies.

'Balance Sheet on the Line'

"He put his entire balance sheet on the line," Mr. Wall told reporters during a break in the Senate subcommittee hearing.

Mr. Wall said Mr. Faul's net worth at the time was about $40 million, and all of that was at risk in the deal to acquire the thrifts that would be merged into Bluebonnet Savings Bank, Dallas.

Organized by Metzenbaum

Tuesday's session was the second round in a series of hearings organized by Sen. Howard Metzenbaum, D-Ohio, on Bluebonnet – one of several such deals concluded just as a number of lucrative tax breaks were set to expire at the end of 1988.

The deals have been widely criticized as too generous to the investors, and the Resolution Trust Corp. may have been wildly

COMMENT/ *By Lowell L. Bryan*

Banking Crisis Is Different And Could Be More Serious

Journalists are already comparing the developing crisis in commercial banking to the savings and loan crisis. "What will this new crisis cost the taxpayers?" they ask.

They miss the point.

The banking crisis has far more serious implications for the economy, and the nation, than simply another taxpayer bailout. What is at risk is the health of the nation's $5.4 trillion economy and the global competitiveness of the United States in years to come.

The savings and loan crisis is a story of unenforced regulation, fraud, political gridlock, and with few exceptions, a decade of neglect by political leaders. The bottom line of this story is grim enough. Best estimates are that it will take $150 to $200 billion in current cash from the taxpayers to achieve an orderly liquidation of insolvent savings and loans.

A Different Story

The banking industry story is substantially different. That industry has about $200 billion in equity capital to absorb losses, while the savings and loan industry has had no tangible capital to speak of over the past decade. The banking industry is about three times the size of the thrift industry and is far more important to the economy.

Banks are the primary source of finance for individuals, small businesses, and midsize companies. Banks provide the payment services (checks and money transfers) for the entire nation.

Money-center banks finance U.S. industries worldwide and represent the nation in the world's global capital markets. Moreover, banks are the Federal Reserve's primary vehicle for implementing monetary policy.

While the nation needs banks, the S&L industry lost its primary reason for existence about 10 years ago with the development and maturity of the mortgage-backed securities market. For the most part, healthy S&Ls are healthy because they act more like commercial banks or mortgage banks than classic thrifts.

A Plague of Loan Losses

There are, of course, some similarities between the savings and loan crisis and the problems developing in the banking industry. In particular, loan losses, in both industries have been massive. Commercial bank loan writeoffs have been over $70 billion during the past four years and are headed higher still; $6.6 billion was charged off in the first quarter of 1990.

In contrast, commercial banks wrote off only $28 billion from 1948 to 1981. If we were to have a recession, commercial bank loan losses would rise dramatically and the bank insurance fund would be under enormous strain.

Regulators have focused on the similarity between S&Ls and banks. No one wants to be held responsible for a repeat of the S&L crisis. Their first impulse has been to toughen lending standards and raise capital requirements.

Such conservative regulation is appropriate for all government-insured depositories, and it should have been started several years ago. In the short term, however, we face a potentially devastating credit crunch, particularly for small businesses, midsize companies, and builders.

Regulators are now aware of these risks. In their public discussions with bankers they have urged them to keep funds flowing to all creditworthy borrowers. The regulators face an unenviable task. They are walking a tightrope between being too strict and not strict enough.

Tougher regulation is not enough. If we want to maintain global economic leadership into the next century, we must remake our banking system to accommodate emerging markets around the world.

Both the savings and loan and banking crises share a common cause. They are both a result of unleashing market forces without fundamentally reforming the regulatory structure. In particular, interest rate ceilings on deposits were removed without consideration of the consequences.

Weak competitors, which were least able to replace their regulatory-based profits, plundered the deposit insurance system to replace this lost income with high-risk assets. In many thrifts, outright frauds were allowed to raise money and funnel it into their own pockets.

Uneconomic Activities Abetted

But the larger problem was that credit flowed into uneconomic activities. In a few years, a mountain of credit was created to finance commercial real estate, condominiums, and takeovers of companies at prices well in excess of the ability of borrowers to finance that debt out of cash flow. Meanwhile, the government was slow to remove failing competitors from the industry.

The result is a fundamental overcapacity that has eroded the profitability of even the best banking competitors. More seri-

See **COMMENT** *page* **12**



"Institutions that take uneconomic risks should be allowed to fail, regardless of size."

Mr. Bryan is head of the North American banking practice at McKinsey & Co. in New York.

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GRAPEVINE/ *By Jed Horowitz*

Citi Clamps Down, Callen-Style. The memo to 15,000 Citibankers arrived last Friday with an ominous subject line. "We must act," wrote Michael Callen, head of investment and corporate banking in Japan, Europe, and North America. "Our performance versus plan makes that abundantly clear. No one can wave a magic wand and make the marketplace a kinder or gentler place — that's not reality."

But instead of hoisting the ax, Mr. Callen merely outlined eight policies on expense cutting — most of which staff member thought were already in place.

The "new" policies: Prior written approval from senior executives is required for any external hires, for external consultants, for purchases of PCs and mobile phones, and for office conferences; meals among staffers in the same city will no longer be reimbursed; economy class is the rule when flying domestically, and business class may be used only on international flights beyond six hours. Mr. Callen also urged that use of hired cars be limited.

A spokeswoman said that Mr. Callen's intent was to ensure "a more even, across-the board approach to costs." As for the staff cuts? "Everyone is still waiting for the other shoe to fall," said one banker.

* * *

Banks in Armor. After almost 20 years, the Federal Reserve Board is letting banks into the armored car business. The Fed last month overturned a ruling by an administrative law judge who said that armored car services are not closely related to banking, so bank holding companies and their subsidiaries cannot run them.

Most banks own armored cars and use them to service automated teller machines and transfer funds among their own offices. But the banks also have excess capacity, which they want to sell to customers, said Richard Whiting, general counsel at the Association of Bank Holding Companies.

For Metrocorp, the small East Moline, Ill., holding company that was the subject of the administrative law judge's ruling, the victory is not so clear. "We still have a relatively big fight on our hands," said Marcus Hobert, general counsel of the $160 million-asset company.

He said the judge, Paul G. Clerman, has been ordered by the Fed to determine whether armored car services meet a second test of "proper incidence" to banking. All the major armored car companies and their trade associations are fighting to prove that they do not, he said.

While the "closely related" decision provides a general imprimatur, the proper incidence qualification is much more bank-specific. Metrocorp will have to show that offering the services won't harm competition locally, violate local branching laws, or affect the safety and soundness of its main subsidiary, Metro Bank, Mr. Hobert said.

* * *

Republic in the Pains? It's an open secret that Republic New York Corp., the capital-rich New York bank, wants to buy Florida Federal Savings Bank, the failing St. Petersburg-based thrift.

Officials at neither institution would confirm rumors that have circulated throughout Florida for several weeks. But the *St. Petersburg Times* reported on Tuesday that Republic is pursuing a deal. "We do have an investor with a strong interest in recapitalizing us," a spokeswoman for Florida Federal said Monday, noting that several other potential rescuers dropped out after the company said it would have a negative net worth of about $90 million after adding $36.3 million to its loan loss reserves.

Officials at Lyons, Zomback & Ostrowski, the New York investment bank that represents Florida Federal and also has done deals for Republic, would not comment.

A deal would almost certainly be contingent on the government's pumping at least $90 million into Florida Federal and assuming some problem loans. Republic, controlled by Edmond Safra, would have to add about $135 million of capital to bring the $4.5-billion asset thrift's tangible capital up to the 3% level required by regulators, said Samuel Beebe, an analyst at Williams Securities Group.

Republic, which prides itself on cheap funding that comes from having a large retail deposit rate, in the past three years has purchased the $3 billion-asset Manhattan Savings Bank and the $3 billion-asset Williamsburgh Savings Bank. The 78-branch Florida Federal – despite its involvement in a student loan scandal – would be a natural fit for Republic, analysts said.

* * *

Still Hot on Junk. Bankers Trust New York Corp. lost the bidding for Columbia Savings and Loan Association's $3 billion-plus portfolio of junk bonds last week, bank sources confirmed, but picked up an education in the process. "We showed some credit horsepower in evaluating the pieces and presumably picked up some leads," said one banker.

Bankers Trust also is readying a private placement of a junk issue that should be "teed up within the next few weeks," an official said. It would be the first junk issue managed by Bankers Trust since it received permission from the Federal Reserve Board last year to underwrite corporate debt. □



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PRIVATE BANKING

Offitbank Is Set to Open – With Help from a Rival

By MAUREEN NEVIN DUFFY
Special to the American Banker

Morris W. Offit is converting his small, closely held investment management firm into a limited-purpose trust company, or private bank. And one of his initial investors is a competitor.

Pitcairn Financial Management Group, a high-end investment firm in Jenkintown, Pa., has put $500,000 in the newly formed Offitbank, New York.

Pitcairn, which is entering private banking through the acquisition of Trustees' Private Bank in Philadelphia, bought the stake in Offitbank on the recommendation of David Lawson, Pitcairn's vice president in charge of small capitalizations. Mr. Lawson said he was impressed by the firm's "ability to leverage its investment management business with private bank services."

As with many other investment houses, "a lot of high-net-worth clients were going elsewhere for their private bank needs, such as collateralized lending," said Mr. Lawson. "I saw Offit Associates' move as the opportunity to recapture that base of business. Furthermore, he's got a pretty big upside to his private bank just by tapping his existing client base."

Offit has some 170 clients, 130 of whom are individuals or families. The rest are corporations, universities, and cultural and religious institutions. Its prime market is families with $10 million net worth.

Expanding Its Services

Because of its beginnings as a small, closely held investment advisory, Offitbank is similar to Pitcairn and to Bessemer Trust Co., New York. Both started with family trusts and branched out into other banking services.



Morris W. Offit

"I guess anyone in the investment business would be a competitor," Mr. Lawson said of Offitbank. But he stressed that the companies have had different investment strategies, Pitcairn being heavily involved in equities and Offit concentrating on fixed-income instruments.

Mr. Offit's fixed-income house concentrates on low-risk treasuries and mortgage-backed bonds, but it also manages some high-yield bonds.

The newly chartered investment management bank will emphasize global investment, Mr. Offit said. With the charter, he hopes to enter relationships with overseas banks of the European or Swiss tradition, which he used as a model for Offitbank.

Mr. Offit said he is even considering sharing ownership with foreign banks.

The charter also paves the way for the company to offer a broader array of services. Instead of directing clients to other banks for lending services, the company can now offer loans with portfolio collateralization, provide custodial services, and can act as a trustee.

"Offitbank also plans to expand its foreign exchange services from individual to corporate clients. "We needed the charter to get access to the interbank market in foreign exchange dealings," Mr. Offit said. Foreign exchange transactions for clients amounted to $2 billion last year. About $600 million of the company's $2.5 billion under management is in global fixed-income products.

Offitbank, which was capitalized at $10 million, does not have Federal Deposit Insurance Corp. coverage, nor is it taking deposits. But Mr. Offit said it would consider both in the future.

Regulators Welcome

The New York State Banking Department approved Mr. Offit's charter application in late July after an 18-month application process.

Mr. Offit, 53, says he put his investment advisory service, Offit Associates Inc., into the arms of state banking regulators without apprehension. "I've always welcomed the prospect of regulatory oversight, because I thought it would make customers even more comfortable," he said. "Clients can walk in our offices any day and take a look at their records."

Before starting his own firm, Mr. Offit was with Julius Baer Securities until 1982. There he was responsible for domestic and international portfolio management. Before that, he spent 12 years with Salomon Brothers Inc. as a partner in charge of investment research, international sales, and trading. He was research head of Mercantile Safe Deposit and Trust Co., Baltimore, until 1968.

Perrin Long, an analyst with Lipper Analytical, New York, said Mr. Offit has had a good record as an investment adviser. "There is a great place for investment management services in today's economy," he said.

Mr. Offit is using the tag line "the investment management bank" on all promotional literature to distinguish the company from its credit-driven competitors.

Ms. Duffy is a freelance banking reporter based in New York.

Customer Service Training Gap Seen

Many Institutions Lack Formal Programs, Survey Finds

By ELLEN MEMMELAAR

NEW YORK — Customer service representatives are gaining in importance as bankers turn to them to aggressively cross-sell products. But many of these key staff members do not receive even basic training.

Only 64% of banks have formal training programs for customer service representatives, according to a survey by the Bank Administration Institute. The same poll showed that 57% of customer service managers consider training a critical issue over the next two years.

Second-Class Programs

Banks are indeed behind the times in training programs, some industry watchers said. They said expenditures for training are of secondary importance, management is often unfamiliar with the sales process, and many bankers attack sales from the wrong side of the desk.

"Banks need to do a better job of understanding the economic benefits of training over time," said Les Dinkin, a Westport, Conn.-based consultant. "It's a different way of doing business."

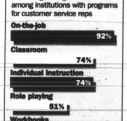
Only 64% of banks have formal training programs for customer service representatives.

Bankers are relying less on rate slashing to attract customers and more on tellers and customer service representatives to generate revenue, observers said. To be effective, the employees must be well versed in cross-selling.

The Art of Cross-Selling

Customer service is the most important aspect of establishing a sales culture, said Robert Hall, president of Action Systems, a Dallas-based consulting firm.

Top Training Methods
Percentage using each method among institutions with programs for customer service reps



Source: Bank Administration Institute

In the first part of his company's employee training program, Mr. Hall takes bankers through steps to understand what service is, its importance to the overall institution, and the specific skills needed to improve service.

Then clients can be trained to cross-sell. For this stage, Mr. Hall teaches customer service representatives about the products and what they should look for in potential customers.

"It is as important to know who not to cross-sell as it is to know who to cross-sell," Mr. Hall said.

Reluctance at the Top

Bankers, however, are reluctant to inject dollars and manpower into such training programs because results are difficult to trace, Mr. Dinkin said.

Other experts cite a problem that begins at the top. Managers who have spent their careers in banking often do not know how to foster a sales culture.

Some managers simply "do not understand how to talk to the customer's needs," said David Bennett, president of Omega Performance Corp., a San Francisco-based consulting firm.

"Bankers tend to talk about the product from the banker's point of view."

Creating a Sales Culture

A sales culture can be fostered only if management is knowledgeable about the sales process and actively encourages it, said James Schneider, a consultant based in Jupiter, Fla. If key people don't understand the process, "their own discomfort will be passed down," he said.

Of the respondents in the Bank Administration Institute study who have formal educational programs for customer representatives, 92% use on-the-job training; classroom and individual training tied for second place, at 74%. These methods get thumbs-up from consultants because they offer individualized training and allow for role-playing.

Self-directed programs using videotapes were reported by 19% of respondents, and 22% used workbooks. Other tools used include computer-based training, audio tapes, books, and manuals. But consultants caution that these self-training methods may only appear to be cost-effective.

57% of customer service managers consider training a critical issue over the next two years.

"Videos are too passive," said Mr. Schneider. "Most programs teach a monkey-see, monkey-do kind of thing. Too often, the scenarios are not relative to the person working."

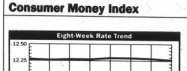
Mr. Dinkin said videos can effectively convey product knowledge but are less successful when used for sales training. "There needs to be a high level of interactive participation in order to understand and refine sales skills," he said. □

AMERICAN BANKER/*Bank Rate Monitor's*™

Consumer Money Index

Auto loan rates and fees

Here are the auto loan rates and fees being charged by selected large banks and thrifts nationwide on July 31. The rates are for a fixed rate $9,000, new-car loan, with a 20% down payment and a 48-month term. The 8-week trend is based on the rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.



Thrifts

THRIFT	RATE	FEES
Chevy Chase Svgs Bank, Maryland	11.50%	None
Great Lakes Bancorp, Ann Arbor, Mich.	12.75	None
St Paul Fed Bank, Chicago	11.50	None
San Jacinto Svgs, Houston	11.25	None
Sunbelt Svgs Dallas	11.25	None

Banks

BANK	RATE	FEES
American Security Bank, Washington D.C.	11.25%	None
Bay Bank, Middlesex, Mass	12.40	None
First American Bk of Virginia McLean	11.50	None
Mellon Bank (East), Philadelphia	11.95	None
Riggs National Bank, Washington D.C.	11.75	None

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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Traditional Systems Hold Their Own Against PC Challengers

Continued from page 1

Mellon are among the banks that are taking the controller route. Other banking companies, such as units of Citicorp, are using PCs only selectively.

Mellon is completing a major installation of branch automation equipment in 350 branches that relies entirely on controllers and terminals.

The controller-based system is integrated with Mellon's electronic mail network and central customer reference file. It also is programmed to produce preformatted screens – all capabilities typically associated with networks of PCs.

"There are no limitations on a controller-based system for any branch-related activity," said Richard Ellis, manager of product marketing at ISC Bunker Ramo, which sells both PC and controller-based systems. Platform personnel and tellers "can access central information files, they can do computer modeling, they can perform stop payments," Mr. Ellis said.

They can even cross-sell using a controller-based system, but it is a little more difficult than with PCs, he said.

What controller-based systems cannot do is integrate with office automation systems to generate forms, or print out contracts and thank-you letters, Mr. Ellis said. PCs on local area networks "let you expand into customer service applications," he said.



"Smart banks know you have to put in PCs to give people . . . functionality."

Michael Simmons
Bank of Boston

Traditional systems "accomplish the same things as PCs."

George P. DiNardo
Mellon Bank Corp.

ISC Bunker Ramo, which is based in Spokane, Wash., says sales are climbing for both types of system as banks rush to upgrade branch automation. "We see strong growth in both areas, but the growth direction is definitely into PC [local area network] technology," Mr. Ellis said.

Security Beta on PCs

Michael Shryne, vice president of the electronic systems development division at Security Pacific, said his company chose PCs for their long-term promise. "We looked carefully at controller-based solutions in 1989, but we realized that ultimately they would lead us to the same path we're at today – namely, we'd be constrained by [traditional] banking automation.

"In retail banking, you only get a shot at putting in new systems every 10 to 14 years," Mr. Shryne said. "Any decision you make has to be thought through from the point of view of where the technology is headed and will it support the ability to be competitive in three to five years." Security Pacific is in the first phase of a plan to deploy 10,000 PCs in branches by 1992.

Because PCs are based on industry standards and can be easily moved on a network, they will cost less in the long run, some advocates contend.

"Once you have installed the network, you can change what goes on at that workstation merely by loading software differently," said Mr. Simmons of Bank of Boston. Moving plain terminals is more costly, he said.

The banks that are moving to personal computers are focusing on different areas. Royal Bank will install platform PCs first; BankAmerica is focusing on the teller line; and Security Pacific is installing the computers in both areas at once.

Platform People Have Priority

But most bankers say getting PCs into the hands of platform personnel takes top priority because their jobs are more complex than those of tellers.

Security Pacific apparently agrees that the needs of platform personnel are greater than those of tellers. The Los Angeles-based company said it is installing diskless workstations on the teller line because a teller's job is less complex and will change less over time.

Mr. Ellis of ISC Bunker Ramo predicts that diskless workstations – personal computers without their own memory – will take off for the teller line because they are less expensive.

Customers Can View Screens

The changes wrought by PCs will be most dramatic for platform personnel. At Royal Bank, which is the bank closest to completing its PC network, customers and platform staff will be able to view the screen together.

The platform manager, meeting with a customer over a homeowner's loan, will key in the customer's name and call up preformatted fields containing the customer's name, address, telephone number, and other personal information.

Richard Layne contributed to this article.

Institutions Migrating To Personal Computers

	PC Platform Online	Date
Royal Bank of Canada	15,000	1990
Security Pacific Corp.	10,000	1992
BankAmerica Corp.	20,000	Early 1993

STRATEGIES: *ATMs* When 2 Languages Aren't Enough

By KAREN GULLO

NEW YORK — A desire to serve customers from ethnic communities – and travelers from around the world – is pushing banks to install automated teller machines that "speak" different languages.

While some banks have bilingual ATMs, Security Pacific Corp. is installing machines that give vocal instructions in several languages.

Security Pacific says it is the first major banking company in the country to combine six language selections on ATMs. Its Security Pacific Bank of Washington installed one of the new machines last month at the Sea-Tac International Airport in Seattle. The machine has capabilities in Chinese, German, Japanese, Korean, Russian, and Spanish.

Citicorp operates multilingual ATMs, but the machines lack the speech capability. Citibank has installed Chinese and Spanish language screen instructions on all its ATMs throughout the United States. ATMs in other countries are equipped with native and other languages.

Voice-Synthesis Capability

The Security Pacific ATM, which is manufactured by NCR Corp., has special software and voice-synthesis capabilities that allow it to "speak" instructions in each of the six languages.

The bank installed the ATM in time for the Goodwill Games in Seattle. Lawrence Campbell, vice president and manager of electronic banking administration and development at Security Pacific, says the multilingual ATM will soon be a business necessity.

"With expanding levels of international trade in this region, there is definitely a need for this service," he said. "Security Pacific's goal is to make the international traveler's transition into our currency culture more smooth and trouble-free."

The ATMs allow access to Visa and Plus ATM network accounts. Screen instructions are available in all the languages except Chinese and Korean, which will be added in about two weeks. Audible instructions in each language will be added by the end of this month.

Security Pacific is also installing ATMs with Spanish-language capabilities at six branches in Washington.

First Interstate Bancorp's First Interstate Bank of Denver installed an ATM with Japanese-language capabilities in April at Teikyo-Loretto Heights University, where 380 Japanese students study English and Western business practices. □

ISSUES: *computer crime* Multiplying Viruses Spawn Growth Market

By RICHARD LAYNE

Computer hackers, viruses, and worms pose a growing threat to the security of corporate information, according to an Ernst & Young survey.

And increased concern about computer crime is creating a $3 billion+a year market for products and services that improve security, according to International Data Corp. About 180 companies in the U.S. market offer services and software to stymie worms and viruses, which can alter or destroy data in a corporation's information systems.

Nearly half of the 285 U.S. businesses that responded to Ernst & Young's survey reported computer system failures in 1988 and 1989 caused by malicious acts of hackers, such as the introduction of viruses. Most of the intrusions cost the companies less than $50,000. But in some cases, computer crime resulted in more than $1 million in damages for a company.

Part of the corporate concern can be traced to the attention computer crime is getting in newspapers.

Mounting Number of Victims

The accounting firm said that nearly 50% of respondents reported losses related to computer crime, up from 35% in a narrower survey of security personnel in 1987. Banks and other financial service companies represented 15% of the respondents in the latest survey.

J.J. "Buck" BloomBecker, director of the National Center for Computer Crime Data in Santa Cruz, Calif., estimates that computer crime costs U.S. businesses about $550 million annually, including thefts committed through unauthorized access to electronic banking systems.

According to the Ernst & Young survey, 71% of companies believe computer-related security risks have increased in their organizations over the past five years.

Increased Media Attention

Part of the corporate concern can be traced to the attention computer crime is getting in mass-market newspapers.

"Companies are more concerned with computer security than at any time in the past," a consultant told the *American Banker* last year, "not only with shielding their networks from outsiders, but also with protecting their data and the privacy of their decision-making from unauthorized company insiders," said William de Gruchy, managing partner of Specialists on Call, Stamford, Conn.

Personal computers hooked to networks that let a user add or alter data stored on other computers contribute to the security problem. Expected growth in the number of PCs in use by corporations would create more opportunities for internal sabotage.

Ernst & Young, in conjunction with International Business Machines Corp., recently invited the press and corporate managers to view a videotape and attend a roundtable discussion on computer crime.

Deloitte & Touche, another accounting firm, is widely credited with pioneering the computer security industry. The firm has 250 corporate clients.

In an updating of Alfred Hitchcock's classic film "To Catch a Thief," reformed computer hackers – computer whiz kids who get their kicks from breaking into corporate and government data bases – offer to break into a client's computer system to demonstrate its weaknesses. The computer-security industry calls these ex-hackers "hackbusters." □

Bank of New England Considers Joining Home Loan Bank

Continued from page 1

going to be looking into seriously," said company spokesman James Dorsey. "It may play into a piece of our strategy."

Mr. Dorsey confirmed that the company was engaging in "on and off" discussions with the district bank, but said an application had not been filed.

Visits to Discount Window

After posting a $1.1 billion loss for 1989 because of bad real estate loans, the bank borrowed heavily from the discount window of the Boston Fed. At one point, the amount exceeded $2 billion.

The discount window provides short-term credit to ease cash shortfalls, but persistent use is frowned upon by the Fed.

Since then, the company has improved liquidity and strengthened its capital position by selling off more than $5 billion in assets. Bank of New England's borrowing rate is 20 times the amount of stock.

Banks are allowed to use short-term advances for any major business purpose, said David Elliott, who oversees membership at the Federal Home Loan Bank of Boston. Long-term advances are for housing finance.

"We have been approached by several large, regional commercial banks," he said, but declined to discuss specific banks.

According to Joseph Slye, a spokesman for the Federal Housing Finance Board in Washington, which oversees the Home Loan Bank system, only 15 small commercial banks have become members so far. A total of 24 applications by commercial banks are pending, he said.

"It would probably be a good move on their part. It would allow them to ease away from the CD market."

Gerard Cassidy
Tucker, Anthony & R.L. Day

The Federal Housing Finance Board stipulates that a commercial bank must be in "such financial condition that advances may be made safely to them."

Analysts said that because Bank of New England does not have an immediate liquidity crisis, it probably would not face a major hurdle meeting the membership requirement.

Analysts said that the company has been searching for a new source of funding since the higher rates it has offered on its CDs will eventually squeeze its net interest margin.

"It would probably be a good move on their part," said Gerard Cassidy, a securities analyst for Tucker, Anthony & R.L. Day in Portland, Me. "It would allow them to ease away from the CD market. This is a way out of that expensive route."

The Federal Housing Finance Board has been lobbying hard in recent months to woo commercial banks into the system at a time when some thrifts have said they want to leave. Some officials have said that the survivial of the home loan bank system hinges on its ability to bring in fresh capital from banks.

Eight thrifts have filed requests with the FDIC to exit the home loan bank system, and regulators fear that many others may soon follow, delivering a body blow to the system's capital. The thrifts wish to cash in their shareholdings and invest their money elsewhere. So far, the FDIC has not responded to the requests. □

"We have been approached by several large, regional commercial banks."

David Elliott
Federal Home Loan Bank, Boston

gland has succeeded in reversing the dramatic outflow of deposits it experienced earlier in the year by offering CDs nationally at rates between 8% and 9%.

No Urgency on Membership

The company has not borrowed from the Fed for five weeks, according to Mr. Dorsey. The improved position has removed the need for an immediate decision on membership in the Home Loan Bank System, he said.

In a memo to the bank's staff three weeks ago, chairman Lawrence K. Fish said that "later this year, I expect we may return to the Fed window."

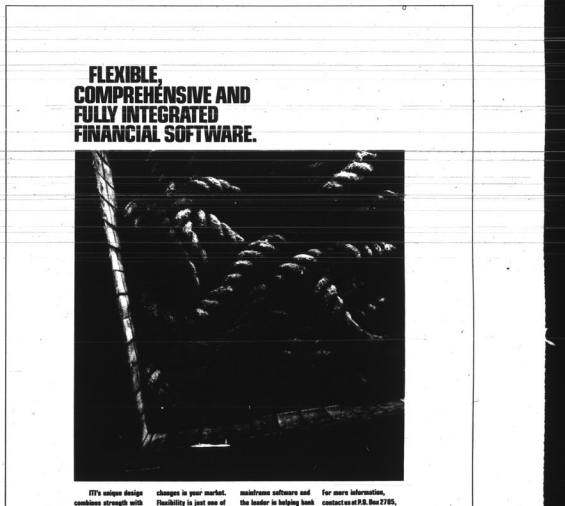
Unlike the Fed, the Home Loan Bank System is set up to lend to its members, presently 3,200. To join, a commercial bank must purchase capital stock equal to at least 1% of its investment in home mortgages. Borrowing limits are determined by the amount of capital stock purchased. The highest

Dekalb Federal to Become Prime Bank

DECATUR, Ga. — DeKalb Federal Savings Bank said it will change its name to Prime Bank effective Oct. 1.

The name corresponds to that of DeKalb's parent, the $585 million-asset Prime Bancshares Inc., the fourth-largest thrift company in the metropolitan Atlanta area.

"Prime Bank better represents who we are," said Darrell D. Pittard, president and chief executive officer of both companies. Most of the thrift's 21 banking locations are outside DeKalb County. □



COMMENT

Continued from page 4

ously, the U.S. credit system has begun to break down.

I believe we should build a new regulatory framework built on the following five principles:

• Government must ensure that our financial markets work effectively and efficiently. This means that regulation should be designed to improve financial disclosure, to ensure that accounting for assets, income, and expenses is accurate, to prevent fraud, to ensure the validity of contracts, and so on.

The government should not use regulation to provide a unfair competitive advantage for a particular institution or class of institutions. Rather, the government should foster open competition that separates the winning, value-added institutions, from the losers.

• Markets work effectively only if they are orderly; bank panics benefit no one. Therefore, government must provide safety nets. Specifically, market makers need access to central bank liquidity in times of crisis (the 1987 stock market crash, for example), the deposits of unsophisticated savers should be insured against loss, and the payment system must be protected.

The regulators "are walking a tightrope between being too strict and not strict enough."

• The government also must work to prevent the market from exploiting anomalies created by the safety nets. One need only look at the S&L mess to see that safety nets create market anomalies. Weak borrowers find weak institutions, which make weak loans.

Therefore, our government must reform the deposit insurance system by a combination of capital requirements, conservative accounting standards, frequent examinations, insurance premiums, and rapid regulatory action to ensure that safety nets are not used to subsidize uneconomic risk taking.

Institutions that take uneconomic risks should be allowed to fail, regardless of size. To do this, the government should preside over the rapid resolution of failing institutions, ensuring that losses from closure and liquidation are borne by private capital rather than at taxpayers' expense.

• Banks should add value or perish. The natural consequence of competition is to separate winners from losers. The capacity of losers must be eliminated from the banking system or the industry will be plagued with such overcapacity that even the best-run institutions will have weak earnings. Without strong earnings, banks will not be able to raise the capital needed to support their lending activities.

• Banks should have the freedom to engage in any financial activity they wish, as long as they can raise the money to do so in the marketplace without relying on safety nets, either directly or through affiliated companies.

"Banks should have the freedom to engage in any financial activity they wish, as long as they can raise the money to do so in the marketplace without relying on safety nets."

This means that barriers must be established to separate activities protected by safety nets from all other activities.

Safety nets should protect only core banking functions, not investors, from market forces. The quid pro quo of allowing banks to engage in nonbanking activities is to allow nonbanks the freedom to own banks.

Regulations Are Obsolete

Many U.S. banking regulations are obsolete. The McFadden Act (which puts prohibitions on interstate branching) is no longer an effective barrier against interstate banking. The Glass-Steagall Act can no longer keep banks out of the securities business.

The Bank Holding Company Act attempts to separate banking from commerce, but it is failing miserably, as evidenced by the success of companies such as General Electric, America Express, and Ford Motor in functions that were formerly regarded as banking.

Such outmoded regulations simply add massive costs to banks, with no public benefits. They also serve as artificial barriers that frustrate natural economic forces.

I believe that by eliminating the capacity of failing institutions, reforming deposit insurance to prevent abuse of safety nets, and unleashing natural economic forces, we can restore the health of our banking industry relatively quickly.

In the process, we can create an industry that provides substantial economic benefit to the nation rather than one that is a drain on taxpayers.

There is no question that the U.S. banking system is in need of a total overhaul. The question is, will we simply muddle through the coming crisis as we have in the past or will we take steps to remake and refine our banking system and ensure our competitiveness in the global economy? □

Comerica Acquires Deposits in Texas

DETROIT — Comerica Bank-Texas has acquired the $124 million of deposits and some of the loans of Continental Bank of Dallas, which regulators closed in July.

The two offices of Continental Bank reopened last Friday as part of Comerica Bank-Texas, bringing its network to 16 locations.

The Texas affiliate of Comerica Inc., Detroit, surpassed $1 billion in assets following the Continental acquisition, which was assisted by the Federal Deposit Insurance Corp., said Charles L. Gummer, president and chief executive officer of Comerica Bank-Texas. □

An interesting thing happens when people think someone else might pick up the tab.

VISA STATEMENT

Account Number: 4000-1234-5678-9010
Name: CHRIS HAMMER

Billing Period: AUG-SEPT
Payment Due Date: 10-15-90

Sale Date	Description	Charges	Credits
09/04	PAYMENT-THANK YOU		18.75
09/12	AL'S ALL-U-CAN-EAT	14.75	
09/24	MAIN STREET GAS 'N GO	10.00	
	TOTAL CHARGES	24.75	

NO PURCHASE NECESSARY. To enter without purchase, hand-print your name, address, city, state, zip code, day and evening telephone numbers and the words "Visa. It's everywhere you want to be" on a 3"x5" card and mail to: Visa Our Treat Sweepstakes, P.O. Box 8608, Elmhurst, IL 60126-8608. Limit one entry per envelope; no mechanical reproductions permitted. Entries must be received by December 31, 1990, or before total weekly prize pool is awarded. Prize pool weekly drawing is a check to the winner in an amount equal to the winning purchase entry. Offer void where prohibited or restricted. Cash advances, certain

EXECUTIVE *changes*

Hunter Tapped For Chase Post

Robert D. Hunter, national financial services executive for **Chase Manhattan Bank**, New York, has been appointed executive vice president.

Mr. Hunter is responsible for private banking, upscale consumer lending, financing of luxury autos, investment services, home mortgage servicing, and origination and education finance.


Robert D. Hunter

Mr. Hunter, who joined Chase in 1967, has been a national financial services executive since May 1987.

During his career he has been responsible for Chase's business with the electronics and communications industries and has served for more than 10 years in the international division.

Immediately before his present assignment, he was area executive for Europe.

Roberts Joins Mellon Bank

Philip R. Roberts, former chief investment officer for Aetna Life & Casualty Co., is joining **Mellon Bank Corp.'s** trust and investment department as chief investment officer and will head a newly created global asset management division, effective Aug. 13.

As chief investment officer, Mr. Roberts will be responsible for directing the overall investment strategy for two of Mellon's investment management subsidiaries, Mellon Equity Associates and Mellon Bond Associates.


Philip R. Roberts

He will serve as chairman and chief executive officer of Mellon Equity and as chairman of Mellon Bond.

Mr. Roberts also will be responsible for establishing asset management operations in London to expand the global investment capabilities of the Pittsburgh-based corporation.

Albert A. Bittcher has been named executive vice president of Mellon Bank Corp., in charge of the retail bank's newly created market management area.

The head of Commonwealth Bank, the brands of various Mellon Bank units, and two market-managers will report to him.

"Al is a valued member of the retail bank's management team and has made considerable contributions to our success," said Richard A. Gaugh, vice chairman, retail bank. "This move will help the retail bank to approach our markets as a focused, integrated, and responsible organization and will accelerate the development of a common way of doing business among our seven banks."


Albert A. Bittcher

Donald W. Titzel has been named executive vice president in charge of the retail bank's newly created retail support services.

The three core support areas within the retail bank – operations, technology, and business services – will report to Mr. Titzel.

"Don's extensive experience in the Mellon branch systems and as retail market manager will enable Mellon to further develop our back room operations into an area that is highly responsive to the needs of out customers and employees," Mr. Gaugh said.


Donald W. Titzel

Allan R. Dennison has been named market manager at Mellon Bank.

Mr. Dennison will be responsible for branches in southwestern Pennsylvania, the small business loan division, and the custom banking area.

Mitsubishi Bank Names Manager

Mitsubishi Bank Ltd. has named **Yutaka Hasegawa** as senior executive officer of its North American headquarters and director and general manager of its New York branch.

Mr. Hasegawa, formerly general manager, North American administration division, succeeds **Takeshi Tange**, who has been named director and general manager, international planning, at the bank's Tokyo headquarters.


Yutaka Hasegawa

As senior executive of North America, Mr. Hasegawa will be responsible for overseeing the daily conduct of the bank's varied businesses on this continent.

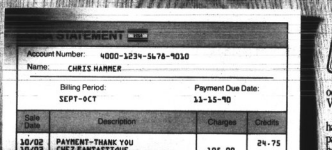
The New York branch, which Mr. Hasegawa will directly manage, is responsible for Mitsubishi's corporate banking and public finance activities in the United States, as well as Treasury operations.

— **Franklin Smith**

SOUTHWEST

First City Bancorp of Texas, Houston, has named **David S. Barnett** as senior vice president and corporate controller. He will be responsible for the corporate accounting function, including tax accounting and accounting for the collecting bank.

Mr. Barnett was previously with First City, Texas-Austin, the holding company's bank unit in Austin, where he served as executive vice president, chief financial officer and manager of the bank's control and operations division. □



OUR TREAT

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Which is precisely what occurs each year in response to the Visa Our Treat® promotion.

We give people the chance of having one of their Visa purchases paid for. And then, during the heaviest shopping period of the year, they go to town.

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After all, Our Treat has led to record fourth-quarter volumes for two years in a row. And, with proven consumer awareness (plus a major ad campaign in the works), this year promises greater rewards.

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prizes and non-U.S.-dollar purchases are excluded from entry. Maximum prize in weekly drawings: $75,000. For a complete set of rules, send a stamped, self-addressed envelope to Visa Our Treat Sweepstakes Rules, P.O. Box 8601, Elmhurst, IL 60126-8601. Void where restrictions exist. Residents may omit return postage. Sweepstakes open to all residents of the 50 United States and the District of Columbia 18 years or older except employees and their families of Visa, its advertising and promotional agencies and Visa card issuers. Promotion ends December 31, 1990, or when total prize pool is awarded, whichever occurs first. © Visa U.S.A. Inc. 1990

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER

GLOBAL *dispatches...*

Harris, Bank of Montreal Integrating Global Custody

By RICHARD LAYNE

NEW YORK — To serve investors with international holdings, the Bank of Montreal and its U.S. subsidiary, Harris Trust and Savings Bank, are combining and improving their global custody operations.

The business, which will be called Bank of Montreal Global Custody and will be managed by Harris executives, represents a significant commitment from the banking company. Combined, the international assets of Harris and the Montreal bank total $12 billion, making the entity one of the bigger players in a field led by Chase Manhattan, with $112 billion.

Previously, Bank of Montreal operated a global custody unit in London. Chicago-based Harris offered global custody through a unit of Mitsubishi Bank in California.

Direct Offering Set

Now Harris will offer global custody, or the accounting and record keeping of securities, directly to customers. The bank has purchased custody software from Premier Systems Inc., which is also used by Mitsubishi. The software allows multicurrency reporting, considered a critical element in global custody.

Harris will manage its own network of subcustodian banks worldwide, a service previously supplied by the California bank. By controlling its software and subcustodian network, Harris believes it can offer better service to customers.

"More and more pension plans, insurance companies, and mutual funds are committing a higher percentage of total assets to the international marketplace," said Nancy B. Wolcott, the senior vice president at Harris who will head the combined custody business. "To be a player, you have to dig in and commit."

... *by country*

EASTERN EUROPE

The United States has warned that it may not be able to join a new international bank to fund economic development in Eastern Europe if plans for organizing the institution are not changed, U.S. officials said.

They said the United States and some other major nations were pressing the head of the European Bank for Reconstruction and Development to alter his proposals to centralize power within the presidency.

Unless changes are made, they said the Bush administration could have trouble winning Congressional approval for U.S. participation.

The bank's president-designate, Jacques Attali, has annoyed the U.S. and some other major nations by seeking to concentrate power within himself rather than with a board of directors, U.S. officials said.

They said Mr. Attali's proposal to defer plans for a board of executive directors resident at the bank for two years were unacceptable.

The U.S. is also worried that Mr. Attali's proposal to set up branches throughout Eastern Europe would create an incentive to pump out money. U.S. officials would like to a see a plan for lending first.

UNITED KINGDOM

The **Royal Bank of Scotland Group PLC** said it had exercised an option to raise its shareholding in Spain's **Banco de Santander** to 1.5% from 1%.

Royal Bank of Scotland and Banco de Santander entered into an agreement in 1988 that provided that the Royal Bank would purchase an equity note that, on maturity or on earlier conversion, would convert into shares in Banco de Santander, representing 0.5% of its share capital.

The agreement in 1988 was part of the two banks' alliance for cooperation in Europe.

TAIWAN

The state-run **Chang Hwa Commercial Bank** will open a representative office in Tokyo in August, becoming the first Taiwanese bank to establish a presence in Japan in 40 years, a bank official said.

The official said Chang Hwa would set up the office next month but declined to give the precise date of the opening. "We cannot tell you now, it is too sensitive," he said.

Taiwan's Finance Ministry allowed the Bank of Tokyo in May to set up a representative office in Taipei, making it the first Japanese institution to set up an office in Taiwan since Japan switched diplomatic recognition to China in 1972.

JAPAN

Most of Japan's major banks are likely to raise their short-term lending rates in August, following recent rises in short-term money-market rates, bank officials said.

Major banks here are likely to charge about 7.7% interest on short-term loans to their best customers. They are presently charging about 7.5%, the bankers said. The banks, however, are unlikely to raise their short-term prime rate, which is currently at 7.125%.

Instead, the banks may ask customers to deposit loan proceeds into demand accounts, which bear very low interest, the officials explained.

The by country briefs were supplied by Reuters.

NatWest Bearish Despite Profit Rise

Predicts Tough Second Half as Realty Woes Persist

Reuters

LONDON — National Westminster Bank PLC, the United Kingdom's second-largest bank, faces a hard second half, according to its chairman, Lord Alexander.

"We expect that conditions will remain difficult during the rest of this year," he said in a statement accompanying the bank's first half results.

His was the second bearish statement to be issued by a major U.K. bank in the past few days. Earlier, Lloyds Bank PLC, the U.K.'s fourth-largest, said it that expected real estate problems to persist for at least a year and that Britain's economy was virtually in recession.

Profits Disappoint

NatWest said pretax profits after debt provisions rose to $797 million, from $651 million. This was below market forecasts, but a 15% dividend rise to about 11 cents beat expectations.

The bank's shares rose about 5 cents, to $6.07.

Mr. Alexander said, "These profits are considerably lower than we would have wished. In the current economic conditions in the United Kingdom and the United States, we have needed to make substantial provisions and income growth has slowed."

"There are certain factors from which we take strength," he added. "Our underlying core business is sound. Problem country debt is largely behind us. Our capital base is strong."

The group's total income rose by 7% from the year-earlier level, to $5.16 billion. Net interest

"These profits are considerably lower than we would have wished."

Lord Alexander
National Westminster Bank

income rose by 6%, to $13.1 billion, while noninterest income increased by 8%, to some $1.84 million.

$786 Million Debt Charge

NatWest made total debt charges against profits of $786 million, of which $420 million were specific charges against domestic debt and $355 were against international debt, excluding that from problem countries.

Analysts said a rise in the group's cost-to-income ratio to 69.8% this time from 65.7% in the first half of 1989 was disappointing.

NatWest's Mr. Alexander said this increase reflected the loss of interest income after problem-country debt sales and writeoff of other debt. "The group is continuing to strive for all sensible and effective economies," he said.

Mr. Alexander said high interest rates hit personal and commercial market sectors, but retail savings showed good growth.

Trading Helps Profits

Successful trading by Treasury operations and strong corporate business aided the corporate and banking sector, Mr. Alexander said.

International businesses lost $120 million after $272 million in provisions, compared with a year ago's $9.7 million loss after provisions of $257 million.

Most of the provision this time related to real estate problems in the Northeast United States.

Mr. Alexander said European operations had made increased profit contributions despite difficult market conditions. □

Philippines Aims to Unite Shares in U.S. Bank

By JAMES R. KRAUS

NEW YORK — Philippine National Bank has resubmitted an application to the Federal Reserve Board to acquire Century Bank, a $63.5 million San Francisco-based bank that specializes in trade finance.

Philippine National Bank already holds 20% in Century. Four other state-owned Philippine financial institutions – Development Bank of the Philippines, Land Bank of the Philippines, Government Service Insurance System, and the Philippine Social Security System – each hold 20%.

The application calls for Philippine National Bank to acquire shares held by the other institutions as part of a restructuring of the Philippine banking system.

Philippine National Bank submitted its original application to the Fed two years ago but because of Century's history of losses did not obtain approval.

Manila-based Philippine National had $2.5 billion in assets

The Fed had rejected an earlier bid because of losses by the target bank.

at the end of last year. The bank has an agency in Honolulu, a full branch in New York, and a limited branch in Los Angeles.

Century, originally acquired by the five Philippine institutions from private shareholders in 1981, posted cumulative losses of $5 million between 1981 and 1987. The bank had net earnings of $1.5 million last year and $1.3 million in 1988.

Reason for Resubmission

"We resubmitted the bid because we felt we could demonstrate that Century could be used as an investment vehicle," said Benjamin Palma Gil, the bank's president.

Mr. Gil, 38, who was transferred by the Philippine National Bank from Hong Kong to San Francisco to clean up the bank, has steered Century into trade finance for exporters and importers from among San Francisco's Asian ethnic community.

Mr. Gil said he was hopeful that the Fed application would be approved this time. □

Key International Rates*

	Day-to-day money		Seven months		Six months interbank		Nine months		One year		Three-month Eurodollar		Prime rate/base	
	7/31	7/30	7/31	7/30	7/31	7/30	7/31	7/30	7/31	7/30	7/31	7/30	7/31	7/30
United States	8.00	8.00	8.06	8.00	8.00	8.12	7.94	8.00	8.12	7.50	7.00	7.00	10.00	10.00
Japan	7.00	11.75	7.50	7.81	11.00	7.71	7.88	11.00	7.81	5.25	5.25	5.25	7.13	7.13
Canada	13.00	13.00	13.25	13.13	13.13	13.00	12.88	13.00	13.37	13.48	13.48	13.25	14.75	14.75
U.K.	15.00	15.00	15.00	15.00	15.00	15.00	14.94	15.00	14.87	14.30	14.33	14.31	15.00	15.00
West Germany	8.25	8.10	8.00	8.31	8.00	8.25	8.44	8.43	8.00	8.00	8.00	8.00	10.50	10.50
Switzerland	8.12	8.00	8.00	8.06	8.04	8.00	8.06	8.04	8.00	8.00	8.00	8.00	11.25	11.25
France	10.13	9.75	9.93	10.13	9.94	9.93	10.25	9.94	10.00	9.50	9.50	9.50	10.50	10.50
Italy	11.75	11.75	12.25	11.38	11.38	11.37	11.50	11.50	11.50	12.50	12.50	12.50	13.00	13.00

Forward Rate Agreements

	U.S. dollars		Sterling		West German marks		Swiss francs		Yen	
3 to 6 months:	7.88		14.31		8.42		8.70		7.88	
6 to 12 months	7.99		13.35		8.60		8.68		7.94	
12 to 24 months	8.00		12.65		8.85		7.50		7.55	

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

Seidman Predicts $2 Billion Net Loss for FDIC in 1990

Continued from *page 1*

banks to date in 1990; it closed 206 banks in 1989 and 221 in 1988.

In citing the $2 billion net loss estimate, Mr. Seidman confirmed a statement late last month by his deputy, John F. Bovenzi, that the insurance cushion protecting commercial bank deposits is eroding as risks to the banking system mount.

Mr. Bovenzi's "worst-case scenario" fueled speculation that the FDIC might raise the premiums paid by commercial banks, currently 12 cents per $100 of insured deposits. The assessment is already scheduled to rise to 15 cents per $100 next year, and could go higher. The legal limit is now 19.5 cents per $100.

In testimony on Tuesday before the Senate Banking Committee, Mr. Seidman said only that a premium hike is under study. He said he is confident that, despite the expected decline in the FDIC reserve, the fund can handle forseeable problems.

Relative to total insured deposits, the FDIC bank insurance fund ended 1989 at a historical low point of 70 cents per $100 of insured deposits. Mr. Seidman told the Senate panel that the coverage ratio could slip further to between 50 cents and 60 cents by yearend 1990.

Relative to total insured deposits, the FDIC bank insurance fund ended 1989 at a historical low point of 70 cents per $100 of insured deposits.

Insurance on Their Minds

While Mr. Seidman spoke to the banking committee on a number of subjects ranging from the insurance fund and the savings and loan crisis to financial industry services reform, several senators kept coming back to the adequacy of the insurance fund.

"We have been trying to get a clear sense as to what the state of the insurance fund is," said Sen. Donald W. Riegle Jr., D-Mich., chairmas of the banking committee. Mr. Riegle then asked Mr. Seidman to present a picture of where the fund is heading.

"We continue to have over 1,000 problem banks and we continue to have failures in the system," Mr. Seidman said. "Like anyone else, we are not able to predict the future perfectly."

A Likely Candidate

Charles Peabody, a banking analyst with Kidder, Peabody & Co., is convinced that the government is preparing for at least one large bank failure. "Using these assumptions, our candidate for potential failure is Bank of New England," he said in a recently published report.

The Bank of New England Corp.'s principal subsidiary has a weak capital-to-assets ratio of 1.02%.

Bank of New England officials have bristled at speculation about a possible failure, saying the company is on the way to recovery after a $1.1 billion loss last year.

Mr. Riegle asked Mr. Seidman if the FDIC is at the point where it ought to consider increasing the 15% level.

"I think our board will be monitoring that very carefully," Mr. Seidman responded.

"Everything I keep reading suggests that they are moving in that direction of pushing [the insurance premium] up," said Bert Ely, an Alexandria, Va., financial consultant.

Mr. Ely figures that a $2 billion loss, coupled with increased deposit inflows to the banking system as a result of more S&L failures, would mean that the deposit coverage could fall to between 50 and 55 cents for every $100 in deposits. □

Anchor's Turnaround Continues

NEW YORK — Anchor Savings Bank, declaring progress in its turnaround effort, reported net income of $40.9 million for the quarter that ended June 30, up from a loss of $26.9 million a year earlier.

The $9.2 billion-asset thrift, the nation's 22d-largest, does not meet the capital requirements of the thrift-bailout law, with negative tangible capital of $151 million.

But, earlier this year, regulators approved Anchor's plan for achieving compliance within two years through asset sales and other steps.

Chief executive James M. Large Jr., recruited from First Interstate Bancorp last year to lead the turnaround, said the quarterly results "reflect a continuing improvement in Anchor's operating performance."

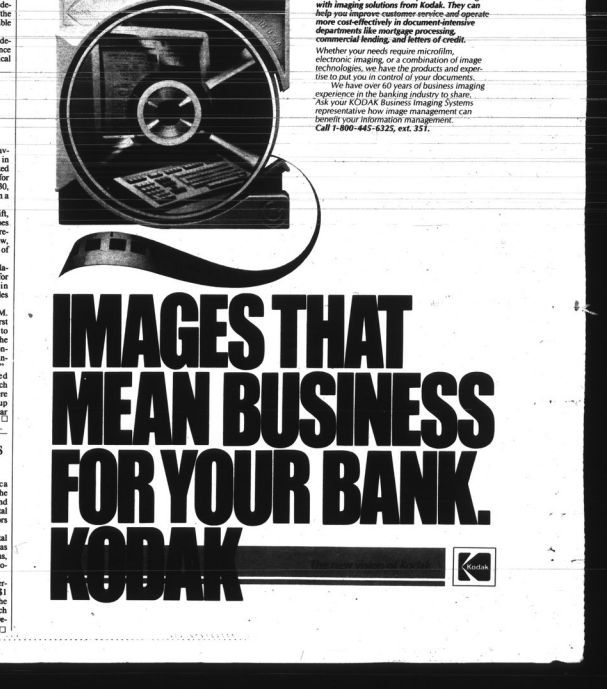
The Hewlett, N.Y.-based thrift said its core profits, which exclude one-time gains, were $1.9 million for the quarter, up from a loss of $3 million a year earlier. □

Comerica Acquires Deposits in Texas

DETROIT — Comerica Bank-Texas has acquired the $124 million of deposits and some of the loans of Continental Bank of Dallas, which regulators closed last Thursday.

The two offices of Continental Bank reopened last Friday as part of Comerica Bank-Texas, bringing its network to 16 locations.

The Texas affiliate of Comerica Inc., Detroit, surpassed $1 billion in assets following the Continental acquisition, which was assisted by the Federal Deposit Insurance Corp. □



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Larger Banks Charge More For Checking

Continued from *page 2*

earlier.

Then, banks under $50 million in assets charged an average of $4.03 a month for regular checking – 9 cents less than in the latest survey. In last year's survey, the largest category of banks charged $5.29 – 27 cents more than the average charge in this year's data.

According to surveyed banks, a regular checking account typically had two to four pricing tiers.

Customers were charged monthly maintenance fees ranging from $4 to $5 unless an account balance of $300 to $500 was maintained during a billing period.

Unlimited free checks, either offered regardless of account balance or when the account balance was above the minimum requirement, was the norm in the survey for regular checking accounts.

When only a limited number of free checks was permissible monthly, the typical range was three to 50 free checks each month, and charges ranged between 17 cents and 24 cents for each additional check written, the survey said. □

New England College Plans Banking Degree

The New England Banking Institute, Boston, has formed an alliance with Bentley College to offer a bachelor's degree focusing on banking.

The agreement enables bankers to obtain a bachelor of science degree in finance with a concentration in bank management. The program is the first of its kind in New England.

Participants can earn an associate's degree from the regional banking institute, which serves 10,000 bank employees a year in its educational programs. Additional courses at Bentley then lead to a bachelor's degree from the Waltham, Mass., college.

Admissions Policy

Though developed for bankers enrolled at the banking institute, those with associates' degrees from other institutions may apply for admission into the joint program.

"This partnership could change the face of banking education in New England," said Peter Madden, president of State Street Bank and Trust Co. and chairman of the institute's senior advisory council. "The goal is to produce graduates who have cross-functional banking skills – who understand all aspects of bank management."

Gregory H. Adamian, president of Bentley, said, "Given the prominence of the banking industry in this region and the Northeast in general, Bentley and NEBI will be filling a real need. What we have begun could become a model nationwide." — **Franklin Smith**

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Wall Staunchly Defends 1988 Sale of Bluebonnet Savings

Continued from *page 2*

said Mr. Garn. "He just wants publicity out of this."

At the heart of Mr. Metzenbaum's criticism of Bluebonnet is the disclosure that Mr. Fail was indicted on a securities charge 10 years ago and that his insurance company entered into a plea bargain and paid a fine for insurance fraud.

But the Ohio senator aimed most of his attack at Mr. Thompson, who he said may have earned "an amount in the tens of millions of dollars" for his work on the Bluebonnet deal.

Mr. Wall and others who appeared before the panel said Mr. Thompson had no impact on the decision.

Mr. Metzenbaum has accused the now-defunct Federal Home Loan Bank Board of turning down a competing deal for Bluebonnet Savings that would have saved the government $97 million.

Stuart Root, former director of the Federal Savings and Loan Insurance Corp., said he had never met Mr. Thompson. Mr. Wall said he had met him only three times in 1988; he claims to have met four times with Weston Edwards, the losing bidder.

Mr. Root said that Mr. Edwards' final bid was probably more expensive than Mr. Fail's final bid in late December 1988, even though he came in cheaper than Mr. Fail during an earlier round. Mr. Wall said he has asked the Office of Thrift Supervision, the successor to the Bank Board, to provide estimates of the cost of the two final bids.

George Barclay, president of the Federal Home Loan Bank of Dallas, acknowledged that he wrote a letter to the Bank Board in Washington, following his office's investigation of Mr. Fail, describing the buyer's legal problems but not offering a conclusion.

Second Letter

He wrote a second letter, reflecting his decision "not to object" to the acquisition after Thomas Lykos, the former director of the FSLIC's Southwest plan, asked him to amend the letter to state his position.

Mr. Metzenbaum said it may have been unprecedented for a district bank to fail to state an opinion on a proposed assisted takeover.

'What was your rush?'

That should have been a clear signal to Mr. Wall that something was amiss, he said.

"What was your rush?" he repeatedly asked the former regulator. □

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RTC, on 1st Birthday, Is Under Pressure to Move Assets

Continued from *page 1*

ingly sluggish U.S. economy. Shunned by acquirers who prefer performing loans, top-notch mortgage securities, and residential real estate, these leftovers present special problems for the RTC. At many government-held thrifts, loan files are missing or in disarray. Payments are coming in irregularly, if at all. Commercial loans, though performing, are not in demand.

The Most Illiquid Remain

In short, much of what still sits in the RTC inventory is the most illiquid of the agency's assets.

Moving the half-built or vacant commercial and residential properties and raw land that make up but a fraction of the inventory may be the hardest part of the job, given the real estate recession that is spreading nationwide. "Who wants a vacant building in an area where there's absolutely no demand for office space?" conceded Stephen Katsanos, a spokesman for the RTC. These properties will have to be sold at a deep discount.

In the face of tremendous pressure to start and maintain an aggressive sales program, the RTC appears to have plenty of nothing to offer an indifferent public. Yet its challenge in the months ahead is to convert these bad assets – Chairman L. William Seidman prefers to call them "opportunity assets" – into cash.

> **"Selling hard-to-move assets is where the rubber hits the road."**
>
> **L. William Seidman**
> *Resolution Trust Corp.*

"They're only about one-sixth of the way through the problem in terms of dollars," said Bert Ely, an Alexandria, Va., consultant. Disposing of assets won't be as quick and easy as moving deposits, "just because of the nature of the assets involved."

Seidman Takes the Offensive

Today, at a scheduled press conference, Mr. Seidman is expected to take the offensive against critics of the RTC's asset-sales efforts by unveiling a stepped-up strategy to plow through its inventory.

The RTC chairman will unveil "Operation Clean-up" – effectively stage 2 of the agency's thrift-rescue effort. It will combine a wide range of techniques to "make selling the primary business of the RTC," Mr. Seidman said in a recent telephone interview.

"We expect to have a sales force with the skills of IBM and the products of a second-hand car lot," he said. For the RTC, "selling hard-to-move assets is where the rubber hits the road."

A national sales director for the RTC will be named as part of the initiative.

Initiatives Under Way

Several efforts to move large volumes of assets have already been set in motion by the RTC:

- Up to $300 million of real estate will go on the block at a nationwide, satellite auction in September.
- Bid..ag begins in November for three $500 million packages of distressed loans and real estate.
- At the RTC's direction, the Office of Thrift Supervision has begun marketing ailing thrifts before they lose their appeal to buyers. Ten to 12 thrifts are expected to be sold under the "accelerated resolution program" by yearend, and more could follow. "We hope we'll get a lot more assets sold this way," Mr. Seidman said.

> **Much of what sits in the RTC inventory is the most illiquid of the agency's financial assets.**

Mr. Seidman emphasized his agency's successes at a House Banking Committee hearing on Monday. "We've sold $50 billion in assets. That puts us in IBM's class," he said.

The RTC said it sold or liquidated assets with a book value of $45.3 billion from 207 thrifts it had resolved as of June 30. However, approximately $10 billion of these assets carried put options, meaning the buyer may return them to the RTC. The RTC kept assets with a book value of $39.4 billion.

Over the next three months, the RTC expects to resolve another 77 thrifts with assets of $48 billion. Based on prior experience, the RTC could end up with about half of these assets.

Breakdown of Assets

Distressed real estate and financial loans make up about half the assets of failed thrifts, Mr. Seidman told the panel. The RTC is selling real estate "50% to 60% of book value. The easy-to-sell assets that make up the balance of the inventory sell for book value, so the RTC's losses on assets total about 25% of book value, he added.

The RTC's receivership holdings, $37 billion at the end of June, include $6 billion in real estate and $31 billion in financial assets, including loans, securities, and junk bonds. □



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To: The RTC's Administrators. Re: Some Steps to Consider

By DEBRA COPE

What should the Resolution Trust Corp. do to speed the sale of seized thrift assets?

The American Banker *posed that question to five experts, who said the agency needs to exhibit flexibility, innovation, and a high level of cooperation with investment bankers, institutional investors, and others who have the expertise – and the capital – to make deals work.*



John Oros:
Forge Links with Private Sector

Welding partnerships with private firms is the big challenge ahead for the RTC, said John Oros, partner, Goldman Sachs & Co., New York. "This agency has got to get itself where it is working aggressively rather than reluctantly with the private sector," the investment banker said.

In the coming months, the RTC will focus on improving the financing, representations and warranties, and indemnities it offers asset buyers, and on structuring workable management contracts, he said.

Although the RTC has taken a lot of heat for unloading most assets from the deposits it sells, Mr. Oros has no fundamental quarrel with this. "A guy who buys a shopping center in Texas may not be the guy to buy sophisticated stripped securities. I'm a big fan of this market segmentation."

Still, the name of the game is volume. "One of the major breakthroughs will come when they get to point where they can turn over major chunks of assets," he said.

He called the accelerated resolutions program "exciting" because it will give prospective acquirers more time to look over assets. More assets will move with deposits, and "that's an advantage, because it's another way of moving volume."

If the RTC can be a more flexible negotiator, that should nudge even more assets into private hands, he said.

Bidders wonder whether the RTC will structure accelerated resolution packages so that certain categories of assets can be left at the bidding table, Mr. Oros said. Letting winners refuse a small number of risky, complicated assets – such as loans with environmental risks or participations that present cross-creditor claims – could allow transfers of most of a failed thrift's assets to private hands.

The RTC also needs to entrust to its agents the authority to approve transactions, Mr. Oros said. "The government can supervise the hell out of them after the fact, but it has to let them do deals."



Timothy Hartman:
Renegotiate With Borrowers

As it struggles with a growing asset load, the RTC is missing a chance to ease its burden by renegotiating loans, said Timothy Hartman, chief executive of NCNB Texas, Dallas.

Mr. Hartman predicted innovation will be the hallmark of coming months. "We'll begin to see the RTC pursue more alternatives once they have a data base that allows an investor to appropriately evaluate a loan. Right now that is restricting analysis."

If an original borrower from an insolvent thrift lacks the wherewithal to retire a debt under existing terms, "the taxpayers and the government may be best served by restructuring the loan," Mr. Hartman said.

Debt restructuring could cut the RTC's legal and administrative costs as well as stimulate depressed economies by freeing owners to reprice leasing terms for commercial real estate projects that are now under-occupied. The alternative is to foreclose on the original owner of a project, incur legal costs, and slash the price to find a buyer, he said.

"If the original borrower can't service his debt but still has faith and belief in the project, in many cases he is the best person to carry it forward," according to Mr. Hartman. "Some cash flow is better than no cash flow."

He added that disposing of troubled loans remains a serious problem for the agency, which has so far put relatively few distressed assets up for sale. But he generally gave high marks to the agency, saying observers "have been more critical than I think we should be at this point." Formed less than a year ago, the RTC "has inherited seven to 10 years' worth of problems."



Leonard Simon:
Investors Wary Of Public Wrath

Hostile political and public opinion are dampening the enthusiasm of the very entrepreneurs who are best equipped to take over assets of failed thrifts, said Leonard Simon, chief executive officer, Rochester Community Savings Bank in New York State.

Financial institutions lack the appetite for nonperforming assets because they can't absorb high risk for a chance at a 15% to 16% return. And acquiring sick loans may prompt intense regulatory scrutiny, Mr. Simon said.

That leaves the private sector to purchase assets from the RTC, and these investors need convincing "that they won't be battling Congress forever."

"Congress gets upset when somebody earns a 30% return, although the perceived risk may merit it." The public, too, "has a sense of what should be earned and what's fair," Mr. Simon said. "When things depart from that, it's difficult for people to accept."

Mr. Simon said the RTC "should write the contracts so they have a piece of the upside on everything, and then let the entrepreneurs go to work."

The Office of Thrift Supervision can help tame the RTC's task by aggressively pairing buyers with borderline thrifts before they fail, Mr. Simon said.

Speeding sales of shaky mutual institutions is one option. The RTC said March, in an innovative reading of its supervisory conversion rules, allowed Mr. Simon's Rochester Community to acquire Shadow Lawn Savings Bank, West Long Branch, N.J.

Though tangibly insolvent, Shadow Lawn had goodwill capital, making it solvent under generally accepted accounting principles and thus technically ineligible for the expedited mutual-to-stock conversion procedure. By bending its rule, the OTS kept Shadow Lawn out of conservatorship and preserved its franchise value. "The OTS needs to do a lot more of that," Mr. Simon said.



Paul Horvitz:
Structure Is An Impediment

By setting and meeting ambitious goals, the RTC is demonstrating it can cut deals and resolve cases, but impediments to long-term success are imbedded in the structure of the rescue effort, according to Paul Horvitz, a University of Houston finance professor.

Although the RTC is doing the best it can, involvement by the Oversight Board and the Treasury Department is a hindrance, and second-guessing by Congress is "irresponsible," "demagogic," and the biggest obstacle to getting the job done, Mr. Horvitz said.

> **"It is a bad idea to do all the deals that way."**

He criticized the heavy reliance of RTC officials on deposit assumption and transfer deals. "They are leaving RTC with all of the sour assets, and it is a bad idea to do all the deals that way."

The Southwest plan sales of thrifts by the Federal Savings and Loan Insurance Corp. in 1988, though now reviled, were better for the government than those the RTC is assembling now, Mr. Horvitz asserted.

"They required the new owners to take the bad assets." The government had to provide guarantees against loss, "but at least there was some incentive to dispose of assets," he said.

One good approach, Mr. Horvitz said, would be to invite bidders to browse freely through the RTC's inventory and then negotiate, "rather than going through a seemingly fair auction process."

"The trouble is, the RTC staff doesn't like that responsibility. It opens them up to criticism if somebody gets something too cheap." Given widespread second-guessing of FSLIC's deals, Mr. Horvitz said, "it's not a misplaced concern."



William H. Rivoir:
Prime the Pump With Financing

To get its real estate assets moving, the RTC must prime the pump with seller financing, said William H. Rivoir, Arizona's superintendent of banks.

"The RTC is in a buyer's market, not a seller's market. It must move toward the market, instead of insisting the market move to it," Mr. Rivoir said. To boost its cash position, the RTC

> **"The RTC is in a buyer's market, not a seller's market."**

should sell the loans into the secondary market.

The Oversight Board should consider providing limited government guarantees for the RTC's financing. "I suggest covering the top 25% of the loan against loss. With a 15% down payment and a 25% guarantee, it would have a 60% loan-to-value ratio. Those would be salable."

Expanded seller financing could help the RTC fetch higher prices for its wares, move more assets, and cut its long-term costs. And the range of buyers will be greatly expanded because "you're not limited just to cash-rich bottom fishers," he said.

Mr. Rivoir acknowledged that financing real estate would be costly for the cash-strapped RTC but said the payoff would be greater stability in the real estate market.

The RTC also needs to "sell loans, not just hire asset managers," Mr. Rivoir said. He endorsed the RTC's plan to begin bulk sales of financial assets. This approach is good "not just because it gets liquidity for the RTC, but because it gets the decision-making process out of the government's hand."

"If you have private managers determining whether to foreclose, or restructure, and on what terms, you'll get a better result than having a government-bureaucrat doing it," he said. □

Unicorp to Keep Lincoln Savings Bank

By STEPHEN KLEGE

NEW YORK — Unicorp American Corp. has abandoned an attempt to sell Lincoln Savings Bank, and instead has hired a retail savings and loan specialist to bolster management of the $2.8 billion-asset thrift.

Unicorp American, a unit of the Toronto-based real-estate company Unicorp Canada Corp., paid about $150 million to buy New York-based Lincoln Savings in 1987.

"They couldn't get anywhere near that in today's adverse market for banks," said one analyst, who declined to be quoted by name.

The attempt to sell the thrift unit was sparked by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which reduced thrift real estate powers.

The company announced it had hired Jonathan Gabriel, formerly chief operating officer of City Federal Savings Bank, Bedminster, N.J., as its chief retail banking officer. City Federal is now operating under the federal Resolution Trust Corp.

$40 Million Real Estate Sale

Unicorp said last week that it netted $40 million in cash from the real estate transaction. The proceeds were used to repay Unicorp American's senior debt.

Unicorp American also opened a new $24 million revolving credit line with Hees International Bancorp, Toronto, and National Bank of Canada, extending through August, 1991.

Part of Unicorp American's real estate portfolio was sold to newly formed partnerships of Unicorp American and Coscan Development Corp., Toronto, for $33.1 million of cash. The remainder of the real estate was financed with participating mortgages, the company said.

Coscan Development is an affiliate of Hees International, which owns 24.6% of Unicorp Canada.

Second Quarter Losses

Tuesday, Unicorp American announced it had lost $1.2 million, or nine cents a share, in the second quarter, but a spokeswoman said the results did not reflect the spinoff of the real estate assets.

Unicorp American lost $4.4 million in the second quarter last year.

The analyst said the thrift has operated at or near breakeven for the last year, not counting the real estate assets. ☐

COMMENT/MERGERS

Dissident Shareholders Stir Up Hornet's Nest at New York Savings

By REID NAGLE
President
SNL Securities

Shareholder relations at New York Bancorp — a $1.1 billion-asset thrift holding company serving Queens and Nassau counties in New York, took a turn for the worse last week as dissident directors Patrick Malloy and Michael McManus clashed with management about the adequacy of their board representation.

Last January, Mr. Malloy and Mr. McManus won an acrimonious proxy battle by a 57% to 42% margin that placed them on the board of the North Hills, N.Y.-based company.

A few months later, on April 24, Mr. Malloy filed a 13D with the Securities and Exchange Commission indicating a desire to engage "in discussions relating to the business activities," by an entity to be formed by Mr. Malloy, of all the outstanding common stock of the company."

The battle did not end there. For several months, Mr. Malloy and Mr. McManus have complained that management has denied them adequate board representation by prohibiting them from joining or even attending the executive sessions of New York Bancorp's sole insured depository subsidiary, Home Federal Savings Bank.

On July 20, Mr. Malloy and Mr. McManus showed up at Home Federal's trustees' meeting insisting that they be permitted to attend. The trustees refused.

"At the time of its conversion, New York Bancorp had a track record of mediocre earnings but a history of strong asset quality."

Since the conversion, three large investors have appeared at New York Bancorp's doorstep. The first was Nicola Biase, a representative of an Italian and Swiss financial group called Findim. Findim has appeared in numerous other places in the Northeast corridor in recent years: Sag Harbor Savings Bank on Long Island; Cortland Savings in Boston; North York Bancorp., Mattituck, N.Y.; State Bancorp in New City, N.Y.; and most recently, Polifly Financial in Hasbrouck Heights, N.J.

Findim first filed on New York Bancorp stock in March, 1989.

Unless the two sides reach an accord soon, it seems likely that one of the dissident shareholders will propose an opposition slate of directors next January when three board members, including chairman Dreher, are up for re-election. Absent a prolonged court battle, the numbers suggest the dissident faction would have a tough time losing. The three dissident investors, together with all institutional shareholders, control 55% of the outstanding shares.

portedly asked them to leave, the dissidents refused, and the trustees' meeting was adjourned.

New York Bancorp was a mutual institution until February 1989, when it converted to stock ownership by offering $21 million of stock to depositors and the public. The stock has performed well since then, rising from an initial offering price of $6 on high of $13.625 and settling in a range of $11 to $12 in recent weeks.

Strong Asset Quality

At the time of its conversion, New York Bancorp had a track record of mediocre earnings but a history of strong asset quality. Its postconversion performance has remained mediocre, with an average return on assets of 0.38% over the past two years. Perhaps the company's strongest attribute has been its ability to avoid asset quality and interest rate problems.

At March 30, 1990, its ratio of nonperforming assets to total assets stood at 0.41%, one of the best in the Northeast, and its one-year interest rate gap was hovering near zero. Even Mr. Malloy commends management's ability to control balance sheet risk, noting that "in the period of time I've been there, management has made a number of good risk decisions."

In a negative climate for bank and thrift stocks, investors have become increasingly skeptical of asserting their rights as owners.

"Whatever happens in the next six months, corporate life seems destined to change."

Even institutional investors now almost always cast their votes for propositions and board nominees proposed by dissident investors.

Of sixteen recent actual or threatened proxy fights in the thrift industry over the past year, management has won only three times, and never when shareholder proposals will prevail, either as a result of compromise on the part of management or by proxy vote. When that happens, dissidents who have waved the banner of "maximizing shareholder value" will be put to the test of defining and implementing the slogan.

In most instances, maximizing shareholder value can be interpreted as shorthand for selling the company. The prospects for selling New York Bancorp at an attractive price in the near future are dubious, as the stock markets for the stock of potential acquirers and takeover competition from the Resolution Trust Corp. Whether Mr. Malloy himself wants to own the company, which would command a price tag of at least $50 million, is open to question.

For the management of New York Bancorp, events today are an outgrowth of the decision made in 1987 to convert from mutual to stock form. What has happened since is the nightmare that every mutual thrift manager is contemplating conversion wants to avoid.

Nonetheless, Mr. Dreher, when asked whether he would recommend the conversion route to other healthy mutual institutions, responded that he had "no recommendations and no regrets. The charter set up [for New York Bancorp] is appropriate. A charter never works out the way that you say it should."

Further, commenting on the company's financial and stock price performance since going public, Mr. Dehler noted that "this is the quarter we set up when we went public — very few others could do what they said they were going to do." ☐

Government-Assisted Acquisitions

July 23-30

Resolved Institution	City/State	Deposits ($ Mil)	Acquiror	Premium + to Shareholders
Continental Bank	Dallas, Tex	$140	Comerica Incorporated	2.95%
Bank of Wilson	Wilson, Okla	14	American National Bank	201
Bank of Cleveland	Cleveland, Okla	11	American National Bank	201
U.S. Saving Bank of America	Seabrook, NH	12	Family Bancorp	195
First National Bank	Purcell, Okla	11	McClain County Bancorp	NA

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source: SNL Securities

Private Acquisition Deals

July 23-30

Status	Seller	City/State	Assets	Buyer	Assets
C	First Fed America	Honolulu	$69	141	7,699
P	Peoples Savings Bank	Danville, Ill	165	29	Merchants National, Ind	5,527
P	Peoples Savings Bank	Danville, Ill	165	29	Merchants National, Ind	5,527
P	Bank of Cleveland	Cleveland, Okla	6,397	471	Stillwater National Bank	39,735
P	Fallstown Holding	Fallstown, Ga	74	NA	Symons Financial, Ga	2,764

Status: C= Completion; P= Announced; T= Terminations

New York Bancorp Rides High on Takeover Threats

Percentage change in share prices

Feb. 1990 Initial public offering

Sept. 5, 1989 First Findim filing

June 23, 1989 First Austin filing

Aug. 18, 1989 First Malloy filing

Jan. 9, 1990 Annual meeting

New York Bancorp

American Banker Thrift Index

F M A M J A S O N D J F M A M J J A S O N D J F M A M J J

* Average of 50 largest publicly traded thrifts

Source: SNL Securities

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Auction Notices

BY VIRTUE OF A Default In A Certain Security Agreement Made By Custe's Deli & Grocery Inc., Debtor To Evolstar Industries Inc., Secured Party. Notice Is Hereby Given That ACE AUCTIONEERS & LIQUIDATORS INC., Auctioneer As Agents, Will Sell At Public Auction On Thurs., Aug. 2, 1990 At 4 P.M. At 122 Delaware., Ossining, N.Y. R/T/I In & To Merchandise, Fixtures & Equipment. Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. Auctrs. Tel: (516) 333-9738.

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Foundation Notice

NOTICE
The annual report of UNITED MERCHANTS & MANUFACTURERS EMPLOYEES WELFARE FOUNDATION for the fiscal year ended June 30, 1990 is available at its principal office located at 1407 Broadway, 5th Floor, New York, N.Y. 10018, (212) 930-3999 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is L. Marx, Jr.

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Auction Notices

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By CHARLES MAYOR, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party. Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1988 Lincoln, ID#1LNBM81F3JY854815. Together With Cloverdale Two Way Radio Rights In Car #99. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Office Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By GUILLERMO CALCADA, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party. Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln, ID#1LNBM96F9DY754666. Together With Apple Two Way Radio Rights In Car #73. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By SHARON PELZER, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION # 1532 Secured Party, Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln, ID#1LNBP96F9DY701173, Together With Cloverdale Two Way Radio Rights In Car #220. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Office of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By WILLIAM PELZER, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION # 1532 Secured Party, Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln, ID#1LNBP96F9DY701173, Together With Cloverdale Two Way Radio Rights In Car #220. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Office of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By YAEL NATHANSON, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION # 1532 Secured Party, Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1988 Cadillac, ID#1G6KD54Y6JU103786, Together With Company Car Two Way Radio Right #107 & #100 & #133. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By C. LAUDISI & ASSOCS., INC., auct'rs sell August 16, 1990 9 AM at 100 Smithtown Blvd., Smithtown, NY '88 Chevy Lumina Euro Coupe, Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln, ID#1LNBP96F9DY701173, Together With Cloverdale Two Way Radio Rights In Car #220. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Offices of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By C. Lewis Blvd., Qns 1986 Chevrolet ID#1G1WP54W2GP182511, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party. Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1988 Lincoln, ID#1LNBP96F9DY754666, Together With Apple Two Way Radio Rights In Car #73. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By Jamaica Ave., Qns 1986 Oldsmobile #1G3CR47A5FH312383 Acct., M.J. Foreign: 4:30 PM at 4-30 Greenpoint Ave., Hempstead 1985 Mercury #1MEBM60F5FH603599 Acct., G. Woodson. Published August 1 & 8, 1990.

C. LAUDISI & ASSOCS., Inc., auct'rs sell August 9, 1990 9 AM at 15-15 129th St., Qns 1982 Oldsmobile #1G3AN69Y0CM121012 Acct., L.M. Marciello; 10 AM at 175-20 Jamaica Ave., Qns 1983 Datsun #JN1PB12S5DU004463 Acct., A. Archer; 10:30 AM at 216-20 Hempstead Ave., Qns 1990 Chevrolet #2G1WL54T3L9108215 Acct., N. Chouly; 1980 Black Lincoln #1LNBM81F2AY611661 Acct., Liberty Mutual Insurance; 11 AM at 226-12 Jamaica Ave., Qns 1988 Lincoln #1LNBM81FXJY766959 Acct., Security Mutual Insurance; 1 PM at 70-11 50th Ave., Qns 1988 Ford #1FTDE3RL2JHA17384 Acct., L. Mott; 1:30 PM at 58-10 Laurel Hills Blvd, Qns 1984 Ford #2FABP22E1EB121417 Acct., A. Vega; 2 PM at Party Rental Inc., Bklyn, 1984 Buick #1G4AS5704EC324680 Acct., T.A. Pembleton. Bal. Within 24 Hours. Honda #1HGBA7443GA033138 Acct. R. Hess. Published August 1 & August 1, 1990.

DEFAULT In Security Agreement Made By Yahani Altagracia Rojas & Dulce Rodriguez to Sea Crest Trading of Connecticut, Inc.; Will Sell At Public Sale on 12 Noon At 223 Madison St., N.Y.C. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

DEFAULT In Security Agreement Made By Ruben Mendez & Rosa Mendez to Marcos Betances. I Will Sell On 8/2/90 At 10AM At 240 Wilson Ave., Bklyn, NY All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

R. A. Feiler Lic Auct #793917 sells on 8/9/90 10 AM at 1195 Union Ave Newburgh, NY 1985 Chevrolet#1G1PA11Y2F7 Rec'r: Lindsey; Published 7/25 & 8/1/90.

Joel Pope auct'r Lic #794209 sells on 8/9/90 9 AM at 100 Smithtown Blvd, Smithtown, NY '88 Chevy #1G1AW15W9K1135350 Rec: Automotive Rentals Inc.; 10 AM at 300 Westbury Ave, Carle Pl, NY '74 Ford Van #E34GHT22253 Rec: Pic Rental Corp, 2 Doz, Phila Nat'l Bank; 12 PM at 162-19 Hillside Ave, Qns, NY '88 Ford #1G2FS21S5JL120436 Rec: A. Schwinky, R. Lasone. Published 8/1 & 8/8/90.

R. A. Feiler Lic Auct #793917 sells on 8/16/90 10 AM at 1195 Union Ave 211 W. Middletown, NY '83 Pont #1G2AM37J3DL229840 Rec: G. Saiz; sells 12 PM at 244-248 Smith St Poughkpe, "78 Olds #3H35H6M270407 Rec: E. Rivera, "79 Chevy #CGD15941436638 Rec: Aetna Casualty & Surety Co.; sells 8/17/90 at 4543 Ridge Rd West, Lyncb, '66 Ford #6F07A20512 Rec: E. Robinson & A. Lainez. Published 8/1 & 8/8/90.

DEFAULT IN A Security Agreement Made By Dolce Restaurant Inc to Chang Moon Sohn, Sale Aug. 2, 1990 At 11:00 AM At 77 Mercer St, N.Y.C. R/T/I In & To Chattels & Fixtures As Per Schedule Subject To Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. LEO FRIEDMAN, INC., Auctr. As Agent. DCA #466147.

M. SKOLNICK DCA LIC # 793108 and/or S. GORELICK DCA LIC # 861437 On August 16, 1990 1:45 P.M. 384-386 Bergen St. BAJAC/LAC#C455167 Rec: R. Mayhine. Metropolitan Auctioneers, Inc. Published August 1, 1990 & August 8, 1990.

Bank Call Notice

Consolidated Report of Condition of

UNITED MISSOURI TRUST COMPANY

of New York

And Foreign and Domestic Subsidiaries, a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions	
Noninterest-bearing balances and currency and coin	$ 1,002
Interest-bearing balances	145
Securities	1,144
Federal funds sold and resale agreements	0
Loans and lease financing receivables	29
Other assets	1,080
TOTAL ASSETS	$ 3,400
LIABILITIES	
Other borrowed money	$ 100
Other liabilities	211
TOTAL LIABILITIES	$ 311
EQUITY CAPITAL	
Common stock	$ 1,000
Surplus	1,500
Undivided profits and capital reserves	600
TOTAL EQUITY CAPITAL	$ 3,400
TOTAL LIABILITIES AND PREFERRED STOCK AND EQUITY CAPITAL	$ 3,711

I, William M. Tolmes, Treasurer, of the above-named bank do hereby declare that this report of condition is true and correct to the best of my knowledge and belief.

WILLIAM M. TOLMES
July 24, 1990

We, the undersigned directors, attest to the correctness of this statement or resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

R. C. KEMPER
LAWRENCE E. RUSSELL
MALCOLM K. ARLEN

Directors

Auction Notices

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By GIOVANNI CALCADA, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party. Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln, ID#1LNBM96F9DY754666, Together With Apple Two Way Radio Rights In Car #73. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By IGOR SHRAYER, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party. Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1983 Chevrolet, ID#2G1AL69MD1140710, Together With Apple Two Way Radio Rights In Car #81. Said Public Auction Sale Will Be Held On Friday, August 10, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

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DEALS

Lin Broadcasting Corp.'s Cellular Financing Package Oversubscribed

By STEVEN LIPIN

Agent banks closed the Lin Broadcasting Corp. bank financing package Tuesday after receiving commitments of $2.4 billion for the $1.75 billion cellular facility.

The Lin financing attracted over 30 lenders to including a sizable number of nonbanks, bankers in the deal said.

The up-front fees were as high as 325 basis points for commitments of $200 million. Interest rates are initially 250 basis points over the London interbank offered rate. The rate falls based on the company's ratio of debt to cash flow.

Companion Loan Falls Short

A companion credit of $350 million for Lin's broadcasting operations raised about $300 million, a banker in the deal. Because this credit fell short of its goal, it will be syndicated in the secondary market through a pooled sell down, the banker said.

The broadcast facility has lower fees – around 137.5 basis points – and a lower interest rate. The broadcast facility was fully underwritten, while the cellular facility was arranged on a best-efforts basis.

The cellular facility is being led by the banking units of Toronto Dominion Corp., Citicorp, and J.P. Morgan & Co. Each of these banks committed $200 million.

Advice from the Market

Lenders advised the company to break out a separate broadcast facility because of the limited demand for cellular bank loans, a banker said.

The broadcast facility has the same agents, but includes Bank of New York Co.

A banker at one of the agents said the larger facility attracted at least 12 new cellular lenders. Investors included Japanese leasing companies, insurance companies, and bank-loan mutual funds.

The banker declined to name the lenders.

Proceeds from the package will be used to cover the cash portion of certain cellular properties of Metromedia Co. □

Citicorp's Departure Makes UAL Buyout Deal Unlikely

Continued from *page 1*

particularly damaging to the new financing effort because Citicorp has been viewed as the bank most keen on seeing the bid succeed. Citibank, along with Chase Manhattan Bank, led last year's failed $6.8 billion bid, and has been seen as wanting to redeem itself.

Citicorp Deemed Vital

One Midwestern banker who had been interested in participating in the general bank syndicate said the deal cannot succeed without Citicorp.

"You could bring in a Japanese bank, but I doubt under these circumstances they'd want to come in," he said.

"It will be rather difficult for us to make any decision [about participating in the deal] before any major American banks make a decision," an official in the Chicago branch of a major Japanese bank said.

The demise of last year's UAL deal marked the end of an era of frenzied dealmaking that symbolized the 1980s.

Sources said Chemical and Citicorp would both rejoin the bank group if their concerns about the need for equity were satisfied.

Unions Say Financing Is Near

A spokesman for the airline's buyout group reiterated on Tuesday a previous statement that the buyout group was "close" to lining up outside financing from airframe and engine suppliers.

As of late Tuesday, the buyout group was still discussing the details of the deficiencies within the bank group.

Sources said Chemical and Citicorp would both rejoin the bank group if their concerns about the need for equity were satisfied.

There had been unconfirmed market rumors that Boeing Co. and General Electric Capital Corp. would together contribute over $500 million of financing in the form of subordinated debt that would be convertible into voting preferred stock of the UAL. A spokesperson for the General Electric unit declined comment, and Boeing could not be reached for comment.

Pessimism Not Universal

Not every banker took a pessimistic view of the bank group's defections. One still actively involved in the proposed UAL buyout stressed Tuesday that the deal is still alive.

"I don't think there is anyone – whether Chemical or anyone else – who's written this thing off," he said.

"We don't think it's over at all," this banker added.

Gerald Greenwald, the former Chrysler Corp. vice chairman who was hired by the unions to lead the buyout, declined through a spokesman to comment on the recent developments.

Stocks of banks linked to the UAL leveraged buyout were off Tuesday in late afternoon trading on the New York Stock Exchange, with Chase Manhattan Corp. falling 75 cents to $18.875, Manufacturers Hanover Corp. falling 87.5 cents to $30.50, and Bankers Trust New York Corp. falling 75 cents to $38.50. Citicorp was unchanged at $20.25. □

One Bancorp Reports Snag With Capital Plan

Reuters

PORTLAND, Maine — One Bancorp is unlikely to satisfy the requirements of its capital plan or restore its flagship subsidiary's capital to required levels within the deadline given by regulators, the thrift-holding company said Tuesday in a statement.

"One Bancorp's ability to continue as a going concern will therefore depend upon the level of progress it can show in meeting the goals of the capital plan and the willingness of its regulators to grant additional holding company additional time."

Lost $3.63 a Share

The statement accompanied One Bancorp's report of a second-quarter loss of $29.8 million, or $3.63 a share, compared with a year-earlier loss of $10.5 million, or $1.28 a share.

For the first six months of 1990, One Bancorp had $12.4 million, $3.6 million less than the year-earlier holding loss a year ago. The 1990 figure included a $29.7 million gain from the retirement of capital notes.

No Offering of Preferred Stock

The $2.2 billion-asset parent of Maine Savings Bank, Portland, also said it has decided against a preferred stock offering, as contemplated in the plan, because of market conditions and its financial condition.

The company said it has not received any acceptable offers for two subsidiaries, Bank of Hartford, Conn., and Southstate Bank for Savings in Massachusetts. It received appraisals indicating the cash market value of Bank of Hartford is $45 million, well below the $55 million assumed in the capital plan. □

House Passes S&L Crime Bill

WASHINGTON — The House overwhelmingly approved a savings and loan crime bill that mandates life terms for some offenses and gives a new criminal commission to investigate the causes of the thrift crisis.

The crime bill was a package that was stripped out from a larger piece of legislation and introduced Monday as a free-standing bill by Rep. Jack Brooks, D-Tex., and Rep. Chalmers Wylie, R-Ohio.

The measure was voted on separately, sources said, because lawmakers wanted a vote on S&L crime before they begin the month-long August recess on Friday. The crime bill will not come up until September.

The bill would also make it a federal crime to impede the process of a federal bank examiner, conceal assets from the Federal Deposit Insurance Corp. □

First Liberty Unit Sells Portfolio

ATLANTA — First Liberty Financial Corp. said its principal subsidiary, Liberty Savings Bank, has agreed to sell its credit card portfolio to the Massachusetts Co., a subsidiary of The Travelers Insurance Companies, Hartford, Connecticut.

First Liberty did not disclose the terms of the transaction. It said it expected to complete the transaction during the first week in August.

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BANK and THRIFT STOCKS

Highlights for Tuesday, July 31

TOP 10 GAINERS

First Financial Bancorp	4.9
Bank of New England Corp.	4.6
Planters Corporation	3.5
Premier Bancorp, Inc.	3.3
Susquehanna Bancshares, Inc.	2.9
Northern Calif. Community Bncp	2.7
Associated Banc Corp.	2.6
Mercantile Bankshares Corp.	2.5
Fort Wayne National Corp.	2.4
Citizens Banking Corporation	2.4

TOP 10 LOSERS

Multibank Financial Corp.	-12.7
Cal Rep Bancorp	-9.5
Provident Bankshares Corp.	-9.1
Bancorp of Mississippi, Inc.	-7.5
First Interstate Bancorp	-6.1
Evergreen Bancorp, Inc.	-6.0
PNC Financial Corp	-5.8
Shawmut National Corporation	-5.3
Bank of Boston Corporation	-5.3
Midlantic Corporation	-5.2

MOST SHARES TRADED

Citicorp	1904500
Chase Manhattan Corporation	1488200
BankAmerica Corporation	1196300
Security Pacific Corporation	1151400
Provident Bankshares Corp.	459900

VOLUME AS % OF AVERAGE

Provident Bankshares Corp.	2143.0
Cal Rep Bancorp	1259.5
Multibank Financial Corp.	940.1
BB&T Financial Corporation	909.6
Santa Monica Bank	845.2

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Percentage Changes

Computed from the indices reported 1-, 5-, and 21 days previous, respectively.

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.42	-0.59	0.85	-1.23	-2.70	-7.88	-0.42	-2.51	-10.67

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	Pct Yld	Mkt Bk	Cls.	Chg.
23¼	18¾	LeeSomme Corp pfA	6.4	88.5	19½	-¼
14¾	10¼	1stNtlBkOfAtlanta	4.9	98.1	12¾	-¼
28¾	20	AmSouthBancorp pfA	8.4	87.8	21¼	--
28¾	13¾	AmericanExpress	3.4	109.2	26¼	-¼
29	15¾	AmericanExpCo pfB	28.0	93.3	18½	--
22¾	15¾	AmericanExpCo pfC	24.0	93.3	16½	--
24½	18	BB&T FinCorp HC	8.0	110.8	18¾	--
22¾	15¾	BaltimoreBncp MD	16.4	98.4	15¾	-¼
40¾	36¼	BanPonce Pr	31.3	150.1	40¼	½
30¾	26	BankAmerCorp Del	10.5	163.9	26¾	-¼
26	18¾	BancoPonce Pr	6.5	96.0	19¼	¼
56¾	42	BancorpHawaii	9.5	160.5	50	-¼
23¾	18	BancorpNtlBk MS	6.9	87.8	18¼	-1½
36¼	23¾	BankAmerCorp CA	5.2	98.1	25¾	-¼
24	17¾	BankGrantCo Corp MD	13.3	226.9	21¾	-¼
23¾	24	BankNewEngland	NM	52.4	23¾	-¼
14¼	8	BankSouthCorp GA	9.7	91.3	8¼	-¼
57¾	35¼	BankersTrustNY Cp	NM	131.5	38	-1¼
10¾	5¾	BanknorthGroup VT	5.1	55.7	10¾	-¼
39¾	10¼	BarnettBanks Inc	NM	39.8	10¾	-¼
55	35¼	BankofNY NY	NM	72.5	35¼	-¾
12	8¼	BayBanksInc MA	NM	50.2	8¼	-¼
82	66	BankersNewsA	11.1	107.5	68¼	-¼
39¾	28¾	BankAmerCorp pfA	8.5	111.3	29¾	-¼
40¼	13¾	BayBanks Mkt	NM	40.7	13¾	¼
39¼	29	BeneficialMortInv MD	8.0	92.9	29¾	-¼
26	15½	BoulevardBncp IL	228.6	105.0	16	--
10¾	12¾	BrenhamBancshs	7.4	101.1	14¼	-¼
43¾	32	CCB FinCorp MC	8.5	113.2	33	-¾
22¾	18¾	CNB Corp SC	7.0	97.2	18¾	-¼
22¾	18¾	CNB BancshsInc IN	10.1	121.4	21	-¼
27	20¼	CPB Inc IN	11.0	133.8	21¾	-¼
28	12¾	CVB FinCorp Ca	9.7	223.9	13¾	-¼
33¾	19	CaffeyBancShs IL	7.4	138.0	19	-¼
18¾	13¾	CentralBcshs AL	6.8	90.7	13¾	-¼
34½	25¾	CentralFidelity VA	7.1	100.4	25¾	-¼
27	11¾	CentralJersey NJ	7.0	83.7	11¾	-¼
44¾	19¾	ChemicalNewYork NY	NM	65.2	19¾	-¼
41¾	22¾	ChemicalBanking NY	NM	67.3	23	-¼
35	30	CitizensFinCorp MI	8.0	98.8	30	-¼
35¼	20	Citizens NY	NM	78.3	20	-¼
25¾	15¾	CitizensBancshsMO	7.5	91.7	19¼	-¼
39¾	20¾	CitizensBanking MI	7.4	71.1	21¼	¼
15¾	8¾	CitizensFirstCp	NM	55.8	12¾	-¼
34¾	21¾	CitizensSouthBk GA	7.0	104.7	23¾	-¼
27½	17¾	CitizensUtilities A	10.0	179.7	17¾	-¼
22½	12¾	ColonialBankGrp GA	38.1	85.6	15¼	¼
10¾	8¾	CommBcshs MO	8.6	96.0	41¼	-¼
29¾	22¾	CommercialBcshs MO	7.1	96.0	22¾	-¼
25¾	15¾	CommunityBcshs IN	7.2	90.6	15¾	-¼
37½	12¼	CorestatesInc NJ	7.5	42.0	12¼	-¼
37¾	12¾	CrestarFinInc IN	NM	55.8	12¾	-¼
49¾	38¾	CrestStatesFinCo PA	7.8	140.1	37½	--
34	30¼	CrestarFinCorp IN	7.6	90.0	21¾	-¼
18¼	7¾	CullenFrost TX	38.4	48.9	10¾	-¼
25¾	20¾	DauphinDeposit PA	8.5	126.4	20¾	-¼
22¾	21¾	DepositGuaranty MS	8.0	70.2	22¾	-¼
25¾	19¾	DetroitBankTr MI	8.8	76.0	19¾	-¼
23¾	13¾	DiamondCorp IL	5.8	29.0	13¾	-¼
22¾	11¼	DimeBancorp NY	NM	39.2	11¾	-¼
15¾	12¾	F & M NatCorp VA	10.6	163.1	13¾	-¼
14¾	12½	FNB Corp PA	8.7	104.7	12¾	-¼
26	19¼	FNH Bancorp IL	11.7	159.0	19¾	-¼
29	27¾	FarmersCapitalKY	11.3	118.4	27¾	--
30¾	30¼	FifthThirdBncp OH	10.9	167.4	31¼	-¼
38¾	32	FinancialTrustIN	9.3	136.5	33¾	--
51¼	39¼	FirstTexFinSE	NM	88	39¾	--
19¼	15¾	FirstAlabama AL	9.0	113.9	17¼	-¼

52 Wk Hi	Lo	Name	Pct Yld	Mkt Bk	Cls.	Chg.
20¼	11	FirstAmerCorp TN	NM	69.3	11¼	-¼
26¼	22¾	FirstBancorp OH	7.6	91.3	23	-¼
30¾	22¾	FirstBancorpPuertoRi	NM	87.3	24¾	-¼
19¾	12¾	FirstChicagoNBC	6.0	74.2	26¾	-¾
19¾	12¾	FirstChicagoCp	6.0	74.2	26¾	-¾
18¾	12½	FirstCitizensBcshs A	2.8	51.0	18¾	-¾
18¾	12½	FirstCitizensBcshs B	2.8	51.0	18¾	-¾
29	21¾	FirstCommerceBR LA	8.2	92.6	18	--
29	21¾	FirstCommerceCorp	8.2	92.6	18	--
20½	12½	FirstCommerceBk AZ	10.2	112.8	18¾	-¼
21	18	FirstCommerceBk AZ	10.2	112.8	18¾	-¼
45¾	37¼	FirstCommerce NO	10.0	111.9	38¾	-¼
35¼	20¾	FirstEmpire NY	7.8	95.1	31¼	-¼
17¾	11¾	FirstFidelityInc MD	7.9	93.2	14¾	-¼
33¾	15¾	FirstFidelity NJ	NM	75.9	15¾	-¼
14¼	10¾	FirstFinancial IN	14.1	108.9	12	-¼
34¼	19¼	FirstFinCorp FL	9.9	76.2	20¼	--
10¾	6¾	FirstFinancialA	10.4	214.6	8¾	-¼
11	7¼	FirstIllinois IL	8.7	164.0	7¾	-¼
19¾	14¾	FirstInterstate CA	NM	87.3	15¾	-¼
44	26	FirstPennsylvania	6.1	97.0	26	-¼
14¾	10¾	FirstSecurityKY	11.0	133.1	14¾	-¼
18	13¾	FirstSecurityNC	12.3	162.5	13¾	-¼
10¾	25¾	FirstSecurityUT	7.4	77.5	25¾	-¼
28¾	21¾	FirstTennessee TN	7.9	95.3	23¾	-¼
28¾	18¾	FirstUnionCorp GA	7.3	87.2	17¾	-¼
35¾	24¾	FirstVirginia VA	7.8	109.3	24¾	-¼
35¾	27¼	FirstWisconsin WI	10.2	154.1	40¾	-¼
37¾	27¾	FirstarCorp WI	7.5	118.1	29¾	-¼
17¾	11¾	FirstbankMI IL	8.7	108.5	16¼	-¼
55¾	42¼	FirstofAmerica MI	7.7	97.6	45¾	-¼
29¾	19¾	FlagshipBanks FL	12.8	98.2	19¾	-¼
25	19¼	FortWayneNatCp IN	8.8	107.5	20¾	-¼
29¾	20¾	FourthFinCorp OK	15.0	148.2	21¾	-¼
21¾	15¾	FultonFinCorp PA	7.5	118.1	15¾	-¼
24¼	17¾	GBC Bancorp CA	8.3	203.5	18¼	-¼
15¾	9	GranadaCorp MS	18.3	71.1	9¾	-¼
8¾	6¾	HamiltonBancorp FL	4.0	106.1	7¾	-¼
21¼	14¾	HeritageFinSvc IL	9.1	120.4	18	-¼
28	14¼	HiberniaCorp LA	17.1	105.6	14¾	-¼
20¼	13¾	HuntingtonBancsOH	7.4	108.2	14¾	-¼
25¾	21¾	HUBFedCorp IN	8.3	96.8	22	--
27¼	14	ImperialBancorp CA	6.1	87.2	14	-¼
29¾	21¾	IndianaFedCorp IN	8.1	97.2	22¾	-¼
30¾	21	IntegraFinCp PA	14.7	95.6	21¼	-¼
8¾	6¾	InvestBancorp LA	8.7	114.0	8¾	-¼
48	33	J.P. Morgan NY	NM	157.5	38	-¼
28¼	17¾	JeffersonBncshs LA	15.0	88.5	17¾	-¼
15¾	12	KeyCorporation WY	9.9	103.6	12¾	-¼
15¾	12¾	KeyCorp NY	10.0	104.9	12¾	-¼
28	21½	KeystoneFin PA	9.0	131.0	23¾	-¼
14¾	8¾	LaSalleNational IL	9.8	148.9	8¾	-¼
14¾	8¾	LaSalleNational CA	17.2	226.3	12¾	-¼
21¾	15	LeaseAmer IL	15.7	161.5	22¾	--
15	10¾	LandmarkBcshs MO	7.5	59.7	10¾	-¼
27¾	24¾	LibertyNatBncp LA	17.6	109.5	25	--
7¾	6¾	LincolnFinCp IN	6.8	82.8	19¼	--
15¾	12¾	MBC Financial	9.6	98.3	13¾	-¼
15¾	9¾	MagicValley ID	9.5	96.2	13¾	-¼
60	41¾	MarshallIlsley WI	6.8	100.7	45¾	-¼
44¾	28¾	MarshallFtnNet WI	NM	74.1	30¾	-¼
21	18¾	MartinCoop IL	12.4	184.8	20¾	-¼
21¾	16¾	MartinFedBncp MD	10.2	155.5	16¾	-¼
30¾	24¾	MellonBkCorp PA	8.7	140.3	24¾	-¼
34¾	28¾	MellonBankCorp PA	8.5	90.5	29¾	-¼

52 Wk Hi	Lo	Name	Pct Yld	Mkt Bk	Cls.	Chg.
29¾	18¾	MercantileBancsMO	8.4	126.9	20¾	-¼
90¾	68¼	MercantileBksNY	12.3	188.4	80	-¼
18¾	12¾	MercantileFinCp	11.0	87.2	12¾	-¼
26¼	14¾	MeritBnkBancsp PA	6.6	79.4	14¾	-¼
24¾	18¾	MetroBancorp PA	2.5	59.9	19¾	-¼
18¾	14¼	MidAmericaNY	8.7	92.2	18	-¼
18¾	8¾	MidlinInc OH	8.7	150.2	10	-¼
47¾	11¾	MidlanticCorp NJ	7.6	30.3	11¾	-¾
14¾	9¾	MidwestBncp IL	NM	39.5	13¾	-¼
35¾	26¼	MBD BancorpMI	9.0	131.8	32	-¼
64¾	34¾	NCNB CorpNC	6.9	124.7	35¾	-¼
26	18¾	NCorthCentralBncp CA	14.8	158.6	19¾	-¼
41¾	33¾	NationalCityCp OH	7.7	120.0	34¾	-¼
51	38	NationalPenn PA	11.3	201.7	39	--
25¾	20¾	NationsBank GA	9.7	118.7	20¾	-¼
25¾	20¾	NatlCommerce TN	9.9	171.3	23	--
18¾	14¾	NatlCommerce AR	5.3	81.4	16½	--
20¾	10¾	NorthBancNH	5.3	62.8	10¾	-¼
15	15	NortheastBncs NH	NM	47.4	15	--
35¾	27¾	NorthernTrustIL	9.5	178.5	28¾	-¼
21¾	17¾	NorwestCorp MN	7.8	141.0	19¾	-¼
32¾	22¾	OneBancorp OH	9.9	94.2	22¾	-¼
30¾	24¾	OrlBankFlorida FL	7.9	109.8	24¾	-¼
26¼	24¼	OshkoshBancorp IN	13.0	154.6	24¼	--
23¾	19	OneWestBancp OR	6.9	84.5	20¼	-¼
46¾	35¾	PNC FinCorp PA	8.2	91.2	36¼	-¾
39¼	34	PeoriaBancorp IL	11.5	155.6	35½	-¼
13¾	9¼	PeoriNationalCp	7.8	142.3	10	-¼
18¾	14¾	PeoplesBancorpNC	8.7	113.0	15¼	-¼
27	26	PilesonNatlAgY	9.8	125.9	27	--
15¾	10	PrestCommerce CA	8.3	154.7	10¾	-¼
6¾	3	PremierBancorp LA	25.5	63.9	3¾	-¼
27	21¼	PremierBancShs IN	8.7	125.4	22	--
14	6¾	ProvidentBankMD	NM	34.5	6¾	-¼
27¾	19¾	PublicBancShs MS	11.2	108.5	20¼	-¼
52¼	42¾	RepublicNY Corp NY	147.4	128.9	48¾	-¼
14¾	12¾	RiggsNatlCorpDC	7.2	51.9	13	-¼
32¼	21¾	RiverFrontal IL	12.6	280.0	29¼	-¼
14¾	10¾	SantaBarbaraBancs CA	10.5	188.0	22	-¼
33¾	17¾	SecurityBancsp HI	7.2	131.3	17¾	-¼
15¾	11¾	SecurityBancsp LA	5.0	84.8	15¾	-¼
15¾	11¾	SecurityNatlCorp MA	NM	70.2	11¾	-¼
42¾	35¾	SignetBanking VA	9.8	155.6	39¾	-¼
16¾	11¾	SimmonsFirst AR	NM	105.3	16¾	-¼
27¾	19¾	SouthCarolinaBcp SC	9.8	90.1	19¾	-¼
15¾	10¾	SoutheastBncp FL	9.8	67.3	11¾	-¼
15¾	11¾	SouthernNatlCp NC	9.0	112.1	15¾	-¼
15¾	11¾	SouthernNatlCp SC	9.0	88.6	15¾	-¼
43¾	28¼	SovranFinCp VA	7.5	104.7	28¾	-¼
15¾	9¾	SpartanBcshs SC	6.5	147.1	10	-¼
42¾	34¾	StateStBncpInc MA	13.2	229.3	38¾	-¼
24¾	18¾	SterlingBancp NY	NM	43.5	24	-¼
26	16	SuburbanBancp IL	13.5	87.2	17¼	--
34¼	29	SunBanksInc FL	8.7	89.3	29¾	-¼
22¾	15¾	SumcorpIn IN	7.4	91.7	16¼	-¼
15¾	11¾	SummitBancorp NJ	9.9	90.3	11¾	-¼
28¾	20	SunTrustBanks GA	7.7	119.5	20¾	-¼
22¾	17¾	SuntrustBanks Fl-Nt	10.0	111.9	18¾	-¼
22¾	17¼	SusquehannaBcshs PA	7.5	98.4	18	-½
17¾	12¾	SwigartCorp IN	17.8	202.5	16¾	-¼
16¼	13	TheFarmersCorp KY	9.0	122.9	14¾	-¼
15¾	11¾	TheNorthernTr IL	9.0	178.5	28¾	-¼
43¼	31¾	TrustcompanyNJ	8.5	141.7	34¾	-¼
15¾	12¾	TrustmarkCorp MS	6.6	77.8	13¾	-¼
32¾	25¾	U.S. BancorpOR	8.6	127.6	28¾	-¼
43	33¾	U.S.TrustCorp NY	12.3	186.4	34¾	-¼
28¾	12¼	UJB FinancialNJ	6.5	66.8	12¾	-¼
15¾	9¾	UST Corp MA	5.8	90.2	10¼	-¼
32	21¼	UnionBank CA	5.5	88.5	23	-¼
15¾	7¾	UnionPlanters TN	NM	63.6	8¾	-¼

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	Pct Yld	Mkt Bk	Cls.	Chg.
24¾	18¾	AmericanCo CA	7.3	84.0	19¾	-¼
45¾	30¾	AppleBancorp NY	8.3	71.7	40¾	-¼
28¾	13¾	CalFederal CA	10.3	69.8	15¾	-¼
55¾	40¾	CitatedMtgCp CA	9.5	70.1	44½	--
20¾	15¾	CoastSavingsFin CA	NM	27.8	20¾	-¼
17¾	15¾	DimeSvgBk NY	NM	20.5	5¾	--
15¾	11¾	EmbassyBancp CA	9.4	100.0	15¾	-¼
27	18½	FedFedFinCp CA	7.4	134.9	22¾	-¼
21¾	12	FirstFedMichCp MI	6.5	34.3	13¾	-¼
25¾	11	GLENFED CA	3.0	27.5	11	-¼
30¾	24¾	GlendaleFed CA	10.1	109.3	28¾	-¼
24¾	15¾	GreatNthernFin CA	14.0	95.4	15¾	-¼
14¾	11¾	GtAmericaFed CA	8.4	18.2	14¾	-¼
47¾	10	HomeFedCorp CA	NM	24.3	11	-¼
24¾	17¾	HomeFedCorp MD	8.4	100.3	17¾	-¼
16½	11	HSB BancorpMA	11.4	49.3	11¾	-¼
14¾	10¾	Ok Peoples Bancsh FL	10.3	41.0	14¾	-¼
26¼	13	PeoplesHstdInc NY	7.1	35.8	13	-¼
24¾	18¾	PeoplesHstdBncp CT	8.6	60.0	19¾	-¼
22¾	7¾	SocietyForSvgCo CT	4.6	35.0	7¾	--
15¾	11¾	SouthSideBncp TX	7.5	68.1	11¾	-¼
12¾	7¾	StandardFedBk MI	6.2	53.1	7¾	--
15¾	11¾	StandardFinancial	10.3	60.6	15¾	-¼
31¾	23¾	WashingtonFedSL WA	9.8	196.7	28¼	-¾
15¾	11¾	WestcorpCA	11.4	76.5	15¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 50 largest publicly traded thrifts as measured by the market value of all common shares outstanding (as of March 31, 1990). Companies whose market value qualified for banks was $659.6 mil. and for thrifts $127.45 mil.) **52 Wk Hi** Lat the moving 52-week high price for the shares. **Lo** Lat the moving 52-week low price. **Name** The current stock price divided by the trailing four-quarter earnings per share. **Pct Yld** The annual announced dividend. **Mkt Bk** Lat the ratio of the current stock price to closing price to the stock's book value, expressed as a percentage. **Cls.** The closing price of the most recent trade. **Chg.** The change in the closing price from the previous day's stock last traded. If no trades for the day, the latest bid. **All Bank Index** The index includes a weighted average of the top 250 banks by market value and the top 50 thrifts in market value, respectively. **Highlights/Lowers** Stocks with the largest gains/losses in price volume indicators most shares traded and today's volume as a percentage of average trading volume for the past 30 days.

Data sources: **SNL Securities,** Charlottesville, VA. 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Key Loan Registrations

July 23-27

Dollars in millions

Working Cap./Gen'l Corp. Purposes		Debt Repayment	
Bintliff Building Society	$577.5	Commercial Corporation	$700.0
J.R. Simplot Company.	350.0	SCI Systems	150.0
Atlantic Richfield	200.0	Motor Wheel Corp.	80.0
Town & Country Corp	75.0	Rhodes Inc.	40.0
Retailing Corp. of America	14.7	Computer Sciences Corp.	25.4
Cantar Inc.	12.0	Retailing Corp. of America	20.4
	8.9	Phoenix Medical Technology	3.5

CP Backup		Takeover	
Household Finance Corp.	$1,890.0	Adelphia Communications Corp.	$350.0
		Action Corp.	23.2
Recapitalization			
CITGO Petroleum Corp.	$875.0	**Real Estate**	
Hospital Corporation of America	545.0	IDS Life Insurance Company	$8.0

Description: This table tracks key corporate financial filings made weekly with the SEC. (*)-Dead older Than 1yr.
Data Source: Loan Pric

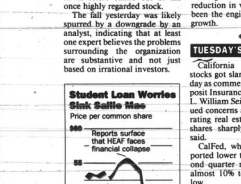
STOCKS

Sallie Mae Shares Decline on News Of a Downgrade

by FRED VOGELSTEIN

Shares of the Student Loan Marketing Association continued to tumble Tuesday, falling $2.25, to $43, by late afternoon as investors bailed out of the once highly regarded stock.

The fall yesterday was likely spurred by a downgrade by an analyst, indicating that at least one expert believes the problems surrounding the organization are substantive and not just based on irrational investors.



"They're not going to be perceived as a risk-free entity anymore," said Lacy Shockley, a securities analyst at Smith Barney, Harris Upham & Co., who changed her recommendation from a "buy" to a "hold."

She said uncertainties about the stability of the student loan system, an expected downturn in loan volume, and new management reduce the attractiveness of the stock.

The shares are off roughly 22% since reports of problems in the system surfaced early last week.

Sallie Mae has been one of analysts' favorite stocks because its special relationship with the government has left it free of credit risk and interest rate risk.

Other analysts have not followed suit in downgrading the stock, however, saying concern about the stock is overblown and not based on fundamentals.

"The stock is in a psychological hurricane and once people step back, they will see it is a great buy," said J. Richard Fredericks, an analyst at Montgomery Securities.

Concern over Sallie Mae and the entire student loan system erupted early last week when it was disclosed that the largest guarantor, the Higher Education Assistance Foundation, was near insolvency.

That was amplified last Friday when Sallie Mae announced it was considering taking over HEAF's debts.

Concern about Sallie Mae stemmed from the fact that it holds nearly $3 billion in HEAF loans and the fact that HEAF owes Sallie Mae $865 million.

Late yesterday, Sallie Mae said it might lend up to an additional $200 million to finance HEAF based on assurances from the U.S. Department of Education as to its continued payment of HEAF's student loan reinsurance claims.

Ms. Shockley said HEAF's debacle will send a chill to banks making student loans, causing a reduction in volume, which has been the engine to Sallie Mae's growth.

* * *

TUESDAY'S MARKET

California bank and thrift stocks got slammed again Tuesday as comments by Federal Deposit Insurance Corp. Chairman L. William Seidman and continued concerns about the deteriorating real estate market drove shares sharply lower, analysts said.

CalFed, which last week reported lower than expected second-quarter results, had fallen almost 10% to $10.375, a new low.

Security Pacific Corp., was off $1.375, to $31.50, also a new low. Wells Fargo & Co. fell $2.875, to $69, and First Interstate Bancorp was off $1.50, to $33.625. BankAmerica Corp. was off 75 cents to $24.875.

Mr. Seidman said the FDIC deposit-coverage ratio could shrink by as much as 30% this year.

Richard Bove, an analyst at Dean Witter Reynolds, said he had talked with several large trading funds and suspected they were part of the reason for the fall in California bank and thrift stocks.

Other bank stocks were also lower, with PNC Financial Corp. falling $1.50 to a new low of $26.625 and National City Corp. falling $1 to $34.125 in late afternoon trading. □

CAPITAL

Slide in CD Yields May Be Accelerating

By KELLEY HOLLAND

Yields on Treasury securities have fallen dramatically since the beginning of June, but a drop in CD rates has been slow in coming.

In the past week, however, downticks in CD yields have become widespread, and that suggests that declines are about to accelerate, according to Robert Heady, publisher of *Bank Rate Monitor*.

"The market now is probably poised for a stronger resumption of a downslide in interest rates," he said. "We'll possibly see CD rates decreasing half a point by the end of the year."

Lower Cost Would Be Welcome

A decline in CD yields would provide welcome relief to banks. Even high-quality institutions are facing high funding costs in the capital markets.

Annualized yields on certificates of deposits have fallen only three to 11 basis points on average since June 6, according to data provided by *Bank Rate Monitor*. In contrast, yields on Treasuries have dropped 10 to 30 basis points.

Banks change rates on CDs more slowly than traders change rates on Treasury securities, Mr. Heady said. "There typically is a lag factor as banks evaluate the interest rate movements."

But now, they seem to be convinced that interest rates are headed down. Thirteen CD yields were reduced for every one raised in the week ended July 25, Mr. Heady said, the most widespread reduction of rates the market has seen all year.

A decline in rates may be less significant than bankers would like to think, however. Low CD rates generally prevail only when loan demand is slow and that banks have lowered their reliance on CDs, according to Charles M. Lewis, executive vice president and senior funds manager at Fleet National Bank, a subsidiary of Fleet/Norstar Financial Group.

"Generally speaking, most banks today are probably issuing less CDs than they were a year ago because there is less demand," he said.

* * *

MARKET MONITOR

Manufacturers Hanover Corp. issued $50 million of mandatory convertible preferred stock in a private placement through lead manager Merrill Lynch Capital Markets. Price talk on the deal was for a dividend of 10%.

At the end of each quarter beginning in September 1994, one eighth of the issue will be redeemed at the par price of $50 a share with new common stock to be issued by Manufacturers Hanover.

The offering will be rated Baa1 by Moody's Investors Service, higher than the Baa3 the agency would assign to a straight preferred issue. It will count as Tier 1 capital.

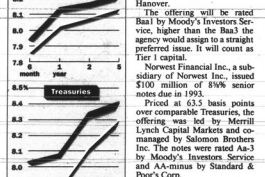
Norwest Financial Inc., a subsidiary of Norwest Inc., issued $100 million of 8¾% senior notes due in 1993.

Priced at 63.5 basis points over comparable Treasuries, the offering was led by Merrill Lynch Capital Markets and comanaged by Salomon Brothers Inc. The notes were rated Aa3 by Moody's Investors Service and AA-minus by Standard & Poor's Corp.

One Bancorp has withdrawn a preferred stock offering and said it has been unable to sell its Connecticut and Massachusetts subsidiaries.

The Portland, Me.-based bank will be unable to preserve any value in its holding company securities unless it can reduce its nonperforming assets and restore the capital of its Maine Savings subsidiary, according to Vincent E. Furry, president and chief executive officer.

Moody's Investors Service assigned a first-time rating of Aa2 to the long-term deposits of American Express Centurion Bank, the issuer of American Express Co.'s Optima card, citing good asset quality and "reasonable" capitalization. □



FINANCIAL TECHNOLOGY UPDATE

The Electronic Forms Workstation is an effective tool for financial institutions. Laser printing technology, form design/processing software, and NCR's Client/Server Architecture combine cost-effectively and eliminate the need for the storage and warehousing of the preprinted forms.

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As competition increases, financial institutions are turning to technology for solutions to improve and expand their customer services.

NCR

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The Strategy For Managing Change.

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AMERICAN BANKER
VOL. CLV NO. 150 Thursday, August 2, 1990 155th year

Putting Limits On Insurance: Is It Practical?

By LINDA CORMAN

Treasury Secretary Nicholas F. Brady, in otherwise tightlipped testimony on July 25, made a backhanded pitch for one of numerous suggestions on reforming deposit insurance – limit insurance to one $100,000 deposit per person, rather than the current $100,000 per account.

The notion has gained some credence as a way to lower the cost of deposit insurance, but some economists and other industry observers view it as a half-measure, if indeed it is at all practical.

One of the proposal's greatest defects is its administrative complexity. Some observers said that if it were possible to put such a plan into effect, it would be a bureaucratic nightmare at best. At worst, it could launch us further into the age of Big Brother.

Others said it simply impossible to design a computer program to keep track of each depositor's single, insured account.

"No one has come up with a plan that works in the real world," said Dennis Jacobe, director of research for the U.S. League of Savings Institutions.

Questions Galore

To devise a workable plan, many issues first would have to be addressed. For example, is limited to one insured deposit in a lifetime, or would he be able, after collecting on one insured deposit, to have another one after a certain number of years?

Would a person have to designate in advance which of numerous deposits was to be insured? Could one designate a deposit after the institution in which it was placed failed? With whom would one designate such an account?

If spouses had a joint account, could either spouse also have an account in his or her own name?

Even the chairman of the Federal Deposit Insurance Corp., L. William Seidman, concedes the idea of limiting depositors to one insured account – while deserving of study – is easier said than done. It would pose "great administrative problems," he said Tuesday before the Senate Banking Committee.

"It's an administrative nightmare," said Bert Ely of Ely & Co., head of an Alexandria, Va., consulting firm. (Mr. Ely is profiled elsewhere on this page.) "It's an invitation to fiddle to lawyers and consultants like

See **LIMITING** *page* **13**

INSIDE NEWS

WASHINGTON



SEN. DONALD RIEGLE'S Banking Committee heard widely varying estimates on the cost of fraud in thrift failures. *Page 2*

WASHINGTON BANCORP., the troubled parent of National Bank of Washington, filed Wednesday for protection from creditors under Chapter 11 of the bankruptcy code. *Page 2*

FINANCE

FURTHER LOWERING of interest rates is expected by a number of economists. *Page 20*

CONSUMER

ADJUSTABLE-RATE home mortgages have been losing ground in recent weeks to fixed-rate loans, lenders and analysts say. *Page 6*

INTERNATIONAL

FUJI BANK, emulating three of its Japanese peers, is setting up a North American headquarters in New York City. *Page 12*

TECHNOLOGY

AMERICAN SAVINGS bank of White Plains, N.Y., says it has cut operating expenses nearly 5% by streamlining the flow of work. *Page 3*

MANAGEMENT

TO LIFT market valuations, banks are advised by two experts at McKinsey & Co. to use "business system redesign" when cutting costs. *Page 8*

COMMENT

REGULATORS should be encouraged to let U.S. banking organizations expand their product and service mix, writes Richard M. Whiting. *Page 4*

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Bank Stocks Pounded on Credit Fears

By GORDON MATTHEWS

NEW YORK — Major bank stocks — already at an 18-month low — were pounded further in heavy volume on Wednesday as investors seemed to give full rein to their fears about deteriorating credit quality and profitability across the industry.

Analysts ascribed some of the action to pessimistic statements by Federal Deposit Insurance Corp. Chairman L. William Seidman, which helped shift the focus of public attention from the savings and loan industry crisis to the difficulties at banks.

UAL News Starts Slide

The apparent foundering of the latest effort to finance a proposed buyout of UAL Corp. was also a contributing factor, they said, creating apprehension that such lucrative projects for banks are becoming increasing difficult or even impossible to arrange.

Short-sellers, who have built large positions in the shares of some banks, are also suspected by many analysts of having played a big role in sparking the sell-off.

Banks Hit Hard

The largest banks on the West Coast were hit especially hard for the second straight day, spurred by nagging concerns about the slowing of the California economy and the potential impact on its huge real estate market.

Wells Fargo & Co. was off $2.625 to $65.875 at the end of the day's trading, and shares of

See **POUNDED** *back page*

RTC's Clearance Sale: $50 Billion by Yearend

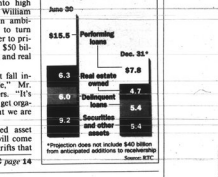
By DEBRA COPE

WASHINGTON — Shifting the Resolution Trust Corp.'s thrift-cleanup effort into high gear, RTC Chairman L. William Seidman announced an ambitious plan Wednesday to turn $30 billion of assets over to private managers and sell $50 billion of securities, loans, and real estate by year's end.

"It's the RTC's great fall inventory clearance sale," Mr. Seidman told reporters. "It's taken us a little time to get organized to do the job, but we are organized now."

Most of the planned asset sales – $36 billion – will come off the books of 130 thrifts that

See **RTC** *page* **14**



UAL Buyout Faces Tough Hurdle Even if Equity Investor Steps Up

By STEVEN LIPIN

Whether the buyout of UAL Corp. will fly is believed to hinge on an outside equity investment. But even if an investor is found, the union-led deal may still not get off the ground.

News Analysis Assuming that UAL's unions could obtain the $500 million in equity they are reportedly seeking by the Aug. 9 deadline, the $4 billion needed in bank loans would still be very highly leveraged compared with many of the new deals that banks are financing.

If the $500 million investment is found, the deal would still have only 20% in equity. This high degree of leverage casts doubt on the ability of prospective agent banks to resell UAL loans to the rest of the syndication community, according to bankers across the country.

Bankers not involved in the deal said they would be reluctant to join the UAL financing unless equity approaches levels seen on recent deals such as General Instrument Corp., Saks Fifth Avenue, and Sizzler PLC, which each have equity of 40% or more.

In fact, many deals are being deliberately structured with sufficient equity to avoid the regulatory definition of highly lever-

See **EVEN** *back page*

The Vindication of Bert Ely

By STEPHEN KLEEGE
Fourth of a Series

Three years ago, Bert Ely was being dismissed by thrift industry and government officials alike as a publicity-hungry consultant with questionable credentials as a thrift analyst.

The former auditor and bankruptcy examiner had come out of nowhere with seemingly outlandish predictions of the eventual cost of cleaning up the thrift industry.

Today, with his crystal ball having proved more reliable than just about anybody else's, Mr. Ely finds himself as the most quoted expert on the thrift crisis – and with a suddenly enhanced reputation.

The Thrift Bailout Law 1 YEAR LATER

Even the U.S. League of Savings Institutions – which once published an article entitled "Who is Bert Ely?" that questioned his creden-

See **EMERGING** *page* **17**



VISION: *Bert Ely's predictions of cost of thrift bailout have proved to be on target.*

PEOPLE *in the news*

At Wells, the Hatchet Man Wears a Very Human Face

By TERESA CARSON

Drew Tanzman is an unlikely hatchet man. A 32-year-old surfer who is involved in a summer camp for abused foster children, he is also in charge of putting Wells Fargo & Co.'s stamp on the 130 branches that the San Francisco banking giant is buying from Great American Bank.

In mid-July, Wells announced it had struck a deal to pay $492 million for all 130 California branches of the ailing San Diego thrift. When the deal goes through, Wells' market share position in San Diego will jump from No. 6 to No. 1. Wells senior managers, legendary for their cost cutting, have said they would probably keep about 80% of the branches open. Mr. Tanzman will not say how many jobs might be eliminated.

"We will interview every person and retain the best people," vowed Mr. Tanzman, a senior vice president. "We are going to try really hard to place people in other jobs. We may offer them a different branch or a different position."

Currently manager of Wells' mortgage lending division, which has its headquarters in San Diego, Mr. Tanzman has been through this sort of thing before. When Wells bought Crocker National Corp. in 1986, Mr. Tanzman was dispatched to El Segundo, to a Crocker lending office.

Drew Tanzman

"I had to present the severance package to six of their top eight officers," Mr. Tanzman said. About 150 of the 350 Crocker jobs were lost in the consolidation of Crocker's El Segundo office with a Wells location in Santa Ana.

A Wide Range of Experience

Mr. Tanzman started with Wells in 1981 with a newly minted master's degree in economics from the University of San Diego. His first job was in management sciences – a research and strategic planning area. After stints in consumer credit and managing the Santa Ana loan center, he was tapped to head the mortgage division in 1987. A year later, he was promoted to senior vice president.

Consolidating Great American will be unlike his earlier effort. "The most important thing here is that we retain the Great American customer base," said Mr. Tanzman.

Transition Still Being Planned

So far, the Great American branch transition is still in the planning stage, and the transaction still awaits regulatory approvals. Integration teams are being formed with Wells and Great American managers in five areas: assets, liabilities, personnel, branches, and systems. Mr. Tanzman said he is lucky to have two associates with experience in other Wells acquisitions – Mary Wilkerson, a senior vice president, and Diane Shigagawa, a vice president.

The only action Wells has taken so far is to send Great American employees a "welcome to the family" letter. □

Fed to Delay Action on Proposal For Purchased Servicing Rights

By PHIL ROOSEVELT

NEW YORK — The Federal Deposit Insurance Corp. probably will not act until autumn on its controversial proposal to restrict the amount of purchased mortgage-servicing rights that banks and thrifts can count toward capital, an agency official said.

The proposal, which critics say has contributed to a drop in the prices paid for servicing, was initially slated for action in June. Put forth in January, the FDIC initiative has caused an uproar in the mortgage industry.

"It's a real toughie," Robert Maslowski, assistant director of supervision at the FDIC, said in an interview this week. "There are a lot of important issues that need consideration."

He added: "I would expect it will be a couple of months before we have anything final."

Most Profitable Component

Mortgage servicing, long the most profitable part of mortgage banking, entails funneling monthly payments from borrowers to investors and performing other administrative chores. Servicers can obtain the rights to handle loans either by writing mortgages or through purchases on the secondary market.

The FDIC proposal, aimed at curbing both interest rate and credit risk, would allow the value of purchased servicing rights to count for only 25% of core capital. In the past, thrifts faced no such restrictions and banking regulators generally handled the issue on a case-by-case basis.

Critics say that prices paid for servicing rights have fallen by as much as 20% since the potential rule was unveiled. Other factors, such as the expectation of heavy selling by thrift liquidators, also have hurt prices.

"We're aware that the existence of the proposal may be having some effect on the mar-

See FED page 7

Fraud Estimates Vary

GAO Calls Impact 'Significant'

By LOUIS GERHARDSTEIN

WASHINGTON — In a sign that fraud may be in the eye of the beholder, the Senate Banking Committee on Wednesday heard estimates ranging from 3% to 40% of fraud's cost in the failures of banks and savings and loans.

While "fraud has played a significant role" in bank and savings and loan failures, the General Accounting Office cannot document the level, a GAO official testified. The committee is headed by Sen. Donald Riegle, D-Mich.

"No one knows exactly how great the role of fraud has been in the failure of thrifts and banks," said Richard L. Fogel, assistant comptroller general for the GAO, "nor the extent to which it is occurring in open institutions."

Special Counsel

Mr. Fogel said that while the Justice Department is "picking up speed," in its investigations, it has never newly appointed special counsel for criminal matters. Justice fraud could assemble the information necessary to find out how well investigations were going. But Mr. Fogel suggested that ultimately, the special counsel might prove the best authority for determining how much fraud has contributed to bank and S&L failures.

Congress is fixated on assessing just how much fraud has contributed to the S&L crisis. And during this election year, legislators are working to pass a measure that will ensure such fraud is punished severely in the future.

The Senate hearings came a day after the House voted 424 to 4 to pass legislation that would tighten enforcement by authorizing more money to hire additional investigators to pursue for financial institution fraud and increasing prison sentences for individuals convicted of fraud.

Another Hearing Set

A second hearing on fraud is scheduled today with Attorney General Richard Thornburgh and FDIC Chairman L. William Seidman scheduled to testify.

At Wednesday's hearing, Mr. Fogel of the GAO testified that decentralized record-keeping within the Justice Department is hampering efforts to track where money is needed for fraud investigations.

Mr. Fogel declined to estimate fraud's impact on the S&L crisis. He noted in testimony, however, that the Resolution Trust Corp. suspects fraud contributed to 40% of the thrift failures it has investigated. The Federal Deposit Insurance Corp. estimates fraud accounted for 13% to 18% of bank failures, the GAO said.

Counting Insider Abuse

Another estimate of the incidence of fraud, developed by Bert Ely, an thrift consultant, places the fraud factor at only 3%.

With such wide-ranging figures, controversy comes as no surprise. Benton E. Gup, chair of banking at the University of Alabama, told Mr. Riegle that the 3% estimate "grossly understated" the total impact of fraud because it failed to account for "insider abuse."

Mr. Gup projects that fraud should account for as much as a third of all failure costs.

In a phone interview, Mr. Ely said that a lot of what people are calling fraud is not criminal. "Crime didn't cause the S&L crisis. Mismanagement, negligence, naivete, and stupidity also contributed to the final bill, he said, but "because you can't get an indictment on it, it's not criminal."

Mr. Gerhardstein writes for the Medill News Service.

Washington Bancorp. in Chapter 11

By BILL ATKINSON

WASHINGTON — Washington Bancorp., troubled parent of National Bank of Washington, filed Wednesday for protection from creditors under Chapter 11 of the bankruptcy code.

The company listed $61.7 million in total estimated liabilities and estimated it has 78 unsecured creditors, according to documents filed in the U.S. Bankruptcy Court for the District of Columbia.

The company also said its principal banking subsidiary "will be unable to restore its capital to required levels."

According to the filing, Washington Bancorp. could not determine its total assets but estimated its book value at $83.4 million. At the end of the second quarter, Washington Bancorp. listed assets of $1.8 billion.

Default on Paper

Washington Bancorp. faced mounting problems in recent years. In May it defaulted on $25.8 million in maturing commercial paper. In the second quarter it lost $80 million as a result of sour real estate loans, and National Bank of Washington has been borrowing $130 million to $150 million a day from the Fed's discount window – the lender of last resort.

Washington Bancorp.'s creditors include: Mutual of New York Insurance Co., $20.7 million; New York-based Colson Services Corp., $9.2 million; Bethesda, Md.-based George Hyman Construction Co., $4.9 million; and Gen. Brent Scowcroft, President Bush's national security adviser, $268,988.

Other creditors who are listed but whose claims were not disputed in the filing include: Bankers Trust Co., Banco Central de Bolivia, and former director A. Robert Abboud, former chairman of Houston-based First City Bancorp. of Texas. □

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TECHNOLOGY/OPERATIONS NEWS

American Savings Streamlines Work

Claims 5% Reduction in Expenses

By KAREN GULLO

NEW YORK — Having consolidated back-office operations, a few banks are going one step further and streamlining their work flow to cut costs.

One such institution is American Savings Bank of White Plains, N.Y., which says it has reduced annual operating expenses almost 5% by consolidating and redesigning the work flow in three divisions.

The savings bank, which has $4 billion in assets and specializes in real estate lending in the New York suburbs, recently completed a yearlong restructuring of the work processes in its real estate lending, financial services, and human resources units.

Employee Cuts

As a result, the savings bank has cut $4 million from its operating budget, which totaled $85 million in 1989, American Savings said. Most of the savings can be attributed to reduced labor costs.

"We reduced our head count by 14.5%, or 200 employees, most of which was directly a result of the project," said Robert J. Hughes, executive vice president and chief financial officer.

Mr. Hughes said American Savings expects to cut costs further, including reductions in retail expenditures. Overall, the institution hopes to reduce operating expenses 7% to 10% annually.

The savings bank is just beginning to assess work flow procedures at each of its 39 New York branches, where it plans to streamline and automate operations.

Real Estate Losses

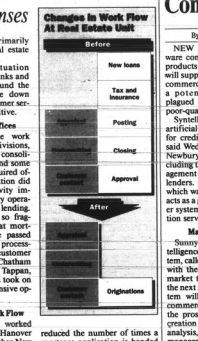
Cutting costs is paramount at American Savings, which reported a $40 million net loss in the second quarter – primarily because of troubled real estate loans.

The institution's situation mirrors that of many banks and savings institutions around the country that must drive down costs and improve customer services to remian competitive.

Consolidation of Offices

Before attacking the work flow in its various divisions, American Savings had consolidated data processing and some operations from 11 acquired offices. But the consolidation did not result in productivity improvements in some key operations, such as real estate lending.

The work flow was so fragmented in the unit that mortgage applications were passed around 27 times during processing, resulting in poor customer service. Working with Chatham Consulting Group, Old Tappan, N.J., American Savings took on a redesign of paper-intensive operations.



Hanover Tackles Work Flow

Chatham also has worked with Manufacturers Hanover Trust Co. and several other New York banks to streamline such functions as check research, adjustments, and customer service. As a result of its efforts, Manufacturers reassigned its work flow and reduced the number of times check investigations were passed around to 2 from 16.

At American Savings, eight units for processing mortgages were reduced to four. Employees were cross-trained so that many steps could be eliminated in the origination process. Mortgage accounting, which operated through the financial services division, was moved into the originations unit, which improved customer service.

As a consequence, the bank reduced the number of times a mortgage application is handled off to 5 from 27, and reduced staff to 26 from 39.

"We took bits and pieces of the process and brought them together where they should be and dramatically changed turnaround times," said Beth Barrett, Chatham's project manager for American Savings.

The most dramatic results were achieved in the real estate division, but Mr. Hughes said similar improvements were made in the financial services and human resources divisions.

"Our four goals were to maximize customer service, achieve maximum employee satisfaction, provide good internal controls, and be as cost efficient as possible," Mr. Hughes said. □

Software Firms to Combine Commercial Loan Products

By RICHARD LAYNE

NEW YORK — Two software companies are combining products to create a system that will support many aspects of the commercial lending procedure – a potential boon to banks plagued by high turnover and poor-quality loans.

Syntelligence Inc., which sells artificial intelligence software for credit analysis and review, said Wednesday it had acquired Newbury & Molinare Inc., including the rights to a task-management system for commercial lenders. The Newbury system, which was introduced in March, acts as a gateway to a bank's other systems and outside information services.

Banks say they need such systems because of the declining quality of their loans.

Marketing Due Soon

Sunnyvale, Calif.-based Syntelligence plans to link its system, called the Lending Advisor, with the Newbury product and market the combination within the next month. The unified system will automate a range of commercial lending activities – the prospecting for clients, the creation of customer files, credit analysis, and the monitoring of management reports.

Syntelligence follows the path taken by several other computer companies, including IBM, that have recently formed alliances to offer systems that cover multiple steps in the lending process.

Most computer companies offer software that supports individual lending activities, such as loan pricing, profitability measurement, and document creation.

As part of the latest agreement, James H. Newbury and Roderick A. Molinare, the acquired company's founders, will serve as consultants to Syntelligence. Terms of the deal were not disclosed, but Syntelligence said it would retain all Newbury's employees.

Industry observers say no big bank has a comprehensive commercial lending system. Some have been working, however, to develop their own systems to tie together numerous software products.

The banks say they need such systems because of the declining quality of their loan portfolios and heavy turnover. One in five commercial lenders leave annually for other jobs. With the current state of automation, management has only limited ways of monitoring the prospecting for clients, the profitability of customers, and the credit analysis process.

"Management control is there, but it is not as efficient or as effective as it could be," said J. David Gibb, senior vice president at Canadian Imperial Bank of Commerce, Toronto. He cited task management as an area in dire need of automation and said his bank was writing software for tracking prospects and producing call reports.

Others at Work

Among the other companies seeking to produce a more comprehensive commercial lending product is BankA, Dallas. The software company sells a product called Power that creates an electronic credit file and automates loan documents. In May, BankA signed an agreement to market an image-processing sys-

See SOFTWARE page 7

TRACE DELINQUENT AND SKIP ACCOUNTS IN MINUTES

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"When special skills are needed, Citicorp provides them. Its program enhancements became invaluable. Citicorp installs them. Yet, there are no hidden costs or add-ons in our contract.

"We are quite satisfied with our relationship with Citicorp.

If you would like to learn more about Citicorp's Facilities Management service, contact Joan Simmons, Citicorp Information Resources, Five Stamford Forum, Stamford, Connecticut 06905. Telephone (203) 323-4322 or (800) 331-4900.

James R. Barnett, Executive Vice President and Chief Financial Officer, Pacific Western Bank

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COMMENT/ *By Richard M. Whiting*

To Grow, Banks May Need More Flexible Regulation

One of the key characteristics of the American banking system is that it attempts to balance restrictions placed on product and service lines with a certain amount of regulatory flexibility for bankers to expand into new areas.

This scheme exists by Congressional design, which delegates to the federal and state bank regulators (and ultimately to the review of the courts) carefully circumscribed authority to authorize new products and services on a day-to-day basis.

A Matter of Balance

While the tilt of this balance is subject to criticism depending on who is conducting the commentary, it is important from a public policy perspective that banking's regulatory system provide both restrictions and a mechanism for experimentation and adjustment to customer and market demands.

Recent regulatory and judicial developments show that the current system does accommodate some change in bank product and service lines, and that many changes have been significant. This article will describe a few of the more significant of these changes.

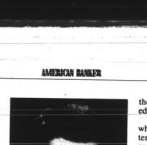
Furthermore, whether the current regulatory system sufficiently encourages change, tolerates more than incremental change, or allows for timely response to the market is a matter of serious dispute.

In this regard, many progressive bankers believe that it is time to reconfigure the system.

The Current System

Generally, American banking organizations are creatures of their charters and the powers enumerated therein. Thus, to a large extent, the product and service lines bankers may offer consumers are fixed — deposits, loans, trust services and related (but limited) insurance, and securities.

By their nature, these powers are relatively static and unresponsive to the marketplace, technological progress, and other forces of change. Fortunately, the current regulatory system also provides alternate sources of authority by which bankers may innovate.



"Many progressive bankers believe that it is time to reconfigure the system."

For national bankers, this authority is found in the so-called "incidental powers" clause of the National Bank Act, which empowers the Comptroller of the Currency to allow activities "convenient or useful" in connection with the performance of an express banking power.

For bank holding company executives, this authority is found in the language of section 4(c)(8) of the Bank Holding Company Act, which empowers the Federal Reserve Board to allow new activities that it finds to be "closely related" to banking.

Finally, all bankers (and especially state bankers) benefit from the multitude of options provided by the dual banking system.

The dual banking system, which the federal banking system blesses both implicitly and explicitly, defers to the right of each of the fifty states to accord their state-chartered institutions the product and service lines they deem appropriate.

(Of course, these state prerogatives are subject to override where state action would be contrary to preempting federal legislation, such as the securities restrictions in the Glass-Steagall Act; the insurance restrictions in Title VI of the 1982 Garn-St. Germain Act, or the safety and soundness concerns expressed in the Federal Deposit Insurance, Federal Reserve, or Bank Holding Company acts.)

Recent Developments

Reacting to proposals by bankers who need increased product and service line authority in order to respond to competition, and in the absence of accommodating federal legislation, bank regulators have utilized their existing authority to allow bankers to innovate.

The Office of the Comptroller of Currency probably has been the most progressive of the federal agencies in this regard. The OCC recently has used the "incidental" powers clause to:

- Allow national bankers to sell fixed-rate annuities.
- Sell variable-rate annuities.
- Issue and sell pass-through mortgage certificates.

See **COMMENT** *page* **10**

The battle with the Postal Service is far from over. The agency is expected to announce proposals on two- and three-day standards, and is once again talking about easing up.

Veteran Warrior Returns to the Fray

Harding de C. Williams, who began work Monday as the new general counsel to the **Association of Thrift Holding Companies,** says his "first priority now is to reread FIRREA," last year's compendious thrift bailout law.

Mr. Williams, 37, has been lawyering around in thrift circles since 1975, when he worked for the National Savings and Loan League, which later merged with National Association of Mutual Savings Banks to form the **National Council of Savings Institutions.**

He was legislative counsel at the National Council until 1988, when he became a private consultant. Since then, he has worked under contract for both the National Council and the Association of Thrift Holding Companies.

At the association, he will be responsible for liaison with the federal agencies that monitor thrift holding companies, primarily the Office of Thrift Supervision.

"Our No. 1 issue is: how to attract capital to the industry and how to increase the value of the charter," Mr. Williams said.

Mr. Williams, a graduate of Middlebury College in Vermont and the University of Michigan Law School, will also deal with securities and accounting issues and will staff the association's law committee.

— **Louis Gerhardstein, Bill Atkinson, and Robert M. Garsson**

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Washington Bureau Chief: Robert Trigaux
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ART
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THE LOBBYSTS

Lenders' Liability: NJ Democrat Fights Any Easing of Law

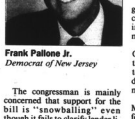
A House Democrat, with the backing of several environmental groups, on Tuesday urged House opposition to a bill that would limit the liability of banks and other lenders for the clean-up of toxic waste on foreclosed properties.

Rep. Frank Pallone Jr., D-N.J., said in a letter to House members that the proposal, offered by **Rep. John LaFalce, D-**N.Y., chairman of the House Small Business Committee, would "excuse" lenders from liability under Superfund legislation. The proposal, Rep. Pallone said, would remove a requirement that banks, before lending on a property, exercise due diligence in determining whether it was polluted.

The banking industry has been heavily lobbying for passage of the LaFalce bill in the House, and similar legislation has been introduced in the Senate.

"I don't see the need to change the law at this point," Rep. Pallone argued at a press conference. "If the banks want to know what they can rely on and can't rely on, the Environmental Protection Agency" should produce better guidelines.

Rep. Pallone, whose home state of New Jersey has 109 Superfund sites, planned to testify against the bill today before the House subcommittee on transportation and hazardous materials.



Frank Pallone Jr.
Democrat of New Jersey

The congressman is mainly concerned that support for the bill is "snowballing" even though it fails to clarify lenders' liability and contains broader-than-necessary exemptions for banks, a Pallone aide said.

A Warning on 'Loopholes'

The New Jersey Department of Environmental Protection, in a letter to Rep. Pallone, warned that the bill would create "loopholes" for banks to obtain property "without assuring compliance with environmental laws."

Rep. LaFalce's bill would grant exemption from liability only when banks aren't responsible for contamination of a property, said **Gary J. Kohn, legislative counsel for the Independent Bankers Association of America.** "It's hardly a blanket exemption," Mr. Kohn said.

None of the 271 cosponsors of Rep. LaFalce's bill have withdrawn their support, said Rep. Pallone.

The similar proposal in the Senate, introduced by **Sen. Jake Garn, R-Utah,** has 19 cosponsors. Rep. Pallone applauded a suggestion by Sen. Garn that the EPA, which opposes the Senate proposal, and the Federal Deposit Insurance Corp., which supports it, meet to discuss their differences.

A Small Victory In Postal Fight

Irving D. Warden, associate general counsel for the American Bankers Association, is finding out that victory is sweet – no matter how big or small.

Last week, the Postal Rate Commission recommended that the Postal Service drop its plan to downgrade nationwide standards for delivery of first-class mail.

Good news for the ABA and Mr. Warden, who had worked for nearly a year against the plan. But . . . despite the Postal Rate Commission's recommendation, the Postal Service decided to go ahead and change the delivery standards.

Some localities that now enjoy overnight delivery will instead receive two-day delivery, a change that could cost bankers and customers millions of dollars a year.

"We were disappointed that it happened," said Mr. Warden, who has been with the ABA for two and a half years.

Despite the quick reversal, the ABA still gained some ground. Along with other mailers, it was successful in delaying for six months the date the proposal will go into effect.

Mr. Warden also said the Postal Service is showing a growing willingness to cooperate with mailers.

LETTERS *to the editor*

'No Doc' Loans Can Be Practical

To The Editor:

I read with interest (at a fixed rate) the column on "no doc" loans in the July 2 *American Banker* ["Making 'No Doc' Loans: Lenders Repeat Past Errors," page 4] and my reaction was, "This proves that Paul Nadler is an impractical college prof instead of a person in the real world."

My firm specializes in fixed-rate loans, which we always immediately sell into the secondary market, and a good percentage of these loans could be referred to as "no docs." After a solid 2½ years of originating these loans – with carefully thought out and applied underwriting criteria – so far so good.

The theory behind a well-conceived "no doc" program is that if there really is 25% in cash being invested in the property, and if the borrower has a well-established and very clean credit history, we can rely on the substantial truthfulness of the information in the application; there is no need for further verification of that information from the employer, the Internal Revenue Service, the bank, or anyone else.

Our objective is to make better, bigger loans to more highly qualified borrowers, and to attract their business by taking the hassle out of the process. We don't charge a nickel extra for the "no doc" loan. We carefully select our appraiser, scrutinize the credit report, and look for real, live cash at the closing table. We analyze the borrower's ability to carry the loan, based on the information with that we are provided, and we make a prudent decision.

The delinquency and foreclosure statistics on these loans are significantly superior to those corresponding to fully documented loans with more lenient credit standards that we have originated.

"We are far more comfortable making a 'no doc' loan with a fixed rate and payment than we are making an adjustable rate mortgage loan."

We are far more comfortable making a "no doc" loan with a fixed rate and payment than we are making an adjustable rate mortgage loan – because if there is a "fudge factor" built into the income reported on the application, at least we don't have potentially increasing rates and payments to which the "fudged" income needs to be applied.

The point is, making a good mortgage loan requires evaluation of a bundle of risks. In the case of a "no doc" loan, there is included in the bundle the risk that the borrower will overstate income.

The prudent lender insists on offsetting that risk with squeaky-clean credit reports, strong appraisals, and real live cash at the closing table. Those who do so make more good loans and will be able to continue to sell them into the secondary market.

Joel A. Breckman
Senior vice president
Margaretten & Co.
Perth Amboy, N.J.

Distortion Seen In Community Banking Survey

To the Editor:

The *American Banker* listing of the 100 most profitable community banks in the June 7 edition ["In Profits, the Community Banks Leave Big Competitors in Dust," page 1] is a serious distortion.

Community bank was defined by your newspaper as any independently owned commercial bank having "assets of $50 million to $200 million." Approximately one-half of Texas' 1,300 commercial banks fall below the $50 million level; virtually all of these institutions are independently owned, and all consider themselves community banks.

Approximately one-half of Texas' 1,300 commercial banks fall below the $50 million level.

Why would *American Banker* arbitrarily exclude hundreds of banks across the nation in selecting the top performers? Perhaps it is time that you recognize that many of the nation's quality banks are below your $50 million level but are extremely responsive to their communities.

Robert E. Harris
President
Texas Bankers Association
Austin

Editor's note: The size range was chosen to ensure comparability between banks. Many below $50 million in assets are small-scale businesses with few employees and operating characteristics very different from those of larger community institutions.

With information in the availability of performance data from banks of all sizes, we plan to take a more comprehensive look at community banks next year. We expect to be able to analyze the group in segments, including one for banks with less than $50 million in assets. □

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CONSUMER NEWS

MARKETING/ADVERTISING

MasterCard's Promotion Seen as Harbinger of War

By ELLEN MEMMELAAR

MasterCard's announcement last week that it will offer discounts in conjunction with retailers has set the tone for future combat in the credit card arena, said industry experts.

Elizabeth Belli, vice president of marketing at the Independent Bankers Association of America, said that many current credit card enhancements have no value. "I am glad to see that MasterCard is putting together promotions that are of real value to the customer," she said. "They are really on the ball."

MasterCard's promotion is its biggest effort to date to attract middle-market consumers instead of the upscale market that Visa and American Express continue to court with image advertising. MasterCard announced it would cater to what it terms real people at the association's annual meeting, said Keith Kendrick, senior vice president of marketing.

Research by the card association showed that middle-market consumers prefer promotions with a tangible value, like coupons, over promotions such as sweepstakes, Mr. Kendrick said.

"It fits in perfectly with their strategy," said Donald Auriemma, a New York-based consultant. "It isn't Avis or Marriott or United Airlines, is it?"

"These are the opening salvos in the credit card warfare of the 1990s," said Edward Furash, whose Washington consulting firm is Furash & Co. "The credit card associations are trying to protect their customer base from the invasion of the nonbank issuers." The nonbank competitors that MasterCard and Visa are fighting include the AT&T Universal card, American Express Co., and the Discover card from Sears, Roebuck and Co.

MasterCard's promotion, called MasterValues, will run in the fourth quarter of the year, the busiest card season. Retailers offering discount coupons to cardholders are Montgomery Ward, Musicland/Sam Goody, Toys 'R' Us, K mart, B. Dalton Booksellers, and Casual Corner. Mattel will also provide discounts on its products through Toys 'R' Us and K mart stores.

To participate, consumers will ask for a coupon packet at the sales counter of a store and present the coupons when making a purchase.

Other card issuers have "tangible value" promotions to varying degrees. Discover offers a 1% rebate on purchases. The AT&T Universal card, which was introduced earlier this year and does not carry a fee, includes discounts on telephone services. In certain markets, American Express mails certificates for restaurant discounts to cardholders.

Visa plans to repeat its fourth-quarter promotion called the "Our Treat" sweepstakes. Along with randomly selecting purchases that cardholders do not have to pay for, Visa offered a $1 million grand prize in last year's program. The promotion will be repeated this year without the grand prize, according to a spokesman for the association.

Expectations are rising for MasterCard's promotion. The association has increased its printing projections for statement stuffers to 50 million from 40 million, Mr. Kendrick said.

Luring Customers By ... Buying Old Checks

As the banking industry grapples with overcapacity – too many institutions chasing too few customers – banks are increasingly looking at ways to steal customers from each other.

American National Bank, Jacksonville, Fla., launched an advertising campaign last month designed to lure customers who are unhappy about name changes at their local banks. Since the mid-1980s, **NCNB Corp., First Union Corp.,** and **Citizens and Southern Corp.** have purchased banks in the area. Several thrifts have merged as well.

To encourage people to switch banks, American National is running newspaper advertisements that tell consumers they can open an account by merely mailing in a check from their current bank. American National also offers to buy as many as five old books of checks for $2 apiece.

"We wanted to make the process as easy as we could," said Richard C. Martin, senior vice president. "We make the switch fast and painless."

Mr. Martin declined to release figures but said the campaign has been successful so far.

— **Kenneth Cline**

... And Helping to Pay Balance of Card Debt

Third National Corp. of Nashville is offering up to $200 to customers willing to switch their credit card accounts.

Under the offer, which expires Aug. 31, customers can open a credit card account with Third National, which will pay 5% of their balance up to $200.

Supporting newspaper ads state that several Nashville banks are moving their credit card servicing out of state.

"We don't feel like they can service our customers as well as we can, " said Joseph Hagan, vice president of product management in marketing. Third National is a unit of **SunTrust Banks** Inc., Atlanta.

— **Kenneth Cline**

Adjustables Losing Market Share

Rising Bond Prices Help to Reverse Recent Trend

By PHIL ROOSEVELT

NEW YORK — Adjustable-rate home mortgages, whose popularity increased earlier this year, have been losing ground in recent weeks to fixed-rate models, lenders and analysts say.

The decline has been caused in part by a recent drop in the rates on fixed-rate loans to the psychologically important 10% level.

"Whenever rates on fixed-rate loans get down to that range, you have difficulty getting people to go with an ARM," said Richard S. D'Agostino, executive vice president at Philadelphia-based Beneficial Mutual Savings Bank.

"We're really seeing very little demand for ARMs," he added.

Marketing Implications

The diminished popularity of adjustables holds important implications for the basic marketing and funding strategies of mortgage lenders.

Many banks and thrifts, for example, prefer to hold mainly adjustables on their books. As fixed-rate loans become more popular, these lenders either pull back from the market or originate fixed-rate loans and sell them to investors.

The recent slowdown in adjustables reverses a pickup that began early this year. Adjustables accounted for 32% of all mortgages closed in June, up from 19% in January, according to the Office of Thrift Supervision. In 1988 and early 1989, adjustables dominated the market.

> **"We're really seeing very little demand for ARMs."**
>
> **Richard S. D'Agostino**
> *Beneficial Mutual Savings Bank*

"I'd be surprised if that share went up much more," said Michael Grupe, director of mortgage research for Kidder, Peabody & Co. He, too, cited the increased availability of fixed-rate mortgages at around 10%.

Rates Trending Downward

Mortgage lenders, which often sell their fixed-rate originations, have been able to lower their rates on such loans in recent weeks because of rising bond prices.

Banks, thrifts, and mortgage companies were offering 30-year fixed-rate loans at an average of 10.06% last week, down from the year's high of 10.71% in early May, according to HSH Associates, Butler, N.J.

Early this week, two of the nation's largest mortgage-banking companies – Countrywide Funding Corp. and GMAC Mortgage Co. – said they were offering 30-year fixed-rate loans at 9.625% and 9.5%, respectively.

Lag in Adjustable Rates

Lenders have been slower to drop the initial rates on their adjustable-rate mortgages. These rates, which generally reflect short-term market yields, last week averaged 8.31% for one-year adjustables tied to Treasury yields, down from 8.56% in early May.

Thus, the spread between fixed-rate and adjustable-rate mortgages has fallen to 175 basis points from 215 points in early May. Many market observers believe that a spread of at least 200 points is a prerequisite for adjustables to dominate the market. □

More Banks Offering Low-Cost Accounts

By YVETTE D. KANTROW

NEW YORK — The number of commercial banks offering low-cost basic accounts increased in 1989, according to an American Bankers Association survey.

Fifty-nine percent of the 448 banks that responded to the trade group's survey said they offered consumers a basic/no-frills account in 1989. That is up from 53% in the previous year's survey.

In the latest survey, an additional 6% said they planned to add a basic banking account in 1990.

Basic banking accounts – which offer limited services to consumers at no cost or reduced costs – have become a hot topic among bankers and consumer lobbyists in Washington. Sen. Howard Metzenbaum, D-Ohio, has been pushing for legislation that would require banks to offer such accounts.

The ABA has vowed to defeat any basic banking legislation. The trade group has maintained that most banks offer lifeline services but do not do a good job of informing consumers.

According to its annual survey of retail pricing tendencies, 38% of banks promote their basic banking services.

The survey also revealed that most banks charge maintenance fees to their basic banking customers regardless of account balances. This was especially true at the largest banks.

Seventy-three percent of banks with more than $1 billion in assets said they charged such maintenance fees, compared with 27.4% of banks with assets of less than $50 million. The median monthly charge per account was $2.50 at the largest banks and $2.99 at the smallest.

Another 11.6% of the biggest banks said they charged fees only when minimum balance requirements were unmet. Thirty-seven percent of the smallest banks said they engaged in that practice. For both groups, the median of that monthly charge was $3.50. □

AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index — **Auto, personal and credit card rates**

Market	CREDIT CARD 7/5/90	7/6/89	PERSONAL 7/5/90	7/6/89	AUTO 7/5/90	7/6/89
New York	19.29	19.29	18.71	18.71	13.79	13.79
Los Angeles	19.16	19.16	20.12	20.06	13.20	13.18
Chicago	18.70	18.85	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	20.12	20.06	12.83	12.80
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Detroit	18.00	18.00	15.87	15.85	12.00	12.00
Boston	17.35	17.35	17.56	17.56	12.86	12.63
Houston	18.12	18.12	15.56	15.56	11.49	11.49
Dallas	19.17	19.17	16.87	16.87	11.37	11.27
Washington D.C.	18.81	18.81	16.55	16.55	11.45	11.45
9/30 Index	18.64	18.65	17.33	17.31	12.26	12.26

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest found in a survey conducted by Auto Bank rates are for a $10,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES	7/5/90
First Pennsylvania, Philadelphia	12.49%
Philadelphia Nat'l Bank, Philadelphia	12.49
Beneficial Supp Bk, Philadelphia	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank Of America, San Francisc	21.25
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.90
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Savs, Boston	14.90%
St. Paul Fed. Bank, Chicago	15.80
Benjamin Franklin Svgs, Houston	15.90
HIGHEST CREDIT CARD RATES	
World S&L, San Francisco	20.00%
Homestead Savings, San Francisco	20.00
Peoples Nat'l Bank, Washington	19.80

Fed Delays Rule On Servicing

Continued from *page 2*

ket," Mr. Miailovich said. "That's one of the things that's keeping our feet to the fire."

Other Servicing Developments

Elsewhere in the servicing market, Barron Financial Group, Inc., Flint, and an affiliate of the Robert M. Bass Group have joined forces to buy the servicing operations $7.2 billion portfolio of Commonwealth Mortgage of America.

Commonwealth Mortgage – an affiliate of Commonwealth Federal Savings Association, a seized Houston thrift – announced Tuesday that it had accepted an offer from the two investors. Terms, which were not disclosed, are subject to a final agreement.

The buyers are expected to operate Commonwealth separately from both Barron and American Savings Bank, a Stockton, Calif., thrift that the Bass Group purchased in a government-assisted deal in 1988. □

Software Firms Plan to Combine Loan Products

Continued from *page 3*

tem that Mellon Bank Corp. developed to store and retrieve loan documents. The Mellon product is linked to BancA's software, which creates loan documents.

International Business Machines Corp. is marketing a system for lenders called Officers Workbench that combines software packages of three small computer companies, including BankA. Officers Workbench combines financial analysis, customer profitability, and the creation of loan documents.

Some Functions Absent

The combined Syntelligence/Newbury product is not designed to perform all the processing, such as loan pricing and customer and lender profitability, that commercial lenders need. But a lender can access software from other companies through the Newbury product, called the Relationship Management System 500.

The system allows a lender to move easily between data bases, calendars, and call-reporting systems, according to Mr. Newbury, a former senior vice president of First Wachovia Corp. If a lender is interrupted in a task, the system can log his memory when he returns, a key aid to loan officers who must handle a wide variety of requests.

The system helps create electronic files on all customers – one way to prepare for turnover. Managers using the system also can monitor the credit details of each borrower and loan.

Mr. Newbury said a Midwestern banking company has purchased the software, but he declined to identify it.

Canadian Imperial, Bank-America Corp., and Integra Financial Corp. are among the banks using Syntelligence's Lending Advisor for credit analysis. □

House Votes for Overhaul of FHA Mortgage Insurance

Reuters

WASHINGTON — Overcoming opposition from the Bush administration, the House adopted a proposal this week to overhaul the Federal Housing Administration mortgage insurance fund.

The proposal, which passed Tuesday night by 418 to 2, was sponsored by Rep. Bruce Vento, D-Minn., and Rep. Thomas Ridge, R-Pa., as an amendment to a $28 billion housing bill for fiscal 1991. The bill authorizes several programs to improve housing affordability and help low-income families buy homes.

The Vento-Ridge measure would phase out FHA requirements that homebuyers pay a mortgage-insurance fee at settlement equal to 3.8% of the loan.

> **Proponents said the long-term effect would be to strengthen the insurance fund.**

Opposed by White House

Seeking to lower closing costs, Rep. Vento and Rep. Ridge would require homebuyers to pay 1.35% at settlement and 0.6% annually over the life of the loan.

The administration opposes the measure because it does not include reforms to maintain the FHA's financial soundness. But proponents said the long-term effect would be to strengthen the FHA insurance fund.

Administration officials pushed instead for a Senate-passed version of the FHA plan and threatened a veto of the Vento-Ridge amendment unless changes are made during a Senate-House conference.

Rep. Vento said the Senate version would "turn the FHA program on its head" by placing the heaviest burden on those least able to pay.

The Senate bill would require a homebuyer taking out an FHA-insured mortgage to pay two-thirds of the closing costs in cash instead of rolling them into the mortgage. It would also authorize additional insurance premiums for loans made with smaller down payments.

Both the House and Senate bills require the fund to attain a capital ratio of at least 1.25% within 18 months. □

Murray Gains Alumni Post

PROVIDENCE, R.I. — Terrence Murray, chairman and chief executive officer of Fleet/Norstar Financial Group, has been elected to a three-year term as director of the Harvard Alumni Association. Founded in 1840, the association is the official organization for Harvard University graduates. □

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Business System Redesign: a Sensible Restructuring Tool

By RAINER PAMULLA
and RUTH SCHINDLER
McKinsey & Co.

Banks have an acute need to raise their market valuations.

If they cannot do so in a substantial way, investors will simply regard their business as unattractive compared with other industries. Their fate then will lie either in massive consolidation, to reap economies of scale, or in yielding parts of their business to other enterprises that can perform the functions more effectively.

It is important to manage for both short- and long-term improvements in value. Just reducing costs by cutting into substance needed for the future will only delay the crisis.

The System Redesign Solution

Business system redesign is our solution to this problem. It brings together bottom-up and top-down thinking in an organization, makes the cost-cutting process reasonable without additional help from consultants after the first round, and energizes rather than drains the banks that use this process.

The banking industry has been among the first and most prodigious users of systems technology. Therefore, it was thought to have some of the best chances for productivity improvements.

The sheer amount of data to be crunched (in maintaining approximately 200 million accounts and 100 billion transactions a year) has propelled banking into a leadership position in the quantity of systems technology used. Yet, until very recently the industry's growing expenditures on computers and software ($12.5 billion in 1989) had not yielded any demonstrable improvement in productivity.

Employment in the banking industry increased steadily from 1960 on, even though investments in technology also grew. It was not until 1986 that head count peaked at 1.56 million employees. By 1989 it had fallen off by about 25,000 – the first decreases ever recorded in this industry.

Focus on Personnel Costs

The key to improving productivity in the short term is to reduce resource use, thereby forcing down costs. About half of all operating expense in banking is for personnel, including benefits. Much of the rest is indirectly related to head count.

The industry's operating expense increased at a compound annual growth rate of 8.2% between 1982 and 1987. It was not until 1988 – one year after the head count began to decrease – that the yearly increase in operating expense was substantially reduced – to 2.5% compound growth rate between 1987 and 1989.

Many institutions have tried to slow their growth or have announced hiring freezes. But few have freed up unproductive resources substantially by rethinking the way the work is done.

For example, Bank of America's turnaround, which included a reduction of head count to less than 60,000 from over 90,000, contributed to a change in its market capitalization – to over $5 billion at the end of 1989 from less than $1 billion at the end of 1987.

> **Until very recently the banking industry's growing expenditures on computers and software ($12.5 billion in 1989) had not yielded any demonstrable improvement in productivity.**

The redesign process, approached thoughtfully, leads to improved working relations and motivation based on the employees' pride to be part of an outstanding organization.

The Traditional AVA Process

Business system redesign grew out of modifications and enhancements to activity value analysis (AVA), a "tried and true" process that has been refined over time to help organizations achieve substantial cost savings. It typically consists of five phases.

• Phase 0: The organization is divided up into AVA units with 20 to 40 participants, led by a unit manager.

• Phase 1: A data base is created; each unit identifies its mission, end products, and activities. Based on estimates of time spent on the activities, a software program assigns the unit's costs to these categories.

• Phase 2: Unit members generate ideas on how to free up resources. Unit managers lead brainstorming sessions aimed at saving 40% of the unit's baseline budget.

• Phase 3: Unit managers present their groups' ideas to a senior management steering committee. This committee decides which ideas should be implemented right away, which should be studied further, and which should be dropped.

• Phase 4: Detailed implementation plans for the "go" ideas are drawn, responsibilities and time frames for the "further study" ideas are defined; and the results of the AVA process are captured for the regular budget process.

Powerful Enhancements

The basic AVA process yields average savings of around 15%. The work has became easier due to the support of well-designed software.

But recently we have introduced powerful enhancements that provide a much improved tool, which we call business system redesign. Following are its main features:

• Snapshot of the work, starting with visual pictograms describing how the work currently gets done.

• Reusability, overcoming the one-shot character of the traditional process.

• Top-down rethinking, freeing up resources through substantial redesign of the way the work is done. It goes far beyond the microefficiencies that are possible without altering basic work flows.

• Activity-based costing to help make important decisions.

• Energizing the corporate culture by propagating a drive to be leading edge, to do the work better than anybody else.

Snapshot of the Work

To improve the work, a thorough understanding is needed of how it is done. Good, easily understandable descriptions of the flow of work are rarely available.

The first step in business system redesign is to have the unit managers draw pictures of what goes on in their units. In all subsequent phases, activities and their associated costs are assigned to this pictogram.

Reusability

Since the snapshots of the work are much easier to revisit than arbitrarily defined lists of activities, the process becomes reusable.

By going back after the redesign and bringing the work-flow pictures up to date, an accurate image of the status quo is created that provides a basis for further improvements.

Top-Down Rethinking

Without input from senior managers, it is difficult to tackle cross-functional issues or achieve wide-angle rethinking of systems and work flows. Since the redesign provides visual images of what goes on in the trenches, it allows senior management to prepare for brainstorming sessions with the objective of recasting the business system in possibly radically new ways.

These sessions typically generate ideas that go far beyond the microefficiencies that each unit manager comes up with in the bottom-up approach. Often, the resulting savings are more than double what they would have been with traditional bottom-up idea generation.

Activity-Based Costing

Since costs are assigned to each of the activities in the pictograms, managers become aware of how much of the budget is eaten up by individual pieces of the work flow.

The outcome of the redesign depends on unwavering top management endorsement throughout the process and the sensibility and judgment of the project team.

The team must have a good grasp of when it makes sense to keep pushing and when it is better to step back. It needs technical expertise to integrate the work at the unit level into a larger perspective and it needs the technical skills – in systems, for example – to help the unit managers understand how their work is supported and where some of the big chunks of costs originate.

Using the New Approach

One major bank holding company used the business system redesign to achieve cost reductions at or above 30%. Ongoing reiterations will add to the savings already identified.

Before the business system redesign, this banking company employed 77 people in customer-service functions and 28 in account administration for a wire-transfer operation. Costs of the two departments totaled about $10 million. Bottom-up ideas alone would have yielded savings of about $1.5 million, largely due to microefficiencies in the handling of correspondence and investigations and in the demand-deposit area.

Senior management moved the two departments into a joint location and eliminated functions by redistributing responsibilities – saving an additional $3 million, mainly by reducing head count.

Business system redesign added about 35 percentage points to the 15% cost savings that would

See **SYSTEM** *next page*

Mr. Famulla is a senior consultant and Ms. Schindler is an analyst at McKinsey & Co., New York.

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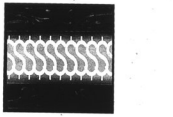

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COST CONTROL: *suggestion boxes*
In Only 4 Months, Virginia Bank's Employees Find $5 Million in Savings

By BETH PISKORA

In search of new ways to cut costs, many institutions look outside to specialists and consultants. But putting a fresh spin on the time-honored suggestion box, Vienna, Va.-based Perpetual Financial Corp. turned inward, tapping the hands-on expertise of its own employees.

"We thought: Who could be better at suggesting improvements that would reduce operating costs and generate income than those who know our business best?" said Perpetual's chairman, Thomas J. Owen.

A Fortune on the Floor

The drive for ideas on cutting costs and raising revenue proved successful. One employee scoured an antique oriental rug in an unoccupied office and suggested that it be sold. The bank nabbed $100,000 on the transaction.

Another staffer recommended that toner cartridges on facsimile machines be refilled rather than replaced. Estimated savings for a year: more than $15,000.

Over a four-month period, 85% of Perpetual's 1,600 employees participated in the program. In all, 349 of the more than 1,000 ideas submitted were approved, saving Perpetual more than $5 million.

Some 47% of the approved suggestions have already been implemented, said Anne Kelly, a Perpetual manager who participated in the program, with the remainder of the suggestions to take effect by the end of the calendar year.

"I was surprised to see how many ideas were extremely well justified, with comprehensive documentation attached," said Hope Quinn, chief financial officer for a subsidiary, Perpetual Mortgage Co., and a member of one evaluation team.

Side Benefits Discovered

Besides saving money, the approach generated other benefits. "It gave employees the chance to team up with people in other areas to gain a better understanding of how the company works," Mr. Owen said.

Added Larry Deiclos, senior vice president for community banking and one of the program's managers: "We encouraged people to form cross-functional teams. Each member could then bring a different expertise to the table."

While many ideas simply streamlined procedures, others were more imaginative. For example, one staffer suggested that Perpetual advertise on the back of automatic teller machine receipts, a notion the bank plans to implement later this year.

In addition, scores of employees focused on printing costs, resulting in the following measures:

• Changing the paper stock on brochures to a lighter, less expensive grade.

• Processing mortgages on single-colored forms instead of two-colored ones.

• Reducing the number of managers who receive in-house financial reports.

• Using computer messages for employee communications rather than newsletters or printed memos.

Tellers recommended that the downtime they experience between the date of hiring and first day of training could be shortened if the bank added training personnel. As a result, a new trainer has been hired and has streamlined procedures and paperwork.

Two other employees suggested auditing of telephone services — to pinpoint and eliminate overcharging — and ordering periodical subscriptions in bulk for the whole corporation. Several staffers proposed that computer terminals be shared. □

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System Redesign: A Sensible Tool

Continued from *page 8*

have been the likely outcome of traditional activity value analysis.

The electronic payments department comprised products ranging from automated clearing house to experimental point-of-sale processing functions. The cost base was $8 million, about 75% related to systems and 40% alone to development projects in this area.

It turned out that some of the largest development systems under way did very little to improve the work and could be scrapped. With some adjustments in systems resources, the total cost savings ended up at $3 million. Only about $300,000 would have came from the traditional bottom-up process.

Account Reconciliation

The account-reconciliation function cost about $6 million before the redesign. Bottom-up ideas concentrated on minor tweaking of some existing functions, yielding a total of $700,000.

Some of the work had been set up in the most arcane ways. Synergies between the subproducts were not being captured. Customers had no incentive to provide the original inputs electronically. The top-down process focused on greatly simplifying the way in which the work was done, bringing savings to 35% from the 12% reached by the unit itself. □

COMMENT

Continued from page 4

• Sell and underwrite title insurance.

• Enter into debt cancellation contracts.

• Underwrite municipal bond insurance.

• Provide real estate advisory services.

• Act and receive a fee as a finder for insurance companies.

• Provide vault, lock and ATM services to other institutions.

• Provide messenger services to other institutions.

• Act as principal in unmatched commodity price index swaps.

• Provide execution, clearing and advisory services for customer transactions in agricultural, petroleum and metals futures and options on such futures.

Actions by the Federal Reserve

The Federal Reserve Board, meanwhile, has slowly but steadily has utilized the "closely related" language of section 4(c)(8) to expand the permissible product and service lines for bank holding companies.

In addition to approving certain new activities in the recent past, the Fed also seems to have accelerated the number of proposals designed to facilitate the

"Many U.S. banks do not have the critical mass necessary for R&D expenditures."

delivery of products and services.

In the area of completed actions, the Fed has recently allowed:

• The owning and operating a thrift institution.

• Underwriting and dealing to a limited extent in corporate debt and equity securities.

• Providing armored car services.

• Acting as futures commission merchant with respect to European and Eurodollar futures.

• Leasing property where the lessor relies for its compensation on an estimated residual value of the leased property at the lease expiration of up to 100% of the acquisition cost of the property.

• Acquisition of platinum coins issued by the Canadian and Australian governments solely for distribution purposes.

• Purchasing land and engaging in agricultural activities designed to lessen a community's dependence on a single crop.

• Engaging in private placement and riskless principal activities.

• Acting as principal, originator, broker and advisor in the international markets with respect to interest rate, currency and related swap transactions.

• Engaging in foreign exchange spot, forward, options, futures and options on futures for the organization's own account.

Relaxing Constraints

Also, the Fed has initiated several proposals to relax certain of the existing regulatory constraints that have prevented bank holding companies from realizing maximum efficiency in offering currently permissible products and services.

In this regard, for example, the Fed currently has out for public comment proposals to:

• Extend the expanded leasing activities described above to all bank holding companies.

• Relax the cross marketing, management interlock and asset purchase and sale restrictions currently applicable to the securities activities described above.

• Allow bank holding companies to sell as agent the mutual funds to whom they provide investment advice.

• Allow credit card banks to offer price reductions to deposit customers of affiliated banks.

Historically, the states have been laboratories for experimentation in new bank products and services and they continue to play that role today.

"Regulators must be encouraged to utilize their existing authority to expand the product and service mix that U.S. banking organizations may offer their customers."

It is beyond the scope of this article to explore the regulatory and statutory innovations that have emanated from these 50 diverse jurisdictions.

Suffice to say that they have been many, with enactment by Delaware in May 1990 of broad bank insurance sales and underwriting powers being the most recent and controversial.

The FDIC is not a chartering agency and, therefore, lacks the ability to authorize any product and service lines.

However, flowing from its responsibility to ensure that activities of insured banks are consistent with safety and soundness considerations, the FDIC may require the discontinuance or modification of any product or service. This is not a frequently used power; however, it may be implemented as the FDIC reviews the Delaware insurance activities mentioned above.

Despite existing regulatory mechanisms for change in the current regulatory system, evidence abounds that this flexibility has been insufficient to allow U.S. banking organizations to compete effectively in today's marketplace.

It is a tired statistic that only one U.S. bank (Citibank) remains among the world's top 25 — to the point that Citibank weighs in only at number 24 and, in contrast to nine years ago, no other U.S. bank shows up in such a ranking.

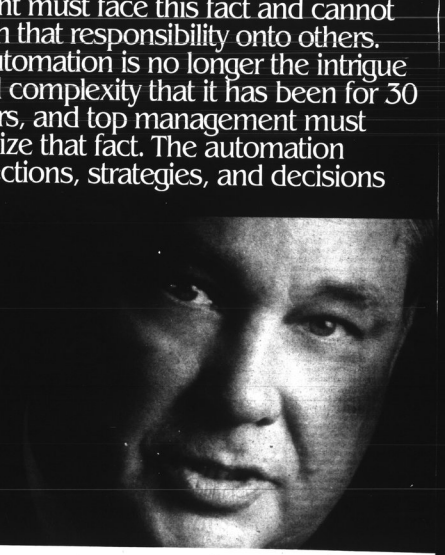
This means that many U.S. banks do not have the critical mass necessary for R&D expenditures, do not have the best opportunities for economies of scale, and have insufficient capital to be lead banks in large commercial loans.

Also, U.S. banks are with-

See COMMENT, next page

The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others. Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.



Ken Kirchman

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COMMENT

Continued from page 10

drawing, not rising to meet competition abroad, especially in Europe. In 1983, Fed member banks operated 166 branches in foreign countries that had $386 billion in assets. By 1988, the number of member bank foreign branches had fallen to 132 and assets were down to $318 billion.

This substantial decline of the U.S. international presence is well-documented. However, the most disturbing indication of the problems of the American banking system is the loss of more and more customers in domestic markets. In 1981, foreign-owned banks controlled approximately 15% percent of the banking assets in the United States. Today that share is now up to 23%, with a concomitant decline in the market share of U.S. banks.

Banks Have Been Hurt

These trends not only reflect, but contribute to the decline of the U.S. banking system. Bank stock prices relative to book values are at dramatic lows; the price of money-center bank stock has declined 17% since the beginning of the year.

Also, dividend yields are higher than interest rates on bank debt. This means that as the cost of capital increases, bank profitability will decline and capital for growth will be harder to obtain. This obviously is not a promising scenario.

In order to begin to restore the franchise value of the U.S. bank-

"Energizing the regulatory process will not completely address the problems in our banking system"

ing organization, the government must take action. At a minimum, federal and state bank regulators must be encouraged to utilize their existing authority to expand the product and service mix that U.S. banking organizations may offer their customers.

New products and services will not only enable commercial bankers to keep and, hopefully, expand their customer base, but also will provide them some diversification to increase their financial stability. Such action can be taken without jeopardizing the safety or soundness of the banking system.

In addition, the regulators should consider streamlining the procedures by which they authorize commercial bankers to enter newly authorized product and service lines. The current procedures are both costly and slow.

For example, it recently took a bank holding company over 3 months and $250,000 in legal, accounting and consulting fees to get a routine leasing proposal through the regulatory process. Such delays and burdens greatly contribute to the cost of doing business and put up hurdles that nonbank competitors do not have to face.

Structural Review

While undoubtedly helpful, energizing the regulatory process will not completely address the problems in our banking system.

Of greater priority should be a comprehensive review of the statutory structure establishing the U.S. financial system. In particular, fundamental laws such as the McFadden Act, the Glass-Steagall Act, the National Bank Act, and the Bank Holding Company Act should be reformed.

With FIRREA-mandated review of the federal deposit insurance system pending, now is the appropriate time for the Congress to undertake reconsideration of the bank regulatory system. □

Ex-President Of Buena Vista Gets 7 Years

By BILL ATKINSON

WASHINGTON — The former president of Buena Vista Bank and Trust Co., Buena Vista, Colo., was sentenced Monday to seven years in federal prison and five years' probation for misapplication of bank funds and making false statements to federal banking regulators, according to the Justice Department.

Roy L. Bowen, 46, was also ordered by Judge Zita L. Weinshienk to pay $90,000 in restitution to the Federal Deposit Insurance Corp.

Guilty On Nine Counts

On May 18, following a two week trial, Mr. Bowen was found guilty on nine counts of a sixteen count indictment. The jury found that while he was president and chairman of the bank, Mr. Bowen made false statements to the FDIC, misapplied loan proceeds and funds belonging to the institution, and made false statements in his personal financial statements to obtain personal loans at banks in Colorado Springs and Denver.

As a result of Mr. Bowen's actions, the bank lost more than $1.3 million and was closed in August 1989, the Justice Department said.

A Flood of Fraud Crimes

The department said that the Federal Bureau of Investigation launched an investigation into Mr. Bowen more than three years ago.

Over the past five years, about 14,500 defendants have been charged with financial fraud crimes of which about 11,000 defendants have been convicted.

304 Have Been Charged

Justice prosecutors have now charged a total of 304 defendants and obtained more than 100 convictions in major savings and loan fraud cases since October 1988, the Justice Department said.

In addition, the FBI has investigations open involving 530 financial institutions. More than 30 of the institutions under investigation are based in Colorado. □

GLOBAL *dispatches...*

Reed Says Brazil's Policy On Debt Strangles Trade

Reuters

SAO PAULO, Brazil — Brazil has lost $3 billion in vital trade and interbank credit lines because of its failure to repay its huge debt, John Reed, Citicorp's chairman and chief executive, said Tuesday.

"This is a normal reaction of bankers" to cut back these lines, Mr. Reed told reporters. "For banks without roots in Brazil, it is easier to cut back these lines."

Citicorp's principal subsidiary, Citibank, has had a Brazilian branch network for 75 years, making it one of Brazil's oldest commercial banks, with deep roots in the nation.

Citicorp Maintains Credit Lines

Citicorp has kept its short-term trade and interbank credit lines unchanged at $630 million since last July, when Brazil began skipping most interest payments on its medium- and long-term private bank debt of $63.2 billion, Antonio Boralli, president of Citibank in Brazil, told reporters.

Brazil has paid interest on the short-term loans because they are essential for financing exports and imports. These lines of credit officially are at $11 billion in trade finance and $3.3 billion in interbank lines, Citibank said.

Smaller banks "are selling their commitments on the New York secondary market," Mr. Boralli said.

Larger banks, especially those with branches in Brazil, are maintaining these critical lines to Brazil, but at a price.

"Eighteen months ago these lines were for a period of 180 days. Now they are for 30 days to a maximum of 60 days," a Citibank trade finance specialist, who asked not to be identified, said following the news conference.

Loans Have Become Costly

The interest gap over interbank rates has risen to as much as 2%, from 1%, he said.

There is increasing pressure on banks to cut these loans because they recently were reclassified by a U.S. regulatory agency as substandard, he said.

Brazil has interest arrears of $6 billion with private banks. The government repeated recently that it would not pay these arrears until it renegotiated a new agreement with the banks.

Brazilian officials also have said they will not renegotiate with private creditors until a pact has been reached with the International Monetary Fund. An IMF mission is now in Brazil to negotiate an economic adjustment program.

Mr. Reed said he would meet today with Ibrahim Eris, head of Brazil's central bank, and was ready to negotiate. — **Reuters**

... by country

JAPAN

Richard C. Breeden, chairman of the U.S. Securities and Exchange Commission, urged Japan to further open up its financial markets.

Speaking at a bankers conference in Tokyo, he said: "For example, there is absolutely no valid reason why U.S. investment management advisers and U.S. mutual fund sponsors should not be fully licensed in Japan for both wholesale and retail sales."

Mr. Breeden, who praised the steps Japan has already taken, urged Japan to follow the U.S. example in deregulating bank deposits and brokerage commissions. He said the U.S. actions have led to a sharp increase in U.S. banks'share of the foreign market, but that the primary beneficiary was the consumer.

PORTUGAL

Investors streamed to the Lisbon stock market this week for the latest stage of Portugal's reprivatization drive: the issue of another 31% of the shares of **Banco Totta e Acores**, a commercial bank.

The operation will transform BTA into the country's largest private bank. It is the fourth-largest of all commercial banks in terms of assets and it is now the first financial institution in which a majority stake is being sold.

Stockbrokers reported strong demand for the issue and said it could match that of the sale of 49% of Banco Totta a year ago, which was 4.5 times oversubscribed.

Now, 7.75 million shares are up for sale and are expected to pull in at least $158 million. The base price is set at $21 a share.

Banco Totta's size and strong growth have made it one of the most popular investor targets in the center-right government's plan launched last year to reverse the nationalizations of the 1974 leftist revolution.

Among those most interested in the sell-off is **Banco Espanol de Credito**, a Spanish bank known as Banesto, which snapped up some 5% of Banco Totta in the last flotation.

Concern about a foreign group dominating the big Portugese bank has prompted the Social Democrat government to retain 20% of equity capital for now, although it says that stake will be sold later.

As with previous privatizations, foreign ownership is limited to 10%.

The by country **briefs were supplied by Reuters.**

Fuji Setting Up NY Headquarters

North American Unit to Have Own Lending Power

By JAMES R. KRAUS

NEW YORK — Emulating three other Japanese banks, Fuji Bank Ltd. is setting up a North American headquarters in New York City and giving local management authority over credit decisions and strategic planning.

The decision will be officially announced by the bank in September but was confirmed by senior Fuji executives in New York this week. Toru Nonoyama, former director and general manager of Fuji's New York branch, has been named head of operations in North America.

"Policymaking must be in the market because the people who are in the market know it best," said Tomohiro Kamio, director and general manager of Fuji Bank's branch in New York.

Others Have Formed Units

Four other Japanese banks — Mitsubishi Bank Ltd., Tokai Bank Ltd., Mitsui Taiyo Kobe Bank Ltd., and Yasuda Trust and Banking Co. Ltd. – have set up North American regional headquarters over the last 18 months.

Fuji's North American headquarters will have two divisions, one for credit policy and the other for strategic planning, branch and agency supervision, project finance, and middle-market business rather than continue building assets.

> **"Policymaking must be in the market because the people . . . in the market know it best."**
>
> **Tomohiro Kamio**
> *Fuji Bank*

Fuji, the world's third-largest bank with $362.5 billion in assets at the end of last year, was seventh-largest foreign bank in the United States in mid-1989, with $30.3 billion in assets.

Mr. Kamio said Fuji's main objective was to develop and expand more profitable and sophisticated operations such as project finance, foreign exchange and securities trading, swaps and middle-market business rather than continue building assets.

"We think that we are a little bit behind U.S. banks" in more sophisticated banking services," he said. "The period when large Japanese banks had a large expansion in assets is over. We're concentrating on maximizing profits rather than inflating assets."

As part of its drive to increase profits, Fuji Bank is targeting the fast-growing project finance market and other fee-based services such as swaps and options.

The bank has quadrupled its lending commitments for project finance in the United States over the last three years to $1.06 billion as of March 31, 1990, from $511 million a year earlier and $249 million in March 1988.

Fuji may also apply to the Federal Reserve Board for authorization to do limited underwriting under Section 20 of the Bank Holding Company Act, Mr. Kamio said.

On Monday, the Federal Reserve Board approved Fuji's application to engage in interest rate and currency swaps through Fuji Capital Markets Corp. in New York. Fuji is also jointly expanding lending and other services to medium-size corporations with Heller International, both in the United States and in other countries. □

Move to Pan-European Banking Seen Stalled

By JAMES R. KRAUS

NEW YORK — Banks aiming to build a pan-European network face tough obstacles and have achieved only limited results, according to a preliminary report by Greenwich Associates, a Connecticut consulting firm.

The report, which cast doubt over the viability of setting up a pan-European network, cited high costs, tough competition from large European domestic banks, and capital constraints as the main obstacles.

Great Aspirations

"Banks have shown a lot of great aspirations, but the real question is whether those aspirations are sustainable," said Timothy Schantz, a principal with Greenwich and coauthor of the report with Berndt Perl.

Several large U.S., West German, French, and British banks have been seeking to expand or strengthen their Europewide operations as the European Community moves to integrate financial markets after 1992.

Citicorp's Plans

Citicorp, for example, plans to increase its branches in Europe to 1,000 from 700 and capture 6% of the Western European consumer banking market. Deutsche Bank has acquired banks in Spain and Italy while Barclays Bank PLC is seeking to acquire a French bank.

Other banks, such as Banco Santander and Royal Bank of Scotland, have set up joint ventures. Banks are also seeking to use their branches in other countries to do business across Europe.

Acquisitions: Fast, Costly

Mr. Schantz said acquisitions are the fastest and most effective way of buying market share but also the most expensive.

Most joint ventures have not been successful while branches face too much competition from solidly entrenched large local banks, he added.

The record of foreign banks in providing domestic services through branches or other offices "has been zero," Mr. Schantz said.

The report also found that many European banks are placing a bigger emphasis on strengthening their domestic market position than on expanding across Europe. □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
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United States	8.00	8.05	8.06	7.94	8.00	8.12	7.94	7.94	8.12	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.38	7.50	7.50	7.75	7.81	7.72	7.88	7.93	7.81	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.25	13.00	13.50	13.13	13.13	13.25	12.75	12.88	13.12	13.48	13.48	13.59	14.75	14.75	14.75
U.K.	15.00	15.06	15.00	15.06	15.00	15.06	14.88	14.94	15.00	14.38	14.30	14.31	15.00	15.00	15.00
West Germany	8.25	8.25	8.12	8.38	8.31	8.25	8.50	8.43	8.43	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.25	9.12	9.00	9.00	8.94	9.00	8.94	8.93	8.93	6.00	6.00	6.00	10.88	10.88	11.25
France	9.75	10.13	10.12	9.94	10.13	10.06	9.88	10.25	10.06	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.50	11.75	11.75	11.00	11.38	11.37	11.57	11.50	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.78	14.30	8.43	8.70	7.85
6 to 12 months	7.82	13.22	8.63	8.10	7.82
12 to 24 months	8.03	12.58	8.80	7.65	7.53

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

Limiting the Number of Insured Accounts Seen as Headache

Continued from *page 1*

me."

And at least some bankers are not eager to take on the task.

"We decided to take another route because we felt, from a banker's point of view, they didn't want to police" the per person limit, said John S. Ripley, senior vice president of the Association of Bank Holding Companies. "The idea of tracking accounts seems a staggering job. You would have to match Social Security numbers by computer. There's a Big Brother aspect to this thing."

Deposition Might Flee

Others say the practical problems are surmountable.

"You just need to put more stuff on tax forms – it's a computer programming job," said Edward J. Kane, professor of economics and finance at Ohio State University.

Large Deposits Play a Role

Another oft-cited objection to the proposal is that deposits in small institutions would flee to larger institutions deemed likely to be protected under the "too big to fail" doctrine.

"We feel it would drain deposits from community banks," said Gary J. Kohn, legislative counsel for the Independent

> **"You just need to put more stuff on tax forms – it's a computer programming job."**
>
> **Edward J. Kane**
> *Ohio State University*

Bankers Association of America. "If you had a $100,000 limit and you had lots of kids, that's O.K. But what about the Nebraska widower with a quarter of a million and no relatives? He'll put [his deposit] in a big bank" that the government would want to protect from failure.

Mr. Kohn estimated that 20% of banks' deposit bases may be in accounts of over $100,000. But he said he had no data to back up his estimate.

"That's significant when you're talking about a small bank," he said. "It deprives it of funds to loan locally. Smaller businesses won't be able to get loans. It will cost jobs."

Mr. Ely said that even if the surplus of deposits over $100,000 represented only 5% of a small bank's deposits, that would be significant. – "particularly if it means an inconvenience to customers."

It's Just Not Fair

George Kaufman, professor of finance and economics at Loyola University, said that if funds from smaller to larger institutions would not hurt the economy. But, "from an equity and fairness point of view, it's just not fair." It would not hurt the economy because other lenders would move in to fill the void if deposits were taken out of smaller, local institutions, he said.

On the other hand, all is not solved if the too-big-to-fail doctrine is abandoned. Then, large accounts would be withdrawn from all institutions, warned George Benston, professor of finance at Emory University's business school.

Beyond its practical shortcomings and its impact on smaller banks, observers are debating whether the one-deposit, one-account insurance concept strikes the required balance between providing stability in the system on the one hand, and imposing market discipline on bankers and depositors on the other.

Some, like Mr. Jacobe, say the proposal would accomplish neither goal.

"The average investor can't assess [an institution's] safety," he said. "Analysts can't figure it out. Banks reporting large capital can fail. Rumors about a [strong] institution can send it down. And an institution can fail to get deposits because people don't know about it."

Mr. Ely added that regardless of whether they were able to assess the strength of a bank, depositors generally are not willing to make the research effort.

"Depositors are the most risk-averse creditors you can find," he said, adding that it is easier to take one's deposits elsewhere than to check out a bank's strength.

But Mr. Kaufman contends that the proposal would be at least somewhat effective in imposing market discipline.

"People who say there won't be market discipline don't think of money market funds. Most depository institutions are not covered by a safety net. Somehow it works," he said. Doubters also do not remember history, he said. "Deposit insurance goes back 40 years, while banking goes back 400."

Paul M. Horvitz, professor of banking and finance at the University of Houston, said that while the proposal would provide a measure of market discipline, it would lead to considerable instability.

"When a bank is rumored to be in trouble, depositors would run," he said. But the proposal would impose some discipline: "People wouldn't want $200,000 in two shaky institutions."

Whether it would be enough discipline would not be evident until its trial, said Mr. Horvitz.

James Barth, professor of finance at Auburn University, said discipline would also come indirectly, as large depositors put funds in institutions that would pay higher interest rates to compensate for lack of insurance. As a result, higher interest rates would flag institutions that were troubled enough to pay the higher rates to attract deposits, said Mr. Barth. □

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OUTSTANDING LOANS	29,675
ASSETS UNDER MANAGEMENT	15,015
SHAREHOLDERS' EQUITY	3,991
ALLOWANCES	783
NET INCOME	413

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RTC Gears Up for 'Fall Clearance' of $50 Billion in Assets

Continued from *page 1*

the RTC expects to move into receivership in the second half of 1990.

Best Assets to Be Sold

Another $13.7 billion will be trimmed from the RTC's portfolio of assets in thrift receiverships, which stood at $37 billion on June 30. The RTC plans to sell the best assets remaining in this pile of leftovers, including $6.7 billion of performing one- to four-family mortgage loans, $3.3 billion of securities, and $1.6 billion in real estate.

The unveiling Wednesday of Mr. Seidman's "Operation Cleanup" marked a shift in the RTC's emphasis from selling off large numbers of insolvent thrifts to disposing of the huge inventory of assets remaining from the seizures of those failed institutions.

That inventory is expected to grow by more than $40 billion by Dec. 31 as more thrifts in conservatorship are added to the RTC receivership caseload.

Big Trims Expected

The RTC holds $165.3 billion in assets of thrifts seized by the government before June 30. The figure includes the $37 billion receivership portfolio from thrifts it has sold or liquidated, and $138.3 billion in thrifts still awaiting action. The RTC projects it will trim this pile of assets to $115 billion by the end of the year, but the asset inventory will continue to grow with new conservatorships.

Until now, the RTC has relied chiefly on acquirers of failed thrifts' deposits to manage assets they did not want to take on. In consigning assets to professional managers, the RTC will terminate these "caretaker" contracts, said Lamar Kelley, director of the RTC asset and real estate management division.

Some of the likely contenders for asset-management contracts include NCNB Corp., Banc One Corp., Lowell and Associates, Palmieri and Co., and J.E. Robert & Co., Mr. Kelley said. Competitive bids will be solicited from companies on the RTC's 70,000-name list of certified contractors.

Many of the current RTC assets have lost much of their value while in government hands. Holdings in markets where demand is slack are likely to require major price discounts before they are sold.

Contracting Move Praised

Observers Wednesday gave the RTC high marks for initiating an aggressive asset management program. The RTC is already seeking bids on three-year contracts to manage portfolios of assets ranging from $100 million to $2.5 billion, said David Fensterheim, executive director of the Real Estate Capital Recovery Association, a trade group of asset managers.

"Right now, they probably have [solicited] $4 billion" in asset management contracts, the largest of which is the $2.5 billion porfolio of University Savings in Texas, Mr. Fensterheim said. With a $30 billion management potential, "you're going to start seeing major contracts being put out," he said.

Under the RTC's standard asset-management disposition agreement, the asset manager will function as a general contractor, subcontracting with brokerage, property management, and appraisal firms.

Timeliness Encouraged

Setting objectives should encourage the prompt sale of the RTC's assets, said Ben A. Plotkin, first vice president of Ryan, Beck and Co. in Philadelphia.

He said the RTC needs to "enlist the assistance of the healthy portion of the thrift industry in getting those mortgages packaged and sold into the secondary market."

The RTC also said its widely anticipated auction of $300 million in real estate assets will take place Nov. 15.

The agency outlined how much time it will need to rid itself of different types of assets. Investment-grade securities should be sold within three months after a thrift is seized, but raw land could sit on the RTC's books for up to seven years.

"Some of that land is simply holding the earth together," said Mr. Kelley of the RTC.

Securities Available

More than $3 billion of the $3.3 billion in securities earmarked for sale in the rest of this year are mortgage-backed issues, but some junk bonds will move, too, said Elisabeth N. Spector, RTC's director of finance and administration. "I would be surprised if it's not several hundred million [of junk bonds] by the end of the year," she said.

The RTC will divest 75% of its $9 billion midyear inventory of performing one- to four-family residential mortgages, said Vicki Peterson, assistant director for asset marketing.

But only about 20% of the $6.7 billion being offered for sale meet the underwriting criteria of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp. The other 80%, though current, "have to be worked on to get in shape for sale," she said.

Some Have Bad Ratios

Some of the home loans cannot be sold to the agencies because they were made to facilitate sales of repossessed real estate, or have loan-to-value ratios exceeding of 100%, Ms. Peterson explained.

"We will place what we can with the agencies," referring to Fannie Mae and Freddie Mac, Ms. Peterson said.

Other loans will be pooled into securities that the RTC itself will issue. Still more will be sold as whole loans, with the likeliest buyers being banks, thrifts, insurance companies, and possibly pension funds. "Even though they're not the cream of the crop, there are established avenues to sell them," Ms. Peterson said. □

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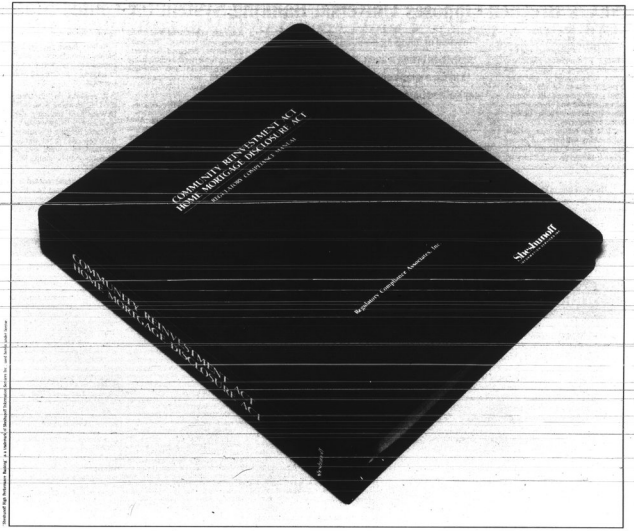

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SEC's Breeden Opposes Universal Banking System for United States

Reuters

TOKYO — Securities and Exchange Commission chairman Richard Breeden said he opposes adoption of a universal banking system in the United States, which would allow banks to underwrite and trade securities without having to set up separate subsidiaries.

"I do not believe that universal banking will prove to be acceptable in the U.S., and I don't think it should be tried," he told bankers at a conference in Tokyo.

The Situation in Europe

Under the universal banking framework adopted in West Germany and Switzerland, banks may engage directly in securities dealing and underwriting.

Most of the proposals for U.S. financial reform, including some supported by Mr. Breeden and the Bush administration, would allow banks into the securities industry only through subsidiaries or holding company affiliates.

"Instead of mingling banking and securities activities inside a bank, it would be better to allow a single entity to own separately capitalized bank and securities companies," Mr. Breeden said.

Such a holding company structure would need to include strong and realistic "firewall" provisions, designed to create certain limits in the relationship between banks and nonbank companies under common ownership, he said.

LaWare Echoes Greenspan

Although agreeing that firewalls must be preserved, Federal Reserve Board Governor John P. LaWare, also speaking at the Tokyo banking convention, said that walls could be thinner if higher capital standards and tougher regulation were introduced. Mr. LaWare's comments echoed those of Fed Chairman Alan Greenspan in recent ground-breaking testimony on Capitol Hill.

In both Japan and the United States, banks and securities companies are restricted from engaging in one another's business.

In remarks on "Problems in the U.S. Banking System," Mr. LaWare said reducing deposit insurance coverage would be unworkable because it would introduce new risks to the stability of the banking system and would probably not be politically acceptable.

He further advocated a simplification of what he called the current "contradictory and confusing" system of bank regulatory authorities. □

"Instead of mingling banking and securities activities inside a bank, it would be better to allow a single entity to own separately capitalized bank and securities companies."

Richard Breeden
Securities and Exchange Commission

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THE THRIFT BAILOUT LAW: *1 Year Later*

Emerging Costs of Thrift Crisis Have Vindicated Bert Ely

Continued from *page 1*

tials – now grudgingly acknowledges Mr. Ely's prescience.

"I'm not sure if vindicated is the right word, but over the past couple of years he has gained in stature because he has proved to be closer in his numbers than the others," said League spokesman James Grubl.

Indeed, with the thrift-bailout law now a year old, things have come full circle. Whereas chaos have jumped on the bandwagon, projecting the cost of the savings and loan crisis could reach as high as $1 trillion, Mr. Ely is now sounding a note of moderation.

Disincentive Feared

"I think some people are going overboard in this rush to come up with a number," he said recently, echoing criticism that was leveled at him a few years ago. "We're overlooking something very important with this obsession with numbers.

"We should not just throw our hands up in despair," he said. "We should be looking forward, what could we do to save a few billion dollars, or if, we're lucky, $10 billion in the long run."

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Like others interviewed for this article, Mr. Owen said he respected Mr. Ely's intelligence and competence, but sometimes disagreed with his conclusions.

Mr. Owen said he had heard Mr. Ely was conducting research on the state of the thrift insurance fund for a money-center bank in New York. Mr. Owen, considered a maverick himself for his approach to the savings and loan business, chose Mr. Ely over some well-known experts such as William Isaac of the Secure Group and Donald Kaplan of Kaplan, Smith & Co., because Mr. Ely had never worked in the banking or thrift industry. "With no axe to grind, he is a student of deposit insurance," Mr. Owen explained.

Earlier Sources

Mr. Ely, whose Alexandria, Va., firm Ely & Co. consists of himself, a secretary and a research associate, said he first became interested in deposit insurance issues after meeting with George Benston, now an Emory University professor, at a 1980 gathering of free-market economists.

Mr. Ely said it was Eric I. Hemel, former director of policy

"I think Bert is a reasonable person. I don't think he's a bomb thrower."

Thomas J. Owen
Perpetual Financial Corp.

and research for the Bank Board and now an analyst for First Boston Corp., who urged him in 1983 to focus on the Federal Savings and Loan Insurance Corp. in his study of potential problems in deposit insurance.

In 1986, Mr. Ely said, some Federal Home Loan Bank Board economists, who were limited in what they could say publicly, gave him "hell for not getting on the rooftops and shouting" about his findings.

Question of Methodology

Those economists, Daniel Brumbaugh and James Barth, do not recall that conversation, although they do not deny it took place. They do remember being asked by Mr. Ely for information on the methods used in mid-1985 to estimate the insolvency in the industry at $15.8 billion.

"I didn't know who Bert Ely was," said Mr. Barth, who was a visiting scholar at the Bank Board who later served as chief economist. "I don't think most people knew who he was."

Mr. Ely "deserves all sorts of credit" for drawing attention to the problem, Mr. Barth said, but it was Mr. Brumbaugh who first determined that the deposit insurance fund was in trouble.

Different Outcomes

"It's the difference between somebody who developed a vaccine and somebody who sells it," said Mr. Barth, now a professor at Auburn University. He added that Mr. Ely has received favorable publicity, while Mr. Brumbaugh lost his job for going public with his findings.

Although not well known to the public, Mr. Brumbaugh not only preceded Mr. Ely in identifying FSLIC's insolvency, but produced higher estimates of the problem, according statistics provided Congress by the Bank Board in 1989.

Now at Stanford University, Mr. Brumbaugh would say only that he was "pressured" to resign his position as deputy economist at the Bank Board because of his work in 1985.

A Feel for Insolvency

"A lot of what they published was essential to what I did," Mr. Ely said. But he also said his years as a consultant for manufacturing, distribution, and service businesses, specializing in bankruptcy, gave him a "sixth sense for insolvency."

From 1986 through mid 1988, Mr. Ely's estimates of the cost continued to rise, approaching $70 billion. He became the nemesis of M. Danny Wall, then the chairman of the Bank Board, who was called repeatedly before an increasingly concerned congress to defend the agency's estimate of $20 billion to $30 billion.

Finally, in late 1988, with a new administration firmly in place, the official estimate of the cost of the savings and loan crisis ratcheted into line with Mr. Ely's, at more than $50 billion.

His Name in the Papers

As the thrift crisis moved onto the front pages of the nation's general-interest newspapers, Mr. Ely's ability to capsulize complex financial problems in everyday language helped make his name ubiquitous in press accounts of the Bush administration's first big initiative.

Since the beginning of 1989, Mr. Ely has been mentioned in 49 articles in *The New York Times* and in 33 articles in the *Wall Street Journal*, for example.

This newspaper has mentioned Mr. Ely in 27 articles in the period. That is not quite as many as the 129 articles mentioning Charles H. Keating Jr., one of the best-known figures in the S&L scandals, but it is about 50% more than the 74 articles mentioning John S. Reed, chairman of the nation's largest banking company, Citicorp.

Interviews with Mr. Ely for this article were interrupted twice by calls from other reporters. Mr. Ely estimated he spends about 20 hours of his 70-to-75-hour work week talking to reporters. "There are a lot of anniversary stories in the works right now," he said.

Mr. Ely's acceptance by the Fourth Estate has not been universal, however. *National Mortgage News* has avoided quoting him, in part because "there was no way of knowing whose axe he was chopping wood with," according to the publication's editor, Stan Strachan.

Mr. Ely, who holds a 1964 bachelor's degree in economics from Case Western University and an 1968 master's from Harvard Business School, continues to be viewed with a degree of skepticism in academia as well. Some economists privately say they view him as more of a huckster than a scholar because of a tendency to adjust data for maximum effect, as when he hedged his first estimate of the costs.

Clients Not Identified

Mr. Ely has contributed to such skepticism by declining to identify his clients. He acknowledged that he had worked for Municipal Financial Consultants because Mr. Owen disclosed it first. Mr. Ely told a U.S. League publication, *Savings Institutions*, in 1987, that he had "no more than five" savings and loan clients.

Mr. Ely has received modest fees for articles and speeches. He said, however, that he has not tried to profit directly from his work on deposit insurance. "This has been a labor of dismay. I didn't expect to get a lot of business from savings and loans."

Still, he concedes that the exposure "hasn't hurt" his business, in which a quarter to a third of his revenue comes from fees for delivering speeches. The publicity also probably has helped him gain work as an expert witness for eight savings and loans, he said.

Speeches to State Groups

He has delivered speeches to about 20 state bankers associations, among other trade groups, he added.

Ely & Co. has worked as a consultant to banks, trade associations, and members of the investment community such as mutual fund managers, he said.

"My focus right from 1981 has been deposit insurance," he said. It is "the underlying problem to all our problems."

Mr. Ely often repeats Franklin D. Roosevelt's warning that federal deposit insurance "put a premium on unsound banking in the future," and advocates replacing federal deposit insurance with a private system of 100% cross-guarantees.

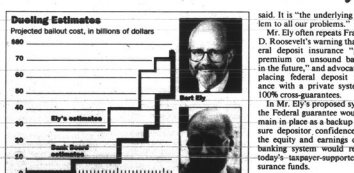
In Mr. Ely's proposed system, the Federal guarantee would remain in place as a backup to assure depositors' confidence, but the equity and earnings of the banking system would replace today's taxpayer-supported insurance funds.

Premiums According to Risk

At the same time," he said in recent testimony to the senate committee on Banking, Housing and Urban Affairs, "guarantees of banks will charge risk-sensitive premiums."

Not only does Mr. Ely advocate such a system, he believes it is inevitable.

"This whole thing has been playing out pretty much as I thought it would," he said, arguing that it takes a crisis to force people to consider fundamental changes. "The FSLIC is the weak link in the system." □



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Bank Call Notice

CONSOLIDATED REPORT OF CONDITION

GOTHAM BANK OF NEW YORK

of New York

a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this district pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts In Thousands
Cash and noninterest balances due from:	
Depository Institutions	$ 4,364
Currency, coin, Federal funds sold	32,268
Federal funds sold	4,250
Securities purchased under agreements to resell	
Loans and leases, net of unearned income ... 50,518	
LESS: allowance for loan and lease losses ... 543	
Loans and leases, net of unearned income and allowance	49,975
Premises and fixed assets	43
Other assets	1,125
TOTAL ASSETS	$ 92,456

LIABILITIES	
Deposits:	
In Domestic Office	$ 78,357
Noninterest-bearing ... 14,215	
Interest-bearing ... 64,124	
Other liabilities	1,531
TOTAL LIABILITIES	$ 79,888
EQUITY CAPITAL	
Common stock	$ 5,000
Surplus	2,000
Undivided profits and capital reserves	7,011
TOTAL EQUITY CAPITAL	$ 12,568
TOTAL LIABILITIES AND EQUITY CAPITAL	$ 92,456

I, Rosemarie Kaufmann, Cashier, of the above named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and the State Banking Authority and is true to the best of my knowledge and belief.

ROSEMARIE KAUFMANN

We, the undersigned directors, attest the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and the State Banking Authority and is true and correct.

LAURENCE R. MARCHINI, JR.
HARRY P. BRUNSTEIN — Directors
SAM SAPORTA

DEALS

Morgan Seen Playing Dual Role in Sale of Low-Tech IBM Businesses

By JED HOROWITZ

J.P. Morgan & Co. is expected to play multiple roles in the proposed sale of a majority interest in typewriter and other low-technology businesses of International Business Machines Corp.to Clayton & Dubilier, the leveraged-buyout firm.

Morgan, along with Shearson Lehman Brothers, is advising IBM on the purchase, according to a spokesman for the computer giant.

Morgan Guaranty Trust Co., along with Bankers Trust Co. and Manufacturers Hanover Trust Co., also is expected to lead the senior debt financing for Clayton & Dubilier's buyout, according to a well-placed bank source.

Clayton & Dubilier may pay as much as $2.5 billion for its majority stake in IBM's typewriter, keyboard, intermediate and personal printers, and supplies business in the United States, according to bankers and analysts who follow IBM. The amount of senior debt needed has not been determined.

Morgan officials did not return calls for comment on their role in both sides of the transaction.

Era of Expanded Relationships

Peter Goodson, a partner at Clayton & Dubilier, said it would be wrong to assume that the 12-year-old firm would rely primarily on the small group of money-center banks that have financed most of its 15 prior acquisitions.

"We are in a new era of era with expanded relationships," he said. "We have a lot of banks that want to do this. Heretofore we haven't had any relationships with Japan."

Sources noted that several Japanese banks joined the $1.2 billion buyout fund raised last year by Clayton & Dubilier. About $1.1 billion of that remains uncommitted, a Reuters dispatch quoted chairman Marcin Dubilier as saying.

Banks believed to have invested at least $20 million in the fund include Dai-Ichi Kangyo Bank, Sumitomo Bank, and Sanwa Bank. Other limited partners include First Chicago Corp., Security Pacific Corp., Bankers Trust, and Manufacturers Hanover, a source said.

The information products businesses that IBM may sell had 1989 revenues of about $2.4 billion, estimated Don Young, an analyst at Sanford C. Bernstein & Co. Though recent takeovers in such low-technology businesses have been priced below annual revenues, the IBM units are likely to bring a premium because they are leaders in most categories, he said. However, he said it remains unclear whether Clayton & Dubilier would buy all of the businesses.

Officials at the buyout firm and at IBM would not comment on a price, saying they have not yet concluded a definitive agreement or decided how much of a minority stake IBM will maintain. The deal is expected to close in the fourth quarter, according to the IBM spokesman.

William Glowkowin contributed to this report.

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THE PREMIER ATM NETWORK

Highlights for Wednesday, August 1

TOP 10 GAINERS %

Evergreen Bancorp, Inc.	10.6
Provident Bankshares Corp.	8.0
First Security Financial Corp.	7.3
Hawkeye Bancorporation	7.1
Equitrade Corporation	6.5
UST Corp.	6.2
Iowa National Bankshares Corp	5.6
Bankworth Group, Inc.	4.7
CPB Inc.	4.4
Northeast Bancorp, Inc.	3.3

TOP 10 LOSERS %

Trustcompany Bancorporation	-10.1
Bank of New England Corp.	-8.7
Continental Bank Corporation	-7.8
Baltimore Bancorp	-7.7
Union Bank	-7.6
Constellation Bancorp	-7.1
La Jolla Bancorp	-7.1
Cal Fed Bancorp	-6.6
Premier Bancorp, Inc.	-6.5
First Security Corporation	-5.7

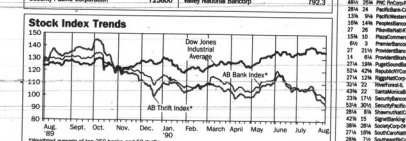
MOST SHARES TRADED

Chase Manhattan Corporation	2894500
Citicorp	2410900
BankAmerica Corporation	2381600
Wells Fargo & Company	999800
Security Pacific Corporation	723800

VOLUME AS % OF AVERAGE

Cal Rep Bancorp	2749.8
Banks of America, Inc.	1216.2
Imperial Bancorp	1115.4
Marshall & Ilsley Corporation	949.1
Valley National Bancorp	792.3

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts.

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.20	-1.08	0.00	-2.04	-5.17	-9.31	-2.19	-4.82	-12.80

Top 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18¾	1stSource Corp(d)	6.4	88.5	19½	-½
14¼	10¼	AFBancshares CO	16.7	68.1	12	-¼
19¾	13¾	AmeriFirst Bank	8.1	66.7	15	-¼
19¾	13¾	AmeriFirst A	8.4	66.7	15	-¼
25	19¼	AmeriTrust Corp	27.5	91.6	24½	-½
22¼	16¾	AssociatedBanc-W	8.7	118.7	19	-¼
24½	18	BB&T Financial	9.0	113.3	19	-¼
15¾	9¾	BaltimoreBan-MD	7.7	54.9	10¾	-¼
40¾	36¼	BankAmerica-CA	30.7	147.7	40¾	-¼
33½	26	BancOneCorp-OH	10.1	157.3	27	-1¼
26	18½	BancorpHawaii-PR	6.4	96.6	19¾	-¼
56¾	42	BancorpHawaii-HI	9.4	158.1	49¼	-¾
23¾	18	BancorpNew-MO	6.9	87.6	18¼	-¼
36¼	23¾	BankAmericaCorp-CA	5.0	95.1	24	-¾
24	17¾	BankAmerShrsInc-FL	12.5	221.0	20¾	-¼
29¾	24	BankNewEngland-MA	NM	47.8	2¾	-¼
14¼	8	BankSouthCorp-GA	9.7	91.3	8½	-¼
57¾	35½	BankersTrust-NY	NM	128.9	37¼	-¾
21½	10¾	BankersWestcorp-KY	5.4	58.3	11¼	-¼
26¾	10¼	BanksBostonCon-MA	NM	38.7	10¾	-¼
55	34½	BankAtlantic-NY	NM	68.7	34½	-½
12	8¼	BanksMid-AmerCon	NM	50.2	8¼	
62	56	BarnettBanks-FL	11.3	108.0	59¼	1¼
39¾	28¾	BarnettBanksInc-FL	9.2	108.1	29¾	-¼
40¾	13¾	BayBanks-MA	NM	99.9	13¾	-¼
39¼	29	BoatmenBancshs-MO	7.9	91.7	29½	-¼
26	15½	BostonBancorp-MA	226.6	105.0	16	-¼
16¾	12½	BrentonBanksIn-IA	7.4	101.1	14¼	
43¾	32	CCB FinCorp-NC	8.5	113.2	33	
22¾	16¾	CCNB Corp-PA	8.9	97.8	17¼	¼
22¾	18¾	CNB BancshsInc-IN	10.0	120.7	20¾	-¼
27	20½	CPB Inc-HI	11.3	158.0	22¾	¼
28	12¾	CVB FinCorp-CA	9.8	224.5	13¾	-¼
33¾	17¾	CalFedBanc-CA	7.1	138.9	17¾	-1¼
18¼	12¾	CalmatBkShsInc-CO	6.6	90.7	13¾	-¼
34½	24½	CentralFidelity-VA	6.7	95.5	24½	-¼
27	11¼	CentralJerseyBa-NJ	6.7	80.1	11¼	-¼
44¾	18¾	ChaseManhattan-NY	NM	54.4	18¾	-¼
41¼	22¾	ChemicalBanking-NY	NM	65.5	22¾	-¼
35	30	ChemicalFinCorp-MI	8.7	95.0	30	
35¼	19¾	CitizensAFI	NM	78.3	19½	-¼
25¾	15¾	CitizensBancorp-MD	7.5	92.4	19¼	¼
29¼	20¾	CitizensBanking-MI	7.6	72.8	22	
15½	8¾	CitizensFirst-IN	NM	117.0	8¾	-¼
34¾	21¾	CitizensUtilityCo-NY	10.3	100.3	22¾	-¼
27½	17¾	CityNatCorp-CA	10.0	180.0	17¾	-¼
22½	12¾	ColoradoNatBankCO	37.8	94.9	15¼	-¼
58¾	39¼	ComericaInc-MI	8.5	94.3	40¼	-¾
29¼	22	CommonwealthBan-MO	8.7	95.3	23	-¼
20¾	15½	CommonwealthPA	7.2	90.6	15¾	
21¾	12¼	ConsolidatedBk-MD	6.9	39.0	11¾	-¾
20¾	11¾	ContinentalIL	NM	51.5	11¾	-1
24¾	16¾	CoreStatesFinCp-PA	7.7	138.3	18¾	-¼
NM	20¼	CrestarFinCorp-VA	7.4	89.1	20¼	-¼
18¼	12¾	CulbroFirmTX	8.9	50.5	10¼	-¼
37½	30¾	DauphinDeposit-PA	8.4	125.3	29¾	-¼
32¼	22½	DimeBancorp-NY	10.3	104.7	23¾	-¼
19¾	15¾	DominionBkshs-VA	8.8	75.2	12	-¼
15¾	3¾	EastmanGroup-NY	NM	80.9	4¾	-¼
21¼	11¾	EvergreenBcp-NY	6.4	80.1	13	1¼
15¾	12¼	F & M NatCorp-VA	8.5	153.3	13	-¼
14½	12¾	FNB Corp-PA	8.7	104.7	12¾	-¼
26	20	FNW Bancorp-IL	9.1	104.2	20	
29	27¾	FarmersCapBnk-KY	11.8	115.4	27¾	
30¾	20¾	FifthThirdBcp-OH	10.7	184.7	27¾	-¼
38¾	32	FinancialTrust-IN	8.1	104.7	32	-¼
51½	38¼	FirstTenNes-NE	9.4	96.8	39¼	
19¾	15¾	FirstAlabama-AL	8.5	113.1	17¾	-¼
23¼	11	FirstAmerCorp-TN	NM	41.8	11¼	-¼
28¼	11	FirstBancorp-PR	7.6	69.2	11¾	-¼
30¾	24¼	FirstBancorp-NC	8.9	108.3	24¼	-¼
25¾	19	FirstBancshs-MS	9.7	164.0	19¼	-¼
50	41	FirstBkSanDie-CA	13.5	192.7	41¾	-¼
34¼	18¾	FirstBostonCo-NY	5.3	95.2	18¾	-¼
26¾	20¼	FirstCitizensBk-NC	10.3	212.4	24	
11	7	FirstCmtyBk-TN	NM	72.9	10¾	-¼
69¾	32	FirstInterstate-CA	NM	85.3	32¼	-¼
7	5¾	FirstInterstate-IA	NM	108.2	6¼	-¼
26¾	20¼	FirstMarBanCp-MI	8.2	113.7	15	-¼
24¾	17¾	FirstMichBk-MI	7.3	95.2	17¾	-¼
26¼	19	FirstNatBancp-AR	7.8	120.0	19	
44	26	FirstNatBkTex-TX	6.1	97.0	26	-¼
19¼	12½	FirstSecurityKY	10.3	95.0	12½	-¼
18	13¾	FirstSecurityUT	13.2	174.4	14¾	-¼
33¾	25¾	FirstSecurityUT	7.5	78.2	26	¼
28¾	21¾	FirstTennessee-TN	7.9	94.3	21¾	
26¼	16¾	FirstUnionCorp-NC	7.4	88.4	17¾	-¼
20¾	12¾	FirstVirginia-VA	7.6	107.1	14	
45¼	37¼	FirstWachovia-NC	10.1	152.2	40¾	-¼
35	27¾	FirstarCorp-WI	8.4	118.1	29¼	-¼
20¼	17¼	FirstbankIL-IL	8.9	111.4	19	-¼
55¾	42¼	FirstofAmerica-MI	7.6	95.2	44¼	-¼
29¾	18¼	FleetNorstar-RI	12.7	88.6	18¾	-¼
25	19¼	FortWayneNatCp-IN	8.6	104.8	19¾	-¼
28	20¼	FourthFinCp-KS	14.5	143.3	22	-¼
21¾	15¾	FulbanfinCorp-IN	7.7	119.8	16	-¼
24¼	16¾	GBC Bancorp-CA	8.3	203.5	18¼	
19¾	9	GreatsouthernMS	17.3	87.2	9	-¼
9¼	6¾	HawkeyeBancorp-IA	4.2	113.6	7¼	½
21¼	14¾	HeritageFinSvc-IL	9.1	120.4	18	
26	14¾	HiberniaCorp-LA	16.9	104.7	14¾	-¼
20¾	13¾	HuntingtonBcshs-OH	7.2	104.3	14	
32¾	21¼	INBFinCorp-IN	8.1	94.6	21¼	-¼
9¾	6	IndianaBancorp-IN	6.0	68.7	7¾	
26¾	18	IndependenceBcp-RI	9.0	96.3	17¾	-¼
20¾	15	IntegraFinCp-PA	14.7	95.8	21¼	
48	35	IowaNatBankshs-IA	9.2	120.4	37¼	2
48	13¾	MBNACorp-DE	NM	153.9	13¾	-¼
26¼	17¾	JeffersonBkshs-VA	7.8	88.5	17¾	
21¾	15¾	KeyCentenn-WV	9.8	102.6	17	
23¾	23¾	KeyCorp-NY	7.1	101.0	24¼	-¼
21¾	15¾	KeystoneFinPA	8.9	126.6	20¾	
35¾	28¾	KeystoneNatGp-PA	9.8	148.9	28¾	
14¾	8¾	LaSalleBancorp-IL	10.0	212.2	14¾	-¼
29¾	22	LaSalleStore-IL	16.7	191.5	22¼	
10¾	7¾	LombardBnkShs-MO	6.0	59.7	10¾	
30¾	24¾	LibertyNatBanc-KY	17.4	108.4	24¾	-¼
27	17¾	LivingstonCorp-IN	6.8	83.3	19¼	
29¾	9¼	MNC Financial-MD	9.3	57.4	9¼	-¼
48	13¾	MagnaGroup-IL	8.4	94.3	13¾	-¼
25	41¾	MarshallsNatBnk-MI	6.5	98.7	44¼	-¼
24¾	17¾	ManufacturersNY	NM	71.4	20¾	-¼
21¾	16¼	MarineCorp-WI	12.1	131.8	20	-¼
20¾	14¾	MarquetteBkshs-MN	9.4	94.5	14¾	
37¾	33¾	MarshallBkshs-WI	8.6	112.5	33¾	-¼
37¾	23¾	MellonBankCorp-PA	4.6	78.3	23¾	-¼
28¾	22½	MercantileBan-MO	36.9	86.6	22¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
27½	19¾	MercantileBnkshr-MD	8.2	123.8	19¾	-¼
19¾	14¼	MerchantsBanc-WI	11.7	179.0	47½	-2¼
32	21¼	MeridianBancorp-IN	10.4	84.3	21¼	-¼
57¾	28¼	MeritorSavingsBk-PA	6.7	80.8	14¾	-¼
10¾	4¾	MetroMorganBk-NY	2.5	58.1	7¾	
23¼	18¼	MidlantBanc-NJ	9.6	92.4	14½	
19¾	14¾	MidwestCorp-KS	7.4	133.4	17¾	-¼
25½	7¾	MidwestSvgs-MI	1.4	49.3	15	-¾
10¾	4¾	MidwestBancSvc-IL	NM	21.0	5¾	-¼
54¾	34¾	NCNB CorpNC	6.8	121.2	38¾	-¼
28¾	18¾	NCorpFinancingCo	14.6	158.4	19¼	
41¼	33¾	NationalCityCp-OH	7.9	133.4	34¾	-¼
51	37	NationalPenn-PA	11.3	203.1	38	
31¼	25¼	NatlBancorpIndAK	9.6	115.7	30	-¼
25¾	20¼	NatlCommerce-AR	8.9	171.3	23	-¼
44¾	15¾	NatlCommunity-NJ	5.2	77.7	15¾	-¼
20¾	9¾	NorthMidBancInd-IN	5.1	60.3	9¾	-¼
72	15	NorthwestBanc-CT	NM	49.0	15¼	-¼
28¾	27¾	NorthernTrust-IL	9.3	173.4	28¼	-¼
23¾	17¾	NorwestCorp-MN	7.4	137.4	19¾	-¼
20¾	20¾	OhioBancorp-OH	6.9	94.2	20¾	
29¾	23¾	OldKentFinCorp-MI	7.7	107.0	23¾	-¾
24½	24½	OldNatBancorp-KY	13.0	154.6	24½	
23¾	18	OneWestBanc-WI	7.0	85.0	20¾	-¼
48¼	25¾	PNC FinCorp-PA	6.0	86.6	26¼	-¼
28¼	24	PacificBancCa	11.3	181.6	27	-¼
13¾	9¾	PacificMeritBnk-CA	7.4	135.1	9¾	-½
18¾	14¾	PeoplesBancorp-NC	8.7	113.0	15¾	
27¾	26	PeoplesNatlKY	9.8	125.9	27	
15¾	10	PiedmontCommerce-TX	8.3	154.7	10¾	
6¾	3	PremierBancorp-LA	20.1	59.8	3¾	-¼
27	21¼	ProvidentBanc-OH	9.7	125.4	22	
14	6¾	ProvidentBkshs-MD	NM	37.3	6¾	-¼
27¼	19¾	PugetSoundBanc-WA	11.7	108.5	20¼	
52¼	42¾	RepublicNYCorp-NY	149.6	130.9	49¾	-¼
27¼	12¾	RiggsNatlCorp-DC	7.2	51.6	13	
52¾	22	RiverFrontal-IL	12.8	284.9	28¾	-¼
43¾	22	SantaBarbaraBan-CA	10.1	188.0	22	
28¾	17¾	SecurityBancorp-MI	7.7	132.3	17¾	
53¾	30¾	SecurityPacific-CA	4.9	82.1	30¾	-1
15¾	9¾	ShawmutCorp-MA	NM	47.4	9	-¼
42¾	35	SignetBanking-VA	4.4	52.8	15	-¾
30¾	24¾	SouthTrustCp-AL	NM	103.6	30¼	-¼
28¾	19¾	SouthCarolinaFG-SC	6.8	88.4	17¾	-¼
28¾	7½	SouthwestBkCorp-FL	NM	40.7	8¾	-¼
25¼	16¾	SouthwestBancshs-TX	8.4	129.7	11¾	-¼
25¼	16¼	SouthtrustCorp-AL	8.7	125.8	17¾	-¼
43¾	34¾	StoneFinCorp-IA	7.3	100.6	27¾	-¼
25¾	18¼	Star Banc Corp.-OH	8.4	109.0	19¾	-¼
43¾	34½	StateStBosCorp-MA	12.7	120.4	37¾	-1¼
20¾	6	StatewideBanc-NJ	NM	41.8	7	-¼
26	16	SuburbanBancorp-IL	13.0	95.0	17¾	-¼
34¼	25	SuntrustBanCa-GA	5.4	84.9	25¼	-¼
22¼	15¾	SunwestFin-AZ	7.5	93.8	16¾	-¼
21¾	11¾	SunwestSavcp-NJ	5.8	83.8	11¾	
36¾	30	SunTrustBanCp-GA	7.7	114.2	30¼	-¼
29¾	14¾	SunwestFinSvcs-NM	7.6	97.2	16¼	-¼
22¾	17¾	SusquehannaBcsPA	7.3	95.7	17¾	-¼
19	14¾	SynovusFinCorp-GA	17.7	260.6	18¾	-¼
15¾	11¾	TheFarmersBcp-MD	9.0	122.9	14¾	-¼
33	25¾	TrustCoBankCorp-NY	8.7	151.1	28¾	
19¾	14¾	TrustcompanyBc-NJ	7.7	127.4	31	-3¼
24	18¾	TrustmarkCorp-MS	8.6	77.0	18¾	-¼
20¾	15¾	U.S. BancorpOR	8.3	123.7	17¾	-¼
43	33¾	U.S.TrustCorp-NY	11.8	180.6	34¾	-1¼
20¾	12	UJB FinancialNJ	6.3	64.1	12	
18	9¼	UST Corp-MA	6.2	85.5	10¾	¼
21¾	21¾	UnionBank-CA	5.1	81.7	21¾	-1¾
15¾	7½	UnionPlanters-TN	NM	63.6	8¼	

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	19¾	UnitedBanksCorCO	NM	100.1	21	-¾
14	11¾	UnitedBkshrs-WV	7.9	92.8	11¾	-¼
17½	12¼	UnitedCarolinaNC	7.1	93.9	12¼	
62	52	UnitedCounties-NJ	7.1	101.0	52	
32¾	28	UnitedMissouri-MO	8.0	109.1	28	-¾
27¾	22	ValleyFarmcorp-MI	18.7	113.7	23¾	-¼
19¾	14¾	ValleyNatBancp-AZ	7.9	116.3	16¾	-¼
28¾	19½	ValleyNatBancp-NJ	7.4	130.5	19¾	-¼
30¾	11¾	ValleyNatCorp-AZ	123.4	10.5	16	-¼
87¾	64¾	WellsFargoCo-CA	5.0	123.2	86	-2¼
33	28¾	WestAmerica-CA	10.2	204.4	29¾	-¼
27¼	21¾	WestOneBancorp-ID	8.2	104.2	24	
24¾	18¾	WestcoastBancorp-OR	13.2	151.8	24	-¼
14¾	10¼	WilmingtonTrust-DE	11.5	270.8	42	
25¾	19¾	WisconsinBkshs-WI	8.3	110.4	19¾	
32¼	25¾	ZionsBancorp-UT	7.5	103.3	29¾	-¼

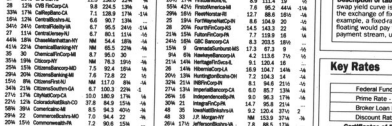
Top 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
24¾	18¼	Amsouth Bancorp	7.9	89.8	18¾	-¼
45¾	30¾	AppleBancorp-NY	9.1	70.4	36¾	
28¼	10¾	CalFedInc-CA	29.2	19.2	10¾	-¼
55¾	45¾	CenFedSvgBkCp-CA	3.4	49.2	47¾	-¼
20¼	3½	CoastSavingsFin-CA	NM	27.8	3½	
20¼	12¾	DimeSvgBk-NY	NM	20.1	14¾	-¼
24	14¾	DowneySavings-CA	229	98.2	14¾	-¼
27	20¾	FirstFedFncl-CA	7.1	118.5	21¼	-¼
21¾	12	FirstFedMichCp-MI	6.2	33.1	13¾	-¼
28¾	10¾	GLENFED-CA	2.4	25.3	10¾	-¼
34¾	22¾	GoldenWestFn-CA	10.2	160.0	28¼	-¼
24¾	15¾	GreatWesternFn-CA	13.7	93.8	15¾	-¼
14¾	1¾	GtAmericanBcs-CA	NM	18.1	2	-¼
41¼	31¾	HomeFdCorp-CA	NM	22.0	33	-¼
21¾	13¾	HomeSpaBanc-WI	18.8	93.3	18¾	-¾
18½	11	MBFSavings-MI	11.4	49.2	11¾	
10¾	5¾	People's Bank-CT	31.6	41.9	6	¼
26¼	15¾	PeoplesMetropol-NY	7.1	35.8	11	
18¾	10¼	RochesterCmtyS&W-NY	7.0	44.6	10¾	-¼
22¾	15¾	SouthFedSvgs-GA	4.8	45.2	15¾	-¼
13¾	9¾	SPSvcBancorp-IL	NM	56.0	9¾	-¼
13¾	7¾	StandardFedBcsh-IL	6.1	52.2	8¾	-¼
26¼	15¾	WashMutual$3-WA	10.3	60.9	15¾	
31¾	22¾	WashingtonFed-WA	9.9	198.7	26¾	
11¼	6¾	Westcorp-CA	11.1	94.3	7¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding as of March 30, 1990, the market value cutoff for banks was $69.6 mn and for thrifts $121.45 mn.) **52 Wk Hi** are the highest 52-week high and low prices for the stock. PE the price-earnings ratio is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. **Mkt. to book** is the ratio of the stock's closing price to the stock's book value, expressed as a percentage. **Chg.** value is adjusted for announced earnings and dividends. **Chg.** is the change from the stock's last traded. If no trade on the day, it is the last available bid. **Bold** Thrift Indices: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights show largest percent gainers/losers in price; and two volume indicators: most shares traded and most shares traded as a percentage of average shares traded daily over the past year.

Data source: SNL SECURITIES, Charlottesville, VA, 804/977-1600, produced from the Daily Financial News Network, Vienna, VA, provides SNL with the daily prices.

Libor Swap Yield Curve — Wednesday, August 1, 1990



Data source: Manufacturers Hanover Trust Co., New York

Description of table: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used by active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates — (August 1, 1990)

	8/01	7/31	7/26
Federal Funds domestic range:	8-8¼	8.00	7¾-7⅞
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.40	7.40	7.60
6 Month Posted	7.40	7.40	7.60
1 Year Posted	7.50	7.50	7.70
Eurodollar deposits²			
3 Month	7¹³/₁₆	7¹³/₁₆	8.00
6 Month	7¹³/₁₆	7¹³/₁₆	8.00
1 Year	7¹³/₁₆	7⅞	8⅛
LIBOR³			
3 Month	8.00	8.00	8⅛
6 Month	7¹³/₁₆	7¹³/₁₆	8⅛

Mid-afternoon quotes, New York market. (†)— Largest offering rates at selected NYC banks. (²)— Late London bid (³)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

Bank Stocks Pounded on Credit Fears

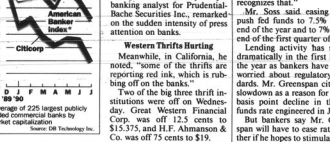
Continued from *page 1*

the San Francisco banking company have eroded 20% in the past two weeks.

At the same time, Security Pacific Corp. was off $1 to $30.625, and BankAmerica Corp. declined 75 cents to $24 while First Interstate Bancorp. declined 75 cents to $32.25.

Among money center institutions, shares of Citicorp, the nation's largest banking firm, sank below the psychologically important $20 price level, where they have hovered for some weeks. The stock was off 75 cents to $19.375 at the end of trading on volume of over 2.5 million shares.

Citicorp, Bank Group Underperform Market
Percentage change in stock prices



*Average of 225 largest publicly traded commercial banks by market capitalization
Source: DB Technology Inc.

Citicorp has fallen more than 30% since yearend. Meanwhile, the *American Banker* index of the 225 largest publicly traded banks has declined 14%, and this week fell below its value level at the end of 1988.

The heaviest volume was in Chase Manhattan Corp., which declined 25 cents to $18.875. Over 2.9 million shares had changed hands.

Superregional banks, once the darlings of investors, were also clobbered. NCNB Corp., Charlotte, N.C., fell $1 to $34.625. Banc One Corp., Columbus, Ohio, was off $1.125 to $27; and Barnett Banks Inc., Jacksonville, Fla., declined 87.5 cents to $29.75.

Riding Out the Storm

"In financial services, you can't get portfolio managers to buy anything right now. They are using financial services stocks as a source of funds for other investments," said Virginia A. Adair, a banking analyst for Merrill Lynch Capital Markets Group.

Mr. Seidman helped set the tone for the market with his statement to the Senate on Tuesday that the bank deposit insurance fund is likely to lose $2 billion in 1990, which would be the third straight yearly loss.

Following his testimony on Capitol Hill, Mr. Seidman also discussed the problems faced by banks in appearances on the Public Broadcasting System's "McNeil-Lehrer News Hour" and later on the ABC Television program "Nightline."

Bank Solvency Questioned

Also appearing Tuesday on "Nightline" was Stanford University economist R. Dan Brumbaugh, who asserted that six major banks — including five New York money center institutions — could be seen as insolvent if their assets were valued at market levels.

He identified them as Citicorp, Chase Manhattan Corp., Chemical Banking Corp., Manufacturers Hanover Corp., Bankers Trust New York Corp., and San Francisco's BankAmerica. Mr. Seidman called the contention "preposterous."

Mr. Brumbaugh, a former economist for the Federal Home Loan Bank Board, is among a group of economists hired by the House Banking Committee to study the health of the FDIC. He has charged that the FDIC is insolvent and has been reluctant to provide the researchers with data about itself or banks.

"I think that is part of what is hitting the stocks today," George M. Salem, the principal banking analyst for Prudential-Bache Securities Inc., remarked on the sudden intensity of press attention on banks.

Western Thrifts Hurting

Meanwhile, in California, he noted, "some of the thrifts are reporting real, which is rubbing off on the banks."

Two of the big three thrift institutions were off on Wednesday. Great Western Financial Corp. was off 12.5 cents to $15.375, and H.F. Ahmanson & Co. was off 75 cents to $19.

Analyst Dean Wetherell described Wednesday's market as "facing a tidal wave," but he described concerns about the capital positions and dividend- paying capacities of major banks as being much overdone. □

CAPITAL

Economists Expecting Fed to Ease Again

By KELLEY HOLLAND

Economists rarely see eye to eye on anything, but a number of them are now united in predicting a drop in interest rates.

Concerns about lending activity, a downturn in economic indicators, and low growth in the money supply are all pointing to expectations of further easing by the Fed following a move of 25 basis points in July, they said.

Federal Reserve Chairman Alan Greenspan has given several reasons for easing, including slow money-supply growth, the prospect of a federal budget agreement, and overall weakness in the economy, according to William C. Dudley, senior economist at Goldman, Sachs & Co. "We would not be at all surprised to see the Fed ease again."

The federal funds rate could fall from about 8% to 7% in the next year, economists said.

Lending Activity Down

"The credit situation is part of the economic situation," said Neil M. Soss, chief economist at First Boston Corp. "The credit situation is holding GNP lower than it ought to be, and the Fed recognizes that."

Mr. Soss said easing could push the funds rate by the end of the year and to 7% by the end of the first quarter of 1991.

Lending activity has declined dramatically in the first half of the year as bankers have grown worried about meeting capital standards. Mr. Greenspan cited the slowdown as a reason for the 25 basis point decline in the fed funds rate engineered in July.

But bankers like Mr. Greenspan will have to ease rates further if he hopes to stimulate new lending. "Twenty-five basis points isn't going to do anything at all," said an official in the treasury department of a money center bank. He predicted that an additional easing of 50 to 100 basis points would be needed if lending activity is to increase.

Treasury Yields Heading Down



In any case, a credit crunch is only a symptom of broad based weakness in the economy, according to Charles Lieberman, a managing director in financial markets research at Manufacturers Hanover Securities.

"The Fed is going to have to ease some more. The economy is quite clearly weak," he said. Economic indicators are also pointing to the need for easier credit. The National Association of Purchasing Managers Index of 47.4% released Wednesday broke a three-month trend of increases. An index below 50% suggests a decline in new orders and the prospect of slow production growth; the consensus expectation was for an index of 50% to 50.5%.

At least one economist thinks easing could take place as soon as Friday if other economic indicators, nonfarm payroll employment, and the unemployment rate come in far below expectations. "Probably some statistic and weak money supply growth will prompt the next move, possibly Friday," said Mr. Soss.

But further easing could also take place around the next meeting of the Federal Open Market Committee August 21.

Repositioning Under Way

Some banks are already changing the mix in their investment portfolios to benefit from an anticipated easing, according to Otto Lowe, an assistant vice president at First Boston Corp.

"There were several large buyers of short term CMOs in the second quarter," Mr. Lowe said. The banks' aggregate purchases were around $5 billion, he added.

At Manufacturers Hanover, the bank's clear view that interest rates are headed down has led to some repositioning, Mr. Lieberman said. "We have taken some steps to benefit from that – for example, buying longer term mortgages and financing with shorter term liabilities."

The Treasury bond market rallied Wednesday and yields fell on news of the lower than expected purchasing managers' report.

* * *

MARKET MONITOR

First Chicago Corp.'s subordinated notes, issued last week at a yield spread of 165 basis points over Treasuries, were freed to trade Wednesday by lead manager Salomon Brothers Inc:

Market sources said the securities would probably trade to a spread of at least 180 basis points over Treasuries, however, roughly the level where First Chicago's outstanding subordinated debt was trading before the latest offering.

Chemical Banking Corp. has filed a shelf registration to issue up to $750 million in debt securities and warrants to purchase debt securities. Proceeds will be used for general corporate purposes, including investments in subsidiaries and the refinancing of debt. □

Even with Equity, Loan Buyers Skeptical About UAL

Continued from *page 1*

began in sharp contrast with the UAL buyout proposal.

And because UAL's union group was unable to bring a foreign bank into the "club" – it was reportedly looking for at least one Japanese bank and one European bank – the ability to syndicate the loan worldwide has been hampered, bankers say.

Prospective agent banks thus run the risk of getting stuck with $500 million commitments that they are unable to lay off on the secondary market. This is problematic for many banks because of regulatory and shareholder pressure to limit portfolios of loans to HLTs.

"I told them not to bother us on this one," said a key lender to many large leveraged deals.

"As a buyer, we wouldn't be excited about a deal with 20% equity when you could buy into strong deals with 40% equity," said one secondary market participant. "I expect we'll be called on, and it depends on how much of a cushion is built into the deal. But the deal has left a bad taste in my mouth."

Five banks had agreed to help arrange financing for the $201-a-share, $4.4 billion deal for an employee-led buyout of the parent of United Airlines, although they made no commitments. Among investors rumored to be considering equity or subordinated-debt investments are General Electric Capital Corp. and Boeing Co.

Of the five banks – banking units of Manufacturers Hanover Corp., Bankers Trust New York Corp., Citicorp, Chase Manhattan Corp., and Chemical Banking Corp. –, three have dropped out, at least temporarily.

Mr. Leveraged Buyout Boy Hanover and Bankers Trust to continue working on the deal points up several differences among the original five banks.

The two remaining money-center banks "seem to have a better capital situation" than the other three banks, observed Richard Bove, a bank analyst at Dean Witter Reynolds & Co.

For that reason, the three banks that withdrew were probably more concerned than the others about holding unwanted UAL buyout loans.

"If they weren't concerned about that internally, certainly the Fed is," Mr. Bove said, adding that he would rather see all five banks walk away.

"There seems to be a chronic inability on the part of banks in the United States to lend to large corporations and walk away with a profit," Mr. Bove said.

"They don't know how to price; they don't know how to underwrite – they've demonstrated that in spades over the past five years."

Agent banks would be expected to commit $500 million each. If the group can arrange a club financing including foreign banks, one lender said, "The syndicate risk is much less and you could create a bandwagon effect."

But so far, the union-led group and the banks still working on the deal have been able to bring in a foreign bank. Now that domestic banks have begun to drop out, the chances are less likely.

While the trio of banks on the sidelines – Chase, Citicorp, and Chemical – are reportedly concerned over the lack of equity, other banks believe the skittishness in the syndicate bank market could have been a contributing factor.

William Goodwin contributed to this article.

AMERICAN BANKER
VOL. CLV NO. 151 Friday, August 3, 1990 155th year

Defection Risk Haunts Buyers Of Card Loans

By YVETTE D. KANTROW

The recent surge in sales of credit card portfolios is beginning to create some fallout for purchasers.

As more credit card accounts change hands, consumers are increasingly complaining that the new owners of their MasterCard or Visa card are raising the interest rates and annual fees.

In some areas, negative publicity has dogged the acquirers, and consumer advocates are keeping a close eye on the activity. As a result, banks are increasingly concerned about retaining the cardholder accounts for which they paid so dearly.

ANALYSIS: *Follow-up on the news*

Most bankers who have purchased and repriced portfolios say attrition has been minimal. But Steven Szekely, a vice president at Payment Systems Inc. in Tampa, Fla., said banks keep their attrition rates close to the vest after an acquisition. "There is a potential for damaging a bank's reputation if it doesn't work out," he said.

Some banks say they are taking extra steps to keep new cardholders on board. These measures include increasing lines of credit and emphasizing other service enhancements.

"When you purchase a portfolio, it is natural to be concerned about attrition," said Robert F. Hammer, chairman of R.K. Hammer, a Newbury Park, Calif.-based investment bank that specializes in card portfolio sales. "Just by notifying people that [an account] has been sold makes people ask, 'Do I really need this card?'"

In 1989, about $6.6 billion worth of credit card receivables changed hands, with institutions like Associates Corp., Citicorp, and Chase Manhattan Corp., gobbling up a large percentage of outstandings.

Sales Continue Apace

According to Mr. Hammer, the breakneck pace of portfolio sales is continuing this year. More than $3.3 billion in card loans have been sold since January. The average price paid for such loans are high, typically hovering at about 20% of total outstandings.

Chase Manhattan usually raises the fees and rates of purchased accounts to bring them in line with its overall portfolio, said David J. Cornell, chief financial officer in charge of direct response banking.

"We have tended to implement a number of changes, but we are not changing the mix in their investment portfolios to benefit from an anticipated easing, according to Otto Lowe, an assistant vice president at First Boston Corp.

"There were several large buyers of short term CMOs in the second quarter," Mr. Lowe said. The banks' aggregate purchases were around $5 billion, he added.

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* * *

MARKET MONITOR

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INSIDE NEWS



MORTGAGES

EDWARD MAHANEY has ambitious plans to auction the FDIC's current inventory of mortgage servicing rights by the end of next June. *Page 8*

FINANCE

TORCHMARK CORP. is close to an agreement with banks on financing for a possible new bid for American General Corp., sources close to Torchmark said. *Page 18*

CONSUMER

BANK CARD associations say businesses with fewer than 100 employees and revenues of less than $10 million may represent the hottest new credit market. *Page 6*

INTERNATIONAL

A SLOWDOWN of turnover on the London foreign exchange market has prompted banks to look for a niche in that market to maintain profits. *Page 10*

TECHNOLOGY

THE FEDERAL RESERVE System and Recognition Equipment Inc. agreed to terminate a contract for currency sorting equipment after five months of negotiations. *Page 6*

OTHER NEWS

NORWEST CORP. is on track to earn analysts' estimates of $2.75 a share in 1990, despite increased provisions for loan losses, according to chairman Lloyd Johnson. *Page 2*

COMMENT

THE COLLAPSE of overleveraged companies puts into question the adequacy of the solvency opinions that bankers sought when they bought companies, write Arthur H. Rosenbloom and Kenneth W. McGraw. *Page 4*

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Classified Advertising 16
Bank and Thrift Stocks 19

Fed Sets 3% Minimum For Capital

By LINDA CORMAN

WASHINGTON — Setting a long-standing and controversial issue, the Federal Reserve Board on Thursday ruled that bank holding companies and state member banks must maintain equity capital equal to 3% of assets.

The requirement supplements impending rules that specify capital levels based on the riskiness of a bank's assets. Under Thursday's new rule, no matter how safe the assets of a bank are deemed, it must have a minimum of 3% equity.

The final regulations do not differ substantially from the Fed's proposed rules issued in December.

The American Bankers Association immediately announced its dissatisfaction with them.

Elements of Tier 1

The 3% minimum can consist of so-called Tier 1 capital. For bank holding companies, that consists of common equity, minority interests in equity accounts of consolidated subsidiaries, and qualifying perpetual preferred stock. For state member banks, Tier 1 capital will consist of common equity, minority interests in equity accounts of consolidated subsidiaries, and qualifying perpetual preferred stock, less goodwill.

The Comptroller's office appointed a retired banker, William S. Ogden, as conservator of National Bank of Washington. Mr. Ogden will manage the day-to-day affairs of the bank and work closely with the Federal Deposit Insurance Corp. to facilitate a sale.

See **CAPITAL** page 17

New Regulatory Power Speeds Seizure in DC

By BILL ATKINSON

WASHINGTON — Using new authority to seize banks before they become insolvent, federal regulators took control of National Bank of Washington and began to seek a buyer for the $1.6 billion-asset institution.

The seizure by the Office of the Comptroller of the Currency took place Wednesday night, just hours after the bank's parent, Washington Bancorp., filed for Chapter 11 bankruptcy protection.

Washington Bancorp., which suffered losses from a downturn in commercial real estate markets, had been grappling in recent years with management problems and power struggles among directors. The holding company was trying to sell National Bank of Washington, the fourth-largest bank in the nation's capital, for almost two years.

The Comptroller's office appointed a retired banker, William S. Ogden, as conservator of National Bank of Washington. Mr. Ogden will manage the day-to-day affairs of the bank and work closely with the Federal Deposit Insurance Corp. to facilitate a sale.

See **NEW** page 17

Back in the Saddle

William S. Ogden, the former Continental Bank chairman appointed to oversee National Bank of Washington, is no stranger to troubled banks. See article on page 17.

In placing the bank under conservatorship while it still retained some capital, the Comptroller's office took advantage of powers granted by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to seize a failing bank before it becomes technically insolvent. The bank has $23 million in cap-



Rise in Oil Prices...
West Texas Intermediate, per barrel



*As of 2:30 p.m.

...Helps Some Bank Back Bear Market

	Stock price	Change from May 30 low
First City Bancorp., Houston	$19.00	+$0.375
Whitney Corp., New Orleans	$14.25	+$0.125
Premier Bancorp., Baton Rouge, La.	$3.875	+$0.25
American Banker Index	95.4	- 1.7

Sources: NY Mercantile Exchange, Reuters

Banks Act to Freeze Kuwait Assets; Oil-Price Hike Boosts Some Stocks

By JAMES R. KRAUS

NEW YORK — A White House order to freeze the U.S. holdings of Iraq and Kuwait sent banks scrambling Thursday, while the rise in oil prices spurred by Mideast tensions helped boost the stock of some energy lenders.

The freeze order, following Iraq's invasion of Kuwait, surprised major U.S. banks, which immediately began trying to identify assets owned by the two governments. By afternoon, it became clear they faced little financial exposure but might have problems complying with the order.

Meanwhile, the stocks of some banks in the oil patch increased modestly in a declining market as investors tried to assess the economic impact of turmoil in the oil-rich Middle East. (see Stocks, page 20).

In France and Britain, orders

See **BANKS** page 10

Bitter Medicine: The Side Effects Of Reform Law

By ROBERT TRIGAUX
Last of a Series

WASHINGTON — From the threat of higher taxes to a national credit contraction, the thrift-bailout law of last August has spawned a host of unintended consequences that banking experts warn could severely influence the financial services industry well into the 1990s.

They say the law has reached far beyond its mandate of paying for the closing of hundreds of insolvent savings and loans: It now is considered a threat to the viability of the entire industry.

From their perspective, analysts say, the Financial Institutions Reform, Recovery, and Enforcement Act – or FIRREA – appears grossly misnamed.



To be sure, the bailout law appears to be on track in meeting many of its goals, including set-

See **BITTER** page 12

PEOPLE *in the news*

First Chicago's Jurgensen: CFO with Diverse Strengths

By NANINE ALEXANDER

William G. Jurgensen, First Chicago Corp.'s new chief financial officer, is not just a number cruncher.

He said his diversified experience -- "I've worked both the left and right sides of the bank balance sheet" -- prepared him for a key senior management role at the nation's 12th-largest holding company.

"It's given me the opportunity to see the business from lots of different vantage points, which I think is a strength," Mr. Jurgensen said in a recent telephone interview.



William G. Jurgensen

Mr. Jurgensen, 39, joined First Chicago last month from Minneapolis-based Norwest Corp. He was executive vice president of the company's lead bank, Norwest Bank Minnesota, where he was responsible for several relationship-management divisions, operations, and cash management.

As chief financial officer, Mr. Jurgensen will oversee asset and liability management as well as the units that handle accounting, taxes, the treasury, insurance, and financial administration.

Mr. Jurgensen said it is too early to have mapped out his objectives, and he acknowledged some impatience with the process of getting to know a $50 billion-asset banking company, which is about twice the size of Norwest. Coming meetings on strategy and profit-planning should help speed the get-acquainted phase, which may also be eased by similarities between Norwest's and First Chicago's business lines.

Stronger Commitment to Wholesale Banking

There are differences between the companies, of course, and Mr. Jurgensen said one attraction was the Chicago company's stronger commitment to wholesale banking through its global corporate bank.

Mr. Jurgensen holds both undergraduate and graduate degrees in business from Creighton University in Omaha, Neb., and said banking was not his first career choice. Part-time work in investment banking during his senior collegiate year persuaded him to forgo law school in favor of business. When he joined Norwest, he saw the bank as a place to learn about a variety of businesses before selecting a career path.

Spent 17 Years at Norwest

Starting as a commercial loan officer at Norwest's Omaha subsidiary in 1973, Mr. Jurgensen held various positions in corporate lending as well as in trading and investments. In his last position he was in charge of one of Norwest's corporate middle-market departments that provide banking products and services to commercial real estate, communications, insurance, and technology companies.

Reflecting on his 17 years at Norwest, Mr. Jurgensen said he was fortunate to have been helped by several good bosses in corporate banking and securities management.

Initial calls to reach Mr. Jurgensen found him on a fishing trip with his 15-year-old son to a remote lake in Canada. He still commutes to Minneapolis on weekends but said his wife and son will join him in Chicago by the end of the summer. Mr. Jurgensen and his wife also have an 18-year-old daughter in college. □

Seidman Says He Remains Unsure About When He Will Leave FDIC

Reuters

WASHINGTON — Federal Deposit Insurance Corp. Chairman L. William Seidman said Thursday he remained unsure of when he would leave his post as head of the agency and the Resolution Trust Corp.

Mr. Seidman told the Senate Banking Committee that he had decided he does not want to be reappointed when his term expires in October 1991.

States a Goal

"I've made no decision on when I will leave," said Mr. Seidman, who has often been more open about the cost of the savings and loan crisis than the administration would like.

"I want to leave with the feeling that I have the RTC up and running," Mr. Seidman said.

He went on to say that he was an appointee of the Reagan administration and that he thought it was important to have someone with whom the Treasury Department feels comfortable.

Lists Achievements

In prepared testimony, Mr. Seidman said the FDIC and RTC were investigating 1,300 institutions for fraudulent activity and have filed more than 500 lawsuits against former directors, officers, and other professionals. They recovered $100 million in the first quarter of 1990 alone, and the total for all of 1990 is nearing $300 million.

Mr. Seidman urged the banking committee to include in a proposed antifraud bill a measure that would prohibit or limit troubled banks and thrifts from providing golden parachutes for their directors and officers. □

Latino Groups Lobby to Save S&L

Entreat Bush to Bar Takeover of California Thrift

By SAM ZUCKERMAN

SAN FRANCISCO — A coalition of eight Latino groups is publicly appealing to President Bush to protect what they say is the nation's largest Hispanic-owned thrift from regulatory sanctions that could lead to a federal takeover.

In a full-page advertisement in the California edition of *The New York Times* on July 31, the groups warned that Pan American Savings Bank, San Mateo, "is in danger of being crushed by the weight of rules intended for giant speculators."

The $322 million-asset Pan American is not specifically named in the ad, which refers to "four nation's largest Hispanic-owned S&L." But officials of the San Francisco-based Latino Issues Forum, which is coordinating the campaign, said Pan American is the thrift in question.

The forum consists of several advocacy groups, including the League of United Latin American Citizens, Mexican-American Political Association, and Latin Business Association.

'An Endangered Species'

Their ad claims that minority financial institutions around the country have become an endangered species because of arbitrary bureaucratic regulatory enforcement. The text urges Mr. Bush to "step in and help preserve" Pan American.

The thrift is "moderately out of compliance" with capital rules imposed by last year's thrift-bailout law, said William

Pan American Savings is "moderately out of compliance" with capital rules, its president said.

B. Stevenson, the institution's president. But the thrift's relations with federal regulators are good, he said, and there is little likelihood of a takeover soon.

At the end of 1989, Pan American surpassed requirements for tangible and core capital, but had risk-based capital amounting to 5.21% of assets, less than the 6% required by law, according to the thrift's data.

Capital Plan Rejected

Pan American's initial plan for raising capital, based on selling new stock, was rejected by the Office of Thrift Supervision, forcing the thrift to prepare an amended plan, Mr. Stevenson said.

Pan American earned $130,000 in 1989 and lost $220,000 in the first half of 1990.

The OTS issued a statement that it was unable to discuss the specifics of the Pan American case. But the agency said it strives "to preserve the minority ownership of thrift institutions whenever possible, subject to existing laws and regulations."

Hispanics own about 73% of Pan American's stock and account for seven-of-its-nine board members. The thrift was founded in the early 1970s to provide commercial and residential mortgages to Latin American and other minority communities in the San Francisco area.

Latino Forum officials said that Liberty Savings and Loan Association, based near Los Angeles, is the only other Hispanic-owned thrift in California.

The group said it is not asking that minority thrifts be exempted from capital rules that regulators put a priority on preserving minority-owned institutions.

"This is beyond the bands of [OTS district director] Mike Patriarca," said Latino Forum staff attorney Edith Adame. "This is a call for President Bush to look at it from a policy point of view." □

Norwest Bullish on Earnings Despite Loss Provisions

By ALISON REA
Reuters

NEW YORK — Despite increased provisions for loan losses, Norwest Corp. is on track to meet analysts' expectations of earnings of $2.75 a share in 1990, chairman Lloyd Johnson said in an interview.

"We are comfortable" with that consensus estimate, Mr. Johnson said, even though Norwest made "heavy" loan-loss provisions in the first half of the year and expects "some pretty heavy provisions" in the second half, Mr. Johnson said.

Norwest earned $237 million, or $2.50 a share, in 1989. Its net for the first six months was $130.4 million, or $1.33 a share. Its loan-loss provision was $114 million in the first half, against $75.6 million a year ago.

Minneapolis-based Norwest last month agreed to buy United Banks of Colorado Inc. in a transaction expected to close in early 1991. No other major acquisitions are planned for at least a year, Mr. Johnson said.

He said it was too soon to predict 1991 profits, but United Banks will cut Norwest's 1991 earnings per share by 2 cents, but will add 4 cents in 1992 and 8 cents in 1993. Tax benefits will be a big factor.

Mr. Johnson expects tax benefits from United, such as loan

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TECHNOLOGY/OPERATIONS NEWS

MasterCard Completes Its All-Fiber Net

By KAREN GULLO

NEW YORK — MasterCard International recently completed an upgrade to fiber optic cable for Banknet, its network for electronic funds transfer and credit card authorization.

The fiber optic network will improve the network's reliability for MasterCard member banks and reduce the risk of a network failure, said Philip P. Verdi, executive vice president of electronic services.

A Total of 13 Nodes

"It virtually eliminates network downtime," said Mr. Verdi. "Even through network uptime right now is already 99.9%, this upgrade means there's even less of a chance of a node going down. One node could take an entire geographical area of out service."

Banknet now has 13 nodes that connect more than 29,000 MasterCard member institutions worldwide. In the upgrade, MasterCard consolidated two Banknet nodes, which were in upper and lower Manhattan, into a single node in upstate New York, in Lake Success. The node serves eight northeastern states, a high-volume area.

Two Nodes in NYC Replaced

The new node, using fiber optic cable, replaces individual copper telephone lines that transmitted packets of data, including authorization requests, settlements, and point-of-sale information, to and from the two nodes in New York City. The fiber optic cables, called T-1 lines, carry much more information than the copper wires, said Mr. Verdi.

"The fiber gives you the capability of handling significantly more traffic," said Mr. Verdi. "It can transmit the data of many members while automatically rerouting traffic if there is an error on the line."

AT&T Is the Supplier

The Banknet fiber optic upgrade reduces the number of circuits that must be available for information to enter the network and enables Banknet to combine as many as 24 members on a single line.

The T-1 lines are supplied by American Telephone & Telegraph Co. The T-1 line allows a company to send the equivalent of 24 voice and data lines over a single fiber optic cable. □

Fed Cancels Its Contract For Fast Currency Sorter

By JEANNE IIDA

NEW YORK — The Federal Reserve Bank System and Recognition Equipment Inc. agreed Thursday to terminate a contract for currency-sorting equipment after five months of negotiations.

The action is expected to delay installation of high-speed currency sorters, which would reduce costs and improve the efficiency of Fed operations.

The Fed said it is evaluating equipment from another vendor, but declined to say which one. Dallas-based Recognition Equipment said no U.S.-based company offers similar high-speed, high-volume currency sorting equipment.

As part of the agreement, Recognition will refund a $4.1 million advance payment for the systems to the Fed.

Equipment Line Cancelled

The contract termination is also a serious blow to Recognition Equipment. Because of the Fed's cancellation, Recognition Equipment has discontinued development of second-generation currency processing equipment.

The Fed uses currency processing equipment to take money in from Federal Reserve banks, count it, ensure it is fit for recirculation, and check for counterfeit bills. The equipment then sorts and packages the currency into bundles.

Recognition Equipment has been the primary contractor for currency processing equipment for the Fed. It has more than 100 currency-sorting systems based on older technology installed at Fed banks.

Contract Default

The new system, called an Automated Currency Processing System, is faster and more accurate than the older systems and requires less manual intervention.

Earlier this year, The Cleveland Fed installed the equipment from Recognition Equipment and began testing it for the system as a whole.

On March 9, the Fed issued Recognition Equipment with a notice of default on the contract.

Neither the Fed nor Recognition Equipment disclosed the source of the dispute. At the time the notice was issued, Recognition Equipment said it believed the Fed's action was inappropriate and would resist any termination of the contract.

The Fed would not say how long it might take before it signs a contract with another vendor or can install high-speed equipment.

11% Layoffs

For the quarter ended June 30, Recognition Equipment posted a net loss of $9.3 million, with $7 million attributed to the Fed cancellation.

Troy, Mich., Group Inc., a Manhattan-based buyout group, owns a minority stake in Recognition and attempted a leveraged buyout of the company last year. After the financing collapsed, the company began a major restructuring in October. Since then, the company has laid off 11% of its work force of 2,500.

Recognition Equipment plans to focus on document image processing and sell all unrelated subsidiaries. It will shed the currency business unit, which handles currency sorting equipment, and European subsidiaries, according to Jenny Haynes, a company spokeswoman. □

Innovation Urged in Fighting ATM Crime

By RICHARD LAYNE

NEW YORK — As bankers and network operators grapple with concerns about safety at automated teller machines, a criminologist is recommending that they approach it in a new way.

Bankers need to look at ATMs as convenience stores for money, because the same types of crimes occur at ATMs and convenience stores, said Robert Figlio, a criminologist at the University of Pennsylvania's Wharton School.

"Wherever there are people and property, there is a crime risk," Mr. Figlio told those attending a recent safety conference sponsored by the NCR Corp., a manufacturer of teller machines.

Recommendations Made

At the Dayton, Ohio, conference, Mr. Figlio recommended a series of measures to improve ATM security and to help prepare bankers for possible litigation arising from attacks. He said banks must provide adequate security staff, educate consumers about security, and document security procedures.

Studies by the Electronic Funds Transfer Association show that service persons working alone are attacked at ATMs more than teams. Also, customers attacked at ATMs are usually alone.

Barry Schreiber, a consultant for the Bank Administration Institute and the Electronic Funds Transfer Association recommended servicing by teams of two or more people.

Cameras No Deterrent

Video cameras are generally ineffective in deterring crime, said Mr. Schreiber. They do help, however, in apprehending suspects and providing evidence for prosecutors.

Crime experts who spoke at the seminar emphasized that ATMs inherently create a number of law-making bodies appear to agree.

California, never a laggard in social trends, is moving toward regulating ATM sites and security. In San Jose, the police department can veto the installation of an ATM at a site determined to be risky. Santa Barbara does not allow ATMs in historic buildings.

Guidelines on Lighting

A city ordinance in Los Angeles sets lighting levels for ATM sites. Legislation is pending to establish guidelines for ATM lighting throughout the state.

Chicago has adopted ordinances that establish minimum lighting levels and provide for the closing of an ATM after dark if the site has had numerous crimes. □

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NEWTREND.
A Step Ahead.

COMMENT / *By Arthur H. Rosenbloom and Kenneth W. McGraw*

Solvency Opinions Coming Under Fire

The much-chronicled travails of Mr. Trump, Mr. Campeau, and others represent the tip of the iceberg of too many highly leveraged transactions that closed during the go-go 80s.

The collapse of some of these overleveraged companies puts into question the adequacy of the solvency opinions that lenders sought when they made the loans.

Banks and other creditors need to protect those positions because third parties, including trustees in bankruptcy, have the right to recover the value of any property improperly removed from the bankrupt debtor's estate if they can establish that a "fraudulent conveyance" has taken place.

Fraudulent-conveyance legislation at both the federal and state levels has the potential to strip a senior lender of its seniority position in bankruptcy if the LBO transaction in which the loan was made is deemed to have been a fraudulent conveyance.

The Legal Definition

A fraudulent conveyance of the LBO corporation occurs if, when the deal was done:

- The fair market-value of its liabilities exceeded its total assets.
- The then existing fair salable value of those assets was less than the amounts required to pay probable liabilities on maturing debt.
- The company would be unable to realize on its assets and pay its debts and other liabilities, including its identified contingent liabilities as they matured in the normal course of business.
- The company was engaged in a business or transaction for which it had unreasonably little capital.

Bankers and others have sought to avoid fraudulent-conveyance problems by hiring experts before the deal closed to determine whether the LBO company ran afoul of the four fraudulent-conveyance tests just described.

The purpose of this article is to suggest to bankers and their counsel a series of criteria by which courts are likely to measure the defensibility of the due diligence and financial analyses that undergird solvency opinions.

Due Diligence

One of the grounds for testing the defensibility of the solvency opinions will be the adequacy of the due diligence investigation of the opinion renderer.

A defensible due diligence usually takes into consideration some or all of the following:

- The company's history, state of incorporation, and the principal milestones in its corporate life.
- The manner in which new products or services were created.
- If the target was a manufacturer, the nature of the raw materials used, criticality of supply, supplier dependence, the manufacturing process, adequacy of plant and equipment, lease and mortgage terms, and so on.
- The current and prospective labor situation.
- Sales; marketing, and competition.
- Corporate management, including management depth.
- The company's plans for the future and the ability of management to realize such plans.
- The company's historical, current, and projected financial statements.

> **"One of the grounds for testing . . . solvency opinions will be the adequacy of due diligence."**

Going to the Site

On-site inspections and discussions with the functional heads of the business are also appropriate, as is a review of documents by or about the company.

These include the company's certificate of incorporation, bylaws, minutes of directors' meetings, existing loan agreements, plans and projections, union contracts, pension plans, major contracts with suppliers and customers, memorandums and accompanying financials associated with the LBO, the prospectus and plan of merger, SEC filings of publicly held comparative companies, environmental impact studies, and consultants' reports.

A documentary review of conditions in the general economy and the subject company's industry at the valuation date is typical. These data include material from government sources, relevant trade magazines, and other public sources.

Ways to Measure Solvency

Generally, the solvency opinion giver uses two principal methods to arrive at its conclusions: comparative company analysis and single-company analysis.

Comparative company analysis looks at the financial performance of the subject company versus that of an array of companies. Measures include price to earnings- or price-to-cash-flow multiples, market to book value

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Mr. Rosenbloom is chairman and Mr. McGraw is senior vice president of MMG Patricof & Co., a New York-based investment bank.

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FUNNY MONEY / *By Tom Leander*

Cash Returns to Crime Scene

Bank robbers, many criminologists believe, return to the scene of the crime. Successful businessman Delbert Dunmire has added a new twist to the old compulsion.

An armed Mr. Dunmire, desperate to cover gambling debts, robbed the former Abilene Commercial Bank of $2,216 in



James R. Jones

TURNABOUT: Ex-bank robber returns the money he stole – with interest.

1958. He was caught almost immediately after the heist, served time in federal prison, and was paroled in 1960.

Mr. Dunmire returned triumphantly to Abilene, Kan., last weekend – carrying a leather bag filled with $55,000 in $5, $10, and $100 bills. He handed out the money to people at a ceremony that was held to honor him for donating $50,000 toward the city's new band shell.

Mr. Dunmire estimated that the $2,216 he took from the bank in that long-ago episode would be worth $55,000, adjusted for inflation and counting accrued interest.

Mr. Dunmire now owns Growth Industries Inc., Kansas City, Mo., a manufacturer of aircraft parts. The former bank robber has expressed an interest in purchasing the building that housed the now-defunct Abilene Commercial Bank.

* * *

Music to Neil Bush's Ears?

What did Roseanne Barr's screeching, spitting, crotch-grabbing rendition of the Star Spangled Banner have to do with the savings and loan crisis?

According to Ms. Barr's husband, Tom Arnold, it took a little of the heat off President Bush, whose son, Neil, was a director at the failed Silverado Banking, Savings and Loan Association.

Ms. Barr has said she's sorry for the firestorm she stirred up with her lackluster rendition of the anthem last week at a San Diego Padres game.

President Bush was quoted as calling Ms. Barr's singing "disgraceful," Mr. Arnold noted. "I think the President should thank Roseanne. She took the spotlight off his son taxes and his son's savings and loan scandal."

* * *

They Have the Experience

Washington thrift lawyer Thomas Vartanian has the ideal candidates for the tough job of managing property acquired from failed thrifts by the Resolution Trust Corp.: thrift executives and bankers.

"We've been representing several dozen prospective Resolution Trust Corp. contractors, and it dawned on us that the real expertise in managing assets lies in banks and thrifts," said Mr. Vartanian, of Fried Frank Harris Shriver & Jacobson.

He said the proliferation of bad assets has spawned a new industry, the so-called "workout specialists." But a mere handful of its practitioners can claim any background in handling the massive load of fractured real estate loans under RTC control.

At the same time, he said, the regulators are discouraging commercial real estate lending, leaving entire divisions of many financial institutions twiddling their thumbs.

* * *

Heads Are on the Line

It may be remembered as the nuttiest executive incentive drive yet cooked up by a bank. If Investors Savings Bank, Richmond, meets its goal of bringing in 50,000 new checking accounts this year, its executives have promised that they will wear Investor's logo – a cuddly squirrel – shaved onto their heads.

The idea was hatched on June 7, at the company's annual meeting, according to a report in the *Richmond Times/Dispatch*.



Richmond Newspapers

NUTTY: Bank executives in Virginia will get squirrel cuts if new-accounts goal is met.

Warner L. Hunt Jr., president and chief operating officer of Investors Financial Corp., was extolling the virtues of Investor's checking account.

Marketing director John Wilkes interrupted the president's spiel. Mr. Wilkes pointed out an employee who, as a lark to prepare for the meeting, had gotten a crew-cut with the squirrel logo inscribed on the back of his head.

"If we get to 50,000, will you get your hair cut like that?" he challenged the boss.

With some vociferous encouragement from the crowd, Mr. Hunt agreed. "The room just went nuts," he told *Times/Dispatch* reporter Marla Osborn. □

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SMALL BUSINESS

Business Cards Could Tap A Growing Credit Market

By LAURYN FRANZONI
Special to the American Banker

Bank card associations say businesses with fewer than 100 employees and revenues of less than $10 million represent the hottest potential credit market since the one tapped with "gold" cards a few years ago.

Some 20% of small businesses (defined as having $1 million to $10 million in annual revenue) are using some business card product and 30% more would like to, said banking consultant Art Lucey of Alexander Lucey & Co., Denver.

"Typically, banks have offered those cards only to larger accounts," Mr. Lucey said. "Just like lockboxes and sweep accounts, these products are dropping down to small businesses."

"Many small businesses are still using a lot of cash and checks," said Stephen Schapp, senior vice president for product development at Visa U.S.A., San Francisco. "I think there is a fabulous opportunity for them to use plastic and gain the management controls."

The New Business Card

While the Visa Gold card has been the company's fastest growing product, Mr. Schapp believes banks are looking to the future. The next big product is the business card, he said, with a potential market of 15 million cards, versus 30 million for gold cards.

"The market is looking for a product," said Keith Kendrick, MasterCard senior vice president of marketing. "We've estimated it can cost a company $50 to generate the paperwork required by a purchase-order system to purchase a box of pencils. The card doesn't require that."

Among the advantages of MasterCard's BusinessCard, he said, are widespread merchant acceptance, management reports designed to meet small business needs, and the ability to set credit lines on each corporate card. MasterCard provides MasterCoverage (liability protection for up to $15,000 of unauthorized charges) to businesses with ten or more cards. In addition, MasterCard is the only card issuer to offer primary rental insurance, Mr. Kendrick said.

MasterCard, which introduced its corporate card four years ago, expects to have 500,000 cards outstanding by yearend and to double its dollar transaction volumes of 1989. Visa, which introduced its business card in 1988, declined to reveal the number of cards outstanding.

Doubt Cast on Growth Market

Market analyst Anne Morgan Moore, president of Synergistics Corp., Atlanta, casts some doubt on industry projections. In a recent survey of small businesses, Synergistics determined that the market was saturated. Defining corporate cards as those provided to employees for their use and guaranteed by the company, Ms. Moore reports that 25% of small companies have some kind of corporate card and few others expressed interest.

"We don't foresee a lot of growth without special features to drive demand," she said. One way to drive demand, she noted, is to offer differentiating services. Although AT&T's Universal card prohibits use for business purposes, a card offering the same 10% discount on long-distance calling might spark business demand, she said.

American Express Offers One Card For All

American Express offers one card for all sizes of businesses. In addition to its regular services, businesses with fewer than 100 employees receive quarterly management reports organized by expense categories. They also get small business disability insurance, which protects individual cardholders with lump sum benefits of $10,000 to $50,000. Other perks are hotel discounts, a leasing program for company cars, and a that allows purchases from American Express catalogs with set monthly payments and no interest charges.

"During the 1980s, we saw tremendous growth in the small-business economy and the shift toward smaller firms," said James Firestone, executive vice president of small-business services for American Express. "Because of their lack of staff infrastructure, one of their greatest challenges is getting information and services."

To date, American Express Co. has been the most popular travel and entertainment card for businesses.

Visa Upgrades System Support

In mid-July, Visa announced major upgrades to its management information system that supports the business card. The software provides enhanced information tracking, including airline reports on frequently traveled routes, spending reports within seven company-selected categories, international spending reports, and annual recap reports for any 12-month period.

Travel and entertainment expenses are reported by user, department, expense category, and geographic region. In addition, the face of the card can be modified to include the company name and logo. Issuing banks may choose to offer revolving credit lines.

Visa believes smaller companies will benefit from the additional expense control and selective limits on individual credit lines as well as selective access to ATMs for cash.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Card Loan Buyers Face Risk of Defections

Continued from page 1

ment Chase's terms on the majority of accounts we have bought," he said. Chase completed five major portfolio acquisitions in 1989.

When consumers receive notice that their accounts have been sold, they can accept the new owner's terms by continuing to use their card. Or they can pay off any outstanding balances – under the terms dictated by the cardholder agreement they had with the selling bank – and close the account.

Activists Taking Notes

Consumer advocates, long interested in the rates and fees that bank cards carry, have been keeping their eye on the increase in portfolio sales, concerned about decreased competition in the bank card industry. Now they are beginning to notice the rate hikes that many consumers experience when a large bank acquires the credit card business of a smaller one.

"It's become a common issue [among consumers]," said Arnold Baker, a researcher at the Consumer Resource Institute, a Mill Valley, Calif., company that advises consumers on credit card deals. "Some people are irate, while others say that's just the way it goes."

Consumer advocates have been keeping their eye on the increase in portfolio sales.

Mr. Cornell admits that Chase Manhattan does experience some "adverse reaction" from new customers when it reprices accounts. People will typically call in and complain, which gives the bank an opportunity to persuade cardholders to stay on board. Customer service representatives are trained to stress the benefits that Chase offers, such as purchase protection insurance.

"We have a fair amount of success retaining them," Mr. Cornell said.

Trouble Spots

Chase caught some flak in Minnesota when it began repricing some of the accounts it purchased last May from Michigan National Corp. More recently, it received negative publicity in Massachusetts when it raised the interest rates on the 675,000 credit cards it bought from Bank of Boston.

Some local banks are responding to the rash of card sales with heavy marketing techniques. They are playing up their hometown roots – as well as their lower prices – when competing against national issuers that have bought their way into the market.

BayBanks Inc., Boston, is trying to capitalize on Chase's rate hikes as it vies for a larger piece of the state's credit card market.

"We are aware that many local consumers have been told that their rates are going to go up," said James M. Cosman, executive vice president of BayBanks Credit Corp. "We are asking people to compare and save."

Citicorp, the country's largest issuer, also increased its presence in BayBanks market by purchasing Bank of New England's portfolio. The banking company has said that that portfolio but could in the future.

Bank of New York generally does not reprice the accounts it acquires, in hopes of keeping attrition rates low. "As long as you inform the customers that the account will be treated as it has been, you can retain them as customers," said Robert H. Burke, a BanK of New York senior vice president. □

Home Sales Rebound; Condos, Co-ops Hold Steady

WASHINGTON — Sales of new homes rebounded in June, and sales of condominium and cooperatives held steady during the quarter ended in June, according to two industry groups.

Sales of new homes rose 8% in June to a seasonally adjusted annual rate of 581,000, the National Association of Home Builders reported. The increase follows a slide of more than a year.

"This is the first glimmer of good news we've seen in months, "said Martin Perlman, president of the builders group.

"Interest rates are declining, and consumers seem more eager to take advantage of some real bargains in both the new and resale housing market."

In the quarter ended June 30, sales of existing condominiums and cooperatives climbed 0.3% over the previous quarter, according to the National Association of Realtors.

The steady activity, especially in high-priced areas like the Northeast, indicate a continued reliance on this type of housing for first-time and lower-income purchasers, the Realtors said.

The association recorded a seasonally adjusted annual sales rate of 355,000 condominiums and cooperatives for the quarter, down 4.6% from the second quarter of 1989.

For new homes, sales picked up 36% in the Northeast and 13.6% in the South. Sales fell 4.3% in the Midwest and 5.8% in the West.

"It's too soon to tell whether the dramatic increase in sales in the Northeast means that the slump in that region has bottomed out," Mr. Perlman said.

The recent decline in interest rates has helped bring some buyers back into the market, Mr. Perlman said. Interest rates on fixed-rate mortgages peaked at 11% in late April and since then have fallen to about 10.25%.

The typical American family can still purchase a median-priced resale home, according to a measure of housing affordability compiled by the National Association of Realtors.

The affordability index stood at 102.8 in June, down from 104.7 in May but still above the 100 threshold. The latest reading means that the median family income of $34,250 was 102.8% of the income needed to qualify for 80% conventional financing of the median-priced home, $97,500. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index — Highest Retail Yields and Jumbo Rates

These are the highest jumbo CDRates and retail CD yields offered on August 1 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns from 1 (highest) to 3 (highest) star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

	Six-month	
Heritage Svgs Bank, Richmond, Va.		8.50%
Columbia SBL, Irvine, Calif.		8.75
Maine Savings Bank, Portland		8.72
Imperial Fed Svgs, San Diego, Calif		8.72
Cityvtrust, Bridgeport, Conn.		8.67
	One-year	
Maine Savings Bank, Portland		9.00%
Cityvtrust, Bridgeport, Conn.		8.94
Heritage Svgs Bank, Richmond, Va.		8.55
Columbia SBL, Irvine, Calif.		8.82
NVR Svgs Bank, McLean, Va.	+	8.80
	Five-year	
Washington Svgs Bank, Waldorf, Md.	***	9.04%
NVR Svgs Bank, McLean, Va.	+	8.90
Greater NY Svgs, Medford, N.Y.	***	8.85
Calif. ThrftMtl.com, Santa Barbara, Calif.	***	8.84
Eastern Svgs Bank, Hunt Valley, Md.	**	8.84

Jumbo Rates

	Six-month	
Westwood Savings & Loan, Westwood, Calif.		8.80%
Columbia SBL, Irvine, Calif.		8.70
Brookside SBL, Los Angeles		8.70
First America Fed Svgs Bank, Longmont, Colo. +		8.55
First Network Fed Svgs, Los Angeles		8.50
	One-year	
Calif. ThrftMtl.com, Santa Barbara, Calif.	***	8.80%
Columbia SBL, Irvine, Calif.		8.85
Heritage Svgs Bank, Richmond, Va.		8.65
Western Gulf SBL, Bay City, Tex.		8.63
Imperial Fed Svgs, San Diego, Calif.		8.56
	Five-year	
Metropolitan Bank for Svgs, Arlington, Va.	***	9.00%
Washington Svgs Bank, Waldorf, Md.	***	8.75
Am General Fin. Ctr. Thrift, San Francisco	***	8.70
Comfort Svgs Bank, Richmond, Va.	***	8.65
New South Fed Svgs, Birmingham, Ala.	***	8.65

COMMENT

Continued from page 4

ratio, and premiums for control.

Single-company analysis considers the company in terms of elements such as the net present value of future cash flows and the fair market value of assets and liabilities. The adequacy of these analyses and the defensibility of the conclusions drawn from them will be important in determining a bank's right to rely.

In comparative company analysis, the battle may be expected to focus on how well the solvency opinion giver:

- Chose its comparatives.
- Compared the subject company's financial performance with that of other firms.
- Derived defensible multiples of price to earnings, price to cash flow, market to book value and control premiums from the comparatives.
- Gave appropriate recognition to breakup or segment values of divisions or subsidiaries that could be sold if the price exceeds used to pay down LBO debt.

In single-company analysis questions are likely to come on any fair market value balance sheet and in the discounted cash flow analysis.

"In single-company analysis, questions are likely to come on any fair market value balance sheet and in the discounted cash flow analysis."

Issues in Focus

Questions on the fair market value balance sheet may focus on the following issues:

- Was cash on the balance sheet discounted for elements like compensating balances?
- Were marketable securities appropriately marked up or down?
- Had an aging schedule for receivables been examined?
- What recognition was given to contingent liabilities?
- Were affirmative and negative covenants in existing loan agreements reviewed to determine whether acceleration provisions might reasonably be expected to come into play?
- Were appropriate adjustments made to reflect the future fair market value of lease obligations or debt securities whose terms might vary from terms appropriate at the time of the opinion?

The solvency opinion giver's discounted cash flow analysis may be questioned in terms of the reasonableness of the calculations of the projected net free cash flows, the choice of an appropriate discount rate, and the "terminal" or "residual" value multiple.

Solvency opinions are usually subject to a series of assumptions and limitations that may include the following:

- The projections were prepared on a reasonable basis and reflected the best currently available estimates of future operations and results for the business.
- The opinion giver had been furnished with a statement of financial changes in the company since the date of the most recent financials with an update to a current date.
- The opinion giver's reliance on the company data supplied to it and on publicly available data (in each case without independent verification).
- A representation that the opinion was based on then existing economic, market, and other conditions evaluated at the date of the opinion.
- A disclaimer that the sales price in any actual future transaction would equal the fair market value or present fair salable value estimate resulting from the analysis.
- A limitation on the use of the opinion.

A banker's right to rely on a solvency opinion will be determined by a number of factors, including the reputation and experience of the opinion giver, the extent and quality of its due diligence, the rigor of its analytical effort and the application of these elements to the laws of fraudulent conveyance. □

PrimeBank Purchased By First of America

KALAMAZOO, Mich. — First of America Bank Corp. said it has completed the acquisition of PrimeBank, a $427 million-asset thrift based in Grand Rapids, Mich.

The transaction was announced in November 1989. The $13 billion-asset First of America, the second-largest banking company in Michigan, paid $30 for each of PrimeBank's 1.08 million outstanding shares, or about $32.3 million.

PrimeBank operates 13 branches in Grand Rapids and six other Michigan cities. First of America has 37 banking subsidiaries with 400 offices in Michigan, Illinois, and Indiana. □

Koppel Apologizes To Bank for Promo

ABC "Nightline" host Ted Koppel apologized on the air Tuesday night for "scaring the pants out of depositors" at Key Bank of Western New York.

Earlier in the evening, during a commercial alerting viewers to a "Nightline" program about bank failures, ABC displayed footage of a Key Bank of Western New York sign.

Referring to the commercial, Mr. Koppel told his viewers: "I was talking about failing banks, while the picture you showed you was of a perfectly healthy institution."

The show featured FDIC chairman L. William Seidman and Stanford University economist R. Dan Brumbaugh squaring off about the health of the deposit insurance system and the nation's largest banks.



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RTC's Mahaney Picking Up the Pace of Liquidation

By PHIL ROOSEVELT

NEW YORK — Call him the government's secret servicing agent.

In the year since the Resolution Trust Corp. began cleaning up the nation's failed thrifts, Edward Mahaney, a soft-spoken career civil servant, has emerged as the agency's point man on disposing of huge amounts of mortgage servicing rights.

"He's been calling the shots on what gets sold and when," says one servicing expert who has dealt extensively with the RTC. "He's Mr. Go or No-Go."

Yet, many bidders never meet Mr. Mahaney and some never hear of him. He keeps a low profile.

"I'm well behind the scenes," Mr. Mahaney acknowledged in an early morning phone interview.

A Bulging Portfolio

So far, the RTC has sold the rights to service about $20 billion of mortgages, leaving it with a staggering portfolio of $135 billion. The rights — entitling holders to earn fees by funneling monthly payments from borrowers to investors — are held by both seized thrifts and their mortgage units.

Now, armed with a year's experience and some new protections for investors, the RTC is planning to pick up the pace markedly.

"I think we will have all of what we now hold sold and transferred by the end of next June," Mr. Mahaney said. Already, he added, investors have signed letters of intent to purchase $24 billion of the portfolio and another $30 billion is being marketed.

The selling, sure to have ripple effects throughout the market for servicing rights, will put pressure on prices. After all, the $135 billion of servicing to be sold is more than double the size of Citicorp's industry-leading portfolio.

Industry Will Change

Ultimately, the sale of the rights will change the face of the mortgage banking industry, drawing new companies to the field and eliminating a number of inveterate contenders. Servicing units of Continental Bank, Miami, and Empire of America Federal Savings Bank, Buffalo, are among the latest to be put on the auction block.

Mr. Mahaney, 40, may seem an unlikely candidate to carry out this ambitious project. Described by one mortgage professional as "a rotund little Irishman who's just nice as heck," he bears the unassuming title of assistant director of conservatorship operations.

Before joining the RTC, he spent a steady 18 years at the Federal Deposit Insurance Corp., the last four in the agency's management information systems group. When not working, he says, he is usually tooling around suburban Washington with his wife, Jean, their 11-year-old son, Joe, and 9-year-old daughter, Karen.

Behind this gentle facade, however, resides a seasoned liquidator. From 1974 through 1980, Mr. Mahaney was was an FDIC liquidator assigned to the New York area's Franklin National Bank, whose failure was then the largest bank failure in American history. In 1982, he put in a tour a duty at Penn Square Bank, Oklahoma City, shortly after its spectacular collapse.

Eager to Sign Up

When the RTC was formed last year, Mr. Mahaney could hardly resist the temptation to sign up.

"I noticed the type of people who were joining," he recalls. "They were people I respected a lot, and it sounded exciting."

Though new to the arcane business of servicing, Mr. Mahaney has proved to be a quick study and an effective manager, according to people who have worked with him.

"He's a person who gets things done," said Ralph Yearwood, a vice president at Smith Barney, Harris Upham & Co. "He's able to cut through the bureaucracy and facilitate good transactions."


Louise Kraft

"I think we will have all of what we now hold sold . . . by the end of next June."
Edward Mahaney

Mortgage Banker Approves

Warren Lasko, executive vice president of the Mortgage Bankers Association of America, said, "I've heard very good things about him; he's been very responsive to us."

Smith Barney and the servicing brokerage of Hamilton Carter & Smith Associates have been advising the RTC on the servicing project. An elaborate network of more than dozen brokerage companies have been helping to stage the actual auctions.

Mr. Mahaney generally takes a hands-off approach to the auctioning. "I usually get involved only when there's a major issue to be addressed in the negotiations," he said.

Eye on the Big Picture

He also works on long-term, big-picture matters — and his ideas are indeed big.

For example, he recently disclosed that he was considering offering the servicing portfolios of several thrifts as single packages as large as $25 billion. A buyer, if one emerged, would instantly become one of the nation's top five servicers.

Mr. Mahaney now gives that project only a fifty-fifty chance of getting off the ground, saying he has become more cautious as he feels out potential buyers. He says that some investors, in fact, interested in buying such a package. But he has yet to see if they will pay enough to make the effort worthwhile.

Protections Expanded

Overall, the selling effort got a big boost about a month ago, when the RTC agreed to expand the protections it offers to buyers of servicing. The agency is now prepared to offer what amounts to the industry norm for such representations and warranties, Mr. Mahaney said.

Within 60 days, he added, he RTC plans to hire an outside concern, probably a mortgage insurance company, to administer claims under the protection program.

As a result of the expanded reps and warranties, the RTC is attracting more bidders and higher prices, Mr. Mahaney said. He expects prices to average about 1.5% of the related loan amount in the coming months, up from 1.2% before the change.

Banks, Thrifts Shy Away

But many of the bidders are companies other than banks and thrifts. Those institutions institutions have long dominated the servicing business, they have been discouraged from buying this year by a pending regulation that would limit the amount of servicing rights that can be counted toward capital.

"Until that's resolved, thrifts and banks aren't going to be active participants," Mr. Mahaney said.

Part of the RTC's motivation for hastening the selling is pressure from the secondary-market agencies. Understandably, they are eager to see transferred to the private sector the servicing rights related to loans they have purchased or securitized.

However, Mr. Mahaney says that he is taking care not to sell rights so quickly as to seriously hurt market prices.

"We don't want to depress prices," he said. "If depressing prices wasn't a problem, we'd put it all on the market today." □

Key Interest Rates

	Week's average 7/27/90	Week's change from 7/20/90	Year ago 7/28/89
30-year fixed-rate mortgage	10.08	10.06	9.95
1-year adjustable-rate mortgage	8.31	8.32	8.67

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loans.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price $bill	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9%	98-14	-1-09	9.38	-0.29	+109	-10
Fannie Mae 9%	98-12	-1-05	9.37	-0.29	+108	-9
Freddie Mac 9%	97-28	-1-05	9.37	-0.28	+109	-8

Yields bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. Price: Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

TALKING *markets*

College Towns, State Capitals Resist Slump

Everyone's heard of the housing booms in Seattle and Las Vegas – but York, Pa.?

"York, Pa., exemplifies a smaller market that has increased home building volume while its regional neighbors were suffering," says a special report by *U.S. Housing Markets*, a publication of Lomas Mortgage USA. "Charlotte, Va., is another small gem in the East."

College Towns and Capitals

In all, the newly released report singles out 33 markets – mainly small and midsized – that are resisting the housing slump. Many turn out to be college towns or state capitals.

Nationwide, residential construction has declined steadily since the third quarter of 1986 – matching the length of slumps that occurred from 1973 to 1975 and from 1979 to 1982.

Midwest Success Stories

"And yet," says the report, "there are those who could legitimately ask, 'What housing recession?' "

Examples of this abound in the Midwest, partly reflecting the resurgence of the Rust Belt in the late 1980s.

In Indiana, the Gary-Hammond area saw its residential activity nearly triple from 1985 through 1989. In the first five months of this year, the market's issuance of single-family building permits was up 25%.

"This northwest corner of Indiana has its own industrial and commercial base and is also gaining importance as an affordable commuter market," the report said. Similar growth in permit increase was posted in Des Moines, Iowa.

"Slump Resistant" Markets

While some major parts of the California market are cooling, the report cited solid residential construction growth in Bakersfield, Stockton, and Modesto.

In the East, Charlottesville, Va., has posted a regional decline that began in 1986. Last year, the market added more than 1,100 units, up from less than 1,100 a year in 1985 and 1986.

Sharp Jump in Construction

In York, Pa., home builders turned out 235 new units a month during the past two years, up from 175 in the mid-1980s.

Among other "slump-resistant markets" cited by *U.S. Housing Markets*: Joliet and Aurora-Elgin, Ill.; Olympia and Bellingham, Wash.; Boise, Idaho; Buffalo-Niagara Falls, N.Y.; Medford, Salem, and Eugene-Springfield, Ore.; Grand Rapids, Mich.; Iowa City-Cedar Rapids, Iowa; Knoxville, Tenn.; Lincoln, Neb.; Louisville, Ken.; Madison, Wis.; Naples and Tallahassee, Fla.; and Youngstown-Warren, Ohio.

Wide Range, Diverse Causes

"Although we see the U.S. housing statistics sliding from quarter to quarter and year to year, a more penetrating look at the numbers exposes a remarkably wide range of regional and local housing industry conditions," the report says.

The range, in turn, reflects differences between the current national housing downturn and past ones, the report said.

While the housing recession of the early 1980s was caused by high interest rates, "the causes of the current slump are diverse," the report said. "Among them are demographics, taxation, regulation, financing difficulties, single-industry and single-region recessions – and even some consumer psychology."

— Phil Roosevelt

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INTERNATIONAL NEWS

GLOBAL *dispatches...*

London Currency Traders Seeking Corporate Clients

By KEN FERRIS
Reuters

LONDON — A slowdown of turnover on the London foreign exchange market has prompted banks to look for a niche in their efforts to maintain profits, dealers said.

"Niche players are picking their market. For some it means being strong on forex and developing derivatives. Others who haven't got the resources are pulling back," said Roger Steare, a director with Jonathan Wren, a recruitment specialist.

Banks are also focusing on corporate business rather than trading for their own accounts. The latter has been the main casualty of the lack of volatility, because trendless markets provide few trading opportunities.

Solid Base Sought

"There's a much greater perception that you need a solid corporate base for your operation and not just punting here and there," said David Clark, head of treasury at Midland Bank PLC.

The pressures to pick up corporate business have always existed, but they have grown with the slowdown in average daily turnover.

"There has been this idea that the [bank's] treasury department is a mainstream earner. The pressure to earn money from forex has increased because profits from corporate finance and equities aren't there any more," said David Deakin at Nikko Bank.

However, traders cannot always meet the expectations of senior management, some of whose members are looking for income of up to 10 times expenditure from each currency dealer.

A More Patient Strategy

Sluggishness in the interbank market has added to the attractions of strategic trading, which involves taking positions for longer periods to squeeze profits out of a currency even if it is moving only very slowly in one direction.

"More and more banks are looking at strategic trading, which basically means taking a position you want rather than on the back of a customer order," said Allan Chase, head of strategic trading at National Westminster Bank in London.

Dealers said strategic trading reduces brokerage costs – positions are held for longer, so there is less in-and-out trading.

The change in trading emphasis is reflected in the rising volume of trading on cross rates such as sterling/mark and yen/mark, which have provided trading opportunities.

Business More Balanced

"There's a more even spread of business between currencies now," said Midland Bank's Mr. Clark.

The need to carve out a profitable niche has also led to a surge in trading of futures, options, forward rate agreements, and other derivatives which are off-balance-sheet.

"Banks are trying to create their own niche maybe on the back of their domestic currency. Strategic trading is also on the rise along with dealing in off-balance-sheet instruments," said one executive recruitment consultant in London.

Mr. Steare of Jonathan Wren says a growing emphasis on the derivatives market will continue. "People are finding the markets where they are most likely to make money and concentrating resources there."

The focus on strategic trading and derivatives has led to an increase in demand for well-educated traders who are able to switch between markets and instruments.

Nevertheless, traders believe jobbing will remain the bread and butter activity in the foreign exchange markets and should reestablish itself when increased volatility returns to enliven currency trading in the major exchange rates, traders say.

... by country

AUSTRALIA

Bank of New Zealand Ltd. will cut its Australian prime rate to 17.75%, from 18.75%, effective Aug. 7, a spokesman said Wednesday in Sydney.

The bank is the first to cut its prime following the central bank's announcement that it would seek a one-point cut.

Treasurer Paul Keating said earlier that he expected commercial banks to follow the Reserve Bank's lead very quickly.

HUNGARY

The World Bank said Wednesday that it had approved its first Eurodollar bond issue under its expanded cofinancing operations program – a partially guaranteed, fixed-rate Eurobond for Hungary's State Development Institute.

But bank sources said that the United States abstained from the vote approving the transaction, apparently out of concern that such operations could have a negative effect on the bank's credit rating.

The $200 million 10-year bond issue will be used to support three World Bank-supported projects in Hungary that will cost a total of $1.3 billion, the bank said.

The by country **briefs were supplied by Reuters.**

Banks Scramble to Seize Assets

Continued from *page 1*

freezing Kuwaiti and Iraqi assets were also issued, while the Japanese and West German governments indicated they were planning similar moves.

The freeze on Kuwaiti assets was said to be at the request of the Kuwait government.

Bankers in New York said banks had sharply reduced transactions with Iraq over the past few years because of that country's deteriorating economic situation.

U.S. banks have virtually no loans outstanding to either Iraq or Kuwait. As of March 1990, Iraqi borrowers owed U.S. banks $112 million and Kuwaiti borrowers owed $834 million.

Enforcement Complex

Problems could arise in enforcing the freeze. John F. Lee, president of the New York Clearing House said, "The order was drafted hurriedly, and it's not as precise as we'd like it to be. We're asking for clarification through the Federal Reserve Bank of New York."

Mr. Lee said the order left a "gray area that makes us act at our peril." The order says the banks should freeze government assets, but there are many large businesses in Iraq and Kuwait run by the same people who run the government.

"It's difficult to tell what hat the emir is wearing" – whether a business is actually government-owned, he added.

Over the last decade, the U.S. government has frozen Iranian, Libyan, and Panamanian government assets held by banks, prompting banks to complain that they were being put at competitive disadvantage because foreign governments did not adopt similar sanctions.

"The unhappiness that was felt by banks about being used as an arm of U.S. foreign policy when a freeze was imposed on Iran does not apply here," said one banker.

One source at a large New York bank, citing economic analysts, said Kuwait had between $30 billion and $35 billion in the United States in real estate and business investments, securities holdings, and deposits. The source was unable to provide a breakdown of the assets.

$800 Million on Deposit

Informed sources also estimated that Iraq's central bank has about $800 million on deposit with the Federal Reserve Bank of New York.

The U.S. presidential order froze all trade, transport, and financial transactions with Iraq but allowed them to continue with Kuwait.

Bankers and lawyers said the main impact of the freeze would be felt in trade-related and financial trasactions with Iraq such as foreign exchange, funds transfers, and letters of credit.

Legal experts said that the freeze order would not prevent banks from confirming letters of credit for exports or imports already under way with Iraq but would halt all new transactions.

The order could also affect some $1 billion in export guarantees issued by the Commodities Credit Corp., a U.S. government insurance agency, for export credits issued by the Atlanta branch of Italy's Banco Nazionale del Lavoro. It could also block some $2.1 billion in credit facilities the same branch issued to Iraq's central bank.

The Italian bank has been the subject of federal and state regulators for nearly a year for irregularities in the way the credits were issued.

Correspondent Affected

The freeze also affects correspondent banking accounts. Bank of New York, Chase Manhattan Corp., and the Federal Reserve Bank of New York are the three U.S. correspondent banks for the central bank of Iraq here.

Bank of New York, Chase and BankAmerican Corp are also U.S. correspondent banks for Rafidain Bank, a state-owned Iraqi bank.

A Chase spokesman was unable to provide any information on Iraqi funds deposited here and spokesmen at other banks could not be reached. □

American Express Wins Branch in Poland

By JAMES R. KRAUS

NEW YORK — The Polish Ministry of Finance has granted American Express Bank Ltd., the international private banking arm of American Express, a limited branch license in Poland to provide travel-related services.

The branch is expected to open in Warsaw before the end of the year and will issue credit cards and travelers checks and provide foreign exchange and money transfers.

American Express is now putting together a management team for the Warsaw branch but has not yet named anyone to head the operation.

Service to Tourists

Lamont Godwin, first vice president at American Express Bank, said the Warsaw branch would mainly serve incoming tourists. He added that the Ministry of Finance's authorization gives American Express the option of expanding its services in Poland in the future.

American Express already has travel-related offices in Moscow and Budapest and recently obtained authorization to issue cards in Czechoslovakia.

The bank has also applied to the East German Ministry of Finance for authorization to reopen an office in East Berlin which was closed during World War II.

No Deposits or Loans

Mr. Godwin said that the Polish and other Eastern European offices would not take deposits or provide commercial loans.

"It's not the most attractive market for commercial lending," Mr. Godwin.

"Most [foreign] banks are attracted to it by investment banking possibilities or mattress-money deposits," he added.

Bankers and analysts believe that as much as $12 billion in hard-currency hoardings is held by private individuals in Poland.

Four major Western banks, including Citicorp, have reportedly applied to the Polish Ministry of Finance for a banking license.

Representatives of BankAmerica Corp. and Bankers Trust Corp. were also said to be in Warsaw.

A spokesman for Bankers Trust was unable to comment on the report. A BankAmerica spokesman could not be reached. □

Key International Rates*

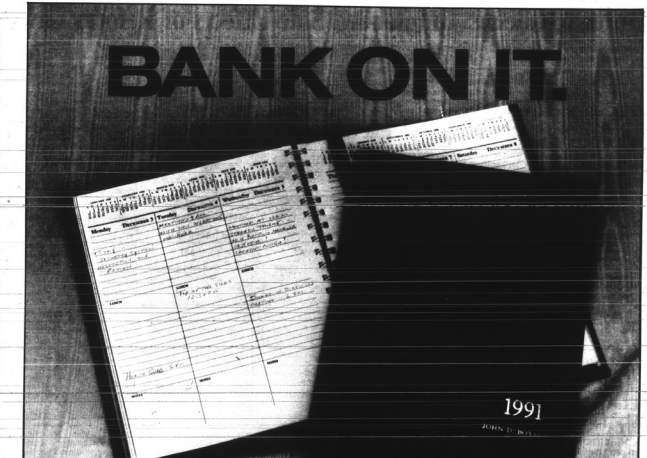
	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime-equivalent		
	8/02	8/01	7/26	8/02	8/01	7/26	8/02	8/01	7/26	8/02	8/01	7/26	8/02	8/01	7/26
United States	8.00	8.00	8.00	8.00	7.94	8.12	8.00	7.94	8.12	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.38	7.38	7.56	7.88	7.75	7.75	7.94	7.88	7.87	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.25	13.25	13.50	13.30	13.13	13.25	12.88	12.75	13.12	13.48	13.48	13.59	14.75	14.75	14.75
U.K.	15.00	15.00	14.93	15.06	15.00	15.06	15.00	14.88	15.00	14.33	14.33	14.31	15.00	15.00	15.00
West Germany	8.25	8.25	8.00	8.50	8.38	8.50	8.50	8.44	8.63	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.00**	9.25	9.00	9.07	9.00	9.06	9.06	8.94	9.00	6.00	6.00	6.00	10.88	10.88	11.25
France	9.75	9.75	10.12	9.93	9.94	9.93	9.93	9.88	10.00	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.25	11.50	11.75	11.50	11.50	11.37	11.56	11.57	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.83	14.30	8.53	6.78	7.90
6 to 12 months	7.88	13.20	8.75	6.89	7.92
12 to 24 months	8.48	12.60	9.03	7.70	7.85

* Midday quotes in the New York market

Source: Reuters, Astley & Pearce Inc., New York.



THE THRIFT BAILOUT LAW: *1 Year Later*

Bitter Medicine: Unintended Side Effects of Reform Law

Continued from *page 1*

ting higher thrift accounting, capital, and regulatory standards and cutting S&Ls off from high-risk businesses. But for every short-term problem the law was intended to resolve, analysts and consultants believe it may be creating many more unintended obstacles for both thrifts and banks in the years ahead.

Among the problems most often cited are aggravation of weaknesses in the commercial banking industry, worsening of the severe plunge in U.S. commercial real estate through the creation of the Resolution Trust Corp., and depression of the already sluggish economy by forc-

"FIRREA will be viewed as a stopgap, marking an end of an era of neglect."

Lowell Bryan *McKinsey & Co.*

ing a cutback in the availability of credit from banks and thrifts alike. In addition, observers note, the rapid takeover of thrifts by the government and the heavy publicity about fraud in the S&L industry is undermining public confidence in both thrifts and banks.

"Overall, FIRREA will reduce consumer confidence in the banking system and deposit insurance reform will not help, particularly if it reduces coverage," said banking consultant Edward E. Furash, president of Furash & Co. One effect will be that competition for deposits by banks and money-market funds will intensify, he said.

Sidestepping the Blame

Politically, the staggering costs of the S&L cleanup have helped polarize Democrats and Republicans anxious to avoid the public's blame for the nation's biggest financial disaster. That divisiveness will hurt the chances of timely passage of major legislation to reform deposit insurance and the basic structure of banking. Many observers say these reforms are critical for U.S. depository institutions in the years ahead.

"If we are financial historians looking back at FIRREA, it will be viewed as a stopgap, marking an end of an era of neglect," said Lowell Bryan, head of bank consulting for McKinsey & Co. in New York. "It was clearly an inadequate solution to the broader problems to deposit insurance reform."

Industry Contraction Forced

Rather than preserve a smaller, healthy thrift industry, the law appears likely to force surviving S&Ls facing new limits on their activities to consolidate with commercial banks, analysts said. "The law has caused a faster than anticipated contraction of the thrift industry," said one observer. "It is not a framework for how to help the living, surviving thrifts."

"The momentum from FIRREA is heading toward a merger of the thrift and banking industries," Mr. Bryan predicted. "Thrifts don't want the charter anymore."

The law's higher capital requirements for thrifts has spurred regulators to consider



"FIRREA will reduce consumer confidence in the banking system."

Edward E. Furash *Furash & Co.*



"Some . . . real estate problems can be traced to the law's impact."

Robert H. Dugger *American Bankers Association*

requiring both banks and thrifts to ante up more and more capital to protect the federal insurance funds. One result is that capital-rich institutions, such as Banc One Corp. of Ohio or NCNB Corp. of North Carolina, will get stronger while capital-deficient institutions grow weaker, analysts suggested.

Hostile Capital Markets

"More capital is wonderful unless you are a banker who has to raise it," said McKinsey's Mr. Bryan. Most banks will face hostile capital markets until legislation addresses new limits on deposit insurance and the activities of banks, he said.

"Unfettered demand for capital will cause the banking industry to become uncompetitive with foreign banks and nonbank financial companies," Mr. Furash said.

The law is also widely viewed as a major contributor to the sharp credit contraction by banks and thrifts in the past year, particularly through limits imposed on loans to one borrower.

Real Estate Repercussions

"Some significant part of the banking industry's real estate problems can be traced to the law's impact on thrift-industry lending in the real estate area," said Robert H. Dugger, chief economist of the American Bankers Association.

The credit squeeze has served to aggravate the slowdown in economic growth in regions such as the Northeast, that are dependent on high real estate development activity.

The thrift bailout also will prove the driving force behind federal tax policy for years, observers said. Higher taxes will be required, they said, well beyond those anticipated to cover the reform act's $50 billion expense. Indeed, in only a year's time, the estimated cost of the bailout has nearly tripled to about $130 billion, excluding interest.

Footing the Bill

That means substantial tax increases – increases Mr. Furash thinks could fall heavily on banks. "The public will fail to distinguish between banks and thrifts in deciding who will pay for this debacle," he said.

Finally, the tough enforcement penalties in the thrift-bailout law will discourage top talent from joining banks and thrifts as managers or directors, analysts say.

"Firms established a witch-hunt atmosphere, so it will be hard to attract top talent," said Warren Heller, director of research for Veribanc.

Mr. Furash added that the costs of having directors, consultants and accountants will keep rising. The law's increased threat of regulatory enforcement actions, he explained, will cause directors and officers liability insurance costs to rise.

Avoid all these negative effects, there is one positive for commercial banks: The reform act enabled banks to acquire thrifts and, in the process, pick up market share. The problem, one analyst noted, is that so many banks are struggling with their own difficulties that they can't take advantage of the opportunity. □

Market Demand Seen as Strong For Mortgage Paper Held by U.S.

Reuters

NEW YORK — Large U.S. government sales of mortgage-backed securities, seen last year as a market threat, are gradually being welcomed as demand for these safe investments outgrows supply, Wall Street sources said.

Mortgage debt prices slumped last year as the Resolution Trust Corp., which is disposing of the assets of failed thrifts, sold an estimated $45 billion of mortgage issues. But sales have been scattered in 1990, and traders eagerly await bigger lots.

"People are looking forward to more RTC sales," one trader said. "There's a dearth of product."

Mortgages Look Safe

Amid a wave of corporate bond downgrades, "people look at mortgages as a good credit bet," one analyst said.

Mortgage pass-through securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. are seen as carrying an implicit government guarantee. Government National Mortgage Association pass-throughs carry explicit government backing.

By July 1989, the prospect of big RTC sales depressed mortgage debt prices. Yields on current coupon pass-throughs surged to 160 basis points over 10-year U.S. Treasuries from 120 basis points in March 1989.

Sluggish home sales this year have resulted in a lack of mortgages used to create pass-through securities.

Pass-throughs are the raw material for multiclass real estate mortgage investment conduit (Remic) securities tailored to specific investors.

Yield spreads on current coupon pass-throughs have dropped to about 120 basis points as dealers have scrambled for Remic collateral. "RTC sales give dealers some product to structure Remics with," one dealer noted.

A $973 million whole-loan RTC sale this month and a bulk sale two weeks later are not expected to affect market sentiment.

The RTC sale won't have much of an impact, even though most of the loans are expected to be securitized, a trader said.

Gloomy forecasts remain, but many more analysts now believe yield spreads will be steady or shrink even further.

"RTC liquidations aren't going to come anywhere near" the $45 billion sold last year, said Joseph Hu, senior vice president of Nomura Securities International. Mr. Hu expects spreads to tighten to 100 basis points by yearend as RTC's mortgage issue holdings fell to $22 billion on May 31.

First Boston Corp. estimates that troubled thrifts and the RTC held $237 billion in residential mortgage assets at yearend 1989. Of these, $85 billion were mortgage issues.

Mostly some of these assets will be sold into the secondary market," First Boston said in a report. "In many cases, the most generic assets will not reach the secondary market as the RTC transfers them directly to acquirers in the sale of failed institutions."

"Mortgage securities are easiest to value, so they tend to be sold with as S&L's liability base," said Alden Toevs, managing vice president of First Manhattan Consulting Group.

This contrasts with the RTC's policy last year of rapidly reducing a thrift's assets by selling mortgage issues in the secondary market before finding a buyer for the thrift. Mr. Toevs noted the sales were orderly and not as disruptive as feared. "Yield spreads can't narrow dramatically. Maybe they can [tighten] 10 basis points and then stabilize," he said. □

Ryan Defends Bailout Figures

WASHINGTON — T. Timothy Ryan, director of the Office of Thrift Supervision, in a television interview this week stood by the government's estimate that taxpayers would pay $90 billion to $130 billion to bail out collapsed thrifts.

Speaking on a CBS News program, Mr. Ryan held to that range rather than the $175 billion to $200 billion cited Monday by L. William Seidman, chairman of the Federal Deposit Insurance Corp. With interest, the final bill would top $500 billion, Mr. Seidman added.

Mr. Ryan conceded that the cost of the cleanup was "a moving target" and could change as a result of "macroeconomic factors and real estate values." If those values stabilize, the tally would be at the $90 billion end of the estimate, he said; if not, the price tag would approach $130 billion.

Government officials are "aggressively trying to do the best job we can," said Mr. Ryan, whose agency regulates federally chartered savings institutions.

He said he expects criticism as the savings and loan crisis becomes a hotter political issue. "It's not the easiest job," he said.

Banc One Texas Sues Developer

HOUSTON — Banc One Texas, seeking repayment of a $12.4 million loan, has filed a $32 million lawsuit against a real estate developer.

In papers filed in federal court here, the Banc One Corp. subsidiary alleged that the developer, John Rogers, failed to repay a loan while leading a "jet-set lifestyle" and put his assets in a trust to avoid his bank obligation.

Mr. Rogers is said to be personally liable for $4 million of the loan, which is also secured by stock in two corporations.

The bank asserted that Mr. Rogers has said he cannot repay the loan – even though he supports a "lavish lifestyle" with the proceeds of a trust, controlled by his wife, that has more than $22 million of his assets.

The developer's yearend 1989 financial statement showed a negative net worth of $711,109, but he still has use of a 140-foot yacht and resort residences in Maine and Florida, Bank One said. — Reuters

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2% Rise in Bank-Qualified Bond Issues; Transport Leads Way

By KENNETH J. HICKS
The Bond Buyer

Issuance of new bank-qualified bonds inched up 2% in the first half of 1990, to $4.71 billion from $4.62 billion a year ago, as higher bond sales for transportation and miscellaneous projects offset broad declines, according to figures compiled by IDD Information Services/PSA Municipal Database.

Bank-qualified bonds, created by the Tax Reform Act of 1986, are the only municipal bonds that commercial banks can buy and deduct 80% of the carrying cost. The bonds can be sold only by municipalities that reasonably expect to issue less than $10 million of the bonds each year.

Transportation Bonds Up 70%

Bank-qualified bonds for transportation projects jumped 70%, to $196 million from $115 million in the first six months of 1989. Airport issues accounted for all of the gain, soaring to $91 million from $1 million.

The catchall "other" heading for miscellaneous projects was the only other category with a significant increase. Its bank-qualified volume rose 16%, to $1.09 billion from $946 million.

Utilities Off 20%

Bank-qualified issuance declined for all other purposes. Education, accounting for nearly half of the first-half volume, slipped 3%, from $2.32 billion to $2.26 billion. Issuance for utilities, the second-largest category, fell more than 20%, from $823 million to $656 million.

Health care dropped 21%, from $86 million to $68 million; housing declined 91%, from $10 million to $900,000; and solid waste and pollution control fell 58%, from $2 million to $840,000.

Education, accounting for nearly half of the first-half volume, slipped 3%, from $2.32 billion to $2.26 billion.

Harris Trust on Top

Harris Trust & Savings Bank in Chicago was the top senior manager for bank-qualified debt in the first half, underwriting 48 issues valued at $165 million. Fleet/Norstar Securities Inc. was second, underwriting 43 sales for $153 million. Next was Lehman Brothers with $148 million, and Prudential-Bache Securities Inc. with $143 million.

New-money issues rose 10%, to $3.97 billion from $3.6 billion last year. That made up for a 27% drop in advanced refundings, from $1.02 billion to $745 million.

State Sales Nearly Triple

Municipal governments such as cities, counties, and school districts continued to account for more than 90% of the bank-qualified volume. They issued $4.31 billion in the first half, up 2% from $4.25 billion the year before. Local authorities sold $245 million, up 9% from $225 million the previous year.

State authorities sold $48 million, nearly triple their $17 million volume the previous year. But state government sales declined 42%, from $12 million to $7 million, and public colleges and universities reduced their sales 19%, from $116 million to $94 million.

Bank-qualified debt sold through competitive bidding rose 6%, to $3.08 billion, or 65% of the volume. That offset a 3% decrease in negotiated issues, to $1.62 billion, and a 66% drop in private placements, to $15 million. □

Norwest Profit Is On Target, Chairman Says

Continued from *page 2*

chargeoffs, to strengthen earnings by at least $40 million in 1991 and $20 million in 1992. Tax benefits both years could go as high as $85 million, he added.

Declining Provisions Seen

Mr. Johnson said he expected United Bank's loan loss provision as a percentage of total loans to be 1.50% in 1991, 1.25% in 1992, and 0.75% in 1993. He also projected cost savings of $31.6 million in 1991, $43 million in 1992, and $53 million in 1993 attributable to the merger, as well as revenue gains from selling Norwest's products through United branches.

Rising loan-loss provisions at Norwest this year have been motivated by real estate-related problems. But real estate markets in Norwest's upper Midwest territory have not deteriorated to the extent that they have in Texas, Colorado or the Northeast, Mr. Johnson said.

"There is no area that is immune to real estate problems, but they are not that bad here," he said. "We do not expect real estate here to worsen."

He also said there was no credit crunch in his region. And he saw Colorado's economy making a slow turnaround from its recession.

Colorado experienced overbuilding in the early 1980s after its oil-based economy was hurt by falling oil prices.

"Every indication we've gotten is that the economy and real estate problems have bottomed out, and we expect a slow, gradual turnaround," Mr. Johnson said. "Our timing is good. Colorado fits beautifully with our strategy for moving west across the top of the U.S."

Minnesota-based Norwest will be the 20th-largest U.S. bank after merging with United. In 1991 it will be in Indiana, Illinois, Wyoming, Arizona, Montana, Nebraska, the Dakotas, Wisconsin, Colorado, Iowa, and Minnesota. □



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• Number of Loans:	568 conv; fixed rate, 1st liens	• Number of Loans:	636 conv; fixed rate, 1st liens
• Principal Balance:	$23,820,060	• Principal Balance:	$18,597,714
• WAC:	10.860%	• WAC:	9.775%
• WAM:	325.820	• WAM:	326.700
• Bid Deadline:	August 28, 1990	• Bid Deadline:	August 28, 1990

Location: Nevada, Minnesota, California, Other eastern states *Location: Arizona, Oklahoma, Other midwest states*

** The above packages are offered together or individually with a combined sale preferred.*

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• Principal Balance:	$2,421,776	• Principal Balance:	$3,415,867
• WAC:	9.794%	• WAC:	11.26%
• WAM:	124.200	• WAM:	298.860
• Bid Deadline:	August 17, 1990	• Bid Deadline:	August 17, 1990

Package 90-018/90-019		*Package 90-021/90-022/90-023*	
• Number of Loans:	102 conv; ARMs, 1st liens	• Number of Loans:	125 conv, ARMs, 1st liens
• Principal Balance:	$6,413,973	• Principal Balance:	$7,180,151
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Citation Notice

File No. 5674 – 1988 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT, TO The heirs at law, next of kin and distributees of IRMA FRANCES HOWE, a/k/a Irma F. Howe, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees, legatees, executors, administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence. Public Administrator of the County of New York Attorney General of the State of New York A petition having been duly filed by Mary Elizabeth Howe, who is domiciled at 1130 N. Jamestown Road, Decatur, Georgia 30033 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 30A, 31 Chambers Street, New York, on August 21, 1990, at 10:00 a.m., why a decree should not be made in the estate of Irma Frances Howe, a/k/a Irma F. Howe, lately domiciled at 262 West 94th Street, in the County of New York, admitting to probate as a will of real and personal property a paper dated August 6, 1986, and ordering that Letters of Testamentary issue to Mary Elizabeth Howe. Dated, Attested and Sealed, July 9th, 1990 (L.S.) HON. RENEE R. ROTH Surrogate, County of New York ROBERT M. REAVES Clerk of the Surrogate's Court. Name of Clerk of the Surrogate's Court. Name and Address of Attorney Vincent E. Cuzzi Telephone Number (212) 686-8170 Address of Attorney: 276 Fifth Avenue, New York, N.Y. 10001.

Auction Notices

PLEDGEE'S LIEN SALE: F.E.S. Auctions, Inc., Frank E. Scipo, Asset Disposition, 1230 Randall Ave., Bronx, N.Y. at 10 AM. at the Office of Ray Marcial 1 Bay Plaza Maniani the lienors AGAINST Nueva Electronics Company Incorporated Leslie George & Pamela George. Covering Stock Certificate #2 for 100 Shares of Common Stock without par value of Nueva Electronics Company Incorporated. The lienors reserve the right to bid and to purchase at this sale. Auctioneer is Agent of the Lienors. D.C.A. # 772234.

Ronald Zaza Auct'r Lic #840731 sells 8/10/90 9 AM at 101 Nepperhan Ave, Yonkers. Dutton #IN1HU01SBC7051629 Re: N. Carridore; 10 AM at 352 9th Ave, NYC '82 Olds #1G3AG91YEBCD378406 Re: C Martinez; 11 AM at 3503 31st St, Astoria '83 Olds #1G3AM19E4DG303115 Re: M. Gonzalez; 12 PM at 169-05 Liberty Ave, Jamaica, '83 #3HMAB7229VDC10843, '85 VW #WVWGA0262FW067917 Re: EDS. Published 7/27 & 8/3/90.

R. A. Feiler Lic Auct'r #793917 sells on 8/20/90 12 PM at 79 Central Ave, Scarsdale, '85 Porsche #WP0JB0922FS060451 Re: Fleet Lang. Corp., 11:30 AM at 1 Van Heuter St, Upper Nyack, '86 Porsche Carrera #614554 Re: J. McDonald; 1 PM at 171 Fairfax Ave, Hawthorne, '84 Mitsubishi #JA3BF36DXEZ351165 Re: M. Nooor, '90 Yamaha, #JYA1RM02XLA000107 Re: R. Eisner, 1:30 PM at 3100 Midland Ave, Syr, '81 Cadi #1G6AS6990BB692150 Re: L. Phillips. Published 8/3 & 8/10/90.

DEFAULT In Security Agreement Made By Candido Rodriguez & assumed by Andres Perez to Bank of the Corporation I Will Sell On 8/6/90 At 11:30 AM at 1830st St., Bx, N.Y. At Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r #733244 of F.E.S. AUCTIONS INC. As Agents.

ADJOURNED SALE: DEFAULT In Security Agreement Made By 43 School St. Grocery Corp. to Marsha Cabrera & Redames Cedeno I Will Sell On 8/6/90 At 10 AM At 43 School St., Yonkers, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r #733244 of F.E.S. AUCTIONS INC. As Agents.

Auction Notices

NOTICE OF SALE: By Virtue Of Several Continuing Defaults In A Certain Promissory Note Between Yvonne Nicks (Assignor) And HAF Funding (Assignee) , I Edward M. Cantor Auct'r Lic #760732 Will Sell At Public Auction On August 15, 1990 At 11:15 AM In The Offices Of Garrell, Siegal & Katz Attorneys 10 East 40th Street Attorneys NYC All Right Title And Interest To Apartment 6G At 3310 Ave H Bklyn NY. The Proprietary Lease And 13 Shares of Stock In Mansfield Owners Inc. Assignee Reserves The Right To Bid And Reject Any And All Bids Under The Amount Of $16,477.44. Payment In Cash Or Certified Funds Only. Telephone #718-256-4446.

NOTICE OF SALE: By Virtue Of Several Continuing Defaults In A Certain Promissory Note Between Cecil Hilaire (Assignor) And HAF Funding (Assignee) , I Edward M. Cantor Auct'r.DCA #760732 Will Sell At Public Auction On August 15, 1990 At 11 AM In The Offices Of Garrell, Siegal & Katz Attorneys 10 East 40th Street NYC All Right Title And Interest To Apartment 6F, At 3510 Ave H Bklyn NY. The Proprietary Lease And 13 Shares of Stock In Mansfield Owners Inc. Assignee Reserves The Right To Bid And Reject Any And All Bids Under The Amount Of $16,477.44. Payment In Cash Or Certified Funds Only. Telephone #718-256-4446.

NOTICE OF SALE: By Virtue Of Several Continuing Defaults In A Certain Promissory Note Between Bernice A. Hibbert (Assignor) And HAF Funding (Assignee) , I Edward M. Cantor Auct'r DCA #760732 Will Sell At Public Auction On August 15, 1990 At 11 AM In The Offices Of Garrell, Siegal & Katz Attorneys 10 East 40th Street NYC All Right Title And Interest To Apartment 6L At 3510 Ave H Bklyn NY. The Proprietary Lease And 245 Shares of Stock In Mansfield Owners Inc. Assignee Reserves The Right To Bid And Reject Any And All Bids Under The Amount Of $27,083.97. Payment In Cash Or Certified Funds Only. Telephone #718-256-4446.

J. Rodriguez Will sell at Public Sale On 8/13/90 9 AM at 7 Montgomery St, Brentwood Mazda #3M1BD2210DO703487 Re: C. Pinero, '77 Auto Trk, #3461597 Re: J. Santos, '78 Cadi #6F2358Q102133 Re: V. Ballacharo. Published 7/27 & 8/3/90.

Ronald Zaza Auct'r Lic #840731 sells 8/9/90 9 AM at 101 Nepperhan Ave, Elmsford '84 Honda #JHMAK5435FS006338 Re: S. Islam & Nasseri Nat'l Bk. '83 Audi #WAUGB0431DN002370 Re: M. Begum. Published 8/3 & 8/10/90.

LIEN SALE Aug. 17, 1990 At 413 P.M. 19 Pennyfield Ave., Bx. A 1982 Century #CEBX2O751781 Re: Leo Green & Chem. Bank. A 1989 Skylor #BF1P1S3BA#38 Re: Anthony Pierro & Citibank; B. Zorrow, Asst's.

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Continued from page 1

ital, equal to 1.4% of total assets.

The national bank regulator used its early-intervention power only once before, seizing the Albuquerque-based Southwest National Bank last April.

Conservator in Upbeat Mood

In a press conference Thursday, Mr. Ogden expressed optimism that the banks can be sold quickly.

"I hope my stay is a rather short one – I expect it will be," he said. "It is not a failed bank. I think it is an attractive franchise."

The sale will be conducted by the FDIC's operations and assistance transaction branch, which is part of the division of supervision, said Alan Whitney, an FDIC spokesman.

Mr. Ogden said the FDIC has not hired an outside investment analyst to facilitate the sale. In the past the agency has used Smith Barney, Harris Upham & Co. Inc.

Mixed Reviews from Industry

On Thursday, industry reviews were mixed on whether National Bank of Washington could be sold in a short time, but some contend there are buyers in the market.

Arnold G. Danielson, a Rockville, Md.-based banking consultant, said the bank could be attractive to any of Virginia's three large commercial banking companies – Signet Banking Corp. and Crestar Financial Corp., both of Richmond, or Norfolk-based Sovran Financial Corp.

Any of them may want to expand their metropolitan-area presence and consolidate their power to compete with Washington-based institutions.

"I think it will go fairly fast, Mr. Danielson said. "The people who want it know they want it and they can put the stuff together fast."

> **"I hope my stay is a rather short one – I expect it will be. It is not a failed bank. I think it is an attractive franchise."**
>
> **William S. Ogden**
> *National Bank of Washington*

But over the past two years, a number of potential acquirers have poked around NBW's books without making a deal, including Pittsburgh-based Equimark Corp. Other interested buyers included individual investors and there were reports of foreign interest.

John Bailey, a bank analyst with Ferris, Baker Watts Inc., Washington, contends the real estate problems that surfaced at the end of the second quarter could be the tip-of an iceberg of difficulties.

NBW was hit with an $80 million second-quarter loss stemming mainly from real estate loans, and earlier this spring the holding company had liquidity problems and was unable to pay off its maturing commercial paper.

NBW in recent months has been borrowing heavily – as much as $150 million daily – from its trader-of last resort, the Federal Reserve Bank of Richmond's discount window.

A High-Risk Portfolio

Mr. Bailey said about 82% of the bank's loans are "high-risk," or commercial loans, commercial construction loans, foreign loans, and commercial mortgages. The average bank in the area has 43% high-risk loans.

"Somebody is going to want a lot of guarantees on those assets," Mr. Bailey said.

An acquirer may also face a labor-relations headache. At yearend 1989, the bank had 935 employees, of which 380 were represented by unions.

National Bank of Washington was owned at one time by the United Mine Workers of America.

"Only some kind of bargain price deal is going to have to be sale," said Edward Furash, president of Furash & Co., a Washington-based financial consulting firm. "It is a very, very difficult dilemma that the FDIC faces."

Some Likely Candidates

Anthony Davila, a bank analyst at Richmond-based Wheat, First Butcher & Singer, acknowledged there are likely candidates in CoreStates Financial Corp., PNC Financial Corp., and NCNB Corp., but he added that overall, banks as acquirers are hurting.

"I don't think that degree of offensiveness is being thought about," he said. "People are trying to keep their cars on the road and not take an excursion." □

Bank Call Notice

Consolidated Report of Condition of
SHAWMUT TRUST COMPANY
of
New York, New York 10004
a member of the Federal Reserve System, at the close of business June 30, 1990. Published in accordance with a call made by the Federal Reserve Bank of this district pursuant to the provisions of the Federal Reserve Act.

ASSETS	In Thousands
Cash and balances due from depository institutions	
Noninterest-bearing balances and currency and coin	$ 399
Securities	1,000
Federal funds sold and securities purchased under agreements to resell	
Federal funds sold	2,000
Securities and fixed assets	1,065
Other assets	4,000
TOTAL ASSETS	$ 8,464
LIABILITIES	
Deposits:	
In domestic offices	$ 5,000
(1) Noninterest-bearing	5,000
(2) Interest-bearing	227
TOTAL LIABILITIES	$ 5,227
EQUITY CAPITAL	
Common stock	$ 500
Surplus	100
Undivided profits and capital reserves	1,387
TOTAL EQUITY CAPITAL	$ 1,987
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK AND EQUITY CAPITAL	$ 8,514

I, Paul J. D'Ostilio, Controller, of the above-named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

PAUL J. D'OSTILIO
July 24, 1990

We, the undersigned directors, attest the correctness of this report of condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

T. F. MULLANEY, Jr.
HERMANN BOUCHARD
JAMES A. DALEY
Directors

Fed Issues Final Guidelines For Banks' Capital Ratios

Continued from page 3

the banks, it includes common equity, minority interests in equity accounts of consolidated subsidiaries, and qualifying noncumulative perpetual preferred stock, less goodwill.

Banks that are not top-rated according to regulators' "Camel" ratings must meet leverage ratios of at least 100 basis points above the 3% standard.

The Fed's rules require holding companies and state member banks to meet the current minimum risk-based-to-asset ratios of 5.5% primary capital and 6% total capital through the end of 1990. Alternatively, they may pass muster by meeting the 7.25% risk-based capital standard.

Two Standards to Meet

At the end of 1990, the 5.5% primary capital and 6% total capital ratios will be dropped. Banking organizations will then have to meet both the 7.25% risk based capital standard and the new tier I leverage ratio.

In issuing its final guidelines, the Fed emphasized that they were minimums. Banks that were not top-rated would have to meet tougher standards. In particular, banks not rated 1, the best under the five-point Camel system, would have to meet higher leverage standards.

The Camel rating is based on a bank's capital, assets, management, earnings, and liquidity.

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Ogden Returns to Battle At Bank of Washington

By ROBERT M. GARSON

WASHINGTON — William S. Ogden, who was placed in charge of National Bank of Washington after it was seized by regulators, is no stranger to troubled banks – or to abrupt career turns.

In 1984, the Federal Deposit Insurance Corp. tapped the former Chase Manhattan Bank vice chairman to help resuscitate Continental Illinois National Bank & Trust Co., which had just been the beneficiary of an FDIC-engineered bailout.

But Mr. Ogden quietly lost out in a power struggle with Continental chairman John E. Swearingen, and left after three stormy years.

Since 1987 he has been out of the business world, devoting much of that time tending to the recovery of his son, who suffered a broken neck in a boating accident.

Drawing On Experience

In an interview Thursday, Mr. Ogden, 62, said he would draw on his Continental experience at NBW.

"The issues here aren't any different" Mr. Ogden said, comparing the $1.2 billion NBW to the much larger Continental. "It's just the order of magnitude."

His role will be different as well, since he will be running the show in Washington, at least until a buyer can be found for NBW. "I would hope my stay here would be rather short," Mr. Ogden said Thursday. "I expect it will be.

Reassuring Depositors

Mr. Ogden, who was approached by the Office of the Comptroller of the Currency on Wednesday about managing NBW, said his role as conservator will be "to reassure depositors the bank is still in business, to reassure employees," and to protect the institution's assets.

He is regarded as a smart, tough-minded manager who can be difficult to work with.

"Bill is a very bright guy who knows the banking business inside and out," said former FDIC Chairman William Isaac. "I suspect he can be very tough to work with, especially if you don't know what you're doing."

Conflict at Continental

Mr. Ogden was best known as an international banker, and late in his career at Chase he organized what was renamed Continental Illinois National Bank & Trust Co., which had just been the beneficiary of an FDIC-engineered bailout.

But Mr. Ogden quietly lost out in a power struggle with Continental chairman John E. Swearingen, and left after three stormy years.

Since 1987 he has been out of the business world, devoting much of that time tending to the recovery of his son, who suffered a broken neck in a boating accident.

Drawing On Experience

In an interview Thursday, Mr. Ogden, 62, said he would draw on his Continental experience at NBW.

"The issues here aren't any different" Mr. Ogden said, comparing the $1.2 billion NBW to the much larger Continental. "It's just the order of magnitude."

His role will be different as well, since he will be running the show in Washington, at least until a buyer can be found for NBW. "I would hope my stay here would be rather short," Mr. Ogden said Thursday. "I expect it will be.

Reassuring Depositors

Mr. Ogden, who was approached by the Office of the Comptroller of the Currency on Wednesday about managing NBW, said his role as conservator will be "to reassure depositors the bank is still in business, to reassure employees," and to protect the institution's assets.

He is regarded as a smart, tough-minded manager who can be difficult to work with.

"Bill is a very bright guy who knows the banking business inside and out," said former FDIC Chairman William Isaac. "I suspect he can be very tough to work with, especially if you don't know what you're doing."

Conflict at Continental

Mr. Ogden was best known as an international banker, and late in his career at Chase he organized what was renamed Continental Illinois National Bank & Trust Co., which had just been the beneficiary of an FDIC-engineered bailout.

It led to the formation of the lassitude of International Finance, a research group concerned with cross-border lending issues, particularly involving Third World debt.

He left Chase in 1983, after 31 years at the bank, when Thomas G. Labrecque was named president.

Mr. Isaac tapped him for the Continental job a year later, in large part, he said, because he needed a someone with strong credentials internationally.

Because the FDIC also wanted to recruit Mr. Swearingen, a former chairman of Standard Oil Co. of Indiana who was well known in the Chicago business community, a power-sharing arrangement had to be worked out in Manathan, round-the-clock negotiations" with the former Chase vice chairman.

Eventually, it was agreed Mr. Ogden would run the bank and Mr. Swearingen the holding company, but the arrangement collapsed six months later.

"There was a major confrontation between Bill and John," said Mr. Isaac. "I went out to Chicago and met secretly with them and three or four members of the Continental board at the airport Hilton."

Ultimately, he said, Mr. Ogden agreed to accept a subordinate role. He stayed for three years, Mr. Isaac noted, and "by then, Continental was out of the woods." □

U.S. Savings Bonds

The Great American Investment

DEALS

Torchmark Said Near to Financing for 2d Bid on American General

By WILLIAM GOODWIN

Torchmark Corp. is close to an agreement with lenders on bank financing for a possible new bid for American General Corp. of Houston, sources close to Torchmark said.

The Birmingham, Ala., insurance company is in talks with about half a dozen banks on obtaining roughly $2 billion in loans.

'Financing Is Available'

The prospective lenders are said to include the banking units of Citicorp, Manufacturers Hanover Corp., and Bankers Trust New York Corp.

"I think we'll have something put together with the banks in the next couple of days," a source said, adding that there will probably be four lead banks.

William Graves, executive vice president of Torchmark, declined to comment on the bank talks except to say, "I think you can say that financing is available."

According to a source close to the company, Torchmark will not seek actual commitment letters at this time, but "we'll have something in writing."

Asked to be more specific, he said the written document would be akin to a "financial engagement letter."

An official in the insurance lending group of a bank said to be in talks with Torchmark questioned how close the company really was to an agreement. But the official did not dismiss the possibility of an imminent agreement of some sort.

'Strong Interest'

Earlier this year, Torchmark withdrew a surprise $50-a-share bid for American General in favor of a proxy fight. Torchmark's actions prompted American General to put itself up for sale in early May through an auction process that was expected to take at least several months.

In a statement two weeks ago on the company's quarterly earnings, American General chairman Harold Hooks said he was "pleased with the strong interest expressed by both domestic and international prospective buyers."

Aside from Torchmark, market sources initially speculated that Axa-Midi Assurances of France could be interested in American General.

Torchmark originally offered equal amounts of cash and stock for American General in its entirety. Like that bid, any new offer would be likely to consist of a combination of stock and cash but probably would exclude American General's consumer division, which Torchmark doesn't want.

The division's book value is said to exceed $1 billion.

American General is seeking to sell the company in one piece, but would be prepared to sell it in parts, if necessary.

A few of Torchmark's prospective lenders are said to be sitting on the fence right now, waiting to see the final fee structure, a source close to Torchmark said.

He declined to discuss the fees in detail but said they will be,"a lot closer to normal corporate lending standards than to LBO standards."

"This is an investment-grade credit," not a highly leveraged transaction, he added.

One possible stumbling block to a new Torchmark bid is that the company has balked at signing a confidentiality agreement with American General. □

Bankers Trust Wins Some Breathing Space for MorningStar Foods

By JED HOROWITZ

Bankers Trust New York Corp., which is laboring to remove the albatross of MorningStar Foods from around its neck, has persuaded senior lenders...to give the Dallas-based dairy company some breathing room.

Bankers Trust's securities subsidiary announced a plan 10 months ago to underwrite $150 million of senior junk notes for MorningStar, jockeying to become the first commercial bank to manage a junk deal.

The market. Instead of underwriting MorningStar, BT Securities officials have spent much of the past year struggling to help the dairy food processor avoid bankruptcy. Bankers Trust owns 20% of equity in the company.

Credit Agreement Modified

On Thursday, MorningStar said it had convinced senior lenders to modify their credit agreement so that the company can make an interest payment to holders of $150 million of its 13% subordinated debt. A default on the payment, which was due Wednesday, would likely have triggered bankruptcy, analysts said.

MorningStar, which is attempting to revive itself by selling its fluid milk operations, still must pay off its senior debt with a big balloon payment next June.

Bankers Trust, according to sources, played a key advisory role in the latest developments.

MorningStar, which was formed in 1988 as a spinoff of troubled Southland Corp., owes about $130 million of senior debt to a bank group led by Continental Bank. At least three lenders – Bonnet Resources (which holds the bad assets of MCorp), ABQ Savings Bank of Albuquerque, and National Bank of Alaska – refused to budge on liberalizing terms of the loan pact, sources said. The three held almost 18% of the senior debt.

Crisis Averted

The bankruptcy crisis was averted early this week when Bankers Trust arranged for a unit of Amsterdam's Nederlandsche Middenstandsbank to buy out the three holdouts, a MorningStar source said.

Ironically, the MCorp unit is a ward of the Federal Deposit Insurance Corp. and RTC of the Resolution Trust Corp., which took over their deficient parents. The Alaska bank bought a small piece of the MCorp loan.

"The government is not interested in long-term solutions," said one source involved in the negotiations. "They are interested only in cash and they will do anything to get paid out."

MorningStar, which is attempting to revive itself by selling its fluid milk operations, still must pay off its senior debt with a big balloon payment next June. But its banking agreed to a slower amortization schedule that requires payment of just $5 million a quarter.

Lenders in the bank group besides Continental and the Dutch bank are: Banque Paribas, Credit Agricole, First Interstate Bank, First Bank Minneapolis, Societe Voriteme du Sud, Bank of Nova Scotia, Long-Term Credit Bank of Japan, Hibernia National Bank, Canadian Imperial Bank of Commerce, and National Australia Bank.

MorningStar's temporary reprieve from lenders came on the heels of a decision late Monday by Jackson National Life Insurance Co. to withdraw from a commitment to inject $60 million of new financing in the company. When Jackson pulled out, so did a group of other banks that Bankers Trust had lined up to bail out the principal holdouts. It was then that the Dutch bank agreed to take on the three banks' debt at a substantial discount, according to sources. □

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Highlights for Thursday, August 2

TOP 10 GAINERS %

Premier Bancorp, Inc.	6.9
National Community Banks, Inc.	4.8
Jefferson Bankshares, Inc.	4.2
Keystone Heritage Group, Inc.	3.5
Fourth Financial Corporation	3.4
Merchants Bank of New York	3.2
Citizens Bancorp	3.1
United Carolina Bancshares	3.1
Cal Rep Bancorp	2.8
Grenada Sunburst System Corp.	2.8

TOP 10 LOSERS %

Statewide Bancorp	-20.8
First Peoples Financial Corp.	-11.5
National Penn Bancshares, Inc.	-10.3
First Citizens Bancshares Inc.	-8.8
Evergreen Bancorp, Inc.	-7.7
Hawkeye Bancorporation	-6.7
Mark Twain Bancshares, Inc.	-6.3
Affiliated Bankshares of Co.	-6.3
Multibank Financial Corp.	-6.3
Equimark Corporation	-5.9

MOST SHARES TRADED

Hibernia Corporation	1883900
Citicorp	1550600
BankAmerica Corporation	1339800
Bank of Boston Corporation	1261800
Chase Manhattan Corporation	852200

VOLUME AS % OF AVERAGE

Hibernia Corporation	2702.2
Puget Sound Bancorp	1206.8
Bancorp Hawaii Inc.	1195.7
PNW Bancorp, Inc.	645.5
Santa Monica Bank	620.0

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively.

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.20	-1.92	-1.62	-1.69	-6.40	-10.41	-2.68	-7.53	-15.65

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	19¾	1stSourceCorp/In	6.4	88.5	19½	—
14½	10¼	1stUnionCorp/GA	5.4	73.3	2¼	—
38¾	20	AmSouthBancorp/Al	8.3	86.7	21	—
18½	13¾	AmeribankInc/NC	6.3	75.0	14¾	-¼
25½	15¾	AmeritrustCorp/Oh	26.3	87.5	15½	-½
15¾	11¾	AtlBancorp/Miami	8.8	121.3	15¾	—
24½	18	BB&T FinCorp/NC	7.9	108.6	18⅝	-⅛
21¾	16	BalBancorp/Ann MD	7.4	52.9	16¾	-¼
48¾	36¼	BanPonce/PR	14.0	150.2	40¼	¼
33½	26	BancOne/Colum	9.0	155.2	26¾	-⅛
26	18¾	BancoPopular/PR	6.4	96.8	19¾	—
30¾	42	BankAmerCorp/CA	9.1	152.4	41½	-1¾
23¼	18	BancorpHawaii/HI	6.9	97.8	18½	—
36¾	23¾	BankBostonCorp/Ma	4.9	91.7	23¾	—
24	17¾	BankGranite/Corp/NC	12.5	221.0	20⅜	—
23¾	21¼	BankNewEngland/Ma	NM	47.8	21¾	—
14¾	8	BankSouthCorp/GA	9.7	91.3	8¼	—
57⅜	30¼	BankersTrust/NY	NM	126.3	30¾	—
21½	10¾	BankvtgCtfs/Hgn/VT	5.2	57.0	11	—
15¾	10¼	BarnettBanks/Fl	NM	38.7	10¾	—
54⅜	24¾	BarnettNtl/Fl	NM	70.0	24¾	—
62	38¾	BayBanksInc/MA	NM	48.7	40	+½
62	38¾	BayBanksInc/wi	11.1	107.1	60	-1½
30⅝	13¾	BeneficialCorp/NJ	8.9	104.9	28¾	-¼
40¾	33¾	BerkshireHathaway/	NM	39.9	33¾	-¾
39¼	29	BostonBancshares/MO	7.7	90.2	29	—
34	25½	BostonPrivateFinancial	239.4	105.0	26	—
16⅜	12½	BrentonBanksInc/	6.5	98.1	12½	—
43¾	32	CCB FinCorp/NC	8.3	110.6	32¼	—
22⅜	16¼	CCNB Corp/PA	6.0	93.5	16¾	—
23⅜	18¾	CNB Bancshares/IN	10.1	121.4	19	—
27	20¼	CPB Inc./MI	11.0	152.8	22	—
15¾	12¼	CalFed Inc/Cora	5.4	234.5	13¾	—
33⅜	17¾	CalFederalInc/CA	7.3	132.5	18¼	—
15¾	12¾	CentralBancshs/Al	6.6	90.7	13¾	—
34¼	23¾	CentralFidelity/Va	6.5	93.0	23¾	—
27	11	CentralbancorpInc/	5.6	78.3	11	—
44⅜	18¼	ChaseManhattan/NY	NM	52.3	18¼	—
41¼	21¼	ChemicalFinancial/MI	NM	61.8	21¼	—
35	30	ChemicalNyCorp/NY	8.7	95.0	30	—
19¾	15¾	Citizens1st/NH	NM	74.8	19¾	+¼
25⅜	15⅞	CitizensBancorp/MD	7.6	93.8	18¼	+½
39¾	20¾	CitizensBkg/MI	7.5	72.0	21¾	—
15¾	8¾	CitizensFirst/MD	NM	118.7	8¾	—
24¾	21¼	CitizensUtilities/A	6.5	98.1	21¾	—
27¼	17¼	CityNatCorp/A	9.9	178.4	17¾	-¼
22⅜	12¾	CoastFedBancshs/DC	85.6	62.1	19¾	—
56⅜	39½	CometcoInc/-Nt	8.1	89.6	39¾	-¼
29¼	21½	CommercialBancs/MO	8.0	70.2	22¾	—
30¾	15½	CommonwealthIn	7.1	89.2	15¾	-¼
37½	11	CommunityBank/Ma	6.7	37.7	11	—
36¾	11¾	ContinentalIL	NM	50.4	11¾	—
49⅜	38¾	CoreStatesFin/Cp/PA	7.7	137.3	38¾	—
34	20¼	CrestarFin/Cp/VA	7.4	89.6	20¾	—
18¼	7¾	CullenFrost/TX	38.4	49.9	10¾	—
37¼	29	DauphinDeposit/PA	8.3	123.2	29	—
25¼	22½	DepositGuaranty/MS	8.0	70.2	22¾	—
25½	11¾	DominionBkshs/VA	8.6	73.6	11¾	—
15⅜	3¾	EquimarkCorp/IN	NM	30.0	4	—
21¼	11¾	EvergreenBancs/NY	5.9	63.2	12	-¼
15¾	12¼	F & M NatCorp/A	10.8	166.5	13¾	—
14⅜	12½	FNB Corp/PA	8.7	104.7	12¼	—
26	20¾	FNH Bancorp/IL	11.1	183.9	24	—
29	27¾	FarmersCapital/KY	11.9	118.4	27¾	—
39¾	30¾	FidelityBancorp/Md	10.6	182.1	30¾	—
38¾	32	FinancialTrust/PA	9.0	136.4	33	—
51½	37¾	FirstTenn/Tn/B	9.3	98.6	37¾	—
19¾	15¾	FirstAlabama/Al	8.9	112.3	17¾	—

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
26¼	10¾	FirstArmorCorp/TN	NM	63.4	10¾	-¾
27¾	21¾	FirstBancorp/NY	7.3	87.0	22	—
15¾	12¾	FirstBankSystem/MN	NM	111.0	14¾	-¼
25¾	19¾	FirstBkCorp/FL	7.6	98.5	23¾	—
29½	23¾	FirstCitizens/-NC	7.6	88.5	23¾	2¼
15¾	12¾	FirstCitizens/-Va	9.3	108.2	13¾	-½
19¾	12¾	FirstColonial/L	9.4	119.1	12¾	—
10¾	8	FirstCommBkshs/Al	8.2	92.6	10	—
23½	21¼	FirstCommerce/-Nt	8.5	91.0	20¾	—
19¾	16¾	FirstCommerce/Fl	9.8	108.2	17¾	-¾
19¾	16¾	FirstCommercial/-Ar	7.7	111.4	16¾	—
19¾	16¾	FirstCommunity/L	10.7	102.8	16¾	—
35½	20¾	FirstEastern/PA	7.8	94.3	21	—
17¾	13¾	FirstEmpire/NY	7.9	93.2	16¼	—
33¾	14¾	FirstFed/MI/-Nt	NM	71.1	14¾	—
15¾	11¾	FirstFed/Mw/Co	7.5	102.3	11¼	—
34¼	19	FirstFtn/Md/-N	9.4	71.9	19	-¼
18¾	14¾	FirstFtn/Mn/Co/-Nt	8.2	113.7	15	—
24¾	18	FirstMidwest/-IL	10.0	141.6	18¾	—
25	18¼	FirstNBancorp/-Ca	7.4	93.6	24	—
44	23	FirstPeoples/-NJ	5.4	85.8	23	-3
18¾	12¾	FirstRepublic/NY	10.3	95.0	12¾	—
18	13¾	FirstSecurity/-NC	13.1	172.9	14¾	-¼
19¾	13¾	FirstSecurity/-Ut	7.4	91.1	13¾	—
28¾	11¾	FirstTennessee/-Tn	7.8	93.2	22¾	-¼
28¾	21¾	FirstUnion/-NC	7.1	85.3	21¾	—
27¾	21¾	FirstVirginia/-Va	7.6	106.5	23¾	-¼
19¾	15¾	FirstWachovia/-Ga	7.2	113.1	15¾	—
20¼	17¾	FirstbankInc/-IL	7.2	113.1	18¾	—
19¾	15¾	FirstbankPR/PR	9.4	97.0	15¾	—
16¾	12¾	FirstbankSys/Co	10.4	90.3	13¾	—
19¾	16¾	FleetFinancial/-Ri	7.5	103.6	18¾	—
25	19¾	FleetNorthEast/-Ri	8.5	120.6	24¾	—
28	20¾	FourthFinCorp/KS	15.0	148.2	22¾	—
23¾	17¾	FourthFinancial/-In	7.5	118.3	19¾	—
24¼	18¾	GBC Bancorp/-CA	8.3	203.5	18¾	—
18¾	13¾	GreenvilleSumterNat/	17.8	89.0	14¾	—
49¾	41¾	HawkeyeBancorp/IA	4.0	106.1	7	+½
16¾	12¾	HeritageFed/Sc/-A	9.2	123.0	16¾	—
26¼	14¼	HiberniaCorp/LA	16.8	103.8	14¼	-¼
24¾	18¾	HuntingtonBancsh/OH	8.2	103.4	20¾	—
32¾	20¾	INBFinCorp/-IN	7.9	91.8	20¾	-¾
24¾	21¾	IndianaNtnlCorp/IN	6.1	97.2	21¾	—
26¾	16	IndependentBk/-MI	8.8	94.2	17	—
19¾	15¾	IntegraBank/-IN	15.0	98.1	15¾	—
48	35	InvestmentBnkshs/-N	9.1	118.8	37	—
18	13¾	JeffersonBkshs/-Va	NM	146.5	16¾	—
26¼	17¾	JeffersonBkshs/-Wv	8.1	92.2	18¾	-¾
44¾	28¾	ManufacturersNt/-MI	NM	68.7	28¾	—
21	16¾	MarineCorp/-IL	12.0	129.9	19¾	—
18¾	14¾	MarshallBkshs/-MO	7.8	97.4	14¾	—
37¾	30¾	MarshallMilsap/-W	8.7	113.4	30¾	—
24¾	18¾	MassBankCorp/-Ma	4.7	77.5	24¾	—
28¾	22¾	MercantileBanc/-MO	37.1	87.1	22¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
27¾	19¾	MercantileBncsh/-MD	8.2	123.8	19¾	—
49¾	47½	MerchantsBank/-NY	12.0	184.6	49	+½
32	20¾	MerchantsNat/-IN	9.8	79.4	20¾	-¼
20¼	14¾	MeridianBancorp/PA	6.6	79.4	14¾	-¼
57¾	28¼	MorganNatCorp/-Ml	2.5	56.8	29¾	—
18¾	14½	MnlAmericaN/-Y	9.8	94.0	14¾	—
18¾	13¾	MnlInc.Inv./-DH	8.6	135.5	17¾	-¼
47½	10¾	MtlantecCorp/-NJ	7.1	28.1	10¾	+½
25¾	7¾	NorthbrkeMn	NM	38.2	7¾	+¼
35¾	28½	NBD Bancorp/-MI	8.8	128.2	31¾	+¾
24¾	14¾	NCNB Corp/-NC	6.7	119.9	24¾	+¾
26	18½	NCorthCommBcp/-CA	14.6	156.8	19¾	—
16¾	13¾	NationalCity/Cp/-Oh	7.9	134.4	15	-¼
40	32	NationalPenn/-PA	10.2	181.4	35	-4
31¾	25¼	NationsBank/NA-NK	9.4	113.8	29¾	-¾
24¾	18¾	NatlCommerce/-TN	10.1	175.0	23¾	+¾
44¾	15¾	NatlCommerce/-VA	5.5	81.4	18¾	-¼
44¾	15¾	NorthFinBancs/-Il	5.2	61.3	9¾	—
72	15	NorthwestBanc/CT	5.2	61.9	15¾	—
25¾	20¾	NorthernTrust/-IL	9.1	170.4	21¾	—
23¾	17¾	NorwestCorp/-MN	7.4	137.4	19¾	—
29¾	22¾	OhioBancorp/Oh	6.9	94.2	23¾	—
29¾	23¾	OldKentFncp/-MI	7.7	107.6	23¾	—
14¾	12¾	OldNatlBancorp/-KY	12.8	153.3	14¾	—
23½	19	OneWestBanc/-WV	6.8	83.5	20	—
48½	20¾	PNC Fin/Corp/Pa	7.9	88.2	23¾	—
28¾	24	PacificBank/-CA	11.3	161.8	27	—
13¾	9¾	PacificWestern/-CA	7.9	136.9	9¾	-¼
16¾	14¾	PeoplesBancorp/-NC	8.7	118.0	15	—
27	26	PeoplesFed/-MA	9.8	125.9	27	—
15¾	10	PiedaCommerce/-GA	8.3	154.7	10¾	—
9¾	3	PremierBancorp/-LA	21.5	63.9	3¾	—
27	21½	ProvidentBanc/-OH	10.1	131.1	23	—
14	8¾	ProvidentBkcorp/-MD	NM	34.5	8¾	—
27¾	19¾	PugetSoundBanc/-WA	10.9	105.8	19¾	+¼
27¾	17¾	RepublicNYCorp/-NY	14.5	129.9	19	—
27¾	13¾	RiggsNatlCorp/DC	6.8	48.9	12¾	—
22¾	22¾	RiverviewBancp/-Fl	12.5	277.5	28	—
43¾	21¾	SantaBarbaraBcs/-CA	9.8	181.6	21¾	—
23¾	17¾	SecurityBancorp/-MI	7.8	133.2	17¾	—
52¼	30¾	SecurityPacific/-CA	4.9	82.1	30¾	—
23¾	19¾	ShawmutNatlCorp/-MA	NM	48.1	19¾	+¼
42¾	14¾	SignetBanking/-VA	4.3	51.0	14¾	+¾
28¾	20¾	SouthCarCp/-SC	NM	101.0	20¾	+¾
27¾	19¾	SouthCarBankCp/-SC	6.6	86.4	17¾	—
19¾	15¾	SoutheastBkCorp/L	NM	38.9	15¾	+¼
15¾	11¼	SouthernNatCp/-NC	9.4	131.1	11¾	—
25¾	16¾	SouthernNatlCorp/-Ky	6.7	89.2	17¾	—
43¾	26¾	SovereignCorp/-PA	7.1	99.7	27¾	—
24¾	20¾	StBkSouthwest/-NM	8.3	108.4	21	—
42¾	34¾	StateStBoston/-MA	12.6	218.9	37	—
16¾	11¾	SterlingBancp/-NY	NM	33.1	14¾	-¼
26	16	SuburbanBancorp/-IL	13.1	84.8	17	—
25¾	21	SuntrustBanks/-GA	8.4	85.3	25¾	—
22½	19¾	SuperiorBancp/-IN	7.3	91.0	19¾	—
15¾	11¾	SuperiorFinancial/-Ca	5.9	83.8	11¾	—
29¾	20	SurTrustBanks/-GA	7.6	118.1	20¾	-¼
18¾	12¾	SussexPrtnrs/-NJ	78.2	74.8	16	—
22¾	17¾	SusquehannaBcsh/-PA	7.4	97.1	17¾	—
19¾	15¾	SwigartCorp/-IN	7.4	97.1	15¾	—
25	19¾	SynovusFin/-GA	8.5	118.8	19¾	—
25½	19¾	TCF Financial/-MN	8.7	118.0	24¼	—
23¾	19¾	TalbotBancshs/-MD	7.8	98.2	19¾	—
24	18¾	TrustmarkCorp/-MS	7.1	127.4	21	—
25¾	19¾	U.S. Bancorp/-OR	8.5	118.8	19¾	—
43	33¾	U.S.TrustCorp/-NY	11.8	180.0	34¾	—
19¾	11¾	UJB Financial/-NJ	6.1	62.1	12¾	+¼
18	9½	UST Corp/-MA	6.0	83.5	10¼	—
20¾	16¾	UnionBancCa/-CA	5.0	79.8	20¾	—
15¾	7¾	UnionPlanters/-TN	NM	61.7	7¾	-¼

RTC to Sell $1 Billion in Securities

NEW YORK — The Resolution Trust Corp. plans to sell $1 billion of securities backed by residential mortgage loans seized from insolvent thrifts by late August or early September, said Geraldine Rigby, the agency's deputy director of capital markets.

"We are commingling homogeneous assets from seven institutions" under conservatorship, she said. "We have not decided on the structure. We are still aggregating the assets."

Greenwich Capital Markets Inc. is adviser on the securitization project, which the RTC views as a demonstration.

Analysts said the offering is likely to carry higher yields than the mortgage issues with which investors are familiar. "People are now reaching for yield and the issue is likely to do very well," an investment banker said.

Meeting Demand

Market observers said the RTC issue would help meet demand for mortgage-backed securities that has been pent up because of to weak housing demand and slow sales by the RTC.

Thrifts under RTC conservatorship had $22.1 billion in mortgage-backed securities as of March 31. Since March, the RTC has sold off $6 billion of mortgage securities. — Reuters

Top 75 Thrifts (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
24¾	18¼	AmericanCo/-Ca	7.2	89.2	18¾	-¼
24¾	18¼	AmericanFed/-Ca	6.8	89.2	18¾	-¼
27¾	22¾	CoastFed/-Or	7.8	88.5	23¾	-¼
30¾	24¾	CoastSavBk/-Ca	9.4	98.9	43¾	+¼
24¾	19¾	CommercialFed/-Ne	7.2	88.9	20¾	—
24	14¾	DonerGreyBk/-Ca	22.5	90.1	15¾	—
21¼	12	FlmerlyBanc/-Ca	NM	113.4	20¾	—
21¼	12	FstFedMic/Sv/-Mi	6.0	92.1	12¾	-¼
25¾	20	GLENFED/-Fl	6.0	92.1	20¾	—
34¾	22¾	GoldenWestFn/-Ca	9.6	151.0	27¼	-¼
24¾	19¾	GreatWestern/-Ca	13.6	93.1	19¾	—
14¾	1¾	GtAmericanBank/-Ca	NM	18.1	2	—
14¾	8¾	HomeFed/Corp/-Id	NM	33.1	8¾	-¼
21¾	13¾	HomeSvgBkAm/-NY	17.1	94.5	19	—
15¾	11¾	ReedFin/-Ia	11.0	68.7	11¾	—
10¾	5¾	People's Bank/-CT	30.3	40.2	5¾	-¼
14¾	10¾	PeoplesSavBk/-Ct	8.1	68.2	10¾	—
10¾	10¾	RochesterCmtyS&W/-NY	6.9	44.1	10¾	-¼
19¾	14¾	SIS Bancorp/-Ma	4.4	33.8	14¾	—
19¾	9¾	SIFinBancorp/-IL	NM	55.3	9¾	-¼
25¾	19¾	SIS Bancorp/-Ma	NM	101.0	20¾	-¼
20¼	14¾	WestMassFS/-Ma	10.1	59.9	14¾	-¼
33¼	24¾	WestSideTrans/-Ca	NM	38.9	24¾	+¼
11¼	6¾	Westcorp/-Ca	10.4	68.3	7¾	+½

Bank Stock Table Explained: The table lists in alphabetical order each bank and thrift traded on the NASDAQ system and certain commercial banking firms and the 25 largest publicly traded thrifts as determined by the market value of all common stock outstanding. (As of March 30, 1990, the market value cutoff for banks was $85 million, and for thrifts it was $8.96 million.) The listing includes 52-week high and low prices for the stock, PE, the price-earnings ratio, the current stock price divided by the latest reported per-share earnings per share adjusted for latest announced earnings, Mkt. to bk, the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Bank **value** is adjusted for the latest reported earnings and dividends. The price at which the stock last traded. If no trade for the day, the latest bid. **NM** Bank has a negative earnings per share. **Chg.** The change in the closing price from the previous day. The top 50 thrifts in market value, respectively. **Highlights** and **Lowlights** are based on percentage changes in the price of the stock between the previous week and today's volume as a percentage of average shares traded over the past 90 days.

Data sources: **SNL SECURITIES,** Charlottesville, VA, 804-977-1600; Interactive Data Corporation, Data Resources Network, Vienna, VA, provides 254, with the daily prices.

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of August 2, 1990, ($ billion)

Monetary Aggregates*	7/26/90	7/16/90	Change	7/09/90	7/02/90	6/25/90
M1- weekly average	$ 808.0	$ 807.9	+$0.1	$ 805.0	$ 803.2	$ 807.7
M2- weekly average	3,288.5	3,273.9	-5.4	3,274.0	3,277.5	3,271.2
M3- weekly average	4,064.9	4,052.0	+2.9	4,058.0	4,058.7	4,054.5
M1- annual change:						
Latest 13 weeks	+2.2%					
Latest 26 weeks	+3.9%					
Latest 52 weeks	+4.0%					
Other data	7/25/90	7/18/90	7/11/90	7/03/90	6/27/90	
Business Loans†						
9 New York City banks	$ 57.2	$ 57.6	- $0.4	$ 56.9	$ 56.8	$ 56.7
All large banks	320.1	320.4	-0.3	321.3	320.2	321.6
Demand Deposits						
9 New York City banks	$ 45.6	$ 49.5	-3.9	$ 33.0	$ 53.6	$ 49.0
All large banks	224.5	222.6	+1.9	222.6	221.4	224.5
Commercial Paper						
All issuers	585.5	582.6	+2.9	538.9	541.1	542.6
Finance companies	403.5	396.8	+4.7	382.0	383.4	383.7
Non-finance companies	145.0	146.8	-1.8	146.9	147.7	148.9

(*)— Seasonally adjusted (†)— Excludes bankers' acceptances and commercial paper

Key Rates (August 2, 1990)

	8/02	8/01	7/26
Federal Funds-domestic range:	8-8¼	8-8¼	7¾-8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.40	7.40	7.60
6 Month Posted	7.40	7.40	7.60
1 Year Posted	7.40	7.50	7.70
Eurodollar deposits²			
3 Month	7¹³/₁₆ - 7¹⅞	7¹³/₁₆ - 7¹⅞	8.

STOCKS

Oil Banks Rise on War News

By GORDON MATTHEWS

NEW YORK — A number of banks viewed as energy lenders bucked the downtrend in financial services stocks Thursday, rising modestly as the markets tried to assess the economic impact of turmoil in the oil-rich Middle East.

Bankers and analysts said a sustained increase in oil prices could help the energy region and its banks, but a temporary blip is unlikely to spur much economic activity.

Last week, the Organization of Petroleum Exporting Countries agreed last week to increase the price of oil from $18 a barrel to $21 a barrel, the first rise in four years. While that was not as, 15,000 new jobs were are created.

That prospect may have helped the recently beleaguered shares of Houston's First City tally a 75-cent increase to $19.375, in brisk trading. Meanwhile, Hibernia gained 25 cents, to $14.375, and Premier Bancorp., Baton Rouge, La., appreciated 12.5 cents, to $3.75.

Another impact could be inflationary pressures, which in turn could force interest rates higher, analysts noted.

"The major impact on bank stock prices would be concern about higher interest rates and inflation" caused by higher oil and gasoline prices, said Frank W. Anderson, banking analyst at Stephens Inc. in Little Rock, Ark.

He said most Southwest banks have unloaded most of their oil-related loans and therefore stand to benefit from the invasion only if it raises prices high enough to spark new demand for oil-related loans.

However, First City and Hibernia could prove exceptions to his theory, he said. First City has made some oil loans recently that will be psychologically added by the fact that it is based in Houston, the oil capital of the country.

He said Louisiana is so dependent on the oil business that Hibernia might improve even with a slight rise in the price of oil.

The Colorado Mystery

However, Benjamin Crabtree, a banking analyst in Dain, Bosworth & Co., Minneapolis, said he thought the potential improvement for banks that have a history of oil-related business was overwhelmed by the potential problems from inflation and increased interest rates.

"There is any kind of impact, it will be positive," he said.

Analysts were unsure why banks in Colorado, usually sensitive to energy-related developments, did not also show some strength in response to events.

Instead they were weak. Affiliated Bancshares of Colorado, Denver, fell 87.5 cents, to $11.125; Colorado National Bankshares, Denver, was off 62.5 cents, to $14.50; and United Banks of Colorado, Denver, was off 50 cents, to $22.50.

Norwest Bancorp., Minneapolis, which recently agreed to acquire United Banks, was also a decliner. It fell 25 cents, to $19.25.

Banc One off 25 Cents

Prices rose and then receded in active trading for the four large banks that entered Texas in the wake of the economic debacle caused by the fall in energy prices in the mid 1980s. Banc One Corp., Columbus, Ohio, was off 25 cents, to $26.75, while NCNB Corp., Charlotte, N.C., fell 25 cents, to $34.625. Chemical Banking Corp. was off 75 cents to close at $21.25, while First Interstate Bancorp fell 25 cents, to $32.

In contrast, the stock market plummeted in reaction to the developments - the Dow Jones industrial average declined 37.87 points, or 1.31% by late in the day — and banking stocks fell with it. J.P. Morgan & Co., New York, dropped $1.50, to $35.62, and Wells Fargo & Co., San Francisco, fell $2, to $63.875.

Energy bankers following the Middle East situation said the effect of an oil price hike would be muted unless sustained. Gary Wright, executive vice president for energy lending, at Texas Commerce Bank, Houston, said recent events in the Middle East involving the Organization of Petroleum Exporting Countries have "certainly have shifted us to a higher price scenario for oil."

A Waiting Game

But a temporary spike in prices would not be enough to prompt increased exploration and loan demand. What is required, he said, is stability at higher price levels. "That will have to come together before we can predict increased exploration," Mr. Wright said.

From a lender's perspective, he said, it still is a waiting game. If the new price hold, that will change the psychology of energy exploration companies, doing capital spending, and "that will drive loan demand."

Any such demand probably won't show up until early 1991, the executive said.

Mr. Wright also noted that there would be losers as well as winners in a sustained oil price rise. He said Dain, Bosworth & Co., Minneapolis, said he thought the revenue improvement for banks that have a history of oil-related business would be overwhelmed by the potential problems from inflation and increased interest rates.

"There is any kind of impact, it will be positive," he said.

Analysts were unsure why banks of

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The High Road Is Costing RTC Time and Money

By STEVE KLINKERMAN

The price of avoiding political controversy in thrift rescues is exceedingly high and getting higher.

Experts say that message came through loud and clear last week, when the Resolution Trust Corp. revealed that it was running out of cash and was stuck with $37 billion of assets left over from 207 thrift rescues.

The RTC's predicament stems from a thrift sales spree that largely avoided the touchwork of selling problem assets.

The RTC says it will speed the disposal of those assets, selling $13 billion of the $37 billion total by yearend.

ANALYSIS: *Follow-up on the news*

But a priority of avoiding criticism may delay that effort, experts say, just as it has prevented the RTC from selling bad assets along with the good during rescue transactions.

"There is a question as to whether the government has the ability to dispose of these assets in a timely and cost-effective manner," said consultant William Ferguson.

'RTC May Be Maximizing Cost'

By avoiding the more sophisticated and controversial techniques previously used by regulators to sell the entirety of a failed institution's assets, Mr. Ferguson said, "the RTC may be maximizing the ultimate cost to the taxpayer."

Ironically, it was L. William Seidman, chairman of the Federal Deposit Insurance Corp. and of the RTC, who first began speaking out on this issue in 1988.

Worried that the FDIC was locking up all of its cash in problem assets left over from previous bank rescues, Mr. Seidman began devising rescue deals wherein buyers of a failed bank took all of the institutions' assets.

"It is very clear that assets lose value as they are moved out of banks and into a liquidation mode," Mr. Seidman said in a May 1988 interview. Over three years, the FDIC transferred almost $20 billion of distressed assets to buyers of big Texas banks that had failed.

FDIC Eased the Way

How was it done? First, acquirers got FDIC assistance equal to the amount of depositor funds lost through devaluation of problem assets such as raw land, vacant office buildings, and defaulted loans. Acquirers agreed to manage and sell the as-

See **RTC** *page* **10**

INSIDE NEWS

EARNINGS

BANK OF NEW ENGLAND Corp. lost $33 million in the second quarter as asset quality continued to deteriorate in a declining regional economy. *Page 2*

FINANCE

AS BANKS FIND IT more difficult to raise capital, the gap between the haves and the have-nots grows wider. *Page 20*

INTERNATIONAL

BARCLAYS Bank is the latest large British institution to report weak earnings. *Page 12*

TECHNOLOGY

C&S/SOVRAN Corp. will turn over processing of its big bank-card operation to Total System Services, Atlanta. *Page 3*

CONSUMER

MORTGAGE originations at H.F. Ahmanson were $6.9 billion in the first half, up 42% from a year earlier. *Page 8*

WASHINGTON



SEN. JAKE GARN, R-Utah, says he has taken a bum rap for the financial reform legislation that he and former Rep. Fernand St Germain, D-R.I., shepherded through Congress in 1982. *Page 9*

SOME PRIVATE lenders have stopped disbursing student loans guaranteed by the Higher Education Assistance Fund, pending resolution of financial problems facing the agency. *Page 2*

COMMENT

NEVER MIND interest rate risk and credit risk – now banks have to contend with 'covariance risk' and 'career risk,' writes Paul Nadler. *Page 4*

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FIXING THE HOLES: HomeFed's Robert F. Adelizzi has a perilous task ahead of him.

HomeFed's Fall From Grace

By TERESA CARSON

SAN DIEGO — Just a year ago, HomeFed Corp. was a darling of savings and loan investors. Enviously capitalized, it boasted strong earnings, the top market share in California's rich San Diego County, and a highly respected management team.

But suddenly, chairman and chief executive Robert F. Adelizzi is fighting for the survival of his thrift. Stung by a sudden increase in bad real estate loans, Mr. Adelizzi may not have much time to get his house back into order.

HomeFed's stock has plunged from $47.50 to $10 in the past 12 months, including a $23 drop in just the past eight weeks. The thrift holding company is now vulnerable to a takeover "either voluntarily or at the behest of the regulators," according to Eric I. Hemel, a prominent

See **HOMEFED** *page* **14**

EPA to Revise Rules On Lender Liability In Toxic Cleanups

By DEBRA COPE

WASHINGTON — Moving to resolve a thorny legal controversy, the Environmental Protection Agency said it plans to revise the Superfund rules by yearend to clarify lenders' liability for cleaning up toxic wastes on foreclosed properties.

The intention to revise the rules marks a significant policy shift for the federal agency. It previously contended that the regulations adequately defined when lenders were responsible for repairing environmental damages on properties seized after loans went into default.

But court decisions in recent years left many bankers uncertain about their exposure to unforeseen environmental costs resulting from borrowers' actions or negligence. Meanwhile, Congress is moving rapidly to pass legislation sought by banking interests to limit their environmental liability.

The EPA now wants to step in with its own proposal, less sweeping than the congressional bills but viewed by the agency as a major concession and compromise.

The regulatory initiative, unveiled in a congressional hearing last Thursday, won plaudits from advocates of lender-liability reform. But these sources said broader legislative initiatives, rather than regulatory changes, may still be needed to ease lenders' fears.

"The train has probably gone too far down the track for them to stop it with a rule," said Charles Mitschow, regional president of Marine Midland Bank, Buffalo, a unit of Hongkong and Shanghai Banking Corp.

A federal appeals court in Atlanta has already ruled that banks, because of their financial control, effectively own and operate foreclosed properties, and therefore are liable for cleanup costs. Mr. Mitschow said, "I don't know how they're

See **TOXIC** *page* **17**

Fears of Turmoil in Middle East Plunge Bank Shares to New Lows

By GORDON MATTHEWS

NEW YORK — The stock market sold off sharply on Friday amid fears about the economic impact of turmoil in the Middle East, helping to push bank and thrift stocks to new lows at the end of their worst trading week of the year.

The rout in bank stocks spread to even the well-regarded banks that had held up fairly well until last week.

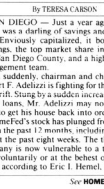
The *American Banker* index of the 225 largest publicly traded bank stocks fell 7% last week. The index stands an astonishing 30% below the high reached last Oct. 9, before financial services equities began their long and steep slide.

Brand-New Threat

Now, in addition to existing worries about credit quality, bank stocks seem further threatened by the ramifications of Iraq's invasion of Kuwait and by the signs that the U.S. economy is teetering on the brink of recession.

Bear Market For Bank Equities

1/3/89=100



Friday's market was hurt by the release of government figures showing that the unemploy-

See **FEARS** *back page*

Banks Choose Cautious Route In Iraqi Freeze

By JEANNE IIDA

NEW YORK — Responding to an unclear presidential decree on Thursday, banks froze assets and asked questions later about accounts linked to the Kuwaiti and Iraqi governments.

As the bankers talked with lawyers and the Treasury Department to interpret the directive, they released accounts that had been cleared.

Observers said the action was prudent under the circumstances but could leave banks open to lawsuits from individuals whose accounts were unnecessarily frozen.

Meanwhile, bankers and Treasury officials said Iraq's threat to freeze payments to U.S. lenders will cause little harm. (See related story on page 12).

To avoid alienating customers whose transactions were being

See **WIDE** *page* **3**

PEOPLE *in the news*

Daniel Evans, Nominee, Is Waiting for His Turn

By DEBRA COPE

WASHINGTON — Back home in Indiana, they call him "Dan's friend Dan."

He is Daniel F. Evans Jr., Vice President Quayle's long-time confidant and campaign manager, and President Bush's nominee to be



Daniel F. Evans

the first chairman of the five-member Federal Housing Finance Board. The oversight agency was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Since 1976, Mr. Evans has presided over a string of victorious Republican campaigns in Indiana, engineering Dan Quayle's rise from the House to the Senate and then to the vice presidency and putting in a stint as cochairman of the George Bush for President Committee in 1988.

The 41-year-old attorney is a consummate political insider. Probably any job on the Vice President's staff was his for the asking. So why take the small, obscure, fledgling agency that regulates the 12 Federal Home Loan banks?

Praise for Home Loan Banks

In a telephone interview, Mr. Evans cited the job's "relevance to one of the major financial problems of our time."

"This is the one part of the savings and loan system that worked. The insurance function failed. The regulatory function failed. But the banking function succeeded," he said. "The Federal Home Loan banks have never had to liquidate a security or an advance in their history."

Mr. Evans knows his way around the bank system. He has been a board member of the Federal Home Loan Bank of Indianapolis since 1987 and its chairman since January 1989. Gregarious and witty, he is known and liked by officials at most of the institutions he has been tapped to oversee.

"We are fortunate to have a nominee who understands what the [Home Loan Bank] system is," said James Crona, chairman of the Federal Home Loan Bank of San Francisco. Under the now defunct Federal Home Loan Bank Board, the banks were often run by people who came to their jobs with little knowledge of the system.

Mr. Evans' nomination has been languishing before the Senate Banking Committee since May. The administration wants a part-time board to oversee the Federal Home Loan banks, while key Democrats seek a full-time panel. That leaves the board's interim chairman and lone member, Housing and Urban Development Secretary Jack Kemp, to call the shots.

Roots in Indianapolis

Mr. Evans says, "I'm not available full time." A partner with the Indianapolis firm of Baker and Daniels, he has a busy corporate practice. And with a young family in Indianapolis, he is not about to pull up stakes to move to Washington. He and his wife, Marilyn, have two boys and two girls, ages 4 to 12.

Associates say Mr. Evans feels thwarted by the political spat, but he remains philosophical.

"Frankly, the length of time that has elapsed is not great in legislative terms," he said. "My frustration is not with the confirmation process but with the desire to move ahead at a time of real crisis."

The wait hasn't spoiled his summer. Recently, heading for a vacation at his summer home in Pentwater, Mich., he said he would leave his worries at dockside as he stepped aboard his 29-foot sloop. "I'll be four miles from shore, where it's never hot." □

NEWS *briefs*

Banc One Completes Deal For an Investment Bank

COLUMBUS, Ohio — Banc One Corp. formally completed its affiliation with Meuse, Rinker, Chapman, Endres & Brooks, an investment banking firm with headquarters in Columbus and offices in Dallas and Cleveland.

The unit was renamed Banc One Capital Corp. David R. Meuse will be continuing as chairman and chief executive officer.

Banc One Capital specializes in serving clients with complex problems in areas of public, structured, and corporate finance, real estate, and financial institutions. Founded in 1981, the former Meuse, Rinker has underwritten more than $4 billion of new issues and trades fixed-income securities in the secondary market.

Commercial Paper Shrinks

NEW YORK — The Federal Reserve Bank of New York reported that commercial paper outstanding in the United States fell $1.66 billion in June to a seasonally adjusted $537.02 billion.

It was the third consecutive monthly decline, fueled primarily by cutbacks in directly placed paper from commercial banks, savings banks, mortgage banks, and some other financial entities. □

BNE Loses $33 Million in Quarter

Asset Sales Cut Deficit, but Loan Quality Deteriorates

By TOM LEANDER

BOSTON — The troubled Bank of New England Corp. announced Friday that it lost $33 million in the second quarter as the company's asset quality continued to deteriorate.

The loss, roughly in line with expectations, was not seen as a decisive sign of whether the bank would be able to rebound from the staggering $1.1 billion loss it posted last year mainly because of bad real estate loans.

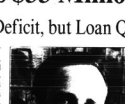
"There were no positive surprises," said Kristina Andersson of Kidder Peabody & Co.in New York. "But things were not overwhelmingly negative."

$91 Million in Gains

The loss, following a $46.6 million first-quarter deficit, was held down by $91 million in one-time gains from the sale of assets.

In the first quarter, the company's fire sale of assets yielded a nonrecurring gain of $170 million that offset its losses. According to a senior company official, the asset sales are virtually complete.

The company made a $59 million provision for loan and real estate losses, compared with a $151 million provision in the first quarter.



Lawrence K. Fish
Bank of New England

"This quarter's loss is not unexpected because of the continued sluggishness in the region's economy, the softness of the real estate market, and lower net interest income," Lawrence K. Fish, the company chairman and chief executive officer, said.

Bank of New England's stock closed unchanged at $2.625 on the New York Stock Exchange while the Dow was dropping by $4.95 points.

The company said it had no plans to sell its Maine National Bank unit. "We don't believe in today's market we can get fair value," the official said. But the official said it was currently seeking a buyer for its Rhode Island unit.

Capital Levels Holds

Nonperforming assets increased by $110 million, or 4%,

See **BNE** *page* **15**

Some Lenders Stop Issuing Student Loans

By LOUIS GERHARDSTEIN

WASHINGTON — Several private lenders have stopped disbursing student loans guaranteed by the Higher Education Assistance Fund "pending a resolution" of problems facing the financially troubled agency, Stephen C. Bikken, vice president of Citicorp's student loan business, said Friday.

"Any handling of the HEAF situation that does not allay existing lender fears regarding the reliability of guarantees [on student loans] could severely undermine the program," Mr. Bikken, speaking on behalf of Consumer Bankers Association, told the Senate Labor and Human Resources Committee on education, arts, and humanities.

Citicorp a Key Lender

Citicorp's Citibank is one of the largest lenders in the student loan market, with $2.2 billion in loans outstanding.

Mr. Bikken did not elaborate on the identities of other banks that may have curtailed lending in the wake of HEAF's recently disclosed problems.

HEAF's troubles stem from rising default rates on its loans. Officials of the Overland Park, Kan., guarantor attributed the high defaults to the fact that it is required to make loans to all students, including those of trade schools, which account for most of the recent troubles.

Hazard Is Noted

If HEAF guarantees fail to be fully honored, Mr. Bikken said,

See **SOME** *page* **17**

Corrections

The Federal Deposit Insurance Corp. is the agency studying whether to restrict the value of mortgage-servicing rights that banks and thrifts can count toward capital. The headline of an Aug. 2 article on page 2 misidentified the agency.

■

A July 31 article ("S&L Law Is Reshaping Marketplace," page 1) incorrectly described as troubled an Arizona subsidiary of Great Western Bank, Los Angeles. The Arizona unit whose health is questioned by experts is a Tucson-based subsidiary of Great American Bank, San Diego.

COMPANY *index*

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TECHNOLOGY/OPERATIONS NEWS

C&S/Sovran to Outsource Card Processing Operation

By KAREN GULLO

NEW YORK — The merged entity C&S/Sovran Corp. will turn over processing of its large bank-card operation to a third party.

Officials of the banking companies said last week that they had signed a letter of intent with Total System Services Inc., Atlanta, for such processing services. After receiving Federal Reserve Board approval two weeks ago, Citizens and Southern Corp. and Sovran Financial Corp. plan to complete their merger by the end of the month.

Bank executives said the move to Total Systems was motivated by cost savings and the company will probably turn over certain other processing operations to outside firms.

"There would have to be a big investment to continue in-house processing."

W. Robert Flowers
Citizens and Southern Corp.

Selective Outsourcing

"We are in the process of developing an overall technology structure for the merged bank, and some operations call for turning them over to a third party," said Henry T. Garcia, senior vice president at C&S, Atlanta. "We're not going to outsource everything."

Sovran and C&S have been working for the past year to form a single bank-card system. The new system's structure has been in place since late spring and involves 700 employees at Sovran's Norfolk, Va., headquarters performing collection, credit analysis, customer-services, and merchant-services tasks.

Until now, each banking company has done card processing in-house. The combined banking company will have a credit card portfolio of $1.2 billion, with 1.6 million accounts and 45,000 merchants.

Limits on Capacity

"We were concerned with the capacity of our own systems" to handle the processing of the merged bank-card program, said W. Robert Flowers, senior vice president at C&S. "We more than doubled our size, and there would have to be a big investment to continue in-house processing, so we think we're better served to go outside."

Mr. Flowers declined to say how much the bank expects to save by using Total Systems. The company will do settlement, accounting, and processing of statements for C&S/Sovran.

Some other processing jobs, such as credit card authorizations, might eventually be handed to an outside firm, Mr. Flowers said. "By and large we think the rest of the operations will stay in house," he said.

Economies of Small Scale

Bankers and analysts have said recently that outsourcing arrangements, which can help banks cut technology costs, are less beneficial for larger banks than for smaller ones.

Many small and midsize banks have turned to outsourcing – which bankers say can shave 20% to 50% off technology costs – but no large bank has signed such a contract.

C&S/Sovran, which will become the largest bank merger ever, will have $47 billion in assets to rank 12th nationwide. □

Wide Net Cast over Kuwait, Iraq Accounts

Continued from *page* **1**

held up, bankers said they were working quickly to get down their lists of accounts in question. Custody, funds transfer, and trade financing personnel were scrambling into Friday afternoon to determine what constituted an "government-controlled entity and what did not.

"With certain institutions, it's clear they are government owned, but one might be 10% owned, another 30% owned," said David L. Hinds, senior vice president of international money transfer at Bankers Trust Co.

Talking with lawyers and the Treasury Department, Bankers Trust came up with a list of 12 names on Thursday morning that was being gradually trimmed. "We don't know what it will ultimately sort down to," Mr. Hinds said.

The Treasury department informed Bankers Trust of three names that "they claim to be influential in terms of the Kuwaiti government," officials said. The bank expected to have a complete list by the close of business Friday or Monday.

"The most prudent way for banks to approach that problem is to be conservative in trying to identify the accounts and then peel away from that universe," said a Washington lawyer who requested anonymity. "There are negative implications of not freezing an account that should be frozen."

Possible Lawsuits

Observers raised the possibility, however, of lawsuits by Iraqi and Kuwaiti nationals unable to access their funds. But "it would be a tough suit to win," the lawyer said. "This is a valid exercise of authority by the U.S."

Bank managers put in long hours reviewing accounts and meeting with heads of custody, trade financing, and other areas. "This kind of thing is costly. It chews up a lot of management time," said Mr. Hinds, who was in meetings much of Thursday and early Friday morning.

At the New York Clearing House, president John F. Lee spent an anxious Thursday hoping he had made the right decision in blocking the payments of the two Kuwaiti banks on Chips – the Commercial Bank of Kuwait and the National Bank of Kuwait. There are no Iraqi banks on Chips.

On Friday, he was informed by the Treasury Department

"This kind of thing is costly. It chews up a lot of management time."

David L. Hinds
Bankers Trust Co.

that he had interpreted the decree correctly. On Thursday "I was acting at my peril, and today I'm all clear," Mr. Lee said. "Now we're just waiting for the other shoe to drop," he said, as Chips officials followed velopments along the Kuwait border with Saudi Arabia.

Breaking Off Contact

Mr. Hinds of Bankers Trust began his Thursday with a 5:30 a.m. phone call notifying him of the decree.

The operations crew at Bankers Trust sprang into action, and by 6 a.m., the bank had arranged not to bring up its money-transfer systems. The bank did not establish communications with Chips – the Clearing House Interbank Payments System – or Fed Wire, as it normally would.

Instead, the bank reviewed its accounts, separated out the 12 that it thought might fall under the decree, and reestablished contact with the payments systems at about 9:30 a.m., Mr. Hinds said.

Unlike Bankers Trust, most banks logged onto Chips as usual, according to Mr. Lee.

Once Bankers Trust had compiled the list of names, blocking transactions by those entities was relatively easy.

The actual blocking is straightforward and conducted through software controls.

Bankers Trust's money-transfer system, which runs 23 hours a day, was modified so that no payment could go out and no credits could come into the secured accounts. As items were received for the accounts in question they were sent to a separate file for individual review.

"All the work involved in other areas got deferred," said a banker at a money-center bank who asked not to be named. "We had emergency meetings yesterday that went on for hours and hours," he said Friday.

A money-center bank that uses software "switches" turned those automatic switches off for the accounts it deemed affected by the decree, said a spokesman who ask that the institution not be named.

The switches allow payments within certain parameters to be executed and released to Chips and Fed Wire automatically.

Transactions and accounts with the switches off were handled manually. Payment items and accounts were put in a holding queue and frozen.

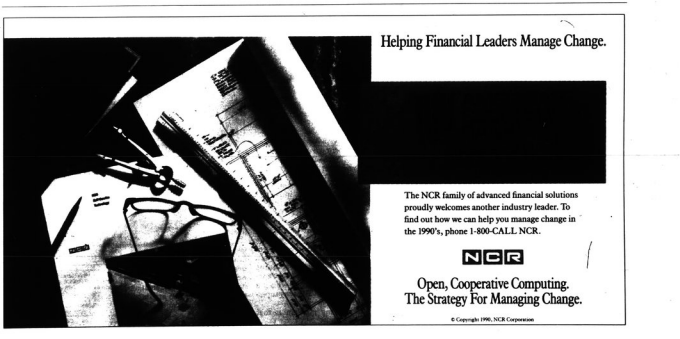
Credit Operations Affected

Besides funds transfers, custody and letter of credit operations were affected. Letters of credit which required payment from a government-controlled account could not be executed.

Custody operations had to sift through accounts that might be held under the names of brokers instead of the owners.

"We had numerous meetings to ensure that all departments that had [the targeted] accounts were aware of what they had to do," a money-center banker Hinds said.

By Friday, bank operations that were reeling on Thursday began to recover. "The panic button" was off, he said. □



COMMENT / By Paul Nadler

New Risks Add to Problems Of Struggling Institutions



There was a time when all a bank officer had to worry about was the ability of his borrowers to pay back their loans. Interest rates were stable, operations were simple, competition was minimal, and banking was a good field to be in.

This peaceful scenario was first challenged by the increased volatility of interest rates, dating back to the Vietnam war. Interest rates have risen so rapidly at times in the past two decades that some banks have been brought to their knees by interest rate risk. Rising interest rates have had more of an impact on the value of their bonds than the traditional cause of trouble, credit risk.

Triple-A Trouble

The best example is First Pennsylvania Bank, which required a federal bailout after it got into difficulty with its holdings of triple-A-rated government bonds.

Mr. Nadler is an *American Banker* contributing editor and professor of finance at the Rutgers University Graduate School of Management.

Interest rate risk, or so-called money risk, can kill you as rapidly as credit risk if your bonds are long enough, as First Pennsylvania learned. The perils of money risk were later learned by a number of other banks and thrifts that did not practice gap management and thus did not prepare for rapid rate swings.

As if money risk and credit risk were not enough of a problem, there are two other types of risk that can be just as dangerous to the health of a bank. These are covariant risk and a new problem that can be termed career risk.

Covariant Risk

Covariant risk simply means that a problem in one area can spill over and affect other sectors of the banking market that were thought to be immune to the problem.

I visited the top officers of a major bank in the Texas Panhandle just when the Oil Patch loan problems were at their worst. This bank had been hurt, like all other banks in the area, by the inability of its customers to repay their debts.

But the president said to me: "We saw what was coming. We knew that Oil Patch loans and agricultural loans would be trouble, so we didn't make many of them. Rather, we lent to mom-and-pop stores and auto dealers. We made bank stock loans and developed consumer credit, which we thought would be far more secure.

"But when oil and agriculture went down, the mom-and-pop stores closed, the auto dealers couldn't sell cars, the local bank failed, and the consumer couldn't repay his debts. We were just as badly hurt as if we had gone directly into oil and agricultural loans with the rest of the banks."

The conclusion: If we are to protect banks from covariant risk, we have to let them expand geographically and diversify out of a dependence on local industry.

It is ironic that with the failure of so many banks and thrifts, lawmakers are turning against allowing diversification in an effort to enhance bank safety. But it would seem that allowing geographic diversification would lead to stronger, rather than weaker banks, because they would be able to overcome the covariant risk problem.

Career risk means that a great many bankers and other financial people are worried about their professional futures as they see so many companies in financial and nonfinancial, lay off staggering numbers of employees. The response of these bankers and corporate treasurers can be summed up simply: Don't rock the boat. Don't take any steps that could lead top management to question your judgment.

Avoiding Blame Is the Game

Those who have been around banking for a while have long recognized what new entrants into the field find hard to accept: The key to bank performance is "ego" and "cover your rump." In essence, the way to survive and thrive in this or any other industry is to try to get credit for all that goes well and avoid blame for failures.

The result has been a cautious

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"SOUND OFF"

Secretary of Labor Elizabeth Dole introduced a "glass-ceiling initiative" last week, citing studies that show women and minorities making up 30% or more of middle management in big corporations but less than 1% of top management. In a recent *Business Week* cover story on companies that provide the best opportunities for women, Security Pacific was the only banking company cited. The *American Banker*'s Beth Piskora asked the following question:

Q *Are banks doing enough to promote women, particularly in middle and senior management?*

■ Kathleen J. Burke
Executive vice president
Director of human resources
Security Pacific Corp.
Los Angeles, Calif.

In general, especially in commercial banks, there has been a high percentage of women in the lower and middle ranks. So it doesn't require a major cultural change to bring women into the top ranks. What it does require is a conscious effort on the part of top management.

I believe that's why we were cited in the *Business Week* article. We have taken a very systematic approach to identifying high-potential employees. "Mentoring" is one step we've taken, which we believe allows for more visibility for women and minorities.

Another thing we've done is clearly identify the career path and the track that leads to the executive suite. We meet frequently with all aspiring applicants and clearly communicate strengths and weaknesses, so there are no surprises.

We also have a range of benefit services. We offer maternity and paternity leave. We see ourselves as "family friendly," but not necessarily catering to women.

Banks have to realize that we're not only in a competitive mode for customers, we're competing for employees as well. Banks that choose to ignore women won't be able to recruit and retain the best people.

■ Hugh L. McColl Jr.
Chairman
NCNB Corp.
Charlotte, N.C.



If my associates are forced to choose between work and family – and family wins out – NCNB is robbed of one of its most vital resources: experienced people.

That's the chief reason we've expanded from basic maternity benefits to a child-care reimbursement fund, extended maternity and paternity leaves, adoption leave, childcare referral service, and flexible work schedules.

Implementing programs like the ones we have are costly. But the rewards come in intangible areas – such as turnover, morale, and productivity.

■ Polly DiGiovacchino
Vice president
Chemical Bank New Jersey
Princeton



The real problem is that women are still concentrated in the lower-paying jobs. There are probably pockets where the financial community is adequately addressing women's promotability, but there's still a lot of work to be done. Maybe some top management could get into a mentor relationship with women who show high potential.

Also, banks need to establish goals for promotability and communicate them in regularly held employee reviews.

Of course, we must do more in the way of flex time, elder care, child care, and job sharing, all of which allow women to continue to work productively.

■ Robert L. McCormick
Chief executive officer
Stillwater National Bank & Trust
Stillwater, Okla.

The main thing is that banks are missing an important talent if they're overlooking women as a source for the workforce.

I can't speak for the industry in general, but in our bank we are definitely using the talents of women. My internal auditor is a woman, my human-resource manager is a woman, I have a senior vice-president who's a woman – almost all of my supervisors are women.

In fact, my problem is that I've got to learn how to recruit more men, just to keep some balance.

■ Joan E. Spero
Senior vice president/treasurer
American Express Co.
New York City

Businesses have to make a concentrated effort to judge people on their merits, not sex.

We need to create an environment that nurtures talented women. Women must have access to training. They have to get into the right meetings, the right task forces. They must be given the right opportunities in management.

I'm convinced that if we just created such an environment, the cream would rise to the top. We don't have to use quotas.

It's in the self-interest of businesses today to take advantage of the limited talent pool. You're not going to be competitive if you don't have the people, and if you don't have the women you're missing out on some of the best people.

■ A. J. King
Vice president
Valley Bank of Kalispell
Kalispell, Mont.

There may be a perception that banks aren't "women-friendly," but I don't know that we're not. There are a lot of banks with women officers, vice presidents, and the like.



I expect we would see a lot more regulation if banks were not promoting women. As it is, we have enough regulation to bury an elephant; any more would be very unhealthy for the industry.

REQUIRED READING

A Debate on the Solvency of U.S. Banking

The ABC News "Nightline" program of Tuesday, July 31, carried a report in which Stanford University economist R. Dan Brumbaugh said: "I believe that the following banks are very close to true insolvency: Chase, Chemical, Manufacturers Hanover, Bankers Trust, and even Citibank and Bank of America."

That assertion led to the following exchange among Nightline moderator Ted Koppel, Federal Deposit Insurance Corp. Chairman L. William Seidman, and Mr. Brumbaugh. The transcript was furnished by ABC News.

KOPPEL: Mr. Seidman, if there is a commodity that is almost as important to banks as money, it's got to be confidence. We've Just heard Mr. Brumbaugh tick off the names of perhaps the biggest banks in the United States and suggest they're effectively on the verge of being in big trouble. What do you say?

SEIDMAN: Well, I think it's irresponsible. It's shouting fire in a crowded theater. And I'd be much more concerned about it, except Mr. Brumbaugh's been saying things like this for the last three or four years, ever since I got into this job.

KOPPEL: Well, if he's been saying it about things like the S&Ls, he may even have been right.

SEIDMAN: No, he worked for the FSLIC [the defunct Federal Savings & Loan Insurance Corp.], so he could have said it there. I don't remember him saying it while he worked for FSLIC. But I'm talking about banking. He's been making these same kinds of charges ever since I took this job. He testified before Congress two years ago in the same way. We had to correct his numbers because he double-counted a lot of the institutions.

And just as I think that every citizen has a right to say what they believe, I just believe he's wrong and there are a lot of reasons he's wrong. He's wrong because the auditors are looking at these banks, we are looking at these banks, the Comptroller's looking at banks, and a much more importantly, the market is looking at these banks. And they know and they say the banks aren't broke, or they wouldn't be buying and selling their stocks.

KOPPEL: Well, you raise an interesting question, and let me put it to Mr. Brumbaugh for a minute. How does the average consumer know whether a bank is in good shape or bad? I walk into the offices of Bank of America, or Citibank, or Chase Manhattan, I've got no way of knowing whether that bank's on the verge of bankruptcy or whether it has $20 billion in the till.

BRUMBAUGH: And it doesn't really matter. As long as there's deposit insurance under the current system, any consumer or depositor in particular need not worry one iota because those deposits are guaranteed by the federal government. And therefore we have no problem with runs, whatsoever.

KOPPEL: If there's enough money in FDIC to cover all the bank's failures.

BRUMBAUGH: No, the full faith and credit of the United States

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COMMENT

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or negative attitude in cases where the upside of taking risks does not outweigh the downside. Why have so many operations officers limited themselves to top-name computer hardware even if a secondary name might offer features more applicable to the bank? Because if the second-ary equipment fails to do the job, the officer's career is on the line. But if it is the top name that fails, he has the excuse: "It's not my fault; I bought the best." In sum, buying the name helps avoid career risk.

How does this affect banking today?

Business Flows to Top Banks

Look at the choice of the corporate cash manager in today's environment. He sees that the "too big to fail" doctrine protects him if he sticks to using top banks and that he subjects himself to possible career risk if he uses midsize banks, whose demise would not be so assiduously fought by federal officials.

Buying the top name helps avoid career risk.

He hears about possible "haircuts" on the value of deposits to help the FDIC meet its costs if a bank does need federal assistance. And he decides, "If my account is subject to a 10% haircut, my job my be subject to a 100% haircut. So I'll stick with the strongest."

The corporate treasurer also sees that some banks may have a tough time meeting loan demands in these days of stiff bank examinations and stricter capital requirements. So, to avoid career risk, he forms a relationship with a top bank, thereby making the strong stronger at the expense of the rest of the industry.

One cannot blame the financial professional for trying to avoid career risk. But it is one more factor that bankers must understand as they look at the future of the industry and try to determine where their own organization fits in. □

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REQUIRED READING

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government now stands behind the bank insurance fund, as well as it does the savings association insurance fund, so that's not a worry whatsoever for depositors. The real worry is for taxpayers.

Let me go back and say that when I was the deputy chief economist at the Federal Home Loan Bank Board, a colleague of mine, Jim Barth, and I first estimated in 1985 that the FSLIC was insolvent. We stated this. It was denied by the then-chairman of the Federal Home Loan Bank Board, the chairman of the Banking committee in the Senate denied it, the ranking Republican member denied it. And I'm very used to public officials like Mr. Seidman saying the sorts of things that they're saying.

The fact of the matter is that when we started writing our papers on the bank insurance fund in 1988, the Federal Deposit Insurance Corporation fund was $18 billion. Your [new report mentioned] that it is $13 billion. Well, Mr. Seidman and his deputy announced recently that it's likely to go down another $2 billion this year, down to $11 billion. That's a decline of 40% since I started doing my work, and I think it reflects the kind of deterioration that I've been talking about the entire time.

To say that these banks "are all insolvent is just preposterous."
L. William Seidman
Chairman, FDIC

KOPPEL: Mr. Seidman, when I made reference to confidence being almost as important a commodity as money to banks, what I was really suggesting is that a man in your position almost has a fiduciary responsibility to the public to give the impression that, you know, things are okay with the banks, because if you do anything other than that, you may create such a crisis of confidence that the thought will become father to the deed.

SEIDMAN: No, I think we have a fiduciary responsibility to tell the truth as we know it. This is an open system that we live in. Thousands of people are looking at these institutions, and no one is going to be fooled for long. So our job is to tell the people the truth, and that's what we try to do.

Now, we are very careful not to try to create an atmosphere of panic, obviously, but we tell the truth as we see it, and I've said many times when I think this fund is no longer able to handle banks that fail, I'll be the first one to go to Congress and say we need more money.

KOPPEL: And do you think that is likely to happen? You suggested in your testimony before Congress today that this was not the best of all systems.

SEIDMAN: Well, I think that we take too much risk, we as taxpayers take too much risk. I think our deposit insurance system is too expensive – the S&L debacle proves that – and I think we need to make some changes. And I think we ought to do that promptly. But at the present time, our fund can handle what we see ahead as the likely failures. So I just want to make it very clear that when we can't handle that, we'll let you know.

KOPPEL: You are as familiar as anyone with the banks that Mr. Brumbaugh ticked off before. I don't recall all of them, but we're talking about the half-dozen biggest banks in the United States. You're telling me they're in no trouble.

SEIDMAN: Well, I'm telling you that when those banks are in trouble, it will be reported. It will be reported by their management, by their auditors, by the regulators and by the marketplace. And obviously, bank stocks are down, so clearly they're not doing as well as they were. But to say that they're all insolvent is just preposterous.

KOPPEL: Well, I don't think Mr. Brumbaugh said they were all insolvent, but you were suggesting, Mr. Brumbaugh, that they might very soon be?

BRUMBAUGH: Well, I think they reflect the deterioration in the worst part of the banking community at the moment, and I think that they parallel the deterioration in those institutions which are at or near insolvency. Their net worth has declined precipitously and dramatically over the last 10 years. Their earnings are anemic and worse.

They're paying dividends out of net worth, which reduces the buffer to the FDIC. They have huge portfolios of very high-risk assets, primarily commercial real estate, large components of

"Accounting techniques in this country cover up true insolvency."
R. Dan Brumbaugh
Stanford University

construction loans, loans that are very similar to junk bonds in the form of loans to highly leveraged transactions for takeovers, and they have LDC debt which as yet has not been reserved for or written off nearly adequately.

KOPPEL: LDC, you mean less developed countries?

BRUMBAUGH: Right, loans to lesser developed countries. As a result of that, their net worth is greatly depleted. And let me tell you why, contrary to what Mr. Seidman indicates, why thousands of institutions can be in trouble with a lot of people watching. It's because the accounting method that we use in this country covers up true market insolvency when these institutions get to the end of the rope, and that's exactly what happened with the savings and loan crisis, and it's happening all over again with commercial banks.

In my opinion, the total losses that are embedded in those banks that are insolvent, which I think may very well include some of those that I mentioned earlier, are so great that the bank insurance fund is not going to be able to handle it, and taxpayer dollars are going to be necessary.

SEIDMAN: I think Mr. Brumbaugh is bobbing and weaving here a little bit. If he's saying

See next page

Complying with the Treasury Department's amendments to the Bank Secrecy Act is no small feat. It's not easy meeting the new rules on maintaining detailed identification records when a customer purchases financial instruments such as cashier's checks and money orders. And failing to do so can mean severe financial penalties. Which is something no bank can afford.

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REQUIRED READING

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that these banks are having some problems now with Latin American loans, with real estate loans and so forth, the answer is clearly: they are. And clearly the market has reflected it.

Many of these banks are 50% of what they were some time ago. So no one is saying that there aren't some banks that are having some problems. That's an entirely different thing from saying that they're all insolvent or they're all at or near insolvency and that they're going to go broke and cause a tremendous problem in the system. That simply isn't the case at the moment.

I think I would agree with him if he says there's some problems there, but to jump from that to the conclusion that everything is going to fall apart and it's going to cost the taxpayer a huge amount of money. . . . I think the evidence is not there for that.

KOPPEL: Let me ask you what may be, as much as anything else, a psychological question. If a Chase Manhattan, if a Bank of America goes broke, the impact on the rest of the banking community is going to be devastating, isn't it?

SEIDMAN: Well, it'll have to be handled by our safety net. That's why we have always, when large institutions have failed, backed them up so that they didn't have an effect on the whole stability of the system. We would do the same with any large institution that failed.

KOPPEL: But today, in your testimony before the Senate, you were suggesting you really didn't like the idea of every investor being able to have a number of accounts that are all insured for up to $100,000 each. You're suggesting each depositor, $100,000, that's it. So basically, you're talking about removing that safety net.

SEIDMAN: Well, no, I'm simply drawing the safety net in so it's a less expensive net but still provides stability.

KOPPEL: Well, if I'm up there on that tightrope, and you're making that net smaller and smaller; no matter how you describe it, I think you're pulling the net away from me. If I've got $500,000 to deposit and you're only willing to insure $100,000 of that, that's a lot of net gone away.

"Many of these banks are 50% of what they were some time ago."
L. William Seidman
Chairman, FDIC

SEIDMAN: I suspect you put – well, first place, anything like that would be done over time, but secondly, you would probably, if you felt concerned, put the money in government bonds or something else if you didn't feel your bank was safe. I don't think much of that will take place, but the important thing to remember is no dramatic changes are going to be made. Anything that will be done will be done over a period where people can adjust to it.

BRUMBAUGH: See, that's the problem. The dramatic changes are already occurring in the dramatic deterioration at the banks. The major banks that I talked about are at or near insolvency. In addition to that, there are 460 banks with $42 billion that have had losses in each year since 1986. They have $42 billion in assets. Those institutions are going to exhaust their net worth on an accounting basis this year. There are another $30 billion in assets at institutions that have had negative net income for the last two years.

I'm not bobbing and weaving at all. I'm saying flat out that the $11 billion that are going to be left in the deposit insurance fund is inadequate to close all insolvent banks and that taxpayer dollars are going to be needed to do it, because of these sorts of things. And by the way, I should state that most economists do not believe that if these banks have to be closed, the repercussions are going to be anywhere near as significant as Mr. Seidman states.

In fact, it's part of what I think is a cover-up when Mr. Seidman says, in essence, that we're going to keep big banks open even if they're insolvent.

"460 banks with $42 billion . . . have had losses in each year since 1986."
R. Dan Brumbaugh
Stanford University

KOPPEL: Mr. Seidman.

SEIDMAN: Well, it's hard to begin, because we're off on a wholly different argument now. But what I am saying is that we will maintain the stability in the banking system and we will do what is necessary to see that that safety is in our system.

KOPPEL: The one word that has not been addressed yet, and it's one of those inflammatory words that I think you need to address, is cover-up.

SEIDMAN: Well, I don't like to get into calling people liars, cover-ups, sensationalists and so forth. I don't think that helps this argument. If Mr. Brumbaugh thinks that I am dishonest, he has a right to that opinion. I think that it is unwise to argue on those grounds. It's typical professorial-type attack. And I just think it doesn't help the arguments at all.

BRUMBAUGH: Let me state in Mr. Seidman's behalf that I think he's a very honorable man, and to the contrary, the responsibility for the banks is shared by himself and a number of other agencies. And I think that, for example, by comparison to the thrift regulators who would never come in a situation like this and debate their critics, Mr. Seidman shows real courage to do so. And I do not attack his personal honesty whatsoever.

It's not a cover-up in the sense of Watergate. It's a cover-up in the sense that, for example, the accounting techniques in this country cover up true insolvency when it occurs. It's being done systematically in the thrifts and it's being done now. It's not a personal attack on Mr. Seidman at all, it's part of the system failing us. □



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COMMUNITY RELATIONS

BankAmerica Reaches Out With Fixed-Rate Mortgages

By YVETTE D. KANTROW

NEW YORK – Bank of America expanded its affordable home lending program last week to include fixed-rate loans, thanks to an agreement reached with the Federal National Mortgage Association.

The bank's program is considered unusual because it targets borrowers who live in designated low-income tracts and ZIP code areas, thereby serving to revitalize low-income communities. Under the latest initiative, the bank will sell to Fannie Mae up to $250 million in fixed-rate loans made to citizens in low-income communities.

In expanding on its adjustable-rate loan program, the unit of San Francisco-based BankAmerica Corp. is underscoring the importance it places on compliance with the Community Reinvestment Act.

"Mergermania [in California] is generating heightened interest in fulfilling CRA requirements," said Robert L. Gnaidza, a member of the San Francisco-based Greenlining Coalition, one of California's principal CRA advocacy groups. Community groups have mounted vigorous challenges to bank merger applications across the country on the grounds that the institutions failed to comply with the law.

"A number of lenders are also recognizing that California is a gold mine, but a multicultural gold mine," Mr. Gnaidza said.

Moves by Other Big Lenders

Security Pacific Corp., Los Angeles, said in the spring it will spend $2.4 billion on "community involvement" activities over the next 10 years – the largest dollar commitment to a CRA program to date. Its move was quickly followed by a $1 billion pledge from Wells Fargo Bank, San Francisco.

Bank of America has been criticized because it has not set a long-term CRA investment goal. But its Neighborhood Advantage lending program, which was rolled out in May, has won praise from community groups for targeting areas by ZIP code and census tract.

"It's a good idea – it's a very good idea," Mr. Gnaidza said.

Importance of Fixed-Rate Mortgages

Many other low-income lending efforts are not aimed at specific communities, explained Mr. Gnaidza, and, as a result, borrowers tend to be at the higher end of the low-income bracket. Fixed-rate mortgages are considered important for borrowers who want the assurance that their monthly loan payment will not change.

The $250 million program represents Fannie Mae's largest single commitment for lower-income areas in the country.

"It's the first geographically targeted lending program in the West, and that does make it unique," said Tom Marder, a spokesman for Fannie Mae. "We're happy that we helped them do the deal." □

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Ahmanson Originations Up 42%

Thrift Defies Market Trends with Home Loan Blitz

By PHIL ROOSEVELT

NEW YORK — The thrift industry may be pulling back from the mortgage market, but don't tell H.F. Ahmanson & Co.

The Los Angeles-based parent of Home Savings of America, the nation's largest thrift, saw its home mortgage originations hit $6.9 billion in the first half of 1990 – up an eye-popping 42% from the year-earlier period.

Leader in Mortgages

The total made Ahmanson the largest originator in the country, according to *Inside Mortgage Finance*, a newsletter. Fleet/Norstar Financial Group was second, followed by Great Western Financial Corp.

Citicorp, the top mortgage maker after all of 1989, slid to No. 4 in the first six months of this year, according to an estimate by the newsletter. Citicorp, which discloses originations only at yearend, declined to comment.

Ahmanson's gain, up from third place in 1989, comes as the thrift industry as whole has been losing ground in mortgages. Insolvent and capital-short thrifts have been pulling back from the market and commercial banks have been storming in.

Thrifts' originations plunged 19% in the first quarter while banks' volume rose 44%, according to the most recent data from the Department of Housing and Urban Development.

Ahmanson's first-half gain is especially notable because it comes as the housing market in California and elsewhere is slowing. Most major thrifts in California reported declines for the period.

No-Points Lending

Richard H. Deihl, chairman and chief executive of Ahmanson, attributed the gain to hefty deposit increases, a big push to win homeowner refinancings, and the popularity of a new no-points loan.

"I really don't care about bragging rights," he said of the ranking. "But I do think that if we have money to loan, we should loan it."

Heavy marketing of the no-points loan has raised eyebrows among rivals, who claim the lender will prove unprofitable if borrowers pay off their loans early.

But Ahmanson maintains it is well protected: borrowers pay a slightly higher interest rate for the loan and face a penalty of 1.5% if they repay within three years.

"We've heard people say we're crazy and shouldn't be doing the loan," Mr. Deihl said. "But that's primarily because they haven't looked at it carefully."

Top Mortgage Originators
Dollars in billions

	Last '90	Prior '90	'89 mark
Home Savings of America	$6.9	$11.0	3
Fleet/Norstar Financial Group	$6.7	$8.7	4
Great Western Financial Corp.	$5.5	$11.1	2
Citicorp	$5.0*	$12.3	1
BankAmerica Corp.	$3.7	$4.4	9

*Estimate
Originations are defined as 1- to 4-family residential loans closed in lender's name, excluding wholesale purchases.
Source: Inside Mortgage Finance

Rising Deposits

Meanwhile, Ahmanson continues to be a big prompter of refinancings, targeting people who want to convert their home equity into cash. That reduces the company's dependency on home sales.

Some mortgage executives say that such refinancings are risky loans, particularly as home-price appreciation slows. Mr. Deihl, however, says Ahmanson has found refinancings to be of similar credit quality to loans for home purchases.

"We think we understand what is involved in safe lending," he said.

The company clearly has been helped by rising deposits. In what Mr. Deihl calls a flight to quality by depositors jittery about the thrift industry, Ahmanson's deposits jumped by a record $2.4 billion in the first half.

Beverly Hills-based Great Western saw its volume fall to $5.5 billion in the first six months of this year. The company said the volume drop reflects efforts to ensure credit quality as the market cools.

"In this market, we're not that concerned about being No. 1 in originations volume," said E.S. Lyons, Great Western's manager of mortgage banking. □

RTC Checking for Overcharges

NEW YORK — The Resolution Trust Corp. is checking for possible overcharges in failed thrifts' adjustable-rate mortgage loans estimated to have cost borrowers billions of dollars, RTC Chairman L. William Seidman said in a July 31 letter to Senate Banking Committee Chairman Donald Riegle, D-Mich.

"We have asked our regional offices to investigate the issue," Mr. Seidman wrote.

"To the extent that errors in the calculation of interest rates on adjustable-rate mortgages are an industrywide problem, errors are bound to crop up at RTC thrifts."

The letter from Mr. Seidman came in response to Mr. Riegle's request for estimate on the RTC's liability for loan overcharges.

Consultant Sparked Study

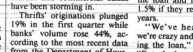
John Geddes, an Indiana-based computer consultant whose study of adjustable loans prompted the action, has estimated that borrowers were overcharged $8 billion on loans taken out at thrifts since 1979.

— Reuters

AMERICAN BANKER/*Bank Rate Monitor's*™

Consumer Money Index

Eight-Week Rate Trend



Retail Yields

	6-month	1-year	5-year
New York	7.90%	8.11%	8.40%
Los Angeles	7.91	8.12	8.01
Chicago	7.58	7.73	8.09
San Francisco	7.91	8.09	8.17
Philadelphia	7.83	7.94	8.08
Detroit	7.52	7.80	7.99
Boston	8.05	8.20	8.27
Houston	7.58	7.64	7.84
Dallas	7.60	7.67	7.87
Washington	8.21	8.38	8.36
BRM NATIONAL AVERAGE	7.81	7.97	8.11

Retail and Jumbo CDs

Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 largest banks and thrifts in each of the nation's 10 largest markets on August 1. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Jumbo Rates

	6-month	1-year	5-year
New York	7.82%	7.97%	8.07%
Los Angeles	7.91	7.97	7.78
Chicago	7.99	7.97	8.02
San Francisco	7.92	8.00	8.11
Philadelphia	7.69	7.85	7.87
Detroit	7.76	7.75	7.84
Boston	7.95	7.95	8.02
Houston	7.84	7.74	7.92
Dallas	7.70	7.75	7.95
Washington	7.93	8.01	8.05
BRM NATIONAL AVERAGE	7.77	7.83	8.00

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

WASHINGTON *Monday*

A weekly feature

Appraisers Fighting Back Against New Fed Restrictions

By LINDA CORMAN

WASHINGTON — The appraisal industry, caught off guard by a successful campaign by bankers and real estate agents to influence Congress, is mounting real estate appraisals, has counterattacked – apparently effectively.

The counterattack, deploying the well-connected Washington law firm Manatt, Phelps & Phillips, has prompted the Federal Reserve Board to rethink rules it issued last month dictating when certified appraisers must be used in real estate transactions.

Other agencies mandated to issue rules for the same purpose have also been hesitating over their decisions, and a congressional subcommittee has been called on-again, off-again congressional hearings to reopen the issue.

Another volley in the counterattack was launched last Tuesday when Manatt, Phelps, on behalf of the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers, filed a petition asking that the Fed reconsider its rules.

Prodding the Fed

To guard against banks' making overly risky real estate loans, the 1989 thrift reform bill mandated that the Fed and other bank regulators revise their rules on the use of appraisers in real estate transactions.

In its decision, the Fed set $100,000 as the cutoff or "de minimis" point for real estate transactions; for bigger ones, certified appraisers.

Certified appraisers must meet federally mandated educational and testing requirements, while licensed appraisers must comply with varying, less demanding standards set by individual states.

Robert J. Kabel, a partner in Manatt, Phelps, said that since the Fed issued its final rules he and colleagues have been on the hustings encouraging other agencies not to follow the Fed's lead, and prodding the Fed to reconsider.

Proponents and opponents say there are signs the appraisers are making a dent. "We think active reconsideration is going on," said Mr. Kabel.

"It [the de minimis level] is in trouble across the board," concurred Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America.

Battling the Minimum Value

The appraisal industry has been particularly taken aback by the $100,000 cutoff point, since in a draft proposal issued in February the Fed, along with several other agencies, set $15,000 as the de minimis value.

"They came out with final regulations and didn't give us a chance to comment on them," said A. Scruggs Love, president of the real estate appraisers institute. "What is happening is original- ly we thought were very good recommendations. We feel they succumbed to the pressure of the community banks."

"It's the wrong message to give to community bankers . . . that qualified appraisers are not important. That was not the intent of Congress. Their action cut the legs out from under the



Rep. Doug Barnard
Democrat of Georgia

appraisal reform."

As grounds for requesting a review, the appraisers are arguing that there was no provision for a de minimis standard in the Financial Institutions Reform, Recovery, and Enforcement Act. "We concurred with the $15,000 [in the draft proposal] because it was clearly de minimis," said Mr. Kabel.

House Hearing Postponed

Since the lobbyists swung into reaction, a subcommittee of the House Government Operations Committee had planned a hearing to review the rules.

That hearing of the subcommittee on commerce, consumer, and monetary affairs was postponed indefinitely because subcommittee chairman Doug Barnard Jr., Ga., was summoned to Fed was taking the committee's concerns to heart, said Jeffrey A. Marer, counsel for the subcommittee.

But just in case the committee's qualms slip the Fed's mind, Mr. Barnard last week planned to send the second in a series of letters to Fed Chairman Alan Greenspan appealing for a review of the agency's rules.



Kenneth A. Guenther
IBAA

The first letter, sent in late June after the Fed approved its final rules, said the Fed's rules did not fulfill Congress' intent in calling for new appraisal guidelines in its thrift bailout bill.

"If all the bank regulatory agencies adopt the Federal Reserve Board's rules, this would mean that millions of residential mortgage loan transactions will not be accompanied by any appraisal and the vast majority of all mortgage transactions will be appraised by licensed and not by certified appraisers," the letter said.

"It was never the intent of Congress that potentially half of all residential mortgage transactions be exempt from the [appraisal] requirements" of the thrift bailout law, the letter said.

The IBAA claims the subcommittee decided to revisit the issue after being prodded by the appraisers. Mr. Tassey, however, says Mr. Barnard made the decision independent of the appraisal lobby.

The IBAA objects to the requirements that certified appraisers be required for most real estate transactions. The association claims certified appraisers are too costly and are not available in many rural areas.

A Disagreement on Standards

The appraisal industry's lobbying has further thrown into question the final rules of all the regulators, many of which have issued their rules following the Fed's late June action.

The Federal Deposit Insurance Corp. and the Resolution Trust Corp. decided on a final $100,000 de minimis standard for residential transactions. The National Credit Union Association has come in at $50,000. The Office of Thrift Supervision favors a $15,000 limit, but in its submission of approval to the Treasury, it has left the de minimis standard blank.

An OTS spokesman said so many numbers are being batted around because agencies that the OTS wanted to signal its willingness to negotiate with the rest to come up with a common standard. The Office of the Comptroller of the Currency is expected to follow the Fed's lead.

Observers are not predicting what the regulators will finally agree upon or whether they will agree.

Never a shrinking violet, Manatt, Phelps may follow up its petition to the Fed with similar appeals to the other agencies, said Mr. Kabel. □

THE WEEK *ahead*

MONDAY, AUGUST 6

James Fail, who purchased 15 insolvent savings and loans from the government with little of his own money, continues to be the subject of hearings led by Sen. Howard Metzenbaum. 202-224-5225.

Productivity and cost figures for the second quarter are released by the Labor Department.

Congress officially is in recess until just after Labor Day.

TUESDAY, AUGUST 7

The House Banking Committee holds a hearing at the State Capitol in Sacramento, Calif., on deposit insurance coverage for plans that operate under section 457 of the tax code. 202-225-4247.

The National Credit Union Administration releases its budget plans for fiscal 1991. 202-682-9650.

Consumer credit figures for June are released by the Federal Reserve Board.

WEDNESDAY, AUGUST 8

The Federal Reserve Board releases the beige book, the Fed staff's assessment of the economy and monetary policy. 202-452-3000.

The House Banking Committee holds a hearing on real estate settlements and procedures, focusing on computerized loan origination systems. 202-225-4247.

Treasury Secretary Nicholas F. Brady addresses the National Press Club in a luncheon speech. 202-662-7500.

THURSDAY, AUGUST 9

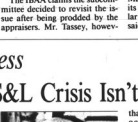
Donald Trump's troubled real estate empire – and banks that lend to it – are scrutinized in a hearing before the House Banking Committee. Comptroller of the Currency Robert L. Clarke, Federal Reserve Board Chairman Alan Greenspan, and executives from major New York banks are testifying. 202-225-4247.

FRIDAY, AUGUST 10

Producer price figures for July are announced by the Labor Department.

INSIDE *congress*

Garn Insists S&L Crisis Isn't His Fault



Sen. Jake Garn
Republican of Utah

Sen. Jake Garn, R-Utah, thinks he has taken a bum rap for the sweeping financial-reform legislation known as the Garn-St Germain Act, shepherded through Congress in 1982 by him and former House Banking Committee Chairman Fernand St Germain.

Last week, while questioning Federal Deposit Insurance Corp. Chairman L. William Seidman on banking issues, Sen. Garn washed his hands of the thrift crisis.

"If I would have known what was going to happen, I would have not . . . put my name on the bill," Sen. Garn told Mr. Seidman.

The Garn-St Germain Act changed the industry radically by giving thrifts powers to invest up to 40% of their assets in non-residential mortgage loans, and offer money-market funds free of an interest rate ceiling, insured up to $100,000.

The Utah senator is known for bravery as well as good political connections. He was helped M. Danny Wall become chairman of the Federal Home Loan Bank Board and he traveled on the space shuttle.

Sen. Garn claimed federal laws have been used as the "scapegoat" for the thrift crisis.

"It is clear that federal law was not the [cause] of the problem," Sen. Garn said. "Deregulation is . . . the major cause of the problem."

Blame It on Regulators. Though the debate continues to rage over whether there is a credit crunch, Sen. Chrisopher Dodd, D-Conn., needs no convincing that a serious contraction has occurred in his state and throughout New England.

Much of the problem can be traced to "overreaction by the regulators to the disastrous regulatory failure in the S&L crisis," he said last month.

Sen. Dodd said July 16 that he has been in close touch with the regulator of national banks, Comptroller of the Currency Robert L. Clarke, in recent months and has seen positive signs that the regulatory crackdown is easing.

"This change must be communicated to the examiners in the trenches who have to make decisions on a day-to-day basis," he emphasized.

"If they properly understand their role in helping New England readjust – and if Fed Chairman Greenspan follows through on his commitment to ease monetary policy to bring down interest rates – then Connecticut, New England, and other areas of the country that are experiencing similar problems will come through them more rapidly and with renewed vigor." — Bill Atkinson

Taking High Road on Asset Sales Costs RTC Time, Money

Continued from page 1

sets. In exchange, they often got protection from further losses on the assets, management fees, and cash incentives for quick sales.

Not one of the 207 rescues completed by the RTC as of June 30 was structured in this way.

The reason, experts say, is that the sophisticated asset transfer techniques got a horrible reputation in Congress because they were misused by the defunct Federal Home Loan Bank Board in Texas thrift rescues.

Sen. Howard Metzenbaum, the Ohio Democrat, has made national headlines in recent weeks with his investigation of Bluebonnet Savings Bank. The Dallas thrift was formed in a 1988 Bank Board rescue.

The Bank Board's extravagant assistance package made Bluebonnet the most profitable thrift in the nation last year, and was characterized by Sen. Metzenbaum as an "abomination."

Profit Incentive Seen Needed

This, then, is the heart of the RTC's problem: If it wants thrift acquirers to take all the bad assets along with the good, the agency must provide a substantial profit incentive that compensates acquirers for the risk they assume.

Ironically, L. William Seidman addressed this issue in 1988.

The RTC could sell the bad assets at deep discounts – say, 40 cents on the dollar – or it could provide some sort of guarantees on the assets. Either way, experts say, Congress will howl and the RTC will suffer.

"The RTC does not want to come in for the same criticism being piled on the Bank Board, whose deals look too generous," said Richard Fitzgerald, the former chief counsel for the Office of the comptroller of the currency.

It is sad, Mr. Fitzgerald said, because "keeping the bad assets really does compound the RTC's problems and eventually leads to higher costs."

Tradeoff Slows Sales

But now that the agency is headed down the road of maximizing public acceptance at the expense of maximizing results, experts say, it is hard to see how the agency can significantly accelerate the sale of bad assets.

"With the kind of scrutiny the RTC is under, the agency can't afford to take shortcuts," said Gene McQuown, Southwest regional director for J.E. Robert Cos. "They would just get brutalized."

In Dallas, RTC senior contracts specialist Janie Thomas said that it may take up to 240 days to select a manager for a pool of problem assets left over from a rescue.

Before the agency can negotiate a contract, she said, it first must inventory and appraise the assets. At institutions where most employees are gone and files are in cardboard boxes, the agency is incapable of performing the reviews itself and so must hire private contractors to do the work. The evaluations can take up to 120 days, she said.

An additional 120 days usually will pass while the asset management contracts are put out for bid, Ms. Thomas said. "It's a long way through it right now, making good, defensible selections of contractors who meet the highest standards of fitness and integrity. But we will perfect the process."

The sophisticated asset transfer techniques got a horrible reputation in Congress because they were misused by the Bank Board in Texas thrift rescues.

Lawmakers Blamed

If lawmakers don't like the looming RTC liquidity crisis brought about by the retention of bad assets, if they don't like the idea of locking up tens of billions of dollars worth of assets for months while the RTC finds perfectly defensible ways of letting asset management contracts, well then lawmakers can thank themselves, said Richard Knepper, Dallas-based chairman of the financial institutions section at Jones, Day, Reavis & Pogue.

"The RTC can't make a move without somebody in Congress taking a shot at them," he said. "It's like being in a giant fishbowl where people not only look at you, but they line up along the sides, take harpoons, and start throwing them at you."

That is primarily why $37 billion of problem assets are sitting unsold, observers say, and it is one reason why the cost of the thrift cleanup is rising.

"The guts of these supposedly resolved institutions are still sitting out there," said Thomas Brooks, the former general counsel for the FDIC. "That is the core problem, and it has not been resolved." □

Focus On A Changing Industry
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Both Parties Hope to Capitalize on Fallout from S&L Crisis

By MICHAEL GELB
Reuters

WASHINGTON — Disputes over who is most to blame for the thrift crisis are making their way into political discourse, with consultants and leaders in both parties taking offensive as well as defensive positions.

"The crisis was caused by Democrats, originally under Jimmy Carter's administration, and was aggravated by the Democratic leaders in Congress who were in bed, politically, with the crooked S&L operators," Republican party spokesman Charles Black said in a recent interview.

The Republicans followed that broadside with a newspaper advertisement picturing former Democratic House leaders Jim Wright and Tony Coelho, who had close ties to savings and loan industry officials. The ad denounced them as "the guys who let the S&L problem explode into a $325 billion national crisis."

Taking Aim at Bush

But Democrats may make hay from a possible government lawsuit against President Bush's son Neil for alleged misconduct when he was on the board of a failed Colorado thrift.

Democrats also say former President Reagan, acting on the recommendations of a task force chaired by then Vice President Bush, created the problem by easing government regulation of the thrift industry.

Democratic leaders scoff at the efforts to blame them.

"I hope this is the last time we see this kind of garbage," Massachusetts Gov. Michael Dukakis, the 1988 Democratic presidential nominee, said of the Republican assaults. "We had enough of it in 1988," he added, referring to a campaign widely viewed as the nastiest in memory.

Political analysts say the panic may be premature. They see little evidence that the thrift crisis will affect the November elections, in which all 435 House seats and one-third of the 100 Senate seats are at stake.

While taxpayers will ultimately shoulder the cost of the ballout, they have not felt any direct pain and it is hard to point to a single culprit.

Public Ire Rising

Bill Lacy, a consultant who once ran Ronald Reagan's White House political office, said he senses rising public anger over the fiasco. But, he added, "in the context of all the other problems, it's not at the top of the list."

Mr. Lacy said recent polls in Iowa, Nebraska, and Idaho, where he is advising Republican candidates, show the thrift crisis lagging behind the budget deficit, crime, and drug abuse in voters' minds.

While taxpayers will ultimately shoulder the cost of the bailout – estimated as high as $500 billion – they have not felt any direct pain, and it is hard to point to a single culprit.

So Far, Few Are Hurting

"The public is ticked off, but you don't have large numbers of people whose money is tied up or been taken away. Nobody has had to write out a check for $2,000 to pay for this," said independent political analyst Norman Ornstein.

He said the federal government's pledge to protect deposits helped create the crisis by eliminating the risks from speculative investments made by poor or dishonest S&L managers, but it also limits the political costs.

"Deposit insurance was a license to steal, but the victims were protected," he added.

Many Guilty Parties

Mr. Lacy said the problem is so complicated – attributable to such diverse factors as fraud, bad management, and unfavorable economic trends – that voters don't know whom to blame.

The President's party generally gets the blame for what happens on his watch.

But other analysts say voters will ultimately lump the thrift crisis – which has greatly added to the federal budget deficit – with overall concern about the economy and take their wrath out at the polls.

Early indications are that this would be bad for the Republicans, because the President's party generally gets the blame for all that happens on his watch.

"Historically, major economic scandals, even if caused by both parties, will be blamed on the White House," said, Republican analyst Kevin Phillips, the author of a recent book charging that Reagan administration policies further enriched the wealthy.

One recent opinion survey supported Mr. Phillips' theory that the President's party will take the heat. In a *Washington Post*-ABC News poll, 49% said either the Bush or the Reagan administration deserved most of the blame for the crisis. Another 10% blamed Republicans in Congress, and just 12% pointed the finger at congressional Democrats. □

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GLOBAL *dispatches...*

Brazil Is Criticized on Sale Of Gold in Parallel Market

By BILL HIERONYMUS
Reuters

SAO PAULO, Brazil — Brazil's central bank is financing capital flight by selling its gold reserves to artificially reduce parallel market rates for dollars, Citicorp's chairman and chief executive officer, John S. Reed, said here last week.

"They, the Central Bank, could continue for a good time" in selling gold, Ricardo Eichenwald, director of Sao Paulo dealer Ourinvest, said. Ourinvest, which has a data-sharing pact with Gold Fields Mineral Services Ltd., estimates that the central bank has sold between 140 and 150 metric tons of gold this year.

This estimate is in line with one provided on July 10 by Emilio Garofalo, director of transactions with foreign exchange reserves for the central bank.

130 Million Tons Traded

From February through June, the central bank has bought 130 tons of gold domestically and resold it internationally, Mr. Garofalo said last month.

Brazil's central bank has had a lot of arbitrage in gold under the administration of President Fernando Collor de Mello because of heavy buying last year by Brazilians, Mr. Garofalo said.

"These people now are selling off their gold" for other assets such as cruzeiros, futures contracts in foreign exchange, and other investments, he said.

The effect of the active role of the central bank has been to dampen the quotations in the technically illegal parallel market for dollars, also known locally by the single English word "black."

Basis for Pricing

The gold market and the illegal parallel market for dollars are interrelated because international gold prices are translated into local currency using the quotations of the informal market.

"The comment in the market is that there will be an unification of the rates," the director of the foreign exchange department for a larger Brazilian bank told Reuters.

The banker, who asked not to be identified, agreed with Reed's assertion that forcing the evel of the parallel dollar down finances capital flight. "At 80 cruzeiros, the dollar is very cheap" for someone wanting to buy them and deposit them abroad, he said.

... *by country*

WEST GERMANY

First-half partial group operating profits rose 17.8% at **Deutsche Bank** AG to $1.38 billion, the West German bank reported last week.

The results include for the first time profits from Morgan Grenfell, the British investment bank acquired by Deutsche Bank last year, but exclude trading profits for Deutsche Bank's own account.

Like other West German banks, Deutsche Bank releases net earnings only for the full year. Results were broadly in line with a 17.5% rise in partial first half operating earnings at **Commerzbank** AG, and nearly double an 8.9% increase at **Dresdner Bank** AG.

The bank, West Germany's largest $202.6 billion in assets as of the end of last year, said that its business continued to expand but that tight interest margins were cutting into earnings.

Parent bank operating profits, bolstered by international earnings, also rose 17.8%, to $930 million, Deutsche Bank reported. — **James R. Kraus**

THE PHILIPPINES

The U.S. Export-Import Bank approved an initial loan of $170 million to the Philippines for earthquake rehabilitation efforts, the finance department here said.

The money would be used to finance capital goods and services needed after the tremor, measuring 7.7 on the Richter scale, struck the country on July 16, it said in a statement.

The loan would guarantee borrowings made by the Philippine government from U.S. Commercial banks at interest rates close to those paid by the U.S. Government and carries a repayment period of 10 years, the statement added. — **Reuters**

UNITED KINGDOM

Several parties have expressed serious interest in buying British and Commonwealth Merchant Bank, the wholly owned unit of collapsed financial services group **British and Commonwealth Holdings PLC**.

The group's joint administrator told reporters that some of the interested parties were from overseas.

He said creditors had approved the administrator's sale. — **Reuters**

SWITZERLAND

The Swiss Justice Ministry has frozen bank accounts connected with a suspect in a U.S. savings and loan fraud case, a spokeswoman said Friday.

She said the case involved Tom Billman, former owner of the now-defunct Community Savings and Loan in Maryland, who is being sought by U.S. authorities.

The spokeswoman could not say how much money was involved. — **Reuters**

Iraq Retaliation Threat Called Weak

Little Effect Seen from Freeze on Payments to U.S.

Reuters

Iraq, the world's third-largest creditor nation as a result of massive wartime borrowings in the 1980s, will cause little harm to U.S. lenders with its threat to freeze payments, U.S. Treasury officials and banking experts said last week.

In apparent retaliation for President Bush's order freezing Iraqi assets and property because of the country's invasion of Kuwait, Iraq will withhold debt payments to the United States, the Qatari News Agency reported.

Treasury officials and bankers said the debt payments had been routinely missed by Iraq for some time. Sources have identified Iraqi debts of about $800 million to U.S. commercial banks and government agencies.

Little Impact Expected

The Iraqi holdout is expected to have little impact on the cash flow of U.S. government lending agencies, a Treasury official said. And U.S. commercial banks, with cumulative outstanding loans to Iraq of $575 million as of March 1990, have not been paid full interest or principal in years, a banker said.

> **"I don't think this freeze is that big a deal, given Iraq has not been servicing much."**
>
> **Sharif Ghalib**
> *Institute for International Finance*

"I don't think this freeze is that big a deal, given Iraq has not been servicing much," said Sharif Ghalib, the director of the Africa/Middle East department at the Institute for International Finance. The Washington-based institute, created and largely funded by international commercial banks, tracks lending to countries.

The Treasury official said Iraq owes $200 million to the U.S. Export/Import Bank and that $22 million is owed in the form of agricultural loans to other U.S. government agencies.

Loans Not Current

Iraq has largely ignored servicing those loans, the official said.

The bulk of Iraq's debt, estimated at between $72 billion and $80 billion and placing it behind the United States and Brazil on the list of the world's biggest debtors, is owed to Kuwait and Saudi Arabia.

The Treasury official said about $42 billion is owed to Saudi Arabia and Kuwait alone, and it was expected that much, if not all, would not be repaid – even before Thursday's military developments in the Gulf. Another $8 billion to $9 billion is owed to eastern bloc countries, primarily the Soviet Union, according to the Treasury official.

Most Debt War-Related

"The Iraqi debt to those that really expect to get repaid is only about $40 billion," the official said, noting that according to

See **THREAT** *page* **15**

Barclays Posts Lackluster Earnings for Half

By JAMES R. KRAUS

Barclays Bank PLC is the latest large British bank to report weak earnings as it struggled with high interest rates, lower lending margins, and increases in loan loss provisions.

Barclays, Britain's largest bank, said first-half net earnings rose 48% to $736 million. However, most of the increase in net profits came from the sale of its 32% stake in Yorkshire Bank for $321 million.

Operating income remained almost flat at $1.1 billion after being hit hard by $827 million in loan loss provisions, poor results from securities trading, and rising interest rates in Britain.

Investment Banking Down

Net profits for Barclays de Zoete Wedd, Barclays' investment banking arm, fell by a third to $77.7 million, while domestic loan loss provisions rose almost sixfold to $451 million.

Nearly $180 million in provisions were for loans to British & Commonwealth, a financial service group now being dismantled.

Barclays chairman Sir John Quinton declined to make any prediction for second-half results.

Forecast Held Difficult

"With the increasing uncertainty of the marketplace in which we operate, it is clearly unusually difficult to predict what lies ahead of us," Mr. Quinton said in a statement.

However, Mr. Quinton told analysts in London that the bank had more than enough capital to continue expanding and was contemplating an acquisition in life insurance.

"Results [at Barclays] were disappointing but no more disappointing than at the other British clearing banks. Margins are falling, loan losses are rising, and costs are not coming down," said Rodney Schwartz, a partner with Lehman Brothers International in London.

Analysts declined to predict what earnings might look like for Barclays for the second half but suggested that earnings for all British banks may deteriorate.

Earlier, other major British banks reported similarly disappointing results in the wake of sharply higher provisions against domestic loan losses.

On Thursday, Midland Bank PLC stunned analysts when it reported net first-half earnings of $16.6 million.

The results were better than the $708 million in net losses for the first half last year but still well below what analysts were expecting in light of their forecasts of more than $160 million for the full year.

Midland's poor performance followed loan loss provisions of $555 million, of which $432 million for domestic loans. The bank also announced plans to lay off 4,000 people in an effort to restore profit margins. □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	8/03	8/02	7/27	8/03	8/02	7/27	8/03	8/02	7/27	8/03	8/02	7/27	8/03	8/02	7/27
United States	8.13	8.06	8.00	8.00	8.00	8.06	7.94	8.00	8.06	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.38	7.38	7.56	7.81	7.88	7.78	7.94	7.94	7.90	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.25	13.25	13.50	13.25	13.30	13.25	12.88	12.88	13.12	13.41	13.48	13.48	14.75	14.75	14.75
U.K.	15.00	15.00	15.00	15.06	15.06	15.06	15.00	15.00	15.00	14.39	14.39	14.39	15.00	15.00	15.00
West Germany	8.25	8.25	8.06	8.44	8.50	8.31	8.63	8.56	8.43	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.00	9.00	9.06	9.00	9.07	9.06	9.06	9.00	9.00	6.00	6.00	6.00	10.88	10.88	11.25
France	13.25	9.75	10.12	13.25	9.93	9.93	12.88	9.93	10.00	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.25	11.25	11.75	11.50	11.50	11.37	11.56	11.56	11.37	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.75	14.38	8.00	8.75	7.91
6 to 12 months	7.63	13.40	8.00	8.15	7.92
12 to 24 months	8.40	12.73	9.10	7.65	7.66

* Midday quotes in the New York market

Source: Hoenen, Ashley & Pearce Inc., New York



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HomeFed's Amazing Fall from Grace Is a Test for Adelizzi

Continued from page 1

thrift analyst.

HomeFed's rapid fall from grace seems to have stunned Mr. Adelizzi as much as industry observers.

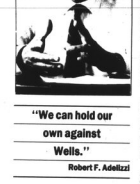
When the thrift-bailout law was passed a year ago, HomeFed was considered among the elite, well-capitalized California thrifts positioned to take advantage of the expected upheaval in the state. HomeFed was expected not only to survive the thrift crisis, but also to flourish in a consolidating market that would witness the sale of such institutions as Gibraltar Savings, Lincoln Savings and Loan Association, and Imperial Corp. of America.

'A Big Challenge'

Now Mr. Adelizzi finds himself in the position of trying to make sure he is not forced into a sale. His own job is clearly at stake. "We face a big challenge," he acknowledged in an interview.

HomeFed, which posted a $108 million second-quarter loss, is staggering under a huge burden of bad loans. Nonperforming assets soared to $708 million, or 3.7% of loans, at June 30. That is more than double the $321 million of just six months earlier.

These woes come at a time when Wells Fargo & Co., San



"We can hold our own against Wells."

Robert F. Adelizzi

Francisco, is about to vault to the top market position in San Diego.

Wells has agreed to buy 130 branches from ailing Great American Bank. When those are combined with Wells' own operations in San Diego, the Bay Area banking giant will have a dominant position in San Diego County.

California's big financial institutions have long coveted the San Diego market that Wells is pursuing. With HomeFed's market capitalization having dropped, to $200 million as against $1 billion a year ago, the company just might be a bargain.

List of Likely Suitors

Joseph A. Jolson, an analyst with Montgomery Securities, lists HomeFed's likely suitors as: Wells; Security Pacific Corp., Los Angeles; BankAmerica Corp., San Francisco; Citicorp, New York; Great Western Financial Corp., Beverly Hills; H.F. Ahmanson & Co., Los Angeles; and Golden West Financial Corp., Oakland.

HomeFed's problems could be its only real defense. "Past evidence indicates that buyers don't want to become embroiled in someone else's real estate problems," said Nancy Spady, an analyst with Morgan Stanley & Co., New York.

And for the first time, Mr. Adelizzi may have to worry about HomeFed's capital accounts. HomeFed still meets thrift capital requirements – it has 3.68% tangible, 4.46% core, and 6.84% risk-based – and a planned retooling of the loan portfolio will also help. But continued loan losses could strain that compliance, Mr. Adelizzi says: "I am fully confident that we will always meet the capital criteria."

Mr. Adelizzi is moving in the right direction to repair the damage, although some say perhaps too slowly and just maybe not far enough.

Sixty-three percent of the problem loans are out of state, although they make up only 14% of the real estate portfolio. Florida has the largest chunk of non-California problems, at $173 million or 25% of the nonperforming assets.

The second-largest chunk is in Arizona and totals $45 million. Other problems lurk in Georgia, North Carolina, Pennsylvania, and elsewhere. HomeFed has branches only in California but made the disastrous bid for geographic diversification through a handful of regional lending offices.

Some are distressed that HomeFed seemed to take so long to recognize the severity of its problems. The slumping real estate markets – especially outside California, where most of HomeFed's problems are – have been alarming bankers nationwide for months.

"Clearly they were behind the curve on the problems," said Gary Gordon, an analyst at PaineWebber Inc. "The fact that they were doing a loan review at this point is somewhat troubling."

John J. Roach, HomeFed's chief operating officer for real estate, explained that the out-of-state markets "were moving very rapidly. And we have rather shallow exposure there. We were watching individual loans."

Mr. Adelizzi is shutting down the lending outside California. Working down the nonperforming loans is HomeFed's No. 1 priority.

He is also drastically curtailing construction, commercial real estate, and land and development loans – reorienting the thrift more toward single-family home lending. Many thrifts are making this shift because of higher capital required for other types of real estate lending under the Financial Institutions Reform, Recovery, and Enforcement Act.

Lending Emphasis Is Shifted

HomeFed has traditionally done more commercial real estate and construction lending in its $14 billion real estate loan portfolio than most thrifts. Construction lending is about 11% of loans, income properties – including apartments and commercial properties – about 28% of loans. Mr. Roach says loans on single-family homes will grow from about 54% to about 65% or 75% of the portfolio.

HomeFed is also tightening its lending criteria, for example, requiring developers to put more equity into a project, says Mr. Roach. In addition, Mr. Roach is putting in place an "enhanced" early warning and follow-up system for problem credits.

HomeFed set aside the $234 million second-quarter provision, bringing the loan loss reserve to $338 million, or nearly half the level of nonperforming loans. Mr. Adelizzi will not say whether this is the last hit for HomeFed, but he does say, "We have done the best we can of estimating adequate reserve levels."

Some analysts are not so sure. "We see no concrete reason to believe that current loss reserves are sufficient," said Mr. Hemel, who is with First Boston Corp.

Mr. Adelizzi has experience in working down problem loans, although some of it may be a little dusty. "I started in this business 28 years ago at HomeFed, working on problem assets," the 55-year-old CEO said.

The former Marine captain and Dartmouth football star has always been active in the industry and a respected executive.

"He is an outstanding manager," said HomeFed director Owen W. Strange, partner at the Los Angeles law firm of Booth, Mitchell & Strange. Neither Mr. Strange nor the other directors would discuss HomeFed's difficulties. Mr. Strange cited several shareholder lawsuits as the reason.

'Pragmatic Guy'

Colleagues characterize Adelizzi as someone who deals with the realities of the business world. "He is a very pragmatic guy," said Robert B. Thompson, president of Western Federal Savings and Loan Association, Marina del Rey, who was on the board of the California League of Savings Institutions with Mr. Adelizzi.

And Mr. Adelizzi is used to having dirt under his fingernails. The son of a dentist in the blue-collar Italian neighborhood of south Philadelphia, he saved money for school by working as a brick mason's helper, carrying hod and cleaning up.

HomeFed's management and Mr. Adelizzi have a lot of personal currency. First Boston's Mr. Hemel added a highly unusual "personal note" to his rather damning report on HomeFed. "We should let our readers know that on a personal basis, we like the management of HomeFed tremendously and that we want the company to both survive and succeed."

'We Can Hold Our Own'

Mr. Adelizzi professes not to be overly concerned about the new threat from Wells entry in the San Diego markets. "We can hold our own against Wells," says the CEO. The man charged with reigning HomeFed's No. 1 market share is 47-year-old James E. Stutz, chief operating officer of consumer banking.

Mr. Stutz does not anticipate a big change in marketing strategy and does not want to compete with Wells or anyone on price. He says HomeFed will spend an undisclosed additional amount on marketing next year and will aim to continue to provide better service than Wells.

But PaineWebber's Mr. Gordon says HomeFed may have to rein in expenses and shrink its statewide reach if it expects to remain a competitor. "Going forward they may have to downsize and shrink corporate expenses. They should protect and build market share where they are strong and pull out of areas where they are weak." This will be even more important as HomeFed redirects lending to less risky – and less profitable – home mortgage loans.

Mr. Adelizzi likens the thrift industry's situation to his days in the Marine Corps. During the 11th week of a 12-week training program, the officer in charge was ordered to diminish his troop's ranks by 25%. The officer instructed the young Marines to march until a quarter of them collapsed. "It was survival of the fittest. And that is the way I look at this [savings and loan bailout] system. It is a forced march."

If Mr. Adelizzi and Home Fed survive this march, it will not happen without Mr. Adelizzi getting muddied and exhausted. □

"Clearly they were behind the curve on the problems."

Gary Gordon
PaineWebber Inc.

"We see no concrete reason to believe that current loss reserves are sufficient."

Eric I. Hemel
First Boston Corp.

Focus On A Changing Industry
Home MORTGAGES
Read It Fridays in AMERICAN BANKER

Threat by Iraq On Debt in U.S. Seen Harmless

Continued from page 12

Treasury figures, Iraq had a debt of only $3 billion in 1983 and that the massive military buildup during the Iran-Iraq war accounted for the heavy borrowing.

In Bonn, the West German government said it would freeze all Kuwaiti assets in West Germany to prevent Iraq from seizing them. Government sources also said all government guarantees on exports to Kuwait would also be suspended.

The announcement followed similar actions by the United States, Britain, France, Japan, and Belgium. Those countries were later joined by the Netherlands and Norway.

Global Holdings Large

The Kuwait Investment Office and other Kuwaiti investors have large holdings in several big West German companies, including a 14% stake in Daimler-Benz AG and a 20% participation in chemical group Hoechst AG.

In London, the *Financial Times* reported that Kuwait owns 15% of Midland Bank and 9.8% of British Petroleum. In the United States, it is said to have extensive holdings of major U.S. companies, but below the 5% reporting threshold. It owns Santa Fe International Corp., which is involved in oil-field engineering services and does its own exploration and development. It has revenues of some $1 billion a year.

Corporate Holdings

Kuwait also controls 20% of Metallgesellschaft AG, and a Kuwaiti investor is thought to own 10% of ASKO Deutsche Kaufhaus AG.

In Hong Kong, the government said it was consulting with Britain on whether to freeze Kuwaiti assets in the colony, a government spokesman said.

Although no immediate estimate of Kuwaiti investments in the British colony was available, market sources said they were thought to be substantial.

In a press release from London, the Kuwait Bank of Kuwait said it is a private-sector bank and not owned by the Kuwait government. Thus, the release said, it is not affected by the freeze on Kuwaiti assets.

Mohammed Abdul Mohsin al-Kharafi, chairman of the bank, said its branches in London, New York, Singapore, and Bahrain continued to function as effectively as possible. □

Bank in Kentucky Is Sold

NASHVILLE, Tenn. — First American Corp. said it has completed the sale of First American Bank, Ashland, Ky., to Pikeville National Corp. for $18.7 million.

First American said the sale of its $190 million-asset subsidiary to the Pikeville, Ky., company will result in a pretax gain of about $4 million, or 12 cents a share. — **Reuters**

BNE Loses $33 Million in Quarter

Continued from page 2

to $2.78 billion. The rise was less than the 10% increase that most analysts had expected.

The company's nonperforming loans actually decreased by $20 million, to $2.23 billion. But a senior bank official who spoke on the condition of anonymity cautioned "about being overly optimistic about that" figure.

He said the decline was attributable to the shifting of some nonperforming loans to other real estate owned and the renegotiating of others. Net repossessed real estate increased by 30%, or $1276 million, to $550 million.

The ailing company's capital ratio worsened to 1.46%, against 1.65% on March 31. A senior company official acknowledged that the company had a "very thin capital base" and said plans would be unveiled soon to boost that level. He did not give specifics.

Under a cease-and-desist order imposed in March, the company was required to reach 3% ratio of equity to capital by March 31. The regulators have not penalized the company for failing to comply.

Meanwhile bank officials said that the company's CD campaign continued to bring in new retail deposits and improve the banks' liquidity position, but the company's net interest margin was squeezed to 2.31% at June 30 from 2.54% at March 31, partially because of the high rates it has paid out on CDs. Nonperforming loans are also pinching the margin, a bank official said. □

"This quarter's loss is not unexpected because of the continued sluggishness in the region's economy, the softness of the real estate market, and lower net interest income."

Lawrence K. Fish
Bank of New England

Forecaster Joins Chicago Corp.

CHICAGO — Robert J. Genetski, a former chief economist at Harris Trust & Savings Bank, has been named senior vice president and chief economist of Chicago Corp., a securities firm.

Mr. Genetski, an economist at Chicago-based Harris Trust for 17 years, had been president of Stotler Economics Inc. since October 1988.

A renowned forecaster, Mr. Genetski was one of the first to predict the decline in the yen since 1989 and the extended recovery that followed the 1981 federal tax cut.

Mr. Genetski, author of the recent book "Taking the Voodoo Out of Economics," will be responsible for the Chicago Corp. economic review, *Chicago Economics.* □

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- WAC: 10.880%
- WAM: 225.800
- Bid Deadline: August 28, 1990
Locations: Hawaii, California, Colorado, Oklahoma, Other western states

Package 90-813
- Number of Loans: 636 conv; fixed rate, 1st liens
- Principal Balance: $18,597,714
- WAC: 9.770%
- WAM: 298.660
- Bid Deadline: August 28, 1990
Locations: Other midwest states

* The above packages are offered together or individually with a combined sale preferred.

Package 90-815
- Number of loans: 93 conv; fixed rate, 1st liens
- Principal Balance: $2,621,776
- WAC: 9.794%
- WAM: 124.208
- Bid Deadline: August 17, 1990

Package 90-817
- Number of loans: 32 conv; 3 yr ARMs, 1st liens
- Principal Balance: $1,415,967
- WAC: 11.265%
- WAM: 298.660
- Bid Deadline: August 17, 1990

Package 90-818/90-819
- Number of loans: 102 conv, ARMs, 1st liens
- Principal Balance: $6,413,973
- WAC: 10.195%/10.545%
- WAM: 288.900 /264.070
- Sale is comprised of TWO PACKAGES
Locations: Hawaii, Oregon, Colorado, Other western states

Package 90-821/90-822/90-823
- Number of Loans: 125 conv, ARMs, 1st liens
- Principal Balance: $7,180,313
- WAC: 10.269%/6.336%/10.000%
- WAM: 241.760 /229.750/287.240
- Sale is comprised of THREE PACKAGES
Locations: Oklahoma, Missouri, New York

Reference No. A013

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Some Lenders Stop Issuing Student Loans Amid Crisis

Early this week, the department plans to release regulations permitting emergency revocation of the loan eligibility of schools where there have been serious abuses, Mr. Cavazos said. He also noted that just 20

Continued from page 2

"virtually all lenders" would stop doing business with five or six other guarantee agencies that the Department of Education has said are being "closely watched."

In addition, the reserve funds of the weaker guarantors would immediately see a "sharp decline," and private lenders would take measures to limit their exposure to loans guaranteed by any single agency, Mr. Bilkin said.

Also appearing before the subcommittee, Secretary of Education Lauro F. Cavazos reiterated his department's view that HEAF's difficulties would not be allowed to affect the ability of banks to make student loans or the ability of guarantors to insure those loans. He said there was "no need for a federal bailout of guarantee agencies in general or HEAF in particular."

There is "no need for a federal bailout of guarantee agencies."
Lauro F. Cavazos
Secretary of education

of the 2,140 proprietary, or trade, schools in the student loan program were responsible for 25% of all defaults among such schools.

In a news conference after the Senate hearing, HEAF chairman Richard C. Hawk said the default rate of proprietary vocational trade schools is three to four times the rate on loans made to students at four-year colleges and universities. But HEAF's efforts to reduce trade-school guarantees "have been thwarted" by federal regulations, Mr. Hawk said.

Trade-school loans make up 31% of the agency's portfolio, he added, and half the loans in guaranteed in that area were exacted to default.

Mr. Cavanaugh writes for the Medill News Service.

Toxic-Cleanup Liability Rules to Be Revised

Continued from page 1

going to reverse that with a rule-making.

In testimony before the House Energy and Commerce Committee, EPA Assistant Administrator James M. Strock said the agency would prefer to remedy the problem through a rule-making. But "the administration would not oppose legislation that is necessary to get on the lender liability issue," he said.

An EPA official, speaking on background, said the agency believes an administrative interpretation of the Superfund law will be binding on third-party lawsuits.

EPA will present the outlines of a rule to Congress by Sept. 15, and it believes it will provide courts with a basis for determining whether or not a bank is liable under the Superfund law. The rulemaking procedure would be completed by the end of 1990.

Safe-Harbor Provisions

The Superfund law currently provides two safe harbors from lender liability — one called the "secured creditor exemption" and the "innocent landowner defense" — but judicial interpretation has created confusion about their applicability, bankers say.

An EPA official said the rulemaking will clarify the secured-creditor exemption and define precisely when a lender becomes "a participating owner or operator" of a site and thus incurs hazardous-waste liability.

The rule will also guide lenders on what constitutes due diligence, or the investigatory steps a titleholder must take to claim protection from liability under Superfund's "innocent landowner" provision.

"We want it to be something a lender can do, understand, and be just as clear about as if it were a termite inspection," this official said.

The Fleet Factors Precedent

In a precedent-setting decision handed down in May, the 11th Circuit Court of Appeals in Atlanta said a unit of Fleet/Norstar Financial Group Inc., Providence, R.I., was liable for $375,000 in cleanup costs because it was in a position to influence hazardous-waste producing practices of a printing company to which it made an $800,000 loan.

The ruling in what has become known as the Fleet Factors case, and several lower-court decisions that preceded it, troubles lenders "because we have had to tighten up our policies to the point where we have had to refuse to loan to some companies that we would otherwise consider great credit risks," said Duane Gillilland, president and chief executive officer, Farmers Savings Bank, Northwood, Ohio.

Potential Problem for RTC

The Resolution Trust Corp. is also worried by potential clean-up liability. RTC chairman L. William Seidman recently said the agency holds 300 properties that could present hazardous waste problems.

"This thing is extremely serious for the RTC, because they take back literally a billion dollars' worth of real estate, and have to go to the expense of cleaning that up," Mr. Lillibridge said.

He said his bank has assembled an "undesirable loans" list and would not lend to businesses with high environmental risks. Among those affected, he said, are "refiners, chemical plants, auto-body repair shops, funeral homes, furniture strippers, and any business with underground storage tanks, and any other that may be a site for dumping and storage of hazardous material — including farms."

The Case for Legislation

William A. Brower, Fleet/Norstar's senior counsel, said he was encouraged by EPA's announcement, but believes legislation is still needed.

Even if EPA deals with lender liability through rulemaking, "there are still items that could be open to interpretation," Mr. Brower said. For instance, "if you have a court or judge who believes this is a widespread problem that has to be taken care of, perhaps they would interpret it somewhat differently.

"It's been the judgment in the courts that has held the banks to be owner-operators," Mr. Brower said. "We need legislative relief in the form of something that would make it clear that wasn't the intent of the original legislation." Fleet will appeal its case to the Supreme Court in the next few weeks, he added. □

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C. LAUDISI & ASSOCS., INC., auct'rs sell August 21, 1990 9 AM at 71 Denton Ave., New Hyde Park 1966 Oldsmobile #3361768435701. Auct. J. D. Perez, 1 PM at 70-11 30th Ave., Qns 1/2 Int. Auct. of #1B6BE9Y282437 Acct., S. L. Behan; 1986 Mercury #1MEBP7WM5GG916911 Acct., Exotica Motor Leasing and/or J. M. Smouhen; 2:30 PM at 110 Emerson Place Bklyn, 1986 Dodge #2B5WB1W4GK575535 Acct., Inter Public Gues Int'l; 3 PM at 57-11 79th Ave., Qns 1987 Oldsmobile #1G3AJ5W78GG311428 Acct., D. Thonson; 1988 Nissan #JN1PS24S1JW012305 Acct., T. Lopez and/or P. Lopez. 4PM at 1825 Givan Ave., Bronx 1989 Pontiac #6L2TX2161K8344196 Acct., G. Hart; 1988 Toyota #JT2RA64L2E6217218 Acct., E. A. Urena; 1984 Datsun #JN1PH14S2E1100202 Acct., B. Thaher. Published August 6 & 13, 1990.

Correction Notice

CORRECTION NOTICE: E.F. Fazio Auct'r Lic #798972 Sold on 7/5/90 at 1 PM at 1370 Bushwick Ave Bklyn '84 Ford #1FABP45E1EG100262 Acct., J. Garcia. Published 08/06/90 & 08/13/90.

NOTICE OF SALE: By Virtue Of Several Continuing Defaults In A Certain Promissory Note Between Joseph M. Aufiero, John M. Aufiero & Henry J. Aufiero etal. (Pledgors) And Capone (Pledgee), 1 Edward M. Cannor Auct'r DCA #760732 Will Sell At Public Auction On August 17, 1990 At 11 AM At The Premises Of 6109-19 Seventh Ave Bklyn NY All Right Title And Interest To Aamco Transmissions Inc. &/or Aamco Transmission Repair Shops Inc. Including Franchises. Such Sale By The Secured Party Frank Capone Re-serves The Right To Bid-And Reject Any And All Bids Under $103,867.68. Full Payment Or Certified Funds Only At The Auction. Telephone #718-256-4446.

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Ronald Zaza Auct'r Lic #840731 sells 8/13/90 9 AM at 11 Bennett Rd Scars '83 Datsun #JN1PB14S5DU020894 Rec. D. McGuiness; 9 AM at 9229 Flatlands Rd '87 Ford #1FTDF15E8HPA93765 Rec. Ciandella, '89 Hyundai #KM8FL31HKL1407098 Rec. N. Valenica & Marine Midland; 10 AM at 153-25 Rockaway Blvd Jam., '82 Toyota #JT2TE72EBC0077258 Rec. C. Smith; 11 AM at 18-27 27th Ave Astoria, '83 Dodge #1B3BD46P7DN197744 Rec. G. Palacios, '74 Chevy #1Q78H4N216555 Rec. A. Gennaro; 12 PM at 1080 L.I. Ave, Deer Pk., '85 Toyota #JT4RN50R2F0282786 Rec. H. Mojino; 1 PM at 38-70 Bunton Rd Bx, '79 Chevy #CE530P134030 Rec. M. Clarke; 2 PM at 72 Years Av, NYC, '83 Honda #JHMSZ5429DC030706 Rec. Commuter Services; 2:30 PM at 319-21 10th Ave, NYC, '80 Triumph #TFUDA8AT20314 Rec. A. Nasser; 3 PM at 35-10 14th Ave, Bklyn, '82 Chevy #2G1AL69L4C1243386 Rec. G. Tolentino; 4 PM at 352 9th Ave, Mineola, '83 Mercedes #WDBAA31A3DF021069 Rec. State Farm, '83 Buick #1G4AG47H4D1832186 Rec. R. Nozovino. Published 7/30 & 8/6/90.

FRED REISNER INC. Auct'r Lic #772421 Sells Aug. 22, 1990 at 2:30 P.M. at 1566 39th Ave., Brooklyn, N.Y. 1984 Subaru Vin 1YWEB0176EW092777 Acct Ann S. McConnell; 1985 Buick Vin 1G4GE11G4FP211008 Acct. Michael H. Winostock; Sells Aug 22, 1990 At 3 P.M. At 2875 Flatbush Ave., Brooklyn, N.Y. 1973 Cruisers 21' Boat Hull CRS21817073/Reg.2461/DR Act Manuel Sanchez 1978 Starcraft 23' Boat Hull TNRD3248M818/Reg 2948JR Acct Ernest R. Rowe; 1973 Rendel 22' Boat Hull RES11755M23G/Reg 3629DU Acct Charles & Peter Walpole; 1985 Galaxy 21' Boat Hull GALDC662648S/Reg 6346PJ Acct Ronald Edelstein &/Or Dr. Ralph Mosery.

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Citation Notice

File No. 2123/90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT TO The heirs at law, next of kin and distributees of ARTHUR D. VOTTELER whose names and whereabouts are unknown and after due diligence, cannot be ascertain, if they be living, and they died subsequent to the decedent herein, to their heirs at law, next of kin, executors, administrators, legatees, devisees, trustees, or successors in interest; Public Administrator of the County of New York A petition having been duly filed by JOHN F. KELLY, who is domiciled at 65 East Main Street (P.O. Box 632), Fonda, New York 12068 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, held in the Hall of Records, New York, on August 16, 1990, at 10:00 a.m., why administration should not be had of the estate of CARRIE E. VOTTELER, late a domiciled at 11 Sycamore Oval, New York, New York 10009 in the County of New York, admitting to probate as a will of said decedent an instrument dated June 1, 1988 and November 14, 1980, and ordering that Letters of Testamentary issue to JOHN F. KELLY, and that Preliminary Letters Testamentary granted by this Court to JOHN F. KELLY on May 14, 1990, be revoked. Dated, Witness the Hon. SURROGATE, (L.S.) HON. Renee B. Roth, Surrogate, County of New York Robert M. Reaves Clerk of the Surrogate's Court Name of Attorney: Richard Van Steenburgh Telephone Number: (212) 344-1681 Address of Attorney: 19 West 44th Street, New York, New York 10036 This citation is served upon you as required by law. You are not obliged to appear in person. Wh. have a right to have an attorney appear for you, if you fail to appear it will be assumed that you do not object to the relief requested.

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The annual report of THE SUNSHINE FUND FOUNDATION for the fiscal year ended April 30, 1990, is available at its principal office located at 85 Broad Street, New York, NY 10004. (212) 902-4897 for inspection during regular business hours by any citizen who requests it within 3 months hereof. The Principal Manager of the Foundation is P. Henry James.

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DEALS
Citibank Was 1st to Pull Ripcord on UAL Buyout Group, Sources Say

By WILLIAM GOODWIN

Citicorp, considered the unofficial leader of the five banks that had been backing the proposed $4.4 billion buyout of UAL Corp., led the withdrawal of three of those banks, sources said.

"There was one bank that was clearly the leader" on the pullout, a source with knowledge of the bank group said, referring to Citicorp. A Citibank spokeswoman declined to comment.

The reasons for Citibank's departure, moreover, did not necessarily relate specifically to the deal itself, this source indicated.

Even if the union-led buyout group is able to pull an equity investor out of its hat, this scenario suggests, Citibank still might stay out of the deal.

Cause for Cold Feet

Analysts have criticized Citicorp for being underexposed against possible loan losses. For that reason, the banking giant may have gotten cold feet about UAL, which carries the burden of being perceived as a "tainted" deal.

UAL's stock price went into a tailspin last week after it was disclosed that Citicorp, Chase Manhattan Corp., and Chemical Banking Corp. had pulled out of the bank group backing the proposed union buyout. Only Bankers Trust New York Corp. and Manufacturers Hanover Corp. are left in the group.

By Friday afternoon, UAL's stock price had lost much of its buyout premium, reflecting market pessimism about the unions' ability to come up with financing by the Aug. 9 deadline set by the UAL board.

Stormy Week for UAL Stock

Market sources said that, absent the buyout, UAL's stock would trade at around $100 to $110 per share. Near Friday's close the stock was trading at $122.75. For the week, the stock lost a total of about $40.

A spokesman for the buyout group said Friday that the unions were continuing to work toward meeting the deadline and had not sought an extension.

As of late Friday, the buyout group apparently had still not lined up the outside investment that is crucial to success of the deal. Gerald Greenwald, the former Chrysler Corp. vice chairman leading the union buyout effort, may have contributed to last week's freefall in UAL's stock price.

On Monday, Mr. Greenwald was quoted by *The Wall Street Journal* as saying the buyout group was "close" to an agreement on financing with UAL's outside suppliers.

Market sources said Mr. Greenwald created an expectation that an agreement on outside financing would soon be forthcoming. As each day passed last week with no substantive announcement, UAL investors became increasingly unnerved.

Airline stocks in general also got battered Friday by the spike in oil prices, following Iraq's invasion of Kuwait.

Commitments Not Impossible

It is still possible that the buyout group could obtain financing commitments from banks in time to meet, this Thursday's deadline.

Moreover, UAL's board likely would agree to extend the deadline for a day or so, a source close to the board said.

A request for a longer extension, though, would face tougher sledding.

"There has got to be a compelling case to be made this one time will do us some good, but that the deal is going to close," the source close to the UAL board said. □

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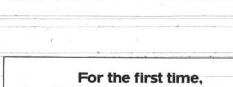

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RTC Resolves Hotel Dilemma

By STEPHEN KLEGE

Despite fear of hotel deals on the part of most lenders, the Resolution Trust Corp. is expected to get 100 cents on the dollar on the refinancing of a hotel that was sold by an S&L it seized last year.

The agency, created by Congress to dispose of the assets of insolvent thrifts, found itself in a dilemma after it seized Colonial Liberty Savings and Loan Association, Pittsburgh.

In 1985, when the law allowed tax-exempt financing for some commercial projects, the thrift provided a letter of credit to secure a tax-exempt $3.2 million bond issue due in 2015. The proceeds went to finance the development of a successful Hampton Inn in the suburbs of Pittsburgh.

Hotel Properties Stigmatized

But the RTC was forbidden by law from extending the letter, which expired July 2. And no lender could be found that was willing to take on a hotel property, even a profitable one, said Myles Harrington, vice president of Russell, Rea & Zappala, Pittsburgh.

The RTC paid off the letter of credit and extended a two-year loan to the developer to allow time to get refinancing. □

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Highlights for Friday, August 3

TOP 10 GAINERS %

Signet Banking Corporation	11.2
Statewide Bancorp	10.5
First Security Corporation	6.0
Bank of Boston Corporation	4.9
First Citizens Bancshares Inc.	4.8
Midlantic Corporation	4.8
First National Bancorp	4.6
Banc One Corp.	4.2
First Illinois Corporation	3.5
Commerce Bancshares, Inc.	2.3

TOP 10 LOSERS %

Northeast Bancorp, Inc.	-13.9
First Peoples Financial Corp.,	-12.0
Santa Monica Bank	-8.2
Northern Calif. Community-Bncp	-7.8
Fidelcor Pennsylvania Bancorporation	-7.5
Cal Fed Bancorp	-6.9
Liberty National Bancorp, Inc.	-6.8
Associated Banc Corp.	-6.5
Continental Bank Corporation	-6.4
Manufacturers National Corp.	-6.4

MOST SHARES TRADED

Citicorp	2300800
BankAmerica Corporation	1850700
Chase Manhattan Corporation	1699500
Security Pacific Corporation	630800
U.S. Bancorp	589300

VOLUME AS % OF AVERAGE

Heritage Financial Services	1548.4
Mid Am, Inc.	1488.4
Santa Monica Bank	1318.5
First Eastern Corp.	969.5
Central Fidelity Banks, Inc.	797.2

Stock Index Trends

*Weighted average of top 250 banks and 50 thrifts

Percentage Changes
Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.92	-3.07	-2.42	-1.60	-6.97	-10.82	-1.69	-7.44	-15.28

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk	Chg.	Chg.
23¾	18¾	1stBancorp/Cnpfn	6.3	86.3	19	-½
14¾	10¾	1ST BANCORP/Cnpfn	13.3	61.7	11	-¼
28⅜	20	AmSouthBancorp/AL	8.2	85.2	20⅝	-⅛
19¾	15¼	Ameribank/Cnpfn	8.7	84.2	14½	-¼
29	15	AmericanExpCo/DE	25.4	84.7	15	-¾
14¾	10¾	AmericanFed/Cnpfn	8.3	113.4	18	-¼
14½	9	B&W FinCorp/IN	7.9	109.5	10½	-¼
19¾	14¾	BB&T Financial/NC	9.3	108.3	14¾	-¼
45⅜	36¼	BankAmerica/CA	14.0	102.2	40¾	-¾
33½	26	BancOne/Cnp/OH	10.4	102.4	27⅝	⅛
28	18¼	BancPop/Cnp/PR	6.3	65.5	19	-¼
56⅜	42	BancorpHawaii/HI	8.8	147.5	48	-1½
23¼	18	BancorpMissi/MS	6.8	87.8	18¾	-¼
36¼	22¾	BankAmerica/Cnp/CA	4.7	88.2	22¾	-¼
24	17¾	BankBoston/MA	12.5	121.0	20¾	-¼
23¾	24	BankNewEngland/MA	NM	47.8	24	-¼
14¾	8	BankSouth/Cnp/GA	NM	39.8	13¾	-¼
57¾	35⅝	BankersTrust/NY	NM	122.4	35¾	-1¼
21½	10⅜	BarnettBanks/FL	8.1	93.7	10⅝	-¼
29⅝	15¾	BarnetBoston/MA	NM	40.6	15⅝	½
29⅝	15¾	BayBanks/MA	NM	69.3	24¾	-¼
12	8	BenkoldAmer/OK	NM	47.3	8	-¼
82	60	BkBoston	12.1	107.1	66	-½
39⅜	28⅜	BarnettBanks/FL	8.8	103.1	28⅜	-½
40½	13¾	BkNewYork/NY	NM	39.8	13½	-¼
39¾	29	BrokmerWkshire/MD	7.7	90.2	29	-¼
26	15¾	BrookeCorp/IA	228.6	105.0	16	-¼
16⅝	12⅛	BrenlineBancsh	7.3	100.2	14¼	-¼
43⅜	32	CBT Corp/GA	9.3	109.7	32	-¼
22⅝	16	CCNB Corp/IN	6.4	90.7	16	-⅛
22⅝	18⅜	CNB Bancshs/IN	10.1	121.4	21	-¼
27	20¼	CPB Inc./IL	11.2	156.3	22¼	½
28	17⅜	CNB FinCorp/CA	9.4	216.2	19¾	-½
33⅜	17	CalFed/Cnp/CA	6.8	123.5	17	-1⅛
18¼	12⅜	CalmedCorp/CA	6.4	90.7	13¾	-¼
34½	23⅜	CentralFl/Mdy/IN	8.5	92.1	23¾	-¼
27	15⅝	CentralBancsh/TX	6.4	76.6	15¾	-¼
44¾	17¼	ChaseManhattan/NY	NM	50.5	17¼	-¼
41⅜	20⅝	ChemicalBanking/NY	NM	60.3	20⅝	-¼
35	29¼	ChemicalFinCorp/MI	8.5	93.4	29¼	½
30¼	18⅜	CitizensFin/Cnp/VT	NM	72.9	18⅜	-¼
25⅜	15⅜	CitizensBancorp/MD	7.5	92.4	18¼	-¼
29¼	20⅜	CitizensBanking/MI	7.5	71.3	21⅜	-¼
15⅛	8⅜	CitizensFirst/MJ	NM	112.0	8⅜	-¼
34⅜	21⅜	CitizensUtilities/CA	8.5	85.3	25⅜	-¼
27½	17⅛	CityNat/Cnp/CA	9.0	178.4	17½	-¼
22½	12⅜	ColonialBancGp/GA	10.0	92.3	12⅜	-¼
58⅜	38¼	CommerBancsh/MI	8.1	90.2	38⅜	¼
29⅜	22¼	CommerBancsh/MO	7.0	94.4	22	-⅛
20⅝	15¼	CommonwealthMA	7.2	90.6	15¾	¼
37½	19⅜	CommunityBk/NY	6.8	96.9	19⅜	-¼
26⅝	15⅝	ContinentalIL	NM	47.1	15⅝	-¾
35⅜	25⅜	CoreStates/Cnp/PA	7.1	133.6	35⅜	-½
34	19⅜	CrestarFin/Cnp/IN	7.1	85.8	19¾	-¼
18¼	7¾	CulbertSon/TX	38.0	50.5	10¼	-¼
37¼	28	DauphinDeposit/PA	8.0	119.0	28	-½
32¼	22¼	DeposBancorp/MD	7.6	88.7	22¼	-¼
25½	11⅛	DominionBkshs/VA	8.7	74.4	11⅜	-¼
15⅜	3⅜	EquimarCorp/IN	NM	30.0	4	-¼
21¼	11⅜	EvergreenBan/NY	5.9	83.2	12	-¼
15⅜	12¼	F & M NatCorp/IN	10.6	163.3	13	-¼
14½	12½	FNB Corp/PA	8.7	104.7	12½	-¼
26	21	FNH Bancorp/IL	10.5	174.3	22¾	-1¼
29	27¾	FarmersCapital/KY	11.9	118.4	27¾	-¼
28⅜	20¾	FifthThirdBancp/OH	10.3	197.4	29¾	-¼
38⅜	32	FinancialTrust/IN	9.0	136.4	33	-¼
51½	37¾	FirstTenn/TN	9.3	98.6	37¾	-¼
19¾	15¾	FirstAlabama/AL	8.7	108.9	19¾	-¼

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk	Chg.	Chg.
28¼	19⅜	FirstAmerCorp/TN	NM	61.1	20⅝	-⅜
40¾	21⅜	FirstBancorp/NC	8.6	108.6	21⅜	-¼
26⅜	12⅜	FirstBankSystem/MN	NM	108.1	14	-⅜
24¾	20¼	FirstChicago/IL	5.3	67.1	20¾	-¼
29½	23¾	FirstCitizens/NC	7.9	92.5	24¾	-¼
24¾	17¾	FirstCitizens/VA	8.2	94.2	17¾	-¼
23¾	17¾	FirstCommerAtl/GA	9.3	121.5	12¾	-¼
21¾	15¾	FirstCommerBk/LA	8.5	86.0	15¾	-¼
22	17¾	FirstCommerBk/LA	8.6	86.0	20¾	—
22	17¾	FirstCommerCorp/AL	8.8	113.1	17¾	-¼
19¾	14¾	FirstCommerGa/GA	7.8	113.1	14¾	-¼
19¾	14¾	FirstCommunity/IL	10.7	110.2	16	—
17½	12¾	FirstEmpire/NY	7.6	93.0	20¾	-¼
72	57¾	FirstEnglish/NY	7.9	92.9	58¼	-¼
32¾	14¾	FirstFidelity/NJ	NM	68.2	14½	-¾
50	39¾	FirstFinCorp/IN	12.3	178.9	39¾	-2
34¾	18	FirstFinGrp/FL	9.4	71.8	19	—
26¾	20¾	FirstHawaiian/HI	9.8	203.5	23	-¼
18	13¾	FirstHorizon/TN	9.8	108.8	17¾	-¼
33¾	24¾	FirstIndiana/IN	7.1	74.5	24¾	-¼
28¾	21¾	FirstInterstate/TN	7.6	90.6	22¼	-¼
25¾	18⅜	FirstUnionCorp/NC	7.0	83.5	18¾	-¼
29¾	23¾	FirstVirginia/VA	7.4	103.8	23¾	-¼
45¾	37¼	FirstWachovia/NC	9.9	149.4	39¾	-¾
25¾	20¾	FirstWisconsin/WI	7.1	111.2	20¾	-¼
20¼	17¼	FirstbankN/IL-A	8.6	107.8	18¾	-¼
55¾	42¾	FirstbankN/IL-B	7.3	85.3	42¾	-¼
29¾	18¼	FlaAtlantic/A	13.2	92.0	17¾	-¼
25¾	20¾	FortWayneBcp/IN	8.5	75.5	20¾	-¼
28	20¾	FourthFinCorp/KS	14.8	145.1	22¼	-¼
24¾	16¾	FultonFin/Cp/PA	7.5	117.4	16¾	-¼
24¼	16¾	GBC Bancorp/CA	8.4	206.3	18¾	-¼
19¾	12	GeneseeCorp/Nm/NY	17.3	47.3	13	—
9¾	6¾	HawkeyeBancp/IA	4.0	106.1	7	—
21¾	14¾	HeritageFinSvc/IL	9.8	103.5	15¾	-¼
28	14¾	HiberniaCorp/LA	10.9	104.7	14¾	-¼
20¾	13¾	HuntingtonBcshs/OH	7.0	100.6	13¾	-¼
32¾	20	INBFinCorp/IN	7.6	88.0	20	-¼
27¼	13¾	ImperialBancorp/CA	6.0	85.7	13¾	-¼
20¾	16	IndependentBk/IN	8.9	95.8	17¼	-¼
30¾	21	IntegraFin/Cp/IN	14.5	94.7	21	-¼
48	35	InvestmBkNH/cl A	9.1	118.8	37	—
48	33	J P MorganCo/NY	NM	146.3	34¼	-¼
29¼	17¾	JeffersonBkshs/VA	8.0	91.0	18¾	-¼
15¾	12	KeyCorp/NY	9.8	102.0	12	-¼
29¾	23¾	KeyCorp/KY	7.1	101.0	24¼	—
26	21⅝	KeystoneFin/PA	8.7	126.9	22	-¼
30¾	26¾	KeystoneNetGP/PA	10.1	154.1	29¾	-¼
19¾	11⅝	LaSalleBancp/CA	10.5	265.2	16¾	-¼
29¾	21	LakeShore/IL	14.8	180.7	21	-¼
18	10¼	LandmarkBcshs/MO	7.4	58.9	10¾	-¼
30¾	22¼	LibertyNatBanc/KY	7.5	97.0	22¼	-¼
27	18¾	LincolnFin/Cp/IN	8.5	80.1	18¾	-¼
29¾	6¾	MNC Financial/MD	8.8	54.3	8¾	-¼
18	13¾	MagnaGrp/FL	8.4	94.2	13¾	-¼
60	40¾	ManufactrsNB/MI	9.0	90.4	40¾	-2¾
44½	28	ManufactrsNY/MI	NM	68.2	28	-¼
21	19¾	MarineCorp/IL	11.8	128.3	19¾	-¼
20¾	13¾	MercBcshs/Cnp/MO	7.1	88.4	13¾	-¼
37⅜	30¾	MerchantBcshs/IA	8.6	112.3	30¾	-¼
37	22¾	MeritorSav/Cnp/PA	6.6	75.8	22¾	-¼
28¾	22	MercantileBan/MO	36.1	84.7	22	-¼

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk	Chg.	Chg.
23¾	18¾	UnitedBanCorp/OH	NM	98.5	20¾	-½
30¾	47¼	MercantileBncp/MD	8.2	108.6	11¼	-¼
17¾	12¾	UnitedCarolina/NC	7.5	98.7	14¾	-¼
20	13	UnitedCounties/IA	10.0	102.0	13	—
32¾	27½	UnitedMissouri/MO	8.6	104.2	27½	-¼
27¾	22	UtdNorthern/MI	8.8	109.4	22	-¼
36	22½	ValleyCapital/NY	7.8	143.0	24½	—
14¾	7¾	ValleyFinCorp/VA	7.3	137.7	10¾	—
30¾	11¾	ValleyNatGp/AZ	121.2	69.4	15¾	-¼
17¾	12¾	VirginiaBk/VA	8.2	97.6	12¾	-¼
33	26¾	WesbancoWV	8.5	98.6	30¾	-¼
27¾	21¾	WestAmerBcp/CA	7.9	101.3	24¾	-¼
25¾	17¾	WestamericaBan/CA	12.3	153.5	21⅝	-¼
14¾	10¾	WilmingtonTr/DE	8.4	93.0	10¾	-¼
13½	9¾	WorthenBanking/AR	7.9	113.6	11¼	-¼
32¾	25¾	ZionsBancorp/UT	14.7	102.8	29¾	-¾

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk	Chg.	Chg.
				to bk		
24⅝	18¼	Ahmanson/CA	7.5	86.8	18	-¼
45⅜	30¾	AmeriFed/Incorp/KY	8.6	85.5	31¾	-¼
28¼	17¾	CalFed/Inc/CA	28.1	18.8	19¾	-¼
14¾	8¾	CharterMac/Cp/GA	9.3	68.6	13¾	-¼
20¼	3¾	CoastSavings/Inc/CA	NM	27.8	3¾	-¼
15¾	10¾	DimeBancp/NY	NM	39.2	15¾	—
24	14¾	DonerSavings/CA	23.1	98.0	14¾	-¼
27	18½	FirstFed/Mich/Cp/MI	6.3	108.6	19¾	-1
21¼	12	FedFin/MD/Cp/MI	5.8	30.9	12¾	-¼
29¾	20	GLENFED,Inc	2.8	25.0	20	-¼
34¾	22¾	GoldenWestFn/CA	9.4	148.2	26¾	-¼
24¾	15	GreatWestern/DE	13.5	92.3	15	-¼
14¾	11¾	GtAmericanBanc/CA	NM	17.0	11¾	-¼
47¾	19	HomeFed/Cpn/CA	NM	22.9	20¾	¼
21¾	13¾	HomeSvgBanc/MI	16.4	90.8	18¾	-¼
16½	10¾	HomeFed/Cpn/FL	NM	48.0	10¾	-¼
10¼	5¾	People's Bank/CT	31.6	41.9	6	¼
14¾	10¾	PrestigeBancp/FL	6.6	53.2	10¾	-¼
18¾	10¼	RochesterCnty/SB/NY	6.7	42.5	10¼	-¾
14¾	10¾	SterlingBancp/CA	4.3	33.7	10¾	-¼
28¾	21	StrideRite/Cp/MA	NM	56.0	24¼	-¼
12⅝	7	SunAmerica/Cp/CA	NM	58.0	9¾	-¼
19¾	14¾	SuperCoNet/Cp/SC	6.5	84.4	16¾	-¼
30⅜	23¾	WashingtonFed/MA	9.8	166.7	24¼	-¼
11¾	6¾	WesbancoCp	10.4	68.3	7¾	—

Data Base Table Explained The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banks and the 50 largest thrifts. The largest banks and thrifts are measured by the market value of their outstanding common stock (as of March 30, 1990). Prices are under 100 for stocks selling $66.6 and, for thrifts $12¼.45 and $0.98 50 for the moving 52-week high and low prices for the stocks. PE, the price/earnings ratio, it is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. bk. book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Chg.: The price at which the stock last traded. If no trades for the day, the bid is used. **All Bank and Thrift Indices:** A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights show largest percent gainers/losses in price; and low volume indicators must shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA. 804/977-1600, prices and volume; Rand McNally, Thomson News Network, Vienna, VA, provides SNL with the daily prices.

New Bank and Thrift Securities

Most recent offerings

Issuer	Offer Date	Amount ($ Mil.)	Sec Type	Offer Price (Current)	Offer Price (Current)	Maturity
Manager						
First Chicago	7/27/90	$100.0	SN	100.0	10.20	8/15/00
Salomon Brothers						
BankAmerica	7/26/90	$125.0	SDS	99.50	9.78	8/01/00
Merrill Lynch Capital Markets						
Bank of San Francisco	7/24/90	$4.0	CAS	8.38		
PaineWebber						
NCNB	7/23/90	$200.0	SN	100.0	10.20	7/15/15
Merrill Lynch Capital Market						

Most recent SEC Filings

Issuer	Filing Date	Amount ($ Mil.)	Sec Type	Book Manager
Pioneer Federal Bancorp	5/04/90	22.0	COM	Shearson Lehman Hutton
Evergreen Bancorp	4/03/90	10.0	SDS	Ryan, Beck
Financial Center Bancorp	3/21/90	8.0	COM	Keefe, Bruyette & Woods
IFED Financial	3/19/90	14.0	COM	Blunt, Ellis & Loewi

Sec. Type: Type of security issued: Current Coupon or Dividend Rate is shown in parentheses. Current price is provided by the manager. **CAS**—Class A Shares **CSD**—Convertible Subordinated Debt, and **COM**—Common Shares. **DP**—Depositary Pfd. **PS**—Preferred Shares. **PL**—Perls. **SN**—subordinated notes. **SDS**—Subord Debt.

Data Source: Securities Data Company, Newark, N.J. (201)622-3100

Key Rates

	8/03	8/02	7/27	(August 3, 1990)
Federal Funds-domestic range:	8–8¼	8–8¼	8.00	
Prime Rate - Top 25 Banks	10.00	10.00	10.00	
Broker Loan Rate	9.25	9.25	9.25	
Discount Rate - FRBNY	7.00	7.00	7.00	
Certificates of Deposit*				
3 Month Posted	7.45	7.40	7.60	
6 Month Posted	7.45	7.40	7.60	
1 Year Posted	7.50	7.40	7.70	
Eurodollar Deposits*				
3 Month	7¾	7¹⁵/₁₆	7¹⁵/₁₆	
6 Month	7¾	7¾	7¹⁵/₁₆	
1 Year	7¾	7¹⁵/₁₆	8⅛	
LIBOR*				
3 Month	8.00	8.00	8¹/₁₆	
6 Month	8.00	8.00	8¹/₁₆	
1 Year	8.00	8.00	8⅛	

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks
(*)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

Fears Drop Bank Shares to New Lows

Continued from page 1

ment rate in June jumped to 5.5% of the work force, the biggest increase in two years. The Dow Jones industrial average was off 54.95, or 1.9%.

"There was some idea that if the market experienced a correction, bank stocks might hold steady because of the bad times they have already had," said Virginia A. Adair, a banking industry analyst for Merrill Lynch Capital Markets.

"But the things the market is correcting for – rising long-term interest rates and inflationary expectations with the economy

Weak Takes Toll On Major Banks

Percent change in stock prices



Source: Reuters

seemingly slipping in recession at the same time – are particularly unfavorable for banks," she said.

Top Banks Take Hit

All sectors of the bank stock group retreated on Friday, with some of the industry's best-known names and most conservative institutions being hit the hardest.

For instance, State Street Boston Corp. plummeted $1.375 to $35.625, and Republic New York Corp. was off $1.25 to $47.75, while First Wachovia Corp., Winston-Salem, N.C., was off 37.5 cents to $39.375.

"This has to be investors liquidating portfolio positions because they don't want to be in the bank sector any longer" and maybe cutting back on stocks generally, said Felice M. Gelman, a banking industry analyst for Dillon, Reade & Co.

Ms. Gelman said she wished that everyone who wants to be out of the bank stocks was in fact out of them, since the stocks might then enjoy a recovery without having it cut short by further selling.

"But I don't believe that's the case," she said, "and so I don't think we will have anything like a V-shape performance, even if we do have a rally off the bottom."

Among the New York money-center institutions, J.P. Morgan & Co. fell $1.375 to $33.875, before rebounding to gain 12.5 cents to $35.375. Citicorp was off 25 cents to $18.75, registering a fall of 9% for the week.

Meanwhile, on the West Coast, Wells Fargo & Co. plunged $1.50 to $62. Shares of the highly regarded San Francisco superregional declined 15% last week and have fallen almost 25% in the past two weeks on worries that the California economy and real estate market are softening.

Others Followed Suit

Other California banks were also hurt. Security Pacific Corp., Los Angeles, was down 62.5 cents to $30, while First Interstate Bancorp., Los Angeles, was off 75 cents to $31.25, and Bank-America Corp. was off 87.5 cents to $22.375.

Premier superregional banks elsewhere that were once among the high-fliers on Wall Street, also took major lumps. NCNB Corp., Charlotte, N.C., was off 75 cents to $33.875 and gave up 5.5% of its value last week. Banc One Corp., Columbus, Ohio, gained $1 to $27.75.

Major midwestern banks, which had previously escaped the worst of the slide in bank equities because of conservative credit cultures and stable economy in the region, experienced a very rough ride.

Chicago's Northern Trust Co. was off 75 cents to $27, and Cleveland's National City Corp. was $1 to $34. NBD Bancorp, Detroit, was off $1.25 to $29.875, and Fifth Third Bancorp, Cincinnati, was off 87.5 cents to $29.625.

Elsewhere in the market, Laurence and Preston Tisch have raised their stake in Bank of Boston Corp to 8.9%, or 6,490,020 common shares. The Tisches said in a Securities and Exchange Commission filing that they bought 1.004 million shares on Aug. 1 and Aug. 2 for $9.875 and $10 a share.

The investment group purchased 4.7 million shares at the end of 1989 at an average of $20.11 per share. □

CAPITAL

Market Climate Helps Rich to Get Richer

By KELLEY HOLLAND

As banks find it more difficult to raise capital, the gap between the haves and the have-nots is growing wider by the day.

The haves – those banks with adequate capital and stable asset quality – can issue debt, place commercial paper, and attract consumer deposits at relatively low rates. And to the extent banks issue securities that boost their capital ratios, they improve the odds of having any acquisition plans approved by regulators.

The have-nots – banks short on capital or those with deteriorating asset quality – are unable to issue securities in the public markets at acceptable prices, and they must offer painfully high yields to attract deposits. Asset growth of any size is painful for them.

"It's really name by name," said Andrew J. Cooley, a managing director in Merrill Lynch Capital Markets. "It's a situation-specific market."

Weak Banks Face Resistance

With investors increasingly concerned about asset quality, weak banks are facing stronger and stronger resistance in the capital markets as they search for ways to raise new capital.

"The weak are 'floundering,'" Mr. Cooley said. "Until they can demonstrate stability and reasonable prosperity, the market isn't going to lend them any money."

The difference in market access is also making it harder for a bank to recover once it gets in trouble with asset quality or capital adequacy.

"If you have to go in [to the debt market] at 325 basis points over Treasuries, it's a self-fulfilling prophecy," said one bank treasurer. "You've just made the strong stronger and the weak weaker."

The ability to fund themselves in the capital markets gives strong banks the ability to grow more rapidly than weaker institutions.

"Capital-rich banks will be able to do Resolution Trust Corp. deals," said Matthew J. Grayson, a vice president in capital markets at Salomon Brothers Inc.

Public security issuance by all banks ground to a near standstill in the first quarter of 1990 as investors grew increasingly concerned about banks' asset quality. Banks issued less than $1.3 billion in debt and equity, compared with nearly $7.3 billion in the first quarter of 1989, according to Securities Data Co.

Bank security issuance has been slowly increasing, but it is not cheap – and it is almost impossible for many banks.

To cite one dramatic example, Bank of New England Corp. issued subordinated debt with a 9.875% coupon in September 1989. That debt has traded at less than 20 cents on the dollar in recent weeks.

But spreads are also wider on the debt of stronger banks. Chase Manhattan Corp.'s subordinated debt was trading at yields about 200 basis points over Treasuries during the second quarter, but it is now bid at about 260 basis points.

Since the beginning of June, only adequately capitalized banks whose condition is seen as stable or improving have been in the market. Domestic banks have included Bankers Trust New York Corp., Banc One Corp., Northern Trust Co., BankAmerica Corp., Republic New York Corp., Manufacturers Hanover Corp., Bancorp Hawaii, First Hawaiian Inc., NCNB Corp. and First Chicago Corp.

First Interstate Bancorp. was in the market in March and April for both stock and debt, but the price it paid on both instances was much higher than other banks tapping the market.

First Interstate's stock price dropped nearly $20 a share between the time it announced plans to issue stock and the time the offering was priced, and its subordinated debt issue was priced at 375 basis points over Treasuries, a much wider spread than the 105 to 170 basis points that other large banks have had to pay.

The only New England bank to tap the capital markets since late last year has been the well-regarded Fleet/Norstar Financial Group, which issued $150 million in senior notes.

Bankers and analysts alike worry that the gap between haves and have-nots will remain wide. "The banks that have been downgraded below investment grade, you're not going to see in the market for a while," said Richard R. Pannone, treasurer of Fleet. □

Securities Issuance By Banks Declines

Dollars in billions



Source: Securities Data Co.

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Higher Capital May Impair Bank Safety

By SANFORD ROSE

By persistently demanding that banks operate with ever higher ratios of capital to assets, the regulators may end up doing a disservice to the industry, to the country, and to themselves. Higher capital ratios may under certain circumstances increase rather than decrease the risk profile of banking institutions.

In theory this isn't supposed to happen. The greater the owner's stake in the business, the more prudent he is supposed to be. Unfortunately, theories don't always work out in practice.

Comment

As noted in a previous comment, it makes little sense to ask banks to raise capital-asset ratios by increasing the numerator – i.e., by selling additional shares.

Why, pray tell, should we encourage the expansion of an already overcrowded industry whose marginal revenues are likely to fall short of the marginal cost of the capital we raised? That course of action is unsound from the viewpoint of both the individual firm and society as a whole.

In practice, faced with the need to lift capital-asset ratios, most banks will choose to shrink by paring assets rather than down liabilities. What will be the impact of this maneuver on the safety of banks?

Two Steps Up, One Step Down

By definition, retrenchment will raise the book value of the capital-asset ratio. But the relevant question is what will happen to that ratio in market-value terms. That is, the regulators should be concerned with whether the market value of capital ends up as a larger or smaller fraction of the market value of bank assets.

Retrenchment should raise this market-value ratio, but by less than the increase in book-value terms. That's because the per-share value of bank capital should fall, for at least two reasons. First, as banks substitute equity for debt, their taxes will rise. Interest on debt is tax deductible, while dividends are not. Thus, higher capital-asset ratios will tend to reduce after-tax profitability, lowering per-share values.

The second reason for falling per-share values has to do with deposit insurance. Bank shares include a premium for what is called the deposit-insurance subsidy. That is, by failing to graduate deposit-insurance

See COMMENT page 4

INSIDE NEWS

PEOPLE



MANUEL H. JOHNSON, in his departing remarks as vice chairman of the Federal Reserve Board, said the Fed may move away from the holding company structure it has advocated. *Page 2*

FINANCE

MAJOR BANK and thrift stocks fell sharply Monday as heavy across-the-board selling continued. *Page 20*

WASHINGTON

JAMES M. FAIL defended himself against charges that he misled regulators about his past to acquire Bluebonnet Savings Bank. *Page 2*

INTERNATIONAL

AMID CONFUSION over the terms of a freeze on Kuwait's assets, First National Bank of Chicago blocked and then released a $111 million payment to a Kuwaiti bank. *Page 12*

CONSUMER

VALLEY BANK of Nevada's application to accept ATM cards bearing the Cirrus logo could touch off another round of lawsuits in an industry already jittery over antitrust litigation. *Page 6*

TECHNOLOGY

GEOSERVE, the wholesale banking arm of Manufacturers Hanover, is creating relational data bases for customer and product information. *Page 3*

REAL ESTATE

THE BOTTOM FELL out of the real estate portfolios of the nation's 10 largest banks in the first half as the banks racked up massive nonperforming loans. *Page 8*

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MNC to Place $180 Million Of Preferred

By KELLEY HOLLAND

In its first move to boost capital and liquidity since disappointing second-quarter results prompted funding difficulties, MNC Financial Inc. said on Monday that it will privately place $180 million of preferred stock with an already powerful member of its board of directors.

"The sale of the preferred shares represents a significant step in the company's efforts to strengthen its capital position," said Alan F. Hobbie III Jr., president and chief executive officer, in a prepared statement.

Line of Credit is Works

The announcement confirms earlier reports that MNC was seeking an equity infusion of about $200 million. In addition, the company is also known to be putting together a $750 million line of credit with J.P. Morgan & Co.

The move, which does not necessarily reopen the capital market for the Baltimore-based company, could increase company director Alfred Lerner's ownership of MNC equity to 23%, analysts said.

"He was the dominant shareholder before. This makes him

See MNC back page

Firstar of Wisconsin To Buy Banks of Iowa

By NANINE ALEXANDER

Banks of Iowa Inc., which recently canceled a nine-year-old agreement to merge into First Bank System Inc. of Minneapolis, said Monday that it would instead be acquired by Firstar Corp.

Milwaukee-based Firstar Corp. agreed to pay about $219 million in stock, about 20% below the price First Bank System agreed to pay before its own earnings problems scotched the deal.

First Deal Under New Law

The Firstar acquisition would be the first allowed under an interstate banking law passed by the Iowa legislature earlier this year and taking effect next Jan. 1. Banks of Iowa would become a wholly owned subsidiary called Firstar Corp. of Iowa, part of a five-state superregional with $11 billion in assets.

With Banks of Iowa's assets added, Firstar would rise about seven places from its yearend 1989 rank of 62d among bank holding companies. It is already the largest in Wisconsin.

Value is $75.60 a Share

The definitive agreement, announced Monday after what company officials said were several months of negotiations, calls for Firstar to exchange 2.7 of its shares for each of Banks of Iowa 2.9 million outstanding shares. Based on Firstar's $28 price at last Friday's close, the transaction would have an indicated value of $75.60 for each Banks of Iowa share.

By contrast, First Bank System's uncommunicated stakeout agreement called for an eventual purchase price equal to one and

See FIRSTAR back page

The Merged Bank At a Glance

Head office	Milwaukee
Assets	$11.0 billion
Rank by assets	55
Deposits	$8.9 billion
Employees	7,776
Bank subsidiaries	52
Banks-and offices	174

Ranking locations



Nuclear Industry Promises to Be A Hot Source of Trust Business

By RICHARD LAYNE

NEW YORK — Regulatory changes governing the nuclear power industry have created a potential pool of $100 billion in trust assets, the equivalent of new trust business in recent memory.

In keeping with two-year-old federal regulations, corporations that own nuclear power plants had to establish trust funds by July 27 for dismantling those plants. The initial funding of the accounts is small, but the guaranteed annual growth and staggering potential have had bankers scrambling for the business.

"All of a sudden," nuclear decommissioning trusts have become the "new, large market," said Richard L. Decter, vice president at Harris Trust and Savings Bank, Chicago.

Four Clear Winners

Four banks have emerged as the early winners in the battle for these trusts accounts, according to trust bankers. They are Harris Trust, Mellon Bank, Bankers Trust New York Co., and State Street Bank and Trust Co., Boston.

Initial Winners

Banks capturing big share of nuclear cleanup trusts

	Number of trusts	Trusts' assets ($ in billions)
Mellon	11	$310
Bankers Trust	4	$150

Source: Bank experts

The trusts are mandated by Congress to ensure that funds will be available to clean up nuclear power plants when their 40-year licenses expire. The Nuclear Regulatory Commission reports that 60 utility companies have 114 nuclear plants in operation, with more being added yearly.

$1 Billion to Be Added Yearly

The Edison Electric Research Institute in Washington said utilities have so far put $2 billion in what are termed nuclear

See NUCLEAR page 11

Middle-Market Relationships Face a Threat

By WILLIAM GOODWIN

At a time when banks are at least paying lip service to relationship banking, their interest in securitization could endanger the relationships that have always driven middle-market lending.

"Certainly, there's going to be a lot more securitization of middle-market loans in the next five years," said John Leahy, senior vice president in charge of middle-market lending in the Northeast at Chase Manhattan Corp.

Since the mid-1980s, banks have been securitizing everything from credit card receivables to recreational-vehicle loans, to highly leveraged transactions. Securitization allows banks to remove these assets from their balance sheets, thereby improving financial ratios and cutting capital requirements.

Middle-market borrowers are generally defined as companies with annual sales of $5 million to $250 million. According to

See SECURITIZATION page 18

PEOPLE *in the news*

Fed Loses Ardent Supporter Of Holding Company Format

By LINDA CORMAN

While packing boxes last Friday, his last day as vice chairman of the Federal Reserve Board, Manuel H. Johnson reiterated a long-held view on banking structure that appears to have put him at odds with the majority at the Fed.

Mr. Johnson, 41, predicted that without him, the Fed may move away from the bank holding company structure that he has advocated toward a less restrictive structure for financial institutions – the universal bank.

"You could argue that I held things in place... on the holding company structure," Mr. Johnson said in a phone interview. He conceded that after his departure, "Maybe there will be a tendency to go toward a universal bank." But he maintained that "there is so much you can do" with the Glass-Steagall Act, which prohibits banks from engaging in securities activities.



Manuel H. Johnson Louise Kraft

The universal concept, common in Europe, allows financial institutions to engage in a full range of financial activities. Banks do not have to seal off these activities in separate subsidiaries as they do in the U.S.

One of Mr. Johnson's final votes, after four and a half years as a Fed governor was a dissent on a proposal to liberalize rules guiding the activities of American banks overseas. In his comment on the proposal, Mr. Johnson said that the Federal Reserve Board's Regulation K (which would allow U.S. banks greater latitude in underwriting securities and investing overseas) should not be allowed without the thick firewalls already in place between the domestic bank and nonbank affiliates of holding companies. Such firewalls are not imposed for U.S. banks operating overseas.

In Defense of Firewalls

When asked about Fed Chairman Alan Greenspan's recent suggestion that the Fed might abandon its longstanding insistence on impermeable firewalls, Mr. Johnson defended the concept and underscored his abiding belief in the holding company structure.

"On this issue, my views haven't really changed," said Mr. Johnson. "We have such a large safety net that exposes taxpayers to such cost. I don't feel it is appropriate to expose the safety net to a broader base of activities.

"I realize international pressures are moving in the other direction... The universal bank has momentum. If you are going to a universal bank, you need strong capital requirements and strong supervision. But my preference would be to maintain very thick firewalls in the holding company structure."

While stressing that he had found the Fed a "very stimulating environment," Mr. Johnson admitted to leaving with a sense of relief. After 10 years in the public sector (six years at the Treasury before joining the Fed), Mr. Johnson will accept a newly endowed chair in economics and become director of a new global market studies center at George Mason University. He will also continue working with the G-7 Council, a not-for-profit group that he co-founded to study international financial and economic coordination. □

Fail Defends Deal for Bluebonnet

Asserts He and His Companies Put Up $70 Million

By ROBERT M. GARSSON

WASHINGTON — James M. Fail defended himself Monday against charges that he misled regulators about his past and his cash resources in order to acquire Bluebonnet Savings Bank at the end of 1988.

Mr. Fail, who owned a number of insurance companies before entering the banking and thrift fields by buying failed institutions, said he had not taken from Bluebonnet either a salary or $20 million in dividends he was entitled to. He also contended that he had helped in the thrift industry bailout by restoring Bluebonnet to profitability.

The Bluebonnet deal is one of a number completed in December 1988, and Sen. Howard Metzenbaum, D-Ohio, has made it the centerpiece of his investigation into the government-sponsored restructuring of the savings and loan industry.

Qualifications Challenged

In particular, he has charged that Mr. Fail, after four and a half years as a federal governor was a dissent on a proposal to liberalize rules guiding the activities of American banks overseas. In his comment on the proposal, Mr. Johnson said that the Federal Reserve Board's Regulation K (which would allow U.S. banks greater latitude in underwriting securities and investing overseas) should not be allowed without the thick firewalls already in place between the domestic bank and nonbank affiliates of holding companies. Such firewalls are not imposed for U.S. banks operating overseas.

In December 1989 ballot law requires the government to analyze whether the 1988 deals can be undone. Sen. Arlen Specter, R-Pa., pushed Mr. Fail to say during his Judiciary subcommittee testimony whether he would agree to relinquish the thrift.

Mr. Fail said the decision was not his alone, but warned that it would be costly for the government to rescind the deal.

Higher Cost Seen

"If the federal government were to renege on the contract with Bluebonnet, Bluebonnet, it could cost the American taxpayers $600 million over and above the government's current obligations to Bluebonnet," Mr. Fail said.

"Serious people, aware of these facts, could hardly propose renegotiation or repudiation of this transaction," he said.

Mr. Fail told the panel that allegations that he put up only $1,000 of his own money in return for $1.85 billion in federal assistance "is the most absurd statement I have heard."

"I put all of my resources, all the insurance companies I own," into the deal, Mr. Fail said.

Mr. Fail said he borrowed $35 million and had an insurance company he controlled, Mutual Security Life Insurance Co., put up an additional $35 million.

But under questioning, he conceded that he did not have the $70 million required under the terms of the agreement in the bank at the time the deal was closed on Dec. 22. At least $10 million was not put in until later the next year, he said.

"If I have a commitment, I would represent that I have the cash," he said in response to a series of questions from Sen.

See BLUEBONNET *page 11*

Comptroller's Office Plans to Review First American's Commercial Loans

By KENNETH CLINE

ATLANTA — Indicating their concern over credit quality standards at First American Corp., federal regulators plan to examine the Nashville-based company's commercial loan portfolio in the fall.

Analysts expect First American, on its own in anticipation of the scrutiny, to classify more loans as nonperforming in the third quarter.

A Rough First Quarter

The action by the Office of the Comptroller of the Currency follows a targeted exam of First American's real estate portfolio earlier in the year that led to a first quarter increase of 222% in its loan-loss provisions to $94.4 million.

"When [the regulators] left after completing the real estate exams, they said they would come back later in the year and examine the commercial loan portfolio. We view it as a normal examination," said Neil Cunningham, First American's executive vice president for public affairs.

Robert Ahrens, the district administrator for the comptroller's Atlanta office, described the coming examination at First American as part of the agency's normal exam philosophy," which involves continued scrutiny of an institution's portfolio "until all areas of public concern have been met."

Annual Profits Down 86%

Caught in the downturn of Nashville's real estate market, the $7 billion-asset First American established $116.7 million to its loan-loss reserve in 1989, driving the annual profit down to $4.2 million, 86% lower than in 1988. President and chief operating officer Andrew G. Higgins resigned at the end of July 1989.

Three weeks after announcing a 1990 first-quarter loss of $44.8

See COMPTROLLER *page 10*

Corrections

An article published Monday ("BNE Loses $33 Million in Quarter," page 2) incorrectly stated Bank of New England Corp.'s capital ratio. Its capital ratio was 1.64% of assets on June 30, compared with 1.65% on March 31.

NEWS *briefs*

Discover Flies with SEC For Card Pass-Throughs

CHICAGO — Discover Receivables Financing Corp., the financing vehicle for Sears, Roebuck and Co.'s Discover card, said it filed a registration statement with the Securities and Exchange Commission for $500 million of Discover Card Trust 1990 C credit account pass-through certificates. The underwriting syndicate will be managed by Dean Witter Reynolds Inc. and Salomon Brothers Inc.

GE Capital Completes LeaseAmerica Acquisition

STAMFORD, Conn. — GE Capital Corp. said it completed the purchase of 100% of the capital stock of LeaseAmerica, which specializes in lease financing for dealers of office equipment and health care products.

LeaseAmerica is to become part of GE Capital's $59 billion-asset vendor equipment financing unit. The purchase price was not disclosed.

Rates Dip on Home Loans

WASHINGTON — The average interest rate for a 30-year fixed-rate mortgage was 9.84% last week, down from 9.98% the previous week, the Federal Home Loan Mortgage Corp. said. The average adjustable-rate mortgage was 8.38%, down from 8.41%.

Lenders charged an average of 1.9% in fees and points on fixed-rate loans, down from 2% a week before. Fees and points on adjustable loans fell to 2% from 2.1%. □

COMPANY *index*

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TECHNOLOGY/OPERATIONS NEWS

Mellon Ready to Automate Its Branches Without PCs

By JEANNE IIDA

NEW YORK — Bucking the trend toward personal computers at retail branches, Mellon Bank Corp. is close to completing a branch automation system that relies on "dumb" terminals.

Mellon said the project, which was started in 1986 and will be finished in mid-1991, will give its branch personnel all the functionality of a PC system at a far lower cost.

Mellon's project to put controllers and terminals in 350 branches flies in the face of a movement by many leading-edge banks, such as BankAmerica Corp., to install powerful personal computers in branches. Banks installing PCs say the machines are more flexible and will produce long-term benefits by giving staff members greater access to information.



"The average branch doesn't need a PC."
Richard Gallarno
Mellon Bank Corp.

Same Information Available

PCs would have added $10,000 to $15,000 to per-branch installation costs, Mellon said, and its staff can obtain the same information with the new system, which is supplied by ISC Bunker Ramo.

"The average branch doesn't need a PC," said Richard Gallarno, vice president of retail project development at Mellon.

Branch personnel do not usually need access to applications such as spreadsheets that can be accessed on PCs but not on dumb terminals, he said.

Although PC costs have fallen since Mellon decided to go with a controller-based system, "we have no regrets" about the decision, Mr. Gallarno said.

Cross-Selling Potential

Cross-selling is possible on Mellon's system because of software developed by the bank company that uses "what-if" calculations to help customer service representatives and customers identify products they need.

By 1991, the bank expects to have an expert system in place that customers can use at the point of sale for choosing among products.

Branch staff using the dumb terminals can access customer information from a central file, and they can communicate with other branches because the controllers are tied into the corporate-wide electronic mail network. The link to E-mail has eliminated the need for fax machines at Mellon's Pittsburgh headquarters. Information such as new loan data is sent from terminal to terminal via E-mail, instead of paper.

Mellon plans to put PCs in selected areas and allow them to act both as terminals and as stand-alone PCs. PCs might be installed in Mellon's small-business centers, where customer service representatives do sophisticated loan tracking. □

Hanover Forming New Data System

Software Promises to Cut Costs and Speed Delivery

By RICHARD LAYNE

NEW YORK — In an attempt to cut operating expenses and provide information faster, the wholesale banking unit of Manufacturers Hanover Trust Co. is creating flexible pools of information, called relational data bases, to support its five businesses.

GeoServe, the one-year-old wholesale banking unit, is in the vanguard of companies turning to this data base technology, which makes it easier to access and compile information on customers and products.

Last week, the bank's cash management group converted its account information system to a relational data base – a first for treasury services at any bank.



Robert Paul Molay

Richard Matteis
Manufacturers Hanover

Two Years of Work

Joyce A. Healy, senior vice president of GeoServe, said the cash management system, which took two years and $5 million to build, was designed to give customers an updated, consolidated balance report through the day.

"This is where the business is going," Ms. Healy said. "This isn't a business where you send your paper in. It's processed overnight, and we tell you what happened."

She said the move to a relational data base puts the bank a step ahead of the competition by providing customers with a single report containing transaction information from offices around the world as well as New York.

With the technology, 90% of all transactions appear in the data base within an hour, she said.

Transactions done through the bank's Delaware unit, which handles controlled disbursements, are reported as soon as they are executed, instead of hours later. European positions are reported as much as 45 minutes earlier than previously possible, giving corporate treasurers the chance to buy funds earlier in the day at cheaper rates.

Manufacturers Hanover's project is in keeping with a trend among major banks to create single systems or pools of information and transactions to encompass many lines of business. As customers increase their treasury and investment activities abroad, banks are working to supply them with a snapshot of their positions and exposures around the world. These single, complex systems are a technical version of a relationship manager.

"This is a tool for knowing the total picture for a customer and the profitability of a customer," said Richard Mattei, executive vice president and general manager of GeoServe.

Action in Other Areas

Along with cash management, the other GeoServe businesses are expected to pour their customer and profitability information into relational data bases.

The funds transfer group plans to complete its relational data base this year. Global custody and safekeeping will follow next year. The remaining two businesses – corporate and institutional trust, and trade services – have not yet expressed a need for the move, said Lawrence Pinsky, senior vice president.

If all businesses are on the same system design, the data bases could pass information back and forth easily. In essence, GeoServe is working to create a single, giant data base that is easier to update than numerous small data bases.

A common architecture may enable the bank to be more competitive by offering products at a lower price. It also may help the bank sell additional services to existing clients.

Staff Cuts Seen

By using one type of data base architecture, GeoServe can reduce some of its technology staff and cut expenses.

Mr. Pinsky estimates savings in the millions of dollars from using the relational data base management system, called DB2, from International Business Machines Corp.

Because relational data bases are easy to program, the bank expects to reduce the number of programmers. It also will not need multiple teams of technicians to ensure that all data bases are updated at the same time. □

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COMMENT/ *By Sanford Rose*

Higher Capital May Impair Bank Safety

Continued from *page 1*

charges according to bank riskiness, the government in effect subsidizes the bank shareholder, and this subsidy is embedded in the stock price. Any increase in the owner's capital stake in the bank tends to reduce the value of the subsidy, thereby lowering the worth of individual shares.

Nevertheless, these tax and deposit-insurance consequences are what economists call second-order effects. By reducing per-share values, they limit the gains in capital-asset ratios in market-value terms. But they do not nullify these gains.

A Disturbing Proviso

An increase in capital-asset ratios, whether achieved by raising additional capital or by paring assets, will probably raise the amount of market-value capital backing each dollar of assets. Provided the risk profile of assets remains unchanged, the capital cushion protecting the deposit-insurance fund will become somewhat more adequate than it was previously.

But the proviso is terribly important. If, in the process of retrenching, banks increase the risk profile of assets, the additional capital cushion may prove insufficient, and the effort to raise capital-asset ratios may end up being counterproductive.

A case can be made that asset shrinkage is in fact apt to increase the riskiness of bank assets. When banks retrench, they probably do so by eliminating those assets whose profit per unit of required capital is lowest.

Since capital requirements are not at present graduated according to the true riskiness of loan assets, banks earn less per dollar of required capital on low-spread, low-risk commercial loans made to national companies than they do on, say, credit extended to local middle-market firms.

Therefore, if pressed to retrench, banks are most likely to purge relatively high-grade commercial credits from their portfolios. And although not exactly loaded with such loans, banks still hold a measurable chunk of the business. As these sounder commercial credits are eliminated, the average probability of loan defaults will rise.

But the effects of asset retrenchment will extend beyond that of increasing expected losses. The true riskiness of the loan portfolio depends on the correlation or covariance of asset returns, which measures the likelihood that a given economic disturbance will result in a simultaneity of customer defaults.

Down with Interdependence!

The evidence shows that most large as well as small banks have highly concentrated loan portfolios. They lend to predominantly local borrowers, most of whom tend to be vulnerable to the same regional economic shocks.

Otherwise put, the customer populations of most banks exhibit high positive loss correlations. Borrower business fortunes are closely interdependent, whereas, from the banks' viewpoints, these business fortunes should be as independent of each other as possible.

In order to lower loss correlations, banks should *increase*, not *decrease*, their lending to nation-wide firms. That's because while loss correlations are in most cases strongly positive within given regions, they are much less positive, and may even be negative, across regions.

Disproportionate Drop in Risk

A study of the 50 largest banks in the country done some years ago found that these institutions could have greatly improved their asset-efficiency ratios – defined as returns minus average losses divided by a measure of loss volatility (standard deviation) – by substituting a hypothetical pool of loans made to all nationwide companies for a large fraction of their existing, and mostly local, business credits.



"Rising capital ratios will force banks to opt out of national credits, to their detriment."

Although spreads would have fallen, asset-efficiency ratios would have risen because the decline in risk, as measured by the loss volatility, was greater percentagewise than the drop in returns. The reason for the sharp decline in risk was that the loss correlations between the loans in the nationwide pool and the loans in the banks' existing portfolios were lower than those within these portfolios.

In other words, the factors that produced clusters of local losses did not affect, to nearly the same degree, the fortunes of the national firms, reaffirming that banks can materially reduce the threat of loss simultaneity by lending across regional lines. But if banks curb interregional lending – if they in effect turn completely away from the national firm – they obviously circumscribe their diversification opportunities and increase their risks.

More Failures Likely

Yet because lending to national firms is generally a low-spread activity, that is precisely what will probably happen when capital requirements are increased.

As a result, asset shrinkage will not only raise the mean probability of loan defaults, it will also increase their variance. When times turn bad in a particular region, its banks will experience a higher percentage of portfolio losses than would have been the case had they remained active in the national loan market.

Therefore an indirect, but nonetheless very real, consequence of higher capital-asset ratios is likely to be more rather than fewer bank failures. And while capital cushions, expressed in both book- and market-value terms, will rise, they will probably not rise sufficiently to protect the deposit-insurance fund from the increased threats to its integrity. □

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CRIME BLOTTER/ *By Tom Leander*

Trust Officer Violated Trust

"What I did was my own fault," a fallen trust officer told the judge as he was sentenced in Milwaukee federal court last week.

"I was in a dream world," added Dale Phillips, 44, formerly of Associated Kellogg Bank in Green Bay, Wis. Mr. Phillips was convicted of embezzling $1.5 million from trust accounts and spending the money on luxury items – including a $350,000 house, a $100,000 sailboat, and expensive cars.

Judge Thomas Curran gave Mr. Phillips the maximum penalty of 51 months in prison. The stiff sentence was partly to punish the the former trust officer for reneging on a promise he made in May, when he was convicted, to sell off his ill-gotten assets to make restitution to the bank.

Defense attorney Gerald Boyle, arguing for a lighter sentence, sought to portray Mr. Phillips as a "Walter Mitty" character who led a fantasy life of luxury, while his actual salary at the bank was $30,000 a year.

Mr. Phillips avoided detection while skimming off the money over five years, prosecutors explained, because most of his clients were elderly and did not keep a close eye on their trust accounts.

* * *

In-Law Gets into the Act

The long arm of the law reached out last week to a money launderer's mother-in-law, who was charged with threatening a customs agent who helped convict her son-in-law.

Gloria Parra De Espinosa is the mother-in-law of money launderer Akbar A. Bilgrami, one of five former bank officers convicted last week of laundering illicit drug profits at the Bank of Credit and Commerce International, Tampa.

After the verdicts were read on July 28, Ms. Espinosa allegedly grabbed U.S. customs agent Gregory Cook, who participated in a two-year sting that netted Mr. Bilgrami and the others, and said: "You did a good job, agent – your children will pay for this."

Ms. Espinosa, 54, is a Panama national who earned a doctorate in psychology in the United States. Both her husband and her ex-husband signed a $250,000 bond to obtain her release.

Robert Polli, an attorney for Ms. Espinosa, said the remark was not a genuine threat, but rather the "emotional outburst of a distraught mother."

The trial in Tampa drew international attention because one of the convicted bank employees was Amjad Awan, the former personal banker to deposed Panamanian strongman Manuel Noriega. The money-laundering ring was broken via an intricate, cart momentarily to pick up the money, which he handed over to a teller inside the bank.

Only later, according to Detective Ernest Ursitti of the Lake View police, did the employee notice that $50,000 had been removed from his cart while he was picking up the singles.

Detective Ursitti said a witness provided a description of the man who dropped the bills, but no arrests have been made. □

* * *

More Troubles for Spiegel

The screws appear to be tightening on former Columbia Savings and Loan chief executive Thomas Spiegel. Last month, the Office of Thrift Supervision accused Mr. Spiegel of squandering $19 million of Columbia's money on such frivolous items as corporate jets, condominiums, and expensive free concert tickets for friends.

Mr. Spiegel resigned as Columbia's chief executive in December, after losses in the thrift's large junk-bond portfolio left it teetering on the brink of seizure by regulators. Next, the OTS filed a civil complaint against Mr. Spiegel, seeking to recover the $19 million along with $5 million in fines.

In the latest development, Mr. Spiegel's lawyers last week said that the OTS is ready to add new charges to the original complaint, involving expenditures for Mr. Spiegel's private security staff.

* * *

Variation on an Old Trick

A ruse that usually works well for pickpockets tricked an armored-car employee out of $50,000 last Thursday outside La-Salle Bank Lake View, in Chicago.

The employee was making a routine delivery to tellers, pushing a cart loaded with cash into the bank branch, when he noticed a stack of $1 bills on the sidewalk.

The employee, whose name was not revealed by police, rose to the bait. He left his

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CONSUMER NEWS

CREDIT UNIONS

Fee Revision Plan Would Favor Smaller Institutions

By BILL ATKINSON

WASHINGTON — Small and large credit unions are squaring off over a proposal by the **National Credit Union Administration** to restructure its fee scale.

The plan would shift more of the responsibility for examinations, charters, supervision, and similar services to larger credit unions.

The change is designed to appease small institutions, which have complained that they have been saddled with the brunt of the payments. Eighty-seven percent of credit unions have less than $20 million in assets, and the average size of a credit union is $13 million.

Robert E. Loftus, director of public and congressional affairs for NCUA, said, "The system is way out of whack. It is extremely unfair to small credit unions."

Tiered Assessments Under Study

The proposal, to move to a two-tier system for operating fees, was announced late last month at an NCUA board meeting in Nashville. Separately, the agency is scheduled to meet today to reveal its fiscal 1991 budget, which is expected to be higher than in 1990 and could spell an increase in fees across the board.

The regulator's decision on the plan is not expected until October, but some credit unions have already dashed off responses.

L.L. De Carlo, president of Marine Corps West Federal Credit Union at Camp Pendleton, Calif., said he read the proposal with "dismay" and "indignation," according to a letter he sent the NCUA.

Mr. De Carlo said examiners are telling him to cut expenses, and at the same time plan to raise Marine Corps' operating fees by as much as 48%.

"It's very difficult to maintain morale when a credit unions pays 20% to 30% below market for manpower, then is forced to pay $12,000 more for an intangible expense item," he said: "For $12,000 I could hire another teller."

But Kent Treadwell, president of OKC Thrift Federal Credit Union in Oklahoma City, said the restructuring is a long time coming. "It's about time the big boys paid their fair share," he said.

Reductions Would Go to Smaller Institutions

Under the existing fee structure, credit unions are divided into 14 brackets by asset size. Institutions with assets of less than $50,000 do not pay a fee. Credit unions with $50,000 to $100,000 in assets pay an average of $2.41 for every $1,000 in assets. Credit unions with assets of more than $1.5 billion pay 7 cents per $1,000 in assets.

If the plan is implemented, payments by credit unions with $50,000 to $100,000 in assets would be reduced to $1.31 for every $1,000 in assets. Credit unions with assets of more than $1.5 billion would have higher payments, nearly 10 cents per $1,000 in deposits.

The proposal is structured so that federal credit unions with up to $250 million in assets would pay 29 cents for every $1,000 of assets. Larger institutions would pay $73,396 plus nearly 8 cents for every $1,000.

No fee would be collected from federal credit unions with assets under $50,000. □

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Cirrus Application May Spur Suit

Valley Says It Will Fight to Charge Transaction Fees

By YVETTE D. KANTROW

NEW YORK – A Las Vegas bank's application to accept automated teller machine cards bearing the Cirrus logo could touch off another round of lawsuits in an ATM industry already jittery over antitrust litigation.

Valley Bank of Nevada – which last year filed a lawsuit against Plus System Inc. alleging price-fixing – is seeking permission to accept ATM cards issued by banks in the Cirrus network. It filed the application with Cirrus System Inc. after that national network said it would share ATMs with Plus, the national system to which Valley belongs.

Valley officials have expressed some concern that the application will be denied because of the bank's policy of charging customers of other banks each time they use its machines. If the application is rejected, Valley executives say, they may take Cirrus to court.

"We would be facing a very difficult business situation, and we would most likely move to protect our rights," said Jon A. Joseph, executive vice president and general counsel for Valley Bank. "If [the pricing policy] is the basis for not letting us in, then there is going to be a problem."

Valley, which has made a big business out of placing ATMs in and around Nevada's tourist attractions, took Plus to court over the issue of levying surcharges on customers of other banks – a practice prohibited by Cirrus.

Cirrus will discuss the Valley application, along with requests from several other Plus members, that want to accept Cirrus cards, at a board meeting Aug. 14, according to G. Henry Mundt 3d, senior vice president for the Downers Grove, Ill.-based network.

"We don't really talk about specific applications," Mr. Mundt said. "The issue of surcharges is one that will have to be addressed."

Valley sued Plus in April 1989 after the network denied two requests for permission to impose surcharges. But in July 1989, Nevada passed a law essentially allowing banks to levy surcharges on electronic banking transactions by cardholders of other banks.

The $2 billion-asset bank is charging customers of other Plus member banks $1 each time they obtain cash from Valley's

If the pricing policy is the basis for not letting us in, "then there is going to be a problem."

Jon A. Joseph
Valley Bank of Nevada

machines in airports, casinos, and hotels. It began levying the surcharge in September after the U.S. District Court for Southern Nevada upheld the constitutionality of the state statute.

Plus, a Denver-based affiliate of Visa U.S.A., is appealing that court's decision. Oral arguments were heard by the U.S. Court of Appeals for the Ninth Circuit in March.

If Valley is allowed to accept Cirrus cards, it would charge customers of Cirrus member banks the same $1 fee it levies on Plus member customers, Mr. Joseph said.

"We would be complying with our state law," he said.

The agreement between Cirrus and Plus to share ATMs beginning Aug. 20 could be the source of other legal wranglings. Fourteen state attorneys general are now examining the impact of the sharing plan on other participants in the ATM market.

Competitors Moving In

According to Mr. Joseph, the Valley request has caused controversy at Cirrus. "We've heard there has been serious concern about surcharging and about Valley Bank's acceptance," he said. "If we are turned down because of surcharging, it's discriminatory."

First Interstate Bancorp, a Cirrus member whose Nevada ATMs compete with Valley's, has already received permission to accept cards bearing the Plus logo.

"We would have a serious business detriment if they were allowed to accept Plus, and we can't take Cirrus," Mr. Joseph said. □

States Review Cirrus, Plus Plan

NEW YORK – As the Cirrus and Plus networks prepare to begin sharing automated teller machines on Aug. 20, 14 state attorneys general are still discussing a possible challenge to the sharing agreement.

The attorneys general quashed a joint effort by MasterCard International and Visa U.S.A. to develop the Entree debit card system. They are scheduled to meet Wednesday to discuss their inquiry into Cirrus and Plus ATM sharing, according to Lloyd Constantine, chief of the New York State antitrust bureau.

The group has been conferring with executives from Cirrus, Plus, and some regional ATM networks to determine the impact of the sharing plan on the rest of the electronic banking industry, Mr. Constantine said.

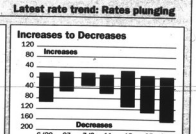
The inquiry is a direct result of the Entree antitrust lawsuit, settled in May. The settlement, which called for Entree plans to be abandoned, contained a provision specifically preserving the states' right to challenge Cirrus and Plus duality if they conclude it is anticompetitive.

— **Yvette D. Kantrow**

AMERICAN BANKER /*Bank Rate Monitor's*™

Consumer Money Index — **Latest rate trend: Rates plunging**





Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it signals the beginning of the end of a cycle. The graph shows how the ratio has moved over the past few weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.
Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

EXECUTIVE *changes*

Buckeye Picks Thomas as CEO

Michael H. Thomas has been named chairman and chief executive officer of **Buckeye Financial Corp.**, Columbus, Ohio.

Mr. Thomas succeeds **Michael J. McMennamin**, who resigned to become president and chief operating officer of **Banc One**, Columbus.

Mr. Thomas, executive vice president of JMAC Inc., an investment firm, has been a director of Buckeye Financial since 1988.

Robert W. Strouse has been named president and managing officer of Buckeye's principal subsidiary, Buckeye Federal Savings & Loan Association. Mr. Strouse had been Buckeye's chief legal counsel.

Buckeye said the management changes won't affect its pending merger with **Banc One's National Bank**, Columbus, which is expected to be completed this fall.

Shawmut Names Vice Chairmen

Eileen S. Kraus and **James S. Dailey** have been appointed vice chairmen of Connecticut National Bank, Hartford, a subsidiary of **Shawmut National Corp.**, a superregional bank holding company with headquarters in Hartford and Boston.

Ms. Kraus, who was also elected a director of Connecticut National Bank, oversees consumer banking and marketing for the corporation. Mr. Dailey joins the organization as head of all real estate activities.

Ms. Kraus and Mr. Dailey join James A. Daley, Russell H. Knisel, and Jasper W. Morgan Jr. as vice chairmen.

Mr. Dailey joined Shawmut from his position as president of the Inverness Group, a real estate investment/management company in California.

In his newly created post, Mr. Dailey will oversee all of the corporation's real estate activities and report to **Gunnar S. Overstrom**, president and chief operating officer of Shawmut National Corp. Mr. Dailey will relocate to Connecticut.

In addition, the holding company said its lead banks, Connecticut National Bank and Shawmut National Bank, have named eight senior vice presidents.

They are: **John Leary, Eugene Marinelli, Robert Prendergast, John Spear, Thomas Theurkauf, Steven Turner, Raymond Coppens,** and **Joseph Sullivan.**

Mr. Leary will establish and manage an independent real estate appraisal department to assist the lending and asset-management divisions in obtaining and interpreting real estate market information. He will serve as chief appraisal officer of Shawmut National Corp. Mr. Leary was a principal in his own appraisal firm, John J. Leary and Co. Inc.

Mr. Coppens is manager of applications systems development in Boston and is responsible for all Boston-based applications development. Massachusetts bank mergers, and consumer banking support.

Mr. Marinelli has been promoted to manager of the New Haven commercial office of Connecticut National Bank, with responsibility for New Haven area commercial lending activities.

Mr. Prendergast is director of credit administration for the commercial real estate division of Shawmut National Corp. Mr. Spear is manager of retail distribution management and is responsible for Shawmut National's retail delivery network planning, ATM program, and teleservicing.

Mr. Sullivan is group manager of mutual funds. Mr. Theurkauf is director of investor relations for Shawmut National Corp.

Mr. Turner is manager of funds management. He is responsible for all Shawmut National funding activities and for managing the interest rate risk management process.

— **Franklin Smith**

State Street Promotes Darr

James J. Darr, vice president of **State Street Bank & Trust Co.,** Boston, has been named head of its public funds division, a leading provider of custody and other investment-related services to the pension funds of many state and local governments.


James J. Darr

He succeeds J.D. Nelson, who has left State Street to establish a minority-owned investment management firm.

Mr. Darr has been director of public affairs for the bank since 1987, a position involving press and legislative relations, education, community reinvestment, housing, and many other issues concerning the Boston community.

In his new position, Mr. Darr will manage both the marketing and operations activities of the division, whose sole function is serving public funds.

"He brings a superb combination of experience and skills to this key position, having run a public sector organization himself and knowing well many of the issues and concerns that public funds feel strongly about," said William F. Gundy, executive vice president of the bank's institutional investor service area.

Mr. Darr previously was executive director of the Boston Private Industry Council, a public-private partnership addressing issues of education, economic development, and employment. He has been involved with different levels of government for a number of years.

"I see my new position as a challenge in some way because we are a leader in the business, and [there is] a lot of competition," Mr. Darr said. "There is little similarity in the job and my previous position with the Private Industry Council, because it's like being an entrepreneur."

Bank of New England Corp., Boston, has named senior vice president **Susan Clark** to head the company's correspondent banking business in New England.

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Nonperformers, Foreclosures Take Toll at Biggest Banks

By ANDREW REINBACH

The bottom fell out of the real estate portfolios of the nation's 10 largest banks in the first half of the year as the big banks racked up massive nonperforming loans, according to *American Banker*'s tabulation of reported data for the two quarters.

Most of the punishment on nonperforming loans was sustained by Chase Manhattan Corp. and Citicorp.

Foreclosed real estate at the 10 biggest banks grew 74.1%, or $1.312 billion. Nonperforming real estate loans rose 29.5%, or $1.265 billion, and real estate chargeoffs grew 47.9%, or $149.68 million. Overall real estate loans fell only 3%.

Underscoring the seriousness of how real estate is affecting these banks, general loan-loss reserves rose 7.24%, or $637.7, during the first six months of 1990, compared with the same period in 1989. Most banks attributed much of that rise to real estate loan problems.

And things are likely to get worse before they get better. Analysts believe the writeoffs and figures for nonperformers will worsen toward yearend.

'A Throwaway Year'

"As we head into the fourth quarter, the message for bank readers will be to throw in the kitchen sink," said Thomas H. Hanley, chief bank analyst at Salomon Brothers Inc. "It's a throwaway year anyway."

Even relative optimists concede that things will get worse. "I think the bank results are in a deceleration phase," said Robert B. Albertson, vice president at Goldman, Sachs & Co. "The move is slowing, but the numbers will certainly go up more."

Results for the period were mixed across the country. Generally, New York banks did worse, and California banks did better.

Citicorp and Chase Manhattan together saw real estate chargeoffs grow 440.9%, or $97 million; foreclosed real estate loans grew 261%, or $85.1 million; and nonperforming real estate loans grew 67.77%, or $1.167 billion. Overall, real estate loans grew only an estimated 6.88%.

Overall Results Skewed

These losses were so steep that they skewed the overall results of the eight other banks in the top 10. When Chase and Citicorp's results are subtracted from those totals, the improvement in performance is dramatic: Foreclosed real estate rose only 2.29%, or $98.49 million, instead of 29.5%, or $1.312 billion; nonperforming real estate loans grew 16.86%, or 52.689 million, instead of 47.9%, or $1.265 billion; and chargeoffs grew 26.07%, or $52.689 million, instead of 74.1%, or $149.68 million.

Most analysts managed the best performance in the country: Nonperforming real estate loans and foreclosed real estate both fell – the latter by 103%, or $195 million – on rising loan volume. Chargeoffs were unavailable, and bank officials would not comment on the results.

On an individual basis, Chase's real estate loan portfolio put in the worst performance. Real estate chargeoffs rose 950%, from $2 million to $21 million, while foreclosed real estate grew 251%, or $355 million, and nonperforming real estate loans grew 124.9%, or $176 million, even though real estate loan growth was flat. Chase would not divulge the size of its total real estate loan portfolio.

Citicorp's chargeoffs grew 309%, or $78 million, while foreclosed real estate rose 232.8%, or $496 million, and nonperforming real estate loans grew 392%, or $451 million, against real estate loan growth of 10.9%, or $1.3 billion. Citicorp and Chase declined to comment.

Problem Real Estate Hurts Top 10
First-half results. Banks ranked by asset size.

	Total real estate loans (dollars in billions)		Nonperforming real estate loans (dollars in millions)		Real estate chargeoffs (dollars in millions)		Other real estate owned (dollars in millions)	
	6.89	6.90	6.89	6.90	6.89	6.90	6.89	6.90
Citicorp	$11.9	$13.2	$1,149.0	$1,600.0	$20.0	$98.0	$213.0	$709.0
BankAmerica	17.9	23.4	366.0	310.0	8.0	NA	384.0	189.0
Chase	7.0	NA	573.0	1,289.0	2.0	21.0	133.0	468.0
Security Pacific	10.7	12.1	743.0	658.0	56.4	87.0	370.0	583.0
J.P. Morgan	1.0	0.8	3.2	3.0	0	0.2	0.3	0.3
Chemical	11.0[1]	7.4[2]	NA	475.0	NA	NA	403.0	556.0
NCNB	7.7	8.2	133.0	255.7	49.5	89.6	51.2	141.9
Manufacturers Hanover	4.1	4.3	80.0	206.0	39.0	17.0	168.0	245.0
Bankers Trust	2.2[3]	2.3[4]	203.0	219.0	0	6.0	25.0	93.0
First Interstate	9.9	9.1	1,035.0	534.2	137.6	143.4	25.2	99.3
Totals	82.4	80.1	4,285.2	5,550.7	312.5	462.1	1,770.6	3,083.2

[1]Estimated by Moody's Investors Service [2]Estimated by Kidder, Peabody & Co. [3]Yearend 1989 [4]Yearend 1989
Source: Banks

As dismal as these figures are, they may get worse at the two money-center banks, according to Charles W. Peabody, vice president of Kidder, Peabody & Co.

"To the extent that Chase and Citi have exposure to California, they may not be at their peak, though we've probably seen most of the worst," he said. Mr. Peabody said he expects California's real estate market to worsen toward yearend.

Other observers expect this result to be unavoidable as the West Coast market softens.

Because California is lagging the real estate problems of the rest of the country, the numbers haven't surfaced yet. But they should," said Mara Hilderman, a senior analyst at Moody's Investor's Service Inc. in New York.

Cooling in California

Moody's recently released a study of the California real estate market that predicted a further cooling off, but probably no Northeast-like problems or Texas-type crash.

But other analysts think California may be facing more problems than that.

"If the real estate recession surfaces in California, the numbers will probably look like New York's," said Mr. Peabody of Kidder.

Some California bankers feel that some downturn is unavoidable.

"I would hope that our reserves reflect our expectations of losses," said Robert Greene, chief credit officer of First Interstate Bank, Los Angeles.

After Chase and Citicorp, the worst results appeared at NCNB Corp., Charlotte, N.C. Chargeoffs at the bank rose 81.1%, or $40.12 million; foreclosed real estate grew 175%, or $89.66 million; and nonperforming real estate loans grew 92.28%, or $122.75 million, against real estate loan growth of only 0.59%, or $46 million.

Ralph Carestio, executive vice president of NCNB, said that the bank's numbers reflected commercial and industrial loans secured by real estate that went bad, as well as small real estate loans, rather than larger, more typical commercial real estate lending.

"If you look at the end of the second quarter, we had one of the cleaner commercial real estate portfolios," he said.

When NCNB took over First Republic Bank in 1988, it inherited a $9 billion real estate loan portfolio that NCNB immediately wrote down to $6 billion – $5.5 billion of which it handed to the Federal Deposit Insurance Corp.. It was allowed to do this as part of its deal with the FDIC.

"We've worked very hard in the first part of the year to recognize our problems and reserve for them," he said. "We don't think we're in for any surprises. But I sure have had more fun in this business than I've had in the past year or so."

Among the New York banks, only J.P. Morgan, and possibly Chemical Bank, reported positive results. Both Manufacturer's Hanover Trust Co. and Bankers Trust New York Corp. reported rising amounts of all real estate categories, although not in the same league as Chase and Citicorp.

Bankers Trust had only modest rises in problems, but officials did not comment on its

See REAL page 10

DEALMAKERS
For Morgan Stanley Unit, Slump Creates Wealth of Opportunities

By ANDREW REINBACH

William S. Bahrenburg Jr. has found happiness in today's troubled real estate market.

"It's a good time to be an intermediary," said Mr. Bahrenburg, the chairman of Morgan Stanley Realty Inc. "I've never seen quite the buying opportunities I'm seeing now."

Those buying opportunities translated into $12 billion of transactions in the past 12 months, worth an estimated $180 million in fees for his company, a unit of Morgan Stanley & Co.

Mr. Bahrenburg says his unit has 75 transactions under contract so far this year, and closed deals totaling over $4 billion. The deals currently in progress include the piecemeal sale of the nationwide portfolio of Boston-based developer Cabot, Cabot & Forbes, which he said was worth over $2.5 billion.

Hostile Climate for Banks

Buying opportunities for one side, of course, mean disasters for the other side, and for banks the current real estate climate is anything but an opportunity.

"It's the best or the worst of times, depending on your point of view," Mr. Bahrenburg said. "For banks, the biggest area of growth in real estate employment will be in dispositions groups, and the acquisition of property management subsidiaries to handle their foreclosed properties."

"Banks will continue to be a source of product, not capital – and some of that product won't



William S. Bahrenburg Jr.
Morgan Stanley Realty

be so hot, so they'll try more and more to move into our interest diary business," he added. "I'd do the same thing if I were in their shoes."

As an industry, said Mr. Bahrenburg, banks will have to solve their current real estate problems before they become active players in the business again.

"They'll have to get rid of their hangover before they can start partying again," he said. "They spent the '80s leveraging their portfolios, and in the '90s they'll be de-leveraging them."

A Search for Funding

Mr. Bahrenburg predicted banks will be searching for alternative refinancing sources, as the bullet loans made two-to-five years ago mature.

That search, said Mr. Bahrenburg, will become 50% of his Morgan Stanley Realty's business over the next few years.

Typical of this was the $67 million sale of the Hyatt Grand Champions Hotel in Palm Desert, Calif., which closed in June.

The hotel was built as a joint venture of Primerica Corp. and Gibraltar Bank FSB, but Primerica wanted to remove it from its balance sheet. The problem was how to sell a hotel with highly seasonal cash flow in a market uninterested in the property type in general.

The solution? Sell it to Manauko Inc., one of the seven Japanese syndicators that have become a major factor in the midsized acquisitions business in the U.S.

Manuko, said Mr. Bahrenburg, was able to make a handsome, undisclosed profit by retailing the tax benefits of the hotel to Japanese and other Asian investors. □

Realty Recession? Maybe Not Quite

By GLENN SOMERVILLE
Reuters

WASHINGTON — Real estate was an early victim of the current economic slowdown, ending years of booming profits for builders and homeowners.

Sales have slumped, construction has slowed, and hundreds of thrifts that once provided most mortgages have gone under, many because of reckless lending for speculative property developments.

But the housing industry resists the idea that it is leading the rest of the economy into a recession, after 7½ years of growth, and insists that conditions are much different than in the last slump, in 1981-82.

Some 21.3% of suburban office space across the United States was vacant in the first quarter.

Statistical Backup

Mark Obrinsky, senior economist for the Federal National Mortgage Association, or Fannie Mae, reels off statistics to make the point.

"In 1981 we were at 16% plus for fixed [mortgage] rates, and we're at under 10% now," he says. "Sales of new homes were averaging 412,000 a year in 1981-82, and they're at 581,000 now."

"It's a low level, but it's not a recession-era level."

Nevertheless, the slide is serious. Just a few years ago, builders built with abandon, buyers eagerly snapped up homes, and homeowners saw the value of their houses skyrocket.

Though the construction of houses, apartments, and office buildings accounts for no more than 5% of the nation's $4 trillion economy, the entire real estate industry is much larger.

Indeed, the National Association of Realtors says the industry makes up 24% of the economy if remodeling, sales, legal advice, financing, renting, and managing are included.

One-Family Homes Lead Field

The industry has also been slipping in an uneven pattern, with single-family homes healthier than the remainder.

"There's no question that the multifamily sector is in a classic recession, down to or below all the cycles of the postwar period, including the deepest ones in 1981-82 and in 1975," says Dave Seiders, chief economist with the National Association of Home Builders. "Single-family building has about hit bottom and should start to come up."

In commercial real estate, massive overbuilding in the early 1980s, when tax-shelter rule breaks unbalanced the market, says Dick Peach, senior economist for the Mortgage Bankers Association of America.

Some 21.3% of suburban office space across the United States was vacant in the first quarter. "The future for this sector looks pretty bleak for some years to come," Mr. Peach says.

Despite the thrifts' problems and the tightening of credit standards by the nation's banks, analysts say there is an ample supply of mortgage credit for homebuyers and builders.

"There is no credit crunch," says Mr. Obrinsky of Fannie Mae.

Mr. Peach says: "We've seen a tremendous drop in the thrift industry's market share [of mortgage lending] with no noticeable impact on consumers' ability to get a loan."

He added, "The savings and loan collapse, had it happened in the 1960s or early 1970s, would have had a devastating impact."

But as much as 65% of financing for single-family homes now comes from pools of capital derived through mortgage-backed securities.

Recession Looms Closer

The slide in GNP growth to an anemic 1.2% annual rate in the second quarter of this year from 1.7% in the first quarter, has brought the specter of a recession closer.

If housing does not lead the way into recession, it would surely follow, analysts say. The industry is acutely aware how close it is to a business drop.

"We think it's going to be close, but we're still betting 'no' on a recession," says Mr. Seiders. "But if consumer confidence weakens any more, that'll do it." □

Comptroller General Backs House Measure on Auditors

Reuters

WASHINGTON — Comptroller General Charles Bowsher has urged passage of legislation to toughen responsibilities of outside auditors of a company's financial statement.

Lax auditing standards helped allow the thrift industry to spiral out of control before regulators or Congress knew they faced a multibillion-dollar crisis, Mr. Bowsher told the House subcommittee on telecommunications and finance last week.

He said strict standards could help avert similar crises that he fears might arise among defense contractors, in the insurance industry, and in company pension funds.

Broader Role for Auditors

The house panel is considering legislation that would require certified public accountants to examine a company's internal control mechanisms and would require auditors to assess a company's prospects for remaining solvent over the next fiscal year. The legislation would also oblige auditors to inform the Securities and Exchange Commission of illegalities that are not rectified promptly.

"We must act today to avoid another disaster tomorrow. That has we want to work not against but with the accounting profession to see that another savings and loan crisis does not occur," said subcommittee Chairman Timothy Wirth, D-Mass.

Another proposal would require auditors to evaluate whether banking companies are complying with federal regulations.

Lawsuits Escalate

The Federal Deposit Insurance Corp. has brought 21 legal actions against accounting firms, most of them Big Six firms, seeking $1.5 billion for alleged misdeeds in their audits of federally insured thrifts, the agency informed the subcommittee.

Faced with such massive lawsuits, the American Institute for Certified Public Accounts agreed last week to allow its member firms, now organized as partnerships, to form corporations that would limit liability.

SEC Offers Compromise

James Doty, general counsel of the Securities and Exchange Commission, told the subcommittee members that his agency has not taken a formal position on the auditing proposals but would be pleased to work with Congress to "maximize investor protection without imposing excessive cost on our financial reporting system." □

FDIC Closes 2 Banks in Southwest

DALLAS — Bank One, Texas said it assumed all the deposits and certain other liabilities of United Bank of Waco after the latter was closed last Thursday night by the Office of the Comptroller of the Currency.

Bank One did not acquire United Bank's loan portfolio but has an option to purchase selected loans and other assets from the Federal Deposit Insurance Corp., which acting as receiver.

The six offices of United Bank in Waco, Commerce, Mesquite, and Port Arthur reopened Friday as offices of the Texas subsidiary of Bank One Corp, Columbus, Ohio. Of those cities, the $13 billion-asset Bank One had previously been represented only in Port Arthur.

In another southwestern bank, American Bank & Trust Co. of Baton Rouge, La., also was closed Thursday by the Federal Deposit Insurance Corp. The Hancock Bank of Louisiana, a subsidiary of Gulfport, Miss.-based Hancock Holding Co., assumed American's $300 million in deposits while acquiring certain loans and other assets. □

This announcement appears as a matter of record only.

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Regulators to Review First American's Commercial Loans

Continued from page 2

million, First American announced the resignation of Kenneth L. Roberts, its chairman, chief executive, and president. He was replaced by vice chairman James F. Smith Jr.

On July 19, First American announced second quarter earnings of $9.3 million, or 41 cents a share, up 190% from the $3.2 million, or 14 cents a share, in second quarter 1989.

This year's second quarter benefited from an after-tax gain of $21.3 million resulting from the sale of First American's credit card receivables to Delaware-based MBNA America Bank, a subsidiary of MNC Financial Inc., Baltimore.

Troubles in Eagles

The targeted examinations of real estate portfolios in national banks of the Southeast, launched by the Comptroller in January, have now revealed First American and Miami-based Southeast Banking Corp. as the most troubled large banks in the region.

"It's probably not very hard to figure out that we'd spend more time supervising those two institutions than the rest of them," said Mr. Ahrens of the Comptroller's Office.

Analysts say First American continues to be hampered by Nashville's real estate recession.

After reporting cumulative losses of $92.8 million in the last three quarters, Southeast announced late last month that it would operate under supervisory agreements with the Comptroller's office and the Federal Reserve Bank of Atlanta.

Those agreements call for Southeast to boost its capital by about $10 million at yearend and strengthen its real estate lending, credit review, and reserve policies.

Analysts say First American continues to be hampered by Nashville's real estate recession, but enjoys a stronger capital position and better reserve coverage than Southeast Bank.

Where Southeast Bank maintains an equity to assets ratio of 4.4%, the comparable figure at First American is 5.56%. First American's $160.2 million loan loss reserve now covers 101% of its nonperforming assets, compared to 45% at Southeast Bank.

The concerns about First American come mainly from that [Nashville] market," said Susan R. Leaders, banking analyst with the Robinson-Humphrey Co. in Atlanta. "When a market is that troubled, it just doesn't go through your real estate portfolio. . . it's funneled through your entire portfolio."

Ms. Leadem said she expects First American to identify more problem loans in anticipation of the fall examination by the Comptroller's Office. □

Real Estate Woes Take a Big Toll At Top 10 Banks

Continued from page 8

results.

Hanover's chargeoffs fell from $39 million to $17 million, but its nonperforming real estate loans rose 157%, or $126 million, and foreclosed real estate grew 45.8%, or $77 million, versus real estate loan growth of only $342 million.

Robert Moritz, a vice president at Manufacturers Hanover, said that nonperforming real estate rose because of one bad credit – a $153 million loan to Donald Trump – and that the rise in foreclosures was the result of aggressive portfolio management.

"We've put into place a process in which we realistically access problems as they arise," he said. "I won't guarantee that we won't have real estate problems in the future, but we've taken hold of our problems and acted accordingly.

Morgan, which posted the best real estate balance sheet, also had the smallest portfolio.

"It's never an easy job to dispose of properties that the market understands are in bank ownership," he said.

Mr. Greene of First Interstate has a similar attitude toward foreclosures. "We view foreclosed real estate as a pathway to resolution," said Mr. Greene. "If you own that property now, you can go out and sell it, and you don't have the problems of an unwilling or uncooperative owner."

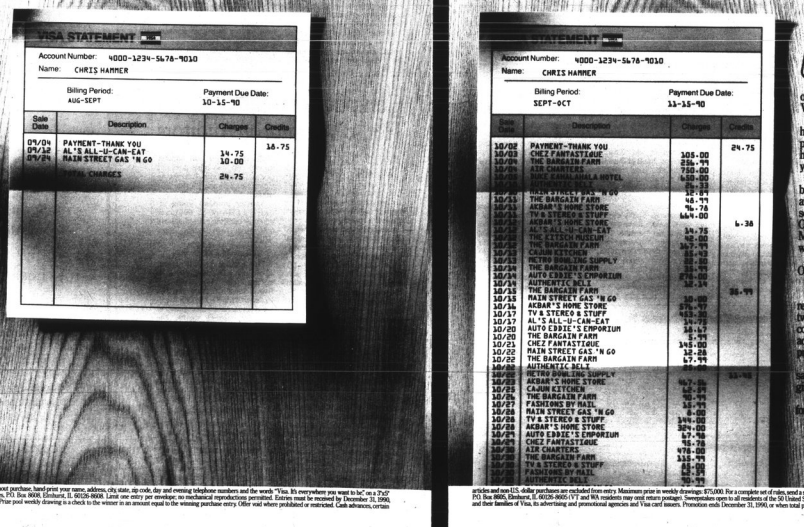
First Interstate's nonperforming real estate loans fell by about 50%, or $500.8 million, while foreclosed real estate soared 293%, or $74.05 million, as of June 30.

Morgan's Small Portfolio

J.P. Morgan, which posted the best real estate balance sheet among the top 10 banks, also had the smallest real estate portfolio – a mere $928.8 million in outstanding loans – and the smallest portfolio of foreclosed real estate at $256,000.

Morgan is mainly a real estate adviser, not a lender, said Jackson Tai, the bank's managing director in charge of real estate. It arranged over $4 billion in real estate transactions in the past year. □

An interesting thing happens when people think someone else might pick up the tab.



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Nuclear Power Industry Is Hot Source of Trust Business

Continued from page 1

decommissioning trusts. The institute said $1 billion more will be invested by yearend. Required contributions will bring in at least another $1 billion in assets yearly. By 2008, the nuclear trusts will have $100 billion in assets, the NRC estimates.

The trusts are attractive not only because of their potential size, but also because no money can be withdrawn until the 40-year licenses for the plants expire. Until the licenses run out, utility companies must continue to put money into the trust.

"The real impact is they have to set aside large amounts of money every year," said Mr. Deeter. "It's a steady stream of assets." As of last week's deadline, Harris said it had gained $275 million in assets from nine nuclear trust accounts, about the same as a medium-size pension fund. Two of the trust accounts cover big California nuclear plants and could be worth nearly $1 billion apiece in 20 years.

Utilities with older plants must make fairly large trust contributions now; contributions for new plants will be small initially.

Oldest Plant Still Operating

The Nuclear Regulatory Commission estimates that it will cost $165 million to clean up the average plant, but costs vary greatly by size. The oldest nuclear plant is the Yankee Row plant near Pittsfield, Mass., which was licensed in 1960 and is still operating.

Utility companies with older plants must make fairly large trust contributions now, while contributions for new plants will be relatively small initially.

"These assets are expected to grow dramatically," said Carter Reynolds, senior vice president of Bankers Trust, which now has four nuclear trust accounts with a combined $150 million in assets. Ms. Reynolds said its trusts will grow tenfold over the remaining life of the plants, roughly 20 years.

So far, Mellon's 11 nuclear trusts represent $310 million in assets, said Timothy F. Keaney, Mellon vice president.

State Street did not return phone calls or answer inquiries about the size of its nuclear trust business.

Fee Growth Seen

The nuclear decommissioning trust accounts are generating only limited fees at this time, say bankers. The average account size – about $30 million – and regulations limit tax-credit investment to safe securities such as municipal bonds.

"For now, their contribution to our profitability is small," said Mr. Keaney of Mellon, which has opened twice as many decommissioning trust accounts as employee-benefit accounts in the past year. "But in five years, we expect it to be significant."

When the accounts grow, some trusts will require five investment managers and sophisticated monitoring of performance. As a master trustee overseeing the investments of these funds, Mellon expects its service fees to increase commensurately.

Karen Adams, a vice president at Meljon, said that only half of the 60 corporations that set up trusts looked for a national trust bank. The balance elected to open trust accounts with their local banks, in some cases for political reasons.

But some of these utilities may switch trust providers, she said, because small banks may not be able to supply the monitoring and investment managers required. Complex back-office systems, typically present in big master trust banks, are needed to do the job. □

Bluebonnet Deal Defended by Fail

Continued from page 2

Metzenbaum.

Bankers Life, an insurance Company he dealt with, "gave me $25 million at the closing and said they would be responsible for the other $10 million under certain circumstances."

On key details, including the date on which Bankers Life committed to fund the deal, Mr. Fail was hazy. For example, Mr. Fail said he was not sure if newspaper reports that Bluebonnet received $275 million last year are true.

He also told the panel he probably did not look over a statement he signed that represented that he had not been the subject of civil or criminal actions.

A 1976 Alabama indictment against Mr. Fail was dismissed with the stipulation that it could not be brought again, but the insurance company he owned was convicted of fraud and Mr. Fail agreed not to underwrite or sell insurance in the state again.

But Mr. Fail said that some details might have been overlooked in the rush to get the deal done by the end of the year.

Mr. Fail said it was not until Dec. 9 that the Federal Home Loan Bank Board, the now-defunct thrift regulatory agency, told him he was once again considered a serious bidder for the group of Texas thrifts. After a week of negotiations, he said, the Bank Board gave him a Dec. 28 closing date.

That date was moved up to Dec. 22. After a week of frantic work, he arrived at the Bank Board offices to close. "The biggest pile of documents I have ever seen in all my life." □

INTERNATIONAL NEWS

SPECIAL REPORT: CRISIS IN THE PERSIAN GULF

First Chicago Halts, Then Pays, $111 Million to Kuwait Bank

By JOHN EVANS

LONDON — Amid broad confusion among banks over the terms of the worldwide freeze on Kuwait's assets, First National Bank of Chicago first blocked and then released Monday a payment of $111 million to a Kuwaiti bank.

The on-off freeze demonstrates the difficulties American and other banks are having in interpreting the orders from their respective governments blocking payments involving Kuwait assets, actions designed to protect the Gulf state's assets after the invasion by Iraq, say bankers in London.

Guidelines Coming

The U.S. Treasury and the Bank of England are working to produce detailed guidelines for banks in order to further clarify the way the freeze works, a spokeswoman for the respective agencies said.

First Chicago, through its London-based settlement organization the First Chicago Clearing Center Ltd., Thursday blocked proceeds of $111 million owed to the United Bank of Kuwait from the sale of certificates of deposits.

That payment was released Monday by First Chicago, apparently after it clarified the terms of the U.S. freeze order on Kuwaiti assets and UBK's status, according to UBK general manager Christopher Keen.

A spokesman for First Chicago, citing client confidentiality, declined to comment.

Mr. Keen explained that his bank, which has assets of $4.25 billion, is in a special position that effectively gives it immunity from both the U.S. and British freeze orders. It is incorporated in Britain rather than Kuwait and is owned by Kuwaiti private-sector interests, including other Kuwaiti banks and institutional investors, rather than the Kuwait government, Mr. Keen said.

The U.S. executive order on Kuwait applies to "all property and interests in the property of the Government of Kuwait . . . its agencies, instrumentalities and controlled entities and the Central Bank of Kuwait that are in the United States [or] come under the control of United States persons, including their overseas branches."

But Mr. Keen said that while his bank is in a special position, a major issue to be clarified is the "extra-territoriality" of the U.S. order and whether it applies comprehensively to U.S. bank branches in Britain.

Normally, these are subject to British law, including the terms of the new U.K. freeze.

However, U.S. bankers say privately that while they are awaiting further clarification of the freeze orders from Washington, they are treating the order as applying worldwide.

Mr. Keen declared: "It's a shame that the legal effect of way the U.S. freeze works is not clearer to people in U.S. bank branches abroad."

In Washington, a U.S. Treasury spokeswoman said that work is going on to prepare detailed guidelines and operating procedures for banks and other institutions.

In London, a Bank of England spokeswoman declined to comment specifically on the UBK case, but confirmed that any bank operating a branch in Britain usually is subject to U.K. law, including the new freeze order.

"The Bank is still working to issue detailed instructions."

Separately, National Bank of Kuwait, the Gulf state's largest bank, with $13.25 billion in assets, released a statement declaring that its chairman and senior managers are now operating out of its London offices.

The bank said that, as a private-sector rather than government institution, it not affected by the U.S. and British action.

Banking System in Persian Gulf Under Strain as Liquidity Drops

By ERIC HALL
Reuters

DUBAI, United Arab Emirates — Banking in the Persian Gulf is already showing signs of strain because of the Iraqi invasion of Kuwait, bankers here say.

Many banks face defaults on Kuwaiti payments, and lenders are being scared out of the system.

Bankers said the squeeze in the interbank market was particularly tight in Bahrain. Some of the smaller Bahraini banks, branches of Kuwaiti banks, and banks with large amounts of capital from Kuwait are getting desperate for funds.

Nobody Is Lending

"The funds are there," a Saudi-based dealer said. "It's just that nobody wants to lend them any. They are down to relying on personal relationships with institutions outside the Gulf. We hear the Japanese are not lending and not taking money."

Some dealers said larger banks were also feeling the pinch.

"They say they are not, but then why do they keep calling me up looking for quotes every 15 minutes?" asked another Saudi bank dealer.

He said dollar interbank rates for lending to such banks were being gradually racked up.

"They call and I'll offer 8, 7⅞, Next time I'll offer them 8⅛, 7⅞; next time 8⅛, 8," he said.

'A Degree of Panic'

"By putting up rates, banks are saying they are not willing to deal until we see what happens. There is a degree of panic in the market," said a European bank manager in the United Arab Emirates.

Dealers in Saudi Arabia, by far the biggest Gulf economy, said there was no liquidity shortage in the kingdom and recent slowness in the economy had led to a larger-than-normal seasonal cash buildup.

Bankers were watching for responses to the crisis from the Kuwait banks in areas now controlled by Iraq.

Government Bank Silent

Bankers contacted said they had heard nothing from the National Bank of Kuwait but some private Kuwaiti banks had started telexing creditors to make their positions clear.

A National Bank of Kuwait spokesman in Bahrain declined to comment.

Money rates climb as institutions seek cash infusions.

Bahrain's large regional offshore banking center is particularly vulnerable to economic shocks like the Iraqi invasion because the tiny island economy has no deep domestic depositor base on banks can draw.

"It's all money market-based, so as Kuwaiti defaults start to work through, we have a kind of gradual bleeding effect which could eventually cause a hemorrhage," said a Bahrain banker.

Withdrawals Discouraged

All around the Gulf, to discourage withdrawals, financial institutions were quoting very wide spreads on foreign exchange deals in Gulf currencies on deals for individuals, mainly buyers of dollars and sterling.

In the United Arab Emirates, dollar bills became scarce as depositors, especially expatriates from the Indian sub-continent, withdrew money.

"We have around 5% of people wanting to break deposits and that is rising. In the long term, that money will not come back and we are talking about a shortage of investment funds in the Gulf," a banker said.

Bankers predicted that in the long run small Gulf banks and branches of non-Gulf banks would be the biggest losers in the current crisis because of their thin deposit bases. □

Treasury Clarifies Details of Asset Freeze

By JAMES B. KRAUS

NEW YORK — The Treasury moved Monday to identify Kuwaiti banks subject to the presidential order blocking Kuwaiti government-owned accounts, naming 10 banks government-owned institutions.

In a letter to the Federal Reserve Bank of New York, the Treasury's Office of Foreign Assets Control granted 16 other banks temporary exemption from the freeze pending clarification of their ownership by Aug. 18.

The presidential order, issued last Thursday after the Iraqi invasion of Kuwait, allows payments into Kuwaiti or Iraqi government-owned accounts but bars any transfer of funds out of them.

Special Office in Charge

The Office of Foreign Assets Control is responsible for implementing the presidential order, which is intended to prevent Iraq from seizing or using Kuwaiti assets.

On Friday, the Treasury moved to assist Kuwait-owned companies in this country by authorizing U.S. financial institutions to accept deposits and clear checks written on the blocked accounts of Kuwaiti firms in the United States provided the firms register with Office of Foreign Assets Control's Blocked Assets Section.

The authorization also requires banks to ensure that the company has registered and to ensure that no funds are transferred to the Iraqi government.

Some Flexibility

Two other Treasury licenses authorize banks and investment companies managing Kuwaiti government-owned portfolios to manage and reinvest Kuwait funds and allow all foreign exchange transactions on behalf of the Kuwait government entered into before Aug. 2 to be completed provided payment is made into blocked Kuwaiti government accounts.

A fourth order authorized payments for Iraqi or Kuwaiti

See **KUWAIT** *page* **17**

Status of Kuwaiti Banks

The U.S. Treasury Department has put Kuwaiti banks into four categories. Each is affected differently by the freeze.

Category I. Blocked entities owned by the Kuwait government: Bank of Kuwait and Middle East; Burgan Bank; Central Bank of Kuwait; Credit de Berques; Kuwait Finance House; Savings and Credit Bank.

Category II. Banks not to be considered blocked entities: Bahrain Middle East Bank; Banco Atlantico; Dao Heng Bank; Gulf International; Kuwait and Bahrain Bank; Kuwait French Bank; Kuwait Real Estate Bank; National Bank of Kuwait; Swiss Kuwaiti Bank; UBAF Arab American Bank; United Bank of Kuwait.

Category III. Banks in which Kuwait and another government have substantial ownership. Their status is under review, but individual transactions are being licensed. The banks are: Arab-African International Bank; Arab Banking Corp.; Arab-Hellenic Bank; Arab Turkish Bank; Banco Arabe Espanol.

Category IV. Banks over which Kuwait has substantial control because of loans or other transactions are blocked: Al-Ahlie Bank of Kuwait; Commercial Bank of Kuwait; Industrial Bank of Kuwait; Gulf Bank. □

Key International Rates*

	Day-to-day money	7-day interbank	30-day interbank	90-day interbank	180-day interbank	Discount rate	Prime rate/base
	Aug. 6	Aug. 6	Aug. 6	Aug. 6	Aug. 6	Aug. 6	Aug. 6
United States	8.00	8.13	8.00	7.94	8.00	7.94	7.94	8.00	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.38	7.38	7.75	7.88	11.38	7.94	7.94	11.00	5.25	5.25	7.13	7.13	7.13	7.13
Canada	13.38	13.25	13.50	13.19	13.25	13.13	12.82	12.69	13.00	13.41	13.41	13.49	14.25	14.25	14.25	14.25
U.K.	15.00	15.00	15.06	15.06	15.06	15.06	15.00	15.00	15.00	14.94	14.93	14.93	16.00	15.00	15.00	15.00
West Germany	8.13	8.05	8.13	8.06	8.44	8.38	8.25	8.63	8.44	8.00	8.00	8.00	10.50	10.50	10.50	10.50
Switzerland	6.13	6.00	6.06	6.25	6.06	6.94	6.75	6.69	6.94	6.00	6.00	6.00	10.00	10.00	10.00	10.00
France	8.75	13.25	9.75	10.07	13.25	9.94	10.13	12.69	9.94	8.50	8.50	9.50	10.50	10.50	10.50	10.50
Italy	11.50	11.25	11.25	11.00	11.50	11.38	11.56	11.50	11.25	12.50	12.50	12.50	13.00	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollar	Sterling	Short German mark	Swiss franc	Yen
3 to 6 months	7.75	14.45	8.00	6.00	7.00
6 to 12 months	7.69	13.69	8.00	6.00	6.69
12 to 24 months	8.75	12.69	8.25	7.00	7.00

*Middle quotes in the New York market

Source: Reuters, Bailey & Perron Inc., New York

INDEX *of top stories*

The following is a selective index, arranged by subject, of the top stories in *American Banker* last week. The date of appearance precedes each item. This column was compiled by Matt Barthel.

COMMERCIAL REAL ESTATE

7/31 Modern portfolio theory is beginning to play a role in the management of banks' commercial property loans. The Comptroller's office is also interested in new ways of assessing real estate values. *Page 8*

COMPETITION—BANK

8/1 A few leading-edge banks are installing multimillion-dollar networks of personal computers in their branch offices, and many more are considering such outlays. *Page 1*

CONSUMER SERVICES

7/30 Activists say NCNB has not done enough for low-income consumers in Texas, in view of all the tax breaks it received to move into that market. *Page 6*

7/30 Having spent millions to persuade consumers to choose its card, Visa U.S.A. is opening another front in war with American Express Co. *Page 1*

7/31 A growing number of regional and even money-center institutions are discovering to their surprise and delight that they are losing money on basic consumer noninterest-checking accounts and that the only way to turn this situation around is by raising fees by some extensive amount. *Page 1*

7/31 The Most ATM network is teaming up with Deluxe Data Systems to bring debit card services to supermarkets in the Middle Atlantic states. *Page 6*

8/1 The bigger the bank, the greater the likelihood that it charges above the average for a regular retail checking account, according to an ABA survey of 648 commercial banks. *Page 2*

8/1 Many customer-service representatives, who have a key role in cross-selling bank products, do not receive even basic training. *Page 8*

8/2 Adjustable-rate home mortgages have been losing ground in recent weeks to fixed-rate loans, lenders and analysts say. *Page 6*

8/3 Bank card associations say businesses with fewer than 100 employees and revenues of less than $10 million may represent the hottest new credit market. *Page 6*

8/3 The recent surge in sales of credit card portfolios is beginning to create some fallout for purchasers. *Page 1*

CREDIT CARDS
POINT OF SALE

7/30 Having spent millions to persuade consumers to choose its card, Visa U.S.A. is opening another front in its war with American Express Co. *Page 1*

8/3 The recent surge in sales of credit card portfolios is beginning to create some fallout for purchasers. *Page 1*

DEPOSIT INSURANCE

8/2 Treasury Secretary Nicholas F. Brady, in otherwise tightlipped testimony on July 25, made a backhanded pitch for one of numerous suggestions on reforming deposit insurance — limit insurance to one $100,000 deposit per person, rather than the current $100,000 per account. *Page 1*

EARNINGS

7/31 Second-quarter results for most of the nation's largest banks were about as bad as Wall Street had expected — an outcome curiously welcomed by bank stock investors. In today's climate, they said, the avoidance of catastrophe is cause for mild celebration. *Page 1*

FINANCE

7/30 The $1 billion in bank financing lined up for Kansas Gas and Electric Co.'s bid for Kansas City Power & Light Co. was significant for the banking community because it was the first hostile takeover financed by banks in many months, and at the same time it avoided the tag of a highly leveraged transactions. *Page 1*

7/31 Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting on possible bank financing for the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 billion deal. *Page 1*

7/31 Second-quarter results for most of the nation's largest banks were about as bad as Wall Street had expected — an outcome curiously welcomed by bank stock investors. In today's climate, they said, the avoidance of catastrophe is cause for mild celebration. *Page 1*

8/1 Sallie Mae shares fell $2.25 points by late afternoon Tuesday as investors bailed out of the once highly regarded stock. *Page 24*

8/2 Major bank stocks — already at an 18-month low — were pounded further in heavy volume as investors seemed to give full rein to their fears about deteriorating credit quality and prof-

See **INDEX** *next page*

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INDEX *of top stories*

Continued from page 13

itability across the industry. *Page 1*

8/2 Whether the buyout of UAL Corp. will fly is believed to hinge on an outside equity investment. But even if an investor is found, the union-led deal may still not get off the ground. *Page 1*

8/3 Torchmark Corp. is close to an agreement with banks on financing for a possible new bid for American General Corp., sources close to Torchmark said. *Page 10*

HOME MORTGAGES

8/2 Adjustable-rate home mortgages have been losing ground in recent weeks to fixed-rate loans, lenders and analysts say. *Page 6*

8/3 Edward Mahaney has ambitious plans to auction the RTC's current inventory of mortgage servicing rights by the end of next June. *Page 8*

INTERNATIONAL

7/30 A Hong Kong billionaire will acquire a 50% stake in a New York investment company that is purchasing $3 billion in junk bonds and preferred stock from Columbia Savings and Loan Association. *Page 14*

7/31 Tokai Bank's New York branch has hired John Shane from Chemical to head its swap team, in a bid to strengthen its corporate finance and treasury management operations. *Page 12*

8/1 National Westminster, Britain's No. 2 bank, faces a major fee-reaching changes seen in the nation's banking system in the past half-century. *Page 1*

7/31 L. William Seidman said he expects the thrift crisis to cost taxpayers $175 billion to $200 billion, excluding interest costs – double what the Treasury recently estimated. *Page 2*

7/31 The Fed is going to the mat to defend its 18-year-old "source of strength" doctrine, under which bank holding companies may be ordered to draw on their assets to bolster sickly banking community. *Page 1*

LEGISLATION / REGULATION

7/30 The FDIC will appeal a recent court ruling that the agency overstepped its authority in declaring 12 subsidiaries of Texas American Bancshares insolvent. *Page 2*

7/30 The environmental-liability debate has focused on lenders, but apparently the federal government is also looking for ways to avoid having to pay for the cleanup of properties it has inherited from failed banks and thrifts. *Page 8*

7/30 As the Financial Institutions Reform, Recovery, and Enforcement Act nears its anniversary, the bailout appears to have been overtaken by cash shortages, political bickering, and a growing realization that the thrift problem was much deeper than anyone ever imagined. *Page 1*

7/31 Across the nation, the thrift-bailout law is changing how banks and thrifts do business. The year since the law's passage has brought some of the most far-reaching changes seen in the nation's banking system in the past half-century. *Page 1*

7/31 L. William Seidman said he expects the thrift crisis to cost taxpayers $175 billion to $200 billion, excluding interest costs – double what the Treasury recently estimated. *Page 2*

7/31 The Fed is going to the mat to defend its 18-year-old "source of strength" doctrine, under which bank holding companies may be ordered to draw on their assets to bolster sickly banking community. *Page 1*

8/1 In the strongest indication to date that the cost of bank failures will rise dramatically, Federal Deposit Insurance Corp. Chairman L. William Seidman said that the bank insurance fund is likely to suffer a net loss of $2 billion this year. *Page 1*

8/1 The RTC starts its second year with a mountain of distressed real estate, troubled loans, and other sour assets that totaled $37 billion at the end of June and could ultimately top $100 billion. *Page 1*

8/1 M. Danny Wall defended his handling of the 1988 sale of 15 Texas thrifts to James Pate. He told a Senate panel that a lobbyist with ties to then Vice President Bush did not influence his decision. *Page 2*

8/2 Treasury Secretary Nicholas F. Brady, in otherwise tightlipped testimony on July 25, made a backhanded pitch for one of numerous suggestions on reforming deposit insurance – limit insurance to one $100,000 deposit per person, rather than the current $100,000 per account. *Page 1*

8/2 Shifting the Resolution Trust Corp.'s thrift-cleanup effort into high gear, RTC Chairman L. William Seidman announced an ambitious plan to turn $30 billion in assets over to private managers and to sell $50 billion of loans, securities, and real estate by year's end. *Page 1*

8/2 Sen. Donald Riegle's Banking Committee heard widely varying estimates on the cost of fraud in thrift failures. *Page 2*

8/2 Washington Bancorp., the troubled parent of National Bank of Washington, filed Wednesday for protection from creditors under Chapter 11 of the bankruptcy code. *Page 2*

8/3 Settling a long-standing and controversial issue, the Federal Reserve Board ruled that bank holding companies and state member banks must maintain equity capital equal to 3% of assets. *Page 1*

8/3 Using new authority to seize banks before they become insolvent, federal regulators took control of National Bank of Washington and began to seek a buyer for the $1.6 billion-asset institution. *Page 1*

MANAGEMENT / HUMAN RESOURCES

8/2 To lift market valuations, banks are advised by consultant at McKinsey & Co. to use the "business system redesign" when cutting costs. *Page 8*

8/3 From the threat of higher taxes to a national credit contraction, the thrift-bailout law of last August has spawned a host of unintended consequences that banking experts warn could severely influence the financial services industry well into the 1990s. *Page 1*

MARKETING

7/30 Having spent millions to persuade consumers to choose its card, Visa U.S.A. is opening another front in its war with American Express Co. *Page 1*

MERGERS / ACQUISITIONS

7/30 The $1 billion in bank financing lined up for Kansas Gas and Electric Co.'s bid for Kansas City Power & Light Co. was significant for the banking community because it was the first hostile takeover financed by banks in many months, and at the same time it avoided the tag of a highly leveraged transactions. *Page 1*

7/31 Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting on possible bank financing for the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 bid-for-all. *Page 1*

8/1 Citicorp's departure from the bank group leading the financing for the proposed $4.6 billion union-led buyout of UAL Corp. appears to have all but doomed the deal for now, banking sources said. *Page 1*

8/1 Bank of New England Corp. is holding discussions on becoming a member of the Federal Home Loan Bank of Boston. *Page 1*

PEOPLE

7/30 James C. Grant, chief technologist at Royal Bank of Canada, has encouraged the development of what he calls hybrid bankers: technologists who are also businessmen. *Page 2*

7/31 Carol Parry is returning to the banking industry as head of a middle-market lending unit at Manufacturers Hanover. Page 2

8/2 Bert Ely, once dismissed by thrift industry and government officials alike as a publicity-hungry consultant with questionable credentials as a thrift analyst, now finds himself with a suddenly improved reputation. *Page 1*

TECHNOLOGY

7/30 Increased use of satellite communications may pay dividends even for banks that sidestep the technology and stick with phone company services. *Page 3*

7/31 Telecommunications providers are reducing prices and offering volume discounts because of increased competi-

See INDEX *page* 17

Bank Call Notice

REPORT OF CONDITION

Consolidating foreign and domestic subsidiaries of the

BANK OF BERMUDA (NEW YORK) LIMITED

of New York City

In the state of New York, at the close of business on June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

FDIC Certificate Number 3227 15

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 4,104
Interest-bearing balances	30,823
Held-to-maturity securities	5,073
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBF's:	
Federal funds sold	135,000
Loans and lease financing receivables:	
Loans and leases, net of unearned income	15,006
LESS: Allowance for loan and lease losses	(38)
Loans and leases, net of unearned income, allowance, and reserve	15,968
Premises and fixed assets (including capitalized leases)	969
Customers' liability to this bank on acceptances outstanding	351
Other assets	1,695
TOTAL ASSETS	$213,733

LIABILITIES	
Deposits:	
In domestic offices	$30,862
Noninterest-bearing	17,445
Interest-bearing	13,407
In foreign offices, Edge and Agreement subsidiaries, and IBFs	4,994
Interest-bearing	4,994
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds purchased	161,450
Bank's liability on acceptances executed and outstanding	351
Other liabilities	1,091
TOTAL LIABILITIES	$198,141
EQUITY CAPITAL	
Common stock	5,000
Surplus	10,000
Undivided profits and capital reserves	592
TOTAL EQUITY CAPITAL	$ 15,592
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$213,733

I, Rosanne Farley, VICE PRESIDENT - CONTROLLER of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

ROSANNE FARLEY

July 23, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

ROBERT M. HILL
EDGAR C. FELTON
FREDERICK R. DAHL

DIRECTORS

Bank Call Notice

Report of Condition of

THE PARK AVENUE BANK, N.A.

New York

in the state of New York, at the close of business on June 30, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter Number 20662 Comptroller of the Currency Northeastern District

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 132
Interest-bearing balances	212
Federal funds sold	3,100
Loans and lease financing receivables:	
Loans and leases, net of unearned income	3,789
LESS: Allowance for loan and lease losses	111
Loans and leases, net of unearned income, allowance, and reserves	2,668
Premises and fixed assets (including capitalized leases)	149
Other assets	69
TOTAL ASSETS	$ 6,410

LIABILITIES	
Deposits:	
In domestic offices	3,391
Noninterest-bearing 226	
Interest-bearing 3,135	
Money borrowed other than obligations under capitalized leases	10
Other liabilities	2,599
TOTAL LIABILITIES	$ 5,000

EQUITY CAPITAL	
Common stock	$ 700
Surplus	6,240
Undivided profits and capital reserves	(5,540)
TOTAL EQUITY CAPITAL	$ 1,410
TOTAL LIABILITIES AND EQUITY CAPITAL	$6,410

I, John J. Malone, Vice President & Cashier, of the above-named bank do hereby declare that this Report of Condition is true to the best of my knowledge and belief.

JOHN J. MALONE
July 23, 1990

We, the undersigned directors, attest the correctness of this Statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

ELIO J. CABIBI
JAMES H. WICKERSHAM, JR.
MUHAMMAD SALEEM

Directors

Bank Call Notice

Report of Condition of

THE DEPOSITORY TRUST COMPANY

of 55 Water Street

New York, N.Y. 10041

a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 7,459
Interest-bearing balances	326,250
Securities	94
Securities purchased under agreements to resell	1,223,773
Premises and fixed assets	55,152
Other assets	277,132
TOTAL ASSETS	$1,797,860

LIABILITIES	
Other borrowed money	$ 21,243
Obligations under capitalized leases	28
Other liabilities	2,244,467
TOTAL LIABILITIES	$ 266,270

EQUITY CAPITAL	
Common stock	1,600
Surplus	800
Undivided profits	19,190
TOTAL EQUITY CAPITAL	21,590
TOTAL LIABILITIES AND EQUITY CAPITAL	$1,287,860

I, Gary J. LaCara, of the above-named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

GARY LaCARA

We, the undersigned directors, attest the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

WILLIAM T. DENTZER, JR.
CONRAD F. AHRENS

Directors

Bank Call Notice

Charter number 13295
National Bank Region Number 2
REPORT OF CONDITION
of the

Sterling National Bank & Trust Company

STERLING NATIONAL BANK
& TRUST COMPANY OF NEW YORK

OF NEW YORK

In the State of New York, at the close of business on June 30, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161.

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 27,663
Interest-bearing balances	5,535
Securities	86,540
Federal funds sold	30,000
Loans and lease financing receivables:	
Loans and leases, net of unearned income 349,143	
LESS: Allowance for loan losses 3,244	
Loans and leases, net of unearned income, allowance, and reserves	345,899
Premises and fixed assets (including capitalized leases)	2,751
Other real estate owned	50
Customers' liability to this bank on acceptances outstanding	90
Other assets	82,305
TOTAL ASSETS	$604,833

LIABILITIES	
Deposits:	
In domestic offices	$369,995
Noninterest-bearing $104,080	
Interest-bearing $265,905	
In foreign offices, Edge and Agreements subsidiaries, and IBFs	5,446
Interest-bearing	5,446
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds purchased	1,000
Securities sold under agreements to repurchase	15,356
Demand notes issued to the U.S.Treasury	3,755
Bank's liability on acceptances executed and outstanding	90
Other liabilities	4,457
TOTAL LIABILITIES	$410,004

EQUITY CAPITAL	
Common stock	$ 17,938
Surplus	16,414
Undivided profits and capital reserves	60,289
TOTAL EQUITY CAPITAL	$ 94,829
TOTAL LIABILITIES AND EQUITY CAPITAL	$604,859

I, John W. Tietjen, Vice President-Finance, of the above named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

JOHN W. TIETJEN

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

THEODORE H. SILBERT
EZRA J. GENEVERTZ
JOHN C. MILLMAN

Directors

ARE YOU GETTING BREAKING NEWS LIKE THIS AS IT HAPPENS?

"Yesterday's UAL sell-off in New York Stock Exchange composite trading began after the American Banker, a financial newspaper, reported that Citicorp had withdrawn from a group of banks . . ."
—The Wall Street Journal

"The American Banker . . . reported yesterday that representatives from Citicorp and Chase Manhattan had not attended a meeting scheduled last week to discuss possible financing of the takeover . . . That caused speculation that the two banks may be withdrawing . . ."
— The New York Times

"Arbitragers said the report, published in the American Banker's Tuesday edition, raised speculation that Citicorp and Chase Manhattan may be withdrawing . . ."
—Reuter

"Citicorp spokeswoman Holly Cherico and Chase Manhattan spokesman Ken Mills declined to comment on the American Banker report."
—AP

N BANKER

ugust 1, 1990

in Sees ion FDIC

Citicorp Defection Se Derailing UAL Buyou

By WILLIAM GOODWIN

Citicorp's departure from the bank group leading the financing for the proposed $4.4 billion union-led buyout of UAL Corp. appears to have all but doomed the deal for now, banking sources said Tuesday.

Unless [illegible] buyout group can obtain an attacks equity from its Aug. 7 deadline, they said, it was how the deal could

Chemical Bank- pulled out of the by, sources said he had failed to in equity in-

ear Tuesday hattan Corp. base, along ers did not meeting.

By, and Corp. finally of the

[illegible] stock Tuesday company's shares plunged $16.875 following a report in

UAL Investors Lose Faith
Price per common share
$170
160
150
140
130
Citicorp defection sends UAL itself reeling
UAL hit lowest
28 29 30 31 1 2 3
June July
Source: The American Banker, Reuters

Bankers Seem Skittish on Buyout As Aug. 9 Deadline Nears on UAL

By WILLIAM GOODWIN

Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting on possible bank financing for the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 bid-for-all.

Sources said Citicorp has in fact withdrawn from the bank group – at least for the time being – though it was not immediately clear why. A Citicorp spokeswoman declined to comment.

These rumblings come at a time when a spokesman for the union group said it is close to finding an outside investor, which could draw skittish banks back into the deal.

Equity Is Sticking Point

Chemical told the other banks on Friday that it was pulling out because the union group had failed to attract an outside equity investor, a source said. For its part, Chemical did not attend the Friday meeting of bankers.

Citicorp and Chase Manhattan Corp. also canceled out of the meeting, leaving only Bankers Trust New York Corp. and Manufacturers Hanover Corp.

See UAL *page* 18

this newspaper that Citicorp and Chase were likely to pull out of the union group because it was drawn as $21 before rebounding somewhat late in the day.

The union group had hoped to buy out the airline holding company in March for $201 in cash and securities, looking for banks. This offer was scaled down from management's aborted $300-a-share bid that failed noisily last October.

Citicorp's departure from the bank group is considered to be

See CITICORP *page* 22

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Package 90-012	Package 90-013
• Number of Loans: 568 conv, fixed rate, 1st liens	• Number of Loans: 638 conv, fixed rate, 1st liens
• Principal Balance: $23,828,060	• Principal Balance: $18,597,714
• WAC: 10.880%	• WAC: 9.770%
• WAM: 225.800	• WAM: 226.700
• Bid Deadline: August 28, 1990	• Bid Deadline: August 28, 1990
Location: Hawaii, Minnesota, California, Other western states	*Locations: Arkansas, Oklahoma, Other midwest states*

* The above pools are offered together or individually with a combined sale preferred.

Package 90-015	Package 90-017
• Number of loans: 93 conv, fixed rate, 1st liens	• Number of Loans: 32 conv, 3 yr ARMs, 1st liens
• Principal Balance: $2,621,776	• Principal Balance: $3,415,867
• WAC: 9.794%	• WAC: 11.26%
• WAM: 124.208	• WAM: 298.860
• Bid Deadline: August 17, 1990	• Bid Deadline: August 17, 1990

Package 90-018/90-019	Package 90-021/90-022/90-023
• Number of loans: 102 conv, ARMs, 1st liens	• Number of Loans: 125 conv, ARMs, 1st liens
• Principal Balance: $6,413,973	• Principal Balance: $7,180,151
• WAC: 10.169%/10.545%	• WAC: 10.269%/6.356%/10.000%
• WAM: 288.900 /264.070	• WAM: 241.760 /229.750/287.240
• Sale is comprised of TWO PACKAGES	• Sale is comprised of THREE PACKAGES
Locations: Hawaii, Oregon, Colorado, Other western states	*Locations: Oklahoma, Missouri, New York*

Reference No. A013

FDIC

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The Office of the Comptroller of the Currency, Washington, D.C.

The OCC is seeking to fill this executive position. The Deputy Comptroller is responsible for directing the analysis of major policy issues affecting the commercial banking system; presenting recommendations via studies, briefings and the preparation of congressional testimony; and coordinating the strategic planning activities of the OCC. Applicants must have the following.

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J.L.M. AUTO Will Sell on 8/30/90 at 10 AM at 415 W. 54th St NYC a 1985 Chevy #1G1FP87H0FN115752 Re: Vicnor Delgado. Published 7/31 & 8/7/90.

J.L.M. AUTO Will Sell on 8/29/90 at 9 AM at 415 W. 54th St NYC a 1983 Mitsubishi #JA3BF4649D2703671 Re: James Flowell. Published 7/31 & 8/7/90.

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Continued from page 14

tion and advanced technologies. Accordingly, many banks are relying on just one or two service suppliers. *Page 3*

8/1 A few leading-edge banks are installing multimillion-dollar networks of personal computers in their branch offices, and many more are considering such outlays. *Page 1*

8/1 The General Accounting Office contends that poorly planned information systems at the Resolution Trust Corp. could delay as well as raise the cost of the thrift cleanup. *Page 3*

8/2 American Savings bank of White Plains, N.Y., says it has cut operating expenses nearly 5% by streamlining the flow of work. *Page 3*

8/3 The Federal Reserve System and Recognition Equipment Inc. agreed to terminate a contract for currency-sorting equipment after five months of negotiations. *Page 3*

THRIFTS

7/30 The environmental-liability debate has focused on lenders, but apparently the federal government is also looking for ways to avoid having to pay for the cleanup of properties it has inherited from failed banks and thrifts. *Page 6*

7/30 As the Financial Institutions Reform, Recovery, and Enforcement Act nears its anniversary, the law appears to have been overtaken by cash shortages, political bickering, and a growing realization that the thrift problem was much deeper than anyone ever imagined. *Page 1*

7/31 Across the nation, the thrift-bailout law is changing how banks and thrifts do business. The year since the law's passage has brought some of the most far-reaching changes seen in the nation's banking system in the past half century. *Page 1*

8/1 The RTC starts its second year with a mountain of distressed real estate, troubled loans, and other assets that totaled $37 billion at the end of June and could ultimately top $100 billion. *Page 1*

8/1 M. Danny Wall defended his handling of the 1988 sale of 15 Texas thrifts to James Fail. He told a Senate panel that a lobbyist with ties to then Vice President Bush did not influence his decision. *Page 2*

8/2 Shifting the Resolution Trust Corp.'s thrift-cleanup effort into high gear, RTC Chairman L. William Seidman announced an ambitious plan to turn $30 billion in assets over to private managers and to sell $50 billion of loans, securities, and real estate by year's end: *Page 1*

8/2 Bert Ely, once dismissed by thrift industry and government officials alike as a publicity-hungry consultant with questionable credentials as a thrift analyst, now fins himself with a suddenly improved reputation. *Page 1*

8/2 Sen. Donald Riegle's Banking Committee heard widely varying estimates on the cost of fraud in thrift failures. *Page 2*

8/3 From the threat of higher taxes to a national credit contraction, the thrift-bailout law of last August has spawned a host of unintended consequences that banking experts warn could severely influence the financial services industry well into the 1990s. *Page 1*

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Kuwait Asset Freeze Clarified by Treasury

Continued from page 12

oil shipped before Aug. 2 provided the transaction is reported to OFAC's Blocked Assets Section and paid into a blocked account.

The Treasury licenses and listings appeared to help to clear up some of the legal uncertainties surrounding the freeze.

"There aren't a whole lot of laws on the potential liabilities in this area, but I think that any court is going to taken into account a large measure of good faith," said one senior bank legal adviser.

Despite the Treasury's clarifications, bankers said considerable confusions remained over what sort of transactions can be carried out and on whose behalf.

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DEALS

Securitization of Loans Poses Threat to Middle-Market Relationships

Continued from page 1

one industry estimate, there are some $420 billion of middle-market loans outstanding.

Middle-market loans represent one of the last frontiers for securitization. But because middle-market loans are not standardized like auto and other types of loans, packaging them is difficult.

Against the Grain

What's more, securitization goes against the grain of relationship banking.

"It's the last bastion where long-term relationships count," said James McCormick, president of First Manhattan Consulting Group.

"Customers, generally speaking, don't like it," said William Turner, group executive for middle-market lending at Chemical Banking Corp.

"They don't consider their loans to be pieces of paper that are market instruments," added Joseph Adamko, executive vice president in charge of middle-market lending at Manufacturers Hanover Corp.

Limitation on Flexibility

Bankers generally agreed that securitization would limit their flexibility in dealing with customers if their loans need to be restructured or rewritten. While securitization experts argue that those problems can be overcome, they acknowledge that customer opposition is a problem.

> **"It's the last bastion where long-term relationships count."**
>
> **James McCormick**
> *First Manhattan Consulting Group*

"It's a major stumbling block," said a securitization expert at Citicorp.

Still, even at Chemical, where middle-market lending is a core business, the bank would consider securitizing these loans if it made economic sense, Mr. Turner said.

For now, Mr. Turner, as well as other bankers and experts, said the problems and costs associated with securitizing middle-market loans outweigh the benefits. Interest-rates on middle-market loans vary, but are far less than those on credit card debt, home-equity loans, and car loans.

"The spread might not be there," said Stuart Windt, a senior managing director and chairman of the asset and liability policy committee at Marine Midland Bank.

"I'm just not so sure that we can justify taking these things off the balance sheet," he added.

Marine Takes a Look

Despite the skepticism, though, Mr. Windt said Marine Midland will take a close look at securitizing these loans.

Right now, the unit of Hongkong and Shanghai Banking Corp. is focusing on the possibility of securitizing home-equity loans. Middle-market loans will come under scrutiny later this year, Mr. Windt said.

Other banks are also taking a close look at securitizing middle-market loans. Bankers of Wiliams, a partner at Boston Consulting Group, said he has talked with several major bank clients in recent weeks about securitizing these loans.

Problems of Scale

It is difficult for any one money-center bank to originate enough middle-market loans volume outside of its own territory to make securitization feasible. One answer to this problem is for money-center banks to form alliances with regional banks, whereby middle-market loans originated by regionals would be securitized and distributed by the money-center banks.

Mr. Williams said a few alliances are already in place, though he declined to identify the banks involved.

A Pooling System

Union Bank of Switzerland, meanwhile, is developing a way for regional banks to pool their middle-market loans for securitization. "Right now, we're actively discussing it with banks in the United States," said Peter Haidorfer, the bank's first vice president and head of asset securitization.

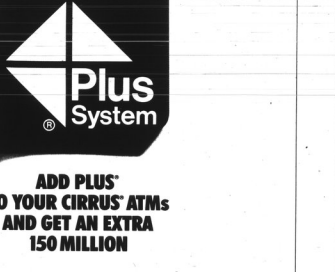
Union Bank of Switzerland would structure a nationally diversified pool of loans from banks across the country. The loans would be sold to a special-purpose corporation, which, in turn, would sell commercial paper backed by the loans. The commercial paper probably would have an A1-P1 rating, Mr. Haidorfer said.

The Swiss bank has developed a statistical model that allows it to use an actuarial approach to pooling middle-market loans, according to Mr. Haidorfer.

Mr. Haidorfer and Marine Midland's said that securitization could be structured in a way to preserve the flexibility of the bank-er-customer relationship.

For example, the banks could pledge more loans than required to back the securities issued to investors. In that way, loans that needed to be rewritten or restructured could be pulled from the asset pool and replaced with other loans.

The Citibank official said middle-market borrowers oppose securitization largely because they are unfamiliar with the process, and that the resistance will fade in time. □



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Highlights for Monday, August 6

TOP 10 GAINERS %

Midlantic Corporation	7.9
First Commercial Corporation	5.9
Lake Shore Bancorp., Inc.	4.8
Mark Twain Bancshares, Inc.	3.8
Hibernia Corporation	3.5
Southeast Banking Corp.	3.2
First Community Bancorp, Inc.	3.1
Chemical Banking Corp.	3.0
Cal Fed Bancorp	2.9
Northern Calif. Community Bncp	2.8

TOP 10 LOSERS %

Provident Bankshares Corp.	-10.4
La Jolla Bancorp	-10.1
Bancorp Hawaii, Inc.	-8.7
Summit Bancorporation	-8.7
Multibank Financial Corp.	-8.5
First Hawaiian, Inc.	-7.6
West One Bancorp	-7.4
State Street Boston Corp.	-7.0
United Banks of Colorado, Inc.	-6.8
Lincoln Financial Corporation	-6.7

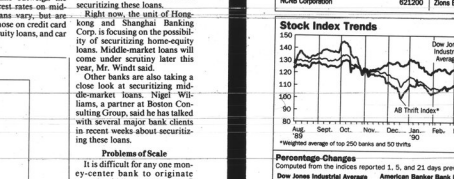
MOST SHARES TRADED

Citicorp	2695400
BankAmerica Corporation	1662700
Chase Manhattan Corporation	691500
Puget Sound Bancorp	688800
NCNB Corporation	621200

VOLUME AS % OF AVERAGE

Puget Sound Bancorp	1715.6
FirsTier Financial, Inc.	1713.0
Santa Monica Bank	953.6
Mark Twain Bancshares, Inc.	880.5
Zions Bancorporation	580.6

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

1/3/89=100

Percentage-Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-3.32	-6.89	-6.49	-1.93	-8.22	-12.68	-3.12	-9.72	-18.45

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk %	Cls.	Chg.
23¾	18¾	1stSource Corp.nn	6.1	84.0	18¾	-¼
14¾	12¾	4FBFinancial Corp.nn	4.8	80.5	13¾	-¼
28¾	20	AmSouthBancorp.nt	6.4	87.5	20¾	-¼
19¾	13¼	Amcore Fin.nn	8.1	107.9	13¾	-¼
29	14¾	AmericanExpr.nn	24.4	88.1	14¾	-¼
25¾	15¾	AssociatesCorp.nt	8.8	113.4	15¾	-¼
24¾	18	BB&T FinCorp.nc	7.7	106.4	18	-¼
15¼	9	BallstonBancorp.MD	8.0	134.7	9	-¼
48¾	30¾	BankAmer.PR	13.5	144.9	44½	-1¾
33¾	25	BankOne Corp.OH	10.3	180.3	27½	-¼
26	18¾	BancoPopular.PR	6.3	96.5	19	-
56¾	42	BancorpHawaii.nt	8.0	134.7	42	-¼
23¾	18	BancorpRhode.MA	6.9	87.8	18¾	-
36¾	23¾	BankNewEngland Corp.CA	4.8	85.2	23¾	-¾
24	17¾	BankVirginiaCorp.VC	12.5	221.0	20¾	-
23¾	21¾	BankWashington.MA	NM	93.0	2¾	-¼
14¼	8	BankSouthCorp.GA	9.5	90.0	8¾	-
57¾	35	BarnettBanks.FT	NM	121.1	35	-¼
21½	10¾	BarnesBrothersgrp.NT	4.9	53.1	10¾	+¼
26¾	15¾	BeneficialCorp.nt	5.4	98.2	15¾	-¼
54	23¾	BankofNY.NY	NM	67.6	23¾	-¾
12	8	BankersFirst.nt	NM	47.0	8	-¼
62	56	BankersNewsnt	11.2	108.3	58¾	+¼
39¾	26¾	BankAmerica.CA	8.7	102.2	26¾	-¼
40¾	12¾	BayBanks.MA	NM	36.1	12¾	-¾
36¼	29	BayBanksMaineMD	7.8	90.6	29¼	-¼
26	15¼	BostonBancorp.nt	225.0	103.4	15¾	-¼
16¾	12¾	Brenton Banks.IA	7.3	100.2	14¾	-¼
43¾	31¼	CCB FinCorp.NC	8.1	108.0	31¼	-¼
23¾	15¾	CCBB Corp.IN	6.1	86.5	15¾	-¼
23¾	18¾	CNB BancsharesIN	10.1	121.4	21	-
27	20¼	CPB Inc.MI	10.6	147.6	21¼	-¼
28	12¾	CWB FinCorp.CA	9.6	220.4	13¾	-¼
17	12¾	CalFed Inc.CA	7.0	127.1	17¾	-¼
18¾	12¾	CentralBancshs.AL	6.4	87.4	13¾	-¼
34¾	23¾	CentralFidelity.VA	6.4	90.6	23¾	-¼
27	10¾	CentralJersey.NJ	6.8	78.3	11	-
44¾	17¾	CharterBancshares.NT	NM	93.1	17¾	-¼
41¾	20¾	ChemicalBanking.NY	NM	62.5	21¾	¾
25	20¼	ChemicalFin.Corp.NJ	8.5	93.4	20¼	-
39¼	18¾	Citicorp.NY	NM	72.4	18¾	-¾
29¾	15¾	CitizensBancorp.MD	7.4	91.0	15¾	-¼
39¾	30¾	CitizensBanking.MI	7.4	71.1	31¼	-¼
8¾	6¾	CitizensFirst.nt	NM	113.0	8¾	-¼
34¾	21	CitizensSouthn.GA	6.2	92.6	21	-¼
23¾	17¾	CityNational.CA	8.2	127.7	18¾	-¼
22¾	12¾	ColonialBankMontgm.AL	35.9	90.7	14¾	-¼
38¾	28¾	Comerica Inc.MI	7.3	92.4	30¾	-¼
29¼	21¼	CommercialBancshs.MO	6.9	93.9	21¾	-¼
26¾	15¾	CommunityBank.Nj	7.2	90.6	15¾	-¼
37¼	10¼	CoreStates.PA	6.4	86.0	10¾	-¼
28¾	10¾	CrestarFinancial.VA	NM	47.2	11	-
48¾	33¾	CrestfieldBkCorp.PA	7.0	125.7	33¾	-¾
24¾	19¾	CullenFrostBkrs.TX	8.7	81.5	19¾	-¼
37¾	36	DelgadoCompanies.PA	36.9	93.5	36¼	-
32¾	21¼	DeltonaCorp.FL	NM	114.2	29¾	-¼
25¼	11¾	DominionBkshs.VA	7.5	66.3	21¼	-¾
15¾	13¾	DuchossFin.VA	6.8	72.6	13¾	-¼
21¼	15¼	EvergreenBancsNT	5.7	79.7	19¾	-¼
15¾	12¾	F & M NatlCorp.VA	10.6	123.2	13¾	-
14¾	12¾	FNB Corp.PA	8.7	104.7	12¾	-
28	21¼	FNB Rochester.NY	10.3	170.5	22¼	-¼
29	27¾	FarmersCapital.KY	11.9	118.4	27¾	-
38¾	29¾	FifthThirdBancp.OH	10.3	158.7	29¾	-¼
38¾	32	FinancialTrust.IN	9.0	136.4	33	-
51¼	36¼	FirstTenNet.NE	9.0	95.3	36¼	-¼
19¼	15¾	FirstAlabama.AL	8.5	107.4	16¼	-¾
26¼	9¾	FirstArmerCorp.TN	NM	58.2	9¾	-¼
34¼	21¾	FirstBancorp.OH	7.2	86.0	21¾	-
19¾	15¾	FirstBancorp.PR	7.1	101.1	15¾	-¼
49¾	23¾	FirstChicago.IL	7.1	65.8	23¾	-¾
49¾	23¾	FirstChicagoNBD.MI	7.1	65.8	23¾	-¾
38¾	15	FirstCityBncpTX	2.9	58.3	19¾	¼
24¾	18¾	FirstCommerce.LA	8.2	114.2	18¾	-¼
23¾	13	FirstCommerce.LA	8.2	92.6	18	-
20¾	15¼	FirstCommerce.NC	8.5	91.0	20¾	-¼
22	17¾	FirstCommercialAL	9.8	108.2	17¾	-
19¾	18¾	FirstCommercialNC	9.8	113.8	18¾	-¼
19¾	14¾	FirstCommercialOK	11.1	113.6	18¾	-¼
35¼	20	FirstEasternCorp	NM	66.8	20	-¼
72	57¾	FirstEssexBk.MA	7.7	85.7	57¾	-¼
33¾	13¾	FirstFidelity.NJ	NM	65.7	13¾	-¾
50	36¼	FirstFidelityCorp.NC	8.6	80.3	36¼	-¼
34¼	18¾	FirstFidelityBncp.PR	8.2	70.1	19¼	-¼
28¾	20¾	FirstHawaiianInc.HI	8.1	108.1	21¾	-¼
11	7	FirstIllinois.IL	9.5	161.2	7¾	-¼
40¾	30¾	FirstInterstateCor.CA	6.1	73.7	34¾	-¼
24¾	18¾	FirstMarylandCp.MD	7.4	86.8	19¾	-¼
19¾	12¾	FirstMetroBkCorp.IL	9.1	168.1	13¾	-¼
24¾	17¼	FirstMidwestIL	9.5	134.8	17¼	-¼
20½	19	FirstNationalBkNE	8.1	125.7	19	-¼
44	19¼	FirstPeoples.NJ	4.5	71.8	19¼	-¼
19¼	12¾	FirstSecurityCorp.DE	10.3	90.6	12¾	-¼
18	13¾	FirstSecurity.NC	13.0	171.4	14¼	-
33¾	24¾	FirstSecurity.UT	7.1	73.7	24¾	-¼
38¼	21¾	FirstTennessee.TN	7.4	88.1	21¾	-¾
28¾	18¾	FirstUnionCorp.NC	6.9	82.2	18¾	-¾
35¾	22¾	FirstVirginia.VA	7.2	101.0	22¾	-¾
45¼	37¼	FirstWachoviaCorp.NC	9.8	147.4	39¾	-¼
35	27¾	FirstarCorp.WI	7.0	115.2	27¾	-¼
30¼	17¼	FirstbankofIL	8.4	105.6	18	-
59¾	42¼	FirstofAmerica.MI	7.2	90.9	42¼	-¼
29¾	18¾	FleetNorstar.RI	12.9	90.0	18¾	-¼
25	19¾	FortWayneNatlCp.IN	8.6	104.8	20	¾
26¾	20¾	FourthFinCorp.KS	14.5	144.8	21¾	-¼
21¾	15¾	FulbonCo.Corp.PA	7.4	115.3	15¾	-¼
28¾	18¾	GBC Bancorp.CA	8.2	202.2	18¾	-¼
15¾	9	GreenvilleFirst.MS	17.6	69.2	9¼	-¼
9¾	8¾	HawkeyeBancorp.IA	4.0	108.1	9¼	-
21¼	14¾	HeritageFin.Corp.IL	8.9	118.5	15¾	-
28	14¾	HibernaCorp.LA	17.5	108.3	14¾	-¼
20¾	13¾	HuntingtonBancsOH	6.9	99.7	13¾	-¼
32¾	20	INBFinCorp.IN	7.6	88.0	20¾	-
27¼	13¾	ImperialBancorp.CA	5.8	84.1	13¾	-¼
20¾	18	IndianaFedCorp.IN	8.7	93.1	18¾	-¼
30¾	20¼	IntegraFin.Cp.PA	14.0	91.3	20¼	-¾
21¾	14¾	InvestBkCorp.NH	9.3	122.0	14¾	-¼
48	33	J.P. MorganNY	NM	143.5	34¾	-¼
20¾	17¾	JeffersonBanksNC	5.8	88.1	20¾	-¼
15¾	12	KeyCentralcorp.WV	9.8	102.6	13	-
20¾	15¾	KeyCorp.NY	12.0	126.9	19¾	-¼
26	21¾	KeystoneFin.PA	8.3	121.4	22	-¾
15¾	10¾	LSB Bancshares.NC	10.1	154.1	15¾	-¼
14¾	8¾	LaSalleBancorp.CA	13.9	184.5	10	-1¼
15¾	12¾	LiberteCorp.IL	15.5	108.3	13¾	-
18	10¾	LindmarkBancshs.MO	7.3	98.2	10¾	-¼
30¾	21¾	LibertyNatlBancp.KY	7.4	94.8	21¾	-¼
27	17¾	LincolnFinCorp.IN	6.1	74.7	17¾	-¼
21¾	16¾	MBC FinancialMD	8.0	89.0	16¾	-¼
18	12¾	MagnetBnkpr.IL	8.9	89.0	12¾	-¼
24¾	20¾	ManufacturersNB.MI	5.8	88.1	20¾	-¼
44¾	28¾	MarshallIsl.Comm.HI	NM	68.7	28¾	-¼
15¾	12¾	MarylandFed.MD	12.0	126.9	13¾	-¼
20¾	13¾	MarylandNatlCorp.MD	7.4	92.8	13¾	½
37¾	30¾	MarshallBancsWI	8.6	116.2	30¾	-¼
24¾	21¾	MetroBankGroup.PA	4.5	74.2	22¾	-¾
28¾	21¾	MercantileBancMO	34.6	83.0	21¾	-¾
25¾	19¾	MercantileBankMO	7.9	119.0	19	-¼
30¾	20¾	MercantileStoresMD	NM	91.8	18¾	-¼
24¾	19¾	MetroBankCorp.MI	7.4	111.6	19¾	-¼
17¼	12¾	MidlanticCorp.NJ	7.9	107.2	12¾	-¼
14¾	12¾	MidwestBancsMS	4.5	71.8	13¾	-¼
20¾	14¾	MidwestSvgsAssn.IN	10.3	90.6	14¾	-¼
18	13¾	MinnStAgricultural	13.0	171.4	14¼	-
33¾	24¾	MorganKeeganInc.TN	7.1	73.7	24¾	-¼
38¼	21¾	NBD Bancorp.MI	7.4	88.1	21¾	-¾
28¾	18¾	NationalCityCorp.OH	6.9	82.2	18¾	-¾
35¾	22¾	NationsBank.NC	7.2	101.0	22¾	-¾
45¼	37¼	NationsBank.SC	9.8	147.4	39¾	-¼
35	27¾	NorthCarolinaNC	7.0	115.2	27¾	-¼
30¼	17¼	NorthwestIL.IL	8.4	105.6	18	-
59¾	42¼	NorthwestAmerica.MI	7.2	90.9	42¼	-¼
29¾	18¾	NorthwestNB.IN	12.9	90.0	18¾	-¼
25	19¾	NorthwestNatlCp.WI	8.6	104.8	20	¾
26¾	20¾	NorthTrustCorp.IL	14.5	144.8	21¾	-¼
21¾	15¾	NutmegFedCorp.PA	7.4	115.3	15¾	-¼
28¾	18¾	OBC BancorpIN	8.2	202.2	18¾	-¼
15¾	9	OmegaSouthcorp.MS	17.6	69.2	9¼	-¼
9¾	8¾	OneBancorp.IA	4.0	108.1	9¼	-
21¼	14¾	OrbitalBkCorp.IL	8.9	118.5	15¾	-
28	14¾	OrbernaCorp.LA	17.5	108.3	14¾	-¼
20¾	13¾	OrchardBancsOH	6.9	99.7	13¾	-¼
32¾	20	PNBFinCorp.PA	7.6	88.0	20¾	-
27¼	13¾	PeoplesBancorp.CA	5.8	84.1	13¾	-¼
20¾	18	PeoplesBancorp.IN	8.7	93.1	18¾	-¼
30¾	20¼	PeoplesFin.Cp.PA	14.0	91.3	20¼	-¾
21¾	14¾	PFBC Pinnacle.MD	9.3	122.0	14¾	-¼
48	33	J.P. MorganNY	NM	143.5	34¾	-¼
20¾	17¾	JeffersonBanksNC	5.8	88.1	20¾	-¼
15¾	12	KeyCentralcorp.WV	9.8	102.6	13	-
20¾	15¾	KeyCorp.NY	12.0	126.9	19¾	-¼
26	21¾	KeystoneFin.PA	8.3	121.4	22	-¾
15¾	10¾	LSB Bancshares.NC	10.1	154.1	15¾	-¼
14¾	8¾	LaSalleBancorp.CA	13.9	184.5	10	-1¼
15¾	12¾	LiberteCorp.IL	15.5	108.3	13¾	-
18	10¾	LindmarkBancshs.MO	7.3	98.2	10¾	-¼
30¾	21¾	LibertyNatlBancp.KY	7.4	94.8	21¾	-¼
27	17¾	LincolnFinCorp.IN	6.1	74.7	17¾	-¼
21¾	16¾	MBC FinancialMD	8.0	89.0	16¾	-¼
18	12¾	MagnetBnkpr.IL	8.9	89.0	12¾	-¼
24¾	20¾	ManufacturersNB.MI	5.8	88.1	20¾	-¼
44¾	28¾	MarshallIsl.Comm.HI	NM	68.7	28¾	-¼
15¾	12¾	MarylandFed.MD	12.0	126.9	13¾	-¼
20¾	13¾	MarylandNatlCorp.MD	7.4	92.8	13¾	½
37¾	30¾	MarshallBancsWI	8.6	116.2	30¾	-¼
24¾	21¾	MetroBankGroup.PA	4.5	74.2	22¾	-¾
28¾	21¾	MercantileBancMO	34.6	83.0	21¾	-¾
25¾	19¾	MercantileBankMO	7.9	119.0	19	-¼
30¾	20¾	MercantileStoresMD	NM	91.8	18¾	-¼
24¾	19¾	MetroBankCorp.MI	7.4	111.6	19¾	-¼
17¼	12¾	MidlanticCorp.NJ	7.9	107.2	12¾	-¼
14¾	12¾	MidwestBancsMS	4.5	71.8	13¾	-¼
20¾	14¾	MidwestSvgsAssn.IN	10.3	90.6	14¾	-¼
18	13¾	MinnStAgricultural	13.0	171.4	14¼	-
33¾	24¾	MorganKeeganInc.TN	7.1	73.7	24¾	-¼
38¼	21¾	NBD Bancorp.MI	7.4	88.1	21¾	-¾
28¾	18¾	NationalCityCorp.OH	6.9	82.2	18¾	-¾
35¾	22¾	NationsBank.NC	7.2	101.0	22¾	-¾
45¼	37¼	NationsBank.SC	9.8	147.4	39¾	-¼
35	27¾	NorthCarolinaNC	7.0	115.2	27¾	-¼
30¼	17¼	NorthwestIL.IL	8.4	105.6	18	-
59¾	42¼	NorthwestAmerica.MI	7.2	90.9	42¼	-¼
29¾	18¾	NorthwestNB.IN	12.9	90.0	18¾	-¼
25	19¾	NorthwestNatlCp.WI	8.6	104.8	20	¾
26¾	20¾	NorthTrustCorp.IL	14.5	144.8	21¾	-¼
21¾	15¾	NutmegFedCorp.PA	7.4	115.3	15¾	-¼
28¾	18¾	OBC BancorpIN	8.2	202.2	18¾	-¼
15¾	9	OmegaSouthcorp.MS	17.6	69.2	9¼	-¼
9¾	8¾	OneBancorp.IA	4.0	108.1	9¼	-
21¼	14¾	OrbitalBkCorp.IL	8.9	118.5	15¾	-
28	14¾	OrbernaCorp.LA	17.5	108.3	14¾	-¼
20¾	13¾	OrchardBancsOH	6.9	99.7	13¾	-¼
32¾	20	PNBFinCorp.PA	7.6	88.0	20¾	-
27¼	13¾	PeoplesBancorp.CA	5.8	84.1	13¾	-¼
20¾	18	PeoplesBancorp.IN	8.7	93.1	18¾	-¼
30¾	20¼	PeoplesFin.Cp.PA	14.0	91.3	20¼	-¾
21¾	14¾	PFBC Pinnacle.MD	9.3	122.0	14¾	-¼

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk %	Cls.	Chg.
24¾	18¾	AlmaCorp.CA	7.5	84.6	17¾	-¼
43¾	30¾	AppleAmericaMO	7.1	81.5	34¾	-2¼
28¾	9¼	CalFedInc.CA	7.0	127.1	17¾	-¼
55¾	42	CitiesMidlgCp.CA	9.2	87.8	43	-¼
39¾	3	CoastSavingsCp.CA	NM	33.9	3	-
17¼	9¾	DimesBgBk.NY	NM	19.6	9¾	-¼
24	18¾	EquitableBancp.CA	20.9	88.8	18¾	-¼
27	18¾	FirstFedFinCorp.CA	8.3	104.7	19	-¼
21¼	12	FstFedMichCorp.MI	5.7	91.3	12¾	-¼
25¾	9¾	GLENFED.CA	2.7	24.7	9¾	-¼
34¾	22¾	GoldenWestFin.CA	9.0	142.0	23¾	-¼
34¾	14¾	GreatWesternFin.CA	13.2	90.0	14¾	-¼
14¾	9¾	GtAmerBancpTX	NM	15.8	15	-¼
47¼	10	HomeFedCorp.CA	NM	22.1	10	-¾
21¾	13¾	HomeSecurityAM	16.2	89.6	13¾	-¼
18¼	10¾	NBB Bancorp.MI	10.8	46.6	10¾	-¼
10¾	5¾	People's BankCT	10.8	95.2	6¾	-¼
36¼	9¾	PeoplesHeritageNY	6.3	31.7	9¾	-¼
24¾	18¾	PriorityBancpCA	6.3	39.9	18¾	-¼
22¾	6¼	SociedyforSvgsCT	3.8	29.3	6¼	-¼
19¾	9¾	SPSvBancorp.IL	NM	53.1	9¾	-¼
12¾	7	StandardFedBk.MI	5.6	48.0	7¼	-
21¾	13¾	WestMichcorp.MI	6.4	82.5	14¾	-¼
31¾	23¾	WashingtonFedSL.WA	9.4	188.8	27	-1¼
11¼	6¾	WestcorpCA	9.9	83.8	7	-¾

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding (As of March 30, 1990, the market value cutoff for banks was $69.6 mil. and for thrifts $121.45 mil.) 52 Wk Hi: Lo: the moving 52-week high and low prices for the shares. PE: the price-earnings ratio; it is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. Bk %: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Cls.: the stock's closing price. Chg.: the change in closing price from the previous day. Footnotes: nn: stock not traded on the day; nt: stock not traded; F: no trades for the day; ns: stock not traded and has no price. Indexes: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights show major movements in the banking stocks and two-year indicators most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data source: SNL SECURITIES, Charlottesville, VA 804/977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended August 04

LARGEST PRICE GAINERS*	% change	7/28/90	8/04/90
First Commerce Bancsh	11.40%	$ 28.50	$ 31.75
Americus Tr Union Peach	7.24	17.50	18.75
Great American Bank SSB	7.14	1.75	1.88
Iowa Nat'l Bankshs	5.71	35.00	37.00
Bank New England Corp	5.00	2.50	2.63
LARGEST PRICE LOSERS*	**% change**	**7/28/90**	**8/04/90**
First Peoples Fin'l Corp	-22.85%	$ 26.25	$ 20.25
Sierra Monvice Bank	-20.41	24.50	19.50
Calfed Inc.	-20.39	12.98	10.25
Commercial Bank Corp.	-20.15	13.63	10.88
SB Constitution Fin'l	-20.00	3.13	2.50
LARGEST CHANGES IN VOLUME†	**Multiple**	**Average**	**Last week**
Americus Tr Union Peach	12.12	1,000	12,120
Cal Nep Bancorp Inc.	8.53	6,810	58,300
Imperial Bancorp	5.86	64,664	379,000
Provident Bankshares	5.28	96,730	508,400
Mark Twain Bancshares	5.14	27,143	139,400

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gain, the five with largest price decline, and the five with largest change in volume from the average of previous week are identified. (*)— Percentage change calculated by dividing the closing price for the previous week's close. (†)— The multiple of last week's trading volume to the average weekly volume over the previous 10 months.

Data Source: *Salomon Brothers Inc., New York.*

Key Rates

(August 6, 1990)

	8/06	8/03	7/30
Federal Funds-domestic range:	7¾/8–8	8–8¼	7¾/8–8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00

STOCKS

Firstar Buying Banks of Iowa

Continued from page 1

one-half times Banks of Iowa's book value of $63.50 a share, or $95.25. That accord was abandoned as it became clear that First Bank's problems made it unlikely that regulators would approve a merger.

In late trading Monday, Banks of Iowa shares fell 50 cents, to $67.50. Firstar was down 25 cents, to $27.75.

Firstar's profitability has been strong and its stock has performed better than that of most other banks.

Its shares have declined only 1.3% in value from their level a year ago, while the the *American Banker* index of 225 bank stocks has tumbled 23% in the period.

Analysts called the Firstar offer fair, while the First Bank bid was seen as inflated by Banks of Iowa's unusually high primary capital ratio of 9.6% at the end of the second quarter.

"I don't think anyone thought that [the First Bank offer] was at an appropriate price," said Steven R. Schroll, managing director of research for Piper Jaffray & Hopwood Inc., Minneapolis. Mr. Schroll said the Firstar offer was based on Banks of Iowa maintaining a more reasonable capital ratio of 6%.

John H. Hendee Jr., chairman of the $8.5 billion-asset Firstar, called the acquisition "a natural, both in terms of the geographical fit.

The acquisition will make Firstar more difficult to be taken over. Wisconsin does not have a national trigger date for interstate banking, so the only banks that could take it over are regional banks. Most of those are busy with other acquisitions and analysts speculate that Firstar could now more easily grow into a strong superregional.

The companies expect to complete the transaction in the first half of next year, pending regulatory approvals.

Upon completion, James R. Lang, president of First Wisconsin National Bank of Madison, would become president and chief executive of Firstar Corp. of Iowa. He would replace Banks of Iowa chairman Holmes Foster, 63, whose retirement had been put on hold earlier this year. Mr Foster had been looking for a successor.

Some Analysts Still Cool

While Firstar has been outperforming much of the industry, a familiar fly in the ointment – real estate – still keeps some analysts from recommending the stock. The difficulties are with foreclosed properties from older loans. Firstar's portfolio of "other real estate owned" seems stuck at an uncomfortably high level.

Gordon Matthews in New York contributed to this article.

Bank, Thrift Shares Plunge

By GORDON MATTHEWS

Major bank and thrift stocks fell sharply again on Monday as heavy across-the-board selling continued in the stock market.

The Dow Jones industrial average incurred heavy losses as investor fear intensified that Iraq's invasion of Kuwait would have severe inflationary repercussions. Near the close the Dow was down 89.9, or 3.2%, with 234 million shares trading hands on the New York Stock Exchange.

As on Friday, stocks of some of the nation's best-regarded banks were hurt the most, which some analysts interpreted as a signal that the long, deep slide in bank stocks could be nearing an end.

In mid-afternoon trading, CoreStates Financial Corp., Philadelphia, was off $1.75 to $34; Republic New York Corp. was off $1.50 to $46.25; U.S. Bancorp., Portland, Ore., was off $1.25 to $24.375; and State Street Boston Corp. was off $1.75 to $33.875.

"It's possible that some investors are finally clearing the decks on bank stocks," said one analyst.

Western banks, including Wells Fargo & Co. and Security Pacific Corp., were also off sharply again on Monday.

Market professionals attributed the weakness in the West to concerns that sluggish real estate and other business conditions that have hobbled the Northeast are spreading to California.

Nancy A. Bush, a banking analyst at Brown Brothers Harriman, said stock prices of major western banks have fallen 18% thus far in the third quarter.

CAPITAL

MNC to Place Preferred Stock with Director

Continued from page 1

the 800-pound gorilla." said Nancy A. Bush, an assistant manager at Brown Brothers Harriman.

The sale of preferred stock will raise MNC's capital, which fell when the bank reported a second-quarter loss of $74.7 million. It also will improve liquidity at the holding company level, which was impaired in July when Moody's Investors Service Inc. lowered MNC's commercial paper from P-3 to Not Prime. The downgrade makes it extremely difficult for MNC to roll over its outstanding commercial paper.

When the preferred stock is issued, MNC's total capital ratio will increase to 8.81% using the 1992 standards, compared with 8.07% at the end of the second quarter, according to Peter L. Gartman, chief financial officer.

In for at Least Half

At least half the preferred stock is being sold to Mr. Lerner, already the owner of 8.9% of MNC's common equity. Other directors can subscribe for up to 50% of the issue.

If Mr. Lerner, the former chairman at Equitable Bancorp, takes the full 100%, his ownership stake would increase to 23%. Taking just half the preferred stock issue would give him a 16% share.

A spokesman for MNC declined to comment on Mr. Lerner's intentions, but the insurance company executive has a history of sizable investments in banks. He owned 31.5% of the outstanding stock and 75% of the voting stock of Equitable Bancorp when MNC bought that bank in July 1989, and he was an active shareholder there.

"I wonder whether his ability to control Equitable makes him want to exercise the same amount of control over MNC," one analyst said.

Recalling Mr. Lerner's tenure at Equitable and his rise to the chairmanship, one analyst said, "I think this makes MNC more vulnerable to whatever his thoughts on [the sale of the company] may be."

The preferred stock issue is just one of a series of actions the bank is taking to boost holding company liquidity, market sources said. For example, it is now using bank funding for the holding period on loans issued by its mortgage company, instead of the holding company funding it used to use.

And it is participating out to its bank subsidiaries certain loans made by its nonbank subsidiaries. Finally, MNC is selling long-term securities out of the holding company's investment portfolio, sources said.

The preferred stock placement improves the prospects for J.P. Morgan's attempts to assemble a line of credit. A spokesman for Morgan declined to comment on how close the bank was to lining up participants. He said, however, that "this is more capital in, and that's what was talked about the the prospective lenders, so I think it's good."

MNC Builds Liquidity

Action	Status
$180 million preferred stock placement	Agreement in principle
$750 million line of credit	Being arranged
Sale of investment securities	Under way
Using bank funding for nonbank activities	Under way

Source: American Banker

When the preferred stock is issued, MNC's capital ratio will rise to 8.81%.

Investors Are Question Mark

Although MNC has moved aggressively to preserve holding company liquidity, it remains to be seen whether the actions will pass muster with investors. If they are unwilling to buy debt of MNC, the Baltimore-based bank may be hard pressed to maintain the liquidity it is building now.

"It seems the plans are in place for them to raise liquidity," said David S. Penn, an analyst at Legg Mason Inc. "The question is whether the market will accept it."

One analyst said MNC's decision to issue the preferred stock could be a warning flag about the marketability of its assets.

"That they chose to have this sort of dilution instead of selling off the assets implies the assets may not be as salable as we had hoped," the analyst said.

And even the sale of preferred stock does not fix MNC's underlying problem, according to Laurie Raskovic, an assistant vice president at Moody's Investors Service. "We view [the preferred stock placement] as a benefit to the debtholders," she said. But "while it enforces the capital base, MNC still needs time to work through the real estate problems."

The preferred stock placement is expected to be completed during the fall. The stock, which has voting rights equal to those on MNC's common, will carry a dividend of 12%, and each share will be convertible into common at a price of $10.75 a share. MNC's stock was trading Monday at $8.50 a share. □



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MONDAY, SEPTEMBER 17, 1990 — FRIDAY, SEPTEMBER 21, 1990

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SEMINAR 1

INNOVATIVE CUSTOMER SERVICE AND SALES TECHNIQUES FOR THE NINETIES

July 16, 1990 • The Vista Hotel • New York City
September 10, 1990 • The Vista Hotel • New York City
September 17, 1990 • Century Plaza Hotel • Los Angeles

As the banking environment becomes more competetive, industry leaders view improved customer service as a sollution to retaining market share. But how can your bank achieve such improved service? And as importantly, can quality service be transalated into sales? The seminar will address the pressing need for improved customer service and how to implement a service program in your bank. It will also focus on the next step... profiting from quality service through innovative sales techniques, state-of-the-art technology and sales incentives. The industry leaders will address the issue of the nineties...achieving competitive advantage by making your company customer and sales-oriented.

9:00 KEYNOTE SPEECH: EFFECTIVE CUSTOMER SERVICE...THE KEY TO PROFITIBILITY IN THE 90'S
- Profiting from customer service in an age of transition
- A banker's perspective on past successes and failures... and innovations for the future
- A case study in improving service and sales

Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Joan Miszak, *Senior Vice President,* California Federal Bank (LA)

9:45 TURNING SERVICE INTO SALES...ACHIEVING BOTTOM LINE RESULTS FROM QUALITY SERVICE AND SALES TECHNIQUES
- Creating a competitive advantage through customer service
- Improving service...and controlling costs

John A. Goodman, *President,* Techn. Assistance Research Program (NY)
John A. Goodman, *President,* TARP (NY)
Marty Wikoff, *President,* Management Performance Systems (LA)
- The need for effective salesmanship
- Sales techniques for the 90's

Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Shirly Ward, *Vice President,* Bank of America (LA)

10:45 CREATING A SALES CULTURE...A STEP BY STEP APPROACH
- How to implement your new strategy through out the corporation
- How to build a corporate culture based on customer service
- Defining and targeting your customer

Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (LA)

11:30 COFFEE BREAK

11:45 ACHIEVING A TECHNOLOGICAL ADVANTAGE...THE ROLE OF TECHNOLOGY IN IMPROVING CUSTOMER SERVICE AND SALES
- Using innovative technology to cross-sell
- How to implement state-of-the art systems to improve service and increase sales

Dr. Michael Harden, *Sales Manager,* Citicorp Information Resources (NY)
Frank Martire, *Chairman,* Citicorp Information Resources (NY)
Charles J. Buchta, *Executive Vice President,* First Interstate Bank (LA)

12:30 HOW TO REMOVE MIDDLE-MEN FROM THE BANKING TRANSACTION...FROM THE BOARDROOM TO THE MAILROOM
- Skills to implement to reduce costs while improving quality of service
- Removing obstacles to the sale

Nicholas Papanikolaw, *Vice President,* Manufacturers Hanover (NY, NY, LA)
John J. Campi, *Managing Director,* Chatham Consulting Group (NY, NY, LA)

1:00 LUNCH WORKSHOP OPPORTUNITIES FOR THE 90'S IN RETAIL AND WHOLESALE BANKING...HOW TO IMPROVE PROFITIBILITY THROUGH SALES AND SERVICE
- Innovative techniques and training methods... a roundtable discussion

Chairperson:
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Pamela O'Shea, *Vice President,* City National Bank (LA)

2:45 THE AMERICAN EXPRESS EXAMPLE...A CUSTOMER SERVICE SUCCESS
- A case study in implementing quality service
- Lessons for banks and thrifts

Laura Gross, *Director,* American Express (NY)
Bruce Grieve, *Vice President,* American Express (NY)
Laura Stevens, *Vice Present,* American Express (LA)

3:30 A CASE STUDY IN IMPROVING SALES...THE CHASE TRAINING PROGRAM
- Teaching selling skills
- How to implement a training program

Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (LA)

4:15 THE KEY TO IMPROVING SALES...MEASURING YOUR CUSTOMER SERVICE
- Judging the quality of service at your bank
- Learning from the best...what techniques do the leading bank use to measure service
- How to determine your bank's effectiveness

Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Douglas Smith, *Managing Director,* BEI Golembe (LA)

5:00 THE ROLE OF SALES INCENTIVES...WHAT WORKS AND WHAT DOESN'T
- How to use worker compensation to increase sales
- Improving service without increasing costs

William Casey, *Principal,* Paris, Casey Inc. (NY)
William Casey, *Principal,* Paris, Casey Inc. (NY)
Matt Walgon, *Senior Consultant,* Sibson and Co. (LA)

6:00 END OF SEMINAR

SEMINAR 2

THE NUTS & BOLTS OF COMMERCIAL LENDING & LOAN PRICING

July 17, 1990 • The Vista Hotel • New York City
September 11, 1990 • The Vista Hotel • New York City
September 18, 1990 • Century Plaza Hotel • Los Angeles

The battle for commercial loan profitability promises trying times for large corporate and middle market lenders. Over the past two decades, the risk in banks lending portfolios has steadily increased. This is not a function of uncontrolled risk-taking, but rather of the banks' necessary response to the need to find assets which will provide acceptable levels of risk-adjusted return. The events of the past few years have shown that many banks, however, have been unable to effectively control the level of risk that they have taken. Unacceptably high levels of loss have taken place in many banks due to a combination of poor pricing, excessive concentration and the failure to understand the level of risk in a specific loan. Furthermore, new competitors are entering the marketplace scrambling for territory and sparking intense new battles for turf. This seminar reviews how leading-edge banks are beginning to develop new sets of techniques that will geve them a competitive edge in the marketplace for controlling their level of loss, and achieving low-risk diversified portfolios:

8:45 CHAIRMAN'S OPENING REMARKS
William T. Gregor, *Partner,* The MAC Group (NY,LA)

RE-ENGINEERING FROM A CUSTOMER POINT OF VIEW

9:00 KEYNOTE ADDRESS: WHAT RECIPE SHOULD YOU USE TO TURN AROUND YOUR COMMERCIAL LENDING BUSINESS?...A CONSULTANT'S & A BANKER'S VIEWPOINT
William T. Gregor, *Partner,* The MAC Group (NY,LA)
Peter Offermann, *Managing Director,* Bankers Trust (NY)

9:45 CUSTOMER PROFITABILITY & OPPORTUNITIES FOR REFOCUSING ON "THE-PROFITABLE"—BUSINESS...NATIONAL WESTMINISTER'S & SECURITY PACIFIC'S MIDDLE MARKET STRATEGY
Vjay C. Popat, *Principle,* Booz Allen & Hamilton (NY,LA)
Edward A. McNally, *Senior V.P.,* National Westminister, USA (NY,LA)
Frank Abraham, *Chief Credit Officer,* Security Pacific National Bank (LA)

11:00 COFFEE BREAK

11:15 PRESTO CHANGO...CONVERTING UNPROFITABLE CUSTOMERS INTO PROFITBLE ONES...USING THE EMERGING SECONDARY MARKET TO YOUR ADVANTAGE
- Where Will The Secondary Market Work & For What Kind Of Loans?
- How Will The Secondary Market Affect Your Ability To Price?
- Secondary Markets & Loan Sales...What Are The Elements Necessary For Success?

David E. Fisher, *Vice President,* Loan Pricing Corp. (NY,LA)

12:15 LUNCH BREAK

RE-ENGINEERING THE PRICING PROCESS

1:30 ARE YOU GETTING THE BANG FOR YOUR BUCK?...DEVELOPING A TARGETED PRICING STRATEGY TO ADEQUATELY PRICE FOR RISK
- What Are The Key Components Of Pricing?
- What Prices Are Banks Actually Getting On Commercial Loans?
- How To Set Strategic Pricing Goals For Your Portfolio
- Do Banks Price Adequately For Risk?

Christopher L. Snyder, *President,* Loan Pricing Corp. (NY,LA)

2:15 A CREDIT BASED APPROACH TO ALIGNING RISK & RETURN IN A C&I LOAN PORTFOLIO
- How To Analyze The Relationship Between Credit Risk & Pricing
- Testing The Adequacy Of The Existing Credit Risk Assessment System
- Refining The Existing Credit Risk System To Serve As A Basis For Commercial Loan Pricing Scenarios

Constance Kennealy, *Partner.* Zeta Services Inc. (NY,LA)

3:00 COFFEE BREAK

RE-ENGINEERING THE CREDIT PROCESS

3:15 EMERGING NEW TECHNIQUES FOR CONTROLING LOSSES & MANAGING THE PORTFOLIO
- Buttoned-up Credit Procedures...Ensuring Repayment After The Loan Is Made
- Pricing To Recapture Expected Losses
- Diversification As A Tool In Portfolio Management
- Giving Your Problem Loans A Workout...Security Pacific's Workout & Recovery Strategy

Jonathan F. Moynihan, *Managing VP,* First Manhattan Consulting Group (NY,LA)
Gerald L. Coelho, *First VP,* Security Pacific National Bank (LA)

4:00 ARE BANKS LENDING TO LBO's TO CHEAPLY?...THE FUTURE OF HIGHLY LEVERAGED TRANSACTIONS
Mark G. Solow, *Managing Director,* Manufacturers Hanover Trust (NY)
Hugh T. Kemper, *Managing Director,* Morgan Guaranty (NY)
Leland S. Prussia, *Vice Chairman,* Capitalcorp., Inc. (LA)

4:45 COMMERCIAL LOAN SECURITIZATION...A STEP BY STEP APPROACH TO SECURITIZING PERFORMING LOANS
Marshall V. Davidson, *Managing Director,* Kidder Peabody (NY,LA)
Robert M. Okabe, *Vice President,* Kidder Peabody (NY,LA)
Clifford Griep, *Managing Director,* Standard & Poors (NY,LA)

5:30 END OF SEMINAR

SEMINAR 3

EFFECTIVE COST MANAGEMENT

July 18, 1990 • The Vista Hotel • New York City
September 12, 1990 • The Vista Hotel • New York City
September 19, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Patrick J. Leemputte, *Partner,* Price Waterhouse (NY, LA)

9:15 ACHIEVING COMPETITIVE ADVANTAGE THROUGH COST LEADERSHIP

The 1980's showed that cost leadership is a critical success element in all restructured industries. As the pace of restructuring in banking accelerates, winners will emerge based on competitive cost position and related strategic focus. Global finance will come to be dominated by firms obsessed with the twin pursuits of profitability and productivity.

This session concentrates on managing the key noninterest cost drivers of bank performance: 1) business scope and geographic reach, 2) size of workforce and compensation practices, 3) technology spending and investment, and 4) corporate real estate portfolio management.

Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Eleni Isteriodis, *Senior VP,* Bankers Trust Company (LA)

10:00 KEYS TO WINNING THE PRODUCTIVITY RACE

If superior expense control is essential to surviving the merger decade, then how is it accomplished?

This session addresses three key issues for banks concerned about expense control: 1) How good is the bank now and where is the potential for greater frustration? Analysis based on business mix can identify bloated budgets and problem areas; 2) What kind of programs work to bring expense and cost control? Experience shows what are the do's and dont's of crafting a program to reduce staff areas, lines of business, branches, operations and systems; 3) What does it take to stay on top? A "coherent organization" and quantitative performance measures can be keys to sustaining a cost effective culture.

James W. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (LA)

11:00 STORIES FROM THE FRONT: HOW MELLON BANK'S COST CONTROLS HAVE LED TO NEW BUSINESS OPPORTUNITIES AND LOWER EXPENSES

Mellon Bank has experienced a great deal of cost cutting in the past decade. Mellon's expertise in this area has shown that you can actually turn a cost center into a profit with the appropriate resources and strategy.

In this session, you will learn how Mellon effectively downsized into a better performing bank. This dedication to cost leadership has helped Mellon develop it's technologies and data processing to the point where these strengths have led to new business opportunities.

Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (LA)

12:00 LUNCH BREAK

1:15 HOW TECHNOLOGY CAN HELP YOUR BANK CUT COSTS WHILE IMPROVING PERFORMANCE

Commercial banks and financial institutions are wholeheartedly embracing information technology (IT) as a way to achieve competitive advantage. But, while bank IT costs have skyrocketed, banks are cautious to crow about their success. Instead, they suffer from exponential growth in computer spending with almost no impact on their bottom line or market share.

In this session, you will learn how to begin to think about, structure and approach the IT problem in your organization. Learn what technology can do to help control costs and what it cannot do. Analyze how to cut the rising costs of your own IT infrastructure. Most important, begin to understand how you can approach IT complexity without being overwhelmed.

Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)

2:15 ELIMINATING EXPENSE THROUGH ACQUISITIONS

If banks merge to achieve economies of scale then why do most mergers fail to meet their expectations? As bank mergers continue to increase, minimizing costs during the integration process has become essential.

While banks of different sizes and market niches will have different merger goals, there is a proper discipline to mergers that will minimize the consolidation process. This session will look at past mergers to critique successful mergers as well as failures. In particular, where can the economies be achieved?... in back office operations/overhead, retail or wholesale operations, data processing and technology or duplication of staff responsibilities. This session provides a framework to minimize the costs of the merger.

Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
James Bemowski, *Principal,* McKinsey & Co. (LA)

3:15 MONITORING THE DOWNSIZING EFFORT THROUGH EFFECTIVE HUMAN RESOURCES MANAGEMENT

- How to retain top performers and employee commitment
- What to cut?...What to keep?...How to do it?

Peter J. Doria, *Senior VP,* Right Associates (NY)
Peter J. Doria, *Senior VP,* Right Associates (NY)
Peter J. Doria, *Senior VP,* Right Associates (LA)

4:15 MEASURING THE IMPACT OF COST ON PROFIT PERFORMANCE AND SHAREHOLDER VALUE...THE ANALYST'S PERSPECTIVE

How does a bank's cost performance effect stock price? In this session, learn how analysts objectively view cost cutting practices and how profit performance is related to effective expense practices and how it effects stock price. What banks have made the right moves and what strategies were responsible for improved profit performance.

Gary Gordon, *Vice President,* PaineWebber (NY)
Gary Gordon, *Vice President,* PaineWebber (NY)
Michael Conover, *President,* Ryan Beck & Co. Pacific (LA)

5:00 END OF SEMINAR

SEMINAR 4

BANK AND CROSS-INDUSTRY ACQUISITIONS OF THRIFT INSTITUTIONS & SHOULD THRIFTS BE CONVERTING TO BANKS?

July 19, 1990 • The Vista Hotel • New York City
September 13, 1990 • The Vista Hotel • New York City
September 20, 1990 • The Century Plaza Hotel • Los Angeles
September 25, 1990 • The Ritz Carlton • Atlanta
October 9, 1990 • The Ritz Carlton • Chicago

FIRREA has opened the doors to bank acquisitions of thrift institutions and thrift institution conversions to banks. However, it is not altogether clear what this new regulatory flexibility means and whether banks and thrifts should take advantage of these new options. This one day intensive program for bank, thrift, and other business executives, attorneys and consultants focuses on the mechanics and regulatory procedures involved in bank and non-bank acquisitions of thrifts, as well as how and whether thrifts should convert to banks.

9:15 CHAIRMAN'S OPENING REMARKS
Eric Luse, *Partner,* Brownstein Zeidman and Schomer

9:30 SHOULD A THRIFT CONVERT TO A BANK?
- What Are The Advantages And Disadvantages
- A Review Of The Bank And Thrift Charters

Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Trent Feldman, *Partner,* Kaplan Smith & Associates (AT,LA)
Edward T. Lutz, *Principal,* Lyons Zomback & Ostrowski (NY,CH)

10:00 REGULATORY HURDLES AND CONSIDERATIONS INVOLVED IN CONVERTING A THRIFT TO A BANK...HOW CAN IT BE DONE & WHAT IS PERMISSIBLE?

V. Gerard Comizio, *Director, Corporate and Securities Division,* Office of Thrift Supervision (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Vernon E. Fasbender, *Director for Analysis,* Comptroller of the Currency (Southeastern District) (AT)
Roy Stovall, *Director for Analysis,* Comptroller of the Currency (Northeastern District) (NY)
Donelle Ward, *Director for Analysis,* Comptroller of the Currency (Central District) (CH)
Daniel Pearson, *Director for Bank Supervision & Analysis,* Comptroller of the Currency (Western District) (LA)

10:45 COFFEE BREAK

11:00 CONVERTING A SAVINGS ASSOCIATION TO A BANK... A CASE STUDY

Samuel J. Malizia, *Partner,* Brownstein Zeidman & Schomer (NY,CH)
James S. Fleischer, *Partner,* Silver Freedman & Taff (LA)
Robert Friedman, *Partner,* Silver Freedman & Taff (AT)

11:30 WHY SHOULD A BANK OR NON-BANK ACQUIRE A THRIFT... A STEP BY STEP REVIEW
- What Are The Economic Advantages And Disadvantages?
- Market/Geographic Expansion And Pricing Considerations

Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
T. Stephen Johnson, *President,* T. Stephen Johnson & Associates (AT)
John Mingo, *Principal,* BEI Golembe Inc. (NY,CH)
Richard Bellman, *Managing Director,* Dean Witter Reynolds, Inc. (NY,LA)

12:00 EVALUATING A THRIFT ACQUISITION...AN ACQUIRER'S PERSPECTIVE
- Regulatory, Operational & Financial Differences With Banks

Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil Partners (LA,CH)
Addison Levi, *Senior Vice President,* Dean Witter Reynolds, Inc. (LA,CH)
Kenneth Reilander, *Managing Director,* PaineWebber, Inc. (NY,AT)

12:30 LUNCH BREAK

2:00 A REVIEW OF THE REGULATORY PARAMETERS & ROADBLOCKS TO BANK ACQUISITIONS OF THRIFTS
- Interstate/Intrastate Banking Issues
- Obstacles Of State Branching Laws & How To Circumvent Them
- Healthy Thrift vs. Failing Thrift Acquisitions

V. Gerard Comizio, *Director Corpoate & Securities Division,* OTS (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
John Shockey, *Partner,* Milbank Tweed Hadley & McCoy (NY,AT)
John Buchman, *Assistant Deputy Director,* OTS (NY,AT,LA,CH)

3:00 COFFEE BREAK

3:15 WHAT ARE THE STRUCTURAL OPTIONS AND CONSIDERATIONS WHEN ACQUIRING A THRIFT?
- How Should The Resulting Or Target Institution Be Chartered And Insured?
- Holding Company vs. Direct Acquisitions

Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Peter Barnett, *Partner,* Arnold & Porter (AT,LA)
William J. Sweet, *Partner,* Skadden Arps Slate Meagher & Flom (NY,CH)

4:15 A BANK ACQUISITION OF A THRIFT...A CASE STUDY
Donald Kaplan, *Managing Director,* Kaplan Smith & Associates (NY,LA,CH)
William Moore, *President,* Trident Financial Corporation (NY,AT)

4:45 TAX AND ACCOUNTING CONSIDERATIONS
- Recapture Of Bad Debt Reserve
- Pooling vs. Purchase
- Use Of Net Operating Loss Carryovers

Roger Teurfs, *Partner,* KPMG Peat Marwick (NY)
James L. Spreng, *Partner,* KPMG Peat Marwick (NY)
Douglas McEachern, *Partner,* Deloitte & Touche (LA)
Vincent Amuzu, *Partner,* KPMG Peat Marwick (CH)
Gerald F. Hunter, *Partner,* KPMG Peat Marwick (AT)

5:30 END OF SEMINAR

SEMINAR 5

ASSET/LIABILITY MANAGEMENT

July 20, 1990 • The Vista Hotel • New York City

September 14, 1990 • The Vista Hotel • New York City

September 21, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Sanford Rose, *Editor, Journal of* Retail Banking
Senior Columnist, American Banker

9:15 INTEREST RATE RISK MANAGEMENT
The management of interest rate risk is fundamental to sound banking practice. Banks can experience earnings, liquidity, and capital adequacy problems, if management is poorly run.
This session will deal with a number of fundamental rules in managing interest rate risk as well as develop an integrated risk management project. You will understand how risk is measured, as well as, what tools are used to measure risk. Learn how to incorporate these tools to increase bank profitability.
Ronald D. Reading, *Vice President,* First Manhattan Consulting Group

10:30 COFFEE BREAK FOR SPEAKERS AND GUESTS

10:45 LIQUIDITY
This session learn to understand what liquidity is. Where you can get it. How much it costs, and how much it is worth. Finally, learn to understand how to measure and manage liquidity.
Peter G. Mantilla, *Vice President,* Bank of New York (NY)
Richard Lasderman, *Vice President,* Bank of America (LA)

11:45 THE USES OF DURATION IN ASSET LIABILITY MANAGEMENT
Technological and analytical developments in the 1990's will significantly enhance the ability to deal with risk. The methodology, tools, and implementation approach provide a more rigorous assessment of market risk.
The specific focus will be to contrast the duration approach with a new approach called risk measurement unit approach. The risk measurement unit approach captures both volatility and non-parallel shifts in the yield curve.
Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker
Robert M. Mark, *Managing Director,* Manufacturers Hanover Trust

12:30 LUNCH BREAK FOR SPEAKERS AND GUESTS

1:30 OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE NEW EXAMINATION GUIDELINES
"The OCC has alerted all bankers that they must prudently manage, measure and limit risk, and that enough capital be available to support exposure to such risk."
This session will discuss the OCC's policy on interest rate risk and how active the Office of Thrift Supervision is. The different topics which will be discussed include: risk matrix, gap reports, simulation, and duration.
Jennifer Johnson, *Developer and Administrator,* OCC

2:30 SECURITIZATION...WHEN AND HOW TO USE IT.
- Being able to securitize your own product
- Opening a secondary market
- The 144 Rule with regards to Private Placement

To Be Announced

3:30 LOWER COST OF MARKET AND THE INVESTMENT PORTFOLIO
1990 will be a year when your accounting department must be able to deal effectively with the new AICPA requirements on accounting for debt securities held as assets. A new standard expected to be issued by the AICPA with the support of the SEC and the FASB will require market value determination. The new standard will require allocating security investments among investment portfolio, held for sale, and trading account.
This session will help you understand the new requirements and the techniques required to successfully implement them.
Raymond Perry, *Partner,* Deloitte & Touche

4:30 ASSET LIABILITY MANAGEMENT INTO THE 1990'S.
This session will outline recent advances in the 1) measuring of embedded option risks, 2) measuring volatility risk exposure, 3) measuring index and credit spread risks, 4) integrating value decisions into the management process, 5) integrating risk-based capital guidelines into the risk management process.
Alden Toevs, *Principal,* Morgan Stanley & Co.

5:30 END OF SEMINAR

BANK PROFITABILITY REGISTRATION FORM

Please indicate which seminar(s) you would like to attend — (Please mail back entire form)

	SUMMER SESSION New York City The Vista Hotel Monday, July 16, 1990 – Friday, July 20, 1990	FALL SESSION I New York City The Vista Hotel Monday, Sept. 10, 1990 – Friday, Sept. 14, 1990	FALL SESSION II Los Angeles The Century Plaza Hotel Monday, Sept. 17, 1990 – Friday, Sept. 21, 1990
Day 1 **Innovative Customer Service and Sales Techniques for the Nineties**	☐ Monday, July 16	☐ Monday, Sept. 10	☐ Monday, Sept. 17
Day 2 **The Nuts and Bolts of Commercial Lending and Loan Pricing**	☐ Tuesday, July 17	☐ Tuesday, Sept. 11	☐ Tuesday, Sept. 18
Day 3 **Effective Strategies for Cost Management and Expense Control**	☐ Wednesday, July 18	☐ Wednesday, Sept. 12	☐ Wednesday, Sept. 19
Day 4 **Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks ***	☐ Thursday, July 19	☐ Thursday, Sept. 13	☐ Thursday, Sept. 20
Day 5 **Asset/Liability Management**	☐ Friday, July 20	☐ Friday, Sept. 14	☐ Friday, Sept. 21

* The day 4 conference "Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks," will also be offered in:

☐ **Atlanta,** The Ritz Carlton, Tuesday, Sept. 25
☐ **Chicago,** The Ritz Carlton, Tuesday, Oct. 9

GENERAL INFORMATION

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BANK PROFITABILITY

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OUR DISTINGUISHED PANEL OF SPEAKERS

Day One:

Innovative Customer Service And Sales Techniques for the Nineties

Charles Buchta
Executive Vice President
First Interstate Bank

John Campi
Managing Director
Chatam Consulting Group

Michael Harden
Sales Manager
Citicorp Information Systems

John Goodman
President
TARP

Bruce Grieve
Vice President
American Express

Laura Gross
Director
American Express

Thomas Jacob
Senior Vice President
Chemical Bank

Dr. A. Lorri Manasse
President
The Cortland Group

Frank Martire
Chairman
Citicorp Information Res.

Joan Miszak
Senior Vice President
California Federal Bank

Dr. Nancy O'Brien
Marketing Consultant
Sales Devel Assoc.

Pamela O'Shea
Vice President
City National Bank

Nicholas Papanikolaw
Vice President
Manufacturers Hanover

Charlotte Pollard
Vice President
Chase Manhattan Bank

Claire Schopler
Vice President
Chemical Bank

Dennis Stevens
Vice President
American Express

Day Two:

The Nuts and Bolts of Commercial Lending & Loan Pricing

Frank Abraham
Chief Credit Officer
Security Pacific National Bank

Gary Coelho
First Vice President
Security Pacific National Bank

Marshall Davidson
Managing Director
Kidder Peabody

David Fisher
Vice President
Loan Pricing Corp.

William Gregor
Partner
The MAC Group

Clifford Griep
Managing Director
Standard and Poor's

Hugh T. Kemprer
Managing Director
Morgan Guaranty

Constance Kenneally
Partner
Zeta Services Inc.

Edward McNally
Senior V.P.
National Westminster USA

Jonathan Moynihan
Managing Vice President
First Manhattan Consulting Group

Peter Offermann
Managing Director
Bankers Trust

Robert Okabe
Vice President
Kidder Peabody

Vjay C. Popot
Principal
Booz, Allen, & Hamilton, Inc.

Leland Prussia
Vice Chairman
Capitalcorp

Christopher Snyder
President
Loan Pricing Corp

Mark Solow
Senior Managing Director
Manufactureres Hanover Trust

Day Three:

Effective Strategies For Cost Management and Expense Control

James Bemowski
Principal
McKinsey & Co.

Michael Conover
President
Ryan Beck & Co. Pacific

Peter J. Doris
Senior Vice Pres.
Right Associates

Gary Gordon
Vice President
Paine Webber

Jane Hartung
Senior Vice President
Mellon Bank

Eleni Istavridis
Senior Vice President
Bankers Trust Company

Charles F. Kalmbach, Jr.
Senior Manager
Price Waterhouse

Patrick J. Leemputte
Partner
Price Waterhouse

James M. McCormick
President
First Manhattan Consulting Group

Charles H. Noss
Senior Vice President
Bankers Trust Company

Harry H. Tatonis
Princial
Booz, Allen, & Hamilton, Inc.

Day Four:

Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converted to Banks

Peter Barnett
Partner
Arnold & Porter

John Buchman
Assistant Deputy Director
OTS

V. Gerard Comizio
Director Corporate & Securities Division
OTS

Vernon E. Fasbender
Director for Analysis
Comptroller of the Currency

Donald Kaplan
Managing Director
Kaplan Smith & Associates

Eric Luse
Partner
Brownstein Zeidman and Schomer

Edward T. Lutz
Principal
Lyons Zomback & Ostrowski

Samuel J. Malizia
Partner
Brownstein Zeidman & Schomer

John Mingo
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BEI Golembe Inc.

Daniel Pearson
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Richard Reibman
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Managing Director
PaineWebber, Inc.

John Shockey
Partner
Milbank Tweed Hadley & McCoy

Roy Stoval
Director for Analysis
Comptroller of the Currency

William DJ. Sweet
Partner
Skadden Arps Slate Meagher & Flom

Donelle Ward
Director of Analysis
Comptroller of the Currency

Day Five:

Asset/Liability Management

Jennifer Johnson
Developer & Administrator
O.C.C.

Richard Laiderman
Vice President
Corporate Treasury
Bank of America

Peter G. Mantilla
Vice President
Bank of New York

Robert M. Mark
Managing Director
Manufacturers Hanover Trust Co.

Raymond Perry
Partner
Deloitte & Touche

Ronald D. Reading
Vice President
First Manhattan Consulting Group

Sanford Rose
Editor, Journal of Retail Banking
Senior Columnist, American Banker • Bond Buyer

Alden Toevs
Principal
Morgan Stanley & Co.

AMERICAN BANKER

VOL. CLV NO. 154 — Wednesday, August 8, 1990 — 155th year

OCC Stirs Debate On Banks' Role In Mutual Funds

By ROBERT M. GARSSON

WASHINGTON — A proposal by the Office of the Comptroller of the Currency to relax some restrictions on trust departments' investment accounts appears likely to smooth the entry of commercial banks into the coveted mutual fund business.

But as eagerly as some bankers are awaiting a decision on whether they can more broadly market the collective investment funds, others fear the Comptroller's office may be about to open a Pandora's box of political and legal problems that might better be postponed to another, less turbulent time.

"I wonder if it was really necessary for the Comptroller to go so far out on this issue," said Brian Smith, a banking lawyer and former general counsel to the Comptroller.

"A lot of members of Congress are really ripped over the S&L crisis," Mr. Smith said. The Comptroller's rule "raises the specter of one more brick out of the Glass-Steagall wall, and Congress is not going to be all that receptive."

ANALYSIS: *Follow-up on the news*

While the proposals include several "housekeeping" technicalities that Mr. Smith considers desirable, he said the Comptroller's proposal goes out on a limb by seeking to permit trust banks to operate and advertise their investment accounts much like the more widely available mutual funds.

It is generally assumed that the Investment Company Institute, which represents the mutual fund industry, will sue if the proposal is approved. But a number of state bankers' associations – primarily trade groups representing community institutions – also object.

On Capitol Hill, Rep. Edward J. Markey, D-Mass., chairman of the influential House subcommittee on telecommunications and finance, has already scheduled hearings on the proposal.

Lawmakers Express Concern

In comment letters addressed to the Comptroller, a number of powerful lawmakers expressed concern about the proposal, including House Banking Committee Chairman Henry B. Gonzalez, D-Tex., and House Energy and Commerce Committee Chairman John D. Dingell, D-Mich.

The proposal, which has been kicking around the Comptroller's office since 1981, includes a number of long-sought changes

See **COMPTROLLER** *page* **21**

INSIDE NEWS

FINANCE

CITING THE MIDEAST crisis as justification, the union group seeking to buy UAL Corp. will ask for another 30 to 90 days to obtain financing for the proposed $4.4 billion buyout, a banking source reported. *Page 30*

BANK OF NEW YORK Co. said it is closing its BNY Securities unit, a primary dealer of U.S. government securities, because of unsatisfactory profits. *Page 2*

LEGAL

THE FED'S "source of strength" doctrine, which says that bank holding companies must provide capital to troubled subsidiaries, suffered another legal blow. *Page 2*

THE LAVORO CASE

A FORMER OFFICER at the Atlanta branch of Italy's Banca Nazionale del Lavoro tells the inside story of its secret loans to Iraq. *Page 2*

INTERNATIONAL

U.S. BANK branches in Britain are getting conflicting instructions from the U.S. Treasury and the Bank of England on the freezing of Kuwaiti assets. *Page 20*

TECHNOLOGY

THE THEFT OF PCs from Bank of America underscores the need for heightened security as branches install the more expensive machines to replace terminal-based systems. *Page 3*

UNION BANK of Switzerland, one of the largest banks in the world, is making inroads into the private trust market in the United States. *Page 18*

CONSUMER

IN AN EFFORT to tighten loan underwriting procedures, many private banks are revising their financial disclosure forms to place more emphasis on cash flow. *Page 6*

COMMENT

FOR CONSUMERS and financial institutions alike, ATM duality is an idea whose time has come, says John O. Smith. *Page 4*

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SPECIAL REPORT: THE OIL CRISIS HITS HOME

Banks Weigh Impact of Costlier Oil

Credit Crunch Seen Worsening; Rate Cut Unlikely Soon

By ROBERT TRIGAUX

Rising oil prices are likely to worsen a perceived credit crunch and further depress bank earnings, according to industry experts.

"To the extent the Iraqi invasion of Kuwait intensifies the recession we are into, it means more loan losses for banks," said David Cates, a bank analyst with Ferguson & Co. and one of a growing number who believe the economy has already fallen into recession.

"The banking outlook is one of caution," added Robert H. Dugger, chief economist for the American Bankers Association. "Every bank CEO is trying to sort out how the new situation is going to play out in their market."

Further contraction of credit by banks means that more borrowers will become marginal risks, and thus be rejected for loans because of tighter standards, said banking experts. "Marginal borrowers will come in all sizes and flavors" as banks tighten credit, said Mr. Dugger. "There are large companies in the process of restructuring, small companies trying to expand in the face of a slowing economy, households with one of the breadwinners out of a job, and there are individuals new to the job market that can't quite get a foothold."

See **WILL** *back page*



Iraq's Kuwait Strike Blasts Hope Of Revival in U.S. Loan Demand

By JED HOROWITZ

NEW YORK — Just when corporate bankers were sensing that deals were reappearing and lending spigots might open again, the crisis in the Middle East has put hopes of a loan revival on hold.

Bankers and economists said the short-term effect of Iraq's invasion of Kuwait will be to prompt borrowers and lenders to defer business decisions and stay as liquid as possible.

Waiting for Clearer View

"The impulse is to shorten up on maturities, stay liquid, be cautious, and wait until the smoke clears," said Jerry L. Jordan, chief economist at First Interstate Bancorp. "Everybody pays down their debt if they can, pays off bank lines, and avoids the bond market."

The inflationary potential of a long-term rise in oil prices could, however, temporarily spur lending, some bankers said. Borrowers – from real-estate developers to corporate acquirers – might rush in to capture rates before they accelerate.

On the other hand, the Mideast crisis could push an economy already tilting toward stag-

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Consumer Confidence Is Shaken

By SAM ZUCKERMAN and TERESA CARSON

The turmoil in the Middle East, the rapid rise in oil prices, and sharp declines in stock and bond prices have added new elements of danger to an already soft consumer lending market.

Before Iraqi tanks moved into Kuwait, the U.S. economy faced twin threats of higher inflation and slow or no growth. Bankers in many parts of the country said that consumers had reacted by gradually cutting demand for credit.

"There was a growing lack of consumer confidence even before this," said Robert D. Sznewajs, executive vice president of Valley National Bank, Phoenix.

Consumer credit figures re-

See page **6**

Oil Price Rise Helps Some LDCs

By JAMES R. KRAUS

NEW YORK — The sharp rise in oil prices since Iraq invaded Kuwait has strengthened economic prospects for oil-producing developing countries, but the crisis could have severe implications for Brazil.

A sustained rise in oil prices will increase revenues for Mexico, Venezuela, Ecuador, and Colombia, and reduce their need for additional bank borrowings, bankers and analysts said Tuesday. However, they predicted that the price of oil would not reach a level high enough to allow for a full repayment of their loans to creditor banks.

"Just because oil reaches $27 a barrel doesn't mean that it's going to stay there," said one banker.

Problem for Brazil

Bankers said the Kuwait crisis could make it increasingly difficult for them to collect their loans from Brazil. Brazil producesabout 500,000 barrels oil a day for its own use and imports a further 300,000 barrels, about half of it from Iraq. The country has agreed to go along with U.S. economic sanctions against Iraq.

"Brazil's most immediate concern is how to make up that gap," said one banker in New York.

Chile and Argentina are not major importers of oil and are therefore unlikely to suffer from the rise in oil prices, bankers said.

The Largest Borrower

Brazil owed U.S. banks $16.3 billion at yearend and has not paid any interest on the $10 billion in medium-term and long-

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PEOPLE *in the news*

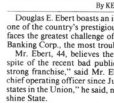
Southeast's Ebert Facing Tough Task as Helmsman

By KENNETH CLINE

Douglas E. Ebert boasts an impressive resume from his 22 years at one of the country's prestigious money-center banks. But he clearly faces the greatest challenge of his career at Miami-based Southeast Banking Corp., the most troubled large bank in the region.

Mr. Ebert, 44, believes the opportunity outweighs the risk. "In spite of the recent bad publicity, the bank still has an incredibly strong franchise," said Mr. Ebert, Southeast Bank's president and chief operating officer since July 20. "Florida is one of the strongest states in the Union," he said, noting continued migration to the Sunshine State.

Humbled by real estate woes and other problem credits, the $15.8 billion-asset Southeast lost a total of $92.8 million in the last three quarters. But Mr. Ebert remains undaunted. "I've got a strong belief that the problems are solvable, and not dissimilar to those afflicting other banks in the country," he said.



Douglas E. Ebert

Mr. Ebert, who has been day-to-day control of the bank and the holding company, said he has not yet worked out a detailed recovery plan. Strategically, he said he intends to follow the direction plotted by chairman and chief executive officer Charles J. Zwick and the Southeast board.

That strategy, as described by Mr. Ebert, is emphasize commercial lending to companies with sales up to $500 million, increase business in the retail network with more effective cross-selling, promote private banking services, and continue to expand international business with primary orientation to Latin America and the Caribbean.

Mr. Ebert's ability to implement this plan should be helped by his vast experience at Manufacturers Hanover Corp. He was responsible for management of all investment banking activities worldwide as sector executive vice president from 1985 to 1990; general manager of the international division, 1980 to 1985; and senior vice president and deputy general manager of branch banking in New York, 1976 to 1980. He held various positions in the national corporate and correspondent banking division before 1976.

"There aren't many areas he doesn't have some good, in-depth knowledge of," said Paul H. Dimmick, president of Manufacturers Hanover Securities Corp.

Role at Hanover Noted

Mr. Dimmick, who worked under Mr. Ebert in the investment banking sector, described his former boss as "a good, solid man," with "insight coming as much from experience as from theory."

"Some people have suggested his management style is a little abrupt," Mr. Dimmick added, "but I personally can't say that I've seen that. I always thought he dealt with me in a very professional, fair manner."

Mr. Ebert will need a fair amount of diplomacy to survive at Southeast Bank, which has been tightly controlled by Mr. Zwick. Mr. Ebert's predecessor as president and heir-apparent, John E. Porta, resigned in March.

Under the current structure, Mr. Zwick is to address broader questions of strategy, government relations, and customer development. Mr. Zwick, 64, is scheduled to retire in July 1993. □

Bank of NY to Close Primary Dealer

Reuters

NEW YORK — The Bank of New York Co. said on Tuesday that it is closing BNY Securities Inc., its primary dealer of U.S. government securities, because of unsatisfactory profits.

"The decision was made because current market conditions are not giving us the returns we were looking for," said Michael Pascale, director of public and investor relations for $49 billion-asset Bank of New York.

Of about 40 people in trading and back-office functions at BNY Securities, 17 will be laid off and the remainder absorbed in other areas, Mr. Pascale said.

Mr. Pascale said the dealership made money in 1989 and in the second quarter of this year, but he declined to give figures.

Bank of New York inherited the dealership in its takeover of Irving Trust Co. in December 1988. Six weeks ago it closed down its small U.S. Treasuries trading operation in London.

Third Bank to Exit This Year

Bank of New York's departure from government securities marks the third exit from the field this year and reduces the number of primary dealers to 41. They reached a peak of 46 in late 1988.

The other two closings involved affiliates of foreign banks: Westpac Pollock Government Securities Inc., a subsidiary of Westpac Banking Corp. of Australia, which closed in June; and Midland Montagu Securities Inc., a unit of Midland Bank of London, which closed in July. Midland Montagu was one of three British-owned dealers to close within a year. □

Fed Loses Appeal in MCorp Case

By LINDA CORMAN

WASHINGTON — The Federal Reserve Board's "source of strength" doctrine, which says bank holding companies must provide capital to troubled subsidiaries, suffered another legal blow this week in the Fifth Circuit Court of Appeals in New Orleans.

The court on Monday denied the Fed's petition to rehear an earlier decision that struck down the "source of strength" principle. Both a lower federal court and the appeals court had ruled that the Fed did not have authority to order MCorp, the Dallas-based holding company, to provide $400 million in capital to ailing subsidiaries.

The decisions have left a pall of uncertainty around a key aspect of Federal Reserve regulatory policy. The central bank's next step is likely to be an appeal to the Supreme Court.

"This is a big blow to the Fed," Richard M. Whiting, general counsel of the Association of Bank Holding Companies, said of the latest defeat. "They've operated as if they've had this authority for over 20 years."

He said the Fed has "used the doctrine as if it were grounded in the law, and has used it to jawbone to get holding companies to move assets around. It's going to be more difficult" to continue to invoke the "source of strength" reasoning.

"It's almost theological," said H. Rodgin Cohen, partner in the New York law firm of Sullivan & Cromwell. "They [the Federal Reserve] do regard it as a cornerstone of their regulatory policy."

Mr. Cohen and others predicted that a Supreme Court appeal was imminent. But legal experts said the Fed might have difficulty persuading the solicitor general, the government's lawyer who argues

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Scandal in Atlanta: Secret Loans to Iraq

Former Officer of Banca Nazionale del Lavoro Tells the Inside Story

By KENNETH CLINE

ATLANTA — Once evening it happened – as Paul von Wedel had long known it would. A knock on his door around 5:30 p.m. on Aug. 6, 1989, brought him face to face with an FBI agent and a representative of the Federal Reserve Bank of Atlanta.

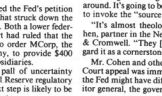
They wanted to talk about his work at the Atlanta branch of Italy's Banca Nazionale del Lavoro.

Mr. von Wedel, a Lavoro vice president, invited the men into his living room. After taking down some routine information – name, age, and height – the FBI agent came to the point. "He asked me point-blank: 'Do you know anything about a 'gray book'?"

Almost relieved that the matter was finally coming out in the open, Mr. von Wedel acknowledged his role in the biggest scandal ever to hit a foreign bank operating in the U.S.

"I said 'Yeah' and went into the whole thing," he recalled.

Within weeks, $91 billion-asset Lavoro would reveal that its Atlanta branch had made nearly $3 billion in unauthorized loans to Iraq over several years. The revelation triggered civil and criminal investigations by both U.S. and Italian authorities. Rep. Henry B. Gonzalez, chairman of the House Banking Committee, plans to conduct hearings into the Lavoro scandal next month, an aide said.



Christopher P. Drogoul

By September 1989, the bank's chairman and managing director had resigned, and nine Atlanta branch employees, including Mr. Wedel, had been fired.

Two of those employees now tell the inside story from the 20th-floor Lavoro office in Atlanta's Peachtree Center.

Mr. von Wedel, one of Lavoro's top officers in Atlanta, and another branch employee, who wishes to remain unidentified, explain how they became involved in the scandal, dubbed "Iraqgate" in Italy.

Former branch manager Christopher P. Drogoul, another key figure, declined to be interviewed despite repeated phone calls.

Secret Loans to Iraq

Nearly $1 billion worth of the secret transactions comprised agricultural exports to Iraq financed by Lavoro-Atlanta under a U.S. government-guaran-

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TECHNOLOGY/OPERATIONS NEWS

Another Blow for Jack Henry: Chief Executive Officer Quits

By RICHARD LAYNE

NEW YORK — Jack Henry & Associates, a software company that is transforming after calling off merger talks last month, was rocked last week by the resignation of its chief executive.

Colin McAllister quit as CEO after a two-year tenure marked by what some observers called questionable business decisions. Jack Henry president Jerry D. Hall immediately assumed chief executive duties.

During Mr. McAllister's tenure, Jack Henry became entangled in a lawsuit with a major vendor, attempted a short-lived diversification into financial services, and failed to consummate a promising merger deal.

Observers attributed those actions to the company's founder and chairman, John H. Henry. Mr. McAllister could not be reached for comment.

Monett, Mo.-based Jack Henry has 600 banking customers and is the biggest provider of integrated banking software for midrange computers from International Business Machines Corp.

Despite reporting $10 million in 1989 revenue, the company may have difficulty attracting clients and lenders because of its troubles, observers said.

Jack Henry, which originally sold software for IBM computers, abruptly switched to a chief competitor, Unisys Corp. The development deal with Unisys fell apart and Unisys defaulted on its payments, forcing Jack Henry to write off $1.2 billion last year. Jack Henry has since reverted to IBM and has a lawsuit pending against Unisys.

Two years ago, Jack Henry bought a San Antonio, Tex., securities brokerage. It sold the business less than a year later to its original owners.

Last month, Jack Henry canceled merger talks with Peerless Systems Inc., which also sells banking software for IBM midrange computers. □

Nynex Letter-of-Credit Software

By JEANNE IIDA

NEW YORK — Nynex Co. has added software that automates back-office processing for letters of credit to its line of wholesale banking products.

Disc Inc., a Nynex subsidiary with 300 banking customers, acquired the software last month from World Banking Systems, La Jolla, Calif.

Price/Performance Praised

The software, available since 1986, is being marketed as Disc WorldNet and runs on a local-area network.

"The price/performance is very strong," said Ralph S. Rino, vice president of international banking for First Security Bank of Utah, which installed the software 2½ years ago.

The bank eliminated three staff positions, including a Swift operator. The software generates messages over the Swift international banking network.

Kapiti, Security Pacific Bank, and other companies offer similar software for letters of credit. The Nynex product starts at $25,000.

Instructions Automated

The software automates issuance instructions and notice to the confirming bank. It also has interfaces to the exporters' bank and all negotiating information.

Banks can provide a stripped-down version of the Disc software to retail customers, allowing them to transfer applications electronically to the bank. Banks also can generate fee income by providing workstations to other banks involved in the trade cycle. □

PCs Raise Crime Risk, Experts Say

Security Measures Urged for Both Machines and Data

By KAREN GULLO

Earlier this year, BankAmerica Corp. fell victim to thieves. The criminals weren't after money, though. They were after personal computers.

In a two-week period, seven branches were robbed of PCs that had just been installed as part of a project to incorporate 18,000 PCs into the branch network. The banking company had a similar problem at its corporate headquarters in San Francisco, with two computers disappearing each week, according to a source close to the bank.

Alarm System Installed

The branch break-ins appear to have been the work of one group, and BankAmerica officials say there have been no subsequent thefts. At its headquarters, the bank has installed an alarm system.

But the crime rash underscores the importance of security – for both machines and data – as many large banks replace terminal-based branch automation systems with PCs and install the costly machines for other purposes.

Security has long been a concern for ATM and electronic funds transfer networks. In the past, computer crime has been less of a problem for banks than for other industries, surveys show. But the more banks rely on PCs, the greater their risk of falling victim to computer crime and theft, security experts say.

"While the perception of computer crime is high, action is not," said Gregory W. Therkelsen, national director of information security services at Ernst & Young, an accounting and consulting firm.

"It's become an agenda item, but banks are not taking focused actions," Mr. Therkelsen said. "In a branch automation project involving PCs, 95% of the time you won't find a security person assigned to the project."

Data Remained Intact

BankAmerica says security is a key element of its branch-automation project. The integrity of the bank's data was not compromised by the theft, officials said, because the computers did not contain software that would allow users to gain access to other computer files.

For physical security, experts recommend alarm systems and devices that allow the computers to be bolted to desks and locked when not in use.

For data security, they recommend encrypting data and authenticating transactions, especially for electronic funds transfer. They also say only authorized software disks and electronic files should be used on personal computers, since viruses can be transmitted from infected software programs and spread from computer to computer.

PC Installation is the top priority for technology investment among bankers.

PC Expenditures

PC installation is the top priority for technology investment among bankers, according to the *American Banker*'s 1990 technology survey. Fifty-five percent of senior operations and technology executives identified PCs as the area where they will concentrate investments over the next five years.

Several large companies, including Security Pacific Corp., Royal Bank of Canada, and Banc One Corp. are now installing thousands of PCs in branches and bank offices or have plans to do so over the next few years.

The proponents of these branch systems say PC networks are more powerful and functional than controller-based branch automation systems, giving officers easy access to customer information in data bases. In other areas of the bank, PCs are taking over much of the processing that was once done on mainframes.

Computer Hot Squads

Some savvy banks have installed a computer security officer and programs for preventing computer hackers, viruses, and worms from entering their PC networks and destroying information.

Royal Bank, which is installing 13,000 PCs in its branches, has formed a six-person team to develop a program for securing corporate information. George Oliver, manager of information delivery technologies, said the team is working with cryptography products that scrambles data as it is distributed to PCs.

"Security is a major issue that is being dealt with in phases," he said.

Henry T. Garcia, a senior vice president at Citizens and Southern Corp., said the bank has an aggressive security program to accompany its campaign to install PCs in 1,000 branches.

The Atlanta banking company uses a platform automation system that includes security features, which it plans to combine with the security software installed on a teller system at Sovran Financial Corp. C&S and Sovran are scheduled to merge at the end of the month.

Little concrete information is available about the impact of computer crime on banks.

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COMMENT / By John O. Smith

ATM 'Duality' Will Open New Doors for the Banks

For consumers and financial institutions, ATM duality is an idea whose time has come.

ATM duality offers the opportunity to double the number of U.S. ATMs most consumers can use, because ATM owners will be able to display both the Cirrus and Plus logos. This opens up a variety of new marketing and income-producing opportunities for financial institutions that issue cards and acquire ATM transactions.

Before deciding how to take advantage of these opportunities, though, it is important to be clear about what duality will entail for financial institutions – whether they are Cirrus and Plus network members or among those that have yet to join a national network.

Two Logos on Display

There has been some confusion about duality, so a definition is in order.

Duality in the context of Cirrus and Plus means terminal duality – that is, ATMs displaying the logos of the competing Plus and Cirrus networks. Duality does not apply to cards; only ATMs will display both logos.

Also, duality will not be automatic. It is scheduled to begin on Aug. 20, but will not happen with the flick of a switch. Instead, financial institutions must decide for themselves whether to take advantage of duality, then take the necessary steps to implement it.

Duality is not reciprocity. Cirrus cardholders cannot automatically use Plus ATMs, and Plus cardholders cannot use Cirrus ATMs. Cardholders can still use only ATMs that display the same mark that is on their cards. However, as a result of duality, many ATMs will display both Cirrus and Plus logos.

Systems Are Not Merging

Duality is not a merger of Cirrus and Plus. Issuers will not be issuing both Cirrus and Plus cards. Cirrus and Plus will remain distinct networks, with different operating rules, marketing approaches, and strategic philosophies. So the Cirrus and Plus brands will continue to compete with each other.

Finally, the Aug. 20 starting date for duality pertains only to the United States. The Cirrus board has also approved duality for Mexico, Venezuela, Spain, Hong Kong, the Philippines, Singapore, and Thailand. Of these countries, only Mexico has live Cirrus ATMs today.

Mr. Smith is president of Cirrus System Inc., Downers Grove, Ill.



"Duality is a case where what is good for consumers is also good for financial institutions."

Duality between Plus and Cirrus enables issuers to offer their cardholders greater convenience and it allows financial institutions to acquire transactions for both networks, adding millions of cardholders to the base of those who can use their ATMs.

The impetus for duality today is the industry's desire to serve consumers' changing needs. According to the May 1 edition of *Bank Network News*, regional and national networks are already seeing record transaction volume growth in 1990, with projections showing that annual electronic funds transfer volume could reach 6.4 billion this year, a 20% increase over 1989.

It is clear that consumers are comfortable with ATMs and are using them more than ever. While Cirrus and Plus ATMs already cover the United States, duality is the next logical step because it provides still greater consumer convenience by giving cardholders access to potentially twice the number of ATMs they may now use.

For example, as Plus members join Cirrus and put Cirrus logos on their ATMs this year, the number of ATMs that Cirrus cardholders may use will expand to more than 50,000.

Accustomed to Convenience

Also, regional network ATM coverage is now so pervasive that cardholders are accustomed to accessing most, if not all, ATMs in their local markets. It is perfectly reasonable for cardholders to want this same convenience when they travel.

Duality will give traveling cardholders the same kind of near-universal access they enjoy at home. For example, Cirrus cardholders can now get cash at 54 airports, but with duality that number will grow to as many as 87 – or virtually every significant airport in the nation.

Duality is a case where what is good for consumers is also good for financial institutions. That is because duality will give consumers even more confidence that they will find an ATM when they need one.

That comfort level will cause cardholders to rely on ATMs even more for their banking needs. Time and again, the experience of regional networks has shown that when access to ATMs becomes universal in a

See **COMMENT** *page* **16**

GRAPEVINE / By Jed Horowitz

First Chicago Digs In. Though no outside bidders are discernible, First Chicago Corp. has quietly beefed up its antitakeover defenses. The banking company eliminated an exception to its poison pill, according to a recent filing with the Securities and Exchange Commission.

The exception would have allowed a hostile bidder who bought 80% of the bank's common stock through an all-cash tender offer to proceed unimpeded. First Chicago also dropped a referendum procedure that conditionally allowed stockholders to redeem rights issued under the poison pill without approval of the board of directors.

Analysts said they knew of no reason for the nation's 12th-largest bank holding company to be hunkering down now. Before bank stocks began their extended nose dive this year, however, rumors had circulated that Wells Fargo & Co. might attack First Chicago, one analyst said.

Almost no U.S. institutions today are in a position to raid the Chicago bank, although foreign bank companies remain a threat.

First Chicago officials did not return calls for comment on their revised defenses.

* * *

BT Shops in Chile. Bankers Trust New York Corp. is celebrating the opening this month of a shopping mall in a suburb of Santiago, the capital of Chile.

The company owns about 20% of the project, principal investor is Falabella, Chile's largest department store, according to a government-sponsored trade company. The mall – which includes two big department stores and 140 small shops – would be worth about $30 million if the investment group convinces a movie theater chain and a hospital to settle on surrounding land owned by the group of developers, a Bankers Trust official said.

The banking company did not disclose the dollar amount of its investment but said it did not involve a debt-for-equity swap. "We used our own funds in Chile, including dividends from other investments," said Jean Winslow, a banker based in Santiago.

* * *

Morgan Rides the Pampas. The Argentine subsidiary of J.P. Morgan & Co. has bought 10% of a $26.5 million bank holding company that is being offered in underwrote for Acindar, Argentina's biggest private steel producer. (It sold 2.6% of the issue to a Morgan subsidiary in London to comply with regulatory restrictions on equity investments.)

A Morgan banker in Buenos Aires said Acindar is the only Argentine company to have publicly issued equity in the past decade. Morgan, he added, was lead manager on three of the company's four issues.

* * *

So Knows Banks? J.P. Morgan's U.S. bankers, meanwhile, are boning up on baseball. Ewing Kauffman, the founder of Marion Laboratories, and Memphis-based developer Avron B. Fogelman have tagged Morgan's mergers and acquisitions unit to sell their Kansas City Royals. The American League team boasts the services of power-hitting outfielder and prolific TV commercial-maker Bo Jackson.

"We know the kind of investors that might want to purchase a baseball team," said Kenneth Brewster, a Morgan managing director, who cited his company's extensive private banking network. Morgan, which hopes to close a sale by January, beat out several Wall Street competitors.

* * *

Sally, GMAC Team Up. Wall Street is about to muscle into the mortgage servicing market that has traditionally been dominated by banks and thrifts.

Salomon Brothers Inc. has teamed up with GMAC Mortgage Corp., a General Motors Corp. affiliate and the nation's third-largest mortgage company, "to explore opportunities" in the battered market for mortgage servicing rights, according to a source familiar with the effort.

The two, which are said to have asked secondary market agencies for accreditation as official servicers, would buy the rights to process mortgage payments while GMAC would do the actual work, the source said.

Spokesmen for Salomon Brothers and GMAC declined to comment. Mortgage servicing involves funneling monthly payments from borrowers to lender banks and investors in mortgage-backed securities.

Salomon, long active in many areas of mortgage finance, may be the first of several Wall Street firms to join the bargain hunt. "I've heard of a lot of Wall Street guys talking about this kind of thing," said a servicing professional. **— Phil Roosevelt**

* * *

Texas Tax Tactic. Chemical Banking Corp. is seeking Federal Reserve Board approval to form a Delaware-based bank holding company that would acquire the stock of the 21 banks in its Texas Commerce Bancshares subsidiary.

The proposed Texas Commerce Equity Holdings would owe less Texas franchise tax than Texas Commerce and its subsidiaries now must pay. Last year, the holding company paid the state more than $8 million for income received from capital allocated to Texas, a bank official said.

The proposed Delaware company would initially be capitalized at $1.1 billion, equal to 100% of Texas Commerce's stock holdings in its Texas banks. Its sole purpose would be to hold and redistribute equity to the Texas banks and provide funds to meet Texas Commerce's funding obligations. □

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CONSUMER NEWS

PRIVATE BANKING

Disclosure Forms Adapted To Stricter Loan Criteria

By MAUREEN MEVIN DUFFY
Special to the American Banker

Sensing that this is a good time to tighten loan underwriting procedures, many private banks are revising their financial disclosure forms.

Some are adopting Robert Morris Associates' new Personal Financial Statement, which stresses cash flow versus balance sheet data, and others are extracting key elements from it.

The national association of bank loan and credit officers first publicized the four-page form in March. In the three subsequent months, it has generated more than 600 phone calls and sold 100,000 copies, according to Ned Miller, director of the group's lending and finance division.

Rosemary O'Malley Laphen, executive vice president who heads Philadelphia-based private banking and trust for Philadelphia National Bank/First Pennsylvania Bank and who helped design the form, said, "I think it will become a standard form for banks, given the economic times we're in. Everybody is very careful to tighten their underwriting standards."

Ms. Laphen's bank started using the four-page form in May as a tool for the relationship managers, and the reaction has been mostly positive. "However, it would be naive to say it was welcomed by the customer," she said. "Most affluent clients are not accustomed to providing the amount of detailed information we're now requesting." Consequently, the bank presents the form only when private bank clients want to borrow.

> **"Everybody is very careful to tighten their underwriting standards."**
>
> **Rosemary Laphen**
> *Philadelphia National Bank*

The standard Robert Morris Associates form, based on input from about 50 private banks nationwide and steered by a committee chaired by James W. McKeighan 3d, president of Commerce Bank, Philadelphia, is intended to help lending officers make credit decisions and assess the soundness of loan guarantors.

It asks: What type of stocks are owned – blue chips or start-up ventures? How marketable are the securities? How successful is the investor? Who owns the securities?

Real estate queries cover the purchase year and price in addition to current market value, so the banker can better judge the asset. Interest rates and monthly payments are included as a cash flow indicator.

The form also asks how to contact the client's lawyer, accountant, and investment and insurance advisers. "Those sources would be consulted to get a better understanding and analysis of the credit request," said Daniel H. Chapman, chief executive officer of Northern Trust Bank of Texas and chairman of the American Bankers Association's private banking committee. "The omission of a name from one of these categories might also indicate a cross-sell opportunity for the bank."

The emphasis on cash flow is a welcome addition, Mr. Chapman said. Balance sheet numbers can be widely interpreted. "But cash that comes in and goes out is another value entirely," he said. "Also, real estate can be valued very differently in different regions.

"The fact that it looks like we're headed for a recession and given the well-known problems of lenders throughout the country, they will be more cautious. There will be more attention to asset management, but that doesn't lessen the need for a financial statement."

Clients Might Balk at Added Demands

One problem with revising financial forms is a reluctance by consumers to provide all the information. "You may require four pages of information, and your competition may ask for very little," said Ms. Laphen, whose bank asks clients to supply not one but two years' income and expense information. By making the RMA form an industry standard, that problem can be erased.

Mr. McKeighan's committee anticipated some reluctance from clients because of the form's length. "But that has not been the case," he said. "Most people housed in private banking have accountants fill out the forms. So it's not the struggle it might have been."

Another reason, he said, is that clients understand current market conditions.

Form Is No Hassle for the Affluent

In one case, Ms. Laphen said, a custodial client with "many millions in the bank" asked to extend his relationship to include a substantial line of credit and was asked to complete the form. "He said, 'No problem.' He had his accountant fill out the forms."

Maribeth S. Rahe, group executive of the personal and private banking group, at Harris Trust and Savings Bank, based her Chicago bank's form on the RMA model. "For the most part, there has been, no resistance," Ms. Rahe said. "Affluent clients usually have this information at hand."

Ms. Duffy is a freelance banking reporter based in New York.

Crisis Could Deepen Recession

Economic Downturn Eroding Consumer Confidence

Continued from *page 1*

leased Tuesday by the Federal Reserve bear this out. The Fed reported that growth slowed in consumer installment loans outstanding in June, the latest for which figures are available.

Now, with the prospect of an oil shock staring Americans in the face and long interest rates rocketing upward, bankers are wondering if consumers will pull in their horns even further. And they worry whether customers who do take out loans will be able to pay them back.

Bankers may be inclined to sacrifice growth for quality. Under current circumstances, "It's better to live with lower volume," said Kathleen B. Cooper, chief economist for Security Pacific Corp., Los Angeles.

Most bankers expressed a cautious approach and said it was too early to predict changes in lending policy. "It remains to be seen whether events in the Mid-

> **Immediately after the . . . invasion, long U.S. Treasury bonds climbed, to 8.80% from 8.30%.**

dle East will have any lasting effects," said Michael J. McMennamin, president of Bank One, Columbus.

But by threatening to make a recession deeper, inflation more rapid, and interest rates higher, bankers and economists say the Middle East crisis could yet knock the retail loan market for a loop.

If energy prices continue to rise, "some of the spendable income of consumers will be sapped," warned Ms. Cooper of Security Pacific. "That could mean that consumers would be less willing to take on debt."

With the housing market slumping and new uncertainties over energy prices hovering over the markets, the outlook for consumer borrowing is bleak, some analysts said.

"I think we will see over the next couple of quarters the rate of growth [of consumer credit] declining," said Robert Dugger, chief economist for the American Bankers Association. "There's a number of reasons for that, not least of which is the decline in consumer confidence. That decline began before the Mideast crisis."

On Tuesday, the Federal Reserve reported that consumer installment credit outstanding grew an anemic 0.8% in June. Hammered by a slump in auto purchases, installment credit outstanding inched up $463 million, compared with a $3.7 billion increase in May.

"It's another indication that consumers are retrenching," said Sung Won Sohn, chief economist for Norwest Corp., Minneapolis. "Most of the increase was from revolving credit. Consumers are having difficulty financially, so they are relying on credit cards to buy things."

"It's a reflection of the weakness in the auto sector," said Stuart Hoffman, chief economist for PNC Financial Corp. "But consumer borrowing has been bouncing around a lot lately."

Auto loans fell by $1.6 billion in June, compared with a nearly-flat May. Credit card borrowing grew by only $1.3 billion, versus a $3.2 billion rise the month before.

Interest Rates Could Soar

If long-term rates continue to rise as they have since the Kuwait invasion, "the first area that will be belted really hard will be mortgages," said Robert K. Heady, publisher of *Bank Rate Monitor*. "I don't expect to see auto rates, credit cards, and personal loans affected that much."

Immediately after the Kuwait invasion, long U.S. Treasury bonds climbed, to 8.80% from 8.30% a week earlier. "The market went bananas," said Lyle Gramley, chief economist with the Mortgage Bankers Association.

By Tuesday, mortgage lenders reported that fixed-rate loans were priced from 10.1% to 10.375%, up from under 10% on Friday. Initial rates on adjustable-rate mortgages were unchanged, experts said, because ARMs don't have to beat the long-bond rate to attract buyers on the secondary market.

But the picture for consumer credit other than mortgages could still worsen, perhaps dramatically, bankers said.

Prospect of Recession

The unanswered question is how much will oil price increases and a possible military crisis affect economic growth. Nothing would reduce loan demand faster than a deep recession, bankers stressed.

"When industries start laying off people, that would affect consumer demand," said Harry R. Sisk, senior vice president and consumer lending chief for Union Bank, San Francisco. "I'm not concerned about it otherwise."

With the inflation and economic growth outlook still hanging in the balance, many bankers had begun to tighten credit standards before the invasion.

> **Consumer installment credit outstanding grew an anemic 0.8% in June.**

"Banks were already keenly watching their delinquencies," said Joe D. Belew, president of the Consumer Bankers Association. "More attention is being paid to credit quality."

The prospects then are for a period in which both banks and their retail customers will behave much more conservatively than the go-go period of the late 1980s.

Consumers are likely to want less credit and have a harder time getting it when they apply.

Robert M. Garsson in Washington and Stephen Kluge in New York contributed to this article.

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Consumer Money Index

Here are the rates and account details that some of the nation's largest retail banks were offering on August 7 for corporate money market accounts. The items in the base and citywide columns refer to all rates offered by each institution unless otherwise noted.

Institution	Rate	Balance	Cmpd.	Charges	Fees/details
Philadelphia Nat'l Bank Philadelphia	5.31%	$0-up	Daily	Daily	$5 monthly if bal.<$200 $2 transaction over MMA limits
Sovran Bank Richmond, Va.	5.25 5.02 5.75 6.35	$0-2,499 2,500-19,999 20,000-249,999 250,000-up	Monthly	Weekly	$5 monthly if bal.<$2,500 $1.25 through if over 3 months 3 thick statement if over $50 mo. Sovran withdrawals over MMA limits
Union Bank San Francisco	4.50% 5.90 6.35	$1-2,499 2,500-99,999 100,000+	Monthly	Daily	$10 monthly if bal.<$2,500 $3 transaction over MMA limits
City Savings Bank Bedminster, N.J.	4.50% 5.85	$0-999 1,000-up	Monthly	Daily	$5 monthly if bal.<$1,000 $3 check over MMA limits
Texas Commerce Bank Houston	5.25%	$0-up	Simple	Daily	$10 Monthly if bal.<$2,000

Data Source: Bank Rate Monitor, N. Palm Beach, Fla.

Tangled Web of Deception Led to Scandal in Atlanta

Continued from *page 2*

teed program. The larger, and more controversial part, involved four secret credit facilities, totaling $2.1 billion, that the Atlanta office signed with Iraq between February 1988 and spring 1989.

The branch issued various letters of credit based on these credit facilities to finance the export of industrial equipment, most of which was used to construct the Badush Dam near Mosul.

Accounting requirements related to the Iraqi exposure forced Lavoro to report a $391 million loss in 1989, compared with profits of $84 million in 1988.

In January, bank officials met with an Iraqi delegation in Geneva and agreed to honor the credit commitments in return for Iraqi pledges to repay the loans using two-thirds of the proceeds to buy Italian-made equipment.

But all bets are off now, following Iraq's Aug. 2 invasion of Kuwait. And Moody's Investors Service said Tuesday in London that the West's freeze of Iraqi and Kuwaiti assets may increase Lavoro's losses on its large exposure to Iraq resulting from the trade-finance transactions booked at its Atlanta branch.

Continuing Consequences

In addition to several civil suits filed in the matter, a grand jury was convened in Atlanta late last year to consider possible criminal indictments. Mr. von Wedel has spent a year cooperating with federal prosecutors led by Assistant U.S. Attorney Gale McKenzie.

He said he consented to this interview to rebut press accounts that portray his recent affair to Iraqi arms procurement activities, particularly Iraq's well-publicized missile program.

"I want the world to know that Atlanta-Lavoro had nothing to do with it," he said.

For Mr. von Wedel, the saga began on Feb. 17, 1988. Early that morning he flew to Baghdad, the Iraqi capital, on Royal Jordanian Airlines with Mr. Drogoul, then first vice president and manager of the Atlanta branch.

The Red Carpet

The two men were met at the airport by Sadik Taha, director general of the Iraqi central bank, who saw to it that they received VIP treatment: no customs check, immediate baggage clearance, and limousine transportation to the government-owned Al Rashid Hotel – one of the city's best.

After the two Lavoro officers checked into their rooms, Mr. Taha began telling them in English about the busy day they had ahead of them, working out "the contract agreement." A puzzled Mr. von Wedel took Mr. Drogoul aside.

"I looked at Chris and said: 'What's he talking about?'

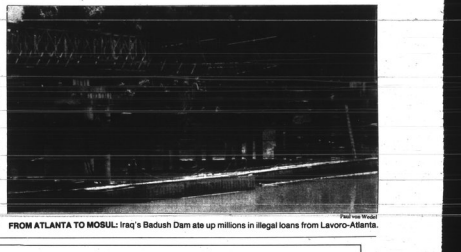
"Chris said: 'I'll explain it after Taha leaves.' "

Hidden Agenda

It was only at that point, according to Mr. von Wedel, that he learned the true reason for their trip. The Atlanta branch's top two officers were there to sign an agreement committing Lavoro to a $200 million, five-year credit facility for Iraq that would help fund construction of the Badush Dam.

Mr. von Wedel's account of this transaction cannot be corroborated. A civil suit Lavoro filed against Mr. Drogoul and Mr. von Wedel last fall refers to "a series of unauthorized credit, facilities and loan agreements" concluded with Iraq.

Mr. von Wedel said he believed the purpose of the Bagh-



Fred von Wedel

See **LAVORO** *next page*

FROM ATLANTA TO MOSUL: Iraq's Badush Dam ate up millions in illegal loans from Lavoro-Atlanta.

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Lavoro's Secret Loans to Iraq Helped Build Badush Dam

Continued from page 7

dad trip was to reduce, not augment, the bank's lending to Iraq, which was then engaged in a desperate war with Iran.

Mr. von Wedel recalled being told by Mr. Drogoul: "Don't worry about it. It's just a small thing to help them out because the war is ending. When the war is over, we'll have the whole country of Iraq" as a Lavoro customer.

Reputation for Intensity

Mr. Drogoul was then 38 years old, blond and slender. His reputation for intense drive and ambition was already established in Atlanta's international banking community.

A former colleague at Barclays Bank, where he worked from 1973 to 1981, remembered Mr. Drogoul as "a very bright, innovative guy," but also "somebody who needed to be kept on a tight rein."

Mr. von Wedel worked closely with Mr. Drogoul for seven years at Lavoro. He offers a similar assessment.

"Chris was an excellent accounts officer, but he's not a person [Lavoro] should have had at the top. Chris was not a negotiator – you could talk him into doing anything."

Paul von Wedel has spent a year cooperating with federal prosecutors.

Born in New Jersey of a French father and a German mother, Mr. Drogoul joined Lavoro's Atlanta office in 1981 and rose to branch manager three years later.

A Turnaround to His Credit

Inheriting a money-losing operation, he used his expertise in trade finance to turn the Atlanta office into one of Lavoro's most productive overseas branches. It made $11 million in profits from 1984 to 1988.

Mr. Drogoul's success was due, in part, to aggressive participation in a program operated by the federal Commodity Credit Corp., which promotes U.S. agricultural exports by guaranteeing letters of credit issued by international banks.

Through its Atlanta office, Lavoro mostly financed grain shipments to Eastern Europe, the Far East, and the Middle East – including oil-rich Iraq.

So eager was Mr. Drogoul to grab a larger share of the Iraqi Commodity Credit Corp. business at the expense of other international banks, Mr. von Wedel said, that he exceeded his authority in extending the credits.

Authority Overstepped?

The bank's civil suit against Mr. Drogoul and Mr. von Wedel claims "the loan agreements and credit facilities negotiated and executed by defendants were outside the scope of their actual or apparent authority to act on behalf of [Lavoro] or [Lavoro's] Atlanta agency."

By the end of 1985, the Atlanta office had reached the $150 million exposure limit set by the bank, according to Mr. von Wedel.

In fiscal years 1986 and 1987, Mr. von Wedel said, Mr. Drogoul signed Iraq-related Commodity Credit Corp. contracts on his own authority, although he told Mr. von Wedel and other branch employees that he had received oral authorization from a top official in Rome in November 1985.

Mr. Drogoul delayed seeking written approval until March 1986, partly because he tended to procrastinate and partly because the Italian government became embroiled in a dispute with Iraq over the sale of warships.

A telex message finally arrived from Rome in March 1986, denying approval. Mr. Drogoul and his staff found themselves out on a limb.

The Atlanta branch's top two officers signed an agreement committing Lavoro to a $200 million, five-year credit facility that would help Iraq fund construction of the Badush Dam.

By February 1988, when Mr. Drogoul and Mr. von Wedel arrived in Baghdad, the Atlanta office had contracted for $900 million in Commodity Credit Corp. commitments to Iraq, according to Mr. von Wedel.

To hide these commitments from their superiors in Rome, they devised the "gray book" scheme.

"It's not really a book per se," Mr. von Wedel explained, "but a program in the computer [in Atlanta] that we could only access from our own offices. We called it 'gray' because it was semi-approved."

Mr. von Wedel said he knew that U.S. banking rules required the Commodity Credit Corp. credits to be included in the quarterly financial reports that Lavoro-Atlanta – like all other foreign-bank agencies in the United States – sends to the Federal Reserve. He learned the ropes of trade finance in 19 years with Chemical Bank in New York and eight years with Atlanta-based Citizens and Southern Corp.

Lavoro-Atlanta should also have reported the profits from those transactions – $3.5 million, in all – to the Internal Revenue Service instead of hiding them in the gray book, he said.

But the Atlanta employees believed time was on their side. Principal on the Commodity

See DROGOUL next page

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Drogoul Remembered as 'Very Bright, Innovative Guy'

Continued from page 8

Credit Corp. credits was paid down at regular intervals, so that Lavoro would have been reimbursed for all the gray book credits by next month.

Seeking Absolution

"What the plans always were up to that point," Mr. von Wedel said, "was to go to Rome and say: 'Father, I have sinned. This is what we did. Everything is paid off, and we have a couple of million dollars in earnings.'

"In typical Italian fashion, they would have said: 'Don't do it no more. You're a bad boy – but take the earnings.'"

This plan was derailed – ultimately leading the FBI to Mr. von Wedel's door – by the $200 million loan deal that he and Mr. Drogoul signed in Baghdad on Feb. 22, 1988.

This agreement and three subsequent ones allowed Iraq to buy various types of machinery and tool-making equipment from European and U.S. companies in order to construct the Badush Dam and several other industrial facilities, such as a petrochemical complex. Along with interest payments, Lavoro received commissions on the letters of credit it issued to companies exporting the equipment to Iraq.

Like the Commodity Credit Corp. transactions, the four loan facilities were kept hidden in a computer file. Related paper files were maintained by only a few people in the office, including Mr. Drogoul, Mr. von Wedel said.

Christoper Drogoul used his expertise in trade finance to turn the Atlanta office into one of Lavoro's most productive overseas branches.

Most of the letters of credit, on the other hand, showed up on the bank's books with Central Bank of Iraq deposits classified as collateral against them. The central bank maintained $40 million on deposit at the branch from early 1989 on, according to Mr. von Wedel.

After the scandal broke in August 1989, news reports persistently linked the four unauthorized loans to an Iraqi arms-procurement network operating in Europe. Some of the loot-making equipment appeared to be just as useful in military as in civilian applications.

Despite intensive investigations in both Europe and the United States, none of the companies receiving letters of credit from Atlanta's Lavoro office have been charged with violating arms-control laws.

But Mr. von Wedel said the loan agreement deeply worried him, coming as it did on top of the "gray book" Commodity Credit Corp. loans. Mr. Drogoul's personal lending limit was only $1 million for secured loans, and $500,000 for unsecured credits.

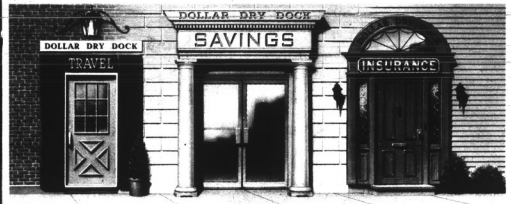
Wartime Confusion in Iraq

In an effort to sabotage the loan agreement, Mr. von Wedel said he typed the English translation of the agreement into a computer at the Iraqi central bank on the, day of signing in such a way that the central bank's secretary accidentally erased most of it.

An hour before the signing ceremony, with the Iraqis running around in a near-panic, Mr. Drogoul asked Mr. von Wedel to type the last page only, with a clause saying the terms would be confirmed later by telex from Atlanta.

"So I typed it up and came back into this room with all these people there," Mr. von Wedel said. "You have to remember: It was wartime – and everybody had guns and everything.

Dry Dock divide



"Chris [Drogoul] was not a negotiator – you could talk him into doing anything."
Paul von Wedel

"It was like a cocktail party at a terrorists' convention: camouflage uniforms, guns, mustaches. I was scared stiff. So I wound up signing the stupid thing. I just kept saying, 'Get me to my plane.'"

Fear: A Powerful Motivator

Mr. von Wedel, 52, is the son of a New York printer who worked his way up in banking without a college education. He owns up to the fact that he was wrong to sign the agreement that eventually destroyed his career. But fear, he says, is a powerful motivator.

"I would have signed a confession of war crimes if they would have let me go," he said. The two men returned to their hotel and caught the 4:30 a.m. flight to Amman, Jordan, where Mr. Drogoul planned to stay a few days on business related to the Commodity Credit Corp.

Mr. von Wedel said he continued home and later discovered that Mr. Drogoul had returned to Iraq to complete the contract.

Iraqis Come to Georgia

For the second loan agreement, signed Oct. 8, 1988, the Iraqis came to Atlanta.

Mr. Taha came to the United States periodically to seek medical treatment for a heart problem. When he stopped in Atlanta to meet with Mr. Drogoul, he was accompanied by Raja Hassan Ali, general director of the Iraqi ministry of industry and military production.

Mr. von Wedel recalled being in his office about 6 p.m. that

See GRAY next page

'Gray Book' Hid Lavoro's Loan Commitments to Iraq

Continued from *page 9*

evening when Mr. Drogoul's secretary walked in to show him the second agreement, for $150 million. Mr. von Wedel scurried over to Mr. Drogoul's office, demanding to know: "What the hell is this?"

Mr. Drogoul referred to the delicate state of Mr. Taha's health, describing the head of Iraq's central bank as "our only big supporter in Iraq." In the event of Mr. Taha's death, he pointed out, "we have no guarantees of getting paid."

Again, Mr. von Wedel acquiesced: "I signed, with assurances from everyone that that was it," he says.

Mr. Taha died this year, July 6, in a London hospital.

As the volume of Iraqi business surged, Mr. von Wedel and others in the office became more concerned.

"It really tore the branch apart," Mr. von Wedel said. "Everybody was pulling in different directions. There was a lot of dissension, a lot of tension, a lot of arguments."

Some of the machinery and tool-making equipment ordered by the Iraqis appeared to be just as useful in military as in civilian applications.

Mr. von Wedel and the other former branch employee both believe it was a disgruntled Atlanta employee who finally blew the whistle to the FBI on the secret loan agreements.

Complicity

Mr. von Wedel periodically threatened to quit, but he and the other officers and staff generally went along with the secret transactions. Although some of the later loan agreements came as a surprise, they knew about the "gray book," for example, the former employee said.

Most were people in their late 20s or early 30s who had never worked with any bank other than Lavoro. Mr. Drogoul was a popular boss whom they believed to enjoy the full support of his superiors in Rome.

Since other Lavoro branches around the world routinely referred Iraq-related business to Atlanta, the employees believed that Rome was generally aware of their activities.

They were were also becoming overconfident. Each year, federal and state auditors, as well as a team from Lavoro's Rome headquarters, showed up to examine the books, but never discovered the "gray book" credits or questioned the Iraq-related transactions that were available for scrutiny.

During one such visit from the Lavoro auditors, Mr. von Wedel said, Mr. Drogoul came into his office, shut the door and fell on his knees from laughter, exclaiming, "I can't believe the charmed life I'm leading!"

"It's hard to be on the outside and understand why we did it," said the other former employee. "But you do it for four years, no problems, nobody gets caught, the auditors come by, . . . What the heck? Why worry about it?

"It's a job, after all. You don't want to look like you're trying to be a problem."

Back to the Well

In February 1989, Mr. von Wedel and Mr. Drogoul had a major falling out. Mr. von Wedel discovered that Mr. Drogoul, on his own, had gone to Washington in December to sign a third loan agreement with the Iraqis for $650 million.

Mr. von Wedel, just returning from a trip to London, was confronted by the office manager, who was angry with him for changing interest rates on letters of credit processed under the loan agreements.

The first two loan agreements had been set at 50 basis points and 25 basis points over the London interbank offered rate, respectively. Mr. von Wedel had been putting those rates on the letters of credit coming into the office.

So eager was Mr. Drogoul to grab a larger share of the Iraqi Commodity Credit Corp. business, Mr. von Wedel said, that he exceeded his authority in extending the credits.

Now, he learned, Mr. Drogoul had arranged the third agreement at 6.25 basis points over Libor, throwing off all the accounting.

At that point, Mr. von Wedel said, he told his boss that he refused to have anything more to do with the Iraqi loans.

Only after the scandal became public did investigators uncover Mr. Drogoul's fourth and final loan agreement with Iraq, for $1.1 billion. It was signed at about this time, probably in London.

Mr. von Wedel, who has seen a copy of the agreement, estimated that $300 million to $400 million was actually disbursed before the FBI moved in.

Accounting Discrepancies

The former branch employee said he, too, discovered the third agreement through accounting discrepancies and did not learn about the fourth until the fall of 1989.

The fourth agreement stayed hidden because the Central Bank of Iraq never sent telex re-

See HEAD *next page*

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Head Office in Rome Left Atlanta Branch Out on a Limb

Continued from *page 10*

quests to Lavoro-Atlanta, as it had on the first three loans, indicating the intended use of the money. The contract called for loan proceeds to be sent directly to various European banks in the name of the Iraqi bank, according to Mr. von Wedel.

Not knowing about the fourth agreement, but angry over the third, Mr. von Wedel agreed to make a second trip to Baghdad on April 24, 1989. He said he went with Mr. Drogoul, at the latter's request, to see how the loan proceeds were being used, specifically the Badush Dam project.

"I knew it was going to be a sales job on me not to make any more waves," Mr. von Wedel said.

An Ostentatious Welcome

Arriving at the airport around 10 p.m., the two men got an ostentatious welcome from Mr. Ali, the arms minister.

"It was embarrassing at the time," Mr. von Wedel recalled. "All of a sudden, bodyguards push people aside and take us off the plane."

Again, they stayed at the Al-Rashid, which was filled with military men from all over the world. The Iraqis were holding an international arms exhibition that week.

The next day, the two Atlantans were flown to Mosul in a French Falcon jet provided by the central bank. From there, they were driven to the dam site, about half an hour away.

"It was like a cocktail party at a terrorists' convention: camouflage uniforms, guns, mustaches. I was scared stiff."

Paul von Wedel

"We took pictures and had lunch out there. We saw where all the money went, so it was helpful," Mr. von Wedel said.

A Big Letter of Credit

On the flight back to Baghdad an Iraqi lawyer on the plane told Mr. von Wedel that Mr. Drogoul was negotiating a $150 million letter of credit with General Motors Corp. under the third loan agreement. This turned out to be the largest single letter of credit involving Iraq that was handled by Lavoro's Atlanta office.

The deal was a tremendous coup for Mr. Drogoul, who was under pressure from Rome to win more business from multinational corporations. Mr. von Wedel said he and Mr. Drogoul wrapped up the deal in meetings with GM officials in Baghdad and, the following week, in Washington.

Fringe Benefits

Mr. Drogoul's dealings with Iraq seemed on the verge of producing other benefits for Lavoro. In May, according to Mr. von Wedel, Mouneim Rashid, director general of the Central Bank of Iraq, visited Atlanta and promised that his bank would switch its U.S. dollar clearing account to Lavoro from J.P. Morgan & Co. at yearend.

By Mr. von Wedel's estimate, this clearing business could have brought the Atlanta office up to $500 million in average daily balances in addition to the $40 million the central bank had deposited the previous year in a collateral escrow account.

Sunday, April 30, was their last day in Baghdad. The two men met with Ahmad Al-Dulaimi, undersecretary of the ministry of industry and military production.

For the second loan agreement, signed Oct. 8, 1988, the Iraqis came to Atlanta.

As Mr. von Wedel recalled the conversation, Mr. Al-Dulaimi said, "Look, Chris, the bank project is getting down to where we really have to act. We're coming down to the wire now, and we need something in writing."

Ulterior Motive Surfaces

As they were returning to their hotel to change clothes for the flight back to Atlanta, Mr. von Wedel quizzed Mr. Drogoul about Mr. Al-Dulaimi's remark.

"Chris said that, in 1992, when all their debt and everything is paid, they [the Iraqis] want to buy or start a couple of banks, one in London and one in the United States.

"He said, 'I've been promised to be president of the bank, or very high up there, and most people [in Lavoro's Atlanta office] are going to have jobs when they open the bank.'"

Mr. von Wedel said this was the only indication Mr. Drogoul ever gave of some ulterior motive for increasing Lavoro's exposure to Iraq. He suspects that the Iraqis planned to use funds from the mysterious fourth loan agreement to establish their overseas bank, but admits he has no proof of that.

Theodore H. Lackland, Mr. Drogoul's Atlanta attorney, declined to comment on Mr. von Wedel's story about the Iraqi bank except to say: "Some of these allegations are new. We're reviewing them in detail."

Short-Lived Optimism

Mr. von Wedel remembered feeling optimistic on the flight home, believing the GM deal was the Atlanta office's final Iraqi project. He was also preparing to retire from the bank, which had announced the preceding October that a large co-

See FBI *next page*

FBI Raid Ended the Party at Banca Lavoro's Atlanta Branch

Continued from *page 11*

tingent from the Atlanta office, including Mr. Drogoul, would be moved to Chicago.

Mr. von Wedel had no intention of leaving Atlanta. He planned to wait around long enough to collect his six months' severance pay — about $50,000 — in case the Atlanta office closed permanently.

The move to Chicago was scuttled because too many branch employees refused to leave Atlanta. Mr. von Wedel began organizing a private business venture with his wife, planning to resign in August 1989.

At about the same hour on Aug. 4 that Mr. von Wedel was receiving his first visit from the FBI, the receptionist at Lavoro's Peachtree Street office opened the door to a man who had just rung the buzzer.

The former employee recalled seeing a crowd of men immediately appear from around the corner and push their way into the office, identifying themselves as FBI agents.

Sweeping through the corridors, the operatives gathered the branch workers into a conference room, where they grilled them for the next four hours about the "gray book" and other aspects of the unauthorized loans to Iraq.

"They had to have been tipped off, because they knew things that only four to five people in the branch knew," the former employee said.

Mr. Drogoul was vacationing in France at the home of his father, a metals industry consultant.

Home to Face the Music

Mr. von Wedel said he called Mr. Drogoul that night to tell him of the FBI raid. A seemingly unperturbed Mr. Drogoul returned to the Atlanta office Aug. 8. He stopped in New York, en route, to confer with Lavoro's North American officials.

By that time, the Atlanta office was packed with some 40 investigators from the FBI, Federal Reserve, and Georgia banking department. Even the federal Commerce and Agriculture departments would contribute representatives during the ensuing weeks.

Among the Lavoro officials on hand to greet the returning Mr. Drogoul was Umberto d'Addosio, a general vice president based in Rome.

Summary Dismissal

To Mr. Drogoul's apparent surprise, Mr. d'Addosio dismissed him as branch manager, effective immediately. The bank fired him, Mr. von Wedel, and seven others last September.

When Mr. Drogoul left the office after his dismissal by Mr. d'Addosio, Mr. von Wedel joined him in the elevator. Mr. von Wedel recalled it as one of the few times he ever saw Mr. Drogoul lose his composure.

FBI operatives swept through the corridors, gathering the branch workers into a conference room, where they were grilled for the next four hours.

"Chris [had] actually thought he was coming back to be manager of the office again," Mr. von Wedel said.

"He seemed to think it wasn't so serious. When he left the office that day, he looked white as a ghost."

This article first appeared in the *Southern Banker*, an *American Banker* publication.

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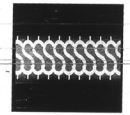

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Bribery Verdict Is Not Guilty

CINCINNATI — A Florida real estate developer was acquitted in U.S. District Court of conspiracy to bribe a Cincinnati law firm to secure a $1 million loan from a savings and loan.

Prosecutors had charged Leonard Pelullo with wiring $145,000 to a law firm in Cincinnati that handled the trust account of David Friedman, an official with the now defunct Savings One Association in Gahanna, Ohio.

The prosecution tried to convince jurors that the funds transfer was an illegal kickback to secure a $1 million loan from Savings One.

Mr. Pelullo contended the payment was legitimate repayment of interest on a loan.

Jurors deliberated for two hours before rejecting all five counts of conspiracy to bribe.
— Reuters

Illinois Bank Is Acquired

DETROIT — Manufacturers National Corp. has completed the acquisition of State Bank of Lake Zurich, Ill., for $24 million in a combination of cash and stock. The $1.6 billion-asset Manufacturers announced its agreement to buy the $165 million-asset Illinois institution in February. □

Block of Shares Sold In Massachusetts S&L

REUTERS

WASHINGTON — Harris Associates LP, a Chicago investment firm, sold 35,000 shares in Peoples Bancorp of Worcester, lowering its holdings to 127,800 shares, or 4.8% of the thrift company's common stock outstanding.

In a filing with the Securities and Exchange Commission, Harris said it sold the shares between June 29 and July 27 for $17 to $17.82 each.

The Harris group gave no reason for the sales. It usually holds shares for investment purposes.

Separately, Peoples Bancorp announced that its subsidiary, Peoples Savings Bank, had entered a definitive agreement to sell $15 million in deposits and certain assets of two offices in Williamstown, Mass., to First Agricultural Bank. Peoples acquired those branches in its April 1989 regulatory-assisted takeover of First Service Bank for Savings, Leominster, Mass.

Also, in a more recent acquisition of $300 million in deposits from a failed thrift, Peoples said it would retain four of the five offices it inherited from the Federal Deposit Insurance Corp. in the July 6 closing of Milford Savings Bank. □

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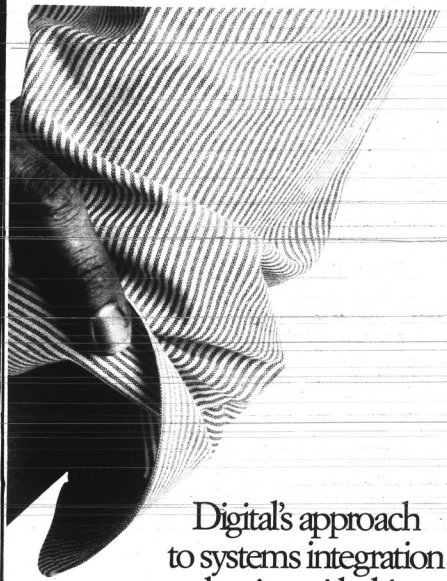

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COMMENT

Continued from *page 4*

market, previous nonusers begin using ATMs and existing cardholders use their cards more.

In short, consumer awareness of increased access leads to even more ATM transactions, which can translate into more profits for participating financial institutions.

Currently, 80% of Cirrus issuers charge for Cirrus activity; with increased transaction activity, these members will earn additional fee income. Duality also makes ATM banking more convenient, so cardholders will increase their overall reliance on ATMs for their basic banking needs. Institutions that charge cardholders for transactions, therefore, earn greater transaction income.

Acquirers Get Two Card Bases

For acquiring institutions, duality means accepting transactions from two enormous card bases instead of just one. By acquiring transactions for Cirrus/MasterCard's 275 million cards and Plus' 150 million cards, acquirers will see more transactions coming through their existing ATMs.

Obviously, because twice as many cardholders can use an acquirer's ATM, significantly more opportunities exist for that ATM to be used. Each time a cardholder uses a "foreign" ATM (one not owned by his bank), the ATM owner receives an interchange fee.

Since duality opens a bank's ATMs to millions of additional cardholders, it creates the opportunity for significant new interchange income. And by driving more transactions through existing ATMs, the per-transaction cost of operating the ATM program decreases.

A Winning Strategy

What duality amounts to, then, is an excellent business strategy for financial institutions and networks. Duality allows the national ATM networks to better serve their members by providing opportunities to increase ATM-related income and to enhance cardholder services. Duality enables regional networks to provide a new service to their members: a gateway to the nationals.

Duality changes the ATM environment for all financial institutions. Those that do not provide access to a broad array of ATMs nationwide will not be able to offer their customers the level of service they expect, nor will they be able to capitalize on duality's income-making opportunities. Thus, such institutions face significant competitive disadvantages.

. For institutions that are ready to capitalize on the strategic benefits of duality between Cirrus and Plus, implementation is relatively painless. Certain operational procedures have been standardized to simplify members' participation. The two networks are also developing a gateway as one means of facilitating switching between networks.

However, this gateway is not the only mechanism for switching; institutions will be able to develop direct links to the Cirrus and Plus switches or use third-party services – whatever option is best for their business. □

Thornburgh Attacks Plan to Change Bar's Ethics Rules

By GEOFFREY A. CAMPBELL
The Bond Buyer

CHICAGO — U.S. Attorney General Richard Thornburgh has warned that savings and loan criminals might receive a "get out of jail free" card if defense lawyers succeed in their efforts to change the American Bar Association's rules of professional conduct.

"The defense bar, with ABA sponsorship, is attempting to use rules of professional conduct to stymie criminal investigations and prosecutions," Mr. Thornburgh said.

He added that the proposed changes "could adversely impact upon the prosecution of drug traffickers, organized crime, and white-collar criminals."

Mr. Thornburgh made his remarks at a news conference following a speech he gave to the American Bar Association convention.

Limitation Sought

He took particular aim at a proposal by the bar group's criminal justice section that would restrict the government's ability to seize a lawyer's fees when the money was obtained through criminal activity. Currently, prosecutors can seize a lawyer's fees unless the lawyer can demonstrate that he was unaware the money was illegally acquired.

If the ABA proposal is adopted, it would be considered unethical for the government to take such a step.

In addition, Mr. Thornburgh said, a newly enacted bar association rule – which makes it unethical to subpoena lawyers without first getting judicial approval to question them about criminal defendants they are representing – also will hamper efforts to incarcerate white-collar criminals.

Contacts Would Be Curbed

Mr. Thornburgh attacked another proposal that would expand the ethics rule by prohibiting prosecutors from directly contacting people who are represented by a lawyer.

Mr. Thornburgh last year issued a memorandum stating that the rule against contacting represented parties does not prohibit law enforcement officials from contacting targets of criminal investigations.

That memorandum was strongly rebuked by members of the bar group's governing House of Delegates at its February meeting in Los Angeles.

The Bond Buyer **is a sister publication of the** ***American Banker.***

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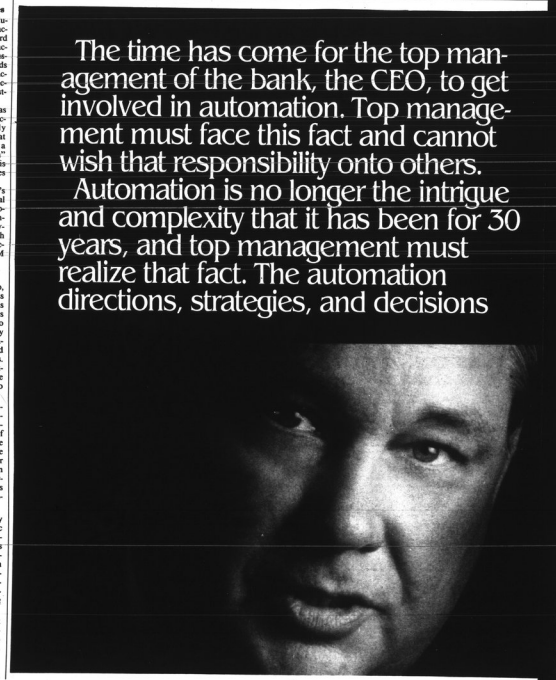
The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others.

Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.



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EXECUTIVE *changes*

Connecticut Bancorp Board Picks Woelflein

Kevin G. Woelflein, president of U.S. Capital Investments Co., a Greenwich, Conn. bank advisory firm, has been elected chairman of the board of Connecticut Bancorp Inc. and Norwalk Bank, Norwalk, Conn.

He succeeds **Frank J. Cooke,** who is retiring as chairman but will continue as a director of the holding company and the bank.

Mr. Woelflein's association with the company began in 1988, when he was retained in an advisory capacity to plan and execute a $2 million public rights offering of the company's common stock and warrants. The offering was successfully completed in June 1989. Since that time he has continued to assist the company on issues related to its capital planning and investment community relations.

Mr. Woelflein is an experienced commercial banker, having spent many years with First National Bank of Chicago as a lending officer and having been founding vice president and general manager of its Tokyo branch and founding president of its subsidiary UBAF Bank in New York. He was also president of American Security Bank, Washington, D.C.

MIDWEST

Commerce Bank of Kansas City said **Cleo G. Simmonds** and **Craig W. Huntley** have become vice presidents in the bank's investment management and trust services division. Mr. Simmonds currently manages the activities of the bank's personal trust portfolio managers. Mr. Huntley is manager of corporate trust marketing for the division.

MIDDLE ATLANTIC

Gavin Anderson Doremus & Co., New York, has named **Catherine Cummings** and **Kim Freeman** senior vice presidents.

Both are group directors. Ms. Cummings directs business-to-business marketing, and Ms. Freeman directs marketing communications at the firm.

American Express Bank Ltd., New York, has named **Suzan T. Picariello** senior vice president and region head, consumer financial services group, for its Latin American and Caribbean region.

As head of the Latin American unit she will oversee all consumer financial service businesses, which offer lending, deposit-taking, and insurance products to consumers and small businesses.

Ms. Picariello previously was assistant general counsel for American Express Travel Related Services Co.

Bryn Mawr Bank Corp., Bryn Mawr, Pa., has named **Thomas M. Petro** president of its newly formed subsidiary, Profit Research Consulting Inc.

The subsidiary specializes in the development and implementation of cost accounting and profitability measurement systems for financial institutions, with the goal of assisting client institutions in focusing on their individual marketplace.

Mr. Petro was formerly manager of the financial services division of Management Science Associates Inc., an international marketing research and software development firm.

Sandler O'Neill & Partners, New York, has hired **Mark Gabriel** as an associate director. He will market fixed-income products to insurance companies.

Mr. Gabriel previously served as first vice president with Prudential Bache Securities.

North Fork Bancorp Inc., Greenport, N.Y., has appointed **Christine L. Kurman** vice president and director of training. **Mary Lou Arsane** has been appointed assistant vice president of marketing.

Ensign Bank, New York, has named **Robin Wachenfeld** first vice president/senior lending officer.

Ms. Wachenfeld will have overall responsibility for all lending departments, which include commercial real estate, commercial banking, and finance and consumer lending.

In conjunction with **Alan E. Master,** president and chief executive officer, she will direct all related policies and practices, which in turn set the loan objectives of the company.

Previously, she was first vice president in charge of credit policy and asset quality control.

Appointed also were **Dubravka Bijon** as vice president and director of marketing; **Maria Castellano** as assistant vice president, human resources; **Michael Cocchiola** as assistant vice president, loan servicing, and **Maryann Maisano** as assistant vice president, consumer banking operations.

IBJ Schroder Bank & Trust Co., New York, announced that **James P. Casey,** trust division, **Mark H. Manski,** credit division, and **Ronald M. Winters** of corporate banking have been appointed senior vice presidents.

Nancy R. Besse of trust, **Maria A. Brown** of human resources, **Ronald C. Dinehart** of auditing, **Marianne J. Grasing** of private banking, and **W. Bradford Hatry** of banking services have been named vice presidents.

New assistant vice presidents are **Raymond J. Liszewski, Frederick C. Reynolds, Camilla M. Sammartino,** and **Deborah D. Tangen.**

IBJ Schroder Leasing Co. has appointed **Lisa M. Renshaw** a senior president and **Michael D. Ogus** an assistant vice president.

European American Bank, New York, has named **Patrick B. Dennehy** senior vice president, transaction processing, in the bank's operations and systems department, and **Stephen C. Winspeare** senior vice president, asset recovery, in the project finance department.

Franklin Smith

TECHNOLOGY/OPERATIONS

A weekly feature

Switzerland's Union Bank Exporting Trust System to U.S.

By RICHARD LAYNE

Union Bank of Switzerland, one of the largest banks in the world, is making inroads in the private trust market in the United States.

In the past year, the Swiss bank has opened marketing offices for private banking and trust services in Los Angeles and San Francisco to exploit the affluent California market, moving in alongside newcomers such as Bankers Trust New York Corp., Northern Trust Corp., Boston Safe Deposit and Trust Co., and Citicorp.

Its private bankers will be in Houston by yearend and will move into Chicago afterward.

Measuring Gains Is Key

The keystone of the bank's marketing plan is a sophisticated back-office system to measure the performance of its customer's investment portfolios.

The multicurrency accounting portion was installed earlier this year, and the final element is expected to be in place by yearend.

The back-office system is considered more complex and more advanced than any other available to private customers. Only a handful of banks offers similar monitoring of globally invested portfolios and then only to large institutional and corporate trust clients.

The system is necessary to help keep track of the rather high percentage of foreign securities in the portfolios of its wealthy clients. Keeping with its global nature, Union Bank seeks customers with at least $50 million in assets and an international bent.

Measurement Is Vital

"It is the only way to measure the portfolio performance without cheating the client," said Hanspeter Lochmeier, Union Bank senior vice president, of the multicurrency tracking system.

The bank has attracted $1.2 billion in assets under management, making it a medium-size private trust provider. Mr. Lochmeier, who is overseeing personal trust activities in the United States, predicts 25% to 30% growth a year. "This is one of our fastest-growing markets," he said.

For a bank with its headquarters in the European crossroads of Zurich – where ATMs can dole out funds in five currencies – an emphasis on global investment is to be expected.

High Starting Point

U.S. customers wishing to diversify their portfolios internationally must be willing to commit $5 million to foreign-issued securities. That percentage of foreign investment is high for private trusts and comparable to the investment position of the biggest pension funds and mutual funds.

Mr. Lochmeier predicted that foreign investment, which now represents 10% of a client's portfolio, will account for 15% to 20% of portfolios in four years.

The bank is looking beyond the East Coast to areas where it sees prospects for outsiders.

Good Area for Trust

The West Coast is one fertile area for national providers of trust services. According to the California State Banking Department, total trust assets under management at yearend were $493.1 billion, up from about $350 billion a year earlier.

The Midwest, where Union Bank plans to open a Chicago office, has only one strong bank in private banking, Mr. Lochmeier said.



Peggy Turbett

MEASURING PERFORMANCE: Hanspeter Lochmeier of Union Bank says its software gives clients a superior reading.

Bankers say that Europeans are willing to place faith in their bankers, but U.S. investors want to see records of everything. That cultural difference means that U.S. investors with global portfolios need sophisticated record keeping and performance information.

Union Bank already had a multicurrency reporting system for its Swiss clients. But different regulatory and tax requirements made it impossible to boom created fortunes a decade ago, Union Bank sees an opening. Wealthy individuals may seek to switch their trust accounts to a bank with the best possible ratings from Moody's Investors Service and Standard & Poor's Corp., Mr. Lochmeier said.

"This is one of our advantages," he said of the downgrades experienced by many U.S. banks this year.

simply install that system in the United States.

Two years ago, the bank installed a trust accounting system, using software form Financial Technologies Inc., in its home office.

Project Begun in 1989

In 1989, Union Bank and Financial Technologies began modifying that system, developing software for multicurrency accounting and securities clearance. This year, that system began operation, serving both U.S. clients and foreign clients who use the New York office for service.

Now the bank is completing the final step, adding to the multicurrency system the ability to measure the performance of portfolios with domestic and foreign assets.

"I am not aware of anybody else who could make a similar claim," said Thomas R. Abraham, a trust systems specialist with Andersen Consulting in New York. "Other systems are put together with bubble gum and baling wire – they can deliver multicurrency performance but only after a great deal of manual effort."

Improvement in Reporting

Union Bank's previous system reported all transactions as if they were in dollars, even if they were not. A transaction of 8,000 marks came out simply as 8,000. With the new system, Union will be able to tell its clients the value of their portfolio in U.S. dollars.

The system factors in two critical elements.

First is the security's performance – did it go up or down? Second is the fluctuation of the currency in which the security was purchased against the U.S. dollar. □

STRATEGIES

High Cost of Technology Is Raising Questions for Global Private Banking

By RICHARD LAYNE

As private trust banking spreads across national borders, so does the technological support.

Several foreign institutions, including Union Bank of Switzerland, are delving into the U.S. market for private banking. Among U.S. banks, Citicorp is openly pursuing a strategy of offering private banking and trust services around the world.

But Thomas R. Abraham, a trust specialist with Andersen Consulting in New York, contends that "no one has a network that is sufficient to support private trust operations around the world."

A truly international service, he says, must be able to provide information for any customer, anywhere.

Citicorp aims to supply that information to U.S. private banking clients when they travel abroad. That requires international communications networks tied to customer information files and transactions processing systems.

The catch? Private trust services are geared to a small subset of each country's population. Even with international horizons, few people have $50 million in assets – the minimum that Union Bank seeks.

Mr. Abraham questions how much a bank can invest in technology to support so small a market.

Private trust areas may look instead to share support systems with other areas. But the concept has at least one potential drawback: Wealthy individuals may be treated like a small company buying an expensive service. □

ISSUES: *debit cards*

Store Use of Debit Cards Seen About to Soar

By JEANNE IIDA

Fueled by industry alliances, the use of debit card terminals in supermarkets and other retail stores is poised to take off, according to a study by Frost & Sullivan Ltd., a New York-based research company.

The report projects that the U.S. market for debit-card terminals will grow to $81 million in 1994 from $31.6 million in 1989.

The volume of point-of-sale debit card transactions – while small – is growing faster than other forms of debit card use, including ATM transactions.

Transactions on the Rise

The total monthly volume of debit card transactions in supermarkets – where the majority of transactions take place – doubled from 1987 to 1988, according to the Electronic Funds Transfer Association. Such transactions amounted to nearly 5,000 a month in 1988, against 2,500 a month in 1987, the group said.

Alliances such as one formed this summer between the Most network, an ATM network owned by Internet Inc., and Deluxe Data Systems, are crucial to future growth, according to the Frost & Sullivan report. The two companies are looking for supermarkets in the Middle Atlantic states to join in a test of debit card services.

Such alliances may help to reduce problems over fee structures that have hobbled some efforts. In the past, the major parties to a debit card network – banks, value-added networks, and vendors – have been unable to agree on how fees should be allocated.

The major markets will continue to be supermarkets, gas stations, and convenience stores.

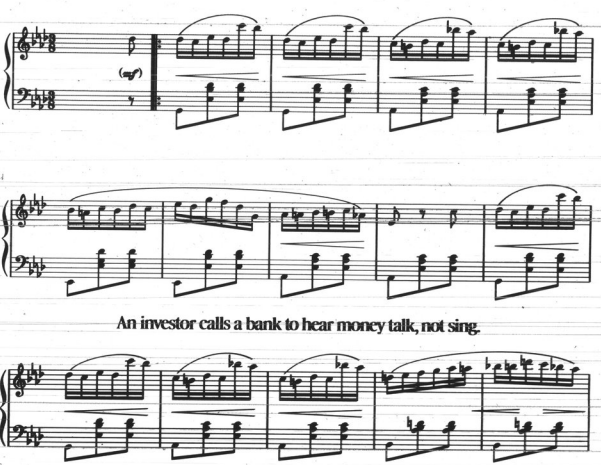
About 30 vendors are sellers of EFT/POS terminals, from computer makers such as International Business Machines Corp. and NCR Corp., to specialized companies such as Verifone.

Most terminals can handle credit card transactions as well as debits. Buyers should ensure that the terminals are compatible with any existing computer systems that track customers and inventory.

Cost of Compatibility

That compatibility does result in higher cost. The price of a single terminal can range from several hundred dollars to several thousand dollars, depending on the degree to which it is integrated with other computer systems.

Retired people often do not use ATMs because they consider a visit to their bank branch to be a social call, the report found, but they do use POS terminals in supermarkets □





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INTERNATIONAL NEWS

GLOBAL *dispatches...*

Barclays, Midland to Sell Consumer Financing Units

By JOHN EVANS

LONDON — Barclays PLC and Midland Bank PLC are divesting part of their consumer finance operations and analysts say the disposals would give foreign banks the opportunity to build their business presences in Britain.

The disposals could potentially raise as much as $1.3 billion for their owners, which are struggling with a big jump in domestic loan losses in the weakening British economy.

The major sale is planned by Midland, which has put its Forward Trust Group on the auction block to raise capital. Estimates of the price tag for the unit, the third-largest British asset-based finance house range between $750 million and $925 million. Forward Trust has assets of $7.75 billion and net assets of $560 million. The unit does corporate leasing and factoring as well as installment finance and auto loans.

Barclays, meantime, said it was actively considering offers for Mercantile Credit, the consumer finance part of its Mercantile Finance Group. This operation, which could be worth about $375 million, has net assets of $275 million.

Competition in Retail Finance

The parent bank and Mercantile Credit increasingly compete in the British retail finance marketplace, a Barclays official explained. The sale is part of the bank's long-term strategy of reviewing noncore activities, he added.

Midland said Forward Trust does not represent a core activity and the sale will strengthen its capital position.

Like other big British banks, Midland has announced that earnings have been cut by a sharp rise in bad debts at home.

Midland's first-half 1990 pretax earnings totaled $66.5 million, well below analysts' expectations. Barclays earnings were virtually static in the half at $1.1 billion.

According to Peter Toeman, analyst at brokerage firm UBS Phillips & Drew, the two businesses represent "attractive franchises" for foreign banks seeking to build in Britain, particularly those from the Continent eying broader operations across the community.

... by country

JAPAN

The Export-Import Bank of Japan said Monday that it had agreed to make an untied $200 million loan to Hungary's central bank, the National Bank of Hungary.

The loan, running for about 15 years, will be a cofinancing with a World Bank Structural Adjustment Loan. Interest rates will be based on Japan's long-term prime rate of 7.9%, an Ex-Im Bank spokesman said.

It follows a pledge by Prime Minister Toshiki Kaifu made during a visit to Europe in January to give financial support to Hungary and Poland, together with the World Bank, totaling $1.95 billion, the Ex-Im Bank said.

The World Bank will provide $950 million and Japan $1 billion. The loan will be used for imports but will not be restricted to imports from Japan.

WEST GERMANY

West German banks will put their investors and shareholders first when it comes to large scale investment in East Germany, disappointing people who had hoped for huge private-sector funding for the east.

West German banks say they have already been active in East Germany, opening branches, offering loans, and taking on staff.

"Conditions in East Germany are very difficult," said Manfred Walther, a member of the Dresdner Bank board. "But despite that, banks are ready to extend credits to companies."

The banks stress that they must take account of the interests of their shareholders and investors when offering East German loans. They say they face legal restrictions when offering unsecured credits.

Many troubled East German companies are desperate for funds to pay wages and meet delivery costs. They and some West German officials say the West German banks have been too cautious with their funds.

SOVIET UNION

The Soviet Union could get credits of up to $12 billion over three years to help its economic reforms if it joins the International Monetary Fund, a Soviet banking official said in a Moscow newspaper Sunday.

Viktor Rakov, chief currency expert at the central state bank Gosbank, told Izvestia that IMF membership could also bring discipline to the economy as it switched to a market system.

Mr. Rakov, who took part in talks with IMF head Michel Camdessus last week, said Moscow would probably have to transfer about $1.1 billion to the IMF if it joined.

"Contrary to false statements, however, the U.S.S.R.'s entry into the IMF would not automatically mean a net outlay of foreign currency," he said.

Our payments "would in principle give us the right over the course of three years to receive various credits worth $10 to $12 billion," Mr. Rakov said.

The by country briefs were supplied by Reuters.

U.K. Freeze Stymies U.S. Branches

By JOHN EVANS

LONDON — Branches of U.S. banks in the United Kingdom are caught in the middle of conflicting instructions on the Kuwaiti asset freeze from the U.S. Treasury and the Bank of England.

The Bank of England, releasing detailed instructions here Tuesday on how the freeze will operate, made it clear that U.S. and other foreign banks with London branches will have to comply fully with the new British financial restrictions.

Under the U.S.'s own freeze, however, American banks must apply the specific regulations issued by the U.S. Treasury to their branches worldwide, including their London units.

Britain departs from the United States in the way it has frozen the assets of the two Arab nations. Under the United Kingdom's measures, all "residents" in those nations, including banks and corporate entities, are affected.

Clarification Due

In the case of Kuwait, the United States restricts the freeze to the Kuwait government and its agencies, although the Treasury is expected shortly to clarify its orders.

The Bank of England's new instructions are considered as a set of pathfinder measures for much of the international banking community, reflecting London's key role as worldwide banking center, with more than 500 foreign banks and securities houses represented.

A senior Bank of England official confirmed that any foreign banks operating in the United Kingdom are "subject to our regulations." In the case of American banks, he acknowledged that, under Washington's regulations, "the branches of U.S. banks overseas are, in U.S. eyes, subject to U.S. law."

Consultations Possible

This will "raise complications" in operating the freeze and consultations are being considered to clarify the position, the official said.

Unlike the U.S., Britain is not seeking "extraterritoriality" for its freeze and is "explicitly excluding the overseas branches of U.K. banks" from the measure although these would not be used as a "pass-through" to evade the regulations, he added.

Because of the urgency in responding to the decision of Western governments to operate a freeze, protecting investments held by Kuwaitis from Iraqi seizure, there has been no time for detailed international coordination on the freeze, the British central bank official noted.

Position Upheld

The British position on international banking law was in effect upheld last year when the High Courts in London ruled that Bankers Trust New York Corp. should pay over sums owed to the Libyan Arab Foreign Bank, which had been frozen under U.S. sanctions against Col. Khaddafi regime in 1988.

Under the new British regulations, meantime, a branch of any business in Kuwait or Iraq will be treated as if it were a corporate body resident in those countries.

This means that major Kuwaiti enterprises operating in Britain, such as the National Bank of Kuwait, the Kuwait Investment Office and Kuwait Petroleum Corp. have been declared as Kuwaiti residents, subject to the freeze.

National Bank of Kuwait, which has offices in New York and London, was among the banks listed by the U.S. Treasury Department as not subject to the freeze.

However, consultations will take place with these companies to allow them to conduct as much commercial business as possible, as long as the funds involved remain within Britain, the Bank of England announced.

Bank deposits and gold accounts of Kuwait and Iraqi residents held in Britain should now be designated as accounts of those two countries and frozen.

Oil Price Rise a Help in Easing LDC Debt

Continued from *page 1*

term debts since March 1989. The country is the largest sovereign borrower from U.S. banks.

U.S. regulators ordered U.S. banks last month to write down 20% of their loans to Brazil because of poor prospects for repayment.

Among U.S. banks, Citicorp has the highest exposure and lowest reserves against Brazilian loans. At yearend, Brazil owed Citicorp $3.9 billion; Bank-America Corp., $2.65 billion; Chase Manhattan Corp., $2.3 billion; Manufacturers Hanover Corp., $2 billion; and Chemical Banking Corp., $1.5 billion.

"The overall picture [of the Kuwait crisis] remains mixed. Mexico and Venezuela will be beneficiaries, but it could aggravate the already worrisome conditions for Brazil," said James McDermott, executive vice president at Keefe, Bruyette & Woods Inc. in New York.

A silver lining in the cloud hanging over debtor countries that do not produce oil is the general rise in prices for commodities such as metals and agricultural products on which many developing countries depend. Prices of such commodities rose sharply after the oil crises of 1973 and 1979 and have already begun moving upward again, bankers said.

Bankers added interest rates would also play a key role in determining the future debt burdens of Third World countries but declined to make any forecast.

"I think [Federal Reserve Board Governor Allan] Greenspan is caught between a rock and a hard place. Obviously, what's happening is inflationary if he lets interest rates stay in place. But if he raises them, he'll bring us into a recession," said one banker.

The ongoing uncertainty over the impact of the oil-price rise on debtor countries was reflected in trading in Third World debt on the secondary market, where little trading occurred Tuesday.

Mexico and Venezuela each export about 1.5 million barrels of oil a day. For every $1 rise in the price of oil, economists have calculated, Mexico and Venezuela gain $500 million in additional annual revenues.

Based on the latest rise in prices to $27 a barrel from $21 last week, that means that each country will gain $3 billion in extra revenues if the price rise holds. □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	Bid	Ask	Yld.	Bid	Ask	Yld.	Bid	Ask	Yld.	Bid	Ask	Yld.	Bid	Ask	Yld.
United States	8.12	8.07	8.05	7.85	7.84	8.00	7.65	7.64	7.84	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.31	7.25	7.00	7.87	7.69	7.81	7.69	7.56	7.69	5.25	5.25	5.25	7.19	7.19	7.19
Canada	13.50	13.38	13.38	13.13	13.19	13.13	12.75	12.62	12.69	13.41	13.47	13.48	14.75	14.75	14.75
U.K.	15.69	15.69	15.69	15.00	15.00	15.00	15.00	15.00	14.94	14.94	14.94	14.94	15.00	15.00	15.00
West Germany	8.12	8.13	8.25	8.65	8.56	8.33	8.75	8.75	8.49	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	5.12	5.13	5.13	6.12	5.25	8.94	5.06	5.75	8.94	6.00	6.00	6.00	10.00	10.00	10.00
France	9.62	9.75	10.13	10.12	10.07	10.13	10.19	10.13	10.25	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.87	11.50	11.75	11.50	11.25	11.38	11.62	11.50	11.50	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollar		Sterling		West German marks		Swiss francs	
	Bid	Ask	Bid	Ask	Bid	Ask	Bid	Ask
3 to 6 months	7.85	7.80	14.37	14.31	8.68	8.60	8.00	7.95
6 to 12 months	8.00	7.95	15.43	15.37	8.68	8.54	8.00	7.90
12 to 24 months	8.05	8.00	17.00	16.93	9.10	9.00	7.75	7.80

* Midday quotes in the New York market

Source: Reuters, Ardley & Pearce Inc., New York.

Comptroller Stirs Debate on Mutual Fund Role for Banks

Continued from *page 1*

that Mr. Smith characterized as uncontroversial.

The proposal would eliminate two "10% rules." They govern the amount of a fund that can be invested in a single issue and the portion of a fund that can be owned by a single investor. The OCC has also proposed eliminating a requirement that a bank's board of directors be required to pass on every change in the fund's rules.

The most controversial aspect of the Comptroller's proposal is the recommendation that the agency relax restrictions on the advertising and pricing of bank collective investment funds.

Tailored for the Wealthy

Trust banks' collective investment funds resemble mutual funds. However, the rules governing the way they are structured, priced, and marketed effectively limit their availability to the wealthy.

The Comptroller seeks to permit banks to advertise performance of their funds, much as the mutual fund industry does now.

Trust banks' collective investment funds resemble mutual funds.

It would also permit banks to charge management fees for running the funds. Banks are now permitted to levy a general charge on a trust relationship, but not specific fees for investment management.

James D. McLaughlin, the American Bankers Association's chief agency lobbyist, said the proposal's reach is modest and is not "a back door to mutual funds."

Essentially, he said, banks would be able to advertise the funds "within the context of offering fiduciary services."

The Investment Company Institute and other critics contend that once banks begin advertising their funds, the "one-paragraph trust" – a fiduciary arrangement that could be implemented with a brief form-letter agreement – will emerge.

Mr. Smith said the one-paragraph trust is a bit far-fetched, but a sturdy, two-page mini-trust might develop. Even so, Mr. Smith believes it is unlikely that banks would offer such trusts except as part of a broader fiduciary relationship.

He said the minitrust rule, which developed when he was at the OCC, has been used by only a handful of banks.

"We asked why that was so, and they told us the cost of administration was high," said Mr. Smith, who is now with the Washington firm of Stroock & Stroock & Lavan. Even though the minitrusts were intended to be executed on standard forms, they ended up "invariably involving lawyers, and lawyers don't like standardized agreements."

The Investment Company Institute has also argued that a significant question of competitive equity is involved. Securities and Exchange Commission Chairman Richard Breeden recently said banks that take advantage of the proposed advertising rules would be required to register their collective investment funds with the SEC.

But that means banks would be bound by only two of the four laws that govern mutual funds, said Matthew Fink, the ICI's general counsel. They would not be required to register under either the Investment Company Act or the Investment Advisory Act, he said.

The Comptroller seeks to permit banks to advertise performance of their funds, much as the mutual fund industry does now.

A One-Way Street

Moreover, while banks would be permitted to move into the mutual fund business, the link between the two industries would be one-way only. Mutual funds still would not be permitted to take insured deposits, he noted.

The ICI also believes the Comptroller's proposal lacks appropriate firewalls, or safeguards, to insulate affiliated banks from investment losses.

"If they get into this, they should do it through a separate affiliate," Mr. Fink said. "The Comptroller would let them do it through the bank.

In the end, the OCC rules may help the mutual fund industry, argues A. Michael Lipper, president of Lipper Analytical Services Inc., New York.

"What the banks are going to do is legitimize mutual funds" in the eyes of consumers who might now not be willing to trust their nest eggs to a Dreyfus or a Fidelity Group. Eventually, he said, "banks will lose part of their business" to the mutual fund companies. □

Who's the second largest branch automation company in the U.S.?

Carolina 1st Bancshares In Pact for Savings Bank

CHARLOTTE, N.C. — Carolina First Bancshares Inc., Lincolnton, N.C., said it has signed a letter of intent to acquire Cabarrus Savings Bank Inc., Concord, N.C., pending a definitive agreement and shareholder and regulatory approvals.

"This is a logical extension of our efforts to serve the northern suburbs of the greater Charlotte market," said Mark Boyd, chairman of Carolina First, a $135 million-asset commercial bank holding company. The addition of Cabarrus would expand its assets to $235 million. □



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Woman, Minority Urged for Fed Slot

Reuters

WASHINGTON — Rep. Henry Gonzalez, chairman of the House Banking Committee, has called on President Bush to nominate a woman or member of a minority group to replace Manuel Johnson on the Federal Reserve Board.

"With rare exceptions through the years, the Federal Reserve Board has been dominated by white males," said Rep. Gonzalez, D-Tex. "It is time for the Federal Reserve to join the 20th century."

Two blacks and two women, including current member Martha Seger, have served on the board since it was created in 1913, the congressman said in a prepared statement. Mr. Johnson stepped down as Fed vice chairman effective Monday. □

Court Rebuffs Stahl In Apple Bancorp Bid

Reuters

NEW YORK — Apple Bancorp said the Delaware Chancery Court denied Stanley Stahl's motion seeking to force Apple to hold its 1990 annual meeting by Sept. 14.

Mr. Stahl, a New York real estate investor, has been maneuvering for some time to gain control of the banking company, parent of the $3.8 billion-asset Apple Bank for Savings.

In the course of a hearing, the Delaware court said the annual meeting should be held no later than Oct. 1, and it said Mr. Stahl could not bring a claim under Section 211 of the Delaware General Corporation law to compel the holding of an annual meeting before Sept. 15. □

Security Pacific Unit Plans to Aid Red Cross

SEATTLE — Security Pacific Bancorp. Northwest said its international division will cash unused foreign currencies at the Seattle-Tacoma International Airport and donate the proceeds to the American Red Cross.

In a program similar to those operating in other international gateway cities, travelers will be invited to deposit spare currency in Red Cross "Global Change" containers at the Seattle airport and in several branches of the Security Pacific Corp. subsidiary.

The bank will take the small amounts of currency, which are not readily converted by individual travelers, and trade them for dollars for Red Cross disaster relief programs. □

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Fed Loss in MCorp Case Casts Regulatory Pall

Continued from page 2

federal cases, to allow the case to go to the high court. Nor is it clear that the Supreme Court would agree to hear the case on its merits

Besides seeking a Supreme Court review, the Fed has several alternative courses of action.

Mr. Whiting pointed out that in rejecting the Fed holding-company doctrine, the appeals court did allow some "wiggle room" to continue to exert a similar authority. A footnote in the decision said the Fed may make approvals of applications conditional on a holding company's agreeing to maintain its subsidiary banks in "some degree of financial soundness."

"If the holding company can't strengthen the bank, the Fed can limit the ability of the bank to strengthen the holding company."

H. Rodgin Cohen
Sullivan & Cromwell

The Fed may also seek recourse in Congress. Howard N. Cayne, a partner of Arnold & Porter, the firm that represents MCorp, said Congress made clear in passing its thrift bailout legislation that it did not intend to give the Fed the authority it claims in the source-of-strength doctrine. But the Fed could try to persuade Congress to change its view, he said.

Some progress in that direction has already been made in a provision of the crime bill now being considered by House subcommittees. That provision would require bank and thrift holding companies to meet the capital needs of affiliates even if they attempted to use bankruptcy procedures as a defense against regulators.

If the Fed gives up its doctrine, it still has means of trying to ensure the soundness of the bank subsidiaries of bank holding companies, observers said.

The Fed could become more restrictive in permitting acquisitions of nonbank subsidiaries, investments in nonbank subsidiaries, and payouts of dividends to the holding company by subsidiaries, said Mr. Cohen.

"If the holding company can't strengthen the bank, the Fed can limit the ability of the bank to strengthen the holding company," said Mr. Cohen. But that could add to the troubles of an already beleaguered industry, he added. □

Who has over 50% market share of branch automation in New York City?

ARE YOU GETTING BREAKING NEWS LIKE THIS AS IT HAPPENS?

"Yesterday's UAL sell-off in New York Stock Exchange composite trading began after the American Banker, a financial newspaper, reported that Citicorp had withdrawn from a group of banks . . ."
—The Wall Street Journal

"The American Banker . . . reported yesterday that representatives from Citicorp and Chase Manhattan had not attended a meeting scheduled last week to discuss possible financing of the takeover . . . That caused speculation that the two banks may be withdrawing . . ."
— The New York Times

"Arbitragers said the report, published in the American Banker's Tuesday edition, raised speculation that Citicorp and Chase Manhattan may be withdrawing . . ."
— Reuter

"Citicorp spokeswoman Holly Cherico and Chase Manhattan spokesman Ken Mills declined to comment on the American Banker report."
— AP


AMERICAN BANKER
August 1, 1990
...n Sees ion FDIC
Citicorp Defection Se... Derailing UAL Buyou...
By WILLIAM GOODWIN
Citicorp's departure from the bank group leading the financ... ing for the proposed $4.4 billion union-led buyout of UAL Corp. appears to have all but doomed the deal for now, banking sources said Tuesday. Unless the buyout group can ... ore its Aug. 9 deadline, it was ...kers said, it was ...ow the deal could ...
UAL Investors Lacked Faith
Price per common share
$170
180
160
140
UAL bid month
Banks built at deadline
Bankers Seem Skittish on Buyout As Aug. 9 Deadline Nears on UAL
By WILLIAM GOODWIN
Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting on possible bank financing for the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 billion deal.
Sources said Citicorp has in fact withdrawn from the bank group – at least for the time being – though it was not immediately clear why. A Citicorp spokeswoman declined to comment.
These rumblings come at a time when a spokesman for the union group said it is close to finding an outside investor, which could draw skittish banks back into the deal.
Equity Is Sticking Point
Chemical told the other banks on Friday that it was pulling out because the union group had failed to attract an outside equity investor, a source said. For that reason, Chemical did not attend the Friday meeting of bankers.
Citicorp and Chase Manhattan Corp. also canceled out of the meeting, leaving only Bankers Trust New York Corp. and Manufacturers Hanover Corp.
See UAL page 18
Chemical Bank... ...bailed out of the ...y, sources said. ...s had failed to ...n equity in...
...lear Tuesday ...attan Corp. ...base, along ...mical, did ...k meeting ...
...y Bank. ...rp. and ...Corp. ...ginally ...of the ...
this newspaper that Citicorp and ...ase were likely to pull out of the deal. The stock was down as much as $21 before rebounding ...at late in the day.
The union group proposed to buy out the airline holding company in March for $201 in cash and securities, looking for roughly $4 billion from the banks. This offer was scaled down from management's $300-a-share bid that somewhat last October. ...Citicorp's departure from the bank group is considered to be ...
See CITICORP page 22
...company's shares plunged ... | $16.875 following a report in ...

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Some Sectors of Oil Industry May Become Eager Borrowers

Continued from *page 1*

nation into a full-fledged recession.

"Clearly, an economy that is growing at a rate of 1% to 1½% is not going to produce boom times for loan demand," said Keith Johnson, codirector of economic research at Morgan Guaranty Trust Co., banking subsidiary of J.P. Morgan & Co.

Impact Hard to Gauge

"To the extent that [the Iraq invasion] has an effect, it will of course make things worse, but it is too early to tell how big the effect is going to be," Mr. Johnson said. "If oil prices reach $50 [a barrel], it would cause recessions all over the place."

"You've got an inflationary prospect looking strong, and at the same time, short-term rates are down," said Roger Widmann, head of corporate finance at the flagship bank subsidiary of Chemical Banking Corp. "We may be getting into a position of short-term stasis."

"Inflation actually helps the [leveraged buyout] business, because you're paying back borrowed money with cheap money."
Dominick Balone
Manufacturers Hanover Corp.

Some dealmakers were more optimistic; they pointed to the positive impact of inflationary pressures.

Help for Big Debtors

"Inflation actually helps the [leveraged buyout] business because you're paying back borrowed money with cheap money," said Dominick Balone, a managing director in the acquisition finance unit of Manufacturers Hanover Corp.'s banking subsidiary.

"Inflation can have a very positive effective for some banking sectors as borrowers finance acquisitions. But on the recession side, there is already substantial inventory built up at many manufacturers," said James W. Warren 3d, senior executive vice president at First Florida Banks and president-elect of Robert Morris Associates. "It's a mixed bag."

Few bankers or economists were willing to predict the political crisis' long-term effects on bank lending because of uncertainty about the situation and its ultimate effect on the price of oil.

'Modest Dampening'

"Iraq pushes the economy very close to recession, but I think the lending climate will be only marginally worse," said Mickey Levy, chief economist at First Fidelity Bancorp. "You might have a modest dampening impact in that people will expect the economy to be weaker, meaning there will be less demand for loans and banks will continue to be careful about who they lend to."

Even lenders to the oil sector were cautious about predicting the effects of the Iraqi invasion.

A political psychology affecting the market may make some oil producers eager to expand, said James Murray, a vice president in the petroleum and mining division at the lead banking subsidiary of First Chicago Corp. Banks will generally be eager to lend to oil companies, he said, though no real need exists for more production.

"There is surplus oil in the world today, and the production capacity can absorb [the boycott of] Kuwait and Iraq for some period of time."
James Murray
First Chicago Corp.

"There is surplus oil in the world today, and the production capacity can absorb Kuwait and Iraq for some period of time," Mr. Murray said. Lenders must guard against overoptimistic capital projections by borrowers, he added.

Bankers in the energy sector also will not shy from lending to refiners, who can quickly pass on their higher costs to consumers, Mr. Murray said. Refiners generally borrow short-term, for no longer than three months, and are now operating on strong margins.

On the other hand, few bankers are expected to answer phone calls from oil-sector service companies that lease drilling equipment to oil and gas exploration firms, Mr. Murray said. "They will probably beef up their borrowing through equity placements, not through banks," he said.

First Florida's Mr. Warren agreed that some banks will profit from a miniboom in the oil and gas industry. He also raised the possibility that the Mideast crisis could revive the defense industry, but he cautioned that many bankers retain fresh memories of getting burned on loans to the energy sector in the mid-1980s. They also are feeling pressure from regulators to monitor carefully their lending portfolios. □

Opinions and Insights
Management
In Thursday's AMERICAN BANKER

Here's a hint: It's not IBM.

COMMENT/MERGERS

Merger-Conversion a Profitable Way to Acquire Healthy Mutual Thrift

By JAMES MARKS
Publisher
SNL Securities

If you could buy a car, then take the cash you just paid, put it in the trunk, and drive away with both car and cash, you wouldn't think twice about doing it.

And if you can understand how attractive such a transaction would be, you can understand why a merger-conversion of a mutual thrift institution is the most attractive acquisition vehicle available for expansion-minded banks and thrifts.

What is a merger-conversion?

A Two-Step Deal

It involves a mutual thrift institution's converting to the stock form of ownership and simultaneously merging with an acquirer. These two steps are required because a mutual is – at least theoretically – owned by its depositors; management and directors are trustees for the owner-depositors.

Without the conversion, depositors' ownership is not expressed in any tangible form that can be exchanged or bought. So merger-conversion is the only means for a healthy mutual thrift to be acquired by or merged with another institution.

In practice, merger-conversions are most often accomplished by combining the two steps. The acquiring institution (instead of the acquired mutual) makes a stock offering under which the mutual's depositors and management can buy shares of the acquiring institution, usually at the current market price.

Merger-conversions are very attractive economically to acquirers, so much so that the only question is why more banks and thrifts aren't using this vehicle.

Acquirer Benefits 3 Ways

The benefits to an acquirer are clear.

- First, no cash outlay is required. The proceeds that would go to the sellers in a normal transaction are retained in the acquired thrift's or the acquiring company's capital account – you just put the money in the trunk and drive away!
- Second, the acquirer's capital base grows by the amount of capital possessed by the acquired thrift plus the proceeds of the stock offering.
- Third, because the stock offering is usually at the prevailing market price and the gross proceeds are usually about the same as the thrift's equity, the deal is almost always antidilutive to existing shareholders' equity.

And for managements bent on growth through acquisition; "antidilutive" is the magic word that generates immediate shareholder and director enthusiasm for a proposed acquisition.

BB&T's Expansion Vehicle

Some insights on merger-conversions come from John Davis, vice president in charge of financial planning and acquisitions at BB&T Financial Corp., a $4.8 billion-asset bank holding company based in Wilson, N.C. BB&T, primarily a small business and middle-market lender, is expanding into new markets in North Carolina through acquisition of healthy thrifts.

The benefits are less clear for the depositor-owners of acquired mutual institutions.

The company has announced five thrift acquisitions in the past year, two of which have been merger-conversions.

"When we first looked at merger-conversions, the economics behind the transaction appeared almost too good to be true," Mr. Davis said. "In the first year, our Gate City deal should provide 4% [per share] earnings appreciation. With Albemarle Savings & Loan, we are looking at 1% to 2% appreciation."

Mr. Davis also said BB&T has entered new markets by starting de novo banks and by acquiring banks and healthy stock thrifts. "Based on what we are projecting," he said, "the merger-conversions are the ones that are antidilutive. . . . It's very rare that you get the opportunity to make an acquisition like that."

Incentives for Managers

While acquirers like BB&T get immediate benefits in the form of greater earnings and book value per share, the benefits are less clear for the mutual institution's depositor-owners. They can buy stock but usually not at a discount, so they can claim no premium.

But since mutuals are controlled by management, the more relevant question is: What incentive does the manager of a healthy thrift have to give up control of his institution?

Last year's Financial Institutions Reform, Recovery, and Enforcement Act provided one incentive.

An undercapitalized mutual thrift, even with strong core earnings, has limited options for compliance with the new law's capital requirements. For example, conversion to stock ownership would be very difficult, given substantial will be the antidilutive effects.

Thrift Hasn't Its Tea Leaves Read

There is a limit, however. If the thrift were too large in comparison with the acquiring bank, the merged institution's shares would be seen as a thrift stock, not a bank stock, and would most likely trade at the lower price-to-book levels the market assigns to thrift stocks.

Similarly, the impact on the market value of the acquiring company would directly reflect its pricing multiples. The higher the price-to-book and price-to-earnings ratios at which the acquiror trades, the greater will be the market value benefit of a merger-conversion. ☐

See **MERGERS** *next page*

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COMMENT/MERGERS

Continued from page 26

on the market's current skepticism toward thrift stocks.

Earnings an Bargaining Chip

The same is true of any type of convertible debt offering.

So the thrift manager is left with the choice of selling his most profitable operations and downsizing to shrink into compliance or of searching out the most cooperative merger partner. If he does the latter, his choice value as evidenced by healthy core earnings can be used as a bargaining chip to negotiate some degree of independence, favorable compensation, or job guarantees.

For healthy, well-capitalized mutual thrifts, which have been the targets of most merger-conversions to date, the incentive comes from the ability to negotiate an acquisition with the most favorable merger partner.

Going public involves a raft of unknowns relating to stock price performance and corporate independence, whereas a merger-conversion offers the certainties of a partnership negotiated on favorable terms.

Realizing Conversion Discount

Both the acquiring shareholders and management of an acquired mutual would realize more immediate benefits in a merger-conversion that took greater advantage of the inherent conversion discount. Most such deals have involved a large bank's acquiring a much smaller thrift.

But if the acquiror were only slightly larger than the acquired mutual, shareholders and management would all maximize the combination's value.

Assume, for example, that Acquiring Bank has $200 million in assets, $15 million in equity, and 3 million shares outstanding trading at $5, or 100% of book value. It is contemplating a merger-conversion with Mutual Federal, a thrift with $100 million in assets and $7 million in equity. It issues 1.4 million shares at a price of $5 to the depositors and management of Mutual Federal.

A 'Model' Deal

On a pro forma basis, Acquiring Bank would then have $300 million in assets, $29 million in equity, and 4.4 million shares outstanding. The pro forma book value per share, then, would have increased from $5 to $6.59. If the shares continued to trade at book value, that would yield a 32% gain for Acquiring Bank's shareholders, 1.4 million of whom of Mutual Federal who bought stock in the offering and Mutual Federal managers who got stock options and restricted stock as part of their compensation package.

Assuming net income before the merger of $2 million at Acquiring Bank and $1 million at Mutual Federal and a pro forma net at the merged institution of $3.7 million, earnings per share would rise from 66 cents before the deal to 84 cents afterward.

As this example highlights, a merger-conversion's favorable impact on book value, market value, and earnings per share can be significant. Moreover, the larger the acquired thrift relative to the acquiror, the more

Private Acquisition Deals — July 30-August 6

(Dollar Amount in Millions)

Status	Seller	City/State	Assets	Value	Buyer	Assets
C	Slate Bk-LaSalle/Joliet	LaSalle/Joliet, Ill	155	24	Manufacturers Nat'l, Bfalo	10,305
C	Farmers Deposit Bank	Flemingsburg, Ky	60	NA	Pikeville National, Ky	703
T	Shaffer's Vineyard Hill	Vineyard Haven, Mass	179	15	Home Port Savings, Mass	118
C	PalmBank, FSB	Grand Rapids, Mich	414	32	First of America, Bfalo	12,966
C	Provident Savings	Southerton, Pa	149	13	Univest Corp, Pa	551
P	Banks of Iowa	Des Moines	2,481	219	Firstar Bancorp, Wi	8,534
T	Madera Valley Bank	Madera, Calif	41	6	Valliwide Holding, Calif	356
T	Cabarrus Savings	Concord, N.C.	96	NA	Carolina 1st Bancshs, N.C.	127

Status: C= Completions; P= Announcement; T= Terminations; N= Not Binding

Government-Assisted Acquisitions — July 30-August 6

Resolved Institution	City/State	RTC/FDIC	Deposits (in millions)	Acquiror	Premium * (in thousands)
Jonathan Hill Company	Baton Rouge, La	FDIC	$371	Hancock Holding Company	4,000
Bethel Bank of Illinois	Waco, Tex	FDIC	285	Bank one-Texas	100

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source: SNL Securities

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• Number of Loans:	568 conv. fixed rate, 1st liens	• Number of Loans:	638 conv. fixed rate, 1st liens
• Principal Balance:	$23,828,060	• Principal Balance:	$18,597,714
• WAC:	10.880%	• WAC:	9.770%
• WAM:	225.000	• WAM:	226.700
• Bid Deadline:	August 28, 1990	• Bid Deadline:	August 28, 1990.
Locations: Hawaii, Minnesota, California, Oklahoma, Other midwest states		*Locations: Minnesota, Oklahoma, Other midwest states*	

* *The above packages are offered together or individually with a combined sale preferred.*

Package 90-015		*Package 90-017*	
• Number of Loans:	93 conv. fixed rate, 1st liens	• Number of Loans:	32 conv. 3 yr ARMs, 1st liens
• Principal Balance:	$2,621,776	• Principal Balance:	$3,415,807
• WAC:	9.794%	• WAC:	11.26%
• WAM:	124.208	• WAM:	298.840
• Bid Deadline:	August 17, 1990	• Bid Deadline:	August 17, 1990

Package 90-021/90-022/90-023			
• Number of Loans:	102 conv. ARMs, 1st liens	• Number of Loans:	125 conv. ARMs, 1st liens
• Principal Balance:	$6,413,973	• Principal Balance:	$7,180,153
• WAC:	10.195%/10.545%	• WAC:	10.349%/6.336%/10.000%
• WAM:	288.900 /364.070	• WAM:	241.760 /229.750/287.240
• Sale is comprised of TWO PACKAGES		• Sale is comprised of THREE PACKAGES	

Locations: Hawaii, Oregon, Colorado, Other western states *Locations: Oklahoma, Missouri, New York*

Reference No. A013

FDIC

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R. A. Felder Lic Auctr #793917 sells on 8/23/90 10:30 AM at 356 Ann St, Newbg. '89 Buick #2G4WB14WXK1402197 Rec F. Martinez; 11 AM at RD1, Oswego, '89 Chate #CW152369 Re: E. Loveland & T. Trepanier; 12:30 PM at 146 No Rte 45, Spraywood '82 #1FMEU15G8CLA54411 Re: C. Lutz. Published 8/8 & 8/15/90.

M. SKOLNICK DCA LIC #793108 and/or S. GORELICK DCA LIC # 841437 Sell Aug 23, 1990 2:15 P.M. 468 Tarrytown Rd White Plains 1986 Hyundai 4 Dr Stn #KMHLF31J6GU020694 Re: V. McKee. Metropolitan Auctioneers, Inc. Published August 8, 1990 & August 16, 1990.

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Foundation Notice

NOTICE

The annual report of THE IRVING AND ADELE ROSENBERG FOUNDATION for the calendar year ended December 31, 1989 is available at its principal office located at Aaron Halpern & Co., 270 Madison Avenue 7th Floor, New York, NY 10016, (212) 679-4500 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Adele Rosenberg.

Auction Notices

PLEDGEE'S LIEN SALE: FRANK E. SEIPP, Auct'r of F.E.S. Auctions Inc, Sells Aug. 27, 1990 at 10 AM at the Law Offices of SIMON, MEYROWITZ, MEYROWITZ & SCHLUSSEL, ESQS., 630 Park Ave, South, 12th Flr, New York, New York. Stock Certificates #1-10 for 100 shares of stock of ECHO SPORTS, INC. for the Account of DOUGLAS PALERMO PICK SLIP RESTORATION PARTNERS, et al. Auct'r Against for KEYBRO ENTERPRISES, PLEDGEE, who reserves the right to bid And Any purchase at this public sale. Auct'rs DCA #732234.

DEFAULT In Security Agreement Made By Jose Hernandez to Manuel Nunez & assigned to Carlos Guzman I Will Sell On 8/8/90 At 10AM At 1135 Clay Ave., Bx., N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC; As Agents.

FRED REISSNER INC, Auct'r Lic #732421 Sells Aug. 24, 1990 At 9 A.M. At 12431 E. Tremont Ave., Bronx, N.Y. 1990 Acura Vin #JH4DB1664LS013671 Acct Pleasure Moffic; Sell Aug. 24, 1990 at 9:30 A.M. At 1156 Bedham Rd & Harlem Rvr., Bronx, N.Y. 1981 Ford Via 1FT2EM3G3BHA27213 Acct D.L. Peterson Trust &/Or Van Trans Inc. Sell Aug. 24, 1990 At 10:30 A.M. At 711 West Broadway, Woodmere, N.Y. 1979 Cadillac Vin 6S69B9948001 Acct Sheldon Ottro.

Joel Pope Auct'r Lic #794209 sells on 8/16/90 9 AM at 100 Smithtown Blvd, Smithtown, NY '88 Chevy #1G1A9WS19W9165135 Acct Automotive Repairs Inc.; 10 AM at 300 Westbury Ave, Carle Pl., NY '74 Ford Van #E34GH1T22233 Re: Bridge Pk Rental Corp, J. Doe, Phila Nat'l Bank; 12 PM at 162-19 Hillside Ave, Qns NY, '88 Nissan #1G2PS2152JJ203436 Re: A. Schonsky, R. Lanow. Published 8/1 & 8/8/90.

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L. CLAUDISI & ASSOCS., INC., auct'rs sell August 16, 1990 9 AM at 241-02 Francis Lewis Blvd., Qns 1986 Chevrolet #1G1FP87H5GN182512 Acct., C. Delgado and/or C. Miller; 9:30 AM 226-12 Jamaica Ave., Qns 1986 Oldsmobile #1G3GM69AXGR312074 Acct., A. Robertson; 10 AM at 170-28 Jamaica Ave., Qns 1982 Mercury #1FDGA4G6OGA24 Acct., J. Deroche; 10:30 AM at 15 Atlantic Ave., Qns 1987 Chevy #1GCHH31J1H1128934 Acct., J. Bercokhim; 11 AM at 153-12 Hillside Ave., Qns 1972 Triumph #EJ13270U Acct., C.L. Bushnik; 2 PM at 70-11 30th Ave., Qns 1979 Mercedes Sl Pymouth #HL41OF299122 Acct., L.P. Tracy 3 PM at 29 Lincoln Ave., Bklyn 1980 Buick #1G1AW51W9W1651135 Acct., Automotive Repairs Inc.; 10 AM at 300 Westbury Ave, Carle Pl., NY 74 Ford Van #E34GH1T22233 Re: Bridge Pk Rental Corp, J. Doe, Phila Nat'l Bank; 12 PM at 162-19 Hillside Ave, Qns NY, '88 Nissan #1G2PS2152JJ203436 Re: A. Schonsky, R. Lanow. Published 8/1 & 8/8/90.

R. A. Felder Lic Auctr #793917 sells on 8/16/90 10 AM at Rd 7 Bx 110A, Rte 211 W., Middletown, '83 Post #1G2AS87T3DL229440 Re: C. Snir; sells 12 PM at 244-248 Smith St Poughkpe, '78 Olds #3H35SFR247006? Re: L. Sparks, '79 Chevy #CGD1094U366.38 Re: Arrow Casualty & Surety Co.; sells 8/17/90 at 4543 Ridge Rd West, Rech. '66 Ford #6F07A200512 Re: E. Robinson & A. Lassey. Published 8/1 & 8/8/90.

DEFAULT In Security Agreement Made By Johnny D. Duane to Carlos Guzman I Will Sell On 8/9/90 At 1:30PM At 971 E. New York Ave., Bklyn, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC; As Agents.

MAGRILL AUCTIONEERS CO., INC. 194 Broadway, Bklyn, N.Y. As Agents For Gem Pawnbrokers Corp. 378 Schermerhorn St., Bklyn Will Sell All Unredeemed Pledges From D92280 8/4/90 To 221478 11/5/89. Of Watches, Jewelry, Etc. On August 15th At 9 A.M. At Gem Pawnbrokers Queens Corp. At 216-15 Jamaica Ave., Queens Village, N.Y.

Auction Notices

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NOTICE OF FORECLOSURE AND SALE. BY VIRTUE OF A Default In A Certain Security Agreement Made By Philippe Jean, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1987 Buick, ID#1G4HP11T3HH492869, Vehicle With City Wide Two Way Radio Rights In Car #32. Said Public Auction Sale Will Be Held On Friday, August 17, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 577 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE. BY VIRTUE OF A Default In A Certain Security Agreement Made By GLENN SOSNA, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Lincoln, ID#1LNBM81F4HY643782. Together With Concord Two Way Radio Rights In Car #58. Said Public Auction Sale Will Be Held On Friday, August 17, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 577 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

DEFAULT In Security Agreement Made By Jesus M. Fernandez to Latino Business Management Corp. I Will Sell On 8/9/90 At 12:30PM At 84-16 Astoria Blvd., Queens, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC; As Agents.

NOTICE OF FORECLOSURE AND SALE. BY VIRTUE OF A Default In A Certain Security Agreement Made By Philippe Jean, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1987 Buick, ID#1G4HP11T3HH492869, Vehicle With City Wide Two Way Radio Rights In Car #32. Said Public Auction Sale Will Be Held On Friday, August 17, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 577 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE. BY VIRTUE OF A Default In A Certain Security Agreement Made By Philippe Jean, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. AUCTION CORP., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 ID#1G4BP69Y9FH836833, Together With City Wide Two Way Radio Rights In Car #145. Said Public Auction Sale Will Be Held On Friday, August 17, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 577 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

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DEALS

UAL Unions to Cite Mideast Crisis in Formal Request for More Time

By WILLIAM GOODWIN

Using the Middle East crisis as its main justification, the union group seeking to purchase UAL Corp. will ask the company's board for another 30 to 90 days to obtain financing, a banking source familiar with the situation said.

The spike in oil prices resulting from Iraq's invasion of Kuwait means higher jet fuel costs for airlines. In addition, the runup in oil prices has raised concerns that the U.S. economy will be hit with a double whammy of inflation and recession.

That's particularly bad news for companies in cyclical industries, such as airlines. UAL's stock was down $8.50 to $101.50 a share in vigorous late-afternoon trading on Tuesday.

Commitment Deadline Looms

The deadline for lining up financing commitments that is making $4.4 billion proposed buyout is Thursday.

A spokesman for the buyout group declined to comment on the expected extension request, except to say there will be "some kind of communication" with the board when it meets today.

To demonstrate that it is making progress in its financing efforts, the buyout group is also expected to point to the participation of Security Pacific Corp. in the lead-bank group.

The California bank holding company at first denied a report Tuesday in *The Wall Street Journal* that it had joined Bank-America, New York Corp. and Manufacturers Hanover Corp. in the lead-bank group.

Security Pacific officials later acknowledged through a spokeswoman that they have been in discussions with the buyout group and the two New York banks remaining in what was originally a group of five money-center banks.

"We are still talking with them," the Security Pacific spokeswoman said, declining to elaborate.

The earlier withdrawal of Citicorp, Chase Manhattan Corp., and Chemical Banking Corp. from the bank group appeared to all but doom the unions' financing efforts even before Iraq invaded Kuwait late last week.

Restructured Bid Ousted

Last week, a source close to the board said that the buyout group would need a "compelling" reason for an extension of more than just a day or so.

While the Mideast crisis may provide such a compelling reason, it was viewed by some bankers as the final nail in the coffin of the UAL buyout proposal, at least as it is currently formulated.

Rumors of a restructured buyout bid have been rampant.

Coniston Partners, meanwhile, has talked to the buyout group in recent weeks about its willingness to consider an ongoing equity participation in the parent of United Airlines, but no substantive negotiations have taken place. Coniston holds 11.8% of UAL. □

NEW ISSUES August 8, 1990

FannieMae

$500,000,000
8.55% Debentures
Dated August 10, 1990 Due August 10, 1994
Interest payable on February 10, 1991 and semiannually thereafter.
Series SM-1994-K Cusip No. 313586 R 35
Callable on or after August 10, 1992
Price 100%

$450,000,000
9.65% Debentures
Dated August 10, 1990 Due August 10, 2020
Interest payable on February 10, 1991 and semiannually thereafter.
Series SM-2020-A Cusip No. 313586 R 43
Callable on or after August 10, 1995
Price 98.875%

The debentures of August 10, 1994 and the debentures of August 10, 2020 are redeemable on or after August 10, 1992 and August 10, 1995, respectively, in whole or in part, at the option of the Corporation, at the following redemption prices (plus accrued interest): The redemption price of the debentures of August 10, 1994 will be 100% of the principal amount redeemed plus accrued interest thereon to the date of redemption, and the redemption price of the debentures of August 10, 2020 initially will be 104% of the principal amount redeemed plus accrued interest on the principal amount redeemed. The redemption price of the debentures of August 10, 2020 will decrease annually on each August 10, commencing August 10, 1996 through August 10, 2005, to 100% of the principal amount redeemed. See the Corporation's information statement dated August 6, 1990 relating to those debentures. The amount payable for any redemptions on or after August 10, 2015 and at maturity will be equal to 100% of the then outstanding principal balance, plus accrued interest.

The debentures are the obligations of the Federal National Mortgage Association, a corporation organized and existing under the laws of the United States, and are issued under the authority contained in Section 304(b) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1716 et seq.).

The debentures, together with any interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.

This offering is made by the Federal National Mortgage Association through its Senior Vice President-Finance and Treasurer with the assistance of a nationwide Selling Group of recognized dealers in securities.
Copies of the Prospectus may be obtained in those States in which they may lawfully offer these debentures.
There will be no definitive securities obtained.

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This announcement appears as a matter of record only.

Hanover Seen Getting Piece of Pie In Privatization of U.K. Utilities

By JOHN EVANS

LONDON — Manufacturers Hanover Trust Co. has plunged itself into a high-powered scramble for loan business in Britain, according to reports here.

The banking unit of Manufacturers Hanover Corp. is being included in the syndicate-style dollar financings that the electricity agencies are arranging as part of their privatizations, the sources said.

Hanover has already won two mandates to arrange financing for the East Midlands electricity agency, the source said, becoming the only American bank to get on Britain's own big banks, which are dominating the new financing for U.K. electric companies.

The total financings, in the form of standby credits, will range up to $9.25 billion, bankers said. Under the Thatcher administration's strategy to reduce government involvement in the economy, the state-run electricity industry is being broken up into 12 regional agencies, whose stock will be sold to investors this November, making this as privately owned utilities similar to the U.S. industry.

Details of the East Midlands financings are not known, as the announcement has yet to disclose the full scale of the funds it will inject into the agencies to prepare them for privatization. But the transaction is expected to range near $900 million.

Hanover's Repertoire Cited

In London, a spokesman for Hanover declined to comment on the loan. Well-placed bankers said that the Manufacturers Hanover bank's historic expertise in financing American utility business helped give it an edge in winning the British deal.

Hanover is also one of the banks competing for the plum deal — the likely $1.3 billion standby to be raised by National Grid Co., the national electricity distributor.

This Pricing Expected

Bankers say that the terms of the various standbys are likely to prove alike, with a fee of 12.5 basis points over the London interbank offered rate. The actual lure is the relationship that will be forged with the agencies that follow the primary business as well as long-term growth financing for new generating capacity, funding that many generate interest rates of up to 100 basis points over Libor.

Meantime, Hanover and Bankers Trust New York Corp. are acting as advisers to East Midland in the financing of a new power station.

This marks Hanover's involvement in the privatization of British privatizations. Last year it helped put finance in place worth $4.25 billion for three British water companies that were privatized by Thatcher government control and transformed into private utilities. □

CalFed Buying Empire Branches and Deposits

LOS ANGELES — CalFed Inc. announced Tuesday that it would buy $265 million in deposits and 13 branches of Empire Federal Savings Bank, Buffalo. Terms of the deal were not disclosed.

CalFed plans to consolidate 10 of the offices into its existing branches. These offices will not remain open. When the deal is completed, CalFed will have 141 branches, the majority in southern California.

The transaction, subject to regulatory approval, is effective Sept. 7.

CalFed last month bought Fidelity Federal Savings for $75 million in deposits. Empire, which has $8 billion in deposits, has been under the control of the Resolution Trust Corp. since early this year.

— Teresa Carson

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Highlights for Tuesday, August 7

TOP 10 GAINERS %

Associated Banc Corp.	6.9
Pacific Western Bancshares	6.7
Banks of Mid-America, Inc.	6.3
First Security Corporation	6.0
First Peoples Financial Corp.	5.2
First City Bancorporation	5.2
Chemical Financial Corporation	5.1
NCNB Corporation	5.0
Affiliated Bankshares of Co.	4.7
Chemical Banking Corp.	4.7

TOP 10 LOSERS %

Valley Capital Corporation	-7.1
FirsTier Financial, Inc.	-6.9
First Eastern Corp., Inc.	-6.6
Trustmark Corporation	-5.4
First Security Corporation	-5.2
Sumitomo Bank of California	-5.1
Ohio Bancorp	-5.0
City National Corporation	-4.9
Keystone Heritage Group, Inc.	-4.2
Midlantic Corporation	-4.2

MOST SHARES TRADED

Citicorp	1807600
BankAmerica Corporation	1331600
Chemical Banking Corp.	913600
Chase Manhattan Corporation	740200
NCNB Corporation	543100

VOLUME AS % OF AVERAGE

First Eastern Corp.,	2172.1
Mark Twain Bancshares, Inc.	976.2
FirsTier Financial, Inc.	882.4
One Valley Bancorp of WV, Inc.	654.1
Imperial Bancorp	619.8

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-0.21	-6.70	-6.98	0.57	-6.55	-12.24	0.49	-8.90	-18.26

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk %	Mkt Cls.	Chg.
23¾	18½	1stSourceCorp/In	6.3	96.3	19	¼
14¾	10¾	1WBancorp/Ma	10.7	109.4	13½	¼
28⅜	20	AmSouthBancorp/-Al	8.0	83.8	39¾	
21¾	15¾	AmTrustCorp/Oh	7.1	77.2	19¾	¼
29	14⅜	AmericanExpCorp/-De	8.4	171.3	19¾	
24¼	18	AmericanFedBk/Fl	7.8	84.1	19¾	¼
29⅛	18	BB&T Fin/Nc/-Cl	7.9	109.8	19¾	¼
15¼	9	BaltimoreBancrp/Md	8.5	47.2	9	
48⅜	36¼	BankNova Nt	13.5	144.5	44½	
33½	26	BancOneCorp/Oh	10.2	158.8	27¼	-¼
28	18¼	BancoPopular/Pr	9.1	93.0	18¾	
56⅝	41½	BancorpHawaii/Hi	7.9	133.1	41½	-½
20⅛	13⅛	BancorpSouth/Ms	6.9	87.8	18¾	
36¼	21⅜	BankAmericaCorp/Ca	4.6	86.2	21⅜	
24	17⅜	BankBostonCorp/Ma	12.5	221.0	19¾	
23¾	24	BankNewEngland/-MA	NM	50.0	24¼	
6⅜	4	BankSouthCorp/Ga	6.5	90.0	4¼	
57⅜	35	BankersTrust/-NY	NM	121.5	39¼	-¼
21¾	10¾	BarnettBanks/Fl	5.0	54.4	20¾	
29⅜	10¼	BarnettBoston-MA	NM	39.2	10¼	
6⅜	4	BarnettBoston-MS	NM	67.6	4⅜	
12	8	BarnwellAnnr-OK	NM	50.2	8¼	
82	66	BattleFrost/-IL	11.3	109.5	66¼	
39⅜	28	BayernetBankInc/-FL	8.7	101.7	28	
16⅞	12⅜	BayFinCorp/Ca	NM	38.5	13	
39¼	28⅜	BeaImer'sBcshrs/-MD	7.8	98.2	28⅜	
26	15¼	BeneficialCorp/De	22.1	106.6	16¼	
16⅝	12¼	Brenton/Banks-IA	7.4	105.1	14¼	
16¾	11¾	CCB Fin/Ca-Cl	8.0	107.2	15¼	
22⅜	15¼	COMB Corp/Pa	6.2	87.9	15¼	
22⅜	18¼	CNB Bancshares/-IN	10.1	121.4	21	
27	20¼	CPB Inc./-MI	11.0	152.8	22	
28	17⅜	CS Bancorp/Ca-Cl	9.7	222.4	19¼	¼
33⅜	17	CalFed/Ser-Cv	7.3	132.5	18¼	
19¼	12⅜	CentraBanc/-IL	6.4	87.4	13¾	
34¼	23¼	CentralFidelity/-VA	6.6	93.5	24	
17¾	12⅜	CentralSoya/In-Al	6.6	78.3	13	
44⅜	17¾	ChaseManhattan/-NY	NM	51.5	17¾	½
41¾	30¾	ChemicalBanking/-NY	NM	65.5	22¾	
35	29½	ChemicalFin/Corp-Ml	9.0	98.2	31	1½
35⅛	18½	CitizensBcp/Ca-Cl	NM	73.4	18½	
25⅝	15⅞	CitizensBancorp-MD	7.5	92.4	18¼	¼
20⅜	15⅜	CitizensBcp/Mi-Cl	7.4	71.1	15⅜	
15⅜	8¼	CitizensFirst-MI	NM	111.3	8¼	¼
34⅜	21	CityNational/Ca-Cl	6.2	93.7	21¼	
27⅛	18	CityNatCorp/Ca	9.0	163.1	18	
22⅜	12⅝	ColonialBkGrp/-DE	20.0	82.8	14¾	
58⅜	38¼	ComericaInc-MI	8.2	91.4	39¼	¼
29⅜	21⅝	CommercialBcshrs-MO	7.0	94.4	21⅝	
29⅝	21½	CommonwealthBk-A	7.2	90.6	25¾	
37½	15¾	CoreStates/-NJ	7.2	91.0	15¾	
26⅜	10⅝	CortlandBcp-I	NM	47.7	11	
32⅜	23⅜	CrestarFin/Ga-Pa	8.1	127.5	24¼	¼
34	18⅜	CrestarFin/Corp-VA	6.7	81.0	18¾	
34⅜	25⅜	DauphinDeposit-PA	7.5	112.0	26¾	-¼
37¾	26⅝	DauphinDeposit-PA	7.5	112.0	26¾	-¼
32¼	21¼	DeltonaCorp/Fl	8.8	73.6	21¼	
25⅜	21⅛	DominionBcshrs-VA	8.8	73.6	21¼	
15⅜	9¾	DonnaCorp-Cl	NM	29.1	9¾	
21¼	11½	EvergreenBcpInc-WI	5.7	79.7	11¼	
19¾	12¼	F & M Nat/Cp-VA	6.3	104.2	12¾	
14¾	12½	FNB Corp/Pa	6.3	170.5	12½	
25⅜	17⅜	FNB Bancorp/-IL	6.3	170.5	17¾	
27⅜	19¾	FSNB Bancorp/-NY	8.1	113.4	27¾	
39⅜	27¾	FifthThirdBcp/Oh	10.2	156.8	39¼	
38⅜	27⅜	FirstAmBcshrs/Tn	9.8	127.5	28¼	
51¼	34	FirstBanCorp/PR	8.4	88.8	34	-2¼
19¾	15¾	FirstAlabama-AL	8.5	108.2	18¾	¼

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk %	Mkt Cls.	Chg.
34¼	25⅛	FirstBancorp/Ca	7.5	98.0	25¼	¼
34¼	21¼	FirstBancorp/Oh	7.5	98.0	22¼	¼
49⅜	23½	FirstBancorp/Nh	7.2	98.2	24½	
49⅜	23½	FirstChicago/-IL	7.2	98.2	24½	
39½	18	FirstCitizBcp/-SC	9.1	92.1	39½	2
39½	18	FirstCitizBcp/-TX	9.1	92.2	39½	1
22	17¾	FirstCommerce/-LA	8.2	92.0	17¾	-¼
22	17¾	FirstCommercial-AL	8.2	92.0	17¾	-¼
22	17¾	FirstCommercial-IL	9.8	108.2	17¾	
22	17¾	FirstCommercial-MI	8.2	119.8	18	
10⅜	13⅜	FirstCommunity-IL	10.7	110.2	16	-½
19¾	13¾	FirstEastern/Pa	7.0	84.7	18¾	1¼
72	58¾	FirstEmpire-NY	7.7	90.5	58¾	
32⅜	13¾	FirstFidelity-NJ	NM	65.7	13¾	
50	39¾	FirstFin/Serv-Oh	12.6	181.4	40¼	¼
34¼	18¾	FirstFin/Wi-IL	9.2	76.1	18¾	
26¾	20¼	FirstHawaiian-HI	9.0	185.8	21	-¼
16¾	11	FirstHorizon-IL	9.5	161.2	14¾	
69¾	30⅜	FirstInterstate-Ca	NM	82.7	31¼	
14¾	10¾	FirstMarBcp-MD	7.0	84.7	14¾	
16¾	14¼	FirstMichBkCorp-MI	7.9	108.9	14¾	
16¾	14¼	FirstMichBkCorp-MI	7.9	134.8	17¾	
29½	19	FirstNatCorp/Ne	7.9	121.6	19¼	¼
24¾	17¾	FirstPennPa/-NJ	4.7	75.5	20¼	
19¾	12½	FirstSecurity-KY	11.0	100.7	13¾	
19¾	12¾	FirstSecurity-UT	13.4	177.3	15	
33¾	24½	FirstSecurity-UT	7.2	75.1	25	¼
25⅜	18¾	FirstTennessee-TN	7.5	90.1	22	
25⅜	18¾	FirstUnion/Corp-NC	7.0	84.1	17	¾
55¾	43¾	FirstVirginia-VA	8.3	99.8	55¾	
45¾	37¾	FirstWachovia-NC	9.5	143.7	37¾	-¾
24¾	17¾	FirstCorp/-RI	7.0	100.7	20¼	¼
20¾	17¾	FirstbankInc/-IL	8.7	108.5	18½	½
28¾	22½	FirstbankInc/-MI	28	92.5	40	
29¾	16¼	FleetNorstar-RI	12.7	88.8	16¾	-¼
34¼	18¾	FleetFin/Grp-RI	14.1	92.3	34¼	
28	20¾	FourthFinCorp-KS	14.0	137.0	21¾	-¼
19¾	15¾	FultonFin/Cp-PA	NM	144.0	16¾	
19¾	12¼	GBC Bancorp-CA	8.1	198.0	18	-¾
21¾	15¾	GreenvilleBcshrs-MS	17.3	97.1	15¾	
9¼	6¾	HawkeyeBancorp-IA	4.0	106.1	7	
24¾	18¾	HeritageBcp/Nc-Cl	8.1	99.8	24¾	
26	14¼	HiberniaCorp-LA	17.4	107.4	14¾	-¼
32¾	19¾	HuntingtonBcshrs/Oh	8.0	107.7	20¾	-¼
32¾	19¾	INB Fin/Cp-IN	7.4	85.8	19¾	-¼
25⅜	18¾	IndianaFedCorp-IN	5.8	84.2	18¾	
26⅜	16	IndependenceBcp-PA	8.7	92.8	18¾	-¼
14¼	10¾	IndianaBcp/Pa-Cl	14.1	92.3	14¼	
48	35	InvestNatInstit-VA	9.3	122.0	38	
29¾	24¾	J.P. Morgan-NY	NM	144.0	24¾	
28¼	17⅜	JeffersonBcshrs-VA	7.9	89.7	18	
19¾	15¾	JeffersonBcshrs-VA	7.9	89.7	15¾	
29½	23¾	KeyCorp-NY	7.0	100.5	24¾	¼
24¾	18¾	KeystoneFin-PA	8.1	118.5	19¾	
35⅜	28¾	KeystoneHeritage-PA	9.7	147.6	28¾	-¼
19¾	15¾	LaSalleNational-IL	7.4	97.2	15¾	
29½	20⅜	LakelandBancorp-MI	14.3	179.2	20⅜	
21¾	15¾	LakelandFinancial-IN	7.8	98.1	21¾	
27	17¾	LincolnFirst/Cp-IN	6.3	76.3	18	
21¾	16¾	LindsayBcshrs-MO	6.3	76.3	16¾	
18	12¾	MagnaGroup-IL	8.9	89.0	12¾	
60	39¾	ManufacturersNat-MI	5.8	66.9	39¾	
44¾	28¾	Manufacturers-NY	NM	69.3	28¾	
21	16¾	MarineCorp-IL	11.7	128.6	16¾	
20¾	13¾	MarkTwainBkShares-MO	7.7	96.3	14¾	
29¾	22¾	MarshallBcshrs-WI	8.4	97.7	29¾	¼
36¾	22¾	MellonBank/Corp-PA	4.8	75.0	22¾	
28¾	21	MercantileBncp-MO	34.4	81.0	23	-¼

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk %	Mkt Cls.	Chg.
23¾	18¾	MercantileBnkst-MD	8.1	122.1	19¼	¼
50¾	47¾	MerchantsBank-NY	12.0	184.6	48	
32	19¾	MerchantsNat-IN	9.7	90.0	20	
26¼	20¼	MetroBancorp-PA	6.4	77.3	14	
57¾	39½	MichiganNatCorp-Id	2.5	57.5	28¾	-¼
13¾	13⅜	MidAmericaNY	9.1	87.8	13⅜	
23¾	17	Midlen,Inc.-DH	8.3	129.6	17¼	
47¾	39¾	MidlanticCorp-NJ	7.7	90.8	51¼	-¼
25¼	6¼	MultibkInc-MI	NM	33.1	6¼	-¼
38¼	28¾	NBD Bancorp-MI	8.4	123.0	29¾	-¼
54¾	32¼	NCNB Corp-NC	6.6	118.6	34¼	1¾
21¾	17¾	NCalFCorp/Ben-CA	13.8	146.8	18¾	
41¾	33¾	NationalCity/Oh-OH	7.5	127.6	33¾	-¼
35	25	NationalPenn-PA	10.2	184.4	35	
31¼	25¼	NatlBancorpMEM-AK	9.3	111.8	29	
31¼	20¼	NatCommerce-TN	10.1	175.0	23¾	
44¾	15¾	NatlCommunity-NJ	5.3	78.9	16	
9¾	5¾	NorthSideBnk-NY	5.1	60.5	9¾	
72	15	NorthwestBanc-CT	NM	49.0	15¾	-¼
35¾	26¾	NorthernTrust-IL	8.6	159.6	26	
23⅜	17¾	NorwestCorp-MN	7.1	135.2	18¾	
24¾	21	OnebancorpOH-I	8.5	87.3	21	-¼
29¾	22¾	OldKentFin/Cp-MI	7.3	102.5	22¾	
29¾	22¾	OldKentFin/Cp-MI	12.9	134.5	22¾	
20¾	16¾	OneValleyBk/-WV	9.7	87.4	19¾	
29¾	24¾	PNC Financial-PA	8.2	114.5	24¾	
29¾	24¾	PacificBancs-CA	10.6	148.6	28	-¼
13⅜	9¾	PacificWestern-CA	7.8	142.3	10	
14¾	10¾	PeoplesBancorp-WI	6.4	102.4	14¾	
27	26	PikeBkNat-NY	9.8	134.9	27	
15¾	10	PlazaCommerce-CA	8.1	151.1	10¾	-¼
69¾	3	PremierBancorp-LA	20.8	81.9	3¾	
27⅛	20	ProsperityBnk-SC	9.4	121.6	21¼	
14	5¾	ProvidentBkmd-MD	NM	29.7	5¾	
37¾	18¾	PugetSoundBanc-WA	10.4	100.4	18¾	-¼
52¾	42¾	RepublicNY/Corp-NY	137.9	120.6	45¾	
27¾	12	RiggsNatCorp/DC	8.6	48.5	12	
32¼	25	RiverFore/-IL	12.5	277.5	28	
19¾	13⅜	SanMarinoBancCA	8.7	162.4	19	-¼
23¾	17¾	SecurityBancorp-MI	7.6	129.4	17¾	
52¾	28¾	SecurityPac/Cp-CA	4.8	80.7	30¾	1¼
28¼	8¾	ShawmutNatCorp-MA	NM	45.5	8¾	
14¾	14¾	SignetBanking-VA	4.9	57.6	15¾	-¼
38¾	28¼	SocietyCorp-OH	8.9	97.6	28¼	-¼
19¾	15¾	SouthCarolinaNat-SC	6.5	84.4	16¾	-¼
29¾	7¼	SouthwestBancorp-IN	NM	38.3	8	
15½	11¼	SouthernNat/-NC	9.4	129.7	11½	-¼
25¾	16¾	SouthtrustCorp-AL	6.5	86.6	16¾	-¼
25¾	20¾	SouthtrustCorp-GA	6.8	95.1	20¾	-¼
26⅜	18	Star Banc Corp-OH	6.3	108.4	18	-¼
42¾	32¾	StateStBcp/Corp-MI	11.2	184.7	32¾	
20¼	4¾	StatewideBanc-NJ	NM	104.0	5¼	
16	10	SuburbanBancorp-IL	13.1	84.8	13	
34¾	23¾	SumitomoBank-CA	4.9	78.4	23¾	-1¼
27¾	19¾	SunwestFin-AZ	7.1	88.2	19¾	
21¾	15½	SunminBancorp-NJ	5.3	78.6	19¾	-¼
29¾	19¾	SunTrustBnks-GA	7.6	116.6	20¼	-¼
29¾	14¾	SunwestFin-Sers-MAT	77.4	76.1	19¾	
27	17	SuntrustBanks-Wt-FL	7.1	83.0	17	
19	14¾	SynovusFin/Corp-GA	10.5	243.0	15¾	-¼
18½	13	TheFarmersCp-OH	9.0	122.9	14¾	-¼
33	25¾	TrustCo/BankCorp-NY	8.5	146.5	28¾	
19¾	12¾	TrustmarkCorp-MS	7.6	127.3	15¾	
25¾	6¼	TrustmarkCorp-MS	6.1	71.4	17¾	-1
24¾	14¾	U.S. Bancorp-OR	7.2	108.7	24¾	
43	32¼	U.S.TrustCorp-NY	11.6	176.7	34	
19¾	10¾	UBI Financial-IA	5.7	90.1	10¾	-¼
18	9¾	UST Corp-MA	5.9	81.5	10¼	
19¾	15¾	UnionBancCa-CA	8.0	77.8	15¾	-¼
15¾	7¼	UnionPlanters-TN	NM	59.7	7¾	-¼

Key Loan Registrations — **July 30-August 3**

Dollars in millions

Working Cap./Gen'l Corp. Purposes	
Unisys Corp.	$1,250.0
Evans Inc.	11.0
New London	10.0
Designcraft Industries	2.0

CP Backup	
McDonald's Corp.	$1,000.0
Nike Inc.	150.0

Recapitalization	
JPS Textile Group	$325.0
Bolden Bookseller	31.0

Debt Repayment	
Multimedia Inc.	$700.0
Albany International Corp.	250.0
Black Box	80.0
NAM Siderallic	45.0
Nat'l Housing Partnership Realty	13.7
Skylink America	6.0

Takeover	
Kansas City Power & Light Co.	$1,000.0
Vishay Intertechnology	233.8
Dalton Bookseller	58.0
Simplicity Holdings	44.7

Project Finance	
Rouge Steel Company	$180.0

Real Estate	
Sierra Capital Realty Trust VI	$12.0

Description: This table tracks key corporate financial filings made weekly with the SEC. (*)=Deal older Than 1yr.
Data Source: Loan Pricing Corp., New York (212) 489-5455.

Key Rates — **(August 7, 1990)**

	8/07	8/06	7/31
Federal Funds-domestic range:	7¹³/₁₆–8	7¹³/₁₆–8	8.00
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.40	7.40	7.40
6 Month Posted	7.40	7.40	7.40
1 Year Posted	7.45	7.45	7.50
Eurodollar deposits²			
3 Month	7¹³/₁₆ – 7¹⁵/₁₆	7¹³/₁₆ – 7¹⁵/₁₆	7¹³/₁₆ – 7¹⁵/₁₆
6 Month	7¹³/₁₆ – 7¹⁵/₁₆	7¹³/₁₆ – 7¹⁵/₁₆	7¹³/₁₆ – 7¹⁵/₁₆
1 Year	7¹³/₁₆ – 7¾	7¾	7¾
LIBOR³			
3 Month	7¹³/₁₆ – 7¾	7¹³/₁₆ – 7¾	8.00
6 Month	8.00	8.00	7¹³/₁₆ – 7¾
1 Year	8¼	– 8⅛	8.00

Mid-afternoon quotes, New York market. (1)— Largest offering rates at selected NYC banks. (2)— Late London bid (3)— Annualized money market basis - source: Manufacturers Hanover Tr.

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms, and the 75 largest publicly traded thrifts as measured by the market value of all common shares outstanding (as of March 30, 1990, the market value cutoff was $68.9 mil. and for thrifts $121.45 mil.) 52 Wk Hi: the money 52 week high and low business for the stock. PE: the price/earnings ratio. Mkt Bk %: THE CURRENT STOCK PRICE DIVIDED by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. Bk: book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Mkt Value: the value of all announced earnings and dividends. Chg.: The price at which the stock last traded. If no trades for the day, the latest bid. **Bid Ask and Thrift Indices:** A weighted average of the top 250 banks in terms of asset size and the top 50 thrifts in terms of asset size.

Highlights show largest percent gainers and losers among all and some indicators most shares traded and today's volume as a percentage of average shares traded (daily avg.)

Data source: SNL SECURITIES, Charlottesville, VA 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides DW, with the daily prices.

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Bk %	Chg.
24⅜	16¼	AmericanCo	7.7	87.4	18¾	½
24¾	18¼	AmericanFed/-Ca	7.8	84.1	19¾	
28¼	6¾	CalFed/Inc-Cl	26.0	172.2	9¾	¼
37¾	29¾	CenFed/Inc-Cl	7.5	79.1	33	
50¾	13	CoastFed/Sgs/Fl-Cl	5.0	109.3	13	
17¾	5¾	DowneySgs/Ca	NM	19.8	5¾	

Will Economy Slip on an Oil Slick?

Continued from page 1

While economists have said interest rates must fall to buoy struggling financial markets and for the U.S to avoid a serious economic downturn, they said Tuesday that they do not expect any immediate easing of monetary policy by the Federal Reserve.

"The Fed is being constrained by concerns about inflation from the runup in oil prices," said Darwin Beck, a Fed watcher with First Boston Corp. in New York. He predicted the central bank would not move to lower the current 8% federal funds rate, a benchmark short-term interest rate, until the Federal Open Market Committee convenes to assess the economy on Aug. 21.

"The economic numbers of the last two weeks seem to scream for a Fed easing," argued Donald J. Fine, chief market analyst for Chase Manhattan Bank. "Obvious risk of recession has increased, but nothing has happened yet. Possibly the turmoil in the Middle East has created a delay."

Regional Variations

In considering how the crisis in the Middle East would affect regions within the U.S., analysts see mixed results.

Banks in Texas and other Oil Patch states, for instance, are seen as beneficiaries of higher petroleum prices. Analysts indicate that a barrel of oil is likely to trade in the $30 range this week, nearly 50% above the price before last week's Iraqi invasion. At the least, such price hikes should help jump start the oil-dependent regional economies that have recently begun to perk up.

"It will prove a plus for Texas," said Mr. Cates. "Banks in the oil patch are starting to recover, anyway, and I think higher oil prices will help that." But he questioned whether the positive effects would extend to the region's real estate markets, given the overhang from government properties held by the Resolution Trust Corp.

The big regional loser may prove to be New England, which already is under serious economic strain. Its dependence on heating oil, and the arrival of cold weather in the fall, could sap what little strength remains in the region, analysts noted.

"We are an oil-dependent region, and we get no direct incentives from the [price] rise as would, say, the Southwest," Lynn Brown, an economist at the Federal Reserve Bank of Boston.

"Texas bankers are feeling a little better and New England bankers are a little more worried," said the ABA's Mr. Dugger. "Everyone else is somewhere in between."

Stocks Fall Further

Some of the regional impact could be gauged in Tuesday's bank stock trading. Already hard hit by the worries about real estate slump, many were dragged down to new lows by the news from the Middle East and concerns about the likely



Robert H. Dugger
American Bankers Association

impact of higher oil prices on the United States.

For northeastern banks, the effect was not clear in the latest stock prices since they were already at or near 52-week lows.

"Perhaps it will force further dividend cuts [by New England banks] beyond what we've seen so far," said James Moynihan, an analyst for Advest in Boston.

Reason for Optimism

Several bankers noted that one silver lining may emerge from the bad news: The Iraqi invasion may cause Congress to reconsider budget cuts in military spending. Massachusetts and Connecticut have suffered recently from heavy layoffs in defense-related businesses.

But Tuesday's concern about banks was discernable in the apparent decisions of some institutional money managers to reduce their holdings in even the best-regarded banks, such as First Wachovia Corp., Winston-Salem, N.C.; CoreStates Financial Corp., Philadelphia; and NBD Bancorp., Detroit. Investors once again began concentrating on the domestic energy sector. Shares of First City Bancorporation of Texas, Houston, and Hibernia Corp., New Orleans, went up this week as most others fell.

"For the Iraq conflict to have any impact, oil prices would have to stay high for between 12 and 18 months," said Tucker Hart Adams, chief economist for Comerica of Colorado. "Exploration companies aren't going to base major investment decisions on what happens over a few months."

In the meantime, higher oil prices likely would hurt the delicate Southwest economy.

"We would feel some pain if there was a national recession," said Robert Harris, president of the Texas Bankers Association.

"Fundamentally, it is a question of whether we are looking at a spot phenomenon, or whether we are looking at something that will have a profound effect for months and years to come," said William Arnold, executive vice president for international banking at First City.

If the Middle East outlook remains bleak, one analyst said, the U.S. banking industry could see a revival of the inflow of "hot-dollar" deposits that swelled balance sheets in the 1970s. Mark Alpert of Bear, Stearns & Co. in New York wondered whether this is good or bad news for U.S. banks.

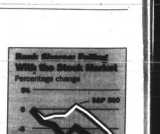
"If money comes back to the banking system – and there may be more now than before – where does the money get recycled?," he asked. "The last time, banks lent it to Latin America. It depends on what they do with it," he said.

Worries over Middle East tensions have also spilled over into banks' funding decisions. Funding managers point out that while the Treasury yield curve has steepened at long maturities, it is relatively unchanged in the two- to five-year range.

Gordon Matthews, Tom Leander, and Paul Vogelzang in New York, and Steve Klinkerman in Dallas contributed to this story.

Stocks

Banks Outdo Broader Market In Correction



By GORDON MATTHEWS

NEW YORK — Shares of some major banks outperformed the market on Tuesday, rebounding modestly off recent lows while most other stocks continued to slide on investor nervousness about the latest upheaval in the Middle East.

"These stock have been beaten down so far recently that they surely must deserve at least a technical bounce," said J. Richard Fredericks, the banking industry analyst for Montgomery Securities Inc., San Francisco.

In late afternoon trading, shares of NCNB Corp., Charlotte, N.C., gained $1.375 to $33.875, while the stock of Wells Fargo & Co., San Francisco, was up $1 to $61.375. Wells, hurt by fears of weakness in California real estate despite its gains in profitability, has been among the most heavily sold bank stocks since mid-July. Its shares have declined about 25% in that period.

Other West Coast banks also won back a bit of the substantial ground they have recently lost. Among the best gainers was Security Pacific Corp., Los Angeles, up $1.25 to $30.125.

In the money-center category, New York's Citicorp, the nation's largest banking company, gained 37.5 cents to $18.875. Chase Manhattan Corp., another beleaguered stock recently, gained 50 cents to $17.875.

Chemical Gets Energy Boost

But the best gainer among the money-centers was Chemical New York Corp., up $1 to $22.375. One analyst attributed the rise to investor awareness that Chemical is in position to take advantage of a recovery in the domestic energy industry through its ownership of Texas Commerce Bank, Houston.

Other banking companies operating in areas that could benefit from a hike in oil prices also posted gains in the wake of Iraq's occupation of Kuwait last week.

The biggest gainer besides Chemical was First City Bancorporation of Texas, Houston, whose shares appreciated 87.5 cents to $20.25.

Also posting gains on the anticipation of a local energy industry revival were the three major banking companies in Colorado. Affiliated Bankshares of Colorado, Denver, was up 50 cents to $11.125 and Colorado National Bankshares, Denver, was up 50 cents to $14.875.

United Banks of Colorado, Denver, was up 75 cents to $19.625. It recently agreed to be acquired by Norwest Corp., Minneapolis, which was up $7.5 cents to $18.75.

But not all major banks made progress on Tuesday. Highly regarded First Wachovia Corp., Winston-Salem, N.C., was off $1 to $37.75; Republic New York Corp. was off 75 cents to $45.50; and State Street Boston Corp., fell 37.5 cents to $32.75. □

FINANCIAL TECHNOLOGY UPDATE

The NCR Financial Tower Thrift System with Starcom interface automates a range of teller and platform services to improve handling of deposits, window posting, new account processing and loan processing.

The Financial Plus+ teller platform from Systems Concepts, Inc. and the Cross Sell Manager™ platform application are combined with the NCR 5067/5267 Financial Workstations and interfaced via a Local Branch Network (LBN) through an NCR TMX Tower branch processor to the NCR data center. This combination delivers the versatility and flexibility to speed transaction processing and reduce long service lines…which allows for more concentration on customer satisfaction.

You can save valuable branch space by integrating NCR's 5680 and 5084 through the wall ATMs and the 5285 Business Night Depository. The result is one footprint rather than two. Commercial cardholders can deposit bags and receive a receipt that verifies the location, date, time, and amount deposited…a valuable service to help you increase your commercial account base.

The NCR 5682 is the next step in self-service. Account service transactions are integrated to the platform via the NCR 5682. Your customers can perform a wide range of financial transactions without the assistance of a customer service representative. Plus, unequaled custom graphics and VGA videodisc capabilities attract customers and promote services.

On the platform side, valuable information is gathered increasing your ability to track account needs. Cost and time is saved for both customers and branch personnel. As competition increases, financial institutions are turning to integration technology for solutions to improving and expanding their levels of customer services.

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The Strategy For Managing Change.
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AMERICAN BANKER
VOL. CLV NO. 155 Thursday, August 9, 1990 155th year

Fed Is Stymied As Survey Shows A Recession

By ROBERT TRIGAUX

The Federal Reserve's latest report on regional economic conditions, released on Wednesday, provided more evidence that much of the U.S. is entering a recession. But the new data did not change the consensus that instability in the Middle East will prevent the Fed from cutting short-term interest rates – at least for a couple of weeks.

The volatile credit markets this week clearly have focused on the Mideast and its implications for the economy and credit policy. "We are in a political market," one trader noted. Analysts said the inflation from rising oil prices is likely to stymie quick rate relief by the Fed. The Fed's so-called beige book, a survey of the 12 regional Federal Reserve System banks, indicated that the nation's already sluggish economy continues to grow, but that the pace was slow or had slackened recently. The Fed surveys since early this year have been reporting slower growth.

"Several districts report that the pace of commercial loan growth has recently slowed, and some indicate that its levels are below those of a year ago," the beige book said. Consumer lending also slackened a bit in most districts, the survey said. But it cited pockets of strength in credit card and home equity lending.

If there is any relief in sight from lower rates, economists suggested, it is not likely to occur sooner than Aug. 21, when the Fed's Open Market Committee next meets to assess monetary policy. Other analysts said the Fed would not act to influence rates until the Middle East crisis instability subsided.

Report Prepared Before Crisis

The beige book report was prepared by the Federal Reserve Bank of Atlanta to provide regional data for the Aug. 21 FOMC meeting, and was based on conditions up to July 27 – before the Middle East crisis sent oil prices soaring.

The Fed is in a pickle, said economist David Jones of Aubrey G. Lanston, because domestic conditions present a compelling case for lower interest rates. Indeed, U.S. Treasury Secretary Nicholas Brady on Wednesday raised the political pressure on the Fed to ease rates, saying he hopes for and expects lower interest rates. In remarks to the National Press Club, Mr. Brady said the recent oil price

See SURVEY page 19

INSIDE NEWS

FINANCE

Few Banks Buck Trend
Only 10 major U.S. banks have higher stock prices now than two years ago

	% Increase*
BankAmerica Corp.	93.3%
U.S. Bancorp	20.0%
First Wachovia Corp.	19.2%
NBD Bancorp	19.0%
KeyCorp	18.2%
Banc One Corp.	16.3%
NCNB Corp.	12.6%
Republic NY Corp.	2.8%
Norwest Corp.	2.1%
National City Corp.	1.1%

*Between 8/6/88 and 8/6/90
Source: Montgomery Securities

ANALYSIS: *Follow-up on the news*

A HUGE, unprecedented gap has opened between bank equities and most other stocks during the past two years. *Page 24*

EARNINGS

CREDIT QUALITY concerns and slumping real estate markets overshadowed the results at Southeastern banks in the second quarter. *Page 2*

INTERNATIONAL

YUTAKA HASEGAWA, general manager of the New York branch of Mitsubishi Bank, is urging better communications between Japanese and Americans. *Page 4*

TECHNOLOGY

BANKS THAT PLAN to install PCs in their branches face the risky decision of which software they should choose to run basic functions. *Page 3*

CONSUMER

BOATMEN'S BANCSHARES has abandoned conventional market research and is instead using media campaigns to ask people what, exactly, they want in a bank. *Page 8*

MANAGEMENT

SOME PROGRESSIVE banks are trying to cut costs by measuring and enhancing the productivity of their officers. *Page 10*

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Bank and Thrift Stocks	23

Younger Executives Gain In a Shake-Up at Chemical

By JED HOROWITZ

NEW YORK — Chemical Banking Corp. realigned its senior management structure on Wednesday, giving a younger generation of executives clear mandates for directing the bank's four major business sectors.

The nation's sixth-largest bank company formed a six-person office of the chairman to run the $75 billion-asset institution, replacing a 15-person management committee.

Chemical's chairman, 54-year-old Walter V. Shipley, said he did not intend to set up a succession race, but bank insiders said that at least some members of the group are in a clear position to establish themselves as contenders for the top spot.



William B. Harrison



William H. Turner

Three New Vice Chairmen

The senior group of executives includes three new vice chairmen of Chemical Bank – William H. Turner, 50, who adds a thriving retail branch system to his profitable middle-market banking domain; William B. Harrison, 47, who appends capital markets and funding activities to his world-wide corporate and investment banking responsibilities; and Edward A. O'Neal Jr., 46, the bank's former retail branch chief who now oversees technology, operations, and transaction services.

Rounding out the committee are Marc J. Shapiro, 43, who continues as president and chief executive officer of Texas Commerce Bancshares; Robert J. Callander, 59, who ascends from his vice chairman's post to the vacant position of president; and Mr. Shipley, who has headed Chemical since, 1983.

A Vice Chairman Retiring

Chemical also announced that Richard S. Simmons, who joined in 1985 as a vice chairman of the holding company after serving since 1957 as its chief outside counsel, will retire on Oct. 15. His responsibilities for

See YOUNGER page 10

Government Loses Case On Goodwill Writedowns

By ROBERT M. GARSSON

WASHINGTON — The government has lost the first round of a legal battle that could force it to repay billions of dollars to thrifts that are complying with an accounting provision in the 1989 bailout law.

In a case challenging the requirement to remove supervisory goodwill from thrift capital accounts by 1994, a U.S. Claims Court judge ruled that the bailout law violated a preexisting contract allowing the write-down of goodwill over a 35-year period.

The decision affected only the Minnesota company that brought the case on behalf of a thrift subsidiary that was seized by the government last May. But if the ruling is upheld, it could bear out the warnings of thrift-industry leaders and their allies in Congress who said the bailout law's tougher treatment of supervisory goodwill could expose the federal government to hundreds of lawsuits and billions of

See GOVERNMENT page 18

Dealers Shun U.S. Bank Debt In U.K. Market

By JOHN EVANS

LONDON — Amid worries overseas about the health of U.S. banking, at least four U.S. dealers halted all trading here in the subordinated debt and floating-rate notes of U.S. banks issued in the international bond markets, London-based sources said.

The trading halt, which occurred Monday, was instigated by London-based U.S. investment concerns that make markets in the Eurobonds.

Influences Are Broad

Sources said no single event caused the halt, noting in the $5 billion market, which had been dwindling. The Middle East crisis, however, increased concerns of a recession in the United States that could further impair the U.S. banking industry.

While the trading of bank debt both in the United States and London has slowed, the move suggests that most U.S. banks are being shunned in the international capital markets. Not

See back page

Comerica, U S West Linkup Will Let Cardholders Charge Phone Calls

By YVETTE D. KANTROW

NEW YORK — In yet another bond between the bank card and telephone industries, Comerica Inc. and U S West Inc. have struck a deal that could allow all MasterCard and Visa cards to be used as calling cards.

The agreement will enable dozens of long-distance and local telephone companies to accept bank cards, regardless of issuer, as a form of payment. And unlike the AT&T Universal card project and others, consumers will not have to obtain new bank cards.

Convenience Cited

"It's convenient because [cardholders] won't have to fill out an application, order a new bank card, or obtain a new personal identification number to be able to use the service," said Paul Steger, a vice president at Detroit-based Comerica.

Under the agreement, Comerica will provide bank card merchant processing services to U S West Service Link, a Minneapolis-based company that offers calling card verification to long-distance and local telephone carriers nationwide.

Comerica's participation will make it possible for U S West to add credit card authorization to the services it provides its phone-company clients. Any of those clients, if it chooses to join the program, can accept any MasterCard or Visa card for payment of telephone charges.

"What the agreement does is provide long-distance groups and local phone companies with an easy way for them to allow their customers to use their Visa or MasterCards," Mr. Steger said.

A spokeswoman for U S West

See OTHER page 8

Card Alliances With Phone Companies

Card provider	Telephone company
Citicorp	
Comerica*	
People's Bank (Conn.)	
State Street Boston and Trust	
Synovus Financial	

*Comerica is a merchant-processing bank; others are issuers.

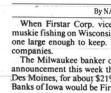
PEOPLE *in the news*

Firstar's Fitzsimonds Nets A 'Keeper' in Banks of Iowa

By NANINE ALEXANDER

When Firstar Corp. vice chairman Roger L. Fitzsimonds goes muskie fishing on Wisconsin's inland lakes, he says it's hard to catch one large enough to keep. He has a lot more success buying bank companies.

The Milwaukee banker oversaw negotiations leading to Firstar's announcement this week that it would acquire Banks of Iowa Inc., Des Moines, for about $219 million in stock. The $2.5 billion-asset Banks of Iowa would be Firstar's largest acquisition to date, increasing its asset size by 30%, to $11 billion.



Roger L. Fitzsimonds

Mr. Fitzsimonds, 52, is generally credited with turning Firstar into a healthy banking company: It earned a 1.11% return on assets last year, compared to a meager 0.68% ROA in 1984. His efforts will be formally rewarded in January, when he is expected to succeed John H. Hendee Jr. as Firstar chairman.

The trim, six-foot-plus executive has spent virtually his entire professional career at Firstar, starting out as a management trainee in 1964 at First Wisconsin National Bank of Milwaukee. He subsequently held a variety of posts, including president of a subsidiary bank in Green Bay and manager of such areas as retail banking, personnel, public relations, real estate, and finance.

He was named president and chief operating officer of the holding company in 1987 and vice chairman last January.

Milwaukee Native Enjoys Outdoor Sports

A graduate of the University of Wisconsin-Milwaukee, Mr. Fitzsimonds served five years in the Army Reserves, rising to captain. The Milwaukee native and his wife have two children and one grandchild. In addition to fishing, he enjoys tennis, snow-skiing, and golf.

Frequently described as a free-wheeling dealer unafraid to make the hard calls, Mr. Fitzsimonds said the cornerstone of Firstar strategy is the customer. "It's more difficult [for competitors] to attack relationships," he said. Firstar, for example, doesn't mail unsolicited charge cards to potential customers.

Merger to Enable Savings on Bank-Office Expense

Appearing before analysts in Chicago, Mr. Fitzsimonds said cost savings after the Banks of Iowa acquisition are planned in the data processing and other back-office functions. The bank also projects increased revenue in charge cards and trust services.

Mr. Fitzsimonds said Firstar prefers to acquire bank companies that are profitable and have good growth potential.

Firstar is expected to complete its acquisition of Banks of Iowa in the first half of 1991. □

NEWS *briefs*

Mexican Industrialist Tapped for Post at Chase

NEW YORK — Chase Manhattan Corp. said it named Antonio Madero, a Mexican industrialist, to its international advisory committee.

The committee, formed in 1965 and headed by former Chase chairman David Rockefeller, advises the corporation on how global events affect the financial services industry. Mr. Madero is founder of Corporacion Industrial Sanluis.

— Reuters

Brazil, Philippines Called Vulnerable in Gulf Crisis

BUENOS AIRES — Citicorp chairman John S. Reed said that among indebted lesser-developed countries, Brazil and the Philippines would be the most vulnerable as a result of the Gulf crisis because they import a great deal of oil.

If the turmoil continues and oil prices rise to $30 a barrel, Brazil's energy expenses could rise by $2 billion a year, Mr. Reed estimated. To a lesser degree, he said, the Philippines would also be affected, while Argentina, Colombia, and Indonesia would obviously benefit from higher oil prices."

While on a routine trip to Latin America, Mr. Reed said, "We have a branch in Kuwait and a very large bank in Saudi Arabia and our assets have been frozen, so there are many normal banking transactions that have been paralyzed."

— Reuters

Bank One Texas to Buy 400 ATMs from Diebold

CANTON, Ohio — Diebold Inc. said Bank One Texas, a unit of Banc One Corp., is purchasing 400 automated teller machines primarily for installation in Diamond Shamrock convenience stores in Texas.

Bank One will install more than 350 Diebold Modular Delivery System 1060 compact cash dispensers in Diamond Shamrock-owned stores, while the other 1060s will be used off the premises. The multimillion-dollar order also includes pedestals, signage towers, and video surveillance cameras.

Installation will begin in San Antonio in September with replacement of 84 machines formerly owned by a thrift.

— Reuters

Problem Loans Take Toll in South

Real Estate Woes Also Erode Profits

By KENNETH CLINE

ATLANTA — Concerns over credit quality and slumping real estate markets overshadowed the earnings of Southeastern banks in the second quarter, as nonperforming assets continued to rise and loan growth remained sluggish.

Particularly hard hit were banks with real estate portfolios concentrated in Washington, Maryland, and northern Virginia. Signet Banking Corp., Richmond, reported a 90% decline in net income to $2.9 million. Earnings at Norfolk-based Sovran Financial Corp. were down 66% to $22.1 million, and at Crestar Financial Corp., Richmond, they were off 65% to $9 million.

Problems in Florida

Florida was another problem area. Miami-based Southeast Banking Corp. reported $22 million in red ink, its third consecutive quarterly loss. Net income at Barnett Banks Inc., Jacksonville, fell 9% to $58.5 million.

"The banks that held up the best have been the larger North Carolina and Atlanta-based banks," said John Mason, an analyst with Interstate/Johnson Lane in Atlanta.

First Virginia Corp., Winston-Salem, N.C., continued its outstanding record by reporting earnings of $75.2 million, up nearly 11% from the previous year. First Wachovia's nonperforming assets ratio of 0.74% remains far away the lowest of any Southeastern superregional.

Boosted by the full incorporation of Texas earnings, Charlotte, N.C.-based NCNB Corp. posted a 30% gain in net income, to $137.4 million. First Union Corp., also of Charlotte, managed a respectable 5.7% gain, to $77.9 million.

At the 35 Southeastern and

See **LOAN** page 16

Second-Quarter Earnings at Southeastern Banks

Dollar figures in millions	Ending Loans	30/'90 Change	Versus '89	NPA* Assets	Equity** ratio
NCNB Corp.	$66,118	$137.4	50.2%	1.90%	5.12%
First Union Corp.	36,385	77.9	5.7	2.31	6.49
SunTrust Banks Inc.	31,257	88.5	3.0	2.33	7.04
Barnett Banks Inc.	31,128	58.5	9.0	1.89	5.50
Sovran Financial Corp.	26,068	22.1	-66.0	1.50	6.36
First Wachovia Corp.	24,280	75.2	10.7	0.74	7.55
Citizens and Southern Corp.	24,259	57.7	-1.0	1.59	6.09
Southeast Banking Corp.	19,833	-21.8	NA	6.02	4.40
Signet Banking Corp.	12,654	2.9	-90.4	1.98	5.92
Crestar Financial Corp.	12,216	9.0	-65.0	1.62	6.25

* Loans in default, reworked loans, and foreclosed properties as a percentage of total loans and foreclosed properties.
** Equity capital as a percentage of total assets

Court Opens Door to S&L Claims Against Epic's Mortgage Insurers

By STEPHEN KLEGGE

NEW YORK — Thrifts that were burned in the 1985 collapse of Equity Programs Investment Corp. are entitled to claims against two mortgage insurance companies that had refused to pay, an appeals court ruled this week.

The ruling by the Fourth U.S. Circuit Court of Appeals in Richmond was a victory for institutions that bought mortgage-backed securities from Equity Programs, better known as Epic. It defaulted in August 1985 on $1.4 billion of debt backed by mortgages on some 20,000 homes, many of them in Texas.

Court Faults Insurers

The court said Foremost Guarantee Corp., Madison, Wis., since bought by General Electric Mortgage Insurance Co., Raleigh, N.C., and United Guarantee Residential Insurance Co., Greensboro, N.C., had "closed their eyes to the obvious" in relying on oral statements by Epic.

GEMIC is not liable for EPIC claims, said Jeanette Bernay, a spokeswoman. The claims revert back to Foremost Corp., which sold the insurance unit to GE, she said.

While most of the Epic claims were covered by mortgage insurance, United Guaranty and Foremost tried to rescind coverage by claiming the insurance was procured fraudulently. A spokesman for United Guaranty said it provided the insurance shortly before the Epic default, and would not have done so had the true condition of the loans been known.

Avenues of Appeal

He said no decision had been reached on whether to appeal the ruling. The insurance companies' options include a petition to the Supreme Court or to the circuit court for a rehearing.

The appeals court reversed a

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TECHNOLOGY/OPERATIONS NEWS

Difficult Computer Choice: OS/2 or Unix?

By JEANNE IIDA

NEW YORK — Banks moving to install personal computers in their branches face the prickly decision of choosing software for basic computer functions.

The choice centers on operating systems, which are the backbone for transaction processing systems. One option is OS/2, a new system offered by International Business Machines Corp. and a small group of other vendors. The other is Unix, which is generic software available from a wide variety of vendors.

If banks choose Unix, they get a proven technology that is less expensive and more flexible than OS/2.

The decision, which carries some risks, will determine how branches integrate with the bank's administrative systems and how quickly.

Relative Strengths

If banks choose Unix, they get a proven technology that is less expensive and more flexible than OS/2. They also find it easier to integrate many types of technologies, including PCs and "dumb" terminals, in the same branch system.

The IBM alternative is more expensive because the memory and software for OS/2 is available from a tightly controlled group of suppliers.

In the long term, however, OS/2 may prove better suited for distributing processing power so that each computer system does not do for which it is best equipped.

Although the links to OS/2 are limited today, IBM plans to develop software that will make it easy for OS/2 users to get information from any IBM computer. Communication with other parts of bank operations would then be easier, since banks already have large networks of IBM computers outside the branches.

"I think that right now more people want to be on OS/2," said Michael Ehrenberg, director of systems and technology planning at ISC Bunker Ramo, Spokane, Wash. Though more banks have Unix, "there is a trend toward OS/2," he said.

The Pull of Big Blue

One banking company moving in that direction is Security Pacific Corp., a Los Angeles-based bank will install OS/2 for the 10,000-PC network it expects to have in place by mid-1992.

"We really believe in OS/2 and DOS, and we believe they will be coupled in the branch," said Michael Smyrse, vice president of the electronic systems development division at Security Pacific.

Banks that are installing Unix-based systems, including Comerica and Integra Financial Corp., say that are eager to get processing power into the hands of branch personnel as quickly as possible.

"We made this decision a while back, when OS/2 wasn't even on the horizon," said John W. White, vice president and manager of branch automation at Integra, Pittsburgh. "We were looking for flexibility in equipment and software, and for open systems."

Even if Integra were making its decision today, Mr. White said it would choose Unix. The system it selected, from ISC Bunker Ramo, can be used with any type of network and with other new technologies, such as image processing systems, he said.

"Banks that believe that they must integrate imaging, text, voice and graphics into the customer service delivery sooner rather than later are choosing Unix," said William Storts, a banking consultant with Andersen Consulting in Columbus, Ohio. "Having applications such as imaging [and] voice are extremely difficult on a non-Unix platform."

"OS/2 is a good product, but it's really new," said Mr. Ehrenberg. Banks installing OS/2 today may have trouble giving people access to data bases and to communications capabilities, he said.

IBM plans to develop software that will make it easy for OS/2 users to get information from any IBM computer.

But that will change as more vendors unveil products for the OS/2 environment. ISC Bunker Ramo plans to introduce an OS/2 branch automation system later this year.

The driving reason for installing OS/2: "IBM is telling you that that's the right operating system" to work in an IBM environment, said Mr. Ehrenberg. Put that factor "ahead of cost and how solid and proven the technology is," he said, and "you'll choose OS/2." □

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Software to Detect Kiting Is Adapted for Use on PCs

By KAREN GULLO

NEW YORK — Computrol Inc. has modified its software to detect check-kiting schemes so that it runs on personal computers.

The Kiting Detection System, or KDS, previously ran only on mainframe computers. The new version was designed to accommodate community banks that do not have large mainframes and larger banks that prefer to download files to PCs.

Kiting is a fairly common method of check fraud that costs the banking industry tens of millions of dollars each year. In such schemes, a depositor with accounts in two or more banks uses the float period to attempt to cash checks that are not backed by sufficient funds. Eventually, one of the banks is stuck with a worthless check.

System Much Less Costly

Computrol's PC-based system costs a fraction of what its mainframe counterpart does. It is priced from $1,500 to $3,000 and can be used in conjunction with the mainframe version as well as by itself.

Like the mainframe version, which costs $15,000, the PC model analyzes checking accounts and compares account activity against 12 parameters.

Federal regulations taking effect Sept. 1 that shorten the time banks can hold deposited checks may increase interest in the system, said Robert E. Parks, president of Computrol. "Many bankers fear this [regulation] will provide an even greater opportunity for fraud by skillful manipulators who can exploit the system," he said.

Only Product Available

Bankers say KDS is the only software product available that automates the process of kite detection. The mainframe version is installed at almost 1,000 banks across the country, and users credit it with saving them millions of dollars.

"We caught a kiter on the first day that we tested the product," said David F. Nicholson, assistant vice president and manager of account processing and bank operation compliance at Northeastern Bank of Pennsylvania. The PNC Financial Corp. affiliate installed the mainframe-based program this spring.

Mr. Nicholson said the system analyzes the frequency of deposits and withdrawals, the time deposits stay in accounts, the amounts of deposits and withdrawals, and related information. The system then produces a list of suspect accounts, which the bank investigates.

"The typical kite involves three banks," said Mr. Nicholson. "The one we caught in the first week cost the third bank in the scheme $48,000."

Before using KDS, the bank relied on employees handling overdrafts and return items to identify suspicious activity.

No Big Change Expected

Mr. Nicholson expects minimal impact from new check-hold rules. "I'm knocking on wood right now, but we're not anticipating any great change," he said.

George Webster, vice president of loss control/fraud investigations at First National Bank of Florida, Tampa, said, his bank has been using KDS for five years and has saved $7 million to $10 million. The system helped identify a scheme involving $1.6 million last year.

The system tracks 375,000 demand deposit accounts and turns up 1,600 to 2,200 suspect accounts each month. Mr. Webster says further analysis exposes 45 kite schemes a month. □

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NEWTREND. A Step Ahead.

COMMENT/ *By William M. Isaac*

Greenspan on Bank Reform: Faulty Logic or Bad Tactics?



Federal Reserve Chairman Alan Greenspan's testimony last month before the Senate Banking Committee on the need for deposit insurance reform and other restructuring was disappointing.

The $200 billion savings and loan debacle was the equivalent of a head-on collision at 90 miles per hour. Surveying the wreckage, Chairman Greenspan seemed to conclude that perhaps the cars could use a tune-up.

A Good Beginning

The testimony started off well enough:

"The safety net – deposit insurance, as well as the discount window – has so lowered the risks perceived by depositors as to make them relatively indifferent to the soundness [of banks and thrifts]. . . . Government assurances of the liquidity and availability of deposits have enabled some banks with declining capital ratios to fund riskier asset portfolios at a lower cost and on a much larger scale, *with government regulations and supervision, rather than market processes, the major constraint on risk-taking* [emphasis added].

"As a result, more resources have been allocated to finance risky projects than would have been dictated by economic efficiency."

Almost inexplicably, much of what followed these opening pearls of wisdom was inconsistent with Mr. Greenspan's diagnosis of the problem.

Another Study?

His testimony suggested that we "study" limiting the use of multiple accounts and passthrough insurance (that is, brokered deposits), which "have been used at times to thwart or abuse the purpose of deposit insurance protection."

Six years have elapsed since the Federal Deposit Insurance Corp. and Federal Savings and Loan Insurance Corp. literally begged the Reagan administration, Congress, and the Federal Reserve to support their efforts to curb this abuse. Meanwhile, tens of billions of dollars have been dumped down the drain.

Surely, we can move beyond the study stage and eliminate deposit insurance coverage on brokered funds: If not now, when?

Confusion on Uninsured Funds

The next portion of the testimony deals with deposits in excess of the $100,000 limit. I am reluctant to admit it, but I have read the following sentences more than a dozen times, and I'm still not sure I understand them:

"Thus, while deposits in excess of the insurance limit should not be protected by the safety net at any bank, reforms designed to rely mainly on market discipline by uninsured depositors raise serious stability concerns. Public policy, therefore, should rely on other means as the primary mechanism to induce prudent bank policies."

The sentences appear to be saying we shouldn't protect deposits over the $100,000 limit at any bank but neither should we impose a loss on them because it might be destabilizing. That's pretty confusing stuff, even by Washington standards.

Relying on Regulation

Much of the rest of the testimony espouses the view that we really ought to rely more heavily on the supervisory system, including increased capital requirements.

Let me see if I've got this straight. The existence of the safety net has destroyed market discipline, enabling banks and thrifts to engage in excessive risk-taking, which government regulation and supervision have not been able to control effectively, so the solution is more government regulation and supervision. Hmmm . . .

The testimony concludes by focusing on the need to broaden the permissible range of activities for banking organizations. Here the chairman is generally on more solid ground.

Impediments' Removal Sought

He calls for interstate branch banking, an issue Federal Reserve chairmen have traditionally ducked. He states that the Federal Reserve supports repeal of the Glass-Steagall Act's separation of commercial and investment banking.

He says that "high and thick firewalls" are costly and unnecessary to protect insured banks and, instead, we should rely on good supervision and restrictions on intracompany funding.

Rejecting functional regulation (endorsed by the Bush Task Group), Mr. Greenspan states twice that "some agency" (I wonder which one) should be responsible for "oversight of the entire organization."

Despite its superb beginning and generally good ending, the testimony leaves much to be desired in between. I have struggled to make sense of it and have come up with a theory. Mr. Greenspan recognizes that the safety net is a big problem that must be fixed, but he is hesitant to do anything about it in the

See **COMMENT** *next page*

Mr. Isaac, former chairman of the Federal Deposit Insurance Corp., is managing director and chief executive officer of the Secura Group, a bank and thrift consulting firm.

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THE LOBBYISTS

Bankers Hoping Bill On Check Cashing Quiets Metzenbaum

Rep. Doug Barnard, D-Ga., has introduced a bill that would let the Postal Service cash government checks, and the banking industry couldn't be happier.

"We support it," said Steve Verdier, House lobbyist for the **Independent Bankers Association of America.** "It's a good alternative to the Metzenbaum amendment."

Sen. Howard Metzenbaum, D-Ohio, has proposed legislation that would require banks and thrifts to cash government checks for noncustomers, and the banking industry appears willing to fight to the last lobbyist against the measure.

"We're getting mixed signals about whether Metzenbaum is going to continue working on this or go on to something else," said **Joseph Belew,** president of the **Consumer Bankers Association** of America.



Joseph Belew

"But we would be interested in [the Barnard bill] regardless of what Metzenbaum does," he added. "It would be a good thing for banks if it passes."

The Consumer Bankers Association has already endorsed the Postal Service alternative, and Mr. Belew said he expects its organization to work actively for the measure.

* * *

For Equal Coverage Of Pension Accounts

The **National Council of Savings Institutions** was one of a handful of financial trade groups on the warpath last week seeking Congressional passage of legislation for equal treatment in deposit insurance of private- and public-employee benefit plans.

The council's members stand to lose substantial deposits if the issue cannot be resolved.

The furor stems from a recent ruling by the Federal Deposit Insurance Corp. that, after Jan. 29, 1992, state and municipal employees, who must use "457 plans" for their deferred-compensation pension accounts, will not be eligible for the same insurance protection enjoyed by private-sector workers.

If Congress does not rectify this ruling, the council argues, funds from 457 plans could not be deposited in banks and other insured financial institutions after the 1992 deadline.

Why? Most states require that deposits of state funds be 100% collateralized to the extent that they are not covered by federal insurance. And most financial institutions do not have the liquidity to set aside collateral for 100% of 457-plan money in excess of $100,000.

A bill, H.R. 5008, was introduced in response to the FDIC ruling to equalize insurance treatment between participants in 457 plans and those in 401(k) plans.

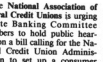
* * *

Credit Unions Want Consumer Bill Aired

The **National Association of Federal Credit Unions** is urging Senate Banking Committee members to hold public hearings on a bill calling for the National Credit Union Administration to set up a consumer compliance program.

The bill, known as the Fair Lending Enforcement Act, is sponsored by **Sen. Alan Dixon,** D-Ill., and was marked up July 17. In part, it calls for the agency that charters and regulates federal credit unions to set up a consumer program.

The bill would also require the agency to form groups of consumer compliance examiners who would scrutinize all federally insured credit unions.



Alan Dixon

The trade group said several points have gone unheard by the public: whether a bill is needed, its impact on the regulator's operating budget, and the ultimate cost to credit unions.

"We never had a chance to talk about it and get our word in. That to us is pretty important," said **Patrick H. Keefe,** a spokesman for the trade group, which represents 750 mostly large federal credit unions. "We have contacted all of the members of the Senate Banking Committee and told them we think this needs to be subject to public hearings before it goes any further."

* * *

Insurers Fight on 2 Fronts

Though Congress is beginning its August recess, pressure remains great on the insurance industry to fight legislation that would dismantle the McCarran-Ferguson Act, a law that largely shields the industry from federal oversight. The lobbying effort is draining insurers' resources just as commercial banks are advancing on several fronts into the insurance business.

Agency Dividend Lid Urged

Adding its concern to the growing worry over capital levels at the **Federal National Mortgage Association** and the **Federal Home Loan Mortgage Corp.,** the U.S. **League of Savings Institutions** recently called for limiting dividends the government-chartered agencies pay until adequate capital levels are reached. Among other recommendations to the Department of Housing and Urban Development from league director of research **Dennis Jacobe:** Audit the agencies' books and financial transactions and require them to submit capital plans for HUD approval, report on loans and guarantees by the level of borrowers' income, and meet risk-based capital standards applied to other financial institutions.

— **Robert M. Garsson, Bill Atkinson, Robert Trigaux**

LETTERS *to the editor*

Isaac's Ideas on Insurance Reform Seen Biased Toward Large Banks

To The Editor

In two recent *American Banker* commentaries (on June 14 and July 5), former FDIC Chairman Bill Isaac addressed the issue of deposit insurance reform.

The large U.S. banks represented by Isaac's Secura Group would find little reason to quarrel with the part of the quid pro quo Mr. Isaac proposes for them.

By taking a close look at what Mr. Isaac really said in these two articles, it becomes clear he is attempting to sell the reader the suggestion that it is the domestic and international giants of the banking industry that are really getting the "short end of the stick" under present conditions. Can you believe it?

Introductory Points

While his June 14 article did little more than "unveil" the ABA's "flawed plan" proposal, whereby all bank and thrift depositors would take an 11% loss on deposits in excess of $100,000 in the case of a failure, additionally, there are two pre-

COMMENT

Fed Chairman Urged To Adopt New Tactic

Continued from *page 4*

near term due to turmoil in the financial system.

Desire to Buy Time

This would explain why he is able to articulate so clearly the moral hazards presented by the safety net but cannot bring himself to advocate anything to fix it. Instead, he proposes to buy time by falling back on strengthened supervision.

Two very serious flaws exist in this approach. First, some people might mistake his interim solution for a long-term one and, real reform is never going to have a better chance of adoption than now, after the industry's biggest financial scandal.

The climate is particularly propitious as well, considering that the American Bankers Association has recently endorsed the 1988 recommendation of the Bush Task Group that deposits in excess of the $100,000 limit at a failed institution be subjected to a mandatory "haircut."

An Alternative Tactic

If the reforms' timing, as opposed to its substance, is Mr. Greenspan's principal concern, he should support prompt enactment of the ABA plan with delayed effective date, perhaps several years hence.

This would give regulators and bankers an opportunity to prepare for a new day in which the markets are permitted to assist the regulators in controlling excessive risk-taking.

I hope my theory that the chairman is concerned primarily about timing is correct; otherwise, much of what he has to say makes no sense. And if my theory is correct, I hope he will reconsider his tactics. □

lusive points in it that should be noted because of their bearing on points he makes in his July 5 article.

First, he asks the question: "If the United States adopts a plan explicitly providing for large depositor discipline, won't that place U.S. banks at a competitive disadvantage vis a vis major banks elsewhere?"

He follows with the question: "What will be done with respect to foreign deposits, against which deposit insurance premiums are not assessed but which have *always* (italics added) been protected when a large bank has failed?"

Now obviously, these are part and parcel of the same issue and it boils down to the fact that there has been free coverage on their foreign deposits and for profit reasons they want, desperately, to keep it that way. Who wouldn't?

Moving on to the July 5 article, we find Mr. Isaac agonizing that Morgan Guaranty would have suffered a seven-fold increase in deposit insurance costs had it been assessed its fair share of FDIC premiums under the 1988 proposed premium revisal. This preferential treatment constitutes a free ride for Morgan and it has never even been considered an option for the vast majority of the commercial banks or savings institutions.

After first having asked the rhetorical question in his June 14 article as to whether the lack of such total and all-inclusive insurance coverage would result in U.S. banks being placed at a "competitive disadvantage," Mr. Isaac, in his July 5 article, shifts into reverse, as it were, by saying: "Morgan could argue persuasively that it would rather see the deposit insurance system, from which it derives only marginal benefit, abolished rather than absorb a tax increase of that magnitude."

End of 'Preferential' Status

The "tax" increase he refers to would, of course, eliminate the preferential treatment now afforded Morgan, putting its cost per deposit dollar of coverage on a par with most other U.S. banks.

Finally, Mr. Isaac make s the point that "abolition of deposit insurance would have a far greater negative impact on small banks than on large banks."

Mr. Isaac suggests the "11% haircut" would accrue to the advantage of the "smaller bank depositors" instead of the "large bank depositors," and thus would serve as a quid pro quo for the continued exclusion of foreign deposits from the FDIC's assessment base.

I was, upon reading and then rereading this suggestion, reminded of a sales pitch for Florida swampland.

Norbert A. McCrady
Eden Prairie, Minn.

Mr. McCrady, a consultant, was formerly executive vice president of the Independent Bankers of Minnesota and a director of the Independent Bankers Association of America.

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EXECUTIVE *changes*

Gurley to Join First Security As President

Lloyd G. Gurley is leaving his position as senior vice president and city executive for Wachovia Bank & Trust Co. in Durham, N.C., to become president and administrative officer of **First Security Financial Corp.** and its principal subsidiary, Security Bank & Trust Co., Salisbury.

He will assume the presidency Aug. 20 from **J.G. Rutledge 3d**, who will continue as chairman and chief executive officer of both the bank and the holding company.

Mr. Gurley's duties with Wachovia included supervision of its banking offices in the Durham area. **David Jolley**, senior vice president in the corporate banking department of Wachovia in Raleigh will replace Mr. Gurley in Durham.


Lloyd G. Gurley

Mr. Gurley graduated from Clemson University in 1961, at which time he became associated with Wachovia Bank and Trust Co. in Asheville.

Mr. Gurley graduated from the Graduate School of Banking of the South at Louisiana State University in 1971 and from the executive program at the University of North Carolina at Chapel Hill in 1983.

NEW ENGLAND

Fleet Bank-NH, Nashua, N.H., a subsidiary of **Fleet/Norstar Financial Group**, Providence, R.I., said **H. E. "Buzz" Harrington Jr.** is retiring as chairman and chief executive officer in September. He retires after a banking career spanning 33 years with the same institution.

Directors of the bank named **Dean T. Holt** president and chief executive officer, effective Sept. 4.

"After 33 rewarding years with the bank," Mr. Harrington said, "I feel the change will be a new opportunity for me, as I look forward to pursuing many interests, both personal and in the community. I've always had tremendous pride in our organization. What I will miss most will be the people who have worked with me and supported me throughout the years."

First Constitution Financial Corp. said **John J. Crawford** has been elected president and chief executive officer of both the company and its subsidiary, First Constitution Bank, New Haven.

Mr. Crawford has been serving in these capacities on a temporary basis for four months; his predecessor, **Walter R. Miller, Jr.**, relinquished the responsibilities in early April.

"The board concluded that Mr. Crawford has demonstrated superior management and leadership abilities in a period of challenging business conditions," said Robert F. Carney, chairman of the board.

"Actively involved in all aspects of management, he has displayed a fine ability to bring together the seemingly diverse interests of bank customers, shareholders and financial professionals, employees, regulators and community leaders."

Mr. Crawford, 45, previously was a partner in the financial consulting firms of Sachem Consulting and Holt Wexler Crawford & Merchant. A board member at First Constitution since March 1989, he will also continue to serve as chairman of the board of Ansonia Derby Water Co.

MIDWEST

Michigan League of Savings Institutions, Lansing, has elected **David L. Hatfield** as league chairman for 1990-91. Mr. Hatfield is chairman of the board and president of Fidelity Federal Savings & Loan Association in Kalamazoo.

Mr. Hatfield succeeds **Gordon L. Grevengoed**, president and chief executive officer of Ottawa Savings Bank, Holland.

Elected first vice chairman of the league was **William H. Glencorse**, chairman of the board and chief executive officer of First Federal Savings & Loan Association of Lenawee County, Adrian.

The new second vice chairman is **Charles B. Cook**, president of Marshall Savings Bank. **Donald F. Wall**, Lansing, is president of the league.

Newly elected directors of the league are **Garry G. Carley**, executive vice president of Standard Federal Bank, Troy, and **Gene Harling**, chairman of the board, First Federal of Michigan, Detroit.

Harris Trust and Savings Bank, Chicago, said that **Jon S. Brightman**, senior vice president, has been named head of the trust department.

Mr. Brightman succeeds **Richard C. Caldwell**, who has joined **PNC Financial Corp.** as executive vice president and senior trust officer based at Provident National Bank, Philadelphia.


Jon S. Brightman

Mr. Brightman previously served as head of Harris' institutional trust group, responsible for trust services to pension and profit sharing clients, including securities lending activities, investment consulting, and participant record keeping services.

In his new post, he is responsible for these institutional trust services as well as corporate trust services, trust operations, and trust systems.

Banc One Corp., Columbus, Ohio, said **Joseph D. Barnette, Jr.** has been elected president and chief executive of Banc One Indiana Corp., a unit of the holding company.

Mr. Barnette continues as president and CEO of Bank One, Indianapolis, a unit of Banc One Indiana Corp.

In addition, **Michael J. McMennamin** has been elected president and chief operating of-

See **EXECUTIVE** *next page*

Complying with the Treasury Department's amendments to the Bank Secrecy Act is no small feat. It's not easy meeting the new rules on maintaining detailed identification records when a customer purchases financial instruments such as cashier's checks and money orders. And failing to do so can mean severe financial penalties. Which is something no bank can afford.

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Standard Register

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EXECUTIVE *changes*

Continued from *page* **6**

ficer of Bank One, Columbus.

William M. Bennett, who has been president and chief executive officer of the Columbus bank since January 1988, will continue as CEO and has assumed the title of chairman of the bank.

Mr. McMennamin formerly was chairman and CEO of Buckeye Financial Corp. and its subsidiary, Buckeye Federal Savings and Loan.

Standard Federal Bank, Troy, Mich., has elected **Joseph E. Krul** senior vice president and chief financial officer; **Clayton J. Trible, Jr.** senior vice president and treasurer, and **Frederick A. Bartel** vice president and assistant treasurer.

MIDDLE ATLANTIC

Chase Manhattan Bank, New York, announced the following new vice presidents:

David Arzi, international individual; **Michael F. Bagnell**, corporate operations & systems; **Jose A. Barral**, private banking international; **James Barras**, administrative services; **Marianne Berry**, direct response; **Pat Billings**, international individual, and **Cheryl A. Black**, real estate finance.

Also promoted to vice president were **Crescenza M. Carome**, corporate operations & systems; **Anthony J. Clalone**, global securities services; **Carol P. Clancy**, corporate controller; **Patricia M. Coglianese** and **Susan Johnson DePre**, corporate operations & systems; **Anthony DoCampo**, global securities services; **Mark Dyer**, Chase info-serve international; **Albert T. Ghelarducci**, individual bank; **Jane Gustafson**, administrative services, and **Natalie H. Holaender**, direct response.

Also **Thomas D. Hurlbrink**, personal financial services; **Gerald J. Iacouzzi**, administrative services; **Madan Inamdar** and **Bette Kettner**, corporate operations & systems; **Maurice Krisel**, corporate controller; **Kenneth Lee**, institutional bank; **Katherine Lee**, international individual; **Arnold MacDonald**, administrative services, **Timothy McCausland**, global securities services; **Don Nickburg**, institutional bank; **Robert G. Novellano**, global securities services; **Richard E. Patasnik**, personal financial services, and **Jonathan Powers**, corporate operations & systems.

And **John R. Sorice**, North America corporate finance; **R. Andrew Stiefvater**, domestic institutional; **James Sutton**, administrative services; **Robert Taglin**, direct response; **Richard P. Vincent**, metropolitan community bank; **Robert A. Wiederecht**, direct response, and **Marianne Yorke**, administrative services.

New **Jersey Council of Savings Institutions**, West Orange, N.J., has elected **Thomas H. van Arsdale** as chairman of the council. He is president and chief executive officer of the Dime Savings Bank of New Jersey, Somerset.

Mr. van Arsdale previously served as vice chairman and treasurer of the council. He succeeds **Wendell T. Breithaupt**, president and chief executive officer of the Trenton Savings Bank in Trenton.

Leonard S. Gudelski, president and chief executive officer of Hudson City Savings Bank, Paramus, will serve as the council's first vice chairman.

Assuming the duties of second vice chairman and treasurer is **Clyde C. Britt**, president and chief executive officer of the Jersey Bank for Savings, Montvale, a new financial entity that opened in January 1989.

Elected to the board were **Ronald L. Tobia**, president and chairman of the board, Family First Federal Savings Bank, Clifton; **Anthony M. Aquino Jr.**, chairman and chief executive officer, Morris Savings Bank, Morristown; Mr. Britt; **Leo J. Rogers Jr.**, acting chief executive officer, **Howard Savings Bank**, Newark, and **Paul C. Rotondi**, president and chief executive officer, Washington Savings Bank, Hoboken.

First Savings Bank, Perth Amboy, N.J., said **Joanne Barbara** has joined the thrift as vice president, human resources. She was formerly personnel manager with Gill & Duffus in New York.

American Express Travel Related Services Co., New York, a unit of **American Express Co.**, has named **Robin Renn** senior vice president of strategic planning. She will be responsible for integrating and coordinating the strategic planning activities of TRS.

SOUTHEAST

Georgia League of Savings Institutions, Atlanta, said **J. Wandell Shiver** is the newly elected chairman of the statewide organization for the coming year. He is president of First Federal Savings Bank of Bainbridge.

Mr. Shiver succeeds **W.T. Ramsey**, president of Griffin Federal Savings Bank, who has served as the league's chief elected officer during the past year.

Also, **Don B. Stout** of Georgia Federal Bank, Atlanta was elected vice chairman; **Grady Perry, Jr.** of Atlanta was elected president, and **Alpha A. Fowler Jr.** of Douglas Federal Savings Bank, Douglasville was elected treasurer.

Directors elected to serve terms of two years on the 12 member board of the organization include **Henry S. Bishop**, First Georgia Savings Bank of Brunswick; **Reginald Birchman**, Allatoona Federal Savings Bank of Acworth; **Hardin C. Byars**, Citizens Federal Savings and Loan Association of Rome; **P. Michael Evans**, First Savings Bank of Thomson; **Wilbur G. Kurtz 3d**, Decatur Federal Savings and Loan Association of Decatur; **Grant P. Mahan**, Cherokee Federal Savings Bank of Canton, and **Alvin R. Tuten Jr.**, Baxley Federal Savings and Loan Association of Baxley.

SouthTrust Mortgage Corp., a unit of **SouthTrust Corp.**, Birmingham, Ala., has named **S. Lee Higginbam** vice president, servicing, and promoted **Flora J. Waid** to vice president, warehousing/shipping.

— Franklin Smith



Imagine for a moment this is you
and the wire is the Bank Secrecy Act.
Can we interest you in a net?

CONSUMER NEWS

MARKETING/ADVERTISING

Boatmen's Asks Customers For Ideas on New Products

By LAURYN FRANZONI
Special to the American Banker

Most banks use market research to develop products and services and then use media to sell them. Boatmen's Bancshares Inc., St. Louis, has turned that formula upside down.

After running an aggressive campaign for two years to bolster its name recognition and image in Missouri, Illinois, and Tennessee, Boatmen's is asking people through the media what, exactly, they want in a bank.

The latest campaign began with 10 days of anonymous newspaper ads in St. Louis. Each ad was designed like a coupon for consumers, to "send the bank a statement," without identifying the bank. Readers could write down ideas or comments on the supplied blank or call a toll-free number where operators told them they had reached the Consumer Banking Study Line.

Callers who inquired were told that Boatmen's was sponsoring the project. Operators further explained that the bank was planning a new range of services and wanted consumer comments.

Now, in the second leg of the St. Louis effort, Boatmen's has attached its name to a full-fledged television, radio, print, outdoor, and point-of-purchase campaign, again asking for suggestions from customers and noncustomers. Comments are reviewed by a group of employees and managers who respond to the individual within 24 hours, said Boatmen's senior vice president Larry D. Bayliss.

> **"We did get about 100 comedians who wanted us to put a bank in the backyard."**
>
> **Larry D. Bayliss**
> *Boatmen's Bancshares Inc.*

Ideas delivered through bank suggestion boxes, telephone calls, and the mail, he said, have ranged from extending banking hours and express lanes to building at new locations. Each comment is circulated throughout the bank for review.

The campaign follows market surveys that contacted about 4,000 individuals. "We realized we had hit on an idea," Mr. Bayliss said. "We asked all of these people what they thought of banking, and this became a great way to extend it to everybody.

"We sincerely thought people would tell us what they want from a bank, and they are" doing so.

"Of course, we did get about 100 comedians who wanted us to put a bank in the backyard or at the end of their street, or who wanted a hot tub, free money, those kinds of things," Mr. Bayliss added.

Customers' Responses Prompted New Relationship Account

The most common consumer request in the St. Louis market has been for a more meaningful tie between accounts.

After a review of the number of relationships customers have with the bank, Boatmen's structured a relationship account for people who use a savings account, checking account, and Boatmen's MasterCard. Those customers are now eligible for discounts on auto loans and reduced rates on safe deposit boxes, and the bank is exploring other ways to solidify the relationships.

Service improvements, in areas such as telephone inquiries, have also been instituted on the advice of customers. Mr. Bayliss is guarding the campaign's full statistical results but claimed it has netted new customers.

Precampaign Research Found Desire for Responsiveness

Research before the campaign began indicated that Boatmen's was the most dominant retail bank in Missouri but noted that "individual customers wanted their bank to be responsive to them," Mr. Bayliss said.

When the campaign was begun in St. Louis, Boatmen's expected that its second part, carrying the bank's name, would produce the most responses. But the initial teaser ads elicited strong response rates, the bank said.

The campaign now is in its early stage in Memphis; Springfield, Mo.; and some Illinois markets.

Funny Ads Tested in Kansas City Market

Boatmen's has assets of more than $15 billion in its banking operations and $42 billion in trust. It operates a network at 150 Missouri sites and 50 more in its tristate area.

The St. Louis company is testing a variation of the campaign in the competitive Kansas City market, where several other bank holding companies are headquartered and Boatmen's is considered more of an outsider. Its funny ads about bad banking experiences have not matched the response rate of the suggestion campaign, insiders said.

This has been the largest media campaign in Boatmen's history, Mr. Bayliss said, and the company plans to build on it for the foreseeable future. TBWA Kerlick Switzer & Johnson, St. Louis, handles advertising for the banking company.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Other Companies Entered the Field Earlier

Continued from page 1

Service Link declined for competitive reasons to reveal the telecommunications companies with which it does business. But she said the list includes the "largest long-distance providers other than AT&T."

MCI Communications Corp. and U S Sprint are AT&T's major long-distance competitors. Pay-telephone providers, operator services providers, and oth-issuers are claiming some successes of their own in limiting inroads by the AT&T card.

Cardholders who rely on a telephone company that employs U S West for its billing needs will be able to pay for calls by running their Visa or MasterCard through magnetic readers found on some pay phones. Or they can give their card numbers to phone operators and wait a few seconds for authorization.

Credit Card Calling

"The bottom line is that consumers can now charge calls to their credit cards," the spokeswoman said.

U S West Service Link is a subsidiary of U S West Communications – an Englewood, Colo.-based regional Bell company formed after the 1984 breakup of American Telephone & Telegraph Co.

Comerica and U S West began testing the project last month. They are now promoting the service to telephone companies that do business with U S West.

The U S West deal is the latest in a series to permit general-purpose credit cards to function as calling cards.

Recent AT&T Product

AT&T's Universal card, which combines an AT&T calling card with either a MasterCard or Visa card, was launched only five months ago. Similar arrangements include U S Sprint's affinity marketing program with the banking subsidiary of State Street Boston Corp. and a relationship between People's Bank, Bridgeport, Conn., and Southern New England Telephone Co.

In addition, Visa U.S.A. and MasterCard International have teamed up with MCI Communications to let member banks enhance their credit cards. The programs, known as Visaphone and MasterPhone, let MCI customers charge long-distance calls to their Visa and MasterCard accounts.

Citicorp, the nation's largest bank card issuer, has joined the Visaphone program and plans to align itself with the MasterCard version soon. Once a bank agrees to participate in Visaphone or Masterphone, its cardholders must enroll in the programs by phone or mail.

Noting Competitors

"This program puts us in direct competition with the Visaphone and Masterphone programs that Visa and MasterCard are piloting," said Mr. Steger of Comerica. The associations' programs with MCI Communications make it unlikely that MCI will take advantage of the Comerica-U S West service, he said.

A spokesman for Visa in San Mateo, Calif., said the association would need more details on the Comerica program before it could comment. MasterCard International said it could not comment before press time. □

> **The Comerica program is in direct competition with Visaphone and Masterphone.**

AT&T Universal Card Finds Success and Hot Competition

By YVETTE D. KANTROW

NEW YORK — Though observers have proclaimed the AT&T Universal card an unabashed success, bank card issuers are claiming some successes of their own in limiting inroads by the AT&T card.

Citicorp led an industry effort that forced AT&T to discontinue a print advertisement for the card, according to Richard J. Srednicki, general manager of bank cards for Citicorp.

AT&T Ad Pulled

Referring to payphones where consumers can charge calls, the ad said the AT&T card was accepted at 200 million more locations than other MasterCard and Visa cards.

"We reacted fairly strongly against that," Mr. Srednicki said. "When you sign up with [MasterCard and Visa] you get the assurance that all cards are accepted equally." MasterCard and Visa are accepted at more than 7 million locations worldwide.

Citicorp complained to MasterCard and Visa about the ad's content, Mr. Srednicki said, and AT&T pulled the ad.

A spokesman for AT&T Universal Card Services Corp. in Basking Ridge, N.J., confirmed that the print ad was replaced after one week in March.

"We replaced some of the ads for creative reasons," he said. "We thought others were creatively superior to ones that were running earlier.

"I'm not discounting that someone took offense to the ad," he continued, "but no formal complaints were made."

Recruitment Battle

AT&T has also received glowing reviews for its initial issuance after a splashy introductory campaign. The communications company recently said one million cards were issued in the first 78 days.

But Citicorp signed up 1.2 million domestic cardholders during that time, Mr. Srednicki said. Citicorp has 27 million MasterCard, Visa, and Diners Club cards outstanding in the U.S.

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index

Auto, personal and credit card rates

Market	CREDIT CARD 6/6/90	CREDIT CARD 7/5/90	PERSONAL 6/6/90	PERSONAL 7/5/90	AUTO 6/6/90	AUTO 7/5/90
New York	19.29	19.29	18.71	18.71	13.79	13.79
Los Angeles	19.16	19.16	20.12	20.12	13.20	13.20
Chicago	18.70	18.70	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	20.12	20.12	12.63	12.63
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Detroit	18.00	18.00	15.87	15.87	12.01	12.01
Boston	17.40	17.36	17.56	17.56	12.86	12.86
Houston	18.12	18.12	15.56	15.56	11.49	11.49
Dallas	19.17	19.17	16.87	16.87	11.37	11.37
Washington D.C.	18.81	18.81	16.55	16.55	11.45	11.45
BRM Index	18.64	18.64	17.30	17.33	12.26	12.26

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the Friday of the quoted. Other rates quoted are the lowest and highest offered at these institutions. Auto loan rates are for a $9,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $5,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES 6/6/90

First Pennsylvania, Philadelphia	12.49%
Philadelphia Nat'l Bank, Philadelphia	12.49
Beneficial Corp. Div., Philadelphia	13.00

HIGHEST PERSONAL LOAN RATES

Manufacturers Hanover Trust, NY	24.00%
Bank Of America, San Francisco	21.25
First Interstate Bank, Los Angeles	21.00

LOWEST AUTO LOAN RATES

Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00

HIGHEST AUTO LOAN RATES

Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.50
Chemical Bank, NY	14.90

LOWEST CREDIT CARD RATES

Provident Inst. for Svgs., Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Svgs., Houston	15.90

HIGHEST CREDIT CARD RATES

World S&L, San Francisco	20.90%
Homecomings Financial, San Francisco	20.90
Riggs Nat'l Bank, Washington	19.80

ARE YOU GETTING BREAKING NEWS LIKE THIS AS IT HAPPENS?

"Yesterday's UAL sell-off in New York Stock Exchange composite trading began after the American Banker, a financial newspaper, reported that Citicorp had withdrawn from a group of banks . . ."
—The Wall Street Journal

"The American Banker . . . reported yesterday that representatives from Citicorp and Chase Manhattan had not attended a meeting scheduled last week to discuss possible financing of the takeover . . . That caused speculation that the two banks may be withdrawing . . ."
—The New York Times

"Arbitragers said the report, published in the American Banker's Tuesday edition, raised speculation that Citicorp and Chase Manhattan may be withdrawing . . ."
—Reuter

"Citicorp spokeswoman Holly Cherico and Chase Manhattan spokesman Ken Mills declined to comment on the American Banker report."
—AP



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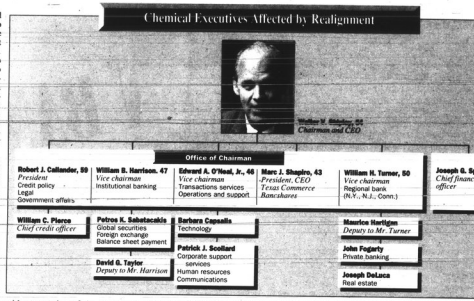
Younger Executives Advance in a Shake-Up at Chemical

Continued from page 1

legal and government affairs will transfer to Mr. Callander, who will focus on oversight of the company's risk management and Third World debt activities.

Mr. Callander's elevation to president "makes very clear who the No. 2 person in the organization is," Mr. Shipley said in a telephone interview. The president's post at Chemical has been vacant since Thomas Johnson left last December to become president and chairman-designate of Manufacturers Hanover Corp.

Mr. Shipley, noting his age, said that anyone handicapping a run to replace him was in for a long race. "I place a very high priority on a big complex company like this having a great deal of teamwork at the top," he said.



The Real Powers

But bank insiders said the real power below Mr. Shipley now lies with the new vice chairmen and with Mr. Shapiro. Together, they have functional control of the company's chief businesses – New York regional banking for retail and middle market customers; Texas regional banking; institutional banking; and technology.

Mr. Turner, a 28-year Chemical veteran and former head of its Middle East and Africa group, appears to be a clear winner in the realignment. By appending Chemical's retail branch network in New York, New Jersey, and Connecticut into his middle-market unit, he has responsibility for the most profitable part of the institution.

Mr. Harrison, the head of institutional banking, corporate finance, and correspondent banking, also expands his territory with assumption of the bank's capital markets, balance sheet, and trading activities. He has been with the bank since 1967.

Some Clout Diminished

Mr. O'Neal, who was considered a protege of Mr. Johnson, lost much of his clout by giving up the retail network in New York. However, a bank spokesman said he continues to run the company's credit card, mortgage, and dealer and consumer finance businesses. Mr. O'Neal, who joined Chemical in 1969, also inherits Mr. Turner's financial services division, which offers cash management and other noncredit services to Chemical customers.

Texas Commerce's Mr. Shapiro has been considered a comer ever since Chemical purchased the once-troubled bank in 1987. Texas Commerce climbed into the black over the past 12 months, and has reduced its nonperforming assets for eight consecutive quarters.

Chemical's stock was trading at $23.50, up $1, in afternoon trading on the New York Stock Exchange Wednesday. Analysts attributed the rise to increases in oil prices that should benefit Texas Commerce rather than to the announcement of a new management structure.

If Mr. Shapiro's shepherding of the Texas franchise has made him a contender, Chemical's troubled real-estate lending area has made an apparent also-ran of Maurice H. Hartigan, a former member of the management committee.

Under the new alignment, Mr. Hartigan has relinquished control of the realty group to become a deputy to Mr. Turner at the regional bank. One of his lieutenants, Joseph DeLuca, will manage the real estate area. At June 30, Chemical reported almost $5 billion of foreclosed property and leases.

Petros K. Sabatacakis, another member of the now-defunct management committee, continues to oversee balance-sheet management and capital markets activities, but adds oversight of securities sales and trading and foreign exchange. He now reports to Mr. Harrison instead of to Mr. Simmons.

Role as Deputy

David G. Taylor, a former member of the management committee who had run securities and foreign exchange sales and trading, was named Mr. Harrison's deputy. □

COST CONTROL
Consultant Helps Pinpoint Ways to Improve Executive Efficiency

By JEFFREY MARSHALL

Some forward-thinking banks are trying to cut costs by measuring and enhancing the productivity of their officers.

The costs of operations such as item processing or statement reconciliation are relatively easy to track. But an officer's inefficiency and the expenses that result are tougher to gauge.

Nonetheless, First American Bank of Georgia is trying to do just that. It recently concluded a pilot project aimed at getting more out of its senior staff.

A Twofold Approach

The $2 billion-asset bank, a unit of the $12 billion-asset First American Bankshares of Washington, D.C., worked with productivity consultant RKM to identify potential cost savings. First American asked the Atlanta-based firm to pinpoint areas with room for improvement, including commercial lending and trust operations.

"Their approach here was twofold," recalled Mark Boison, senior vice president and manager of corporate banking at First American. "They did some traditional consulting, where they talked with people and tried to pull out ideas. The other theme was to analyze what was almost a time-and-motion study, where you have officers fill out daily work sheets that classified what they were doing into categories."

The latter approach enabled First American to identify management activities that could be more efficiently performed by support staff. Ideally, the goal was to assign tasks such as hunting for misplaced paperwork, copying documents, typing, and other clerical work to secretaries rather than high-priced executives.

The goal was to assign such tasks as hunting for misplaced paperwork, copying documents, and typing to secretaries rather than high-priced executives.

Time-Trimming Ideas

The activities of 12 commercial lending officers and their administrative assistants were tracked over several days, Mr. Boison said. RKM analyzed the data and formulated some 30 time-trimming ideas.

"The majority of those were applicable, but there were some we weren't comfortable with," Mr. Boison said.

In an effort to save traveling time, for example, First American was advised to assign loan officers by geographic area, a suggestion Mr. Boison said wasn't workable.

But the analysis did turn up several ideas the bank has put into service. He noted that customer research is delegated to administrative assistants more often, and that the credit department is more frequently asked for help in processing customer financial statements.

The program also pushed First American to change some management procedures.

For instance, loan officers now dictate notes from their customer calls into dictating machines, Mr. Boison said, an approach that promises to cut down the time it takes to draft reports. Previously, he said, the officers wrote on legal pads when reconstructing their calls, an inefficient, time-consuming process.

The analysis also prompted the bank to reevaluate its use of technology, Mr. Boison said. For example, because of suggestions about First American's inefficient use of personal computers, the corporate banking department will install computers and printers to replace typewriters, he said.

"We expect to get enormous efficiency" from the switch, Mr. Boison added. He declined to project the total savings the computerization will generate, but he said he expects them to be considerable.

Top-Down Efficiency

RKM president Thomas Karson looks at it this way: If a banker earning $75,000 spends 30% of his time on nonproductive work, he will cost the company 30% more on an annual basis.

Efficient officers also set a good example for their subordinates, Mr. Karson said. Improving productivity at the top inevitably has a positive effect throughout an organization.

"Banks operate from a top-down management system," he said. "The line staff is apt to emulate the productivity level of their superiors." □

COMMENT / By George Freibert

Bankers Have Some Leeway To Manage Examinations



Arguments about the appropriate level of government supervision and intervention in banking have raged since the early days of the nation.

Debate over the existence and role of the first Bank of the United States and the second Bank of United States was an early demonstration of controversial nature of bank supervision. Those government-controlled banks had supervisory and disciplinary roles reaching into the private banking sector.

Supervision Welcomed

Both banks arose during times when there were banking problems and the public wanted increased federal supervision. Both banks ceased operations when strong private sector institutions objected to their interference and control of the banking system.

An analogy exists today as the pendulum of bank supervision again swings to the right. The events of the 1980s have caused a more conservative outlook among regulators and many bankers.

In recent months much has been written concerning the severity and alleged arbitrary nature of some examinations. The focus of the current controversy is the examiners' treatment of real estate lending and some business loans.

Current examiner reaction to the events of the late 1980s was presaged elsewhere in the country during the early 1980s.

For example, in Kentucky and Tennessee, the failure of the Butcher banking chain caused a couple of dozen banks in Tennessee to be closed and to severe losses at other institutions in both states.

Participation Loans

The vehicle commonly used by the Butchers to siphon off large sums from their affiliated banks was the participation loan, a legitimate vehicle for welling off portions of loans. However, many of the Butcher participations were subject to severe criticism by examiners who exposed the loan participation shell game in early 1983.

An immediate result of this abuse of the loan participation was intense scrutiny by examiners of all such loans, particularly those acquired by downstream purchasers. The Penn Square and Continental Illinois failures, which followed the Butcher episode, were also notable for their poorly investigated and underwritten participations. Examiners who may have routinely "passed" participation loans before these problems, began to closely scrutinize all participation loans.

Similarly, before the problems of the Southwest, real estate and oil-based credits were among the best in the West, and until recently New England real estate was thought to be bullet proof.

The difference between institutions that survive or even prosper during difficult times and those that suffer mightily or fail is the difference in management. Management is the single most important factor in the success of every financial institution, and inadequate or poorly focused management is almost always the cause of failure.

Regulators have also come to recognize the quality of management is the most crucial factor in the safe and sound operation of a financial institution. To a great degree, regulators now grade management on the quality of the institution's policies, procedures, and control systems as well as on the financial condition and performance of the institution.

Many bankers believe that no matter what they do to prepare, they are essentially at the mercy of arbitrary examiners. Not so. There is a great deal the banker can do to manage and, in some cases, benefit from the examination process.

How to Manage Examinations

Since the regulatory experience begins with the examination and is largely based on its outcome, it is logical to explore ways to control the examination process for the purpose of minimizing its inherent criticisms.

The first step is preparing for the examination process. The banker must understand the examination from a regulatory point of view. The best place to begin that analysis is with the last report of examination.

Senior management and the board of directors should be thoroughly familiar with the contents of the last regulatory report of examination and any correspondence between the institution and the regulator since then.

Violations of law and regulations, adverse asset classifications, concentrations of assets, assets listed for special mention, and technical exceptions should be reviewed by appropriate committees or bank personnel, so these areas are corrected or strengthened where possible.

Document Corrective Actions

Corrective actions taken by individuals or committees should be thoroughly documented in board or committee minutes, internal memoranda, or through correspondence with the appropriate regulatory authority.

Failure to provide meaningful

See HOW next page

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Mr. Freibert is president of Professional Bank Services Inc., a consulting firm based in Louisville, Ky.

COMMENT
How to Weather Regulatory Exam

Continued from page 11

follow-up on past examination criticisms is a clear signal to regulators that management is not concerned with regulatory criticism, is unable to affect correction, or does not understand the criticism. All of these reflect poorly on management.

Simply stated, if an institution has deficiencies listed in its previous examination report that have not been corrected to the greatest extent possible, management can expect little forbearance at subsequent examinations regarding those criticisms or new ones.

There is no excuse for failure to correct "objective" criticisms, such as missing or inadequate file documentation, sloppy record keeping, outdated policies, many types of violations, and untested disaster recovery systems.

Subjective criticisms, such as classified loans, some alleged violations, and inadequate capital, may be subject to best-effort correction. However, it should be evident to examining personnel

"Until recently, New England real estate was thought to be bullet proof."

that every effort has been made to correct these criticisms or that a good-faith effort has been made to show that the criticism is unwarranted.

Serious Criticisms

Several areas within the examination report are particularly important. Beyond the scheduling of asset classifications, violations, technical deficiencies, and other items that are listed in the report, the examiner, through his summary comments and conclusions, advises management and the board of directors of his major concerns regarding the financial institution.

Several matters that may be treated in the examiner's comments and conclusions merit the immediate and serious concern of management and the board. They include:

- Statements questioning the ability or depth of management;
- Excessive (meaning almost any) violations of law or regulations regarding insiders or other questionable insider conduct;
- A large column of classified assets in comparison to the capital structure and reserves of the bank;
- Repeat violations of any nature;
- An unwarranted amount of loans or other assets outside the institution's normal trade area;
- Serious liquidity problems;
- Inadequate capital.

For example, a report of examination that calls for a management study is a clear indication that regulators are not satisfied with some facet of the institution's management. Insider violations are the most egregious types of abuse from a regulatory standpoint.

After addressing examination concerns and becoming familiar with the report of examination, it is important that the staff of your institution have a basic understanding of the examination process.

A positive attitude toward the examination should be encouraged. A negative attitude evidenced by senior management will be reflected throughout the staff and probably in the report of examination itself.

Be sure your staff members understand the limits of their knowledge. It is important that bank personnel recognize examiner inquiries about matters that are not within their area of expertise. Such inquiries should be directed to personnel familiar with that particular area. Staff members must never guess or make statements if they are not sure.

"Many bankers believe that no matter what they do to prepare, they are essentially at the mercy of arbitrary examiners. Not so."

The most important aspect of every bank examination is the loan review. Therefore, the quality of loans and the documentation of loan files is of paramount importance. Credit files should be in proper order, arranged to facilitate review, and pleasing to look at, if possible.

The loan file should be sufficiently informative that an examiner/analyst can make a reasonable judgment regarding the loan or line of credit from the file itself. Officer comment sheets are especially helpful, particularly for problem loans.

The best-prepared portfolios are governed by strict, well-enforced policies and monitored up by a competent and independent loan review function. Many institutions retain experienced loan review firms either to conduct periodic reviews or to monitor the institution's internal review system.

The institution's book of minutes will also be studied in detail. Minute books should be thorough and well written, with sufficient detail to show that the board is exercising reasonable care over the affairs of the institution.

Board meetings of special importance, such as those in which a merger is considered or a proposed regulatory action is reviewed, may call for the attendance of bank counsel or other experienced professionals in the areas under consideration. Board minutes should be especially comprehensive and definitive as to the board actions in these instances.

Minute books should also reflect thorough consideration and review of regulatory reports of examination and other important correspondence with regulators. The reflection of receipt and review of audit reports is equally important.

All general ledger accounts, correspondent bank accounts, and subsidiary ledgers should be up to date, properly reconciled, and organized to facilitate use and review.

Once the examination has

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COMMENT
How to Weather Regulatory Exam

Continued from page 12

commenced, 80% to 95% of the outcome will be determined by the bank's financial condition and the quality of its management. There is little that can be done about that after the examination has begun. However, there is a very important 5% to 20% "gray area" in which examiner discretion may be exercised based on nonfinancial data or findings.

It is the banker's mission to manage the examination to ensure that the gray area works in the institution's favor, not against it. Simply stated, the gray area is composed of attitudes, personalities, perceptions and, to some extent, cosmetics.

For example, credit files that are poorly organized, contain outdated documentation, and are difficult to review may cause a more critical examiner review than a file that is organized according to type of documentation, is purged of outdated material, and can be easily understood.

Likewise, if management is confrontational or argumentative, it will be perceived less positively by examiners than a professional and dispassionate statement of the bank's position. These are only two of many potential opportunities to take advantage of the gray area.

Some bankers feel the examination process is simply a tolerated nuisance. For others, however, it is an opportunity for a thorough review of certain aspects of the bank.

Whatever the banker's perspective, the examination process is a career for the examiner. To the skilled and motivated examiner, the examination process is one of discovery and a chance to interact with management to make improvements.

"A negative attitude evidenced by senior management will be reflected throughout the staff, and probably in the report of examination itself."

Examiner Has a Stake

To a great extent, future promotions for the examiner are based on performance in conducting examinations. An examiner's performance in handling problem situations is an especially important factor in promotions within the regulatory agency. Thus, there is often a strong incentive to find problems.

Regional officials of the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, the Federal Reserve, state commissioners, and other supervisory personnel have discouraged the negative approach to the examination process. But it does exist among some field personnel, and it can prejudice the outcome of examinations.

It is the banker's challenge to recognize this attitude and deal with it effectively. Being prepared for the examination goes a long way in defusing a potentially negative attitude.

The product of the examination process is the report of examination, and it is the single most important regulatory tool. The report is the regulator's primary source of information about the bank.

Other sources of information, including periodic reports and correspondence, are viewed as less reliable for regulatory purposes because they are generated by bank management and may be less objective and less comprehensive than the report of examination.

Since each examination report is relied upon until at least the time of the next examination, it is all the more important that the information in that report reflect as favorably as possible on the bank.

Documentation Is Paramount

It is therefore important that policies and documentation are complete, both at the corporate and at the transactional level. Examiners are documentation oriented; they will rely on a loan officer's written memorandum in a credit file and will give more weight to that memorandum than they will to the same oral comments made by the loan officer during loan discussion.

"Management is the single most important factor in the success of every financial institution."

The same philosophy applies to written policies and procedures. Although an institution may rapidly follow well-defined policies and procedures, if those policies and procedures are not put in writing, they will not be viewed as adequate by examiners. □

Dollar Down in July, Atlanta Fed Reports

NEW YORK — The dollar lost 2.2% of its value during July, as measured against a trade-weighted index of 18 major currencies, the Federal Reserve Bank of Atlanta said.

The Atlanta bank said the dollar index, on a monthly average basis, was 97.76 in July. The decline from 99.92 in June was the largest in any month since January 1989.

The dollar fell 3.4% against a subindex of European currencies and 1.4% versus a Canadian subindex. The dollar dropped 1.9% against a group of Pacific currencies, but only 0.6% against the Pacific subindex excluding Japan.

— Reuters

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INTERNATIONAL NEWS

GLOBAL *dispatches...*

Cuba Is Seeking to Reopen Discussion of Foreign Debt

By PASCAL FLETCHER
Reuters

HAVANA — Communist-ruled Cuba, starved of hard currency and burdened by an $8 billion foreign debt to the West, says it wants to unblock stalled debt negotiations but cannot repay what it owes without fresh financing for its beleaguered economy.

"We're very interested in normalizing our situation with our creditors," said Raul Amado Blanco, vice president of the National Bank of Cuba, in a recent interview.

Mr. Amado said Cuba was waiting for a response from its Western creditors in the Paris Club about the next meeting to discuss the Caribbean island's convertible-currency debt, which stood at $8 billion at the end of September 1989.

Recent Figure Not Given

The central bank officer declined to give a more recent figure.

He said he expected Cuba to be invited by Paris Club officials for a meeting in early September following the recent handing over of data, delayed for several months, about the Bank on Cuba's economic prospects for 1990.

"At this moment, the ball is in their court," he said.

But Mr. Amado said Cuba, which has not received any significant fresh funds from Western creditors since it suspended principal and interest payments on its debt in 1986, felt it could not change its previously negotiating position.

"We continue to insist that if we have to pay as they are asking us, we have to receive fresh funds and/or new financing," he said.

Attitudes Called Inflexible

Mr. Amado described the position of the Paris Club creditor nations as, "rather inflexible" and said he believed political factors were an important element in this attitude.

"They are saying 'pay and let's see' but 'pay and let's see' in the situation that we have of really tight liquidity is not acceptable," he added.

Cuba's international reserves in convertible currency, described by the central bank as "extremely low," totaled 93.4 million pesos, or $120 million, at the end of September 1989.

"We can't be more flexible. If there are no positive gestures from our creditors, it seems to me it will be very difficult for us to maintain a constructive dialogue," Mr. Amado said.

Spain Is Top Creditor

Spain, currently locked in a dispute with Cuba over refugees at its embassy in Havana, is the island's main creditor.

Mr. Amado said Cuba was also discussing its nonconvertible currency debt with the Soviet Union, its main trading partner and political ally, and with other East European creditors.

Havana is currently negotiating a new economic cooperation agreement with Moscow, which includes talks on Cuba's $24.8 billion debt to the Soviet Union, Mr. Amado said.

... by country

JAPAN

Japan is not considering any immediate change in monetary policy in response to the current crisis in the Persian Gulf and its impact on oil prices, a senior Ministry of Finance official was quoted as saying Wednesday.

"Even though there is a crisis in the Middle East, Japan is much better stocked than during the last oil shock, so there is no reason for panic. There is absolutely no consideration being given to do anything special [with monetary policy]," a Ministry spokesman quoted the official as telling reporters.

Fears higher oil prices would fan inflationary pressures had heightened market fears Japan would raise its discount rate.
— Reuters

WEST GERMANY

The West German capital-account deficit narrowed to a provisional $4.45 billion in June from $7.11 billion in May, the central bank said.

In June 1989, the capital account deficit was $8.54 billion. The May deficit was revised from the $7.29 billion marks reported last month. **— Reuters**

HUNGARY

Hungary has reached an agreement with Japan on a $200 million structural adjustment loan from the Export-Import Bank. The new credit, following on a $200 million World Bank Eurobond issue and a $315 million standby loan from Deutsche Bank, is being seen as a sign of restored confidence in the country's economy. **— EMMA**

ITALY

A judge in Pisa has lifted an order freezing $796.2 million of Italian assets belonging to Lloyds Bank that had been in effect since June. The original sequestration order came after claims for damages from two Italians evolved into a complex story of Philippine promissory notes and food aid to Palestinian refugees. **— EMMA**

European Media Monitor and Analysis is a Brussels-based news service that provides abstracts from the European financial and business press.

Mitsubishi's NY Chief on Mission

Seeks to Solve Cultural Problems to Help Growth

By JAMES R. KRAUS



Yutaka Hasegawa
Mitsubishi Bank

Watching Japanese children socializing only among themselves in a suburban New York City school proved to be an unsettling experience for Yutaka Hasegawa, senior executive officer at Mitsubishi Bank's North American headquarters and general manager of the bank's New York branch.

"It seems that Japanese make an effort to communicate when they are in the minority. But whenever we reach a certain percentage or feel we are in the majority, we stop trying and start sticking to ourselves. I see that happening here, even among Japanese schoolchildren, when they reach a certain proportion of the class," Mr. Hasegawa said.

Mr. Hasegawa, 50, who took over his new position last month, is worried about rising anti-Japanese sentiment and is making better communications between Japanese and Americans a top priority.

Changing the Language

As a start, he ordered that all internal documents at the bank be written in English, and not Japanese as they had been.

Yet, like other Japanese, he finds U.S. banking practices extremely innovative but difficult to deal with.

Take transactional and relationship banking, for example.

"In Japan, we're relationship-oriented. When we talk about relationships, we mean solid relationships – long term. But in the U.S., you go to the other extreme. A big percentage of U.S. corporations are transaction-oriented," Mr. Hasegawa said.

Risks Are Pointed Out

Although transactional banking relationships do prompt U.S. banks to be more innovative and offer corporate customers the lowest price possible, they also entail certain risks.

"The problem is that when there is an economic downturn, corporations don't have anyone to stand behind and support them," Mr. Hasegawa said.

The September collapse of Campeau Corp., the heavily indebted Canadian retail group, was particularly frustrating for Mitsubishi and other Japanese banks that participated in loan syndications to the company.

No Rescuers on Hand

"We looked around and asked who was, or were, the key banks. But there wasn't anybody to organize a rescue," said Mr. Hasegawa.

Mr. Hasegawa's father, Juzaburo Hasegawa, was Dai-Ichi Bank's last president before it merged with Nippon Kangyo Bank in 1971.

His father's godfather, Eiichi Shibusawa, founded Dai-Ichi bank, one of the first commercial banks to be set up in Japan in the 19th century.

Mr. Hasegawa, 50, joined Mitsubishi after college and first came to the United States in 1967.

His concern over the cultural gap has mounted as he moved back and forth between Japan and the United States and watched Japanese banks grow here.

"Five years ago, we were marginal players in U.S. banking. Since then, we've gotten a lot bigger, but we're still doing things the Japanese way," Mr. Hasegawa said.

Changing things will take time and a real solution to the cultural gap will not be found until Mitsubishi has a bicultural staff familiar with both Japanese and American ways, he said. □

Deregulation Seen as Blow to Italian Banks

By JAMES R. KRAUS

NEW YORK — Deregulation in Italy will cut into profits at Italian banks and threaten stability in the country's banking system, according to a recently released report by Moody's Investors Service.

"Italian banks are expected to encounter some difficulty in becoming more effective and competitive in world markets. Deregulation will put downward pressure on the banks' financial fundamentals as margins are eroded and as capital ratios come under pressure," Moody's stated in its report.

However, Moody's added that more difficult conditions would probably not put banks at risk from defaults, especially the large state-owned institutions.

Still Highly Regulated

Italy's banking system is likely to remain one of the most highly regulated in Europe for some time to come, Moody's stated.

That, combined with the slow pace of deregulation, will cushion the impact of change on Italian banks for some time.

In an effort to strengthen Italian banks, the Italian parliament in July authorized state-owned financial institutions to publicly increase their capital, allowed government-owned banks to become joint stock companies, and offered tax incentives for mergers.

However, the new banking law allows the government to retain a 51% stake in its banks.

Most Are Government-Owned

The Italian government owns most of the country's banks, including large institutions such as Banca Commerciale Italian, Credito Italiano, and Banca Nazionale del Lavoro.

The Moody's report criticized the government policy of naming the heads of banks through political patronage as well overstaffing and high overheads at Italian banks. □

Key International Rates*

	Call money	Interbank 1 month	Interbank 3 months	Interbank 6 months	Interbank 12 months	Treasury bonds 10 years
United States	8.12	8.12	8.00	8.00	7.94	8.16	7.93	7.88	7.82	7.79	7.69	8.00
Japan	7.37	7.37	7.69	7.94	7.87	7.75	7.62	7.62	7.62	7.62	7.62	7.12
Canada	13.00	13.00	13.25	13.19	13.13	13.13	12.75	12.75	12.75	13.44	13.81	13.44
U.K.	15.00	15.00	15.25	15.06	15.06	15.06	15.06	14.69	14.38	14.38	14.69	15.00
West Germany	8.50	8.50	8.50	8.50	8.50	8.50	8.75	8.50	8.50	8.50	8.50	8.50
Switzerland	9.62	9.12	9.25	9.06	9.12	9.06	9.06	9.06	9.06	9.06	9.06	9.06
France	9.81	9.87	9.75	10.19	10.12	9.94	10.37	10.19	9.69	9.50	9.50	9.50
Italy	13.79	11.87	11.50	11.69	11.69	11.69	11.25	11.62	11.57	12.50	12.50	12.00

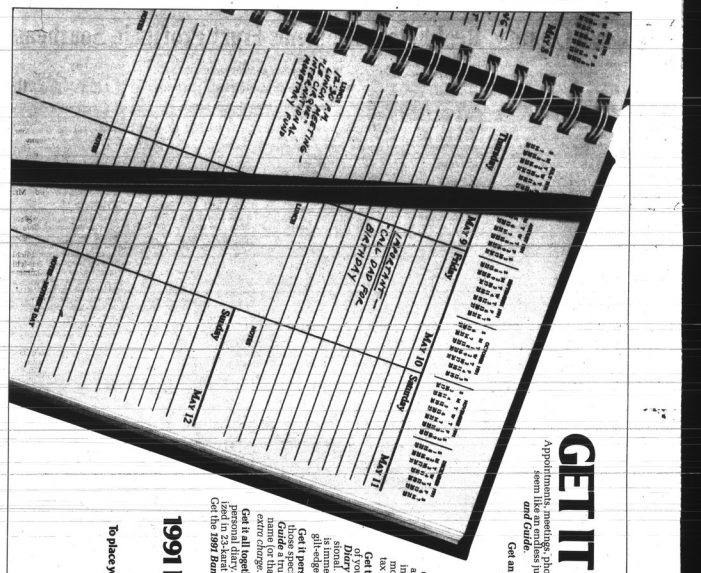
	Belgium	Netherlands	Switzerland	Japan	Canada
United States	8.00	8.00	8.00	8.00	8.00
Japan	7.62	7.62	7.62	7.62	7.62
Canada	13.44	13.81	13.44	14.75	14.75
U.K.	14.38	14.38	14.69	15.00	15.00
West Germany	8.50	8.50	8.50	8.50	8.50
Switzerland	9.06	9.06	9.06	9.06	9.06
France	9.50	9.50	9.50	9.50	9.50
Italy	12.50	12.50	12.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.87	14.42	8.75	9.69	7.50
6 to 12 months	8.15	13.62	8.65	8.59	7.97
12 to 24 months	8.69	12.97	8.62	7.66	7.75

*Midday quotes in the New York market

Source: Hazard, Ashley & Pearce Inc., New York.



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Loan Quality, Real Estate Problems Hurt Profits in Southeast

Continued from page 2

Middle Atlantic banks followed by Richmond-based Wheat, First Securities Inc., earnings per share were down 38%, on average, from a year ago. Even more disturbing, assets classified as nonperforming have increased 32.2% since the end of the first quarter.

Wheat First analyst Anthony R. Davis said nonperformers for these 35 banks have now reached a 13-year high, with the group average at 1.46% of total assets. The comparable ratio for 1977 was 1.5%, which came at a time when many Southern states were mired in a severe real estate recession.

Mr. Davis said the situation today was much better than in the mid-1970s, in part because the recent wave of targeted real estate exams conducted by the Office of the Comptroller of the Currency has forced the banks to build reserves in anticipation of trouble. For Wheat First's 35 banks, reserves now cover about 80% of problem assets, compared with 60% in 1977.

"The banks' propensity to deal with the issue up front is better this cycle," Mr. Davis said. "We have a bottoming or firming of real estate markets in many places. On the other hand, we've really put in a lot of insulation going forward to deal with it."

Most large Southeastern banks underwent OCC examinations in the first quarter and took huge loan-loss provisions, with the result that their second-quarter earnings look good by comparison. Barnett's results were down 9% from the year before, but up 277% from the meager earnings of $15.5 million reported in the first quarter.

Weakening real estate markets in the Washington area played a major role in the poor results from Virginia banks.

Atlanta-based Citizens and Southern Corp. posted net income of $57.7 million, down 1% from the second quarter of 1989 but up 39% from this year's first quarter.

Sovran, Signet, and Crestar, on the other hand, did not complete their OCC exams until the second quarter, which partially accounts for their poor results. Sovran, for example, was forced to increase its second-quarter loan-loss provision by $66.8 million to $264.7, a 33% surge from the first quarter.

At Crestar, the loan-loss provision grew by $29.3 million, or 268%, and at Signet by $26.9 million, or 29%.

Weakening real estate markets in the Washington area played a major role in the poor results from Virginia banks. After a recent survey of the region's commercial and residential real estate, Shearson Lehman Hutton Inc. advised investors to be cautious of Signet, Crestar, and even the well-regarded Sovran.

"As the real estate economy weakens in Virginia, even Sovran may have some difficulty avoiding further credit quality problems," wrote analyst Katherine Hensel, noting Sovran's 13% loan exposure to real estate construction and 6% exposure to commercial mortgages.

In Florida, real estate problems are particularly evident at Southeast Banking, which has run up cumulative losses of $92.8 million in the past three quarters. After its second-quarter loss of $21.8 million, the Miami-based company announced an agreement with federal regulators to boost its capital by about $10 million at yearend and to strengthen its real estate lending, credit review, and reserve policies.

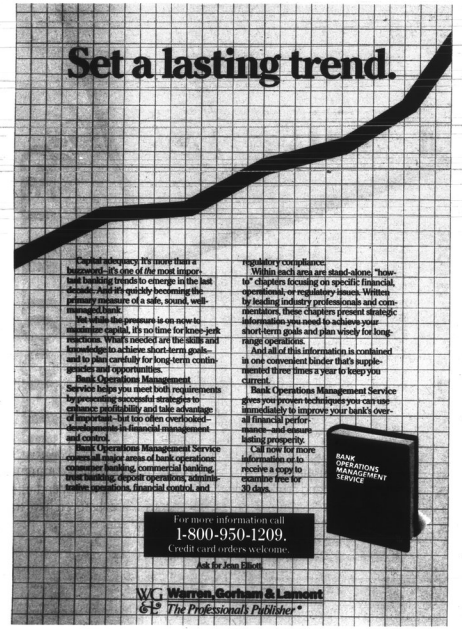
"There isn't any question that Florida real estate markets are soft," said Timothy G. Rayl, an analyst with Williams Securities Group Inc. in Tampa. "Southeast Bank managed to find some of the worst loans in the worst markets. In Barnett's case, they cover the whole state and therefore, sooner or later, any softness is going to impact them."

Trouble on I-95

Mr. Rayl identified the Interstate 95 corridor from Palm Beach south to Miami as the state's most troubled real estate market. Most of Barnett's $34 million in second-quarter chargeoffs came from this part of South Florida, and Southeast Bank is headquartered there.

Looking ahead to the rest of the year, Gerard J. O'Meara Jr. of the Robinson-Humphrey Co., said he expects quarterly loan-loss provisioning in the Southeast to be above normal levels. But otherwise, the Atlanta-based analyst said, the region's banks may have survived the worst that the regulators could throw at them.

"For the most part, earnings power has not been impaired directly" by the Comptroller's office exams, Mr. O'Meara said. "Significant additions to reserves can be characterized as one-time events." □



Liberty National Wins Bid for Retrial

LOUISVILLE — Liberty National Bancorp said the Fayette Circuit Court granted a motion for a new trial in a case involving its principal subsidiary, Liberty National Bank and Trust Co., and real estate developer Archie Donaldson.

On Aug. 28, 1989, Liberty lost a jury trial that resulted in a $7 million interest judgment against it. The bank said another verdict offset the jury award by about $2.8 million.

The company said it believes it will be successful in any retrial but did not elaborate.

— Reuters

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Government Loses Case on Treatment of S&Ls' Goodwill

Continued from page 1

dollars in claims.

Citing data for the 2,505 surviving thrifts in the private sector, an Office of Thrift Supervision spokesman said they have $12.4 billion of goodwill on their books. Almost all is supervisory goodwill, an intangible balance-sheet item that regulators allowed some thrifts to accumulate as they acquired insolvent institutions in the 1980s.

The supervisory goodwill, representing the insolvent institution's negative net worth, received lenient treatment from federal regulators seeking an inexpensive way to deal with insolvent institutions.

In a little-noticed but potentially far-reaching decision handed down July 27, U.S. Claims Court Judge Loren A. Smith in Washington said the lenient treatment of goodwill permitted by the Federal Home Loan Bank Board in the 1980s could not be undone by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Impact on Bailout Cost

"The government faces very serious, retroactive money damages that will add significantly to the cost of the bailout," said Michael Carvin, a lawyer at Shaw, Pittman, Potts & Trowbridge, which represented Winstar Corp. of Windom, Minn., in the Claims Court case.

The judge said that the government effectively entered into a contract when it agreed to permit institutions that acquired sick thrifts to amortize the resulting goodwill over a long period of time.

Congress remains free to change the regulatory treatment of supervisory goodwill, Mr. Smith said. But he added, "the government may be compelled to pay for the results of its actions, especially when in so doing the government actually is paying because it received a benefit."

Mr. Smith asked lawyers for the government and the thrift holding company to submit additional briefs "which are necessary to determine liability."

If the judge awards money damages to Winstar Corp., the government is likely to appeal.

Winstar, the parent of the failed United Federal Savings and Loan Association, did not specify the damages it expects. But Mr. Carvin indicated the owners of the holding company would seek at least the $2 million-plus interest and other damages.

Judge Loren A. Smith said the lenient treatment of goodwill permitted by the Bank Board could not be undone by the reform act.

The case is one of a number of lawsuits involving supervisory goodwill, which thrifts are required to phase out of their capital calculations by the end of 1994.

Groundbreaking Case

The Winstar case was the first to be brought in U.S. Claims Court, a specialized body that hears claims against the government.

When the thrift-bailout law was under consideration, the amount of supervisory goodwill was estimated to be $25 billion or more. How much the government might ultimately be expected to compensate thrifts is not known.

Mutually owned thrifts, for example, have no equity owners. While the managers of a surviving mutual might seek damages that could be added to the thrift's capital base, a thrift already in conservatorship might not be able to make a claim, thrift lawyers said.

An OTS spokesman, while stressing that the agency is not a party to the Winstar suit, said he believes the claims court erred in its judgment that a contract was violated.

A Question of Contracts

Judge Smith said the Winstar case involved "a garden-variety question of whether express or implied contract existed." He said the thrift owners relied on memos from the Federal Home Loan Bank Board which promised a long amortization period. They presented "undisputed evidence" that a contract did exist, the judge found.

There is no basis, he added, for the government's position that the memoranda "merely were representations of then-existing regulatory policy.

"Rather, they illustrate the reality that the promise of continued treatment of goodwill as a capital asset that could be amortized over 35 years was a negotiated and critical term of this particular transaction. It was critical because it was clear that without it no purchaser would have engaged in this transaction," he added.

The lawyers for Winstar, Mr. Carvin and Charles J. Cooper, previously fought a separate goodwill case that resulted in a court finding that M. Danny Wall had been unlawfully installed as director of OTS. □

Survey Points to Recession, but Fed Is Stymied

Continued from page 1

rise will impose additional hardships on the U.S. economy but will not result in a recession.

Foreign Pressures Prevail

Nevertheless, the forces of interest and resulting inflationary pressures are forcing the Fed to keep its hands off the economy for now, analysts said. For example, if West Germany and Japan boost rates sharply to offset the inflationary impact of higher oil prices, that could prevent rates from in the U.S. and aggravate any U.S. downturn, they said.

Another consideration, Wells Fargo Bank senior economist Gary Schlossberg suggests, is that the Fed will be eager to avoid validating any future increases in oil prices by easing short-term rates too quickly.

For bank lenders, who in general have been tightening credit and raising loan standards all year, the results of the beige book survey seem clear. In all but the midwestern Fed districts and some pockets of the West, credit remained tight and many banks reported little or no growth in most lending sectors.

Commercial real estate and home construction lending, especially, were stated in the survey as no-growth areas as banks responded to slowing regional economies with tougher credit standards.

Construction Goes Begging

New credit for construction was hard to obtain in many areas, the Fed report said, but the reasons varied from excessive inventories of homes for sale to tougher federal regulation of savings and loan companies that restricted loans to any one borrower.

In the Boston district, representing the struggling New England region, half of the retailers surveyed by the Fed said they had encountered reduced availability of bank credit as a problem. And 60% of manufacturers surveyed in the district described their outlook as "very cautious" and said they expected "tough conditions" lasting into 1991.

In New York, the "glut of homes for sale is said to be the major deterrent to building, even though the shortage of finance for acquisition and construction loans appears to be spreading," according to the beige book.

In the St. Louis district, the Fed reported that credit had slowed significantly from a year earlier in the period from mid-May to mid-July. Total loans at the district's 11 largest banks increased 0.7% over this interval, compared with 2.3% expansion during that two-month period in 1989. □

The Economic Slowdown, By Fed District

Boston: Hardest hit of districts; retailers, manufacturers expect tough conditions through 1991. Half of retailers cite problems of credit availability.

New York: Credit shortage spreads for acquisition and construction loans, while homebuilding slowdown reaches upstate New York. Manhattan office vacancies climbing.

Philadelphia: Most types of bank lending flat; slow growth continues in credit cards and home equity loans. No new commitments for commercial real estate deals.

Cleveland: Consumer spending slump bottomed in May, retailers say. Funds for single-family housing available, but less so for multifamily construction.

Richmond: Loan activity steady since mid-July, but 40% of lenders cite declining quality of loan applicants.

Atlanta: Increasing pessimism among businesspeople. Consumer lending, especially auto loans, down; credit card delinquencies rise.

Chicago: Slower growth, but bankers say overall credit standards are unchanged since start of 1990. Growth in commercial lending below expectations; small builders hurt by thrift one-borrower limits.

St. Louis: Credit growth slowed from mid-May to mid-July. Multifamily construction has largely stopped.

Minneapolis: Labor markets, retail sales, and tourism grow, but signs of slowdown in housing and commercial construction. Agriculture appears strong.

Kansas City: Slightly higher loan demand in July, led by consumer and home equity credits. Moderate overall growth with recent pickup in energy sector.

Dallas: Slow growth, though retail sales outpace the nation. Dry weather frustrating farmers.

San Francisco: Wide variations in loan demand within district. General deterioration in construction and real estate markets except in Las Vegas, Sacramento, parts of Oregon, eastern Washington, Idaho, and Utah.

Source: Federal Reserve Beige Book, August 1990, compiled by Federal Reserve Bank of Atlanta

Fed to Check Oil Before Easing, Smick Says

Reuters

NEW YORK — The Federal Reserve Board is unlikely to ease interest rates until the course of oil prices becomes clearer, but West Germany's economy is showing its heat by the costs of unification with East Germany and by the falling Japanese yen, which could hurt its trade balance.

"Though the Fed may eventually ease, quick action is hardly a near-term possibility for financial markets," said the report, a copy of which was obtained by Reuters here.

The consulting firm said that Iraq's invasion of Kuwait eased the pressure on Fed Chairman Alan Greenspan.

"Don't forget that the Iraqi crisis was no less than a godsend to the Greenspan Fed, which was in the process of being set up by the Bush administration as the 'fall guy' in an economic downturn," the report said. "Now, what could have been a Greenspan recession, if it failed by Greenspan, will be a Saddam Hussein recession."

"What could have been a Greenspan recession . . . will be a Saddam Hussein recession."
Smick Medley International

Smick Medley cited no sources in its report, but in the past the consulting firm's pronouncements on Fed policy have been considered authoritative by dealers on financial markets.

Prospect for German Rates

As for Germany, unification's inflationary potential in influence on trade of Japan's weakening currency could prompt interest rate increases, Smick Medley said.

"Add a worldwide oil price increase, and it is not surprising the Bundesbank, which had been slow in considering a rate hike, is beginning seriously to take another look," the consulting firm said.

Higher interest rates in Germany could attract foreign investment, sapping the already weak dollar. The Bundesbank policymaking council, however, is not scheduled to meet until September. □

Claims Allowed Against Epic's Mortgage Insurers

Continued from page 2

lower-court ruling that favored the insurers, "because papers in the insurers' possession indicated either that the oral representations in question were not true, or were at the least in conflict of the written statements."

Impact on Due Diligence

Christopher Wolf, an attorney for First National Bank of Maryland, Baltimore, which acted as trustee to the thrifts, said the ruling would result in "a heightened level of due diligence by third parties" in financial transactions.

Among the beneficiaries of the ruling is Trustbank Savings, Tysons Corners, Va., formerly Dominion Federal Savings and Loan Association, which said it expects to receive more than $7.8 million.

Also among the thrifts are Meritor Savings Bank, Philadelphia; Silverado Banking, Savings and Loan, Denver; American Savings and Loan Association, Anderson, Ind.; and Home Federal Savings Bank, Xenia, Ohio. □

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Citation Notice

File No. 3002-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT To The distributees of Conrad H. Waldstein, if living and if any of them be dead, then their respective personal representatives, distributees and creditors, if any be interest, all of whose names, places of residence and post office addresses are unknown and cannot after diligent inquiry be ascertained. Public Administrator, County of New York Attorney General, State of New York A petition having been duly filed by Henry H. Grant, Jr., who is domiciled at 25 East 39th Street, New York, New York 10016 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 509, 31 Chambers Street, New York; on September 18, 1990, at 9:30 a.m., why a decree should not be made in the estate of Conrad H. Waldstein, lately domiciled at 23 East 39th Street, New York, New York 10016 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 14th, 1989, (a copy of which is attached), and ordering that Letters of Testamentary issue to Henry H. Grant, Jr. (State any further relief sought). Dated, Attested and Sealed, July 31, 1990, (L.S.) HON. MARIE M. LAMBERT Surrogate, County of New York Robert M. Reaves, Clerk of the Surrogate's Court Name of Attorney: Steven D. Bing Telephone Number (212) 206-1666 Address of Attorney: 186 Fifth Avenue, New York, New York 10010. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

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FRED REISSNER INC. Auct'r Lic #732421 Sells Aug. 10, 1990 At 9 A.M. at No. 13-13 31st Ave., L.I.C., N.Y. 1982 GM-Vin 1G5EK18D3CF515032; Asst Juan F. Giron Adv Lien Sale Gloss Gem Corp. Sale 18, 1990 At 11 A.M. At Pt. Of White St., Tarrytown, N.Y. 1980 Aquas FBGLS 22' Boat Hull ASPD23899480C/VN.Y. Reg. #5972FB Asst Thomas Aiello.

MAGRILL AUCTIONEERS CO., INC., 194 Broadway, Bklyn, N.Y. As Agents For Gem Pawnbrokers Corp. 378 Schermerhorn St., Bklyn Will Sell At Unredeemed Pledges From D92280 8/4/80 To J31478 11/5/89. Of Watches, Jewelry, Etc. On August 15th At 9 A.M. At Gem Pawnbrokers Queens Corp. At 216-15 Jamaica Ave., Queens Village, N.Y.

J.L.M. AUTO Will Sell on 8/30/90 at 10 AM at 415 W. 54th St NYC a 1985 Chev #1G1FP87H0FN115732 Re: Victor Delgado. Published 8/2 & 8/9/90.

J.L.M. auto will sell on 8/29/90 9 AM at 415 W. 54th St NYC a 1982 Mitsubishi #JA3BF4649D2703671 Re: James Flowodi. Published 8/2 & 8/9/90.

Bank Call Notice

CONSOLIDATED REPORT OF CONDITION OF

EAB

European American Bank

EAB Plaza, Uniondale, New York 11555 and Foreign and Domestic Subsidiaries, a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this district pursuant to the provisions of the Federal Reserve Act. (In thousands)

ASSETS

Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 308,454
Interest-bearing balances	1,014,184
Held-to-maturity securities	314,164
Federal funds sold	50,000
Loans and lease financing receivables:	
Loans and leases, net of unearned income	3,139,738
LESS: Allowance for loan and lease losses	(170,237)
Loans and leases, net of unearned income, allowance, and reserve	2,969,489
Assets held in trading accounts	277
Premises and fixed assets	54,636
Other real estate owned	39,706
Investments in unconsolidated subsidiaries and associated companies	25,100
Other assets	152,422
TOTAL ASSETS	$ 5,114,987

LIABILITIES

Deposits:	
In domestic offices	$ 3,308,050
Noninterest-bearing	$ 1,071,127
Interest-bearing	2,272,963
In foreign offices, Edge and Agreement subsidiaries, and IBFs	81,917
Noninterest-bearing	
Interest-bearing	81,917
Federal funds purchased	70,314
Securities sold under agreements to repurchase	
Demand notes issued to the U.S. Treasury	42,241
Other borrowed money	14,891
Mortgage indebtedness and obligations under capitalized leases	16,558
Other liabilities	204,830
TOTAL LIABILITIES	3,742,520

EQUITY CAPITAL

Common stock	50,000
Surplus	251,450
Undivided profits and capital reserves	70,997
TOTAL EQUITY CAPITAL	370,467
TOTAL LIABILITIES AND EQUITY CAPITAL	$ 5,114,987

I, William T. Greenwell, Executive Vice President of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief. We, the undersigned directors, attest the correctness of this Report of Condition and declare it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by Board of Governors of the Federal Reserve System and is true to the best of our knowledge and belief.

WILLIAM T. GREENWELL

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The Office of the Comptroller of the Currency, Washington, D.C.

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- WAM: 225.800
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Location: Hawaii, Minnesota, California, Other western states

Package 90-013
- Number of Loans: 638 conv; fixed rate, 1st liens
- Principal Balance: $18,597,714
- WAC: 9.770%
- WAM: 226.700
- Bid Deadline: August 28, 1990

Locations: Oklahoma, Other midwest states

*** The above packages are offered together or individually with a combined sale preferred.**

Package 90-015
- Number of loans: 93 conv; fixed rate, 1st liens
- Principal Balance: $2,621,776
- WAC: 9.794%
- WAM: 124.208
- Bid Deadline: August 17, 1990

Package 90-017
- Number of Loans: 32 conv; 3 yr ARMs, 1st liens
- Principal Balance: $3,415,867
- WAC: 11.26%
- WAM: 298.860
- Bid Deadline: August 17, 1990

Package 90-01/90-018
- Number of loans: 102 conv; ARMs, 1st liens
- Principal Balance: $6,413,973
- WAC's: 10.195%/10.545%
- WAM: 288.900 / 284.070
- Sale is comprised of TWO PACKAGES

Locations: Hawaii, Oregon, Colorado, Other western states

Package 90-021/90-022/90-023
- Number of Loans: 125 conv; ARMs, 1st liens
- Principal Balance: $7,180,151
- WAC: 10.249%/6.336%/10.000%
- WAM: 241.760 /229.750/.287.240
- Sale is comprised of THREE PACKAGES

Locations: Oklahoma, Missouri, New York

Reference No. A013

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Certificate of Continued Use of Partnership Name - Section 81, New York Partnership Law The undersigned, who are continuing to use the firm name of Bender & Co., and under the same, as partners, to carry on, conduct and transact business in the State of New York, DO HEREBY CERTIFY: 1. The name under which such business is carried on, conducted and transacted is as aforesaid, Bender & Co. 2. The location of the principal place of business of said partnership is within the County of New York, State of New York, and the address thereof is 1 Chase Manhattan Plaza, New York, New York 10081. 3. The true and real full names of the persons carrying on, conducting and transacting business under such name, all of whom are of full age, with their respective places of residences are as follows: Leon I. Bernard, 1493 Morris Avenue, Apt. 3G, Bronx, New York 10457; Peter G. Kredor, 20 Hemp Lane, Hicksville, New York 11801; Deanna Eng, 476 Joralemon Street, Belleville, New Jersey 07109; Joanne B. Gaile, 11 Fifth Avenue, New York, New York 10003; John M. Hinda, 2511 Newkirk Avenue, Brooklyn, New York 11226. 4. The aggregate amount of cash, duly signed and acknowledged, was filed in the New York County Clerk's Office on March 13, 1990.

Certificate of Continued Use of Partnership Name - Section 81, New York Partnership Law The undersigned, who are continuing to use the firm name of Elkins & Co., and under the same, as partners, to carry on, conduct and transact business in the State of New York, DO HEREBY CERTIFY: 1. The name under which such business is carried on, conducted and transacted is as aforesaid, Elkins & Co. 2. The location of the principal place of business of said partnership is within the County of New York, State of New York, and the address thereof is 1 Chase Manhattan Plaza, New York, New York 10081. 3. The true and real full names of the persons carrying on, conducting and transacting business under such name, all of whom are of full age, with their respective places of residences are as follows: Danny J. Andrus, 3154 Spencer Drive, Bronx, New York 10465; Anthony Pera, 102 Shelley Lane, Yardley PA 19067; Eugene A. Rot, 430 Race Trace Road, Ridgewood, New Jersey 07450; Sushil C. Patel, 12 Canterbury Circle, Somerset, NJ 08871. The original certificate, duly signed and acknowledged, was filed in the New York County Clerk's Office on March 13, 1990.

E. O. - RETAIL BANKING

A Billion Dollar Strong Texas Financial Institution Has A Senior Level Position Available For The Overall Development And Coordination Of All Retail Banking Activities.

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ROE - M/F/H/V

E. O. - MARKETING

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ROE - M/F/H/V

Partnership Notice

Certificate of Continued Use of Partnership Name - Section 81, New York Partnership Law The undersigned, who are continuing to use the firm name of Timm & Co., and under the same, as partners, to carry on, conduct and transact business in the State of New York, DO HEREBY CERTIFY: 1. The name under which such business is carried on, conducted and transacted is as aforesaid, Timm & Co. 2. The location of the principal place of business of said partnership is within the County of New York, State of New York, and the address thereof is 1 Chase Manhattan Plaza, New York, New York 10081. 3. The true and real full names of the persons carrying on, conducting and transacting business under such name, all of whom are of full age, with their respective places of residences are as follows: Donald W. Scaglia, 41 Holland Avenue, Floral Park, NY 11001; Isaac L. Murchison, 8 Fisher Drive, Franklin Park, NJ 08823; John B. Johnson, 380 Conine Avenue, Brooklyn, NY 11207; Steve C. Horsford, 72 Ingraham Blvd, Hempstead, NY 11550. The original certificate, duly signed and acknowledged, was filed in the New York County Clerk's Office on March 13, 1990.

Auction Notice

Joel Pope auct'r Lic #794209 sells on 8/24/90 9 AM at 148-26 Hillside Ave Jamaica NY '85 Olds #1G3BV69Y3FY320755 Rt: S. Galatz, Transportation SBIC Inc, 10 AM at S-40 Rohmel Pk, Rt 59 '79 Olds #3N69R9M318254 Re: E. Zeigler; 11 AM at 2355 Wehner Ave, Bx NY '80 Olds #3R47AAM405195 Rt: 2. Ramirez, '82 Datsun #DN1HT13S7CH031992 Re: E Gormosen; 12 PM at 37-26 13th St, Qns NY '89 Olds #1G3WH14W3KD309089 Re: W. Miller, GMAC; 1 PM at 185 Maspeth Ave, Bklyn NY '85 Olds #1G3AJ19E5GG322845 Rt: D7 Butler, '84 Chev #2G1AN69944917308 Rt: Rushing Auto Salvage Inc, '86 Pont #1G2JB27Q2F7606596 Re: D. Lelo, '86 Hyundai #KMHLF31JOGU072058 Re: A. Freire, Trst Co of NJ, '86 Ford #1FAHP26A1GF262509 Re: Asef George, '72 MB/BE #11401112009177 Re: H. Abecede; 2 PM at 413 Meeker Ave, Bklyn NY '76 Fiat #128AF1203853336 Re: Rysanek Majewski; 3 PM at 55 Ludy St, Hckvlle NY '87 Ford #1FABP37E1HW124107 Re: Pearson, '78 Post #2F35UBB102020 Re: B. Horowitz. Published 8/9 & 8/16/90.

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DEALS

Trump's Bankers Grant 2d Extension on $20 Million Bridge Financing

By WILLIAM GOODWIN

Donald Trump's lenders have again extended a $20 million bridge loan while they work to complete documentation on a permanent bailout package for the troubled developer, bankers said.

The 30-day bridge loan, originally set to expire July 26, was extended until Aug. 3. The new deadline is this Friday, Aug. 10.

Pending Since June

Bankers said the additional extension was needed because of the complex nature of the transaction, but added that there were no substantive problems threatening the deal.

Mr. Trump's banks, numbering some 80, agreed in June to a bailout plan under which the developer would receive $65 million in new loans, and be allowed to defer interest payments on about $850 million of his existing $2 billion in bank debt.

The new loans are being made by Mr. Trump's four principal banks, plus several of his large New Jersey banks.

The four principal Trump lenders are the banking units of Citicorp, Chase Manhattan Corp., Bankers Trust New York Corp., and Manufacturers Hanover Corp.

The $20 million bridge loan, which will be repaid once the permanent financing is in place, was needed to allow Mr. Trump to meet a bond payment and avert bankruptcy.

A Tough Sell

Members of a loan syndicate led by Chase were among the toughest banks to bring on board the bailout plan. One of the syndicate members — Dresdner Bank of Germany — wound up being the only bank among all of the Trump lenders to reject the bailout package.

Despite the extra time needed on the permanent financing, other members of the Chase-led syndicate said they were not aware of any snags.

"It just took time to put together," one of the bankers said.

Moreover, there is no great sense of urgency now, one source said, because Mr. Trump's next big bond payment is not due until November.

The bailout plan must be approved by the New Jersey Casino Control Commission, which will hold a special hearing on the matter. A hearing date on the Trump Organization's petition seeking approval of the plan hasn't been set yet, but a commission spokeswoman said the plan probably will be considered sometime this month.

The commission Wednesday rejected a request by the Trump Organization to keep the petition sealed until the hearing. A Trump Organization spokesman could not be reached for comment on whether the decision will be appealed. □

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THE PREMIER ATM NETWORK

RTC to Recover On Bakker Loans

By STEPHEN KLEGE

The Resolution Trust Corp. and several banks and thrifts stand to receive about 96 cents on the dollar on loans to Jim and Tammy Bakker's bankrupt Heritage USA development.

U.S. Bankruptcy Court in Columbia, S.C., recently approved the sale of Heritage, which is situated across the state line from Charlotte, N.C., to Morris Cerullo World Evangelism for $45 million. The Bakkers' Heritage Village Church and Mission Fellowship filed for bankruptcy in June 1987 in the midst of a sex scandal involving Mr. Bakker.

The Bakker organization filed for bankruptcy in 1987 amid a sex scandal.

The Resolution Trust Corp. was listed among the secured creditors as the successor to Sioux Valley Savings, a defunct Iowa thrift.

Also among the creditors was Home Federal Savings and Loan Association of Rock Hill, S.C.

Sale Expected in 4th Quarter

Executive vice president Herman E. Hayes said Home made about 10 loans for a total in excess of $9 million to various residential parties within the complex, including a seven-story condominium.

Home's loans were written down before the acquisition of the thrift this year by United Financial Corp. of Greenwood, S.C. The holding company said it would receive an after-tax gain of $2.3 million, or $1.07 a share, upon closing of the sale to Cerullo, which is expected in the fourth quarter.

Court documents also list Rock Hill National Bank; National City Bank, Minneapolis; and Fairfax Savings, Baltimore, among the secured creditors. □

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Highlights for Wednesday, August 8

TOP 10 GAINERS %

National Penn Bancshares, Inc.	14.3
First Hawaiian, Inc.	8.3
Bank of Granite Corporation	8.0
First Commercial Corporation	7.3
Statewide Bancorp	7.3
Lincoln Financial Corporation	6.9
UJB Financial Corp.	6.9
First Fidelity Bancorporation	6.9
Suburban Bancorp, Inc.	6.9
Central Bancshares South, Inc.	5.7

TOP 10 LOSERS %

Equimark Corporation	-9.7
National Commerce Bancorp.	-5.3
Central Jersey Bancorp	-4.6
First Commercial Corporation	-4.2
Jefferson Bankshares, Inc.	-4.2
United Bankshares, Inc.	-4.2
Northern Calif. Community Bncp	-4.1
BayBanks, Inc.	-3.9
Hawkeye Bancorporation	-3.6
Amcore Financial, Inc.	-3.5

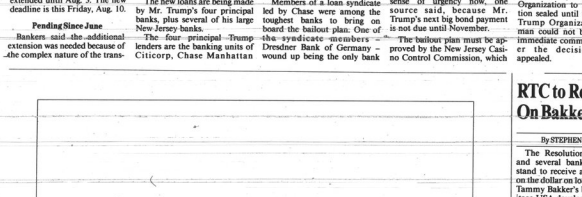
MOST SHARES TRADED

Citicorp	1440200
BankAmerica Corporation	1197700
Chase Manhattan Corporation	711100
Chemical Banking Corp.	488200
Banc One Corp.	486200

VOLUME AS % OF AVERAGE

Santa Monica Bank	900.3
Suburban Bancorp, Inc.	720.4
First Eastern Corp.	661.2
Southern National Corporation	591.0
First American Corporation	590.4

Stock Index Trends



*Weighted average of 50 banks and 50 thrifts 1/3/89=100

Percentage Changes
Comparisons for the indexes reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.90	-5.67	-5.65	1.42	-3.24	-10.13	1.76	-5.22	-16.13

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
29¼	19¼	1stSourceCorp/In	6.3	1.05	19	--
14¾	10¾	1stWashington/Md	35.3	98.7	11¾	--
39½	20	1stSouthBancorp/Al	8.0	83.6	20¼	--
19¾	13¾	AmcoreFin/Il	8.1	82.7	14	-½
27	14¾	AmericanBancCorp/Oh	25.2	83.1	14¾	-¼
22¼	16¾	AssociatedBanc/Wi	8.7	118.9	18¾	-¼
25¼	18	BB&T FinCorp/Nc	8.0	119.6	19¾	-¼
15¼	11	BaltimoreBanc/Md	6.6	47.0	11	--
38¾	35¼	BancFla/Fl	10.7	166.2	37½	-1
33¾	26	BancFla/Ca	10.7	160.6	28¾	1¼
26	18¾	BancoPopular/Pr	9.1	185.2	25¾	--
16¾	41¼	BancorpHawai/Hi	8.4	140.3	41¾	1½
23¾	18	BancorpRhode/Ri	6.9	87.8	18¾	--
21¾	15¾	BankAmericaCorp/Ca	4.9	95.2	22¾	¾
24	17¾	BankGranite/Nc	13.5	298.6	22	1⅛
23¾	21¾	BankOne/Oh/Mi	NM	50.0	22	--
14¼	8	BankSouthCorp/Ga	9.4	88.6	8¼	-¼
19¾	15¾	BankersTrust/Ny	NM	126.7	16¾	-¼
21½	10¾	BankvtmGroup/Vt	5.0	54.4	10½	--
29¾	19¼	BanksBoston/Ma	NM	39.2	19¾	--
54	23¾	BanksNY/Ny	NM	69.0	24¼	½
12	8	BanksMidAmer/In	NM	51.7	8¼	--
82	66	BanksBoston/Ma	11.3	109.5	69½	--
39¾	28	BarnettBanks/Fl	8.9	104.0	29¾	½
40½	32¼	BayBanks/Ma	NM	36.2	32¾	-½
29¾	20¾	BeamerabankAm/Fl	7.6	68.6	20¾	--
26	19¼	BoulevardBanc/Il	22.1	106.6	19¼	--
18¾	12¾	BrenhamBanc/Tx	7.4	101.1	14¾	--
43¾	30¾	CCB FinCorp/Nc	7.8	104.6	30¾	-¾
15¾	10¼	CCNB Corp/Pa	6.3	88.2	13¾	-¼
22¾	18¾	CNB Bancshares/In	10.1	121.4	21	--
27	20¼	CPB Inc/Il	10.7	148.3	21¼	-¼
28	12¾	CVB FinCorp/Ca	9.7	222.4	13¾	--
23¾	17	CalFed/Ca	7.6	138.0	19	-¼
18¾	12¾	CentralBcshs/Ky	6.7	92.3	14	-¼
34¼	23¾	CentralBancFla/Fl	6.8	96.5	24¾	-¼
27	10¾	CentralJersey/Nj	6.3	74.8	10¾	-¼
44¾	17¾	CheaseManhattan/Ny	NM	53.3	18¾	¼
41¾	30¾	ChemicalBanking/Ny	NM	68.8	23¼	1
35	29¾	ChemicalFin/Cop/Mi	9.0	98.2	31	--
35¼	18½	Citicorp/Ny	NM	75.3	19¼	½
25¾	15¾	CitizensBancorp/Md	7.5	82.4	16¾	--
29¼	20¾	CitizensBanking/Mi	7.4	70.3	21¼	-¼
15½	8	CitizensFirst/Ky	NM	109.6	8	-¼
34¾	21	CitizensSouthern/Ga	6.4	96.5	21¾	¼
27¼	18	CoastFed/Fl/Ca	6.2	151.7	18¼	-¼
22½	12¾	ColoradoNatBkshs/Co	36.9	82.8	14¾	-¼
58¾	36¼	CommerceBancshs/Mo	9.2	155.1	39¼	--
29¾	21½	CommercialBcshs/Mi	7.0	94.4	22	--
29¼	17¾	CommunityBank/Ny	7.2	90.6	19¾	--
37½	10½	Constellation/Md	6.8	36.9	10¾	¼
26¾	19¾	CoreStates/Pa	NM	49.3	20¾	-¼
49¾	33¾	CoreStatesFin/Cp/Pa	7.1	127.5	34¼	--
24	18¾	CrossLand/Fsb/Ny	6.8	82.1	19¾	-¼
18¼	7¾	CullumFirst/Tx	40.3	52.3	10¾	¾
37¼	29¾	DauphinDeposit/Pa	8.2	114.2	36¾	-¼
32	21¼	DepositGuaranty/Ms	7.8	68.7	22¾	¼
25½	11¾	DominionBcshs/Va	8.7	74.4	11¾	-¼
15¾	3½	EquimarkCorp/Pa	NM	26.3	3½	-¾
21¼	11½	EvergreenBancshs/Wi	6.0	84.0	12¼	-¼
15¾	12¼	F & M Nat'l Corp/Va	10.6	165.3	13	¼
14½	12½	FNB Corp/Pa	8.7	104.7	12½	--
26	21½	FNW Bancorp/Ak	10.5	174.3	22¾	--
29	27¾	FarmersCapital/Ky	11.9	118.4	27¾	--
39¾	29½	FifthThirdBcp/Oh	10.2	156.8	29½	--
38¾	32	FinancialTrust/Ak	9.0	136.4	33	--
51½	34	FirstTenn/Tn/Ms	8.6	90.8	34¾	¼
19¼	15¾	FirstAlabama/Al	8.7	109.9	18¼	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
20¼	9¼	FirstAmerCorp/Tn	NM	59.9	10	--
34½	21¼	FirstBancorp/Oh	7.0	91.0	23	½
16¾	12¾	FirstBancorpNC/Nc	NM	109.2	13¾	-¼
49¾	23½	FirstChicago/Il	7.5	69.7	25	-½
29¼	23¾	FirstCitizens/Nc	7.9	93.3	24¼	--
39½	18	FirstCitybanc/Tx	3.3	64.0	22	1½
18¾	11¾	FirstCmrcl/Ar/La	10.3	116.7	11¾	-¼
23¾	17¾	FirstCommerce/La	8.1	91.3	17¾	-¼
19¾	14¾	FirstCommerce/Tn	8.9	94.2	15	--
19¾	9¾	FirstCommerce/Ok	9.9	104.2	17¾	-¼
19¼	16¾	FirstCommercial/Ar	8.6	114.3	17¾	-¼
19¼	14¾	FirstCommunity/Ar	11.1	113.6	16¼	-¼
35½	18½	FirstEastern/Pa	7.2	66.1	19¾	-¼
19¾	15¾	FirstEssex/Ma/Nh	7.7	90.7	16¾	-¼
33¾	13¾	FirstFidelity/Nj	NM	70.5	14¾	-¼
50	35¼	FirstFltBancorp/Oh	12.9	164.8	41	--
34¾	18½	FirstFltn/Nc/Fl	9.4	71.9	19	½
26¾	20¼	FirstHawaii/Hi	9.7	201.2	20¾	--
11	7	FirstIllinois/IL	9.5	181.2	7¾	--
69¾	30¾	FirstInterstate/Ca	NM	45.0	32¼	¼
7	5¾	FirstInterstate/Az	7.7	101.1	5¾	-¼
18¾	14¾	FirstMichCorp/Mi	8.0	113.8	14¾	-¼
24¾	17	FirstMidwest/IL	9.4	132.8	17	-¼
24½	18½	FirstNatBancorp/Ca	7.8	121.6	19¾	--
44	19¼	FirstPacific/Ca	4.8	77.4	20¾	½
18¼	12¾	FirstPennFin/Pa	8.3	102.6	13¾	-¼
18	13¾	FirstSecurity/Nc	12.8	169.9	14¾	--
24¾	16¾	FirstSecurity/Ut	7.1	73.6	24¼	--
28¼	21¾	FirstTennessee/Tn	7.6	91.2	22¼	-¼
25¾	19¾	FirstUnionCorp/Nc	6.8	82.8	19¾	-¼
35¾	22¾	FirstVirginia/Va	7.3	102.6	23	¼
45¼	37¼	FirstWachovia/Nc	9.6	145.1	38¼	--
35	27	FirstarCorp/Wi	6.8	107.2	27	-¼
20¼	17¼	FirstbankNW/IL	8.7	108.5	18¼	--
55¾	42¼	FirstofAmerica/Mi	7.5	94.2	43¾	-¼
29¾	18¾	FleetNorrse/Ri	12.7	89.6	19¾	-¼
25	19¼	FortWayneNat/Cp/In	8.5	102.9	19¾	--
28	20¾	FourthFin/Cop/Ks	8.6	138.3	21¼	-¼
21¾	15¼	FultonFin/Cop/Pa	7.3	114.4	15¾	-¼
24½	18¾	GBC Bancorp/Ca	8.1	198.0	19	--
15¾	8¾	GreatAmSunburst/Mi	16.8	65.5	8¾	-¼
9¾	6¾	HawkeyeBancorp/Ia	3.8	102.3	9¾	--
21¼	14¾	HeritageFin/Sec/IL	8.9	118.5	15¾	-¼
26	14¼	HiberniaCorp/La	17.7	108.3	15	--
20¼	13¾	HuntingtonBancsh/Oh	7.0	101.5	13¾	--
32¾	19½	IMBFdCorp/In	7.4	86.1	20¾	-¼
27¼	13½	ImperialBancorp/Ca	6.2	88.8	14¾	-¼
26¾	18	IndependenceBk/Ri	8.7	93.5	18¾	-¼
30¾	20	IntegraFin/Pa	13.8	90.2	20	-½
48	35	IowaNatBkshs/Ia	9.3	122.0	36	--
48	33	J.P. Morgan/Ny	NM	145.6	35¼	-¼
29¼	17¾	JeffersonBkshs/Va	7.5	86.0	17¾	--
15¾	12	KeyCentr/Ltn/Wi	10.0	104.9	12¾	--
25½	20¾	KeyCorp/Ny	7.0	105.5	24¼	--
26	21½	KeystoneFin/Pa	8.3	121.4	22	--
37¾	25¾	KeystoneHerit/Cp/Pa	9.7	147.0	28¾	--
14¾	8¾	LaSalleBancorp/Il	14.8	196.0	10¾	--
24¾	16¾	LakeShore/Il	14.4	176.4	20¾	--
18	10	LandmarkBcshs/Mo	7.3	58.2	12¼	-¼
30½	21¾	LiberyNatBnk/Ky	7.9	101.4	23¾	--
27	17¾	LincolnFin/Cp/In	6.7	82.2	19¼	-¼
29¾	8¾	MNC Financial/Md	8.7	53.5	8¾	--
18	12½	MagnaGroup/IL	8.9	89.0	12½	--
39¾	29¼	ManufacturersBk/Mi	5.7	87.0	30	--
44½	28¼	Manufacturers/Ny	NM	71.1	29¼	-¼
21	16¼	MarineCorp/IL	12.0	129.9	19¾	-¼
20¾	13¾	MarkTwainBnkshs/MO	7.8	98.0	14½	-¼
37¾	29¼	MercBnkshs/Ny/Nj	8.6	98.1	29¾	-¼
36¾	22¾	MellonBank/Cop/Pa	4.6	74.6	22¾	-¼
28¾	21	MercantileBanc/MO	34.4	81.0	21	--

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
29¾	19¾	MercantileBnksh/MD	8.3	125.2	20	-¼
90¾	47¼	MerchantsBank/Vt	12.0	184.6	49	--
32	19¾	MerchantsNat/In	9.7	80.5	20¾	¼
26¼	14	MeridianBancorp/Pa	6.4	77.3	14	--
19¾	15¾	MichiganNatCorp/Mi	2.5	58.0	19	-¼
19¾	13¾	MidAmerica/KY	9.4	90.8	14¼	-¼
27¾	17¾	MidlinLin./Oh	8.3	129.6	17¼	--
47¼	10¼	MidlanticCorp/Nj	7.6	30.1	11¼	-¼
25¾	19¼	MidlandBk/Nj	NM	34.4	19¾	-¼
35¾	28½	NBD Bancorp/Mi	8.5	124.1	30¼	-¼
21¾	16¾	NCNB Corp/Nc	8.6	117.7	19¾	-¼
26	17¼	NCallCorp/Ben/Ca	13.3	142.5	17½	-¼
14¼	10	NationalCity/Oh	7.5	126.7	11¾	-¼
51	35	NationalPenn/Pa	11.6	207.3	49	5
35¼	25¾	NationsBank/Nc	9.3	111.8	29	-¼
25¼	20¼	NatlCommerce/Tn	9.6	165.7	22¼	-¼
44¾	15¾	NatlCommunity/Ky	5.4	80.8	16¾	-¼
20¾	9¾	NorthFortBank/Wi	5.0	58.9	9¾	-¼
72	15	NorthwestBanc/Ct	NM	49.9	15	--
34¼	25¾	NorthernTrust/IL	8.5	158.1	25¾	-¼
25¾	17¾	NorwestCorp/Mn	7.3	134.8	19	-¼
32¼	21	OneBancorp/Oh	8.8	90.4	21¾	-¼
29¾	22¾	OrbanCo/Fl/Ca	7.4	103.6	22¾	-¼
28¾	24¼	OrthetBancorp/Ar	12.8	154.5	24¼	--
23¾	19	OneNetNey/Nj	6.7	81.2	19¼	--
48¼	25¾	PNC Fin/Cop/Pa	7.9	87.8	25½	--
39¼	24	PacificBanc/Ca	10.8	155.6	26	--
13¾	9¾	PacificNwstern/Ca	8.0	145.8	10¼	-¼
19¾	14¾	PeoplesBancorp/Wi	9.3	118.1	14¾	-¼
27	26	PlenviewNat/Ri	9.8	124.9	27	--
21¼	12	PrestoCommerce/Ca	8.3	154.7	15¾	-¼
21¾	9	PremierBancorp/La	20.1	59.8	9¾	-¼
23½	21½	PremierFin/Mn/Ia	9.4	121.6	21½	--
14	11¾	PremierBancsNb/Ne	NM	124.8	11¾	--
27¼	18¾	PugetSoundBanc/Wa	10.6	203.1	19¾	-¼
52¼	42¾	RepublicNYCorp/Ny	107.1	113.9	42¾	-¼
27¼	12	RiggsNatCorp/DC	8.8	49.6	12¼	-¼
30¾	25	RiverFore/IL	12.5	277.5	28	--
43¾	19	SantaMonicaBanc/Ca	8.8	184.5	19¼	-¼
28¾	17¾	SeattleBancorp/Wa	7.5	127.5	17	-¼
52¼	28¾	SecurityPac/Ca	4.9	82.4	30¾	-¼
23¾	9¾	SheaMortCorp/Cp/Ma	NM	47.4	9	-¼
42¾	14¾	SignetBanking/Va	4.8	57.6	16¾	--
38¾	28¾	SierraGroup/Ut	8.9	97.6	28¾	--
27¼	16½	SouthCarolinaCp/Sc	6.5	84.4	16¾	-¼
19¾	13¾	SouthTrustCorp/Al	NM	38.3	8	--
15¾	11¼	SouthernNatCp/Nc	9.4	131.1	11¾	-¼
25¼	18¾	SouthtrustCorp/AL	6.7	66.6	17¾	-¼
43¾	25¾	SovereignCorp/Pa	6.5	97.0	26¾	-½
20¾	18	Star Banc Corp./Oh	8.3	106.4	18	--
42¾	32¾	StateStBoston/Ma	11.4	187.5	33¼	¼
20¼	14¾	StatewideBanc/Ca	NM	111.6	16¾	-¼
26	16	SuburbanBancorp/IL	13.9	89.7	18	1
24¼	23¾	SumitomoBank/Ca	5.1	80.9	24	-¼
23½	15¾	SumscorpIn/Pa	7.2	89.6	16¾	-¼
15¾	10¾	SunBanks/Fla/Ga	9.3	70.0	10¾	-¼
26¾	19¾	SunTrustBanks/Ga	7.6	118.1	20¾	-¼
29	14¾	SunwestFin/Svcs/Az	81.0	79.6	17	¼
22¾	17	SusquehannaBcsh/Pa	7.1	93.0	17	--
19	14¾	SymonyxFin/Cp/Ok	16.1	237.1	15¼	-¼
18½	13	TheFarmersCp/Nc	9.0	122.9	14¾	-¼
25¾	20¾	TrustCo/Bank/Corp/Ny	6.8	153.4	24	-¼
21¾	15½	TrustcompanyNJ	7.9	131.4	16	-¼
21¾	17¾	TrustmarkCorp/MS	6.1	77.6	17¾	-¼
32¾	24¼	U.S. BancorpOR	7.3	108.7	24¼	-¼
43	33¼	U.S.TrustCorp/Ct	11.7	178.0	34¼	-¼
28¾	10¾	UJB Financial/Nj	6.1	62.1	11¾	-¼
18	9½	UST Corp/Ma	5.9	81.5	10¼	-¼
32	19¾	UnionBank/Ca	4.8	78.4	20¾	-¼
15¾	7½	UnionPlanters/Tn	NM	59.7	7¾	--

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
24¾	16¾	AmericanFin/Oh	7.7	88.0	18½	-¼
45¾	30¾	AppleSavings/Mi	7.5	64.4	36½	2½
28¼	19¾	CalFed/Ca/Ca	7.5	71.1	19¾	-¼
55¾	41¼	CitadelHldgCp/Ca	9.1	67.4	42¾	-¼
30¾	22	CoastSavings/Ca	10.4	104.9	22	-¼
17¾	5½	DimeSb/Ny/Nj	NM	19.2	5½	-¼
24	16¾	EnterpriseSavings/Ca	20.3	87.1	17¾	-¼
27	18½	FirstFedFin/Corp/Ca	6.8	114.4	20¾	-¼
21¾	12¾	FirstMetroCp/Mi	5.8	30.9	12¾	-¼
25¾	9¾	GLENFED/Ca	2.8	25.6	10¼	-¼
24¾	22¼	GoldenWest/Ca	9.2	145.4	22¾	-¼
24¾	14¾	GreatWesternFin/Ca	13.4	91.5	14¾	-¼
24¾	16¾	HomeFed/Ia/Ca	NM	15.6	16	-¼
47¼	29¾	HomeFed/Cp/Ca	NM	21.8	34	-¼
21¾	12¾	HomeSvgBam/Ny	16.0	68.3	15¾	-¼
16¼	10¾	NBB Bancorp/Ak	11.0	47.6	11	-¼
31¾	21¾	NorthSide Bank/Ca	31.6	41.9	6	--
38¼	8	PeoplesHeritage/Me	7.1	85.6	8¼	-¼
18¾	9¾	RochesterCmty/SB/NY	6.1	50.8	10¼	-¼
18¾	12¾	SIS Bancorp/Ma/Ct	NM	47.4	13¾	-¼
19¾	14¾	SPlusBancorp/IL	NM	36.8	15	--
13¾	8¾	SeaGateBcshs/Md	5.5	67.2	7	-¼
29¾	13¾	WestMichiganSB/Mi	9.5	56.4	14	-¼
31¾	23¾	WashingtonFed/Va/Md	9.4	167.3	30¾	-¼
11¼	6¾	Westcorp/Ca	10.0	85.3	7¼	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the combined total of common shares outstanding (As of March 30, 1990, the market value cutoff for banks was $69.6 mil. and for thrifts $121.45 mil.) 52 Wk Lo: the rising 52-week high and low prices for the stock. PE: the price-earnings ratio: the current closing price divided by the trailing four quarters' earnings per share adjusted for latest announced earnings. Mkt. to bk: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Cls: the price at which the stock last traded. If no trades for the day, the latest bid. All Bank and Thrift indexes: a weighted average of the top 200 banks in market value and the top 50 thrifts in market value, respectively. Highlights: the five largest percent gainers/losers in price, and ten volume indicators most shares traded and today's volume as a per centage of average shares traded daily over the past year.

Data source: SNL SECURITIES, Charlottesville, VA. 804/977-1600, produced the tables. Financial News Network, Vienna, VA, provides DML with the daily prices.

Libor Swap Yield Curve — **Wednesday, August 1, 1990**



Data source: Manufacturers Hanover Trust Co., New York

Description of tables: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used by active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates — **(August 8, 1990)**

	8/08	8/07	8/01
Federal Funds-domestic range:	8.00	7¹⁵/₁₆–8	8–8¹/₁₆
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.35	7.40	7.40
6 Month Posted	7.35	7.40	7.40
1 Year Posted	7.35	7.45	7.50
Eurodollar deposits*			
3 Month	7⅞	7¹⁵/₁₆	7¹⁵/₁₆
6 Month	7¹⁵/₁₆	7¹⁵/₁₆	7¹⁵/₁₆
1 Year	8⅛	7¹⁵/₁₆	7¹⁵/₁₆
LIBOR*			
3 Month	8.00	7¹⁵/₁₆	8.00
6 Month	8¹/₁₆	8.00	7¹⁵/₁₆
1 Year	8¼	8⅛	7¹⁵/₁₆

*Mid-afternoon quotes, New York market. (1)– Largest offering rates at selected NYC banks. (2)— Late London bid. (3)— Annualized money-market basis - source: Manufacturers Hanover Tr.

CAPITAL

Dealers Shun U.S. Bank Debt In U.K. Market

Continued from *page 1*

only can virtually no banks issue new securities, but the action by dealers signals that most do not want to take risks by dealing in bonds in the secondary market either.

Investors that want to sell their bank debt will have to use the bond brokerage network in Europe, in which brokers try to match buyers and sellers.

About 20 Banks Involved

The suspension involves securities floated abroad by some 20 large U.S. banks in recent years, including many money-center banks. It does not affect similar securities issued by European banks.

Banks with Euro-Debt Outstanding

- Bank of Boston
- Chase Manhattan
- Chemical Banking
- Manufacturers Hanover
- Security Pacific

Banks that have European tranches outstanding include Bank of Boston Corp., Chase Manhattan Corp., Chemical Banking Corp., Citicorp, and Manufacturers Hanover Corp.

The firms that withdrew from trading with each other earlier this week are Bear Stearns International Ltd., Kidder Peabody Securities Ltd., Morgan Stanley International Ltd., and Merrill Lynch International Ltd., securities sources in London confirmed. The dealers declined comment.

Credit Suisse Stays In

Another market maker, Credit Suisse First Boston Ltd., said it did not participate in the trading suspension.

James Holland, a CSFB vice-president in charge of floating-rate note transactions, said: "It's our policy to maintain liquidity in securities. If other people wish to cease making markets, then that's their decision."

But the CSFB executive acknowledged that its competitors' move effectively had ended professional trading in U.S. bank issues, noting: "If everybody stops, there's not a lot we can do about that."

The firms' decision to quit trading in London follows increasing volatility in U.S. bank issues in the international bond markets in recent months, sparked by ratings downgrades and concerns over real estate and corporate exposures in the nation's banking system, securities sources said.

Many Worries

CSFB's Mr. Holland commented: "Worries have been building for several months and I believe the decision to stop trading among other firms was sparked by worries over the Gulf and the health of U.S. banking."

He added: "If the credit of banks deteriorates further, we will review our own decision on trading."

Other securities sources said fears that higher world oil prices would provoke a recession in the United States, further compounding the bad debt problems of U.S. banking, also played a part.

No Major Shock Felt

Mr. Holland said the trading halt did not come as a major shock in the bond markets. Dealing volumes in U.S. bank issues have been steadily dwindling and intermarket liquidity has already been drying up but "obviously, investors never like to see market makers pull out," he added.

Traders said that among "bombed out" American bank issues in Europe, where investors are particularly nervous over credit quality, is a $125 million Bank of Boston floating-rate note offering, due to mature in 1998. This issue has plunged to a currently indicated 55 versus a quote of 94 at the beginning of the year and a final maturity value of 100.

* * *

MARKET MONITOR

Standard & Poor's Corp. has affirmed its top rating for Rural Banking and Finance Corp.'s $200 million in Eurocommercial paper. The rating is based on the guarantee of the New Zealand government. Rural bank is the leading lender to New Zealand's farming industry.

The affirmation comes in the wake of the government's sale of Rural Banking in October 1989 to Fletcher Challenge Ltd., New Zealand's largest private-sector corporation. As part of the sale, the government agreed to guarantee the bank's Eurocommercial paper through Dec. 19, 1991. □

STOCKS

Most Bank Equities Aren't Growing in Value

By GORDON MATTHEWS

NEW YORK — How bad has it been for bank stocks? So bad that none of the country's top 50 banks have higher-priced shares now than a year ago and only a select group of 10 can boast any appreciation at all in the past two years.

During that period, a huge and unprecedented gap has opened between bank equities and most other stocks, according to Montgomery Securities Inc., San Francisco.

In the two years ended Monday, the shares of the 50 largest banks, ranked by assets, fell 24.3% in value while the Standard & Poor's 500 stock index was up 23.3% and the Dow Jones industrial average gained 28.2%.

"We are in uncharted waters when looking at the banks relative to the market," Virginia A. Adair, an analyst for Merrill Lynch Capital Markets Group, noted earlier this week.

Momentum from Larger Market

While bank stocks are down sharply this year, they joined the larger market Wednesday in rebounding from early fears about Iraq's invasion of Kuwait on news of a fallback in oil prices. Still, most banks remain at or near 52-week lows.

"There have been big questions about just what the earnings of banks are and about the quality of [loan] portfolios. Plus, the capital structure of the industry has had to be shored up," said J. Richard Fredericks, the Montgomery banking analyst.

More specifically, he said, banks have suffered from "lack of discipline" in pricing their products and have not adequately controlled expenses.

The performance of bank stocks relative to the S&P 500 index, a barometer of the overall stock market, peaked in 1986 and has been moving downward ever since, according to Mr. Fredericks' statistics.

Few Banks Buck Trend

Only 10 major U.S. banks have higher stock prices now than two years ago

	% increase
BankAmerica Corp.	61.3%
U.S. Bancorp	20.0%
First Wachovia Corp.	19.2%
NBD Bancorp	19.0%
KeyCorp	18.2%
Banc One Corp.	16.3%
NCNB Corp.	12.6%
Republic NY Corp.	2.8%
Norwest Corp.	2.1%
National City Corp.	1.1%

*Between 8/6/88 and 8/6/90
Source: Montgomery Securities

Concentration an East Coast

Not surprisingly, the 10 worst performers are concentrated along the Eastern Seaboard: three in New England, and three in New Jersey alone.

Troubled Bank of New England Corp., Boston, has performed worst among the top 50 banks, falling 91.2%. Midlantic Corp., Edison, N.J., is next, having dropped 72.4%, followed by Southeast Banking Corp., Miami, which is off 68.6%.

The other New England banks are Shawmut National Corp., Hartford, Conn., off 67.4%, and well-regarded Fleet/Norstar Financial Group, Providence, R.I., off 65.5%. The other New Jersey banks are First Fidelity Corp., Newark, off 64.1%, and UJB Financial Corp., off 52.8%.

In the Capital District

MNC Financial Inc., Baltimore, is off 60.9%, and Signet Banking Corp., Richmond, is off 49.6%. The sole bank west of the Alleghenies on the list is Chicago's Continental Bank Corp., off 52.2%.

A number of banks retook some lost ground on Wednesday, with Wells Fargo & Co., moving up $2 to $63.875 near the close, Security Pacific Corp. gaining 62.5 cents to $30.75, and BankAmerica improving by 87.5 cents.

Among money-center banks, Bankers Trust New York Corp. was up $1.25 to $36.625 and Citicorp appreciated 62.5 cents to $19.375. Among superregionals, Banc One was up $1.25 cents to $28.625 □

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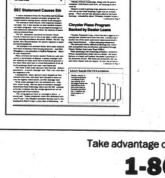
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AMERICAN BANKER

VOL. CLV NO. 156 Friday, August 10, 1990 155th year

An Equity Swap Is Considered Crucial for BNE

By TOM LEANDER

The $33 million second-quarter loss posted by Bank of New England Corp. did not conclusively signal whether the deeply troubled institution can rebound from staggering real estate loan problems. But it is looking as if the third quarter could be decisive.

By the end of September, the Boston-based company and its subsidiaries will have to increase its razor-thin 1.64% capital ratio, decrease its whopping 13% ratio of nonperforming loans, and convert a significant amount of its $700 million in outstanding debt to equity, thereby avoiding hefty interest payments.

With the $23 billion-asset company's options for raising capital running out and with an absence of operating income, an exchange with bondholders is becoming critically important.

Retiring all outstanding debt would free the company from about $60 million in interest payments a year. Some $28 million is due by Oct. 1. The next payment, $7.1 million, is due next Wednesday.

Need for Agreement Cited

"The holding company has to come to terms with the bondholders," said Gerard Cassidy, a securities analyst for Tucker, Anthony & R.L. Day in Portland, Maine.

"In light of the deepening banking crisis in New England, regulators will be hesitant to approve the interest payments [on the company's bonds]," he added.

A deal to swap all of the company's senior and subordinated debt for cash and securities could possibly increase its capital level to about 3% or 4%, one analyst estimated. Regulators had ordered the company to raise its equity level to 3% by May 31, but to date have not penalized the bank for failing to do so.

Exchange Offer Expected

"We believe an exchange offer for all issues of [Bank of New England's] debt is imminent," said Douglas Kandall, managing director of Balfour, Maclaine Capital Markets Inc., a brokerage house.

"We would regard the absence of an attempt to exchange as a sign of imminent seizure by the regulatory authorities," he said in a recent report.

Sources close to the bond-

See **CAPITAL** *back page*

INSIDE NEWS

INTERNATIONAL

ARGENTINA WILL TRY harder to privatize state-owned companies to improve its finances and help pay its commercial bank debt. *Page 10*

MORTGAGES

CITICORP'S MortgagePower system, which lets brokers collect fees for referring borrowers to the bank, is eliciting a chorus of protest in Washington. *Page 6*

CONSUMER

A HANDFUL of big banks will accept automated teller machine cards bearing the logos of either Cirrus or Plus, when the networks begin sharing ATMs on Aug. 20. *Page 8*

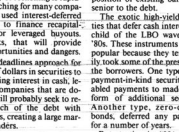
TECHNOLOGY

SEAFIRST is upgrading its systems to take advantage of opportunities for low-risk fee income in the trade finance arena. *Page 3*

FINANCE

Wilmington Trust: Ahead of the Market

Percentage change



*Weighted average of 225 largest publicly traded banks ranked by market capitalization
Sources: DB Technology Inc., SNL Securities

WILMINGTON TRUST has stayed several steps ahead of the industry, bucking the downward trend among East Coast bank stocks. *Page 16*

R.H. MACY selected Manufacturers Hanover Real Estate to arrange a mortgage on several warehouses and distribution buildings. The proceeds will be used to reduce bank debt. *Page 16*

WASHINGTON

REX R. VEAL, top lawyer at the Resolution Trust Corp., is laying down his guns and going into private practice. *Page 2*

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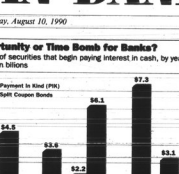
Opportunity or Time Bomb for Banks?

Amount of securities that begin paying interest in cash, by year. Dollars in billions



Source: McCarthy, Crisanti & Maffei, Salomon Bros.

Judgment Day for the Leveraged: Time to Start Paying the Interest

ANALYSIS: *Follow-up on the news*

By STEVEN LIPIN

The day of reckoning is rapidly approaching for many companies that used interest-deferred securities to finance recapitalizations or leveraged buyouts. For banks, that will provide both opportunities and dangers.

As the deadlines approach for billions of dollars in securities to begin paying interest in cash, leveraged companies that are doing well will probably seek to refinance the debt with bank loans, creating a large market for lenders.

But for companies doing poorly, the required payments could sap cash flow, threaten balance sheets, and weaken the position of existing bank loans senior to the debt.

The exotic high-yield securities that defer cash interest are a child of the LBO wave of the '80s. These instruments became popular because they temporarily took some of the pressure off the borrowers. One type, called payment-in-kind securities, enabled payments to made in the form of additional securities. Another type, zero-coupon bonds, deferred any payments for a number of years.

But starting in 1991 and in-

See **DAY** *page 14*

OTS Seeking $40.9 Million In Restitution From Keating

By DEBRA COPE

WASHINGTON — Stepping up its effort to salvage some cash from the ruins of Lincoln Savings and Loan Association, thrift regulators took action on Thursday to obtain $40.9 million in restitution from Charles H. Keating Jr. and five former directors of American Continental Corp., Lincoln's Phoenix-based parent.

T. Timothy Ryan Jr., director of the Office of Thrift Supervision, said the restitution amount is the largest ever sought from a single thrift, though it is dwarfed by the $1.1 billion racketeering claim that the Resolution Trust Corp. has filed against American Continental. The restitution tactic is designed to increase the pressure on Mr. Keating to account for his holdings.

"We are just trying to move on multiple fronts," Mr. Ryan said.

Poor-Mouthing Fails

"Charles Keating Jr. has amassed vast sums at Lincoln's expense, and he now claims he is broke," Carolyn Lieberman,

See page 11

Analyst Testifies That Banks Need 'Breathing Room'

By ROBERT M. GARSSON

WASHINGTON — The commercial banking industry does not need forbearance from regulators, but it does require "a little breathing room" to adjust to the softening real estate markets, a prominent bank stock analyst told a House panel on Thursday.

But to do that, the agencies would have to build up their corps of examiners to ensure that banks do not simply "roll the dice," to recover from losses on their real estate portfolios, said Charles Cranmer, who follows banks for Shearson Lehman Brothers Inc.

Staffing Problem

"Regulatory agencies are woefully understaffed and are losing good people daily to the private sector," he said. "The cost to taxpayers now of a fully staffed corps of examiners would be more than offset by the money saved in loan losses down the

See page 11

Analysts Expecting FDIC to Push Premiums Well Above 15 Cents

By BILL ATKINSON

WASHINGTON — Following hints from Federal Deposit Insurance Corp. Chairman L. William Seidman that banks' premiums could go higher than expected next year, several industry analysts now say the industry should expect a substantial increase — perhaps approaching the FDIC's legal limit of 19.5 cents for each $100 of insured deposits.

The FDIC board is expected to consider at its meeting next Tuesday an increase in bank premiums above the rise of 3 cents per $100 of insured deposits slated to take effect next year. The scheduled increase will bring the premium to 15 cents per $100, and the FDIC's total assessment income to $3.75 billion from $3 billion this year.

Maximum Not Expected

Most observers do not expect the premium to hit the 19.5-cent ceiling, but they see an increase well beyond the 15-cent mark as all but certain. Each one-cent increase in the rate adds $250 million to the bank insurance fund, which is expected to need replenishment as banks suffer from a slowing economy.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the FDIC can raise the premium as much as 7.5 cents in one year.

But the agency might shy away from adopting the 19.5-cent rate because it would be politically unpalatable, said Bert Ely, president of Ely & Co., a Alexandria, Va.-based financial consulting concern. "If it goes to the final amount, that may raise complaints of gouging," he said.

Mr. Ely expects the FDIC to raise the premium to 18 cents per $100. Then the law would allow another 7.5-cent hike in 1992.

Agreement on Higher Level

Robert Litan, a senior fellow at the Brookings Institution in Washington, also said he would not be surprised if the FDIC board raised the assessment above the slated 15 basis points, but he is hard-pressed to be more exact.

"It is hard to know whether

See **ANALYSTS** *page 11*

PEOPLE *in the news*

RTC Loses Its Top Lawyer To Atlanta Private Practice

By BARBARA A. REHM

Rex R. Veal, the Resolution Trust Corp.'s top lawyer, is laying down his guns and going into private practice.

"My staff and I have been through a war for 18 months," Mr. Veal said Thursday, a few hours before the "soldiers" were to throw him a going-away party.

Mr. Veal, 34, is leaving behind the RTC's 60,000 lawsuits and moving to Atlanta to practice law with the firm of Powell, Goldstein, Frazer & Murphy.

Moving Closer to Home

Atlanta is just 100 miles south of Mr. Veal's hometown of Chattanooga, Tenn., and not much farther from Nashville, his wife's hometown. "I want to move back into the private sector and get closer to family ties," he said.

Mr. Veal said he leaves with mixed emotions. He is glad to be ditching the brutal hours and constant criticism of the bailout effort, he said, but will miss the battle and the people.

"A small core of us started in February of '89, and we've followed it on through," he said. "They are family, and I truly will miss this place. It was not a decision that was made easily."

He has "enjoyed tremendously" his work, Mr. Veal said, but "I think it's unfortunate that it is not recognized just how good a staff that we have."

Criticism of Agency Wearing Down Its Employees

John Douglas, Federal Deposit Insurance Corp. general counsel until last December and now in private practice with Alston & Bird in Atlanta, said the unrelenting criticism of the RTC is taking its toll on employees.

"Most of the senior people at the RTC feel that way," Mr. Douglas said. "They've got a hard job to do, and nobody thanks them for it."

Some concern exists that, when L. William Seidman leaves as RTC chairman, as he has said he will, the agency may be crippled as many staff members follow him out the door.

"I wouldn't want to predict the results of his leaving," said Mr. Veal. "The chairman is a one-of-a-kind person. He does in fact make our jobs a lot easier."

Commendation Expected from Oversight Board

At its meeting Tuesday, the RTC Oversight Board plans to take a rare step and commend Mr. Veal for his service.

"No, it's not a regular event," said John Bovenzi, Mr. Seidman's deputy. "But everybody recognizes Rex is responsible for getting 'legal' up and going."

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Colorado's economy is beginning to turn around, Norwest chairman Lloyd P. Johnson re-

See **COLORADO** *Page* **11**

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By LOUIS GERHARDSTEIN

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Inflation Policy Criticized

Mr. Rahn attacked the Fed's anti-inflation policy of keeping interest rates high. While a recession can no longer be avoided, he said, any action by the Fed to turn the economy around should include an increase in bank reserves.

He supported his bleak economic outlook with results of a survey of 8,200 Chamber of Commerce members. One in five respondents said he had trouble obtaining credit when he sought it in the past six months, indicating a credit crunch is taking hold.

Credit seekers in the Northeast were hardest hit; 26% reported trouble getting financing. Nearly one-fourth of respondents from the West and South reported similar problems.

Streamlining by businesses in the Midwest – in response to the last economic downturn – has minimized credit problems in that region, where only 16% reported trouble getting loans. But Mr. Rahn said credit availability is a national problem and "more widespread than previously thought."

Particularly hard hit were small and medium-sized businesses in real estate, construction, communications, or transportation, according to the survey. Of responding companies with 25 or fewer employees, 24% reported difficulty getting credit. One-third of responding real estate businesses said they had credit troubles.

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Mr. Gerhardstein writes for Medill News Service.

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PEOPLE *in the news*

RTC Loses Its Top Lawyer To Atlanta Private Practice

By BARBARA A. REHM

Rex R. Veal, the Resolution Trust Corp.'s top lawyer, is laying down his guns and going into private practice.

"My staff and I have been through a war for 18 months," Mr. Veal said Thursday, a few hours before the "soldiers" were to throw him a going-away party.

Mr. Veal, 34, is leaving behind the RTC's 60,000 lawsuits and moving to Atlanta to practice law with the firm of Powell, Goldstein, Frazer & Murphy.

Moving Closer to Home

Atlanta is just 100 miles south of Mr. Veal's hometown of Chattanooga, Tenn., and not much farther from Nashville, his wife's hometown. "I want to move back into the private sector and get closer to family ties," he said.

Mr. Veal said he leaves with mixed emotions. He is glad to be ditching the brutal hours and constant criticism of the bailout effort, he said, but will miss the battle and the people.

"A small core of us started in February of '89, and we've followed it on through," he said. "They are family, and I truly will miss this place. It was not a decision that was made easily."

He has "enjoyed tremendously" his work, Mr. Veal said, but "I think it's unfortunate that it is not recognized just how good a staff that we have."

Criticism of Agency Wearing Down Its Employees

John Douglas, Federal Deposit Insurance Corp. general counsel until last December and now in private practice with Alston & Bird in Atlanta, said the unrelenting criticism of the RTC is taking its toll on employees.

"Most of the senior people at the RTC feel that way," Mr. Douglas said. "They've got a hard job to do, and nobody thanks them for it."

Some concern exists that, when L. William Seidman leaves as RTC chairman, as he has said he will, the agency may be crippled as many staff members follow him out the door.

"I wouldn't want to predict the results of his leaving," said Mr. Veal. "The chairman is a one-of-a-kind person. He does in fact make our jobs a lot easier."

Commendation Expected from Oversight Board

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Bank of Boston Eases Access To Data for Corporate Clients

By RICHARD LAYNE

NEW YORK — To make account information more readily available to corporate customers, Bank of Boston has created a communications system that provides a single gateway into its computer systems.

The communications link, called Boston Window, was built partly to support the corporate financial services division, which was formed last month. The unit, headed by Susan M. Rugnetta, brings together cash management, coin and currency services, freight management – an important business for the bank – and payroll and payment operations.

The bank, a subsidiary of Bank of Boston Corp., announced Thursday that the Boston Window system, which cost $1.5 million to develop, will be made available at no extra cost to corporate customers within the next 12 months. The bank said 16 corporations, including Boeing Co., are already using the service.

Multiple Connection Paths

At other banks, customers typically have different software diskettes and phone numbers to connect each account with the bank's computers.

But with Boston Window, a customer can dial one phone number to link his personal computer with the bank's computers. His PC screen then displays a list of options, giving him a choice of information on various accounts.

Boston Window allows customers to examine their cash management, freight management, and shareholder services accounts. Customers can also check foreign exchange and money market rates, which are quoted once a day.

The bank plans to expand the service to include asset-based lending and factoring customers.

"From a customer perspective, if you subscribe to multiple services, it is complicated to get electronic information from all of them," said William F. Ray Jr., senior product development manager at the Boston bank.

Competitive Gains

The new service allows Bank of Boston to catch up to competitors and, in some cases, leapfrog them. Because of Boston Win-

> **"It's a tremendous concept – getting information via PC that you would normally have to call up and ask for."**
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> **Frank W. Libardoni**
> *Grossmans Inc.*

dow's single entry point, the bank also plans to expand the types of electronic information available to customers.

"It's a tremendous concept – getting information via PC that you would normally have to call up and ask for," said Frank W. Libardoni, manager of treasury services at Grossmans Inc., a retailer of lumber and building materials that reports $1 million in annual sales.

Mr. Libardoni was part of the pilot project two years ago but has not yet been approached by the bank to use the new system. As a retailer with unsophisticated investment needs, he said, he may already get sufficient account information through the bank's electronic balance reporting system. □

Upgrades Seen in Trade Finance

Seattle-First Is Installing Mainframe-Based System

By JEANNE IIDA

NEW YORK — Seattle-First National Bank is one of a growing number of banks upgrading systems to take advantage of burgeoning opportunities for low-risk fee income in the trade financing arena.

In trade financing, banks generate the documents for letters of credit, collections, reimbursements, and bankers acceptances that are required to guarantee the settlement of funds among companies trading internationally.

The labor- and paper-intensive operation is typically one of the least automated areas of a bank. Automation is difficult because of low transaction volumes and a high number of exceptions.

Market Explosion

But there has been "an incredible growth in the market" for trade finance systems over the last 18 months, said Timothy P. Dolan, an account executive with Complex Systems Inc., New York.

SeaFirst's main bank unit plans to have its mainframe-based system fully installed by the end of November and expects to be able to reduce its staff by 10 people, or 20%.

The bank, which has offered trade financing services for years, said it needed a single system to make it easier to introduce new products. Previously, it had a multitude of systems based on personal computers and minicomputers.

Demand from Regional Banks

Much of the interest in comprehensive systems for trade finance is coming from regional banks, which traditionally have not been fully automated, Mr. Dolan said.

According to vendors, these banks are automating to compete with money-center and international banks on service and to reduce transaction costs.

Regional banks are revisiting the trade financing market because they can "make profits without having the risks of major exposure to loans," said Thomas Hanson, vice president of sales at Kapiti Inc., in New York.

Smoothing the Path

Kapiti, Complex Systems, and the Business Information Systems unit of Nynex Co. all offer trade financing systems. The systems are expensive, ranging from about $30,000 for a workstation-based system to $500,000 for software that runs on a high-end International Business Machines Corp. mainframe.

SeaFirst, a unit of BankAmerica Corp., is installing trade financing software from Complex Systems that will run on an IBM mainframe. Other banks installing systems are Norwest Minneapolis and First Wisconsin Bank, Milwaukee.

One advantage of the new systems is that they smooth the path to electronic data interchange, in which corporations exchange trade documents in a standard electronic format.

But Mr. Martin cautions that banks must "remain competitive on the pricing side" when they automate. □

A St. Louis Thrift Praises External Data Processor

By KAREN GULLO

NEW YORK — A St. Louis thrift that hit bottom in 1989 is crediting an outsourcing contract with helping get it back in the black.

Community Federal Savings and Loan Association decided to turn over its data processing to M&I Data Services Inc. as part of an overall cost-cutting move after reporting a loss of $298 million last year.

It began moving in phases to M&I's data center, with deposits and consumer loans going early this year, followed by student loans and mortgage origination in spring and early summer. The thrift reduced its programming staff to three people from 90 and sold all its computer equipment.

Community Federal, which has $2 billion in assets, says it will save $2 million a year through the outsourcing contract. So far this year, it has posted $7.1 million in profits.

Gains Deemed Significant

"The $2 million in savings is 8 basis points in assets, which is very significant for our institution," said Alex J. Pollock, president and chief executive officer.

Other thrifts are considering outsourcing for similar reasons, said Joseph Delgadillo, senior vice president of the financial services group at the unit of Marshall & Ilsley Corp., Milwaukee.

Kenneth L. Gould, executive vice president and head of data processing at Community Federal, points to advances in outsourcing in recent years.

"M&I made hundreds of modifications to their systems that are specifically for us," Mr. Gould said. "When you see you can have some flexibility, the service bureau option becomes much more attractive." □

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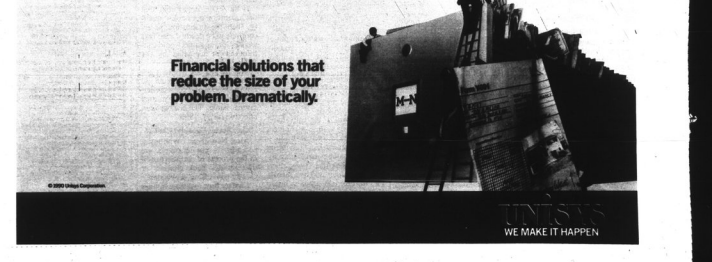

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WE MAKE IT HAPPEN

COMMENT/ *By Joseph A. DiNuzzo*

Some Thrifts Converting Into State Savings Banks

Since the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act in August 1989, several federal and state savings associations in states with savings bank statutes have begun to change their charters to state savings bank.

A state-chartered savings bank is a hybrid between a commercial bank and a savings and loan association, with a mixture of commercial banking and thrift lending and investment powers.

Historically they have been insured by the Federal Deposit Insurance Corp. and regulated by the FDIC and the applicable state chartering authority.

The savings-bank charter alternative has become popular, in part, because of the thrift law's elimination of the Federal Savings and Loan Insurance Corp. and the transfer of thrift insurance responsibilities to the FDIC under the Savings Association Insurance Fund.

Mr. DiNuzzo is a partner in the Washington, D.C., law firm Breyer & Zonis, which specializes in representing banks and thrift institutions.

Some states with savings bank statutes require that institutions be insured by the FDIC to be eligible to become savings banks. Because all federally insured thrifts are now insured by the FDIC under SAIF, they may qualify to convert to savings banks under the applicable state statutes.

After conversion, the savings bank is subject to regulation by the state banking authority and, ordinarily, the FDIC.

"The savings-bank charter alternative has become popular, in part, because of the thrift law's elimination of the Federal Savings and Loan Insurance Corp.

Pioneer Federal Savings Bank, a $680 million-asset institution in Lynnwood, Wash., recently received what we believe was the first post-FIRREA approval by the Office of Thrift Supervision of a savings-bank charter conversion.

The conversion was facilitated by the strong capital position of Pioneer and the active cooperation of the state supervisor and his office in reviewing the application.

The supervisor's office and the FDIC conducted a joint examination of Pioneer. Before the regulatory examination, the Pioneer stockholders met and voted to approve the charter conversion.

Other Conversions in Progress

Several other savings associations in the Washington area are in the process of converting to a state savings banks.

Federal law does not prohibit a savings institution from converting to a state-chartered savings bank.

In fact, a provision in the thrift law specifies that the five-year moratorium on conversions from the SAIF to the Bank Insurance Fund shall not be construed to prohibit a savings association from converting to a bank charter if the resulting bank remains a SAIF member.

FDIC Status Is Same

Upon converting to a state-chartered mutual savings bank, the deposit insurance status of the institution does not change. Thus, the eligible deposits held at the institution continue to be insured under SAIF and the institution must continue to pay assessments to the FDIC for SAIF insurance.

The applicable state regulatory authority and, ordinarily, the FDIC become the primary regulators of the institution, replacing the OTS.

Also, the institution may remain a member of the Federal Home Loan Bank System, assuming continued compliance with the qualified thrift investment requirements.

The staffs of the OTS and the FDIC have acknowledged that such conversions are permissible, with the caveat that policy implications would arise if the converting institution has safety and soundness problems.

OTS Application Required

With respect to the termination of its current charter, an institution must file an application with the OTS. No formal conversion-related application must be filed with the FDIC. State and FDIC examinations of the institution, however, usually are required before the final approval of the conversion.

Ordinarily, the applicable state law requires the adoption of the conversion by a majority of the members of the institution's board of directors and approval of the conversion by a majority of the stockholders or members of the institution.

Charter flips to a state savings bank may include the benefits of being regulated and supervised by a regulator in the institution's home state, reduced costs in examination and supervisory fees, and more favorable lending and investment powers.

Charter flips to a state savings bank also do not require an institution to recapture any portion of its bad-debt reserve.

In addition, in situations in which the converting institution is owned by a savings and loan holding company, the conversion process is further simplified because of the ease by which a vote of the stockholders, namely the holding company, may be obtained.

Higher Capital Requirements

One possible disadvantage in converting to a state savings bank is the higher capital requirements imposed by the FDIC. The FDIC presently requires a primary capital ratio of 5.5% and total capital of 6%. These contrast with OTS core and tangible capital requirements of 3% and 1.5% respectively.

The risk-based capital requirements of both the FDIC and the OTS are essentially the same. The FDIC, however, has a two-tiered phase-in of the risk-based capital requirements, unlike the OTS, which has an interim phase-in requirement of 6.4% until Jan. 1, 1991, when the OTS and the FDIC both will enforce the 7.2% requirement.

A Regulatory Test

An additional issue to address in connection with such a charter conversion is whether the FDIC will deem the institution to be a savings bank under the Federal Deposit Insurance Act and thus consider the institution as a state nonmember bank, so as to come within the primary regulatory jurisdiction of the FDIC.

"The advantages in converting may include being regulated and supervised in the institution's home state and more favorable lending and investment powers."

The test under the FDI Act in this respect is whether the applicable state law imposes "special requirements on such banks governing the manner of investing their funds and conducting their business."

If the FDIC determines that the institution does not so qualify, then the institution would continue to be deemed a savings association, and thus would continue to be regulated by the OTS.

Other States Consider Change

Also, New Jersey, Wisconsin, and Illinois, among others, are in the process of considering either savings bank charters or charter conversion provisions.

Charter flips to a state savings bank may not be available or advisable for all savings associations, but those that are eligible for such a conversion should give some thought to the option. □

Have an Important Legal Notice? Call Penny Papaioanou at 212/943-5739

LETTERS *to the editor*

Rose Wins Jeers, Cheers for Blast At Greenspan Call for More Capital

To the Editor:

I'm surprised that in 1990 a commentary such as Sanford Rose's July 24 article regarding bank capital ["For Shame, Chairman Greenspan!" on page 1] is deemed worthy of printing.

I've been a bank regulator, both state and federal, for 34 years, and I've never seen a bank fail because of too much capital.

I've seen them fail because of inadequate capital, and that's the point: The greater the risk in an institution, the more capital is required.

Time and time again, bankers want to leverage their minimal equity capital to the point that a minor downturn in the economy leaves them with insufficient capital to absorb loan losses.

Safety and Soundness

I also know that when investors and shareholders have adequate investments in a bank they take a special interest in safety and soundness.

Maybe we should go back to requiring shareholders to be subject to a mandatory call for capital contributions in time of need. That way, the taxpayers won't need to have their checkbooks handy.

Thomas K. Desch
Senior Vice President
Federal Reserve Bank
Philadelphia

To the Editor:

As a frequent reader of Sanford Rose's columns in the *American Banker*, I was particularly impressed with the July 24 commentary on Alan Greenspan's proposal for raising bank capital.

As Mr. Rose suggested, its likely effect is to cause bank managements to take yet greater risks in order to achieve the yields necessary to justify and sustain higher capital levels.

This seems to me to be the same mechanism that caused the massive losses in the savings and loan industry – managements, abetted by the easy availability of federally insured funds, seeking higher and higher yields to compensate for mounting losses on earlier risks.

There is, in my view, no way to address this problem within the current system. Your views on Alan Greenspan's approach suggested to me that my own proposal for a privatized deposit insurance system, utilizing the capital of the banking industry, would be of some interest.

Privatization offers a mechanism for introducing the right kind of market discipline into the deposit insurance system and forcing unproductive capital out of the banking industry.

Peter J. Wallison
Gibson Dunn & Crutcher
Washington, D.C.

Editor's Note: Mr. Wallison was White House counsel to President Reagan and chief counsel to the Treasury Department under Donald Regan.

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Calls Grow for Ruling on Disputed Citicorp Credit System

By DEBRA COPE

WASHINGTON — A one-stop shopping program that lets homebuyers qualify for mortgages in a real estate broker's office has put Citicorp Mortgage Inc. smack in the middle of a controversy. Now, a powerful congressman is threatening to act if a government agency doesn't resolve the matter soon.

MortgagePower, the Citicorp subsidiary's market link to the customers of real estate brokers, last year accounted for 80% to 85% of the company's $12.3 billion mortgage origination business. It has a 4% market share.

Disguised Kickbacks?

But the computerized loan origination system that lets brokers collect fees for referring borrowers to Citicorp has drawn fire from competitors. Traditional mortgage lenders say the practice disguises kickbacks, referral fees, and other abuses outlawed by the Real Estate Settlement Procedures Act of 1974.

Rep. Henry B. Gonzalez, D-Tex., said at a hearing Wednesday that next year he may introduce a bill on the issue, though he would prefer to see the Department of Housing and Urban Development impose a remedy.

Under mounting pressure from the feuding parties and from Congress, HUD Secretary Jack Kemp has pledged to unveil a regulatory proposal this fall. He made known his intent in an Aug. 2 letter to Rep. Gonzalez, chairman of the House Banking Committee.



The Citicorp unit's four-year-old program violates RESPA's guiding principles by encouraging real estate brokers to steer customers to MortgagePower, without regard to price or service, said Ronnie J. Wynn, president of the Mortgage Bankers Association.

> **"Our concern is that HUD has approved programs that violate these basic consumer protection principles.**
>
> **Ronnie J. Wynn**
> *Mortgage Bankers Association*

The reason MortgagePower succeeds is simple: "Their solicitation shows a real estate broker can make $120,000 a year for about three weeks' work," Mr. Wynn said in an interview. Citicorp Mortgage, he said, claims that prospective members can collect fees of $100 to $1,000 for closing a loan in 15 minutes.

But Leonard N. Druger, Citicorp Mortgage's vice chairman, said his competitors are deliberately muddling the issue.

Fees Called Legitimate

Although RESPA bans referral fees, it does not ban fees charged for legitimate services rendered. Mr. Druger said, for example, the mortgage processing service that some Realtors provide under MortgagePower Plus, a Citicorp program operating in five states, carries a typical charge of $250.

Mr. Druger said MortgagePower's critics are resisting technological advances that increase real estate brokers' role in the mortgage delivery system.

Although Congress amended RESPA in 1983, HUD has issued no rules to enforce the amendments, leaving mortgage lenders in a regulatory vacuum. A proposed rule formally sanctioning MortgagePower has lain at HUD since May 1988.

HUD Opinion Backs Citicorp

The Citicorp subsidiary launched MortgagePower after HUD issued an opinion approving its fee arrangement so long as the charges are revealed to the borrower and permitted by state law. The company has expanded MortgagePower into 36 states, and other big mortgage lenders have followed its lead.

"Citicorp is perfectly legal in what they're doing because of the HUD opinion letters," Mr. Wynn conceded. "Our concern is that HUD has approved programs that violate these basic consumer protection principles."

James Merrion, a Mission Viejo, Calif.-based senior vice president in the Coldwell Banker Residential Group affiliate of Sears, Roebuck and Co., said: "If Congress and HUD don't provide more consistent guidance in the future, the end result will be less competition, less choice, and higher costs for consumers." □

Key Interest Rates

	Week ended 8/03/90	Week earlier 7/27/90	Year earlier 8/04/89
30-year fixed-rate mortgage	9.94	10.06	9.82
1-year adjustable-rate mortgage	8.23	8.31	8.58

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 8/08	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	98-20	0-26	9.68	+0.50	+116	+6
Fannie Mae 9½%	98-26	0-14	9.80	+0.43	+108	+0
Freddie Mac 9½%	98-10	0-14	9.80	+0.43	+108	–1

Yield: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. **Treasury spread:** the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. **(–)** — Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

MBA Membership Makes Sense

To more than 2,600 mortgage lenders, servicers, investors and others in the real estate finance industry, membership in the Mortgage Bankers Association of America makes sense. As commercial banks come to the fore in mortgage lending, membership in MBA makes sense for you, too.

MBA provides its members with a voice in Congress and with federal regulators, as well as educational, communications and other business services that help its members manage their businesses more efficiently and more profitably.

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TALKING *markets*

Loan Assembly Strategy Pays Off for Imco

By STEPHEN KLEEGE

Though most mortgage companies are either producers or servicers of loans, Terrance G. Hodel has positioned Imco Realty Services as an assembler.

An assembler does not contact the customer, said Mr. Hodel, who is president of the Santa Rosa, Calif., company. Instead, working through brokers, it guides a mortgage from the post application stage through its sale to investors.

Joining the Top 20

This unusual strategy has helped propel Imco into the top 20 in mortgage originations despite a bias in the secondary market against such "third-party originations."

To be sure, Imco has a network of 24 branches in California, Hawaii, and Texas. But about half its loans come through outside brokers, many of whom are experienced lenders let go by banks and thrifts in recent years' cutbacks.

"Their business is processing [the applications], and we close them," Mr. Hodel said.

Brokered Loans' Quality

The delinquency rates on loans originated by brokers and those originated in-house are about the same, Mr. Hodel said, but the firm must battle the perception among loan buyers that brokered loans are of "inferior quality."



> **When thrifts "stopped offering teaser rates, it was a very big help."**
>
> **Terrance G. Hodel**
> *Imco Realty Services*

"We have not found that to be the case," he said. "But you do have to underwrite, and you do have to know what you're doing." To reassure investors, Imco verifies the proof of employment submitted by the borrower and sometimes does an additional property appraisal.

Mr. Hodel said Imco's strategy stems from the debt load it took on when acquired by a limited partnership from Wells Fargo & Co. in 1985. That financial burden has prompted the firm to sell servicing rights, in contrast to companies with a low cost of capital that find it profitable to buy such rights.

Servicing Portfolio Flat

As a result, Imco's servicing portfolio has remained about $7.7 billion, though it lent $3.4 billion last year, more than double its 1988 total of $1.5 billion. Imco originated $2 billion in loans in the first six months of 1990.

While sales of servicing rights have helped Imco eliminate its high-cost bond debt, the company still has bank debt that prevents it from being competitive with such companies as the mortgage affiliates of General Electric and General Motors as a loan servicer, Mr. Hodel said.

Interest Rate Change

The increase in originations by Imco can be attributed in part to a change in interest rates that tends to favor fixed-rate loans and mortgage companies that sell loans on the secondary market. Mortgage companies have picked up additional market share from thrift institutions that are going out of business or retrenching to meet capital requirements.

"When they stopped offering teaser rates, it was a very big help," Mr. Hodel said, referring to the unprofitable inducements some thrifts offered to entice borrowers to take adjustable-rate loans. □



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SMALL BUSINESS

BankAtlantic Offers Sweep Of Balances Over $25,000

By LAURYN FRANZONI
Special to the American Banker

BankAtlantic, Fort Lauderdale, Fla., is offering small-business customers with checking account balances of at least $25,000 the chance to have idle funds swept into an interest-bearing account on a daily basis.

The sweep account is one that many business owners and corporations have said they would like, yet most banks find it difficult to drop balance requirements to a realistic level for the small business.

BankAtlantic says that in the competitive South Florida market it has the lowest minimum balance for such a service. A $1.89 billion asset thrift, BankAtlantic serves small-business customers through 49 branch offices in Broward, Dade, and Palm Beach counties.

Balances Higher Elsewhere

BankAtlantic will transfer funds above the $25,000 minimum to an investment account that is expected to yield an 8% annual return. The service costs $12 a month.

Minimum balances for sweep accounts at other area institutions are $50,000 to $100,000, and monthly fees run at least $145, said John O'Neill, BankAtlantic's executive vice president, in introducing the small-business account.

Bankers point out the possible gains from a sweep account. For example, $75,000 is the difference between BankAtlantic's threshold and that of other banks. If that sum were invested at 8% for a year, a business could add $6,000 to its bottom line.

The service is tied to a checking account. Customers also receive automatic tracking, excess-funds transfer service, and a comprehensive monthly statement of activity.

Many Don't Offer Product

"Most other competing institutions don't offer this type of product, and if they do, you've got to ask for it to get it," the BankAtlantic executive observes.

Leslie N. Masonson, a cash management consultant, agrees it is more profitable for the bank to offer noninterest-bearing accounts or perhaps earnings credits of 3% to 5%.

"On the other hand," he notes, "if the competition in a market has sweep accounts, it is in the bank's best interest to offer as many products as possible." Mr. Masonson is president of Cash Management Resources, Monroe, N.Y., and editor of the monthly newsletter *Cash Management Digest & Analysis*.

Mr. Masonson recommends that banks look carefully at the average daily balances of their small-business customers. "A small business must consider the benefit based on the minimum balances and fees charged. They may continue to be better off investing the idle balances in a money market fund."

Author Says Owners Don't Manage Cash

In a new book titled "Cash, Cash, Cash," author Leslie N. Masonson says most small-business owners do not manage their cash flows.

"They forget that cash, not the goods or services they produce, is the ultimate end product of their business," he asserts. "Without sufficient cash coming through the front door, there is little hope that their businesses will survive."

Mr. Masonson places most of the blame squarely with the business owner but adds that banks have not aggressively marketed their cash management services to smaller companies until recently. Those that have, he says, have not adequately educated their customers.

Small companies have difficulty getting the services they need because bank officers are often inexperienced in handling their needs, he says. "The bank may not offer the gamut of cash management services that are needed, the banks' pricing for these services may be higher than the companies want to pay, and the firm's requests for loans may be too often rejected or not acted upon quickly enough."

Mr. Masonson draws on his experience as vice president and head of Citicorp's treasury management consulting service and his work as a consultant. He says his book provides small businesses and midsize firms with a step-by-step guide on how to manage cash flow more effectively.

SBA Seen Becoming Best Loan Source

Roger Cathey, vice president and SBA loan manager for First American Corp., Nashville, Tenn., says a $500 million increase in the Small Business Administration loan allocation fund is an indication of renewed economic strength.

Last year, the fund was allotted $2.7 billion. The total now tops $3.2 billion. With the stock market reeling from the impact of Iraq's invasion of Kuwait and rising interest rates, bankers say that the SBA may be the best source for loans in coming months.

"Small business has always been this country's primary source of new jobs and economic growth," Mr. Cathey said.

Ms. Franzoni is a freelance banking reporter in Springfield, Mo.

Banks Join Cirrus, Plus Project

ATM Sharing Agreement Will Be Implemented Soon

By YVETTE D. KANTROW

NEW YORK – A handful of the nation's largest banks are poised to accept automated teller machine cards bearing the logos of either Cirrus or Plus when the networks begin sharing ATMs on Aug. 20.

First Wachovia Corp., Manufacturers Hanover Corp., Mellon Bank Corp., Norwest Corp., and SunTrust Banks Inc. are among the members of Cirrus System Inc. that have already received approval to place the Plus logo on their machines, according to D. Dale Browning, president of Plus System Inc. First Interstate Bancorp, another Cirrus bank, announced its intentions to accept Plus cards last week.

"Almost every major Cirrus member has applied to Plus," said Mr. Browning. Six or seven more Cirrus banks should receive approval to accept Plus cards over the next couple of weeks, he said.

Joint Agreement

Cirrus and Plus – the country's two prominent national ATM networks – reached an agreement several months ago to exchange transactions. The arrangement, known as "terminal duality," enables banks that belong to Cirrus or Plus to accept cards bearing either network's logo. It does not permit banks to issue both Cirrus and Plus cards.

The networks' arrangement ultimately could give more than 100 million cardholders access to about 60,000 machines nationwide.

Cirrus is scheduled to review applications on Aug. 14 from Plus members that want to take advantage of duality. The network, based in Downers Grove, Ill., is a wholly owned subsidiary of MasterCard International. Visa U.S.A. owns a small interest in Denver-based Plus.

Antitrust Challenge

Cirrus and Plus are proceeding with the sharing plan even as 14 state attorneys discuss a possible antitrust challenge to the agreement.

"My view is that [the attorneys general] are going to take a position of wait and see," Mr. Browning said. "They found out that banks can't put the competing marks on the same card and that provided them with a sense of comfort."

The attorneys general held a conference call to discuss their inquiry on Wednesday. Joseph Opper, assistant attorney general in the New York State antitrust bureau, said the attorneys hope to deliver a decision to Cirrus and Plus before Aug. 20.

According to Mr. Browning, those who believe the agreement is anticompetitive – including executives at some regional networks – are misinformed. "In fact, sharing terminals will lead to more transaction volume on both the regional and national networks," he said.

Gain in Transactions Doubtful

But whether or not sharing will lead to more ATM volume – and more fee income for banks that own the machines – remains to be seen.

First Wachovia currently owns the only prominent Cirrus bank in North Carolina – Wachovia Bank and Trust Co., and the only major Plus bank in Georgia – First National Bank of Atlanta.

As a result, most Cirrus customers traveling to North Carolina use Wachovia ATMs, while most Plus customers that go to Georgia use First Atlanta's. R. Harrison Marks, a First Wachovia senior vice president, said this pattern will change when other banks in those states begin accepting both Cirrus and Plus cards.

Mr. Marks expects that the Cirrus transactions Wachovia loses will be offset by the Plus transactions it will gain. But he does not expect to net more transactions. □

Consumers Wary of Banks' Entering New Businesses

By YVETTE D. KANTROW

NEW YORK — The well-publicized problems of the banking and thrift industries have soured consumers on allowing banks to enter new businesses, according to a survey by a consumer-research firm.

Two-thirds of the 802 consumers surveyed last month by Synergistics Research Corp. said banks should not get involved in new lines of business, including mutual funds, travel services, and life insurance.

Only one in three respondents said it was a good idea for banks to underwrite life insurance. Of the remaining two-thirds, half said underwriting activities would put both a bank and its depositors at risk.

The findings come at a time when bankers around the country are fighting for expanded insurance powers.

William O. Adcock, chairman of Atlanta-based Synergistics, attributed much of the consumer resistance to reports about the savings and loan bailout and mounting problems in the banking industry.

"There is a lot of concern over safety," Mr. Adcock said. "The consumer is becoming more aware of how much the bailout will cost him personally."

Of those consumers who think banks should underwrite insurance, four out of ten perceive banks as safer institutions than insurance companies due to stricter regulation.

The Synergistics telephone survey defined underwriting as issuing policies, collecting premiums, managing assets, and paying claims.

Mr. Adcock said the survey results should not be interpreted to mean that banks should not become involved in underwriting insurance.

But, he said, given current consumer attitudes, marketing self-written life insurance will be a tremendous marketing task for nation's banks. □

AMERICAN BANKER / *Bank Rate Monitor's™*

Consumer Money Index — Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on August 8 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assesses 0 (lowest) to 3 (highest) of the information is also guaranteed.

Retail Yields

Six-month		
Heritage Svgs Bank, Richmond, Va.		8.82%
Columbia SBL, Irvine, Calif.		8.70
Maine Savings Bank, Portland		8.72
Imperial Fed Svgs, San Diego, Calif.		8.67
First Dep Nat'l Bk, Tilton, N.H.	***	8.63
One-year		
Heritage Svgs Bank, Richmond, Va.		8.93%
Maine Savings Bank, Portland		8.89
Columbia SBL, Irvine, Calif.		8.82
Citytrust, Bridgeport, Conn.		8.79
Imperial Fed Svgs, San Diego, Calif.		8.78
Five-year		
Washington Svgs Bank, Waldorf, Md.	***	9.04%
NVR Svgs Bank, Mclean, Va.	*	8.80
Perpetual Svgs Bank, Alexandria, Va.	*	8.76
United Svgs Bank, Vienna, Va.		8.76
Eastern Svgs Bank, Hunt Valley, Md.	**	8.75

Jumbo Rates

Six-month		
Columbia SBL, Irvine, Calif.		8.80%
Heritage Svgs Bank, Richmond, Va.		8.55
First America Fed Svgs Bank, Longmont, Colo.	*	8.50
Maine Savings, Burlington, Mass.		8.50
Westwood Savings & Loan, Westwood, Calif.		8.50
One-year		
Calif. Thrift&Loan, Santa Barbara, Calif.	***	8.85%
Columbia SBL, Irvine, Calif.		8.65
Heritage Svgs Bank, Richmond, Va.		8.65
Western Gulf SBL, Bay City, Tex.		8.63
United Svgs Bank, Vienna, Va.		8.45
Five-year		
Metropolitan Bank for Savings, Arlington, Va.	***	9.00%
Bank Hapoalim, Chicago, Ill.		8.75
Washington Svgs Bank, Waldorf, Md.	***	8.75
Am General Fin. Ctr. Thrift, San Francisco	***	8.70
New South Fed Svgs, Birmingham, Ala.	***	8.65

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7300

STRATEGIC *dates*

When does that new regulation or law or change in operation go into effect that will affect your segment of the financial services industry? Some of the most important dates and anticipated developments appear below. If you have information that you would like to see included in Strategic Dates, please contact Jane Sandiford at the American Banker, *One State Street Plaza, New York, N.Y. 10004.*

SEPT. 1. 1990

CHECK RULES: On this date, banks and thrifts must abide by the strict check-hold requirements of Regulation CC. Under the law, institutions must make the first $100 of any deposit available for cash withdrawal at the opening of business on the day after the deposit is made. The next $400 of local checks deposited must be available no later than 5 p.m. the next day. Other local checks must be available for withdrawal at the start of the third day, and nonlocal checks must be available on the fifth day.

JAN. 1. 1991

ASSET GROWTH: After this date, the Office of Thrift Supervision will limit the asset growth of all savings associations that do not meet capital standards.

JUNE 1. 1991

SECURED LOANS: Starting today, federal savings associations will not be permitted to exceed limits on loans secured by nonresidential real estate.

JUNE 30. 1991

SUBSIDIARIES AND CAPITAL: On this date, thrifts may count 75% of investments in certain subsidiaries as capital.

JULY 1. 1991

QUALIFIED THRIFT LENDER: Starting today, a savings association will be considered a qualified lender if it is qualified thrift investments equal at least 70% of its assets.

APPRAISALS: After this date, all appraisals in connection with federally related transactions must be performed by state-certified appraisers who have passed a test satisfying requirements established by the Appraisal Foundation, a nonprofit corporation.

AUG. 9. 1991

INSURANCE FUND: This is the last day for some newly insured thrifts to convert to the Bank Insurance Fund, an FDIC agency, without paying exit fees.

JAN. 1. 1992

1% GOODWILL: After this date, qualifying supervisory goodwill amounting to 1% of total assets can be included in core capital, rather than the previous 1.5%.

AUG. 8. 1992

RTC AS CONSERVATOR: All institutions insured by the Federal Savings and Loan Insurance Corp. for which a conservator or receiver was appointed between Jan. 1, 1989, and this date will become the responsibility of the Resolution Trust Corp.

AUG. 9. 1992

FDIC AS RECEIVER: Before this date, the Resolution Trust Corp. is the receiver for any savings association. After this date, the FDIC is appointed receiver. □

SEPT. 30. 1992

THRIFT INVESTMENTS: This is the last date for the use of a 25% figure in actual thrift investment calculation for certain associations. After this date, the applicable figure is 50%. □

JAN. 1. 1993

0.75% GOODWILL: Before this date, supervisory goodwill is allowed to be included in core capital up to 1% of total assets. After this date, the applicable percentage is 0.75%. □

Savings Bank Chief Charged With Bribery

NEW YORK (UPI) — The head of a Queens savings bank and four associates were arrested this week on charges of bribing Internal Revenue Service employees.

IRS Inspector Ronald Fanelli said a two-year investigation, which culminated in a $35,000 payoff to an undercover IRS agent, led to the arrest of Michael Cousin, chairman of the $109 million-asset Cross County Federal Savings Bank, Maspeth, Queens.

Also charged were Max Fodera, a construction foreman for the New York City Department of Environmental Protection and a member of the bank's board; John and Frank Parlante, and John Parlante's wife, Joan.

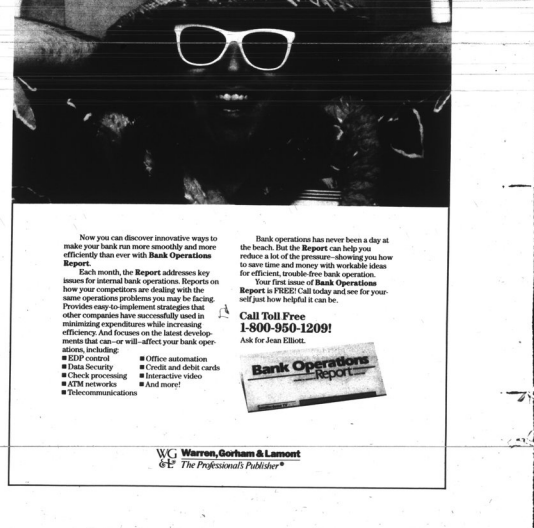
Joseph Lamonica, assistant regional inspector of the IRS internal security division, said the Parlantes own Cobra Gunskin Manufacturing Co., a Queens-based supplier of law enforcement equipment.

He said the five suspects were charged with breaking federal bribery laws with payoffs to IRS employees. The suspects were arraigned at U.S. District Court in Brooklyn. □

1st Federal, Michigan, Raises Loss Provision

PONTIAC, Mich. — First Federal Bancorp Inc. said that as a result of a review of certain loans and real estate in the portfolio of its First Federal Savings Bank and Trust, it increased the reserve for possible loan losses by about $8 million in the fourth fiscal quarter, which ended June 30.

Quarterly and full-year results were not yet available. It also said the U.S. Court of Appeals in Cincinnati extended until Aug. 10 a temporary restraining order preventing the Office of Thrift Supervision from appointing a conservator for the bank unit. **— Reuters**



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Persian Gulf Turmoil Hits Bahrain Banks' Ratings

By JOHN EVANS

LONDON — Capital Intelligence, a specialist Middle East bank rating agency, has downgraded the ratings of a number of banks operating in Bahrain, the Persian Gulf's main international banking center, in the wake of Iraq's invasion of Kuwait.

Bahrain-based banks, as well as other financial institutions in the region, are being hit by a tough liquidity squeeze as their Western and Japanese counterparts outside the area either stop or sharply curtail bank-to-bank lending, according to bankers.

In addition, local customers of Arab banks across the Gulf are compounding the liquidity drought by withdrawing funds heavily, either to send overseas or to convert their local currencies into "safe-haven" targets such as the U.S. dollar.

"Large outflows are taking place into Switzerland," according to Ramin Habibi, chief analyst for Capital Intelligence, based in Limassol, Cyprus.

Bahrain's banking system is being hit particularly hard, amid a big switch of time deposits elsewhere, because the tiny island at the northern end of the Gulf has few large depositors and depends on funds from outside.

Investors Victims

Iraq crisis prompts downgrade of Bahrain banks

	New rating
Al-Ahli Commercial Bank	BB+
Al-Bahrain Arab African Bank	BB
Arab Banking Corp.	BBB
Arabank International	B
Bahrain Int'l Bank	BBB
Bahrain Middle East Bank	B+
Bank of Bahrain and Kuwait	BB
Gulf International Bank	BBB+
Kuwait Asia Bank	B+
National Bank of Bahrain	AA
United Gulf Bank	BB

Source: Capital Intelligence

Kuwaiti Ratings Suspended

Capital Intelligence has meantime suspended its ratings for all Kuwaiti banks in the wake of the Iraqi invasion.

But the agency has taken action on some of the region's banks. For example, it is maintaining ratings on banks in Oman, the state at the mouth of the Gulf relatively distant from the tensions and an economy to a degree "insulated" from the rest of the region's business.

In its downgrading of a number of Bahrain-based banks, the agency chiefly cites "the high reliance of the local economy on Saudi-related business." □

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Argentina to Press Privatization

Move Will Aid Debt Repayment, Central Bank Chief Says

By KUNIO INOUE
Reuters

TOKYO — Argentina will try harder to privatize state-owned companies to improve its finances and help pay its commercial bank debt, says Javier Gonzalez Fraga, president of Argentina's central bank.

"Privatizations are necessary for our economic programs to be successful. And they are our major tool in the process of debt reduction," he said in a recent interview near the end of three days of talks with government and business leaders here.

Privatization will help Argentina cut public spending, collect more taxes, and attract more investment, he said.

"It will also improve the chances of the Argentine government servicing its debt in the coming months," Mr. Gonzalez said. Argentina, which is grappling with about $66 billion in foreign debt, has proposed a package of economic measures last March to combat hyperinflation. The package featured privatization, structural reforms and deregulation.

The Argentine government auctioned off in June its controlling stakes in the Entel telephone company and Aerolineas Argentinas airline, netting more than $1 billion.

He said the government also plans sell the iron and steel mill Somisa and petrochemical giant Bahia Blanca.

Japanese Interest Seen

"We believe the coming privatizations of Somisa, which uses Japanese equipment, and Bahia Blanca, in which Japanese firms have a minority interest . . . can be of interest to Japanese investors," the Argentine central banker said.

In completing the privatization process, Argentina plans to use a debt-for-equity swap and this causes problems because waivers must be obtained from creditor banks.

"Privatizations are necessary for our economic programs and are our major tool in the process of debt reduction."

Javier Gonzalez Fraga
Central bank of Argentina

Under a debt-equity swap, investors buy part of Argentina's debt from creditor banks at a discount; redeem it at Argentina's central bank for almost its total value in local currency, and then invest the money in Argentina's state companies.

Waivers Slow in Coming

Mr. Gonzalez said the Argentine government auctioned Entel and Aerolineas without obtaining waivers but must get them before it sells. So when it hopes to complete the transfer of both companies to private-sector investors.

"We believe the waivers should be provided by the banks. . . . And we believe they will finally be awarded," he said.

Behind the delay in obtaining waivers is the hard fact that creditor banks are still unhappy about the way Argentina is servicing its debt, banking sources here said.

Argentina resumed servicing its $40 billion commercial bank debt in early June after a 26-month holdout, but banks have complained that the country's $40 million-a-month repayment plan is too small.

"I agree with the fact that the [interest_payment]_amount_is not sufficiently high, but I believe the payments are consistent with the limited fiscal possibilities," Mr. Gonzalez said.

He said if Argentina makes interest payments of more than $40 million a month, it could risk new hyperinflation.

Move Is Supported

"That could only create problems for both parties. Having decided to pay $40 million and being able to maintain this for three months already has proven the right decision," he noted.

Argentina's monthly inflation was down to an average of 7 to 8% recently, from about 100% in March, an Argentine central bank official said separately.

He said Argentina has now succeeded in improving its relations with international financial organizations such as the World Bank and the International Monetary Fund.

He also expressed hope Argentina would be granted a new multibillion-dollar credit from the IMF towards the end of this year or at the beginning of next year. The IMF extended a $1.4 billion standby loan to Argentina last November. □

Bigger Stake in Intermex Holdings for BankAmerica

By JOHN EVANS

LONDON — BankAmerica Corp. has stepped up its stake in Intermex Holding Luxembourg, parent company of a specialist Latin American investment bank, after three other banking stockholders decided to pull out.

The London-based bank, International Mexican Bank Ltd., announced here Wednesday that Deutsche Bank AG, Union Bank of Switzerland and Japan's Dai-Ichi Kangyo Bank Ltd., with a combined ownership of 59%, have withdrawn. International Mexican Bank said the reason was "general policy."

As a result, three Mexican stockholders, Banco Nacional de Mexico, Banco Nacional de Comercio Exterior and Nacional Financiera increased their holding to 72% from 51%.

A spokesman for Bank of America, whose stake goes up to 28% from 20%, observed that his bank has strong ties with Mexico. "We support Mexico's economic reforms and intend to strengthen our relationships there."

Intermex, London's last Latin American consortium bank, specializes in investment banking, including asset trading and corporate finance, rather than syndicated lending. Assets stood $445 million, down from $530 million in 1989. □

Key International Rates *

	Day-to-day money		3-mo. interbank		6-mo. interbank		Discount rate		Prime equivalent	
	8/09	8/08	8/09	8/08	8/09	8/08	8/09	8/08	8/09	7/80
United States	8.12	8.12	8.06	8.00	8.00	8.06	8.15	8.00	7.00	7.00	10.00	10.00	10.00
Japan	7.53	7.37	7.38	7.97	7.94	7.88	7.50	7.90	7.94	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.37	13.50	13.25	12.93	13.18	13.30	12.50	12.75	12.88	13.41	13.41	13.48	14.75	14.75	14.75
U.K.	15.00	15.00	15.06	15.06	15.06	15.06	15.00	15.00	15.00	14.94	14.94	14.33	15.00	15.00	15.00
West Germany	8.12	8.12	8.25	8.50	8.56	8.50	8.75	8.81	8.56	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.00	8.00	9.00	9.06	9.06	9.07	9.06	9.06	9.06	6.00	6.00	6.00	10.00	10.00	10.00
France	9.68	9.81	9.75	10.06	10.18	9.93	10.25	10.37	9.93	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.00	10.75	11.25	11.68	11.00	11.50	11.93	11.25	11.56	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.87	14.38	8.73	6.87	7.97
6 to 12 months	8.04	13.44	8.92	8.37	7.97
12 to 24 months	8.90	12.95	9.15	7.80	7.76

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

Analyst Tells House Panel Banks Need 'Breathing Room'

Continued from page 1

road."

Mr. Cranmer appeared before the House Banking Committee, whose members are increasingly worried about bank lending practices.

Members are concerned that the banking system is exposed to huge losses because it lent too liberally in the past. But lawmakers are also worried that banks have overreacted now abruptly, and are now denying their communities credit needed for economic growth.

Focus Was to Be on Trump

Thursday's hearing was initially intended to focus on the money-center banks that made hundreds of millions of dollars in unsecured loans to Donald Trump's real-estate empire, a case that some lawmakers believe illustrates the industry's worst lending patterns.

Mr. Trump, however, declined to testify, as did four New York banks: Citibank, Manufacturers Hanover Trust Co., Bankers Trust Co. and Chase Manhattan Bank. In addition, Comptroller of the Currency Robert L. Clarke, Federal Reserve Board Governor John P. LaWare, and deputy New York bank superintendent Peter M. Philbin also refused to discuss the Trump loans.

"We have a long-standing practice of treating information given to us by loan customers as confidential," wrote Chase chairman Willard C. Butcher to the committee. "We believe that our customers rely on this practice."

Blast from Gonzalez

Rep. Henry B. Gonzalez, D-Tex., the panel's chairman, told the regulators that their reluctance to discuss the Trump loans recalled the early days of the savings and loan crisis, which he said "grew up in the dark basements of official government secrecy."

"The regulators are thrown into near convulsions by the thought that they would be required to discuss the broad outlines of how they approached the Trump-bank problems," said Mr. Gonzalez.

Rep. Henry B. Gonzalez told the regulators that their reluctance to discuss the Trump loans recalled the early days of the S&L crisis.

Mr. Gonzalez said he was determined not to permit a repeat of the thrift industry experience, where problems were not dealt with until they had grown unmanageable.

Although the regulators would not discuss Mr. Trump specifically, Mr. LaWare did concede in response to a "hypothetical" question from Rep. Charles Schumer, D-N.Y., that there were signs of trouble in the Trump portfolio.

Describing a "certain individual with several billion dollars outstanding," Mr. Schumer asked if it would be "a bad practice to lend another $400 million unsecured."

Mr. LaWare first said it was not necessarily a bad decision to advance more funds. But when Mr. Schumer asked if it could be inferred that the borrower was in trouble "when all these dollars are being lent in an unsecured way," Mr. LaWare said his evaluation was "fair."

Mr. LaWare also told the panel that banks continued to lend even after the real estate market began to soften because they had outstanding commitments.

"For a bank to renege on a commitment one year into a project would be a breach of contract," he said.

In his testimony, Mr. Cranmer told the panel that the buildup in real estate portfolios is a worrisome sign for a banking industry that is probably going into recession. Heading into the last recession, he said, "the country had already endured its real estate washout."

Then, vacancy rates were 10% and declining, he said. Today, a "15% vacancy rate is considered laudable." □

Analysts, he said, "are pretty much flying blind," in efforts to evaluate potential losses from real estate loans.

"If New England is any precedent, 75 cents of reserve seems necessary to cover every dollar of nonperforming loans," he said. While most analysts were optimistic that the true number would end up closer to 25 cents, "now, with the crisis and other indicators arguing recession, we cannot say that with as much conviction."

Mr. LaWare told the panel that banks emphasized real estate lending as their commercial and industrial borrowers turned to other sources of credit. Banks were also attracted by the prospect of earning substantial fee income, he added.

As a result, real estate loans at commercial banks tripled over the course of the decade and now account for 23% of total bank assets, compared with 15% in 1980. Commercial property and construction loans account for about half the $778 billion in total real estate loans held by commercial banks. □

OTS Seeks $40.9 Million in Restitution from Keating

Continued from page 1

OTS assistant general counsel, told reporters at a Bar Association luncheon, "We simply don't believe that, and we want this accounting."

Bank Call Notice

REPORT OF CONDITION OF

Consolidated domestic subsidiaries of the

Bessemer Trust Company, National Association

of New York

In the state of New York, at the close of business on June 30th, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter number 18417 Comptroller of the Currency Second District.

ASSETS	In Thousands
Cash and balances due from depository institutions, noninterest-bearing balances and currency and coin	$ 1,063
Interest-bearing balances	5,000
Securities	24,105
Federal funds sold	37,000
Loans and lease financing receivables:	
Loans and leases, net of unearned income 10,662	
Loans and leases, net of unearned income	
and reserve	18,882
Premises and fixed assets	1,361
Other assets	7,753
TOTAL ASSETS	95,845
TOTAL ASSETS AND LOSSES DEFERRED	$99,645

LIABILITIES	
Deposits:	
In domestic offices	$78,356
Noninterest-bearing 11,664	
Interest-bearing 66,692	
Other liabilities	10,489
TOTAL LIABILITIES	88,845
EQUITY CAPITAL	
Common stock	2,400
Surplus	400
Undivided profits and capital reserves	3,000
Total equity capital	5,800
TOTAL EQUITY CAPITAL AND LOSSES DEFERRED	7,800
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, EQUITY CAPITAL, AND LOSSES DEFERRED	$96,645

I, John G. MacDonald, Senior VP & Comptroller of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

JOHN G. MacDONALD
July 26, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

JOHN R. WHITMORE
ODDEN ALLEN, Jr.
R. DANIEL SAXE, JR.

Directors

If Mr. Keating fails to comply with the OTS order, the agency will attempt to enforce it in district court, she added.

Along with the restitution request, the thrift regulator gave Mr. Keating five days to deliver an audited accounting of his assets, blocked him from transferring his wealth outside the country, and sought to prohibit the former Lincoln officials from ever serving again in a federally insured thrift.

The charges, to be aired at an administrative hearing on Oct. 4, represent the most significant enforcement action the OTS has ever taken, Mr. Ryan said.

It follows by several weeks the filing of a $19 million restitution claim against Thomas Spiegel, the former chairman of Columbia Savings and Loan Association, Beverly Hills, Calif. The OTS is also seeking $5 million in civil penalties for alleged misappropriation of thrift funds.

Taking a Hard Line

As in the Spiegel case, the government is sending a signal that it will press its claims aggressively.

Obtaining a full accounting of Mr. Keating's assets would help the OTS maximize the recovery of funds by limiting further dissipation of holdings, said Stuart Gerson, assistant U.S. attorney general for civil matters. Any action by the OTS can help the government squeeze the most money out of the limited amounts that can be recovered through civil actions, he said.

"We anticipate our action would result in some type of settlement before the [racketeering] case is resolved," Mr. Ryan said.

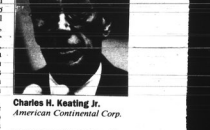
The OTS said it discovered violations of rules and regulations, unsafe and unsound practices, and breach of fiduciary duty in each of three transactions that form the basis of the charges. The OTS claims that the American Continental officials engaged in improper transactions that bled funds from Irvine, Calif.-based Lincoln, which the government seized in April 1989.

American Continental officials were not available for comment on the charges Thursday afternoon.

According to OTS, Lincoln's losses include $24.2 million through a tax shelter partnership that purchased Detroit's Hotel Pontchartrain. The partnership, in which the American Continental officials held a 25% stake, funded the hotel purchase with a credit facility set up by a Lincoln subsidiary. Mr. Keating and his associates received more than $8.7 million in tax benefits from 1985 to 1987.

The OTS charged that misuse of an employee stock ownership plan operated by Lincoln and its parent caused $12.3 million in losses. This transaction is also under investigation by the Department of Labor, Mr. Ryan said.

Another $4.4 million was lost through a tax-sharing payment by Lincoln to its parent, American Continental, Robert J. Kelly, director, senior vice president, secretary, and general counsel. Mr. Keating's son, Charles H. Keating 3d, director and executive vice president, and his son-in-law, Robert J. Hubbard, director and vice president, and Robert M. Wurzelbacher Jr., director and senior vice president. □



Charles H. Keating Jr.
American Continental Corp.

Dramatic FDIC Increase

Continued from page 1

they will stop at 18 or go to the limit," he said. "If at the end of the year we are in a recession and the BDC has lost money, I think they would be inclined to go the limit."

But Mr. Litan said a number of variables, such as the extent of the oil crisis or the severity of a recession, could change the outlook.

Ceiling Called Too Low

R. Dan Brumbaugh, senior research scholar at the Center for Economic Policy Research at Stanford University, said the 19.5-cent maximum was not nearly enough.

"There is no way that 7.5 basis points is going to make a dent in closing all of the insolvent banks," said Mr. Brumbaugh, who has accused the FDIC of overestimating the health of many of the largest banks in the country.

Mr. Brumbaugh said it would take a drastic, 30-basis-point assessment to stabilize the fund.

"I think they are going to need a bundle," he added.

Information Called Lacking

William C. Ferguson, chairman and chief executive of Ferguson & Co., an Irving, Tex.-based bank consultant, said not enough information was available to determine the adequacy of the insurance fund and how much the agency would need.

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"I would think they would need to raise assessments to a level that would insure that within reasonable limits, the fund would increase up to 1.25% of total deposits," he said. The bank fund had $13 billion at year-end 1989, equal to 0.25% of insured deposits, and Mr. Seidman has said an expected $2 billion net loss this year would push the reserve ratio between 0.50% and 0.60%.

Mr. Ferguson said it was even hard to determine whether the premium increases mandated by the 1989 financial reform law would be adequate. □

Colorado Piques Acquirers' Interest

Continued from page 2

cently told Reuters.

The three remaining big financial companies available for sale are Colorado National Bankshares Inc., Affiliated Bankshares of Colorado Inc., and a thrift, Western Capital Investment Corp., all with about $3 billion in assets.

"I wouldn't speculate on what may or may not happen in the future," said Colorado National chairman Will Nicholson.

"We will do whatever is in the best interests of our shareholders, and if that means a sale, fine," said Affiliated Bankshares president Kent Olin.

Western Capital chairman Robert Malone said he was not trying to find a buyer but would not stand in the way of someone wanting to merge at a fair price.

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C. Pena Will Sell at Public Sale on 8/25/90 9 AM at 458 Main St, Pt Wash NY, '82 Cadi. #1G6AD6989DC910607 Re: C. Alvarez. Published 8/10 & 8/17/90.

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Foundation Notice

NOTICE

The Annual Report of **ARIE & GENE ROSENBAUM FOUNDATION INC.** for the fiscal year ended February 28, 1990, is available at its principal office located at 67-40 Burns Street, Forest Hills, NY 11374, (718) 663-8474 for inspection during regular business hours by any citizen who requests it within 180 days hereof. Principal Manager of the Foundation Arie Rosenbaum
Dated: August 10, 1990

NOTICE

The Annual Report of **BINA FOUNDATION, INC.** for the fiscal year ended June 30, 1990, is available at its principal office located at 350 Broadway, New York NY 10013 (212) 966-4100 for inspection during regular business hours by any citizen who requests it within 180 days hereof. Principal Manager of the Foundation Marcia Feldstein
Dated: August 10, 1990

NOTICE

THE ANNUAL RETURN OF **AARON & MARION GURAL FOUNDATION** for the calendar year ended December 31, 1989 is available at its principal office located at 350 Broadway, New York, NY 10036, for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Aaron Gural.

Correction Notice

CORRECTION NOTICE: E.F. Faize Auct'r Lic #798972 Sold on 8/7/90 3:30 PM at 379 Central Ave., White Plains, '31 Motto Guzzi #ZGUPEAPE3CM100207 Re: J. Doe. Published 8/10 & 8/17/90.

Auction Notices

Laura Rivera Auct'r Lic #8411890 Sells on 8/24/90 9 AM at 1778 Jerome Ave, Bux, NY '77 Pont #2B3577B7B1B06823 Re: E. W. Neck; 9:30 AM '76 Chrys #5S22K6R140759 Re: C. Calderon. 10 AM '85 Kawas #JKAZX7A13FA001948 Re: L. Raymond. 10:30 AM '84 Mazda #JM1BO221ED750400 Re: G. Cuevas, 11 AM '81 Plym #1P3BK49A8F1109494 Re: Cris-Bar Contracting Co., 11:30 AM '82 Renault #VF1RC30B5C1060025 Re: J. A. Figueroa; 12 PM '80 Ford #E14EHJA4030 Re: J. Mateo, 12:30 PM '83 Chev #1G1AP8782DN119583 Re: R. Sanchez. 1 PM '85 Buick #1G4AM35HEF6423392 Re: I. Mosha. 1:30 PM '83 Chevy #3083751188B0 Re: J. Doe. Published 8/10 & 8/17/90.

PLEDGEE'S LIEN SALE: F.E.S. Auctions, Inc., Frank E. Seipp, Auct'r Sells 8/20/90 at 1230 Randall Ave., Bronx, N.Y. at 10 AM at the Offices of Ray Mariani & Mary Mariani the liners AGAINST Nueva Electronics Company Incorporated, Harold George & Pamela George. Covering Stock Certificate #2 for 100 Shares of Common Stock without par zalue of Nueva Electronics Company Incorporated. The liners reserve the right to bid and/or purchase at this sale. Auctioneer is Agent of the Liners. D.C.A. # 732234.

DEFAULT In Security Agreement Made By Cesar Brito to Chrysler Financial Corp. assigned to Bodega Brokers, Inc. I Will Sell On 8/13/90 At 1PM At 194 Myrtle Ave., Bklyn, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC. As Agents.

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EOE - M/F/H/V

Auction Notices

R. A. Felder Lic Auctr #793917 sells on 8/20/90 11 PM at 79 Central Ave, Scarsdale. '85 Porsche #WP0JB0922FS860451 Re: Fleet Long Corp. 11:30 AM at 1 Van Hauser St, Upper Nyack, '79 Chris Craft #614554 Re: J. McDonald; 1 PM at 171 Fairfax Ave, Hawthorne. '84 Mitsubishi #JA3BP36DXEZ451165 Re: M. Noone. '86 Yamaha, #1YALRM020GA002996 Re: R. Eisner. 1:30 PM at 3100 Midland Ave, Syr, '81 Cadi #1G6AS6909B6892150 Re: L. Phillips. Published 8/3 & 8/10/90.

G. Delnevo sells R/T/I 8/27/90 12 Noon at 1702 E. 233rd St, Bx., '68 Chev #124378M1903 Re: F. Perez, '86 Chrysler #1C3BF66PGGX569497 Re: B. Crute, '77 Porsche #9307800401 Re: Acme Auto, '84 Buick #1G4AZ57Y3EE423552 Re: W. Marucci, '78 Volvo #YC244451.1306687 Re: Ural R US, '83 Plym #1P3BP26C1DF140997 Re: R. Sims, '76 Chev #1L47V6F121947 Re: F. Dougherty. Published 8/10 & 8/17/90.

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R. A. Felder Lic Auctr #793917 sells on 8/27/90 10 AM at 1427 Valley Drv, Syr, '88 Ford #1FAPP33P2JT145879 Re: B. L. Green; on 8/28/90 10:30 AM at 435 Cityline Ave, City lsl, '62 Richardson #4311A Re: G. & R. Greenbaum; 11:30 AM at 98 No. 5th St, Bklyn, '59 Chevy #0086751004 10 Re: J. Doe, '85 Toyota #7T2RA63L7P0012674 Re: R. Cespedes. Published 8/10 & 8/17/90.

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DEALS

SAS Taps Morgan for Buyout of Lorenzo's Stake in Continental Airlines

By JED HOROWITZ

Morgan Guaranty Trust Co. is advising Scandinavian Airlines System on its buyout of Frank Lorenzo's stake in Continental Airlines Holdings Inc., according to spokesmen for the bank and the buyer.

SAS will invest $50 million, about $27 million of which will go to the controversial Mr. Lorenzo in return for his stepping down as head of the airline.

The SAS mandate, while relatively small, represents something of a coup for the J.P. Morgan & Co. unit in a climate not too conducive to dealmaking.

Role in IBM Transaction

Just last week the bank emerged as an adviser to IBM Corp., which plans to sell most of its low-technology businesses to Clayton & Dubilier for a price believed to exceed $2 billion. Morgan does not have the sole advisory mandate in the IBM transaction, but is expected to be one of three lead banks financing the IBM buyout.

The SAS transaction is not expected to require bank financing, said Charles Dumas, a managing director in the bank's mergers and acquisitions division.

Morgan, which has been working on the airline deal for more than a year, previously advised SAS on its unsuccessful bids for a portion of Aerolineas Argentinas and British Caledonian Airways, Mr. Dumas said.

Lorenzo's Contract a Factor

SAS will buy Jet Capital Corp., a company that holds 2% of Continental Airlines' capital and is 48% owned by Frank Lorenzo. The European airline – which is 50% controlled by the governments of Sweden, Denmark, and Norway – is paying about $20 million for Jet and $20 million to buy out Mr. Lorenzo's five-year contract.

Mr. Lorenzo – whose empire once included Eastern Airlines, now in Chapter 11 bankruptcy proceedings – will receive about $27 million from the transaction, Mr. Dumas said.

SAS also is injecting about $10 million into Continental, a company formerly known as Texas Air Corp. SAS, which already owns 9.9% of Continental, will emerge with 16.8% of stock and 18.4% of voting control if the purchase wins approval from the U.S. Department of Transportation and from Mr. Lorenzo's approximately 90 partners in Jet Capital.

The purchase price of about $15.30 per share is well above the $4.50 at which Continental's common stock was trading before the deal was revealed in Thursday's edition of *The Wall Street Journal*. SAS, a long-term client of Morgan, probably will find the purchase out of its current treasury, Mr. Dumas said. SAS officials did not return calls for comment. □

The SAS bid is not expected to require bank financing.

Day of Reckoning Nears for Interest on High-Yield Debt

Continued from *page 1*

creasing through 1995, billions of dollars of these PIKs and zeros have to begin paying interest in cash. In addition, billions of dollars worth of junk bonds carrying reestable coupons will get new rates in 1991 and 1992.

All these factors will significantly increase the cash interest costs of many companies that were already highly leveraged in the 1980s. When the interest payments kick in, some companies' coverage ratios will fail to potentially troubling levels that could put them in violation of loan covenants, or worse, bankers and analysts warn.

The silver lining for banks is that many of these securities trade at a discount, and many companies in solid financial shape will be looking to banks for refinancing, since the new-issue market for high-yield bonds is nonexistent.

Opportunities for Borrowers

Any company that can buy its bonds back at a discount increases its equity – while reducing overall indebtedness – by booking the value of the difference between the retirement price and par, noted Kingman Penniman, senior vice president at McCarthy, Cristanti & Maffei, a junk bond research firm.

Creditwise companies will likely find banks willing to refinance, given the lenders' need to put funds to work in high-yielding assets, bankers say. RJR Nabisco Inc., for instance, is solving its PIK problem through a combination of financings that include a new $2.25 billion bank loan. And Santa Fe Pacific Corp. is speaking with its banks about a major refinancing.

Bankers, in fact, say they have targeted companies with junk bonds as potential lending opportunities, noting that any debt retired at a discount can greatly improve a company's cash flow. Companies that have paid down senior bank debt will have the easiest time arranging new bank loans, lenders said.

"If banks can see that it will enhance the credit, you'll see more of that," Mr. Penniman said.

Lenders Are Receptive

"Some companies are taking constructive steps to make them viable customers. And banks are saying: 'If a company has a good track record and has made a significant effort to reduce bank debt, it behooves us to lend,'" he added.

"The willingness of banks to refinance is a function of how well a company has done," said Mark Gold, a vice president at Chancellor Senior Secured Management Inc. for a fund that also invests in bank loans. "If a company has paid off a lot of debt, risk" embedded in its balance sheet.

The Chicago-based company recently announced that it was exchanging $200 million of its $780 million PIK that becomes cash pay in 1993 for cash and common stock, and will call the rest of the tranche in October. The cramdown PIKs were issued as part of a recapitalization two years ago.

The idea behind noncash high-yield securities seems dubious in retrospect. The deals assumed that operating income would grow, and that asset sales would be successful.

Analysts expect the company to arrange a new $400 million bank facility to call the bulk of the outstanding bonds.

Bank Debt Replaces 'Junk'

"Some of the new financing will be a bank facility," confirmed Robert Gehrt, a spokesman for the company. "We're in the process of negotiating that. . . We've met with them and they know what they're going to do." The company's agent banks are the banking units of Chase Manhattan Corp., Chemical Banking Corp., J.P. Morgan & Co., and Security Pacific Corp.

"Companies are going to move before it becomes a problem," Mr. Penniman said.

For many companies, though, it will not be quite so easy. Even the marginal deals that banks will not refinance, they may nevertheless have senior loans outstanding from the original transaction that could provide much worse off with a PIK paying cash.

"For banks, it's a problem for weaker deals," said one lender to leveraged transactions. "There will be some opportunities, based on the whole I think it's a problem."

Timetable for Cash Payments

In 1991, about $1 billion in PIKs and $4.5 billion in zeros start paying cash. interest, according to data from Salomon Brothers Inc. In 1992, a bit less than $1 billion in PIKs and around $3.6 billion of zeros become cash pay.

In 1993, the PIK figure jumps to $2.2 billion, while the amount of zeros skyrockets to just over $6 billion. In 1994, $1.485 billion in PIKs become cash pay, while a whopping $7.3 billion in zeros kick in. The figures assume that RJR Nabisco leaves outstanding $330 million of its 17% PIKs due in 2009 and $2.3 billion of its 17% PIKs due in 2007.

For resets, $3.2 billion of public and private-junk bonds will be reset next year, $7.2 billion in 1992, then falling to $706 million in '93, according to Salomon Brothers.

Leveraged Roll Call

Leveraged companies with debt that becomes cash pay include: Jack Eckert Corp. – $345 million in zero-coupon bonds, May 1991; Owens Corning Fiberglas – $1 billion in zeros, December 1991; National Gypsum Co. – $847 million in zeros with 15.5% coupon, June 1991; and Viacom – $449 million in PIKs at 15.5% interest, June 1991.

Most of these companies will likely be able to refinance or meet their cash interest obligations, bankers suggest. Maryland Corp. – with $402 million in zero-coupon bonds that pay in cash next year – clearly will not.

And the increased risk of a recession stemming from the Middle East crisis could put pressure on cyclical companies, further tipping the marginal deals into potentially distressed situations, bankers warned.

Tarnished in Hindsight

The idea behind noncash high-yield securities seems dubious in retrospect. The deals were structured on the assumptions that operating income would grow, and that asset sales would be successful.

In the case of Interco Inc., which has $213 million in bonds that become cash pay in 1993, neither would; it's clear that the company and its investment bankers were using a rose-colored calculator.

Banks began to target junk bond buybacks as a potential opportunity after Campeau Corp.'s failure sent the junk bond prices of many leveraged deals plunging. It's an opportunity to lend at leveraged pricing and with fees in the range of 300 to 400 basis points. □

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Highlights for Thursday, August 9

TOP 10 GAINERS %

Valley Capital Corporation	7.6
Bank of New York Company	7.5
Plaza Commerce Bancorp	7.0
State Street Boston Corp.	6.0
Central Jersey Bancorp	6.0
First Florida Banks, Inc.	5.3
Valley National Bancorp	5.3
Bank of New England Corp.	5.0
Bankers Corp. Inc.	4.8
La Jolla Bancorp	4.7

TOP 10 LOSERS %

Banks of Mid-America, Inc.	-8.6
Union Planters Corporation	-8.3
F & M National Corporation	-5.8
Merchants Bank of New York	-5.1
Northeast Financial Services	-4.8
First Interstate of Iowa, Inc.	-4.3
Firstbank of Illinois Co.	-4.1
Pacific Bank	-3.9
Pacific Western Bancshares	-3.7
First Illinois Corporation	-3.5

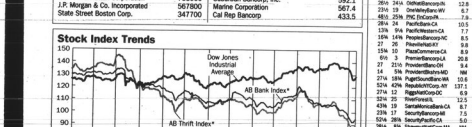
MOST SHARES TRADED

Citicorp	1357000
BankAmerica Corporation	770700
Chase Manhattan Corporation	753900
J.P. Morgan & Co. Incorporated	567800
State Street Boston Corp.	347700

VOLUME AS % OF AVERAGE

First Eastern Corp.	937.1
Sterling Bancshares Bank	723.2
Suburban Bancorp, Inc.	592.1
Marine Corporation	567.4
Cal Rep Bancorp	433.5

Stock Index Trends



*Weighted average of top 250 banks and 50 thrifts

Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively.

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.88	-3.69	-5.92	0.85	-0.74	-9.70	1.29	-1.35	-15.62

TOP 225 BANKS (4 PM PRICES)

52 Wk		Name	PE	Mkt	Chg.	Chg.
Hi	Lo					
29¾	18¼	1stSourceCorp IN	6.3	87.3	1¼	-1¼
14¾	10¼	AFBBanksInc CO	16.0	65.3	11/4	-¼
28¾	20	AmeribankInc NH	8.1	82.7	1¼	-¼
19¼	13¼	AmcoreFin IL	8.1	82.7	1¼	-¼
29	14¾	AmesNatlCorp IA	10.3	144.5	1¼	-¼
22¼	16¾	AssociatedBanc WI	8.5	118.6	1¾	-¼
24¼	18	B&F Fincl PA	8.5	113.8	1¾	-¼
15¼	9	BaltimoreBanc MD	8.7	47.7	9¼	-¼
19¾	13¾	BancFla FL	13.9	148.3	43/4	-¼
33½	26	BancOne Corp OH	10.9	199.0	29	-¼
28	18¾	BancPuerto PR	5.2	18.9	18¾	-¼
56¾	43	BancorpHawaii HI	8.4	141.9	44¼	¼
25¾	18	BancTexas Grp TX	8.5	85.3	11	-¼
36¼	21¾	BankAmericaCorp CA	4.9	92.2	23¾	-¼
24	17¾	BankBostonCorp MA	11.2	237.2	21¼	-¼
23¾	2¼	BarnesNewEngland MA	NM	52.5	2¾	-¼
14¼	8	BarnettBanks FL	8.5	85.3	11	-¼
57¾	35	BarnettsTrustWT	NM	130.6	37¾	1¼
21½	10¼	BaybanksInc GA	NM	57.6	11	-¼
30¾	18	BeneficBancorp MD	NM	38.7	19¼	-¼
59¾	33¼	BostonBancorp MA	NM	71.8	34¾	-¼
12	8	BanksMidAmerCorp	NM	47.3	8	-¼
22	16	BoatmensBancsh IL	11.2	107.8	18¾	-¼
39¾	28	BarnettBanksInc FL	8.7	105.7	28	-¼
40¼	32¼	BankersFirst MD	NM	37.7	33¾	¼
39¾	28¼	BrabnerBkshrsMD	7.7	90.2	29	-¼
28	15¼	BrenhamBancshs TX	22.1	106.6	19¼	-¼
16¾	12¾	BrentonBanksA	7.4	101.1	14¼	-¼
43¾	30¼	BSTCorp MA	10.4	104.6	30¼	-¼
22¾	15¼	CCNB Corp IN	6.2	87.9	15¼	-¼
28¾	18¼	CCB BancsInc NC	10.0	120.7	20¾	-¼
27	20¼	CPB Inc. HI	10.8	151.0	21¾	-¼
28	13¾	CVB FinCorp CA	5.5	218.3	13¾	-¼
33¾	17	CalFedBancCA	7.9	143.4	19¾	-¼
12¾	10¼	CalifornianInc IL	7.7	92.3	11¼	-¼
34¾	23¾	CentralFidelity VA	6.9	97.4	25	-¼
19¾	14¾	CentralBancorp OH	7.9	79.2	15¾	-¼
44¾	17¾	ChaseManhattanNY	NM	54.8	19	-¼
41¾	25¾	ChemicalBankingNY	NM	68.1	26¾	-¼
35	29¾	ChemicalFinCorp MI	9.0	98.2	31	-¼
18¾	16¾	CitizensBkg MI	10.8	199.4	18¾	-¼
25¾	15¾	CitizensBancorp MD	7.4	91.0	18	-¼
25¾	19¾	CitizensBkg Corp MI	7.9	72.0	20¾	-¼
15¼	8	CitizensFirst MI	NM	113.0	8¾	-¼
24¾	15¾	CitizensUtilities A	10.3	1,000.0	16¾	-¼
27¼	15	CityNatCorp CA	9.0	163.1	18	-¼
30¾	19¾	CoastFinancial FL	5.9	83.2	20	-¼
30¾	20¾	CommBcshs MI	8.5	94.3	40¼	-¼
29¼	21½	CommercialNatl PA	7.2	90.6	21¾	-¼
15¾	11¾	CommonwealthPA	7.2	90.6	15¾	-¼
37½	10¼	CommunityBkshrs	7.2	90.6	15¾	-¼
37½	10¼	CommunityBkshrs	7.2	90.6	15¾	-¼
49¾	33¾	CommBancorpOH	NM	49.3	11¾	-¼
19¾	13¾	CommBancshrsTX	6.1	81.5	18¾	-¼
18¼	7¾	CulbertsonTX	6.1	81.5	18¾	-¼
17¾	12¾	DauphinDeposit PA	7.7	134.7	13¾	-¼
32	21¼	DepositGuaranty MS	6.2	73.6	23¾	-¼
23¾	15¾	DominionBkshrs VA	8.4	72.8	15¾	-¼
15¾	3¾	EquimarkCorp MN	NM	27.2	7	-¼
21¼	11¾	EvergreenBancs NY	5.9	83.2	20	-¼
15¾	12¼	F & M NatCorp VA	10.0	153.9	12¼	-¼
14½	12	FNB Corp PA	8.4	100.5	13	-¼
26	21½	FNW Bancorp IL	10.5	174.3	22¾	-¼
29	27¾	FarmersCapital KY	10.5	174.3	22¾	-¼
36¾	29¾	FifthThirdBcp OH	10.2	166.8	29¼	-¼
36¾	22	FirstAlabamaBcshs	7.3	129.3	22¾	-¼
51½	34	FirstNorthEast	8.6	90.8	34¾	-¼
18¾	15¼	FirstAlabamaA rk	8.6	109.0	16¾	-¼
29¾	15¾	FirstAtlantaGA	8.6	109.0	16¾	-¼
34¾	21¾	FirstBancorpPR	7.5	90.0	22¾	-¼
17¾	12¾	FirstBancorp OH	7.5	90.0	12¾	-¼
19¾	12¾	FirstBancorpNC	7.5	78.7	14¼	-¼
57¾	28½	FirstBancsInc MI	2.5	57.5	28¾	-¼
18¾	13¾	FirstCapitalCorp	9.4	90.8	14¼	-¼
23¾	17¼	FirstChicagoCorp	8.3	129.6	17¼	-¼
25½	19¾	FirstCitizensBcp SC	7.8	31.1	11¾	¼
25½	6½	FirstCitizensBcp NC	NM	35.6	7	-¼
15¾	20¾	FirstCommCorp IN	7.6	87.3	20¾	-¼
54¾	32½	FirstCommCorp SC	6.6	118.2	34	-¼
14¾	10¾	FirstCommBancorp	13.6	146.6	11¾	-¼
41¾	33	FirstCommCorp CA	7.5	126.7	33	-¼
14¾	10¾	FirstCommFinc PA	11.5	207.2	11¾	-¼
31½	25¾	FirstCommunityBk AL	9.3	111.8	29	-¼
25¾	20¾	FirstCommwlth IN	9.6	185.7	22¾	-¼
44¾	15¾	FirstCommunityBcp	5.4	80.2	16¾	-¼
25¾	19¾	FirstCommunityBk	5.0	59.7	19¾	-¼
72	15	FirstNewEnglandCT	NM	51.6	15½	-¼
25¾	20¾	FirstNorthCarolina	8.6	159.6	26	-¼
23¾	17¾	FirstNorwoodCorp PA	7.3	134.8	19	-¼
29¾	23¾	FirstOhioBancorp OH	7.9	88.3	23¼	-¼
29¾	21¾	FirstOntarioFinCorp	7.5	104.7	22¾	-¼
29¾	24¾	FirstPacificBancorp	12.8	154.5	24¾	-¼
24¾	17¾	FirstSecurityBancorp	6.7	81.2	19¾	-¼
48½	23¾	FirstSecurityCorp KY	7.6	87.2	39¾	-¼
19¾	14¾	FirstSouthBancorp NC	10.5	149.6	25	-¼
19¾	9¾	FirstTennessee NC	7.7	140.5	9¾	-¼
27	20	FirstVaBanksInc	8.5	116.1	14¾	-¼
19¾	15	FirstWisconsinCorp	8.8	124.9	15¾	-¼
6¾	3	FirstmerBancorp LA	20.8	165.5	11¾	-¼
27	21¾	FirstvilleBancCorp	8.4	121.6	21¾	-¼
14	5¾	FirstvilleBkshrsMD	NM	12.6	6¾	-¼
29¾	17¾	FlagshipBanksInc MS	10.8	103.1	19¾	-¼
42¾	22¾	FleetNorthWCorp NY	137.1	119.9	45¼	-¼
27¼	12	FloridaBanksCorp FL	6.9	50.6	12¼	-¼
32¾	25	FloridaFoodsIL	12.5	277.5	28	-¼
43¾	19	FortuneBancshrsCA	8.3	182.4	19	-¼
23¾	17	SecurityBancorp MI	7.5	127.5	17	-¼
29¾	20¾	SecurityBancorp GA	7.5	83.6	31¼	-¼
28¼	8¾	SheaMuttatCorpMN	NM	48.1	9¼	-¼
42¾	14¾	SignetBanking VA	4.8	57.6	16¾	-¼
38¾	26¾	SocietyCorp OH	9.0	98.5	28¾	-¼
31¾	23¾	SouthTrustCorp AL	8.0	87.5	30¾	-¼
28¾	7¾	SoutheastBkCorp FL	NM	38.9	9¼	-¼
15¾	11¾	SoutheastBancCorp	9.6	132.5	13¾	-¼
25¾	16¾	SouthtrustCorp AL	6.7	88.6	17¾	-¼
25¾	20¾	SovranFinCorp VA	8.8	121.6	21¾	-¼
26¾	17¾	Star Banc Corp. OH	8.2	106.9	17¾	-¼
15¾	12¾	StarBancorp Inc OH	12.0	198.8	13¾	-¼
29¾	4¾	StatewideBanc HI	NM	109.0	5¾	-¼
20¾	13¾	SuburbanBancorp IL	12.9	89.7	18	-¼
34¾	23¾	SumitomoBank CA	5.1	80.9	24	-¼
25¾	15¾	SunBanksInc FL	7.3	90.3	18¾	-¼
21¾	15¾	SummitBancorp NJ	5.3	76.6	16¾	-¼
21¾	15¾	SuntrustBanks GA	7.5	116.6	20¾	-¼
29	14¾	SunwestFinSvcs NM	79.2	77.8	16¾	-¼
19¾	13¾	SupermarketsGen PA	7.1	63.0	17	-¼
19	14¼	SynovusFinCorp GA	15.6	244.9	15¾	-¼
19¾	13	ThirdNationalCorp TN	9.0	122.9	14¾	-¼
33	20¾	TrustCoBankCorp NY	8.5	148.5	28¼	-¼
19¾	13¾	TrustmarkCorp MS	7.9	131.4	16	-¼
24	17¾	TrustmarkCorp MS	6.1	71.4	17¾	-¼
24¾	20¼	U.S. BancorpOR	7.5	111.5	20¾	-¼
42¾	33¼	U.S.TrustCorp NY	11.7	179.3	34¼	-¼
19¾	13¾	UJB Financial NJ	6.4	64.1	14¾	-¼
18	9¼	UST Corp MA	5.9	81.5	10¼	-¼
19¾	13¾	UnionBancCA	4.9	77.9	16¾	-¼
15¾	7	UnionPlanters TN	NM	54.8	7	-¼
23¾	16¾	UnitedBanksColoCO	NM	100.6	20¾	¼
14	11¼	UnitedBkshrs WV	7.8	91.8	11¾	-¼
17½	12¼	UnitedCarolinaNC	7.3	96.8	12¾	-¼
62	52½	UnitedJerseyBks NJ	7.3	105.0	52¾	-¼
32¼	27	UnitedMissouriBK	8.8	104.2	27½	-¼
27¼	21¼	UnitedNJBancorp NJ	7.7	107.0	22¾	-¼
36	22½	ValleyCapCorp VA	7.8	144.5	34¾	1¾
28¼	18¾	ValleyNatBancs AZ	7.5	141.2	20	-¼
30¾	11¾	ValleyNatlCorp AZ	114.4	65.6	14¾	-¼
87¾	56¾	VerbaCorp CA	7.2	113.2	56¾	-¼
33	25¾	WestamcoNY	8.9	104.9	32	-¼
27¼	21¾	WestAmericaBcp CA	8.9	104.9	32	-¼
25¾	17¾	WestcorpInc CA	7.5	141.2	20	-¼
30¾	21¾	WestCoastBancp OR	7.5	141.2	20	-¼
19¾	14¾	WestvacoBancorp	7.9	131.4	16	-¼
24¾	17¾	WilmingtonTrustDE	6.1	71.4	17¾	-¼
24¾	20¼	U.S. BancorpOR	7.5	111.5	20¾	-¼
42¾	33¼	U.S.TrustCorp NY	11.7	179.3	34¼	-¼
19¾	13¾	UJB Financial NJ	6.4	64.1	14¾	-¼
18	9¼	UST Corp MA	5.9	81.5	10¼	-¼
19¾	13¾	UnionBancCA	4.9	77.9	16¾	-¼
15¾	7	UnionPlanters TN	NM	54.8	7	-¼

BANK STOCK INDEXES

	7/20/90	7/25/90	Change	7/16/90	7/11/90	7/03/90
Standard & Poor's						
400 Industrials	368.05	367.37	-0.68	368.05	367.37	368.05
40 Financials	24.39	24.39	0.00	24.39	24.39	24.39
500 Stock Index	328.51	328.06	-0.45	328.51	328.06	328.51
Keefe Bank Index	1,000.00	1,000.00	0.00	1,000.00	1,000.00	1,000.00

TOP 25 THRIFTS (4 PM PRICES)

52 Wk		Name	PE	Mkt	Chg.	Chg.
Hi	Lo					
24¾	18¼	Ahmanson CA	7.6	80.2	18¾	-¼
45¾	30¾	AppletonSvgs WI	7.1	47.6	34	-¼
28¼	8¾	CalFedInc CA	24.7	16.3	8¾	-¼
45¾	41¾	CenFedFinancial	NM	40.4	42¾	-¼
20¼	3	CostcSavngsFinCA	NM	34.8	4¼	½
11¾	5¾	DimeSavBk NY	NM	20.1	5¾	-¼
24	13	DowneySavngs CA	22.5	96.5	14¾	1¾
20¼	16¼	FirstFedFinancial	6.8	113.7	20¾	-¼
21¼	12	FirstNetMtCorp MI	5.8	30.9	12¾	-¼
29¾	19¾	GLENFED CA	3.0	27.2	20¾	-¼
34¾	22¾	GoldenWestFin CA	9.7	152.4	27¼	1¼
24¾	14¾	GreatWestFinancial	7.2	93.1	15¾	¼
14¾	1¾	GtAmericanBank CA	NM	17.0	1¾	-¼
21¾	12¾	GuarantyCorp	6.9	50.6	12¾	-¼
21¾	12¾	HomeSvgBanksAM	18.0	88.3	17¾	-¼
21¾	15¾	HomeFedBk CA	6.1	65.4	20¾	-¼
10¼	5¾	People's Bank CT	30.9	40.6	5¾	-¼
10¾	5¾	PriorityBancFin GA	6.1	20.6	6¾	-¼
19¾	6¾	RochesterOrgSbGNY	6.7	43.1	19¼	-¼
22¾	14¾	SIS Bancorp MA	6.8	64.1	15¾	-¼
19¾	9¾	SPSBancorp NJ	NM	56.8	9¾	-¼
12¾	8¾	SecurityFinCorp SC	6.1	20.6	8¾	-¼
11¾	5¾	WashMutualSB WA	9.5	56.4	14	-¼
31¾	23¾	WestcorpBancsMI	7.5	141.2	20	-¼
11¾	6¾	WestsvgsCA	10.0	85.3	7¾	-¼

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of August 9, 1990, ($ billion)

Monetary Aggregates*	7/30/90	7/25/90	Change	7/16/90	6/18/90	7/02/90
M1- weekly average	$ 809.8	$ 807.8	+$2.0	$ 807.9	$ 810.5	$ 817.7
M2- weekly average	3,270.4	3,270.3	+0.1	3,273.9	3,274.0	3,277.5
M3- weekly average	4,056.8	4,056.6	+0.2	4,052.0	4,058.0	4,058.7
M1- annual change			+1.8%			
Latest 13 weeks			+3.9%			
Latest 26 weeks			+4.1%			
Latest 52 weeks						
Other data	8/01/90	7/25/90	**Change**	**7/16/90**	**7/11/90**	**7/03/90**
Business Loans#	$ 58.4	$ 57.2	+ $1.2	$ 57.6	$ 56.9	$ 56.8
9 New York City banks	318.1	319.5	-1.4	320.4	321.3	320.2
All large banks						
Demand Deposits						
9 New York City banks	$ 55.2	$ 45.4	+ $9.8	$ 49.5	$ 33.0	$ 53.6
All banks	215.3	213.9	+1.4	222.6	220.4	225.1
Commercial Paper						
All issuers	542.9	545.5	-2.6	542.6	538.9	541.1
Finance companies	397.1	400.5	-3.4	395.8	392.0	393.4
Non-finance companies	144.9	145.0	+0.9	222.6	146.8	147.7

(*)— Seasonally adjusted. (#)— Excludes bankers' acceptances and commercial paper.

Key Rates (August 9, 1990)

	8/09	8/08	8/02
Federal Funds-domestic range:	8-⅛/8	8-⅛/8	8-⅛/8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Postal	7.35	7.35	7.40
6 Month Postal	7.35	7.35	7.40
1 Year Postal	7.35	7.35	7.40
Eurodollar Deposits*			
3 Month	7⅛	7⅛	7⅛+¼
6 Month	7¼/⅜	7¼/⅜	7⅜
1 Year	8.00	8⅛	7¼/⅜
LIBOR*			
3 Month	8⅛	8.00	8.00
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅛	8⅛

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks. (*)— Late London bid.(#)— Annualized money market basis - source: Manufacturers Hanover N.Y.

STOCKS

Delaware Bank Proves Resilient In Down Market

By GORDON MATTHEWS

Bank stocks have sunk to new lows lately, and East Coast banks have been among the worst performers. But Delaware's Wilmington Trust Co. is an exception, with its strong capital base, low risk exposure, and annuity-like earnings growth.

Although its share price has weakened a bit recently with the profit-taking in well-regarded banks, Wilmington Trust is still several laps ahead of the rest of the industry. This stock sells at over two times book value and is 45% above its 52-week low.



The chief underlying factors in the company's performance are its high level of noninterest income – 38.9% of net revenues in the second quarter – and its sterling asset quality. Nonperforming loans were a slight 0.29% of all loans on June 30.

"The company has been able to maintain its track record during this difficult period," said Norman Jaffe, a banking analyst at Fox-Pitt Kelton Inc., who is telling clients to take advantage of the stock's retreat in the past two weeks.

The stock traded Thursday afternoon at $38.50, off 8.5% since July 27 but still above its $37.75 price at yearend. More telling, it has fallen just 8% since the peak in bank stock prices 10 months ago, while the *American Banker* index of the 225 largest publicly traded banks has fallen 30%.

The Home Advantage

Wilmington Trust is the only major independent bank remaining in Delaware, and it has used that position to its advantage by touting to clients its homegrown expertise in the state's trust and banking laws.

In particular, this has enabled it to take advantage of the trend by banks to securitize assets for sale. Special-purpose trust vehicles are utilized to acquire higher investment ratings for the packaged assets, and Wilmington Trust has become a leader in this sector.

"They have geared up to handle it, and so the securitization trend has been a bonanza for them," said Richard X. Bove, banking industry analyst at Dean Witter Reynolds Inc.

With $3.6 billion in assets, Wilmington Trust has for several years been one of the largest banks in the country that is not under a holding company. But this is expected to change soon.

The bank recently acquired Sussex Trust Co., Georgetown, Del., a $420 million-asset banking firm with 20 offices. Operating the smaller bank as a separate subsidiary, as Wilmington Trust wants, will require establishment of a holding company.

* * *

THURSDAY'S MARKET

Major bank and thrift stocks tallied their third straight day of advances on Thursday as the stock market overall moved higher on investor confidence that the current Middle East crisis will not push energy prices high enough to cripple the economy.

A pair of New York money-center institutions were the biggest gainers. Bankers Trust New York Corp. was up $1.125 to $37.75, and Bank of New York Co. rose $1.125 to $24.625.

California banks also made progress. Security Pacific Corp., Los Angeles, was up 50 cents to $31.25; BankAmerica Corp., San Francisco, was up 37.5 cents to $23.125; and Wells Fargo & Co., San Francisco, rose 25 cents to $64.125.

Analysts said bank stocks were due for an upward move since many reached lows recently. Developments in the energy sector have also helped.

"There are many positive aspects for banks in a scenario involving a modest increase in oil prices," said Mr. Bove of Dean Witter.

Not all banks joined in the upward trend on Thursday. Republic New York Corp. was off 12.5 cents to $45.125, while Signet Banking Corp., Richmond, Va., fell 12.5 cents to $16.50 on fears of local real estate problems. □

CAPITAL:

Equity Swap Seen as Key for Boston Bank

Continued from *page 1*

holders say one deal is on the table with regulators: an exchange for about $300 million of Bank of New England's subordinated debt for a combination of cash and equities.

Comptroller Must Approve

Under a cease-and-desist consent order imposed on the company, the Office of the Comptroller of the Currency, which regulates the company's subsidiaries, must approve any interest payments and any exchange offer with bondholders by the subsidiaries. The Federal Reserve Board must approve such exchanges and interest payments by the parent company.

The Comptroller's office had no comment on an exchange offer.

Lazard Freres & Co. and Goldman Sachs & Co. are the investment bankers reported to be working on the deal, the source said.

One source close to bondholders said he had heard that the deal called for Bank of New England to offer 25 cents on the dollar, or about $50 million, in cash, and the rest in common stock and other securities.

James Dorsey, a spokesman for the company, declined to comment.

The key question, analysts said, is whether Bank of New England can raise cash for an exchange offer.

Cash Need Estimated

A hypothetical exchange offer for all $703 million of the company's bonds that offered 50 cents on the dollar would require about $350 million. To raise this amount of cash, they said, the company would have to sell the only remaining asset it has up for sale – the Bank of New England-Old Colony, its subsidiary bank in Rhode Island.

The bank has been able to make recent interest payments partly because of income from a fire sale of more than $5 billion in "nonstrategic" assets since January. The latest sale – of its leasing subsidiary and other units – resulted in a $91 million gain.

But excluding those extraordinary gains and one-time expenses, the company's operating losses were an estimated $54 million in the second quarter, according to Mr. Cassidy of Tucker, Anthony.

Asset Sales Almost Done

Company officials said last week in an interview that the asset sales are virtually finished.

After the company's capital and cash-flow problems come in $2.2 billion in nonperforming loans, amounting to 13% of all loans. Loss provisions for bad real estate loans led to a $1.2 billion net loss last year.

In the second quarter, the company's nonperforming loans actually decreased by about $20 million. A senior management official recently cautioned "not to read too much into that," because some of the loans had been "migrated" over to the category on "other real estate owned" on the company's books.

Bank of New England's chairman, Lawrence K. Fish, has stressed repeatedly that the bank's recovery depended on the economic outlook of New England, and has said that the nonperforming loans are perhaps the toughest problem the company faces.

Debt Deadlines for Bank of New England

Interest payments coming due on bank's bonds

Due date	Issue	Interest
August 15	8.75% subordinated debt	$7.1 million
September 15	9.875% senior debt	$12.3 million
October 1	8.75% subordinated debt	$8.7 million

Source: Balfour MacLaine Capital Markets

"The situation is very tenuous," said Carole Berger, an analyst with C.J. Lawrence Inc. in New York. "When nonperformers get to this level, the real issue is: can they keep their funding together."

The company has avoided liquidity problems recently by aggressively marketing retail deposits nationwide. But the high rates on the CDs, nearly 9%, squeezed its margin to 2.31% in second quarter, down 0.23 percentage point. Bank officials said at a recent meeting that they are looking for new ways to ease the cost of deposits, and plan to announce a new approach sometime after Labor Day.

Nonperforming Loans High

The company's nonperforming loans equal about 150% of shareholder capital and reserves, according to Mr. Cassidy of Tucker, Anthony.

This comparison is used as a yardstick to measure the depth of trouble into the which the company has fallen. First Republic Bank, the Texas institution seized by regulators in 1988, had nonperforming loans that were about 162% of capital plus reserves.

Meanwhile, Bank of New England is barely scraping by. "The holding company is living hand to mouth," said Mary Quinn, an analyst for Keefe, Bruyette, Crisanti, & Mattei in New York.

"We believe that Bank of New England's fate will be known by the end of the third quarter 1990," said Mr. Randall of Balfour Maclainé. □

Hanover to Arrange Mortgage on Macy's Warehouse

By STEPHEN KLEGGE

In R.H. Macy & Co.'s latest step to calm lenders and suppliers, the debt-burdened retailing giant has selected Manufacturers Hanover Real Estate Inc. to arrange a mortgage on its warehouse and distribution buildings.

The proceeds, expected to be around $75 million, will be used to reduce bank debt, a source said. Including bonds, Macy's has $5.5 billion in debt.

"We wanted longer maturities and flexible terms," said Diane Baker, Macy's chief financial officer. She described the financing as a "very plain-vanilla mortgage."

John A. Blumberg, a director of Manufacturers Hanover Real Estate, said it remains to be determined who will provide the loan or what the terms will be.

Analysts said the company wants to convince lenders and bondholders that it is not a distressed situation. "They're restructuring their cash flows and sending a message to the outside world that they're doing what's needed to alleviate a crisis," said Nicholas A. Galoppo, retailing partner for Arthur Andersen & Co., New York.

Thomas P. Razukas, an analyst for Finch Investors Service, said the proceeds will be applied to a $175 million payment that is due in December 1991.

Mr. Razukas said about $205 million of bank debt owed by Macy's and its subsidiary finance units matures in the fiscal year that started Aug.1, and about $647 million will be due in the following fiscal year.

Macy's has projected that its earnings before interest and taxes will jump by 35% for the calendar year to $980.1 million. But in light of the weakening national economy – and earnings for the fiscal year just ended expected to be off 20% – retail analysts are still skeptical.

Allaying Creditors' Fears

"If you can pay off some of that debt ahead of time, that will hopefully offset any fears about a weak Christmas," said Evan Mann, an analyst at Dillon, Read & Co.

He said Macy's vendors and the vendors' short-term creditors are wary of overextending themselves to retailers. Macy's problems stem from what most concede was a horrible 1989 Christmas season.

The mortgage financing comes on the heels of other moves by Macy's to ease uncertainties in the marketplace: a $15 million equity sale, with proceeds going to buy back subordinated debentures.

Macy's recently announced that its bank group would allow it more leeway in using the proceeds of possible real estate sales, which could include the sale of an office building in Los Angeles for $40 million.

Encumbrances Traded for Cash

As was apparently the case in earlier financings backed by Macy's real estate, Macy's banks, led by the banking units of Manufacturers Hanover Corp. and Bankers Trust New York Corp., are expected to release encumbrances on the collateral properties in order to receive cash payments for the existing debt.

The bank debt includes a $438 million term loan and a $400 million purchase note, a Macy's spokesperson said. □

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SEMINAR 1

INNOVATIVE CUSTOMER SERVICE AND SALES TECHNIQUES FOR THE NINETIES

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As the banking environment becomes more competetive, industry leaders view improved customer service as a sollution to retaining market share. But how can your bank achieve such improved service? And as importantly, can quality service be translated into sales? The seminar will address the pressing need for improved customer service and how to implement a service program in your bank. It will also focus on the next step....profiting from quality service through innovative sales techniques, state-of-the-art technology and sales incentives. The industry leaders will address the issue of the nineties...achieving competitive advantage by making your company customer and sales-oriented.

9:00 KEYNOTE SPEECH: EFFECTIVE CUSTOMER SERVICE...THE KEY TO PROFITIBILITY IN THE 90'S

- Profiting from customer service in an age of transition
- A banker's perspective on past successes and failures... and innovations for the future
- A case study in improving service and sales

Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Thomas Jacob, *Senior Vice President,* Chemical Bank (NY)
Joan Miszak, *Senior Vice President,* California Federal Bank (LA)

9:45 TURNING SERVICE INTO SALES...ACHIEVING BOTTOM LINE RESULTS FROM QUALITY SERVICE AND SALES TECHNIQUES

- Creating a competitive advantage through customer service
- Improving service...and controlling costs

John A. Goodman, *President, Teeno,* Assistance Research Program (NY)
John A. Goodman, *President,* TARP (NY)
Marty Wikoff, *President,* Management Performance Systems (LA)

- The need for effective salesmanship
- Sales techniques for the 90's

Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dir. Bankers Industry Group, ASTD (NY)
Dr. Nancy O'brien, *Marketing Consultant,* Sales Development Assoc. and Dir. Bankers Industry Group, ASTD (NY)
Shirly Ward, *Vice President,* Bank of America (LA)

10:45 CREATING A SALES CULTURE...A STEP BY STEP APPROACH

- How to implement your new strategy through out the corporation
- How to build a corporate culture based on customer service
- Defining and targeting your customer

Dr. A. Lorri Manasse, *President.* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (NY)
Dr. A. Lorri Manasse, *President,* The Cortland Group (LA)

11:30 COFFEE BREAK

11:45 ACHIEVING A TECHNOLOGICAL ADVANTAGE...THE ROLE OF TECHNOLOGY IN IMPROVING CUSTOMER SERVICE AND SALES

- Using innovative technology to cross-sell
- How to implement state-of-the art systems to improve service and increase sales

Dr. Michael Harden, *Sales Manager,* Citicorp Information Resources (NY)
Frank Martire, *Chairman,* Citicorp Information Resources (NY)
Charles J. Buchta, *Executive Vice President,* First Interstate Bank (LA)

12:30 HOV/ TO REMOVE MIDDLE-MEN FROM THE BANKING TRANSACTION...FROM THE BOARDROOM TO THE MAILROOM

- Skills to implement to reduce costs while improving quality of service
- Removing obstacles to the sale

Nicholas Papanikolaou, *Vice President,* Manufacturers Hanover (NY, NY, LA)
John J. Campi, *Managing Director,* Chatham Consulting Group (NY, NY, LA)

1:00 LUNCH WORKSHOP OPPORTUNITIES FOR THE 90'S IN RETAIL AND WHOLESALE BANKING...HOW TO IMPROVE PROFITIBILITY THROUGH SALES AND SERVICE

- Innovative techniques and training methods... a roundtable discussion

Chairperson:
Charlotte Pollard, *Vice President,* Chase Manhattan Bank (NY)
Charlotte Pollard, *Vice President;* Chase Manhattan Bank (NY)
Pamela O'Shea, *Vice President,* City National Bank (LA)

2:45 THE AMERICAN EXPRESS EXAMPLE...A CUSTOMER SERVICE SUCCESS

- A case study in implementing quality service
- Lessons for banks and thrifts

Laura Gross, *Director,* American Express (NY)
Bruce Grieve, *Vice President,* American Express (NY)
Dennis Stevens, *Vice President,* American Express (LA)

3:30 A CASE STUDY IN IMPROVING SALES...THE CHASE TRAINING PROGRAM

- Teaching selling skills
- How to implement a training program

Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (NY)
Claire Schopler, *Vice President Training,* Chemical Bank (LA)

4:15 THE KEY TO IMPROVING SALES...MEASURING YOUR CUSTOMER SERVICE

- Judging the quality of service at your bank
- Learning from the leaders...what techniques do the leading bank use to measure service
- How to determine your bank's effectiveness

Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Jeffrey Kutler, *Assistant Managing Editor,* American Banker (NY)
Douglas Smith, *Managing Director,* BEI Golembe (LA)

5:00 THE ROLE OF SALES INCENTIVES...WHAT WORKS AND WHAT DOESN'T

- How to use worker compensation to increase sales
- Improving service without increasing costs

William Casey, *Principal,* Paris, Casey Inc. (NY)
William Casey, *Principal,* Paris, Casey Inc. (NY)
Matt Waligon, *Senior Consultant,* Sibson and Co. (LA)

6:00 END OF SEMINAR

SEMINAR 2

THE NUTS & BOLTS OF COMMERCIAL LENDING & LOAN PRICING

July 17, 1990 • The Vista Hotel • New York City
September 11, 1990 • The Vista Hotel • New York City
September 18, 1990 • Century Plaza Hotel • Los Angeles

The battle for commercial loan profitability promises trying times for large corporate and middle market lenders. Over the past two decades, the risk in banks lending portfolios has steadily increased. This is not a function of uncontrolled risk-taking, but rather of the banks' necessary response to the need to find assets which will provide acceptable levels of risk-adjusted return. The events of the past few years have shown that many banks, however, have been unable to effectively control the level of risk that they have taken. Unacceptably high levels of loss have taken place in many banks due to a combination of poor pricing, excessive concentration and the failure to understand the level of risk in a specific loan. Furthermore, new competitors are entering the marketplace scrambling for territory and sparking intense new battles for turf. This seminar reviews how leading-edge banks are beginning to develop new sets of techniques that, will give them a competitive edge in the marketplace for controlling their level of loss, and achieving low-risk diversified portfolios.

8:45 CHAIRMAN'S OPENING REMARKS
William T. Gregor, *Partner,* The MAC Group (NY,LA)

RE-ENGINEERING FROM A CUSTOMER POINT OF VIEW

9:00 KEYNOTE ADDRESS: WHAT RECIPE SHOULD YOU USE TO TURN AROUND YOUR COMMERCIAL LENDING BUSINESS?...A CONSULTANT'S & A BANKER'S VIEWPOINT
William T. Gregor, *Partner,* The MAC Group (NY,LA)
Peter Offerman, *Managing Director,* Banker's Trust (NY)

9:45 CUSTOMER PROFITABILITY & OPPORTUNITIES FOR REFOCUSING ON THE PROFITABLE BUSINESS...NATIONAL WESTMINISTER'S & SECURITY PACIFIC'S MIDDLE MARKET STRATEGY
Vijay C. Popat, *Principle,* Booz Allen & Hamilton (NY,LA)
Edward A. McNally, *Senior V.P.,* National Westminister, USA (NY,LA)
Frank Abraham, *Chief Credit Officer,* Security Pacific National Bank (LA)

11:00 COFFEE BREAK

11:15 PRESTO CHANGO...CONVERTING UNPROFITABLE CUSTOMERS INTO PROFITBLE ONES...USING THE EMERGING SECONDARY MARKET TO YOUR ADVANTAGE

- Where Will The Secondary Market Work & For What Kind Of Loans?
- How Will The Secondary Market Affect Your Ability To Price?
- Secondary For Buckets & Loan Sales...What Are The Elements Necessary For Success?

David E. Fisher, *Vice President,* Loan Pricing Corp. (NY,LA)

12:15 LUNCH BREAK

RE-ENGINEERING THE PRICING PROCESS

1:30 ARE YOU GETTING THE BANG FOR YOUR BUCK?...DEVELOPING A TARGETED PRICING STRATEGY TO ADEQUATELY PRICE FOR RISK

- What Are The Key Components Of Pricing?
- What Prices Are Banks Actually Getting On Commercial Loans?
- How To Set Strategic Pricing Goals For Your Portfolio
- Do Banks Price Adequately For Risk?

Christopher L. Snyder, *President,* Loan Pricing Corp. (NY,LA)

2:15 A CREDIT BASED APPOACH TO ALIGNING RISK & RETURN IN A C&I LOAN PORTFOLIO

- How To Analyze The Relationship Between Credit Risk & Pricing
- Testing The Adequacy Of The Existing Credit Risk Assessment System
- Refining The Existing Credit Risk System To Serve As A Basis For Commercial Loan Pricing Scenarios

Constance Kennealy, *Partner,* Zeta Services Inc. (NY,LA)

3:00 COFFEE BREAK

RE-ENGINEERING THE CREDIT PROCESS

3:15 EMERGING NEW TECHNIQUES FOR CONTROLING LOSSES & MANAGING THE PORTFOLIO

- Buttoned-up Credit Procedures...Ensuring Repayment After The Loan Is Made
- Pricing To Recapture Expected Losses
- Diversification As A Tool In Portfolio Management
- Giving Your Problem Loans A Workout...Security Pacific's Workout & Recovery Strategy

Jonathan P. Moynihan, *Managing VP,* First Mannattan Consulting Group (NY,LA)
Jerry J. Coelho, *First VP,* Security Pacific National Bank (LA)

4:00 ARE BANKS LENDING TO LBO's TO CHEAPLY?...THE FUTURE OF HIGHLY LEVERAGED TRANSACTIONS
Mark G. Sotow, *Sr. Managing Director,* Manufacturers Hanover Trust (NY)
Hugh T. Kemper, *Marlaging Director,* Morgan Guaranty (NY)
Leland S. Prasela, *Vice Chairman,* Capitalcorp., Inc. (LA)

4:45 COMMERCIAL LOAN SECURITIZATION...A STEP BY STEP APPROACH TO SECURITIZING PERFORMING LOANS
Marshall V. Davidson, *Managing Director,* Kidder Peabody (NY,LA)
Robert M. Okabe, *Vice President,* Kidder Peabody (NY,LA)
Clifford Grieg, *Managing Director,* Standard & Poors (NY,LA)

5:30 END OF SEMINAR

SEMINAR 3

EFFECTIVE COST MANAGEMENT

July 18, 1990 • The Vista Hotel • New York City
September 12, 1990 • The Vista Hotel • New York City
September 19, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Patrick J. Leemputte, *Partner,* Price Waterhouse (NY, LA)

9:15 ACHIEVING COMPETITIVE ADVANTAGE THROUGH COST LEADERSHIP
The 1980's showed that cost leadership is a critical success element in all restructured industries. As the pace of restructuring in banking accelerates, winners will emerge based on competitive cost position and related strategic focus. Global finance will come to be dominated by firms obsessed with the twin pursuits of profitability and productivity.
This session concentrates on managing the key noninterest cost drivers of bank performance: 1) business scope and geographic reach; 2) size of workforce and compensation practices, 3) technology spending and investment, and 4) corporate real estate portfolio management.
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Eleni Iatsvidis, *Senior VP,* Bankers Trust Company (LA)

10:00 KEYS TO WINNING THE PRODUCTIVITY RACE
If superior expense control is essential to surviving the merger decade, then how is it accomplished?
This session addresses three key issues for banks concerned about expense control: 1) How good is the bank now and where is the potential for greater frustration? Analysis based on business mix can identify bloated budgets and problem areas; 2) What kind of programs work to bring expense control? Experience shows what are the do's and dont's of crafting a program to reduce staff areas, lines of business, branches, operations and systems; 3) What does it take to stay on top? A "coherent organization" and quantitative performance measures can be keys to sustaining a cost effective culture.
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (LA)

11:00 STORIES FROM THE FRONT: HOW MELLON BANK'S COST CONTROLS HAVE LED TO NEW BUSINESS OPPORTUNITIES AND LOWER EXPENSES
Mellon Bank has experienced a great deal of cost cutting in the past decade. Mellon's expertise in this area has shown that you can actually turn a cost center into a profit with the appropriate resources and strategy.
In this session, you will learn how Mellon effectively downsized into a better performing bank. This dedication to cost leadership has helped Mellon develop it's technologies and data processing to the point where these strengths have led to new business opportunities.
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (LA)

12:00 LUNCH BREAK

1:15 HOW TECHNOLOGY CAN HELP YOUR BANK CUT COSTS WHILE IMPROVING PERFORMANCE
Commercial banks and financial institutions are wholeheartedly embracing information technology (IT) as a way to achieve competitive advantage. But, while bank IT costs have skyrocketed, banks are cautious to crow about their success. Instead, they suffer from exponential growth in computer spending with almost no impact on their bottom line or market share.
In this session, you will learn how to begin to think about, structure and approach the IT problem in your organization. Learn what technology can do to help control costs and what it cannot do. Analyze how to cut the rising costs of your own IT infrastructure. Most important, begin to understand how you can approach IT complexity without being overwhelmed..
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)

2:15 ELIMINATING EXPENSE THROUGH ACQUISITIONS
If banks merge to achieve economies of scale then why do most mergers fail to meet their expectations? As bank mergers continue to increase, minimizing costs during the integration process has become essential.
While banks of different sizes and market niches will have different merger goals, there is a proper rationale to mergers that will minimize the uncertainty. This session will look at past mergers to critique successful mergers as well as failures. In particular, where can the economies be achieved? - in back office operations/overhead, retail or wholesale operations, data processing and technology or duplication of staff responsibilities. This session provides a framework to minimize the costs of the merger.
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
Harry H. Tatonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
James Bemowski, *Principal,* McKinsey & Co. (LA)

3:15 MONITORING THE DOWNSIZING EFFORT THROUGH EFFECTIVE HUMAN RESOURCES MANAGEMENT
- How to retain top performers and employee commitment
- What to cut?...What to keep?...How to do it?

Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (LA)

4:15 MEASURING THE IMPACT OF COST ON PROFIT PERFORMANCE AND SHAREHOLDER VALUE...THE ANALYST'S PERSPECTIVE
How does a bank's cost performance effect stock price? In this session, learn how analysts objectively view cost cutting practices and how profit performance is related to effective expense practices and how it effects stock price. What banks have made the right moves and what strategies were responsible for improved profit performance.
Gary Gordon, *Vice President,* PaineWebber (NY)
Gary Gordon, *Vice President,* PaineWebber (NY)
Michael Conover, *President,* Ryan Beck & Co. Pacific (LA)

5:00 END OF SEMINAR

SEMINAR 4

BANK AND CROSS-INDUSTRY ACQUISITIONS OF THRIFT INSTITUTIONS & SHOULD THRIFTS BE CONVERTING TO BANKS?

July 19, 1990 • The Vista Hotel • New York City
September 13, 1990 • The Vista Hotel • New York City
September 20, 1990 • The Century Plaza Hotel • Los Angeles
September 25, 1990 • The Ritz Carlton • Atlanta
~~October 9, 1990 • The Ritz Carlton • Chicago~~

FIRREA has opened the doors to bank acquisitions of thrift institutions and thrift institution conversions to banks. However, it is not altogether clear what this new regulatory flexibility means and whether banks and thrifts should take advantage of these new options. This one day intensive program for bank, thrift, and other business executives, attorneys and consultants focuses on the mechanics and regulatory procedures involved in bank and non-bank acquisitions of thrifts, as well as how and whether thrifts should convert to banks.

9:15 CHAIRMAN'S OPENING REMARKS
Eric Luse, *Partner,* Brownstein Zeldman and Schomer

9:30 SHOULD A THRIFT CONVERT TO A BANK?
- What Are The Advantages And Disadvantages
- A Review Of The Bank And Thrift Charters

Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
Trent Feldman, *Partner,* Kaplan Smith & Associates (AT,LA)
Edward T. Lotz, *Principal,* Lyons Zombeck & Ostrowski (NY,CH)

10:00 REGULATORY HURDLES AND CONSIDERATIONS INVOLVED IN CONVERTING A THRIFT TO A BANK...HOW CAN IT BE DONE & WHAT IS PERMISSIBLE?
V. Gerard Comizio, *Director, Corporate and Securities Division,* Office of Thrift Supervision (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
Vernon E. Fasbender, *Director for Analysis,* Comptroller of the Currency (Southeastern District) (AT)
Roy Stovall, *Director for Analysis,* Comptroller of the Currency (Northeastern District) (NY)
Donelle Ward, *Director for Analysis,* Comptroller of the Currency (Central District) (CH)
Daniel Pearson, *Director for Bank Supervision & Analysis,* Comptroller of the Currency (Western District) (LA)

10:45 COFFEE BREAK

11:00 CONVERTING A SAVINGS ASSOCIATION TO A BANK... A CASE STUDY
Samuel J. Maisza, *Partner,* Brownstein Zeldman & Schomer (NY,CH)
James S. Fleischer, *Partner,* Silver Freedman & Taff (LA)
Robert Friedman, *Partner,* Silver Freedman & Taff (AT)

11:30 WHY SHOULD A BANK OR NON-BANK ACQUIRE A THRIFT... A STEP BY STEP REVIEW
- What Are The Economic Advantages And Disadvantages?
- Market/Geographic Expansion And Pricing Considerations

Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
T. Stephen Johnson, *President,* T. Stephen Johnson & Associates (AT)
John Mingo, *Principal,* BEI Golembe Inc. (NY,CH)
Richard Reibman, *Managing Director,* Dean Witter Reynolds, Inc. (NY,LA)

12:00 EVALUATING A THRIFT ACQUISITION...AN ACQUIRER'S PERSPECTIVE
- Regulatory, Operational & Financial Differences With Banks

12:30 LUNCH BREAK

2:00 A REVIEW OF THE REGULATORY PARAMETERS & ROADBLOCKS TO BANK ACQUISITIONS OF THRIFTS
- Interstate/Intrastate Banking Issues
- Obstacles Of State Branching Laws & How To Circumvent Them
- Healthy Thrift vs. Failing Thrift Acquisitions

V. Gerard Comizio, *Director Corporate & Securities Division,* OTS (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
John Buchman, *Assistant Deputy Director,* OTS (NY,AT,LA,CH)

3:00 COFFEE BREAK

3:15 WHAT ARE THE STRUCTURAL OPTIONS AND CONSIDERATIONS WHEN ACQUIRING A THRIFT?
- How Should The Resulting Or Target Institution Be Chartered And Insured?
- Holding Company vs. Direct Acquisitions

Eric Luse, *Partner,* Brownstein Zeldman and Schomer (NY,AT,LA,CH)
Peter Barnett, *Partner,* Arnold & Porter (AT,LA)
William J. Sweet, *Partner,* Skadden Arps Slate Meagher & Flom (NY,CH)

4:15 A BANK ACQUISITION OF A THRIFT...A CASE STUDY
Donald Kaplan, *Managing Director,* Kaplan Smith & Associates (NY,LA,CH)
William Moore, *President,* Trident Financial Corporation (NY,AT)

4:45 TAX AND ACCOUNTING CONSIDERATIONS
- Recapture Of Bad Debt Reserve
- Pooling vs. Purchase
- Use Of Net Operating Loss Carryovers

Roger Teurfs, *Partner,* KPMG Peat Marwick (NY)
James L. Spreng, *Partner,* KPMG Peat Marwick (NY)
Douglas McEachern, *Partner,* Deloitte & Touche (LA)
Vincent Lanuza, *Partner,* KPMG Peat Marwick (CH)
Gerald F. Hunter, *Partner,* KPMG Peat Marwick (AT)

5:30 END OF SEMINAR

SEMINAR 5

ASSET/LIABILITY MANAGEMENT

July 20, 1990 • The Vista Hotel • New York City
September 14, 1990 • The Vista Hotel • New York City
September 21, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker

9:15 INTEREST RATE RISK MANAGEMENT
The management of interest rate risk is fundamental to sound banking practice. Banks can experience earnings, liquidity, and capital adequacy problems, if management is poorly run.
This session will deal with a number of fundamental rules in managing interest rate risk as well as develop an integrated risk management project. You will understand how risk is measured, as well as, what tools are used to measure risk. Learn how to incorporate these tools to increase bank profitability.
Ronald D. Reading, *Vice President,* First Manhattan Consulting Group

10:30 COFFEE BREAK FOR SPEAKERS AND GUESTS

10:45 LIQUIDITY
This session learn to understand what liquidity is. Where you can get it. How much it costs, and how much it is worth. Finally, learn to understand how to measure and manage liquidity.
Peter G. Mantilla, *Vice President,* Bank of New York (NY)
Richard Laiderman, *Vice President,* Bank of America (LA)

11:45 THE USES OF DURATION IN ASSET LIABILITY MANAGEMENT
Technological and analytical developments in the 1990's will significantly enhance the ability to deal with risk. The methodology, tools, and implementation approach provide a more rigorous assessment of market risk.
The specific focus will be to contrast the duration approach with a new approach called risk measurement unit approach. The risk measurement unit approach captures both volatility and non-parallel shifts in the yield curve.
Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker
Robert M. Mark, *Managing Director,* Manufacturers Hanover Trust

12:30 LUNCH BREAK FOR SPEAKERS AND GUESTS

1:30 OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE NEW EXAMINATION GUIDELINES
The OCC has alerted all bankers that they must prudently manage, measure and limit risk, and that enough capital be available to support exposure to such risk.
This session will discuss the OCC's policy on interest rate risk and how active the Office of Thrift Supervision is. The different topics which will be discussed include: risk matrix, gap reports, simulation, and duration.
Jennifer Johnson, *Developer and Administrator,* OCC

2:30 SECURITIZATION...WHEN AND HOW TO USE IT.
- Being able to securitize your own product
- Opening a secondary market
- The 144 Rule with regards to Private Placement

To Be Announced

3:30 LOWER COST OF MARKET AND THE INVESTMENT PORTFOLIO
1990 will be a year when your accounting department must be able to deal effectively with the new AICPA requirements on accounting for debt securities held as assets. A new standard expected to be issued by the AICPA with the support of the SEC and the FASB will require market value determination. The new standard will require allocating security investments among investment portfolio, held for sale, and trading account.
This session will help you understand the new requirements and the techniques required to successfully implement them.
Raymond Perry, *Partner,* Deloitte & Touche

4:30 ASSET LIABILITY MANAGEMENT INTO THE 1990'S.
This session will outline recent advances in the 1) measuring of embedded option risks. 2) measuring volatility risk exposure, 3) measureing index and credit spread risks, 4) integrating value decisions into the management process, 5) integrating risk-based capital guidelines into the risk management process.
Alden Toevs, *Principal,* Morgan Stanley & Co.

5:30 END OF SEMINAR

BANK PROFITABILITY REGISTRATION FORM

Please indicate which seminar(s) you would like to attend — (Please mail back entire form)

	SUMMER SESSION New York City The Vista Hotel Monday, July 16, 1990 — Friday, July 20, 1990	FALL SESSION I New York City The Vista Hotel Monday, Sept. 10, 1990 — Friday, Sept. 14, 1990	FALL SESSION II Los Angeles The Century Plaza Hotel Monday, Sept. 17, 1990 — Friday, Sept. 21, 1990
Day 1 **Innovative Customer Service and Sales Techniques for the Nineties**	☐ Monday, July 16	☐ Monday, Sept. 10	☐ Monday, Sept. 17
Day 2 **The Nuts and Bolts of Commercial Lending and Loan Pricing**	☐ Tuesday, July 17	☐ Tuesday, Sept. 11	☐ Tuesday, Sept. 18
Day 3 **Effective Strategies for Cost Management and Expense Control**	☐ Wednesday, July 18	☐ Wednesday, Sept. 12	☐ Wednesday, Sept. 19
Day 4 **Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks ***	☐ Thursday, July 19	☐ Thursday, Sept. 13	☐ Thursday, Sept. 20
Day 5 **Asset/Liability Management**	☐ Friday, July 20	☐ Friday, Sept. 14	☐ Friday, Sept. 21

* The day 4 conference "Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks," will also be offered in:
- ☐ **Atlanta,** The Ritz Carlton, Tuesday, Sept. 25
- ☐ **Chicago,** The Ritz Carlton, Tuesday, Oct. 9

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LOS ANGELES, CA: ***Fall Session*** — Monday, September 17, 1990 - Friday, September 21, 1990, The Century Plaza Hotel, 2025 Avenue of the Stars, Century City, Los Angeles, CA 90067. Telephone: (213) 277-2000.

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OUR DISTINGUISHED PANEL OF SPEAKERS

Day One:

Innovative Customer Service And Sales Techniques for the Nineties

Charles Buchta
Executive Vice President
First Interstate Bank

John Campi
Managing Director
Chatam Consulting Group

Michael Harden
Sales Manager
Citicorp Information Systems

John Goodman
President
TARP

Bruce Grieve
Vice President
American Express

Laura Gross
Director
American Express

Thomas Jacob
Senior Vice President
Chemical Bank

Dr. A. Lorri Manasse
President
The Cortland Group

Frank Martire
Chairman
Citicorp Information Res.

Joan Miszak
Senior Vice President
California Federal Bank

Dr. Nancy O'Brien
Marketing Consultant
Sales Devel.Assoc.

Pamela O'Shea
Vice President
City National Bank

Nicholas Papanikolaw
Vice President
Manufacturers Hanover

Charlotte Pollard
Vice President
Chase Manhattan Bank

Claire Schopler
Vice President
Chemical Bank

Dennis Stevens
Vice President
American Express

Day Two:

The Nuts and Bolts of Commercial Lending & Loan Pricing

Frank Abraham
Chief Credit Officer
Security Pacific National Bank

Gary Coelho
First Vice President
Security Pacific National Bank

Marshall Davidson
Managing Director
Kidder Peabody

David Fisher
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Loan Pricing Corp.

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Standard and Poor's

Hugh T. Kemprer
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Morgan Guaranty

Constance Kenneally
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Zeta Services Inc.

Edward McNally
Senior V.P.
National Westminster USA

Jonathan Moynihan
Managing Vice President
First Manhattan Consulting Group

Peter Offermann
Managing Director
Bankers Trust

Robert Okabe
Vice President
Kidder Peabody

Vjay C. Popot
Principal
Booz, Allen, & Hamilton, Inc.

Leland Prussia
Vice Chairman
Capitalcorp

Christopher Snyder
President
Loan Pricing Corp

Mark Solow
Senior Managing Director
Manufactureres Hanover Trust

Day Three:

Effective Strategies For Cost Management and Expense Control

James Bemowski
Principal
McKinsey & Co.

Michael Conover
President
Ryan Beck & Co. Pacific

Peter J. Doris
Senior Vice Pres.
Right Associates

Gary Gordon
Vice President
Paine Webber

Jane Hartung
Senior Vice President
Mellon Bank

Eleni Istavridis
Senior Vice President
Bankers Trust Company

Charles F. Kalmbach, Jr.
Senior Manager
Price Waterhouse

Patrick J. Leemputte
Partner
Price Waterhouse

James M. McCormick
President
First Manhattan Consulting Group

Charles H. Nobs
Senior Vice President
Bankers Trust Company

Harry H. Tatonis
Princial
Booz, Allen, & Hamilton, Inc.

Day Four:

Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converted to Banks

Peter Barnett
Partner
Arnold & Porter

John Buchman
Assistant Deputy Director
OTS

V. Gerard Comizio
Director Corporate & Securities Division
OTS

Vernon E. Fasbender
Director for Analysis
Comptroller of the Currency

Donald Kaplan
Managing Director
Kaplan Smith & Associates

Eric Luse
Partner
Brownstein Zeidman and Schomer

Edward T. Lutz
Principal
Lyons Zomback & Ostrowski

Samuel J. Malizia
Partner
Brownstein Zeidman & Schomer

John Mingo
Principal
BEI Golembe Inc.

Daniel Pearson
Director for Bank Supervision & Analysis
Comptroller of the Currency

Richard Reibman
Managing Director
Dean Witter Reynolds, Inc.

Kenneth Reilander
Managing Director
PaineWebber, Inc.

John Shockey
Partner
Milbank Tweed Hadley & McCoy

Roy Stoval
Director for Analysis
Comptroller of the Currency

William DJ. Sweet
Partner
Skadden Arps Slate Meagher & Flom

Donelle Ward
Director of Analysis
Comptroller of the Currency

Day Five:

Asset/Liability Management

Jennifer Johnson
Developer & Administrator
O.C.C.

Richard Laiderman
Vice President
Corporate Treasury
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Alden Toevs
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Lame Economy, Audits Hobble Southwest Banks

By STEVE KLINKERMAN

The Southwest banking rebound dissolved into a slobby mess during the second quarter as portfolio problems and tough federal examinations crunched a number of institutions.

The limping regional economy is growing ever so slightly. And aftershocks from a severe real estate downturn still rock a number of institutions.

Moreover, the recent sharp rise in energy prices offers little immediate benefit to banks in the energy-rich Southwest. Fresh energy lending opportunities will not unfold until spring at the earliest, experts said, and may never materialize if the Iraq-Kuwait conflict is soon resolved.

ANALYSIS: *Follow-up on the news*

Meanwhile, the uptick in energy prices has further weakened a shaky national economy, upon whose fortunes the Southwest increasingly depends. For the rest of this year, it appears, banks in the energy patch generally are facing a continued tightrope walk.

What has emerged is a picture of an industry that still has many lending capacity than the struggling Southwest economy needs and that still has not shed a dangerous overhang of problem assets.

Stepping Carefully

Any misstep – be it overly rapid growth, an underestimation of portfolio deterioration, or a failure to contain or cut overhead – could mean the difference between profit and loss in this environment.

Indeed, not even federally assisted institutions have proven immune to the problems besetting the region.

"Southwest bankers are continuing to discover just how little room for error there is in this economy," said Frank Anderson, a senior analyst with Stephens Inc., a brokerage in Little Rock, Ark.

Big Jolt at First City

One of the biggest second-quarter jolts came at First City Bancorporation of Texas, whose earnings fell 29.5% from the same 1989 period. The Houston-based company got a $1.5 billion rescue in 1988 but steered itself into fresh trouble by participating in risky loans made far outside Texas.

Though proceeds from the sale of its credit card portfolio more than offset recent loan deterioration, First City now is bereft of those high-yielding credit

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INSIDE NEWS

WASHINGTON



JAMES G. RICHMOND, coordinator of the Justice Department's investigations of bank and thrift crimes, said New England could be the next hot spot for fraud and management-abuse cases. *Page 13*

SOME CONSERVATIVE economists argue that bank runs may serve a useful purpose by weeding out weak institutions. *Page 8*

FINANCE

SHARES OF SOVRAN Financial and Citizens and Southern have weakened recently, despite analysts' enthusiasm about their imminent merger. *Page 16*

THE MINISTRY of Finance in Tokyo is not likely to approve further overseas issues of subordinated bonds by Japanese banks. *Page 14*

CONSUMER

CREDIT CARD DEBT will continue to outpace other forms of consumer debt this year, according to H. Spencer Nilson, a prominent industry observer. *Page 6*

TECHNOLOGY

BIG BANKS are expanding the cash management services available through mainframe-to-mainframe links with corporate customers. *Page 3*

INTERNATIONAL

THE INDUSTRIAL world's banks, led by the Japanese, are rapidly reducing their Persian Gulf business, including important interbank credit lines. *Page 10*

COMMENT

TOO MANY dead thrifts received life support from accountants, says Paul Nadler. *Page 4*

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First Fidelity, EDS Seen Near A Megadeal for Processing

By KAREN GULLO

NEW YORK — First Fidelity Bancorp. is close to signing a contract to turn over management of its $100 million technology operations to a third party, according to industry sources.

Sources expect the contract, which would be the largest ever for a banking company, to go to EDS Corp.

Deal Could Be Worth $1 Billion

The business could be worth up to $1 billion dollars over 10 years, these sources say, and would mark the first such move by a superregional. So far, only small and midsize banks have chosen outside companies to handle their data-center operations, a step that some credit with reducing technology expenses by 10% to 30%.

Analysts say such a move would further reduce noninterest expenses for the $29.8 million-asset First Fidelity, which has been in a cost-cutting mode since Anthony P. Terracciano arrived as chairman on Feb. 1.

"They've been doing fairly well, but they haven't gotten down to the fine points of cost cutting and improving productivity," said Nancy Bush, an analyst at Brown Brothers Harriman, New York.

"This would be a strong move, depending on the length of the contract and the degree to which the outside vendor becomes a part of the planning process," Ms. Bush said. "Are they saying 'Come in and give us the quick fix?' or asking the vendor to take a longer-term role in planning?"

It is not clear whether the bank will outsource the entire technology operation or keep some processing tasks in-house. In some outsourcing arrangements, an outside firm will bring in its own staff to run a bank's data center. In other cases, the firm hires the bank's data-processing and programming staff.

Officials of First Fidelity, Newark, N.J., would not comment on reports of its outsourcing move. "It's something we've been working on, but no decision has been made yet," said a bank spokesman.

A spokesperson for EDS said the company does not comment on prospective customers.

However, industry sources

See **FIRST** *page 3*

Stemming the Growth

Noninterest expenses at First Fidelity, dollars in millions



* Totals include expenses of banks that subsequently were acquired

Source: First Fidelity Bancorp.

Shawmut Signs Pacts To Tighten Standards

By TOM LEANDER

Shawmut National Corp. said Friday it has agreed with federal regulators to improve its lending practices, credit review, liquidity planning, and management information systems.

The agreements are not as stringent as the cease-and-desist orders regulators use in enforcement actions but indicate that problems at the banking company, with joint headquarters in Hartford, Conn., and Boston, could be deeper than was publicly known.

3d Regulatory Agreement

Shawmut is the third major New England banking company to announce such an agreement with regulators, and some analysts believe that many more banks in the economically troubled region have signed similar accords without disclosing them.

"I wouldn't be surprised if 40% to 50% of the banks in the region have entered into some kind of agreement with regulators," said James Moynihan, an analyst in Boston for Hartford-based Advest Group Inc.

Stock Price Dips

Shawmut's stock closed Friday at $9 a share, down 12.5

See **SHAWMUT** *back page*

Loss Causes Rude Awakening at MNC



Van Howell

TENUOUS HOLD: Alan P. Hoblitzell is struggling to keep control of the banking empire he built at MNC Financial.

By BILL ATKINSON

WASHINGTON — At the start of this year, Alan P. Hoblitzell Jr. was riding high as chairman and chief executive officer of MNC Financial Inc. in Baltimore. MNC's profit record was among the best for companies its size during the 1980s, and its pending merger with another large company in its home market had analysts making gleeful predictions about the benefits of consolidation and expense cuts.

Now, in the wake of a stunning $74.4 million loss for the second quarter, Mr. Hoblitzell's job is on the line, say sources close to MNC, and the future of the $27 billion-asset superregional banking empire he built is suddenly clouded.

William H. Daiger Jr., a vice chairman of MNC and president of its principal subsidiary, Maryland National Bank, has reportedly been

See **MNC** *page 5*

"Sound Off"

The Iraqi invasion of Kuwait sent world financial markets into a tail-spin last week, fired by higher oil prices, rumors of continued unrest, and a deepening recession in regions of the United States. The *American Banker*'s Atlanta bureau chief, Kenneth Cline, asked the following question:

Q ***What will be the long-term impact of higher oil prices on U.S. banks?***



■ Arnold A. Dill
Chief economist
Citizens and Southern *Corp.*
Atlanta

It depends to some extent on the regional location of the bank. Generally speaking, the higher oil prices would be associated with higher inflation and interest rates and lower output and profits. And anything that's a negative for the economy as a whole clearly is a negative for the credit picture in banking.

Banks in the oil patch, of course, are going to receive a possibly tremendous windfall depending on what happens here. Oil in the ground and above ground has suddenly become much more valuable. To the extent that that positive impacts the economy of the southwest, it would benefit banks in the area, but at the expense of other banks and the industry as a whole.



■ C. Richard Vermillion Jr.
Chairman, Houston region
Bank One Texas
Houston

The impact is going to depend on where the banks are located because some parts of the country are going to be negatively impacted by higher oil prices.

Those in the oil segment of the country may not benefit initially because nobody is going to rush out and borrow a bunch of money for exploration and development because of increased oil prices.

But if there were – over time – an opinion prices were going to stay higher, I'd think you'd see a lot more development activity and therefore more borrowing and more business expansion at those banks that are major lenders to the oil services and the oil industry.



■ John M. Godfrey
Senior vice president and chief economist
Barnett Banks *Inc.*
Jacksonville, Fla.

As conditions now stand, the banking industry should escape this oil crisis with only minimal problems, unlike 1973 and 1979. The price adjustments are expected to be far less abrupt, and, so far, the oil is still flowing. The oil producing countries have a lot of spare capacity.

The greatest repercussions will develop as the economy slows, perhaps even slipping into a recession. This will definitely cut loan growth and increase the prospects of additional credit problems. Borrowers – all the way from those highly leveraged situations to commercial credits to consumer installment loans – will find it just that much more difficult to keep payments current.

To the extent that the pick up in inflation gets incorporated into higher interest rates, those loans that adjust to rate changes will require increased payments each month. Corporate customers and households with mortgages and home equity lines will feel the pinch.



■ Ralph M. Caretto
Corporate executive vice president
NCNB *Texas*
Dallas

The situation bodes well for those of us who are energy lenders. It would tend to strengthen the underlying collateral of credit we already have and it will have some impact on domestic production in a positive way.

But I think what we're talking about is [oil prices] settling in at a point just higher than they had been.

The impact that has for the direct lending of energy banks is positive but not great. Of course, if we get to a point where we're looking at $28-a-barrel oil or $30 at a sustainable level, that would obviously increase domestic production and bode very well for the state of Texas, more so than any other place. But we don't believe that's going to happen. □

Second-Quarter Earnings Roundup

Southwest Banks Still Struggling

Continued from *page 1*

card assets. And collections on a pool of troubled assets have slowed, further choking the income flow.

Team Bank, which contains the failed banks of Texas American Bancshares Inc., reported $6.8 million in profits. Its return on assets will improve as it deploys more assets into loans, said Terry Kelly, president, but the Texas lending market is soft, and Team Bank expects only modest loan growth the rest of this year.

This is the second in a series of articles analyzing second-quarter regional bank earnings.

Problems were unmasked elsewhere in the Southwest as federal regulators completed examinations.

Loss Follows Audit

In Albuquerque, Sunwest Financial Services reported a $12.3 million second-quarter loss after a lengthy audit by the Comptroller of the Currency. The company cited real estate problems and predicted profits for the rest of the year.

In other instances, Southwest banks reorganized additional real estate lending losses without direct help from regulators.

In Denver, United Banks of Colorado reported a whopping $89.7 million loss as it cleaned house in preparation for a takeover by Norwest Corp. Blaming soft real estate market, the company made a loan-loss provision of $81.1 million – more than 10 times as much as in the second quarter of 1989.

Bad News at 1st Commerce

In New Orleans, First Commerce Corp. reported a 27.9% earnings decline that it said stemmed from portfolio deterioration in a stagnant economy. The company suffered a 19% increase in problem assets during the second quarter.

A number of other Southwest banks took small but positive steps in the second quarter in their long climb out of portfolio problems.

For example, the Texas subsidiary of First Interstate Bancorp, Los Angeles, earned $14 million, and Texas Commerce Bancshares Inc., a unit of Chemical Banking Corp., New York, earned $24.1 million. Both were year-to-year improvements.

Large Bad-Loan Ratios

But First Interstate Bank of Texas ended the period with nearly 9% of its gross loans in some stage of default, and Texas Commerce reported nonperforming assets at more than 10% of total assets. The high concentrations of problem assets will limit profits at the Houston-based units for some time, experts said.

On a somewhat weaker note, San Antonio-based Cullen/Frost Bankers eked out $622,000 of net income – a 0.08% return on average assets – and finished the second quarter with a 9.9% nonperforming assets ratio.

The cycle of weak earnings and high levels of problem assets also was evident in Oklahoma, where Banks of Mid-America earned $611,000 and finished the second quarter with a 16.4% nonperforming assets ratio.

Similarly, in Baton Rouge, La., Premier Bancorp earned a comparatively slim $2.1 million on a $4.1 billion asset base and finished the period with a 10.5% nonperforming assets ratio. □

Second-Quarter Earnings at Southwestern Banks

Dollar figures in millions

	Ending assets	2Q '90 income	Versus 2Q '89	NPA* ratio	Equity** ratio
Texas Commerce Bancshares	$16,864	$24.1	+653.3%	10.3%	5.49%
First City Bancorp. (Tex)	13,897	19.8	-29.5	2.5	6.13
Hibernia Corp. (La.)	7,366	17.0	+10.9	2.7	5.11
United Banks of Colorado	6,267	-89.7	NA	4.5	6.93
First Interstate Bank of Texas	5,962	14.0	NA	8.9	3.61
Team Bank (Tex)	4,648	6.8	NA	1.5	7.00
First Commerce Corp. (La.)	4,300	5.2	-27.9	3.3	5.73
Premier Bancorp (La.)	4,108	2.1	NA	10.5	3.63
Cullen/Frost Bankers (Tex)	3,252	0.6	-18.4	9.9	5.80
Sunwest Financial Services (N.M.)	3,200	-12.3	NA	7.2	6.23
Colorado National Bankshares	3,033	1.2	+138.8	6.6	6.59
Banks of Mid-America (Okla.)	2,125	0.6	-66.1	16.4	7.19
Worthen Banking Corp. (Ark.)	1,791	5.1	+122.2	3.3	6.58

* Loans in default, reworked loans, and foreclosed properties as a percentage of total loans and foreclosed properties

** Equity capital as a percentage of total assets

Correction

An Aug. 9 article about Chemical Banking Corp. ("Younger Executives Gain in a Shake-Up at Chemical," page 1) overstated the amount of repossessed real estate held by the company. At the end of the second quarter, Chemical had $556 million of assets classified as "other real estate owned," or $470 million after deducting its reserve.

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Technology/Operations News

First Fidelity, EDS Seen Near A Megadeal for Processing

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say that EDS, a Dallas-based unit of General Motors Corp., has edged International Business Machines Corp. and Perot Systems Corp. for the First Fidelity business and that the deal could be consummated by the end of the month.

"It's a first look – they're just nailing down the details," said one source. But other suppliers say they are still in the running, citing the fact that a contract has yet to be signed.

If First Fidelity outsources, it would have a dramatic impact on the industry, bankers and analysts say. Other banking companies would be encouraged to follow suit, they contend, even though many could realize the same savings by keeping technology operations in-house and making judicious trims.

"You will see more and more large banks outsourcing," said Raymond Tamayo, senior vice president for information systems at Republic New York. The $29 billion-asset bank has outsourced its retail banking data-processing operations to Systematics Inc. for several years. Its contract, thought to be in the $100 million range, is one of the largest bank outsourcing deals to date.

"It's very difficult for banks to keep up with current technology," Mr. Tamayo said. An outside firm that specializes in data-center operations has the staff, equipped to supply cost-efficient computer systems, he said.

Sweeping Changes

Mr. Terracciano embarked on an aggressive cost-cutting program when he joined First Fidelity. The former president of Mellon Bank dismissed 1,400 employees in his first month. The staff reductions are expected to save the banking company $95 million this year.

The abrupt departure of the bank's chief technology executive in May was attributed in part to a dispute over an outsourcing proposal, sources said. Gary A. Provo, the former executive vice president in charge of technology, disagreed with the proposal, which was backed by top managers, including Mr. Terracciano, sources said.

In June, the company restructured its technology and operations units, forming a corporate-level department to handle retail, wholesale, securities operations, technology, and staff services. Executives were appointed for each division except technology. Observers speculated that the company did not need a technology executive because it planned to turn that operation over to a third party.

How Much Can Be Saved?

A company spokesman said a consolidation of back-office operations and computer systems is expected to cut expenses by $50 million over the next 12 to 18 months. But it is not clear whether savings from outsourcing are included in that figure.

Sources say the outsourcing arrangment with EDS could well include a provision for consolidating data centers in Philadelphia and New Brunswick, N.J., and developing common software for all bank operations.

Some industry observers question the wisdom of turning over technology to a third party, saying that a bank could lose control of one of its most valuable assets and end up paying more for technology.

But bankers who have signed outsourcing contracts contend that the practice gives management more control over costs and productivity.

"The firm is accountable for their actions, and we manage what they do," said Mr. Tamayo at Republic Bank. □

Banks Expand Cash Management

Mainframe Link to Clients Is New Competitive Tool

By RICHARD LAYNE

NEW YORK — Big banks are expanding the cash management services available through mainframe-to-mainframe links with corporate customers, a step they consider necessary to surviving consolidation in the business.

These forward-looking banks believe the sophisticated links will enable them to gain market share by providing a fast, reliable way for companies to transfer all types of funds – whether through Fed Wire, Swift for international payments, the automated clearing house system, or checks. In essence, corporate

"If you are one of the banks that will stay in the game, you have to have this."

Frank Blanco
Morgan Stanley

treasurers will use not the bank but its computers to monitor their cash positions.

"If you are one of the banks that will stay in the game and be competitive going forward, you have to have this," said Frank Bianco, vice president at Morgan Stanley & Co., which has a computer-to-computer connection with its cash-manager banks.

No Pull Slate Yet

So far, no corporation is sending a full slate of payment instructions to a cash manager by way of these electronic links, bankers say. But many companies are taking steps in that direction.

Chase Manhattan Corp. said that next month, one of its customers will begin sending by computer a single file of instructions to make both wire transfers and ACH payments. The banking company declined to name the client.

Citicorp is among the few banks that say they already have customers sending a mixed bag of funds-transfer instructions. Big cash managers such as Chemical Banking Corp. and Manufacturers Hanover Trust Co. plan to build the communications capability into their computers, corporate treasurers say.

"I don't think there is any client that I can point to who has all payables electronically," said Robert Ford, vice president at Citibank. "But they are moving there."

Manager Lists Shrink

The electronic advance is intended to help banks remain competitive as corporations trim their list of cash management providers. According to a study of 1,000 corporations by Greenwich Associates, the average number of cash management providers per company fell to 7.8 in 1989 from 8.6 in 1985.

Corporate customers typically progress up the technology ladder in their communications with banks. They start by phoning in instructions and inquiries and advance to using a terminal connected to the bank's computers and eventually to using a personal computer.

By linking mainframe computers to mainframe computers, the corporations get a fully automated, reliable, and flexible method of communicating payment instructions.

Trend Toward a Single File

Over a mainframe computer, a corporation can send one file to cover all payables. "The trend is the single file to the bank for multiple transactions," said Stuart Levine, a vice president at Chase Manhattan.

Denise McLaughlin, vice president at Citicorp, predicts, "Mainframe-to-mainframe links will grow greatly over the next several years."

Some of that growth will come from Wall Street firms. Mr. Bianco expects the volume over Morgan Stanley's electronic highway to increase as the investment bank steps up cash monitoring worldwide. The improved monitoring is in response to Federal Reserve regulations that will make borrowing

"I don't think there is any client that I can point to who has all payables electronically."

Robert Ford
Citibank

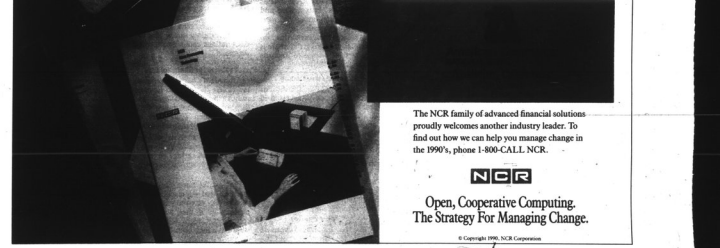
fed funds more costly.

But most of the growth is expected to come from the use of such links by Main Street companies. Driving that growth in is increase in global business and the need to increase the control over funds transfer, bankers say.

"Our control comes from bypassing the internal personnel at the bank," said Mr. Bianco of Morgan Stanley. The communications link gives him direct access to the bank's computer, through which he can instantaneously learn his cash position.

"We don't have to call for a phone call from them to verify transactions," he said.

Bankers see a race developing to provide the service. □



COMMENT / *By Paul S. Nadler*

Too Many Dead Thrifts Got Accountants' Life Support



"What I can't figure out," said my companion, a retired trust officer, "is how an unprofitable savings and loan in the Northeast could take over an unprofitable savings and loan in the Southeast and all of a sudden they are profitable."

Combining two geographically separate thrifts is not going to bring immediate economies of scale. So my answer had to be: "That's what creative accounting can do."

I then explained how so-called mark-to-market accounting had brought a writedown of mortgage assets to market value, an equivalent writeup of so-called goodwill capital, followed by an eight-year writeup of the mortgages back to par, coupled with a 40-year writedown of the goodwill capital.

How It Works

The result, I explained, was that for eight years the thrift has 5% annual appreciation in value of its mortgages and 1% decline in value of the goodwill for a net 4% profit on the entire mortgage portfolio.

After eight years, of course, the writeups end and write-downs last another 32 years. But in the 1980s, who cared about what would happen eight years from now? Especially if the thrift's CEO was 57 years old.

The conclusion: Profits are what the accountants and the regulators who determine accounting policy say they are.

One can see why so many executives of thrifts that have failed due to inadequate capital feel the government went back on its word when it first allowed mark-to-market accounting and its accompanying goodwill capital, then disallowed goodwill as part of thrift capital.

Executives Feel Betrayed

These executives feel they made decisions based on the assumption that goodwill acquired in mergers and acquisitions would be considered capital for the time it took to write it off - 40 years – only to find that the accounting rules were changed overnight. That left them without enough capital to stay alive.

"We will never trust the government's words again," a thrift leader said in discussing the question at a recent savings and loan convention.

Thrifts that counted on goodwill capital and the now discredited regulatory accounting procedures as a beautiful substitute for the far harsher generally accepted accounting principles have every reason to feel aggrieved. A stroke of the accountants' pens changed their industry, but look at what accounting did to all of us as it was applied to banks and thrifts.

Real Culprit: Rate Mismatch

We all read with disgust about the waste, fraud, and stupidity in the thrift industry that helped pile up $130 billion in losses to the Federal Deposit Insurance Corp. and Federal Savings and Loan Insurance Corp. (These losses are estimated at $500 billion if financed over 20 years.)

But as thrift consultant Bert Ely pointed out in a recent study, only a small part of the $130 billion loss came from these highly publicized drains of thrift funds. Most of the loss, he explained, came from thrifts' being paid higher interest rates to attract and keep deposits while holding fixed-rate mortgages that earned far less.

How does accounting fit into this picture?

Basically, if a thrift borrowed short, lent long, and then lost money as short-term interest rates rose, FSLIC wasn't concerned so long as the thrift had enough capital to cover its losses. Losses became solely the concern of thrift stockholders.

Insolvency Hidden, on Paper

But accounting techniques kept many thrifts alive during the 1980s long after shareholder equity and reserves were gone.

Thrifts that kept assets on the books at cost did not have to report or write off those flat rising interest rates caused in the market value of fixed-rate mortgages. And phony profits from mark-to-market accounting made it look as though more reserves existed to cover losses than actually were available.

In sum, many thrifts ran out of capital but continued to operate. They lost more money daily, money that the taxpayers would eventually have to replace. Proper accounting would have led to these thrifts' being closed far earlier.

Tougher Rules Due

The use of goodwill as capital has ended. But one wonders how many other institutions are out of real capital, since their assets' value would tumble if listed at market value instead of book.

No wonder so many observers now expect regulations requiring all financial institutions to report assets and liabilities at market value instead of book.

Banks and thrifts should earn their way through profitable operations in the real world, not through the quirks of an accountant's pen or computer. And we are likely to see more efforts to bring this about, no matter how drastic the impact may be.

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

AMERICAN BANKER
Established 1836
One State Street Plaza, New York, N.Y. 10004
212-943-6700

Managing Editor: Thomas J. Ferrin
Asst. Managing Editor: Jeffrey Kutler
Washington Bureau Chief: Robert Trigaux
News Editors: Barbara O'Kelley, Eric N. Starkman
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BUREAUS
Washington: Bill Atkinson, Debra Cope, Linda Corman, Robert M. Garsson, Barbara A. Rehm. 202-347-6639
Atlanta: Kenneth Cline (bureau chief). 404-364-6072
Boston: Suzanne Alexander (bureau chief). 617-482-3550
Dallas: Steve Klinkerman (bureau chief). 214-748-5066
Los Angeles: Teresa Carson (bureau chief). 213-627-0852
Northeast: Jed Horowitz (bureau chief), Lisa Napoli, Franklin Smith. 212-943-6700
San Francisco: Sam Zuckerman (bureau chief). 415-986-8710
London: John Evans (bureau chief). 011-44-71-638-5959

COPY EDITORS
Martin Bentley (assistant chief), Christine Arax, Terry Bormann, Jeanne Dubinsky, Robert Paul Molay, Jane Sandiford

ART
Dylan Kreuser (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
Suzanne Christy, Joseph L. McCarthy, Beth Piskora (assistant editors)

STATISTICS
Harvey Glassman, John Ferring

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Editorial Assistants: Lenore Adams, Jackie Albritton, Matthew H. Barthel, Rita Kay Meyer, Lee Schwartz

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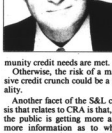
COMMENT / *By James Thomas Valliere*

CRA Marks Basic Change In Nation's Social Values



As the banking community awaits the release of the new Community Reinvestment Act ratings, the focus is on how the public and the press will react to those banks that receive low evaluations.

My experience in talking with bankers, community leaders, and regulators is that very often many of the real CRA issues are being obscured as we await the reaction to the release of the ratings.

In particular, upper-level bank managers are particularly resentful about this whole process, as they expect to be dragged by waves of negative publicity.

Why Issues Won't Fade

What is needed at this point is to keep a proper focus on what the real CRA issues are. Such a focus also will enable us to see clearly why these issues will not simply evaporate or slowly fade into the woodwork as many bankers are wishfully hoping.

The main reason CRA issues are becoming a permanent part of bank regulatory procedure is because CRA enforcement is coincident with a fundamental change of values in American society.

Just as bank deregulation in the early 1980s was coincident with an anti-tax, anti-federal regulation movement, so too we now find that CRA enforcement meshes with a broad trend in which society sees a need to have pressing social issues addressed by banks.

Change in Demands

Themes such as affordable housing, lending to minority-owned businesses, and simply providing credit to the communities that banks serve, are now viewed as elemental demands on banks.

We must also not forget that CRA enforcement is intimately linked to our ongoing S&L bailout crisis. It is imperative that, as our thrift industry shrinks, the markets that they were supposed to serve, such as housing and community credit, are not overlooked when banking institutions reap a deposit windfall as S&L's contract.

Essential Needs

As our banking system is undergoing this massive change, it is essential to make sure community credit needs are met.

Otherwise, the risk of a massive credit crunch could be a reality.

Another facet of the S&L crisis that relates to CRA is that, as the public is getting more and more information as to what went wrong with the failed S&L's, what is becoming increasingly evident is that there is a pattern of misuse of deposits by the failed institutions.

Problems in Common

Most of these institutions bought junk bonds, invested in real estate far from their communities, or lent excessive amounts to a few borrowers who ultimately did not repay their loans.

All of this points to the fact that these banks were not engaged in the fundamental business for which they were chartered: making home mortgages and providing credit for the communities they serve.

Going Public

The final point to keep in mind is the reason why the CRA ratings are being released to the public. Focusing on this issue is important because it is the first time that the results of bank examinations are being made public.

Why do this?

The answer is a simple one. Until now, all efforts to get banks to comply with CRA regulations have been met by stonewalling on the part of the banks.

Regulators Dismayed

Regulators I have spoken with expressed dismay that banks have not taken CRA seriously. When this happens, the government turns to the press.

This exposure to the press and the public is telling banks that they have to take CRA seriously. If CRA is not going to go away, then what does this mean for bank management and directors? It certainly means that low CRA ratings could lead to their dismissal.

Problem for Shareholders

After all, if a bank's reputation is severely damaged in its community because managers and directors have not taken CRA seriously, then what other recourse do shareholders have?

Also, bank analysts will undoubtedly be watching to see if negative CRA ratings have any noticeable impact on bank stock prices.

Finally, the most important question that managers and directors may have to ask themselves publicly is: If they are not in compliance with CRA, then what have they been doing with depositors' funds? □

Mr. Valliere is president of Social Banking Programs Inc. of Brattleboro, Vt. The company arranges deposit-gathering programs whose funds are earmarked for socially oriented lending.

MNC Financial Must Pick Up Pieces After Stunning Loss

Continued from *page 1*

asked to leave. And Alfred Lerner, an MNC director and its largest shareholder, seems to be making a grab for control through a preferred-stock purchase that would raise his equity stake to 23% from about 9%.

"It's a pretty good bet that there is going to be some shakeup," according to a source who closely follows the banking company. "The percentage bet is that one or both guys [Mr. Hobizell and Mr. Daiger] are gone."

Mr. Lerner, who was chairman of Equitable Bancorp., Baltimore, before its acquisition early this year by MNC, denied in an interview last week that the company is seeking a replacement for Mr. Hobizell. When asked if Mr. Daiger is on the way out, Mr. Lerner said, "Mr. Hobizell is MNC's CEO, as far as I'm concerned, all of the management judgments are in his ballpark."

Such disclaimers may or may not put the questions to rest, but the fact that they are being raised reinforces the impression that MNC is looking very different from its former self.

Its stock was trading at $8.625 a share at midafternoon on Friday, well below its 52-week high of $29.375. The company is trying to shed some assets by seeking a buyer for MNC Credit Corp., a commercial finance, venture capital, and leasing subsidiary.

The company is seeking a buyer for MNC Credit Corp.

Real Estate Sours

The holding company's rosy outlook began to change toward the end of last year as real estate problems began to surface in the Washington-Baltimore corridor. In the first quarter they noticeably cut into the returns on MNC's innovative credit card marketing and loan securitization strategies.

Last month, the depth of the problems became evident as MNC – now combined with its former rival, Equitable – reported a $74.4 million second-quarter loss. Its negative returns on assets and equity — 1.19% and 21% – reflected a 111% increase in nonperforming assets during the quarter to $757 million, and a $233 million loan-loss provision.

About-Face from Last Year

The performance marked a 180-degree reversal from positive returns of 1.15% and 18.92% in the second quarter of 1989, and 1.14% ROA and 17.71% ROE for the full year.

Sources close to the Baltimore-based holding company say it is interviewing candidates who will either take Mr. Hobizell's job or assume a high-ranking position, possibly Mr. Daiger's, if Mr. Hobizell stays.

One name that has been circulated widely is Harold Pote, the former chief executive officer of First Fidelity Bancorp., Lawrenceville, N.J.

Daniel G. Finney, a spokesman for MNC, said, "That rumor [about Mr. Pote] has been floating around for a couple of months. We won't comment on it."

When asked if he had been contacted by MNC, Mr. Pote said, "I think it is better that I don't comment, one way or another."

Mr. Lerner, who is chairman of the Progressive Corp., a profitable Cleveland-based insurance company, is raising his profile after taking paper losses of almost $100 million as MNC's stock price fell from around $21 since the merger was consummated in January.

On Aug. 6, Mr. Lerner entered into an agreement with MNC to improve its capital position in a $180 million private placement of cumulative convertible preferred stock. Mr. Lerner said he would buy at least 50% of the issue, and would assume the remainder if it were not taken by other directors.

Mr. Lerner is raising his profile after taking paper losses of almost $100 million as MNC's stock price fell.

While the move could increase his MNC stake to 23%, Mr. Lerner retains a $45,000-a-month consulting contract running over the next 10 years.

"He was the dominant shareholder before," analyst Nancy A. Bush of Brown Brothers Harriman & Co. told the *American Banker* when the preferred-stock offering was announced. "This makes him the 800-pound gorilla."

"I think Lerner's presence will be felt," said a source close to MNC, who also worked for Equitable. "He has the most to lose of anybody. If it comes down to a [board] vote it could get interesting. Never underestimate the power of Lerner."

In the interview, Mr. Lerner said he was "certainly disappointed" with the company's recent performance.

"I didn't expect it to turn out this way," he said. "But I'm in business, and every day is not as good as some other days. It is an outstanding franchise, and it has a sensational credit card business. It is fixable, so we've got to fix it."

A Consulting Role

Mr. Lerner, known for being quick to the point and a tough manager, said he would not exert control over MNC's day-to-day operations, but he will make suggestions.

"I'm not a manager at all," he

See **BIG** *page 7*

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COMMUNITY RELATIONS

Victorian Homes Restored To House Poor in Seattle

By SAM ZUCKERMAN

Like other cities across the country, Seattle has an acute shortage of low-cost housing. As the hub of a vast logging empire, it is also filled with turn-of-the-century frame houses, many of them badly rundown.

Some of these Victorian structures have been turned into shelter for those who need it most, through a restoration project largely financed by the state's biggest financial institutions.

The nonprofit Historic Seattle Preservation and Development Authority last month completed the conversion of six houses that had been boarded up and rotting into 47 units of housing for low-income people. The contractor painstakingly restored the houses to recreate original details, including the paint – rust colored and peagreen – that covered them when they were built almost a century ago.

The $2.4 million effort, called the Belmont-Boylston Historic Houses project, is located in the First Hill district on the edge of downtown Seattle.

Most of the project's funding came from three commercial lenders: Security Pacific Bank Washington provided $917,000 in equity as a limited partner; Seattle-First National Bank lent $2.04 million in construction financing; and Pacific First Federal Savings Bank extended a takeout loan of $1.02 million.

> **"It goes beyond the CRA."**
>
> *Jennifer Blake*
> *National Trust for Historic Preservation*

The National Trust for Historic Preservation and other agencies kicked in $627,000 in additional financing. The total lending is greater than the total project cost, because the takeout loan replaced some previous financing.

Belmont-Boylston exemplifies what bankers and preservation experts say is a growing enthusiasm of financial institutions for investing in the architectural heritage of their communities.

"If we are interested in the community, then we are interested in preservation," said Judy Russell, community affairs manager for Barnett Bank of Jacksonville, Fla.

Usually such support is combined with programs to channel credit to low- and moderate-income communities, as required by the Community Reinvestment Act. Thus, Barnett has contributed $1 million to a $3.5 million loan pool for restoring old homes in Jacksonville's historic Springfield district.

Bankers and preservation specialists say that when support for affordable housing is combined with historic preservation, the bank and the community reap the greatest rewards.

"It goes beyond the CRA," said Jennifer Blake, a finance specialist with the National Trust for Historic Preservation. "What historic preservation has to offer banks is more attractive projects that they can have some pride in."

Regulators Will Take Note of Efforts

Though banks rack up no CRA points for preservation in and of itself, they can still impress federal regulators.

"We have no formal policy," said Kyle Walsh, community affairs officer with the Federal Reserve Bank of San Francisco. "But it's something we would encourage."

Security Pacific community reinvestment officer Judy Reed, the bank's point person on Belmont-Boylston, described the project's preservation features as "frosting on the cake."

Nevertheless, bank support for preservation is good business, Ms. Reed maintained. It helps identify the bank with the community, something important for an institution whose parent is headquartered in faraway Los Angeles.

Security Reaped an Immediate Gain

In Security Pacific's case, there was also an immediate economic benefit. As an equity partner, Security Pacific received $1.7 million in low-income housing tax credits for its $917,000 stake. Those credits, not available for making loans, made Belmont-Boylston "a good investment opportunity" that provides a reasonable rate of return, Ms. Reed said.

Where lending is concerned, the often difficult economics of preservation makes many bank credit officials leery.

"Preservation projects are almost always a little more difficult to sell," said Cathy Galbraith, Historic Seattle's executive director. "They involve concepts that financial institutions are not used to dealing with."

In particular, normal calculations of the useful life of a property may have to go out the window when dealing with a restored century-old building. "Age is nothing to be afraid of," Ms. Galbraith says.

Making sure a preservation project pays off is particularly difficult when low-income housing is the goal.

To ensure that Belmont-Boylston was self-sustaining, the architect and contractor were kept on a tight budget. But the key to making project economical was the financing package that spread the risk among lenders and allowed Security Pacific to use the tax credits, Ms. Galbraith said. □

New Heights for Credit Card Debt

Industry Expert Foresees a Doubling by Year 2000

By YVETTE D. KANTROW

NEW YORK — Credit card debt will continue to outpace other forms of consumer debt this year, according to H. Spencer Nilson, a prominent industry observer.

Consumers will take out $225.4 billion in debt on their credit cards in 1990, Mr. Nilson predicted.

> **"Consumers will take out $225.4 billion in debt on their credit cards in 1990."**
>
> **H. Spencer Nilson**
> *The Nilson Report*

He also expects credit card debt to nearly double by the year 2000, when it will hit $435.7 billion.

Credit Boom Predicted

The predictions come at a time when many economists are expecting consumer spending growth to slow.

But Mr. Nilson, who publishes the *The Nilson Report* in Los Angeles, said credit card use will boom as consumers increasingly choose to use credit cards over cash, checks, and other types of loans.

According to Mr. Nilson, credit card debt will account for 29.8% of all consumer debt by the year 2000, up from 22.9% in 1980.

Credit Debt Up $29.7 Billion

Credit card debt totaled $206.7 billion in 1989, up from $177.0 billion in 1988 – the first year Mr. Nilson tracked these figures.

He used economic indicators from the Department of Commerce, the Federal Reserve Board, the Department of Labor, and the Census Bureau to arrive at estimates for 1980 and the future.

More than 110 million Americans now have at least one credit card, Mr. Nilson said, and together own more than 1 billion cards, for an average of 9.1 per cardholder.

The combined unpaid balances on these cards averages $2,042 per cardholder – up from $931 in 1980. The average adult American has $4,402 in all debt outstanding, excluding mortgages, but including credit cards.

> **"Credit card debt will account for 29.8% of all consumer debt by the year 2000."**

The Future Bill of Payment

Mr. Nilson predicted that by the year 2000, the average unpaid card balance will reach $3,683.

Nearly 1.2 billion cards will be outstanding, averaging 11.7 cards per cardholder. Debt for the average American, excluding mortgages, will reach $7,214.

Credit card debt includes bank-issued MasterCard and Visa cards, retail store cards, travel and entertainment cards such as American Express and Carte Blanche, and the Discover card. □

Mail-Order Checks a Processing Problem

By YVETTE D. KANTROW

NEW YORK – A recent American Bankers Association survey validates a long-held belief that mail-order checks cause processing problems for banks.

Two out of three community and midsize banks surveyed by the trade association said they were having trouble processing the personal checks that consumers bought through the mail rather than through their banks. About half of the large banks also reported difficulties.

The American Bankers Association surveyed a total of 448 commercial banks nationwide for its study on retail deposit services.

Banks that complained about inferior checks most often cited the poor quality of their MICR lines – the machine-readable coding that contains account numbers and other routing information. More than 80% of the midsize and large banks in the survey complained of MICR quality.

"Some banks say you can only use checks supplied by the bank," an ABA spokesman said. "They are not doing that to make money. They are doing that so they don't jam up their equipment."

Checks In the Mail, Irwindale, Calif., and other companies sell checks directly -to consumers, marketing their wares via flyers in local newspapers and direct-mail campaigns.

"Consumers think they are getting a good deal, and in a sense, they are," the spokesman said. But the very factors that make the checks cheaper – inferior ink and paper – also make them more difficult for check-processing machinery to handle.

The largest banks in the survey also complained of losing noninterest income to mail-order check suppliers, with 75% of those with more than $1 billion in assets citing this problem. Only a third of the banks with less than $50 million in assets said loss of noninterest revenue was a concern. □

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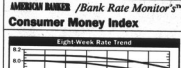
Consumer Money Index

Eight-Week Rate Trend



Retail Yields

	6-month	1-year	5-year
New York	7.83%	8.04%	8.39%
Los Angeles	7.85	8.05	7.95
Chicago	7.54	7.67	8.09
San Francisco	7.83	8.01	8.10
Philadelphia	7.73	7.81	8.00
Detroit	7.44	7.73	7.91
Boston	8.01	8.19	8.26
Houston	7.54	7.59	7.80
Dallas	7.57	7.63	7.95
Washington	8.11	8.28	8.31
BRM NATIONAL AVERAGE	7.75	7.90	8.06

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

Retail and Jumbo CDs

Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 biggest banks and thrifts in each of the nation's 10 largest markets on August 6. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Jumbo Rates

	6-month	1-year	5-year
New York	7.87%	7.76%	8.03%
Los Angeles	7.83	7.80	7.74
Chicago	7.58	7.67	8.16
San Francisco	7.84	7.83	8.05
Philadelphia	7.85	7.88	7.91
Detroit	7.71	7.72	7.79
Boston	7.88	7.89	8.01
Houston	7.59	7.68	7.86
Dallas	7.65	7.73	7.95
Washington	7.89	7.96	8.22
BRM NATIONAL AVERAGE	7.72	7.79	7.97

Big Loss Sets Stage for Power Struggle at MNC Financial

Continued from page 5

said. "I try to be as helpful as possible. I just want to have a good relationship with the CEO and the top people."

A fall from stardom like MNC's is becoming an increasingly familiar story in the banking industry, particularly as real estate loans and investments lose their luster. Throughout the 1980s, many institutions bolstered their bottom lines with profits from real estate, but they lacked diversity, and are now taking big losses.

Of MNC's $757 million in nonperforming assets on June 30, $522 million were related to commercial real estate problems, which are overshadowing MNC's recent growth into one of the nation's largest credit card and consumer lenders.

The commercial real estate portfolio has grown at a blistering 49% pace since 1984. Former executives of the bank said the groundwork for the problems was laid in the mid-1980s when Jeffrey R. Springer, the bank's senior lending officer, resigned after being passed over for the presidency. Other executives, including the head of real estate lending and senior credit officer, left subsequently.

Ahead Full Throttle

Despite the departures, the bank opened the throttle on real estate and staffed the division with lenders whose expertise lay in commercial banking, not real estate lending, sources said. A former MNC lender said the organization lost its focus when Mr. Springer left the bank.

"We did not try to do every deal coming down the tube. We were not pushing the volume machine," he recalled. The new management "became volume driven," he said.

"I think the problem is that they have been exceedingly aggressive in construction lending when prudent lenders have pulled back," said Lacy Shockley, a bank analyst at Smith Barney, Harris Upham & Co. "It is my understanding that 18 months ago these people were aggressive and became even more aggressive."

From January to March 1990, MNC's real estate construction portfolio alone grew 25% to $3.4 billion.

"It shows you that despite earlier success something underneath was going on that was much more dangerous," said an analyst who demanded anonymity. "You can't grow a real estate construction book as fast as they did and not suffer the consequences."

> **Under Mr. Hoblitzell, MNC was noted as a leader in packaging and selling credit card receivables, a business that remains strong.**

Assets Will Have to Be Shed

Although analysts contend MNC remains an unlikely candidate for a takeover, it will be forced to shed assets to meet upcoming payments on short-term and long-term borrowings.

MNC Credit, which is on the selling block, employs about 300 people, has $1.5 billion in assets, and contributed $15 million in earnings after taxes at yearend.

"They have to secure the balance sheet and look at expenses," said Felice M. Gelman, a bank analyst at Dillon Read & Co. "They have to see if they can throw a few things overboard and lighten the ship."

Ms. Gelman and other analysts contend that MNC will not sell the credit card business, which through a Delaware subsidiary last year contributed about 40% of the company's $212.6 million net income, Ms. Gelman said.

"Selling the credit card portfolio is tantamount to liquidation. That is the earnings business that will have to largely sustain them through this period," Ms. Gelman said.

Under Mr. Hoblitzell, its chief executive since 1983, MNC also was noted as a leader in packaging and selling credit card receivables, a business that continues to remain strong. The innovation, and the resulting profits, left a strong impression among followers of the company. □

DC Bank Declared Insolvent by U.S.

WASHINGTON — The Office of the Comptroller of the Currency on Friday declared the National Bank of Washington insolvent and appointed the Federal Deposit Insurance Corp. as receiver.

The FDIC said Riggs National Bank, the largest in Washington, agreed to assume $1 billion of deposits and acquire $1.1 billion of assets of NBW, the city's fourth-largest bank.

The comptroller's office said the declaration of insolvency was precipitated by a default in May by Washington Bancorp. on $25.8 million of commercial paper and the subsequent report of a $69 million loss in the first half.

The bank's conservator was William S. Ogden, a former chairman of Continental Bank, who said he viewed National BNW as potentially valuable to another bank in the region. □

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Let Us Now Praise Bank Runs, Conservative Economists Say

By ROBERT M. GARSSON

WASHINGTON — What's so bad about bank runs? That question is on the mind of Catherine England, the Cato Institute's director of regulatory studies.

At least since 1933, when panics led to bank holidays in state after state, it has been all but gospel that runs on banks were disasters, to be avoided at all costs.

A year after the sweeping thrift bailout law, some fundamental assumptions about the banking system are under review. Speaking out on the law's anniversary, Ms. England and a small band of fellow conservatives last week said worse things than bank runs exist for policymakers to consider as they weigh a potential overhaul of the deposit insurance system.

The Thrift Bailout Law



Costs Exceed Benefits

"There are costs associated with deposit insurance, and they were simply too large in the 1980s," said James Barth, professor of finance at Auburn University. Mr. Barth, a former chief economist at the Office of Thrift Supervision, was referring to the huge thrift-industry losses that built up over the decade and will now be covered by the $125 billion bailout.

"By the end of the day, the cost of deposit insurance will be greater than the losses from small banks" would have been if they had failed in runs uninsured, said James D. Davidson, chairman of the National Taxpayers Union Foundation.

But without deposit insurance, National Bank of Washington – which the government took over last month and intends to sell – almost surely would have suffered huge losses as nervous depositors fled.

"So what?" responded Ms. England.

Run as Market Regulator

A run would have removed funds from a weak institution, she said. By contrast, the deposit insurance system, which kept the bank open, has had the perverse effect of permitting flows of funds to the weakest institutions. These, in turn, lent to the least creditworthy borrowers, she suggested.

The loser, Ms. England said, was the economy as a whole. Funds were diverted to less-productive enterprises. "The economy lost on that," she said. "Jobs were not created."

Others said runs are useful. "Bank runs are an extremely crude device to force regulators to close a bank," said Bert Ely, an Alexandria, Va.-based analyst, who is best known for detailing the extent of losses embedded in the thrift industry.

Is there nothing good about federal deposit insurance?

Not much, apparently.



Catherine England
Cato Institute



James D. Davidson
Taxpayers Union Foundation

Here's some of what was said at the Cato Institute briefing on the first anniversary of the Financial Institutions Reform, Recovery, and Enforcement Act:

● "The idea that deposit insurance was designed to protect widows and orphans is a fraud," said the taxpayer group's Mr. Davidson. "It was set up to protect the franchise value of small, local banks that could not be sustained in free competition."

Small banks, Mr. Davidson added, are inherently unstable. But they can be controlled by local people, who in turn have close ties to their local member of Congress, a vicious circle that perpetuates the current system.

● The primary cause of the S&L crisis, said Mr. Ely, was federal deposit insurance. "Without deposit insurance, thrifts would not have been borrowing short to lend long. Deposit insurance was a disaster waiting to happen."

But what to do?

Private Insurance Urged

Mr. Ely said he believes the federal insurance system has been hopelessly corrupted and the only solution is to scrap it for a system of private insurance.

"It is imperative to get government out of deposit insurance," he said. "Bank solvency is a very insurable risk. You can see a failure coming. Look at National Bank of Washington. We saw it coming for years."

Ms. England said she believes regulators should have less latitude to bail out troubled institutions. Bailouts may be cheaper in the short run, she said, but regulators faced by shaky banks are like addicts in need of drugs.

"A fix may be the most efficient short-run solution, but you know it's no good for you in the long run," she said.

Instead, regulators must begin preparing for worst-case scenarios, including the possible failure of a money-center bank.

"You have to sit the Fed and the Treasury and the FDIC down and say, 'How do we deal with a Citi or Manufacturers Hanover failure?' " Ms. England said. "You have to have a plan in place."

A contingency plan for a Citicorp failure would resolve the too-big-to-fail dilemma, she said. But any serious solution, she added, must also deal with the central bank's Fed Wire system of electronic payments.

Immunizing the Sophisticated

"Given current practices," Ms. England said, "the Fed can facilitate the clean getaway of the most sophisticated depositors in the hours before an insolvent institution is closed." This problem will become more serious if "haircuts" or coinsurance is the chosen reform route.

The haircut idea originated with the American Bankers Association; it is intended to insure that, in a federal rescue, every depositor loses a fixed percentage of his savings, say 10%.

But because sophisticated investors will likely learn in advance when regulators are about to close a large bank, they can move funds out and avoid the pain of a haircut. The Fed Wire just makes the process more efficient, Ms. England said. □

THE WEEK *ahead*

MONDAY, AUGUST 13

The Federal Reserve Board ends public comment on proposed amendments to rules on dividend payments by state-chartered member banks and bank holding companies. The changes, which parallel those proposed by the Office of the Comptroller of the Currency, would effectively limit payouts by earnings-strapped institutions. 202-452-3000

The House and Senate are in recess and won't reconvene until after Labor Day.

TUESDAY, AUGUST 14

The Federal Deposit Insurance Corp. board meets to consider a staff analysis on whether to raise the premium banks pay for insurance. By year end, the fund could lose as much as $2 billion, according to senior officials at the agency. 202-898-8400

The Resolution Trust Corp. also meets to to consider changes to its policy statement on representations and warrants offered in mortgage loan and servicing agreements. 202-416-7566

The Treasury's conduct of international financial policy is the subject of a House Banking Committee hearing. 202-225-4247

Retail sales figures for July released by Commerce Department.

WEDNESDAY, AUGUST 15

The Fed meets to consider issuing for comment proposals to change the price structure of its interdistrict transportation system. 202-452-3000

Industrial production figures for July are announced by the Fed.

Business inventories and sales figures for June released by Commerce Department.

Capacity utilization figures for July are announced by the Fed.

THURSDAY, AUGUST 16

Consumer price figures for July released by Labor Department.

Housing starts and building permits figures for July are announced by the Commerce Department.

Real earnings figures for July released by Labor Department.

FRIDAY, AUGUST 17

Merchandise trade figures for June announced by Commerce.

PEOPLE

Senate Panel Heats Grill for Bank Nominee

The Senate Banking Committee turned what might have been a routine midsummer confirmation hearing into a hot-seat session for a former official of the Office of Management and Budget regarding her role in refusing more bank examiners for the Federal Home Loan Bank Board while thrift losses mounted.

Committee Chairman **Donald W. Riegle,** D-Mich., and Sens. **Bob Graham,** D-Fla., and **Timothy E. Wirth,** D-Colo., grilled **Constance J. Horner,** a nominee for the board of the National Cooperative Bank, on her tenure as OMB associate director of economics and governments from August 1983 to August 1985.

The committee cited testimony by former top officials close to the thrift industry while Ms. Horner was at OMB and, later, director of the Office of Personnel Management. She is now undersecretary of the Department of Health and Human Services.

Statements from former Federal Reserve Board Chairman **Paul Volcker,** former Federal Savings and Loan Insurance Corp. Deputy Director **William Black,** and former FHLBB chairmen **M. Danny Wall** and **Edwin Gray** suggested that Ms. Horner played a key role in a bureaucratic bottleneck that escalated the savings and loan bailout cost by billions of dollars.



Donald Regan
Scheduled to testify

"You had an opportunity to say 'yes' or 'no'" to clear the way for more thrift examiners, "and you said 'no,'" Mr. Riegle told Ms. Horner. She responded: "It struck me that there was simply no justification for the increase."

Ms. Horner's less-than-friendly treatment by the committee suggested that former Treasury and regulatory officials from the Carter and Reagan administrations may face similar receptions when the House Banking Committee convenes hearings Sept. 12 to investigate S&L policy decisions during the late 1970s and early 1980s.

The list of scheduled witnesses includes former Treasury secretaries **G. William Miller** and **Donald Regan;** a group of former FHLBB chairmen, including **Jay Janis, John Dalton, Richard Pratt,** Mr. Gray, and Mr. Wall; and all members of the FHLBB from 1979 to 1989.

Laurie S. Schaffer, 36, is joining the banking section of the Treasury Department general counsel's office, in part to help write the chapter on financial services reform in the department's deposit insurance study.

She starts today, reporting to Treasury assistant general counsel for banking and finance **Mary Ann Gadziala.**

Ms. Schaffer, 36, worked on the regulatory task force led by then-Vice President Bush in the early 1980s while a lawyer at the Securities and Exchange Commission. She later went to the American Bankers Association's trust and securities division.

From 1988 to a couple of weeks ago, Ms. Schaffer was an associate in Kirkpatrick & Lockhart law firm in Washington.

— **Louis Gerhardstein** and **Barbara A. Rehm**

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Bank of Tokyo and Citicorp Continue to Pressure Brazil

By RENE VILLEGAS

BRASILIA — Executives of Citicorp and Bank of Tokyo said Brazil should pay its arrears of $6 billion on commercial bank debt to pave the way for negotiations.

"The priority of Brazil should be to look for investments for economic growth and not to quit paying interest on its foreign debt," John S. Reed, chairman and chief executive officer of Citicorp, said following a seminar on Brazil's foreign debt.

Mr. Reed has been especially outspoken in recent weeks in demanding that Brazil pay arrears on its private medium- and long-term foreign bank debt of $56.7 billion. He has been in Brazil three times within the last month pressing his case.

Citicorp's principal subsidiary Citibank, is Brazil's largest foreign creditor, with about $3.4 billion in loans.

Bank Reaction Held Costly

Early last week in Sao Paulo, Mr. Reed said Brazil had lost $3 billion in vital trade and interbank lines because of its failure to honor its debt agreements. "This is a normal reaction of bankers" to cut back these lines, Mr. Reed said last week.

Brazil has continued paying interest on these short-term credits, which are essential for financing exports and imports.

"To quit paying interest could be an unfortunate precedent. It would be in Brazil's interest to regularize its arrears as a demonstration of its seriousness in seeking an agreement with private banks," Eiichi Matsumoto, vice chairman of the Bank of Tokyo, told the seminar on foreign debt sponsored by the Brazilian Senate.

Brazilian officials participating in the seminar rejected the suggestions of the visiting bankers.

Brazil owes $23 billion this year on its foreign debt, including the short-term as well as the longer-term credits, Antonio Claudio Sochaczewski, director for the foreign area for the Brazilian Central Bank, told the seminar. "Brazil does not have the capacity to pay this sum."

Matching Sacrifice Urged

Mr. Sochaczewski said the economic program of President Fernando Collor de Mello was a "tough internal sacrifice which has to be matched by creditors."

He did not give a detailed breakdown of the $23 billion figure. Brazil's total annual interest payments are almost $10 billion.

In addition, Brazil owes $2 billion arrears on debt to official creditors such as the Paris Club and $6 billion arrears to private banks.

"It is necessary to keep to the rules of the game," Mr. Reed said. "From abroad, we see that Brazil has more capacity to pay than other indebted countries, but here it is said that it cannot grow because of foreign debt commitments," Mr. Reed said.

Brazil's total foreign debt is $115 billion.

"A pact with banks could permit that Brazil grow with a negative current account, such as is the case of Mexico, which is growing and has access to foreign investments," Mr. Reed said.

... by country

SWITZERLAND

Switzerland said it may allow exceptions to the freeze it imposed on Kuwaiti assets after Iraq's invasion of the emirate.

But the Swiss government, which has used economic pressure to underscore its foreign policy for the first time in modern history, announced no exceptions to the freeze it also imposed on Iraqi assets.

The Finance Ministry said the general rule for Kuwaiti state-owned assets, whether in Switzerland or controlled from Switzerland, was that they must not be transferred to others, nor may they pass to Iraq or Kuwait.

But it added that, on request, the ministry could authorize the transfer of such assets to others, if there were no reason to suppose that Iraq or a Kuwaiti regime controlled by Iraq could dispose of the assets.

There must also be no reason in such a situation to suppose that assets belonging to Kuwait might pass illegally into private hands, it added.

The ministry said assets belonging to Kuwaiti individuals or private companies not under state control, were not affected by the freeze. — **Reuters**

UNITED KINGDOM

A special meeting of finance ministers of the Group of Seven to discuss Iraq's invasion of Kuwait would be premature, a U.K. official said.

He was responding to a call by Jacques Delors, president of the European Community's Commission, for a Group of Seven meeting to coordinate the industrial nations' response and help calm nervous financial markets.

There may be little the finance ministers could do now that is not already being done in national capitals or could not be dealt with at the Group of Seven meeting in September, he said.

The official said that to his knowledge, the United Kingdom had not consulted any other Group of Seven members about an early meeting. — **Reuters**

Banks Cut Business in Gulf Region

Japanese Lead Move; Arab Institutions Also Wary

By JOHN EVANS

LONDON — Led by the Japanese, the industrial world's banking institutions are rapidly reducing their Persian Gulf business, including important interbank credit lines, in the wake of the Kuwait crisis.

The spreading withdrawal by foreign banks, which are owed nearly $32 billion by Arab nations, is helping to bring normal commercial lending in the region to a standstill.

A $30 million international loan facility for Commercial Facility Corp., a Kuwait company specializing in auto loans and other consumer finance, was canceled Friday.

No Explanation Offered

The arranging banks, Gulf International Bank, Arab Banking Corp., and the Bank of Tokyo Ltd., gave no explanation for abandoning the transaction. But London bankers say it was because of the Gulf crisis.

Arab banks are themselves curtailing activity and instead giving priority to preserving their liquidity levels amid a general collapse of business confidence in the region, say senior bankers and analysts.

In a reversing flight to quality, the Gulf region's government-owned or controlled banks are proving the most stable institutions, they add.

These include the National Bank of Abu Dhabi, National Bank of Dubai, National Bank of Bahrain and the Qatar National Bank.

A Quarantine in Effect

The big foreign pullout from the Gulf is by Japanese banks, Arab bankers say. Tokyo's banks have largely halted interbank lending to Gulf banks and have even stopped taking deposits from Arab counterparts, in an apparent "quarantine" of the region, according to bankers.

Among Western banks, the position is not so clear-cut. Some Arab bankers say that several American banks are cutting off business, such as the handling of letters of credit used in international trade and commerce.

Mark West, an executive at London Forfaiting Co., a specialist British broker in international trade finance, comments: "Our position is really pretty much the same as the banks in the interbank deposit market. We wouldn't take up new credits from countries involved in the crisis."

Reason for Reluctance

Mr. West said that, in turn, this reflects the reluctance of his banking customers to write new trade business with nations like Saudi Arabia.

Arab banks are curtailing activity and giving priority to preserving liquidity amid a general collapse of confidence.

Among U.S. banks, Manufacturers Hanover Trust Co. and Chase Manhattan Bank declined to discuss specific policies on Gulf business, although a Chase spokesman noted, "Our risks with respect to Iraq and Kuwait are very small."

Britain's Midland Bank Ltd. says that while it is monitoring developments closely and is observing the international freeze on Kuwaiti and Iraqi assets, it is not pulling out of the Gulf. The bank "is continuing to provide support for our Middle East customers" as well as its non-Arab customers' banking requirements in the region, a spokesman says.

Meantime, Western banks such as J.P. Morgan & Co. that historically have had close ties to Saudi Arabia, helping to invest and disburse its billions of dollars in oil revenues, will remain committed to the kingdom, bankers expect. A Morgan spokesman declined to comment.

Arab bankers stress that such loyalties will prove important. They warn that any foreign bank that pulls out of the Gulf abruptly, unilaterally cutting business lines with the region, will have great difficulties in returning once tensions ease.

"We expect the big banks like Citicorp, Deutsche Bank and National Westminster Bank to maintain their traditional links in the Gulf," one Arab banker said. "Banks which just flee will not be welcome if they try to come back and seek new business once things return to normal."

Investment Appeal Seen

These bankers say that an international oil price remaining in the region of $25 a barrel long-term will help swell the Gulf's revenues and lead to a new burst of development and investment in the region, presenting attractive opportunities for foreign banks once the Gulf situation normalizes.

According to data from the Bank for International Settlements in Basel, banks in the major industrial nations lent a total of $31.8 billion to Middle East states as of the end of 1989. □

Bahrain: Working Normally

BAHRAIN — The financial situation in Bahrain is stable and liquidity is sufficient to cover requirements of the government and the public, Bahrain's Monetary Agency said.

"All banking and financial institutions in Bahrain continue to work normally and provide normal services," according to an agency statement carried by Bahrain newspapers Friday.

The statement followed reports that turmoil in Gulf banking had deepened and that some banks were in trouble after big cash withdrawals.

"The banking system in the country is well, and all banks have enough liquidity to cover their customers' requirements for both personal and trading purposes," the agency said.

Exchange of the Bahrain dinar to other currencies is also unaffected, it added.

— **Reuters**

Key International Rates*

	Day-to-day money		1-mo. interbank			3-mo. interbank			Discount rate			Prime/equivalent		
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United States	8.12	8.12	8.13	8.00	8.06	8.00	8.06	7.94	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.40	7.53	7.38	7.64	7.87	8.81	7.93	7.93	7.94	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.00	13.37	13.25	13.12	12.93	13.25	12.68	12.93	12.88	13.34	13.41	13.41	14.75	14.75	14.75
U.K.	15.06	15.00	15.00	15.06	15.06	15.06	14.93	15.00	15.00	14.33	14.34	14.33	15.00	15.00	15.00
West Germany	8.06	8.12	8.25	8.50	8.50	8.44	8.75	8.75	8.63	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.43	8.50	9.00	9.06	9.06	9.06	9.12	9.06	9.06	6.00	6.00	6.00	10.00	10.00	10.00
France	8.62	9.68	10.25	10.12	10.06	10.25	10.25	10.25	10.25	12.00	9.50	9.50	10.00	10.00	10.00
Italy	11.00	11.00	11.25	11.62	11.68	11.50	11.87	11.93	11.56	12.50	12.50	12.50	13.00	13.00	13.00

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6 to 12 months	7.95	13.45	8.95	8.45	7.96
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*Midday quotes in the New York market

Source: Hoenen, Ardley & Pearce Inc., New York

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S&L Crime Cases Seen Rising in Northeast

By BILL ATKINSON

WASHINGTON — James G. Richmond, director of the Justice Department's investigations of bank and thrift crimes, said New England could be the next regional hot spot for fraud and management-abuse cases.

While most observers do not expect New England to be as crime-ridden as Texas, many say it could become a focus of law-enforcement activity as the slowing economy leads to exposure of questionable management practices by some executives.

"I think you are going to see a bigger need in the Northeast," Mr. Richmond, the special counsel for financial institution crimes, said at a briefing last week.

Congressional Prodding

The Justice Department has been criticized by Congress for not catching and prosecuting wayward bankers more quickly.

In June, President Bush appointed Mr. Richmond, an Indiana-based U.S. attorney, to lead a special task force to coordinate federal investigations and prosecutions of bank and S&L cases.

Economy a Factor

John K. Villa, an expert on white-collar crime, agreed with Mr. Richmond that New England could see sharp rise in fraud in response to general economic and financial pressures.

"It is a logical progression," said Mr. Villa, a lawyer with Williams & Connolly in Washington. "Historically, fraud problems emerge a year or more after a real estate market sours. The fact that we haven't seen any major problems is not unusual. I wouldn't be surprised to see a substantial number."

"There seems to be an avenue opening that seems to say any time we start seeing [economic problems] there is bad management and fraud," said Warren Heller, research director of Veribanc Inc., a Wakefield, Mass., bank rating firm.

Mr. Villa said that with the experience it gained in Texas, the Justice Department now has a seasoned team of investigators that can get to the bottom of any New England crimes relatively quickly.

John J. Byrne, senior federal legislative counsel for the American Bankers Association, said so far he had not seen signs of an increase in fraudulent banking activity in New England.

Mr. Richmond said the agency would also try to speed up convictions by homing in on several major violations, rather than getting bogged down in complex conspiracy charges. This way, a jury has a better chance of understanding a case and will not become mired in confusing details. □

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C. LAUDISI & ASSOCS., INC., auct'rs sell August 21, 1990 9 AM at 71 Denton Ave., New Hyde Park 1966 Oldsmobile #33617663357301 Auct., J. D. Perez; 1 PM at 70-11 30th Ave., Qns 1978 Chevrolet #1B68E8Y282437 Auct., S. L. Behan; 1986 Mercury #1MEBP70MXGF614191 Auct., Exotica Motor Lensing and/or J. M. Smothers; 2:30 PM at 110 Emerson Place, Bklyn. 1986 Dodge #2B3WB31WXGK537535 Auct., Inter Pacific Trans Int'l; 3 PM at 57-11 79th Ave., Qns 1987 Oldsmobile #1G3AJ51W7HD231428 Auct., D. Thomas; 1988 Nissan #JN1PS24S1JW012305 Auct., T. Lazer and/or P. Lopez; 4PM at 1825 Givan Ave., Bronx 1989 Pontiac #KL2TX23161KB344700 Acct., G. Hart; 1988 Toyota #JT2RA64L2E0217218 Auct., E. A. Urena; 1984 Datsun #JN1HB16S4EU100326 Acct., B. Thather. Published August 6 & 13, 1990.

FRED REISNER INC, Auct'r Lic #732421 Sells Aug. 22, 1990 At 2:30 P.M. At 1366 39th St., Brooklyn, N.Y. 1984 Volkswagen Vin 1VWEB0176EV029277 Auct Ann S. McConnell; 1985 Buick Vin 2G4GJ5117F9225193 Auct Ann S. Weinstock; Sells Aug 22, 1990 At 3 P.M. At 2875 Flatbush Ave., Brooklyn, N.Y. 1973 Cruisers 21' Boat Hull #SR2181179D73 Reg 2661DR Acct Manuel Sanchez; 1981 Formula 23' Boat Hull #IND23248M81G Reg 2948JR Acct Rupert R. Rowe; 1973 Reinell 22' Boat Hull REN51175SM23G/Reg 3629DU Acct Charles & Peter Walpole; 1985 Galaxy 21' Boat Hull GALDC5626485/Reg 6346FJ Acct Ronald Edelstein &/Or Dr. Ralph Mosery.

CORRECTION NOTICE: E.F. Fazio Auct'r Lic #798972 Sold on 8/7/90 3:30 PM at 373 Knox Ave, Bklyn, 31 Motto-Guzzi #ZGUPEAPEXCM100207 Per: E. Doe. Published 8/10 & 8/17/90.

Auction Notices

C. LAUDISI & ASSOCS., INC., auct'rs sell August 28, 1990 9 AM at 151-20 6th Rd., Qns 1989 Chevrolet #1GNCT18Z1K0104262 Acct., N. L. Capaldo; 10 AM at 216-20 Hempstead Ave., Qns 1987 Honda #JAACH11L3H5406477 Acct., Decorators & Painters; 11 AM at 23-12 Hillside Ave., Qns 1975 Triumph #AC10004483U Acct., S. Stuart; 12 Noon at 170-28 Jamaica Ave., Qns 1983 Honda #1HMSTS431D5017190 Acct., M. Pagano; 1 PM at 70-11 50th Ave., Qns 1981 Dodge #JB3BE4433BU427482 Acct., D.D. Auto Service; 1987 Chevrolet #2G1AW19X0G1179768 Acct., M. Alexander and/or E. Arnold; 1989 VW #WVWRB01G6KW026509 Acct., L. R. Hightower and/or E. D. Baker; 1985 Chevrolet #1G1JC6699F1107798 Acct., J. Ramirez and/or Co.; 1989 Mazda #JM1BF2229K0386308 Acct., C. M. Hurtley. Published August 13 & 20, 1990.

DEFAULT In Security Agreement Made By Apolinar Perez to Heriberto Cruz I Will Sell On 8/14/90 At 2 PM At 5023 7th Ave., Bklyn, N.Y. All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC. As Agents.

G. Delnevo sells 8/7/1 8/31/90 12 Noon at 1702 E. 233rd St. Bx, '73 Trium #CP849604 Rc: M. Cooney. '84 Chevrolet #2GCDG13D5E4136276 Rc: T. Malcom. '77 Cadi #6D457S7E6763636 Rc: Time Credit. '87 Mercury #1MEBM2599HTH01559 Rc: Ennis '87 Mazda #JM1BF2225H0540974 Rc: Citibank. Published 8/13 & 8/20/90.

Joel Pope auct'r Lic #794209 sells on 8/28/90 9 AM at 213-35th 99th Ave, Qns '89 '88 Pont #1G2AF51R6J7202956 Rc: S. Monroe, GMAC. 9:30 AM at 175-16 Liberty Ave, Qns NY '86 Merkur #WF1YBW40GM6037743 Rc: M. Tuzzo, Nat'l Westmster Bk USA. 10 AM at 133-04 39th Ave, Qns NY '80 Chev #1N35A1183669 Rc: Lin Chang. '84 Datsun #JN1PB15S0EU105830 Rc: Kim Ki Hung. 11 AM at 56-15 58th St Qns NY '88 GMC Subn #1GKCT18R9J8520152 Rc: Nat'l Leasing Inc, Assocs Commercial; 2 PM at 151 Urban Ave, Westbury NY, '84 MB/BB #WDBCA37A8EA049991 Rc: Term Assocs, Chem Bank. Published 8/13 & 8/20/90.

LIEN SALE F.E.S. Auctions, Inc., Frank E. Seipp, Auct'r Sells 8/24/90 at 10:30 AM at the Offices of Seidman, Mailman, Morenstein & Kimler, Esqs. 330 Seventh Ave., N.Y.C. 13th Flr. Stock Certificate #1 for 200 Shares of Capital Stock without par value in 906 Utica Avenue, Inc. For the account of MAPLE D. LEWIS & 906 Utica Avenue, Inc., Debtors. G.A.S. Retirement Trust, Lender reserves the right to bid &/or purchase at this sale. Auctioneer is Agent for G.A.S. Retirement Trust, D.C.A. #732234.

Ronald Zaza Auct'r Lic #840731 sell, 8/27/90 9 AM at 234 So. Regent St, Port Chester, '83 Toyota #JT2AL12RXD3500650 Rc: J. O'Brien. 10 AM at 280 Main St, Fmpnd, '83 Honda #1HGSZ7424DA023088 Rc: M. Eastman & Heritage Bk; 11 AM at 28-31 Thompson Ave, LIC '87 Mazda #JM1BP4535H0749774 Rc: Bank Of NY & J. Grant. Published 8/13 & 8/20/90.

Foundation Notice

NOTICE
The annual meeting of OLGA AND MICHAEL ZETKIN MEMORIAL SCHOOLARSHIP FUND for the fiscal year ended March 30, 1990, is available at its principal office, located at 481 Carol Place, Pelham, NY (914) 738-4998 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Arthur Rabin, President.

NOTICE
The annual return of ANATOL SHULKIN MEMORIAL SCHOLARSHIP FUND for the fiscal year ended June 30, 1990, is available at its principal office, located at 481 Carol Place, Pelham, NY (914) 738-4998 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Arthur Rabin, President.

Auction Notices

MAGRILL AUCTIONEERS CO., INC., 194 Broadway, Woodmere, N.Y. Auction For Gem Pawnbrokers Corp. 378 Schermerhorn St., Bklyn Will Sell All Unredeemed Pledges From D92280 8/4/80 To 221478 11/15/89. Of Watches, Jewelry, Etc. On August 15th At 9 A.M. At Gem Pawnbrokers Queens Corp. At 216-15 Jamaica Ave., Queens Village, N.Y.

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DEALS

GAF Refinancing Package Faces Difficult Sell in Secondary Market

By STEVEN LIPIN

Underwriters of GAF Corp.'s $800 million refinancing package were unable to resell the bulk of the loan in the primary syndicate, even after after a one-week extension, bank sources said. The four agent banks now face a difficult secondary market for the highly leveraged loans.

The commitment deadline for the package, which refinances bank debt incurred for GAF's 1989 leveraged buyout, was extended from July 31 to Aug. 3, bankers said, but agent banks were unable to find significant interest from lenders.

Bankers say that despite the successful operations of the company, the problems facing the agent banks stem from the conviction of both GAF and its vice chairman, James Sherwin, for stock manipulation last year.

GAF is competing with other HLT credits that are offering more attractive terms.

Borrower's Image Is a Factor

"It's less of a business risk than the taint around GAF," said one banker. "Lending money to a company that's been convicted of a felony is tough."

While the criminal cases, brought by the Justice Department, are now being appealed, "the company has been convicted of a felony, and a lot of banks don't like that," said one lender who did not invest in the deal. Both the company and Mr. Sherwin agreed to settle a related suit with the Securities and Exchange Commission.

While the company is pleased because its new facility carries lower interest rates than the original buyout credit, lenders are now holding much more of the loans than anticipated as the deal moves into the secondary market.

The four agent banks – banking units of Chase Manhattan Corp., Bank of New York Corp., Banque Paribas, and Bank of Nova Scotia – have reportedly begun a pooled selldown for the secondary syndication. Officials at the four banks did not return calls for comment.

The banks pooled up $800 million at better terms for the Wayne, N.J.-based company to refinance the existing bank facility used for its LBO.

The new loans are priced at the London interbank offered rate plus 250 basis points, or prime plus 150 basis points, versus the old rates of Libor plus 300 and prime plus 200.

In addition, while the existing agreement was a term loan with an 18-month maturity, the new facility consists of an eight-year $600 million term loan, a $150 million five-year revolver, and a $75 million five-year letter of credit facility.

Not only is the supply of capital for highly leveraged transactions limited, bankers note, but GAF is competing with other HLT credits that are offering more attractive terms.

"Prices have been jumping in the market, but GAF rates have come down," said one lender. "They're now competing for capital with deals like RJR Nabisco" that carry generous fees and higher interest rates, the banker said. □

Hanover Closes Buyout Loan to Forstmann

By WILLIAM GOODWIN

After a few snags, Manufacturers Hanover Corp. completed the syndication of bank loans backing Forstmann Little & Co.'s $1.6 billion buyout of General Instrument Corp., raising $750 million for the $1.165 billion bank financing.

The deadline for commitments was Aug. 8.

The remainder of the $1.165 billion loan package will be held by the five underwriting banks – units of Manufacturers Hanover and coagents Continental Bank Corp., Chemical Banking Corp., Nippon Credit Bank, and Bank of Nova Scotia.

Forstmann's Contribution

Forstmann Little is contributing $200 million in equity and $600 million in subordinated debt to the transaction, which includes the assumption of General Instrument debt.

Michael Zarrilli, a managing director in Hanover's syndications department, said the commitment level exceeded the bank's target. "We anticipate an active secondary market as well," he said. There will be no pooled selldown.

Though the Manufacturers Hanover official said he was pleased with the market response to the credit, the syndication process hit a few bumps.

Background of Mideast Turmoil

First, the bank meeting for prospective syndicate members, originally set for July 30, was postponed at the last minute because the presentation needed to be refined.

The meeting was finally held July 31, just days before Iraq invaded Kuwait.

Despite the turmoil it created in the financial markets, the Mideast crisis had only a minor effect on the syndication effort, Mr. Zarrilli said.

"I think we were confident enough in the basics of the transaction that we were not overly concerned with world events in terms of their impact" on the transaction, he added.

The general syndicate comprises U.S., European, and Japanese institutions, including an insurance company, a bank-loan fund, and a leasing company.

Syndicate members include Deutsche Bank, Dai-ichi Kangyo Bank, National Westminster Bank, Mitsubishi Bank, Bank of Tokyo, Wells Fargo Bank, and Sumitomo Trust and Banking Co.

Nonbank Members

The group also includes Sun Life Insurance, Pilgrim Prime Rate Trust, and Mitsui Nevitt.

Commitments ranged from $25 million to $75 million on the package, which was priced at prime plus 150 basis points.

Syndicate members were offered up-front fees of 62.5 basis points for commitments of $25 million, 87.5 basis points for commitments of $50 million or more. There was also an incentive fee for commitments of $75 million or more. □

Pennview Savings Association

has been acquired by

Univest Corporation of Pennsylvania

The undersigned acted as financial advisor to Pennview Savings Association and assisted in negotiations.

Wheat First Butcher & Singer
CAPITAL MARKETS

July 31, 1990

Japan's Finance Ministry Likely To Stall Issues of Bonds Overseas

Reuters

TOKYO — Faced with opposition from long-term credit banks, the Ministry of Finance is unlikely to approve further overseas issues of subordinated bonds by Japanese commercial banks, ministry and banking industry officials said.

The $12 billion in subordinated bonds issued in June by Curacao-based Sumitomo Bank Finance International, a wholly owned subsidiary of Sumitomo Bank Ltd., may prove to be the last issue for some time.

Subordinated loans and bonds are debt instruments that give creditors lower priority claims to repayment in the event of the issuer's bankruptcy.

The 10-year Sumitomo bonds too closely resemble the five-year debentures only long-term credit banks are permitted to issue under Japan's rigidly stratified system, bankers said.

Tougher Application Process

Finance Ministry officials have not said that new issues of subordinated bonds would be barred. But they have indicated the application process might be prohibitively difficult. □

Thirty Resign from Bankers Trust

By JED HOROWITZ

NEW YORK — About 30 employees of Bankers Trust New York Corp.'s leveraged leasing, project finance, and equity investment groups resigned last Thursday, provoking a feisty letter to senior managers from Charles Sanford, chairman of the banking company.

"While we never like to see defections of this kind, I think that it's been obvious to us that this group of people were never going to fully think of themselves as collaborative partners," Mr. Sanford wrote.

"This is the last of the groups from the old corporate finance department that maintained an attitude that the needs of their 'credit' took precedence over the efforts of the firm as a whole."

The group included almost

"We will examine each plan one by one, and decisions will be made considering the urgency and other factors," a Finance Ministry official said.

This week's slump in the local stock market is a reminder that straight equity financing could remain difficult here for some time to come.

A Blow to Commercial Banks

The apparent turnabout in the Finance Ministry's regulatory stance could prove a stiff blow to commercial banks, which were looking to subordinated bonds as a new means of raising funds to meet new capital adequacy requirements set by the Bank for International Settlements.

Under the BIS standards, funds raised through subordinated instruments may be counted as Tier II capital.

The Finance Ministry first allowed subordinated loans in June to help commercial banks meet capital requirements.

The ministry still prohibits banks from issuing subordinated bonds domestically.

Other banks must rely on deposits and other instruments with maturities of three years or less. □

Highlights for Friday, August 10

TOP 10 GAINERS %

Lake Shore Bancorp., Inc.	7.3
Provident Bancorp, Inc.	7.0
Heritage Financial Services	6.7
F & M National Corporation	6.1
National Bancorp of Alaska	5.2
Jefferson Bankshares, Inc.	4.4
Riggs National Corporation	4.0
Sunwest Financial Services	3.8
Mark Twain Bancshares, Inc.	3.6
Premier Bancorp, Inc.	3.1

TOP 10 LOSERS %

Banco Popular de Puerto Rico	-7.9
Iowa National Bankshares Corp	-7.9
First Security Corporation	-7.4
Valley Capital Corporation	-6.3
Mellon Bank Corporation	-5.6
MidAmerica Bancorp	-5.3
Cal Rep Bancorp	-5.1
First Hawaiian, Inc.	-4.5
First Chicago Corporation	-4.5
Michigan National Corporation	-4.4

MOST SHARES TRADED

Citicorp	1160800
Chase Manhattan Corporation	834900
BankAmerica Corporation	762800
BayBanks, Inc.	467000
Wells Fargo & Company	437900

VOLUME AS % OF AVERAGE

Cal Rep Bancorp	2295.3
Commerce Bancshares, Inc.	1686.6
Mercantile Bancorp.	778.9
Keystone Heritage Group, Inc.	453.0
First Eastern Corp.	446.0

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts 1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.53	-3.31	-8.5%	-1.08	-0.21	-10.40	-1.52	-1.18	-17.21

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Cap.	Chg.
23¾	18½	1stSourceCorp ch	6.3	86.3	19
14½	10¾	1stUnionCorp	6.1	9416	13/8 -9%
28⅜	20	AmSouthBancorp ch	8.0	83.0	25/8 -A
19¾	13¾	AmbancCorp	8.2	84.2	1/4 -1%
29	14⅜	AmeritrustCorp OH	24.4	81.1	1/4% -A
22¾	18¾	AssociatedBanc ch	8.7	118.7	19 -A
24½	18	BB&T FinCorp NC	8.0	110.8	1/8% -A
15¾	8¾	BalticoMdBancSh	6.5	40.4	5% -A
48⅜	30¾	BankPonceHl	13.8	147.7	45/8 -A
33¾	26	BankSouthCorp GA	10.5	1833.9	28¾ -A
26	17¾	BancoPopular PR	5.8	88.1	17/8 -1½
29⅜	24	BancorpHawaii Inc	6.4	140.3	43⅜ -A
23⅜	18	BancorpNtlMas MS	6.9	87.8	18¾ -A
36¾	21¾	BankAmerCorp CA	NM	1311.1	37¾ -A
24	17⅜	BankGranteCorp NY	13.2	233.2	21/4 -A
29⅜	20¼	BankNewEngCorp ME	9.4	92.5	2¼ -A
53¾	23¾	BankofNY NY	NM	70.4	24¾ -A
12	8	BankofAlaska AK	NM	47.2	4 -A
82	66	BankersBoston MA	10.9	105.5	67 -1¼
39⅜	25	BankersTrustNY	8.7	1052.2	28¾ -A
40¾	12¾	BayBanksMA	NM	36.2	12¾ -A
30¾	21¾	BeneficialCorp DE	7.6	1856.8	29¾ -A
26	15¾	BrodmerBancsIL	226.6	105.0	18 -A
16¾	12¾	BuckeyeBancsOH	8.4	104.1	14¾ -A
43⅜	30¼	CCB FinCorp NC	7.8	104.8	30¾ -A
43¾	30¾	CNB Corp IN	6.1	86.5	15¾ -A
22⅜	18¾	CNB BancsharesIN	10.1	121.4	21 -A
28⅜	20	CPB Inc IL	8.8	147.6	21¼ -A
33	17⅜	CNB FinCorp PA	9.5	218.3	13¾ -A
24⅜	17⅜	CalFed Inc CA	7.5	136.2	18¾ -A
18¾	13¾	CamdenBancsh AL	6.6	88.8	13¾ -A
34¾	22¾	CentralFinInstIN	6.8	68.3	22¾ -A
27	15¾	CentralBancshsMO	6.8	68.3	15¾ -A
44⅜	17¾	CheseManhattanNY	NM	53.7	18¾ -A
41⅜	20⅜	ChemicalBankingNY	NM	68.1	23⅜ -A
35	29¾	ChemicalFinCorp MI	9.0	98.2	31 -A
25⅜	15¾	CitizensFirstCorp NY	6.7	92.4	16¼ -A
25⅜	15¾	CitizensBancorp MD	7.5	92.4	16¼ -A
29¾	20¾	CitizensBancorp VA	7.4	79.3	20¼ -A
15¼	8	CitizensFinInc NJ	NM	111.3	8¼ -A
34⅜	21	CityNational Corp CA	8.5	98.1	22¼ -A
27½	15¾	CityNatlCorp CA	9.0	161.8	15¾ -A
22¾	12⅜	ColonialBankShares GA	36.3	62.2	12¾ -A
58¾	38¼	ComericaInc MI	8.3	92.0	39¼ -1
29¾	21¼	CommercialBancshsMO	8.0	115.3	21¼ -A
20¼	15¾	CommonwealthPA	7.1	89.3	15¾ -A
19¾	15¾	CoreStatesFin NJ	6.6	1811.6	15¾ -A
20⅜	10⅜	Continental IL	NM	49.8	11¼ -A
19¾	13¾	CrestarFinCorp PA	7.2	128.9	13¾ -A
34	18¾	CrestarFinCorp VA	6.7	81.0	18¾ -A
18¾	14¾	FirstNewYorkBancorp	40.3	52.3	18¾ -A
37¾	26⅜	DauphinDeposit PA	7.7	114.7	27 -A
32	21¼	DepositGuaranty MS	7.8	97.8	22¼ -A
25⅜	11¾	DominionBkshrs VA	8.6	73.6	11¾ -A
15⅜	10¾	EquimarkCorp PA	NM	26.3	10¾ -A
21¼	11¼	EvergreenBancsNY	6.0	84.9	12¼ -A
15¾	12¼	F & M NatCorp VA	10.6	163.3	13 -A
14¼	11¼	FNB Corp PA	8.0	96.3	11¼ -A
26	21¼	FNH Bancorp IL	10.3	170.5	22¼ -A
29	27¾	FarmersCapitalKY	11.9	118.4	27¾ -A
36⅜	28¾	FifthThirdBancsOH	8.9	152.6	28¾ -A
38⅜	32	FinancialTrustMI	8.0	134.3	32¼ -A
51¼	34	FirstAlabamaBk AL	8.6	88.6	34¼ -A
19¾	15¾	FirstAlabamaBk AL	8.3	105.0	16¼ -A
20¼	9¾	FirstAmerCorp TN	8.3	125.2	20 -A
30⅜	20¼	FirstBancorp NC	11.8	180.0	48 -1¼
32	23⅜	FirstBancshsTX	9.8	81.0	20¼ -A
20¼	14	FirstBancorpPR	6.4	77.3	14 -A
27¾	21¼	FirstChicagoNBCorp IL	2.4	55.0	27¼ -1¼
18⅜	13¾	FirstAmericaKY	8.9	86.0	13¾ -A
23¾	17	FirstArlington TX	8.2	127.7	17 -A
47¾	10¾	FirstBancsCorp PR	7.8	30.5	11¾ -A
14¾	10¾	FirstBancsMS	NM	35.6	11¾ -A
35¾	28¾	FirstBancorp ME	8.5	124.1	30¾ -A
34¾	32¾	FirstCapitalCorp CA	9.6	117.7	33¾ -A
24⅜	17¾	FirstCommerceCorp LA	13.6	146.6	18 -A
44⅜	31¾	FirstCommerceCorp TN	7.4	124.8	32¼ -A
31½	25¾	FirstCommerceCorp OH	11.2	202.1	39 -1
41¾	20¼	FirstCommerceNA	9.7	117.6	20¾ -1¼
24⅜	12¾	FirstCommunityBk	9.6	165.7	22¼ -A
44⅜	33¼	FirstEmpireStateNY	7.5	81.4	18¼ -A
20¾	15¾	FirstFidelityBancNJ	7.1	99.4	19¾ -A
72	15	FirstHawaiianInc	NM	60.0	15 -A
30¾	23¾	FirstInterstateBk CA	8.2	1015.5	25 -A
23⅜	17¾	FirstMarylandBcp MD	7.1	131.2	18¼ -A
34¾	25¾	FirstMidAmericaIL	6.8	90.4	21¼ -A
29¾	23¾	FirstNewHampshireBk	7.4	103.0	22¼ -A
26¼	24¼	FirstNorthernCorp WI	13.0	156.1	24¼ -A
23½	19	FirstOhioBancshsNY	5.8	83.3	20 -A
24¾	20¾	FirstOklahomaCorp OK	8.8	90.4	21¼ -A
29¾	23¾	FirstOntarioFinCorp NY	7.4	103.0	22¼ -A
26¼	24¼	FirstPennsylvaniaPA	13.0	156.1	24¼ -A
23½	19	FirstSecurityBancsNY	5.8	83.3	20 -A
24¾	20¾	FirstSecurityCorp DE	8.8	90.4	21¼ -A
29¾	23¾	FirstSecurityCorp KY	7.4	103.0	22¼ -A
26¼	24¼	FirstSecurityCorp TN	13.0	156.1	24¼ -A
23½	19	FirstSouthBancsNY	5.8	83.3	20 -A
24¾	20¾	FirstSouthCorp NC	8.8	90.4	21¼ -A
29¾	23¾	FirstSouthwestCorp TX	7.4	103.0	22¼ -A
26¼	24¼	FirstTennesseeNat	13.0	156.1	24¼ -A
23½	19	FirstUnionCorp NC	5.8	83.3	20 -A
24¾	20¾	FirstVirginiaBkshrs	8.8	90.4	21¼ -A
29¾	23¾	FirstWisconsinCorp	7.4	103.0	22¼ -A
26¼	24¼	FleetFinancialGroup	13.0	156.1	24¼ -A
23½	19	FleetNorthSecurity	5.8	83.3	20 -A
24¾	20¾	FloridaEastCoastFL	8.8	90.4	21¼ -A
29¾	23¾	FourthFinancialCorp	7.4	103.0	22¼ -A
26¼	24¼	FranklinBancsMI	13.0	156.1	24¼ -A
23½	19	FranklinResourcesCA	5.8	83.3	20 -A
24¾	20¾	FreedomSecuritiesNC	8.8	90.4	21¼ -A
29¾	23¾	FulbrightFinancialTX	7.4	103.0	22¼ -A
26¼	24¼	GBC BancorpCA	13.0	156.1	24¼ -A
23½	19	GeorgiaBancsCorp GA	5.8	83.3	20 -A
24¾	20¾	GeorgiaFinancialGroup	8.8	90.4	21¼ -A
29¾	23¾	GoldenStateBancsCA	7.4	103.0	22¼ -A
26¼	24¼	GreatAmericanFedSL	13.0	156.1	24¼ -A
23½	19	GreatSouthernBancsMO	5.8	83.3	20 -A
24¾	20¾	GreatWestBancsCA	8.8	90.4	21¼ -A
29¾	23¾	GreenPointFinCorp NY	7.4	103.0	22¼ -A
26¼	24¼	GreenTreeAcceptance	13.0	156.1	24¼ -A
23½	19	GuarantyFederalSB TX	5.8	83.3	20 -A
24¾	20¾	HF BancorpHI	8.8	90.4	21¼ -A
29¾	23¾	HamiltonBancorp FL	7.4	103.0	22¼ -A
26¼	24¼	HancockHoldingMS	13.0	156.1	24¼ -A
23½	19	HarleysvilleGroup	5.8	83.3	20 -A
24¾	20¾	HartfordFinSvcs	8.8	90.4	21¼ -A
29¾	23¾	HawkeyeBancsIA	7.4	103.0	22¼ -A
26¼	24¼	HeritageFinSvcs IL	13.0	156.1	24¼ -A
23½	19	HiberniaCorp LA	5.8	83.3	20 -A
24¾	20¾	HomeBancsInc GA	8.8	90.4	21¼ -A
29¾	23¾	HSBCorp IN	7.4	103.0	22¼ -A
26¼	24¼	HuntingtonBancsOH	13.0	156.1	24¼ -A
23½	19	IndependenceBcpRI	5.8	83.3	20 -A
24¾	20¾	IndianaFedCpIN	8.8	90.4	21¼ -A
29¾	23¾	InterNorthInc IA	7.4	103.0	22¼ -A
26¼	24¼	J.P. Morgan NY	13.0	156.1	24¼ -A
23½	19	JeffersonBankshs VA	5.8	83.3	20 -A
24¾	20¾	JeffersonPilotCp NC	8.8	90.4	21¼ -A
29¾	23¾	KeyCorp NY	7.4	103.0	22¼ -A
26¼	24¼	KeystoneFinInc PA	13.0	156.1	24¼ -A
23½	19	KeystoneHeritageGp PA	5.8	83.3	20 -A
24¾	20¾	LakeShoreBancpMI	8.8	90.4	21¼ -A
29¾	23¾	LandmarkBancsMO	7.4	103.0	22¼ -A
26¼	24¼	LibertyBancsOK	13.0	156.1	24¼ -A
23½	19	LincolnFinGroup IN	5.8	83.3	20 -A
24¾	20¾	MBC FinancialMD	8.8	90.4	21¼ -A
29¾	23¾	MagnaGroup IL	7.4	103.0	22¼ -A
26¼	24¼	MainStreetBancsTX	13.0	156.1	24¼ -A
23½	19	ManufacturersNatDE	5.8	83.3	20 -A
24¾	20¾	ManufacturersNY	8.8	90.4	21¼ -A
29¾	23¾	MarineCorp WI	7.4	103.0	22¼ -A
26¼	24¼	MarshallBancsMO	13.0	156.1	24¼ -A
23½	19	MarshallBancsWI	5.8	83.3	20 -A
24¾	20¾	MercantileBancsMO	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsMD	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsNY	13.0	156.1	24¼ -A
23½	19	MercantileBancsOH	5.8	83.3	20 -A
24¾	20¾	MercantileBancsPA	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsTX	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsVA	13.0	156.1	24¼ -A
23½	19	MercantileBancsWI	5.8	83.3	20 -A
24¾	20¾	MercantileBancsWY	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsCA	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsNV	13.0	156.1	24¼ -A
23½	19	MercantileBancsOR	5.8	83.3	20 -A
24¾	20¾	MercantileBancsWA	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsID	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsMT	13.0	156.1	24¼ -A
23½	19	MercantileBancsWY	5.8	83.3	20 -A
24¾	20¾	MercantileBancsCO	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsNM	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsAZ	13.0	156.1	24¼ -A
23½	19	MercantileBancsUT	5.8	83.3	20 -A
24¾	20¾	MercantileBancsHI	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsAK	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsGU	13.0	156.1	24¼ -A
23½	19	MercantileBancsPR	5.8	83.3	20 -A
24¾	20¾	MercantileBancsVI	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsAS	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsMP	13.0	156.1	24¼ -A
23½	19	MercantileBancsFM	5.8	83.3	20 -A
24¾	20¾	MercantileBancsMH	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsPW	7.4	103.0	22¼ -A
26¼	24¼	MercantileBancsUM	13.0	156.1	24¼ -A
23½	19	MercantileBancsVI	5.8	83.3	20 -A
24¾	20¾	MercantileBancsAS	8.8	90.4	21¼ -A
29¾	23¾	MercantileBancsGU

STOCKS

Shares of Sovran And C&S Down As Merger Nears

By GORDON MATTHEWS

NEW YORK — Shares of Sovran Financial Corp. and Citizens and Southern Corp. have weakened recently despite an imminent merger of the two Southeastern superregionals that is viewed by analysts as a strong strategic move.

Shares of the two banks have fallen about 8.5% since the Federal Reserve Board approved their consolidation in late July. The *American Banker* index of the 225 largest publicly traded bank stocks has declined 12% over the period.



"The whole bank group is still under pressure and they're no exception," said Katherine Hart Bissette, a banking analyst in Atlanta for Interstate/Johnson Lane.

More specifically, Sovran, with headquarters in Norfolk, Va., may be hurt by investor worries about the health of real estate markets in the Washington metropolitan area, especially northern Virginia.

And that is likely hurting both stocks, which have basically moved in tandem since they announced the merger last September. In Friday afternoon trading, Sovran fell 12.5 cents, to $27, while C&S, based in Atlanta, was off 12.5 cents, to $22.125.

No Clear Picture Yet

Ms. Bissette said investors may be fearful of the impact of merger-related costs on third-quarter earnings and about uncertainties in general. "Some time will be needed before we can get a clear picture of the combined banks' earning power in the current business environment," she said.

Another analyst, Lacy M. Shockley of Smith Barney, Harris Upham & Co., agreed that merger-related worries are probably surfacing in the market, but said such coolness was probably a normal reaction once the actual timetable of the deal is set.

"It's just been so long since we've actually seen a major bank merger in progress that we may have forgotten some things about the process," she said.

Fundamentals Appealing

The merger is now expected to be completed on or about Aug. 31, and Ms. Shockley believes the new company's fundamentals will probably look "unusually attractive" when compared with those of many other large banking firms.

Both banks underwent examinations by the Comptroller of the Currency before the Fed approval was granted, she noted. The Comptroller's examiners are thought to conduct the most stringent probes of any bank regulatory agency.

When the two banks are combined, they will form the 10th-largest bank in the United States, with $50 billion in assets.

* * *

FRIDAY'S MARKET

Despite several strong days, major bank stocks still managed to lose ground last week for the ninth straight week. The *American Banker* index of the 225 largest publicly traded bank stocks fell 0.21% from the level a week earlier.

A selloff in the stock market overall on Friday prompted the banks to resume their downturn.

As it has been for six weeks, the weakness in the bank stocks was spread across all categories – ranging from large money-center institutions to medium-size regional banks. Only a few of the top 50 banks managed to register gains on Friday.

Among the money-centers, Citicorp was the lone gainer near the close of trading, rising 12.5 cents, to $19.75.

Among superregional banks, Banc One Corp., Columbus, Ohio, was off 50 cents to $28.50 and PNC Financial Corp. eased 50 cents, to $24.75.

But in the Southeast, a pair of superregionals managed small gains. Wachovia Corp., Winston-Salem, N.C., edged up 12.5 cents, to $38.75, and SunTrust Banks Inc., Atlanta, was unchanged at $20.125. □

CAPITAL

Banks Moving from Short-Term Funding

By KELLEY HOLLAND

Citicorp and Chemical Banking Corp. recently filed registrations for bond offerings that will let the two money-center banks reduce their reliance on the volatile short-term funding market, capital markets officials say.

As investor concern about credit quality has risen, markets for short-term funding have become increasingly hard for banks to use. Tapping the short-term markets has become more costly for banks with less than top ratings. And a number of banks with ratings below the second tier are virtually unable to issue commercial paper.

Seeking Up To Issue Debt

Bank	Amount	Type
Citicorp	$2 billion	Senior or subordinated
Chemical Banking Corp.	$750 million	Senior or subordinated

Source: American Banker

$2.75 Billion in Registrations

Citicorp filed for a $2 billion shelf registration with the Securities and Exchange Commission; Chemical filed for $750 million. The registrations would allow the companies to issue either senior or subordinated debt.

"Spreads have definitely widened," said a senior treasury official at a money-center bank. "Customers are tightening up the types of names they are willing to buy."

Both banking companies have already taken steps to reduce their reliance on short-term funding. Citicorp began issuing medium-term notes in the second quarter in lieu of several years. Market sources estimated Citicorp has issued several hundred million dollars worth of medium-term notes.

Chemical's Libor Notes

And Chemical has issued nearly $300 million in floating-rate notes based on the London interbank offered rate, with maturities of two to three years, market sources said.

"It's a great way for them to enter the market," one trader said. "It's unlikely they'd want to issue fixed-rate and advertise how wide their spreads are."

Both Citicorp and Chemical have had their commercial paper ratings cut in the past year. Moody's Investors Service reduced Citicorp's commercial paper rating May 22 to Prime-2, and Chemical's rating was cut to Prime-3 last October. Standard & Poor's Corp. affirmed Citicorp's commercial paper rating April 26 at A1-plus but cut Chemical's commercial paper to A2 last September.

Shying from Paper

Both banks have reduced their reliance on commercial paper. When Moody's cut Citicorp's rating, a spokesman for the company said it relied on commercial paper for less than 2.5% of its funding.

Citicorp has an additional reason to increase the amount of debt it can issue. The bank has $350 million in debt with a 12.5% coupon that becomes callable in January 1991, according to William J. Downes, a vice president at Keefe, Bruyette & Woods Inc.

* * *

MARKET MONITOR

The number of banks with "junior" ratings for senior or subordinated debt has increased this year as credit-quality concerns added to the need for capital.

This year, Moody's Investors Service has downgraded five banks from investment-grade to high-yield, and Standard & Poor's has given seven banks junk ratings. Five of those downgradings overlap. Ratings on the subordinated debt of 21 bank holding companies are now below investment grade, analysts said.

Unprecedented Scale

"It's never happened" on so broad a scale, said Michael DeStefano, an analyst at Standard & Poor's Corp. "The only other time you saw [so many below-investment-grade ratings] was with the Texas banks" in the early 1980s. "Now, there are quite a number."

Banks with debt ratings that do not make the investment-grade cutoff are increasingly having trouble raising funds.

Appetite for Capital

Subordinated debt is an integral part of banks' capital bases. Banks forced to curtail activities in the subordinated debt market must find other ways to keep their capital bases at mandated levels.

A few of those on the list are small institutions like Baltimore Bancorp, which have never had high ratings and therefore didn't have far to fall to be rated speculative. Standard & Poor's downgraded the company's subordinated debt to BB-plus from BBB-minus at the end of March.

MNC's Senior Debt

Most recent downgradings, however, have been of larger institutions like MNC Financial Corp., the largest bank in the Baltimore-Washington area and one which until this year boasted solid ratings. Moody's downgraded MNC's senior debt from Baa3 to Ba1 in July.

Other banking companies – like Chase Manhattan Corp. and Continental Bank Corp. – are a notch away from having their subordinated debt rated junk.

— Fred Vogelstein

Shawmut Agrees to Regulatory Measures

Continued from *page 1*

cents.

The $23 billion-asset company said it signed a memorandum of understanding with the Federal Reserve Bank of Boston and the Federal Deposit Insurance Corp. to strengthen operations at its seven state-chartered bank subsidiaries.

A memorandum of understanding is the lightest form of regulatory control and involves a written declaration that a banking company intends to improve its business practices.

OCC More Stringent

Shawmut also disclosed that it would sign a more stringent letter of agreement with the Office of the Comptroller of the Currency, which regulates its two main subsidiaries, Shawmut Bank in Boston and Connecticut National Bank in Hartford. The OCC agreement could be signed as early as this week, according to Shawmut spokesman Anthony Zehnder.

A letter of agreement is similar to a memorandum of understanding but imposes stricter guidelines and ground rules.

Analyst Surprised

"I was a little surprised they told me that there will be letters of agreement with the two main subsidiaries, Shawmut Bank in Boston and Connecticut National Bank in Hartford. The OCC agreement could be signed

> **"I was a little surprised they told me that there will be letters of agreement with the two main banks," suggesting deeper troubles at Shawmut than had been expected.**
>
> **Nancy Bush**
> *Brown Brothers Harriman & Co.*

man & Co. in New York. This suggests deeper troubles at Shawmut than had been expected, she added.

"We believe that the provisions of these agreements will serve to assure our long-term strength," said Shawmut chairman and chief executive officer Joel B. Alvord in a prepared statement.

Mr. Zehnder said the company disclosed the regulatory agreements to head off speculation, but he declined to disclose details of the provisions.

Nonperformers Growing

Shawmut has been hard hit by the same real estate woes experienced by many New England institutions. Though it reported a second-quarter profit of $30 million, its nonperforming loans rose to $1.3 billion, or 7.7% of total loans, from $1.2 billion in first quarter, or 6.8% of total loans.

Bank of Boston Corp., with $37 billion in assets, entered into a memorandum of understanding with regulators regarding its lending practices last October. Bank of New England Corp.'s subsidiary banks have been operating under cease-and-desist consent orders since early this year. □

Have an Important Legal Notice? Call Penny Papaioteas at 212/943-5729

AMERICAN BANKER
VOL. CLV NO. 158 Tuesday, August 14, 1990 155th year

Rivals, Law Hit Banks that Try Realty Advising

ANDREW REINBACH

With commercial real estate lending all but dead, some banks are moving lending officers to real estate investment banking services. Fee income and comparatively low risks have convinced many large banks to relocate resources to advisory work.

But it won't be easy.

Competition with Wall Street and traditional real estate brokerage firms is getting fierce as the advisory business slows in a recessionary market. And the regulatory environment has made some banks step back out of concern that some real estate activity might be impermissible under federal and state law.

In the view of some lawyers and real estate professionals, banks engaged in real estate investment banking may really be acting as real estate brokers, an impermissible bank activity, according to the Office of the Comptroller of the Currency.

Distinguishing between real estate brokerage and advisory work is difficult at best.

Blurry Distinction

Technically, such advisers advise corporations how to deploy real estate assets rather than arranging financing. Brokering is helping in the sale of a building. But banks often say the distinction is often blurred.

"It's a question you have to be aware of," said a lawyer for a bank offering real estate investment banking services. "We're providing an advisory service that in part might involve selling a property for them, otherwise is an equity financing business.

"We tell our people not to get involved in negotiations, but it's a problem. There's an area between the two that is an overlap."

States Require Licensing

Most state laws define virtually any involvement in real estate deals, including advisory work on real estate sales negotiations, as brokerage. Unlicensed real estate brokerage is a misdemeanor in most states, punishable by fines and even jail.

If they engage in what states define as unlicensed real estate brokerage, bankers violate state law; but if they become licensed real estate brokers, they violate federal bank rules. Federally chartered banks are barred from activities unrelated to banking, including real estate brokerage.

California and Illinois laws, however, allow real estate bro-

See RIVALS *page 8*

INSIDE NEWS

CONSUMER

The Credit Unions Keep Growing
Dollars in billions



THE CREDIT UNION industry put its 1989 performance out for review last week and braced to pay higher fees to its regulatory agency in 1991. *Page6*

FINANCE

ERIC I. HEMEL, an analyst at First Boston, is souring on the healthiest thrifts because of the possible ill effects of FDIC exams. *Page 20*

A GUINNESS PEAT Aviation official confirmed that the company has discussed a sale-leaseback transaction with the union-led UAL Corp. buyout group "in the range of $500 million." *Page 18*

EARNINGS

MIDWEST BANK earnings were generally lower in the second quarter than in the year-earlier period. *Page 2*

INTERNATIONAL

DAI-ICHI KANGYO Bank and Fuji Bank, the world's biggest and third-biggest banks, have lost their triple-A debt ratings from Moody's Investors Service. *Page 12*

TECHNOLOGY

IBM MAY BE FIRST to market an imaging system for check processing that runs on small computers and can be installed at branches or regional operations centers. *Page 3*

COMMENT

THE COSTS OF asset diversification seem to have overwhelmed the margin gains, writes Sanford Rose. *Page 4*

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ANALYSIS: *Follow-up on the news*

U.S. League Bypasses Exec In Line To Be Chairman

By DEBRA COPE

WASHINGTON — In an unprecedented leadership shuffle, the U.S. League of Savings Institutions has bypassed Robert B. O'Brien Jr., who was in line to become chairman in November, in favor of Ohio thrift executive Donald B. Shackelford.

While Mr. O'Brien denied that he is the victim of political infighting, industry observers said Mr. Shackleford is seen as a better spokesman for the troubled industry because his own institution is more profitable than Mr. O'Brien's.

Renomination Expected

Mr. O'Brien, chairman and chief executive of Carteret Savings Bank, Morristown, N.J., said he will remain U.S. League vice chairman for another year. He is stepping aside from the line of succession while Carteret's parent company, Ambase Corp., completes a restructuring.



Robert B. O'Brien Jr.
Carteret Savings Bank

Mr. O'Brien added in a telephone interview that he "absolutely" expects to be renominated next year to be U.S. League chairman and intends to serve in the top post beginning in November 1991.

But some industry officials said Mr. O'Brien was steered out of the chairmanship by a faction

See U.S. LEAGUE *page 9*

Wall St. Power Failure Disrupts Some Bank Computer Operations

By JEANNE IIDA

NEW YORK — A major power outage in the Wall Street area on Monday afternoon disrupted funds transactions and forced major banks to shut off computer operations and send thousands of employees home early.

The power failure, which was caused by a midday fire at a utility company substation, affected a narrow strip across the tip of Manhattan and caused the American Stock Exchange to close for the rest of the day.

The Bank of New York, Bankers Trust, Citibank, Manufacturers Hanover Trust, Marine Midland, and J.P. Morgan & Co. switched to emergency backup power for essential computer operations and closed down other units.

Backup Power Used

The Bank of New York employed all 32 floors of its Wall Street headquarters, but other buildings on the same street were unaffected in an outage that seemed to hit at random. American Express Co. was forced to evacuate its offices.

Both Chase Manhattan Bank and Chemical Bank said their

See WALL ST. *page 3*

FDIC Plans Boston Office With Staff Of Over 400

By BILL ATKINSON

WASHINGTON — In a move signaling a likely increase in bank failures in New England, the Federal Deposit Insurance Corp. is planning to open a liquidation office in the Boston area and will staff it with as many as 460 employees.

It will be the FDIC's first such consolidated field office in New England. Like 16 other offices around the country, it will specialize in liquidating and marketing the assets of failed banks and thrifts.

In the past, the insurance agency's field offices in New York and South Brunswick, N.J., have handled liquidations in New England, but the FDIC has decided that mounting problems in the Northeast merit closer involvement.

Large Failure Rumored

The decision, confirmed Monday by an FDIC official in response to an inquiry from the *American Banker*, comes in the midst of a pronounced economic downturn that has hit many of the region's banks.

The FDIC's move – it has already hired 40 people for the Boston operation – led an analyst to speculate that bank failures in New England could pick up, and that the failure of a large institution may be in the offing.

"There has got to be something big if they are staffing up to that level," said Warren Heller, research director of Veribanc Inc., a Wakefield, Mass., bank rating firm. "I think you have got to consider BNE is a possibility, without a doubt."

He was referring to Bank of

See FDIC *page 10*

How to Thrive in the 1990s With No ATMs



Bridget Starr Taylor

By SAM ZUCKERMAN

SAN FRANCISCO — Walk into any one of Golden West Financial Corp.'s more than 200 branches and you'll find a lobby carefully designed to minimize clutter. You will see scrupulously cleaned and polished teller counters and new-accounts desks.

What you will not find, inside or out, is a single automated teller machine.

That makes $20.4 billion-asset Golden West, whose three World Savings and Loan subsidiaries have branches in six states, something of a throwback desks.

See HOW *page 6*

PEOPLE *in the news*

Path Leads to Washington For Banker with a Mission

By DEBRA COPE

WASHINGTON — A 35-year banking career has taken R. Duane Lillibridge Jr. all over the state of Ohio. But he never imagined a frustrating, costly experience with hazardous waste would bring him to Washington to testify before Congress.

The 61-year-old president and chief executive officer of Farmers Savings Bank, Northwood, Ohio, has emerged as a forceful, credible voice for the view that court rulings obliging banks to pay for toxic-waste cleanups on properties they repossess after loan defaults are misguided.

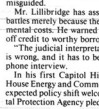
Mr. Lillibridge has asserted that banks have lost some of these battles merely because they are viewed as able to afford the environmental costs: He warned that such a policy would ultimately close off credit to worthy borrowers.

"The judicial interpretation to make the deep pocket pay for this is wrong, and it has to be changed," Mr. Lillibridge said in a telephone interview.

In his first Capitol Hill outing, Aug. 2, he testified before the House Energy and Commerce Committee. At that hearing, in an unexpected policy shift welcomed by bankers, the federal Environmental Protection Agency pledged to clarify lender liability under its Superfund rules. But the vow came too late for Mr. Lillibridge.

Early this year, his bank paid $14,560 to remove contaminants from three acres occupied by a boat repair business. Farmers State had foreclosed on a 1978 loan secured by the property, valued at $60,000. An appraisal found a gasoline station had used the land in the 1920s and that, of two buried storage tanks, one had leaked.

Mr. Lillibridge was irate. "Not only did we not contribute to the contamination – neither did our customer," he said.



R.D. Lillibridge Jr.

Yet court readings of the EPA's Superfund rules left the bank holding the tab. "We didn't fight it, but sometimes you do things because you've got a gun at your head," he said. He reluctantly tightened lending policy to avoid a repetition.

John F. Gayton, the Ohio banking superintendent, said he remembers Mr. Lillibridge raising the matter at a seminar in July. "He was saying, 'We shouldn't be required to pay recovery costs if there has to be a cleanup,' " the regulator recalled.

Picking a Spokesman to Go Before Congress

The comments also struck Ralph Bolen, executive vice president of the Ohio Bankers Association. When the trade group was searching for a spokesman to testify in Washington, Mr. Bolen said, "we wanted someone who had an actual case experience. So when the hearing came up, we went to" Mr. Lillibridge.

"Obviously, it was intimidating," Mr. Lillibridge said of his appearance. "But I wouldn't trade it. It gave me a better view of our Congress. It's easy to believe they're a bunch of idiots. But the questions they asked showed they understood."

Mr. Lillibridge began his banking career in 1955 after a four-year Air Force stint. He started at First National Bank, Coshocton, Ohio, by "going to the post office for the mail," then rose through the ranks to assistant cashier.

Specialty in Turnarounds Brought Him to Farmers Savings

Moving around the BancOhio Corp. network, he eventually became regional executive for its southern group, but the post was phased out after a 1984 takeover. His reputation as a turnaround specialist brought him to the $64 million-asset Farmers Savings Bank in December 1986. A commercial bank despite its name, Farmers had a 0.71% return on assets last year.

Mr. Lillibridge and his wife, Betty, will celebrate their 40th anniversary in December. They have three sons and three grandsons. He keeps fit with bicycling, tennis, and yard work and enjoys visiting his Air Force buddies. □

NEWS *briefs*

Hanover Applies to Pool Farm Real Estate Loans

WASHINGTON — Manufacturers Hanover Securities Corp. is the first applicant to seek certification as a pooler for the Federal Agricultural Mortgage Corp. secondary market for farm real estate loans, the agency said on Monday.

All potential poolers must be certified before they can solicit farm loans from originating institutions, form loan pools, and issue securities backed by those pools.

AT&T Says 4.6 Million Hold Its Universal Card

NEW YORK – AT&T said 4.6 million consumers with 2.7 million accounts have received its Universal MasterCard and Visa cards since their introduction in March.

Universal Bank, the subsidiary of Synovus Financial Corp., Columbus, Ga., which is issuing the AT&T cards, is now the country's eighth-largest bank card issuer. □

SECOND-QUARTER EARNINGS ROUNDUP

Slight Decline for Midwest Banks

By NANINE ALEXANDER

CHICAGO — Beset with higher loan-loss provisions and slow loan growth, Midwest bank earnings were generally lower in the second quarter than the corresponding period a year earlier. But banks in America's heartland still fared better than many of their counterparts elsewhere in the country.

Mid-western banks experienced a median earnings decline of about 1% according to preliminary calculations of Keefe Bruyette & Woods Inc.'s mid-western BankScan of 34 regional banks. Nevertheless, Keefe analyst Kenneth F. Puglisi said Midwest banks were ahead of most banks in profitability.

"The median return on assets in the Midwest is 1%. I don't think you'll find a region in the country that did better than 90 basis points," Mr. Puglisi said.

Midwestern banks were hurt in comparison with the year-ago quarter when net interest margins were wider, he said. And although credit quality showed signs of wear, better expense control helped offset the drag on profits.

'Boring Is Good'

"Overall, a pretty boring quarter, but boring is good these days," said Mr. Puglisi. "Excitement is usually bad news."

Sluggish loan growth plaguing banks in other regions of the country also hurt midwestern banks, said Felice M. Gelman, managing director of Dillon Read & Co.

"The volume wasn't as good as I had expected," but she said the quarter "is not that the economy may be picking up.

Regional economic forecasts

See **MIDWEST** *page* **11**

Second-Quarter Earnings at Top Midwest Banks

Dollar figures in millions	Assets	% of loans nonperforming 2Q net	Percent change
First Chicago Corp.	$50,360	2.88%	587.4 -34.90%
Continental Bank Corp.	30,353	4.34	-57.0 NM*
Banc One Corp.	27,921	1.77	103.3 13.80
Norwest Corp.	26,769	1.69	70.0 12.00
NBD Bancorp	26,646	0.98	68.0 2.90
National City Corp.	23,091	1.69	67.6 2.60
First Bank System Inc.	19,425	2.53	29.9 -43.60
Society Corp.	15,566	2.03	39.9 -59.90**
Boatmen's Bancshares Inc.	15,044	2.12	33.0 0.05
First of America Bank Corp.	12,965	0.89	31.6 2.40

*Not meaningful
**Adjusted pro forma to reflect Trustcorp acquisition

This is the third in a series of articles analyzing second-quarter regional bank earnings.

DC Bank Fined for Money Laundering

By LINDA CORMAN

WASHINGTON — The Treasury Department slapped a $368,000 fine on the National Bank of Washington for money-laundering violations just before the bank was put into receivership last Friday and sold to Riggs National Bank.

The fine, the maximum allowable for the violations, was imposed for misdeeds in 1988 and 1989. The bank was not fined until last week because the Treasury had to wait until criminal charges against the bank were resolved. The Treasury says the criminal investigation was concluded last month. The U.S. Attorney's office has not confirmed this.

IRS Uncovered Violations

Most of the bank's violations were discovered through an Internal Revenue Service undercover operation between 1987 and 1988. As a result of that investigation, a former senior vice president of the bank, Roger C. Schultz, pleaded guilty in 1988 to violations of the Bank Secrecy Act. The bank was also found to have violated the act by improperly exempting customers from currency transaction reporting requirements.

Under the Bank Secrecy Act, banks and other financial institutions must file reports to Treasury on currency transactions of

See **DC BANK** *page* **11**

Correction

An article Monday ("Loss Causes Rude Awakening at MNC," page 1) incorrectly said that MNC Financial Inc.'s real estate construction loans rose in the first quarter. At the end of that quarter, Baltimore-based MNC had $3.40 billion in real estate construction loans, down from $3.452 billion on Dec. 31, 1989.

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

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Wall St. Power Failure Disrupts Some Bank Computer Operations

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internal operations were unaffected.

Payment Systems Hold Up

The major payments systems, the Clearing House Interbank Payments System (Chips) and the Fed Wire, continued operations, although many of their members lost power. Fed Wire switched to backup facilities, but the New York Clearing House Association, which runs Chips, was unaffected. Twenty-five members of Chips could not send or receive transactions and had to switch to alternative payments methods, according to John F. Lee, president of the clearing house.

The Federal Reserve Bank of New York said systems at most member banks were operating but some of the banks' securities customers were not.

Bankers said they expected the utility, Consolidated Edison, to restore power to the area by 10 a.m. today.

Personnel Transferred

Manufacturers Hanover said it was transferring downtown personnel to its backup facilities in New Jersey and midtown to work today.

"We still don't know when they're restoring power, or how that power will come up," said Edward Stone, head of the bank's corporate data center. "Sometimes you get dirty power," meaning the power comes on sporadically. "We have emergency power turned on until we know that Con Ed has been completely stabilized."

Bankers Trust, which switched to emergency lighting and elevators at a downtown building, said cash management, funds transfer, and trading operations were functioning, but activity was limited because counterparties were not operating. A spokesman for the bank said it was not generating funds transfers until payments were received.

Payment volume was down dramatically on both Fed Wire and Chips as banks sought ways to complete their transactions. Both were expected to stay open well past normal business hours to settle for the day.

Many Chips members either relocated to a Clearing House emergency facility or had a third-party bank complete the transaction.

Some of these banks may not be able to transfer certain customers' funds, causing them to pay the customers for a day's use of the money.

"Banks may have to eat some funds," said Mr. Lee of the New York Clearing House.

At Chips, "our problem will be getting enough payments through to settle," Mr. Lee said. Some banks were sending teams to the clearing house's data center, where a battery of terminals simulates a connection into Chips.

We simulate that to be the control room of the bank," Mr. Lee said. Banks send transactions as if they were sending from their own center, and the clearing house can simulate the security devices the bank has on its own network.

How difficult settling would be "will depend partly on how Con Ed reacts, if they can reroute and give us some power," Mr. Lee said.

Cathy Minehan of the Federal Reserve Bank of New York said the Participants Trust Co., a member institution, had gone to its back-up site in New Jersey.

A spokesman for Nyce, New York's largest ATM network, said the network did not experience problems, "but any bank that has ATMs in the area of the power outage – those ATMs will be down."

Jed Horowitz contributed to this article.

Check Imaging on Small Computers

IBM Working to Match Fleet's Decentralized Mode

By KAREN GULLO

NEW YORK — International Business Machines Corp. is working with Fleet/Norstar Financial Group to modify its ImagePlus check-processing system for use at several of Fleet's regional check operations centers, according to industry sources.

The system will run on small, less expensive computers than existing versions and is designed to fit Fleet's decentralized approach to check operations.

"Many banks have strong decentralization cultures that they don't want to discard."

Chuck McDonough
Andersen Consulting

ImagePlus currently runs on mainframes and costs millions of dollars. Though a handful of large banks have invested in these centralized systems, many others are holding out for a lower-cost system that will be compatible with their decentralized format.

PC Control Unit

Sources said the system being tailored for Fleet/Norstar uses a control unit, such as a personal computer, instead of a large mainframe to capture, process, and store check images. For further processing, the images would be transmitted to Fleet's main data center in Albany, N.Y.

Fleet wanted to process images of checks at several regional operations centers, sources said, but did not want to invest in mainframe computers for each site. IBM agreed to modify its ImagePlus system to meet those requirements and will offer the product to other banks, the sources said.

IBM will make a product announcement within weeks, the industry sources said.

IBM and TRW Inc. have been jointly developing a check-imaging system for remote processing using the IBM Personal System/2 computer, but it is unclear whether results of that project will be part of IBM and Fleet's announcement.

Leighton Carmichael, director of document and check-image systems at IBM, said Fleet is one of IBM's development partners for image technology, "with a drive in the remote processing area." "But IBM is not ready to reveal its plans, he said.

"Remote processing is developing rapidly," said Mr. Carmichael. "You might have remote locations equipped with a control unit without all the operators. As prices come down for the control unit, the solution becomes more viable."

Fleet acknowledged that it is working with IBM on the system but declined to give details before IBM made an announcement.

Shift to Smaller Systems

The leading suppliers of check-imaging systems, such as IBM, Unisys Corp., and Banc-Tec, initially focused on developing 'big-ticket, mainframe-based systems. They now are turning their attention to smaller systems. NCR Corp. is also developing a microprocessor-based imaging system that is due out next year.

Bankers and analysts said that a low-cost imaging system designed to handle check processing at regional operation centers or branches would be in great demand in coming years.

"We've been talking about doing something in a remote environment, but I haven't seen anything on the market," said Gilbert Arbuckle, senior vice president in the information management and research department at Mellon Bank Corp., Pittsburgh. Mellon is one of six banks developing software for and testing IBM's check-imaging system.

Mr. Arbuckle said that capturing images at regional centers would help speed the check-settlement process. Images could be sent electronically to a bank's main processing center, used for balancing and accounting, and encoded later when the paper check arrived, he said.

"Though many banks are consolidating technology and operations units to a central site, some prefer the decentralized approach to check processing.

"Many banks have strong decentralization cultures that they don't want to discard," said Chuck McDonough, an imaging consultant with Andersen Consulting. "They are starting to place pressure on the suppliers.

"Companies like IBM are very heavily influenced by the banks they supply in terms of imaging, and those banks have very centralized technology operations." □

"As prices come down for the control unit, the solution becomes more viable."

Leighton Carmichael
IBM Corp.

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COMMENT / By Sanford Rose

The Abortive Search For Higher Margins

As the profitability of funding plain-vanilla mortgages and mortgage securities has declined, many thrifts have gravitated to nonmortgage and nontraditional loan assets in an effort to buttress both net interest margins and the return on assets. Has this strategy worked? Preliminary evidence suggests that it hasn't. Although asset diversification may have boosted margins, it has also raised costs. And the cost consequences seem to have overwhelmed the margin gains.

The evidence comes from an analysis of 1988 cost data for GAAP-solvent thrifts made by professors James Verbrugge, James McNulty, and David Rochester and published in the summer issue of the *Journal of Retail Banking*. The analysis provides tentative answers to such questions as: Is there any real cost advantage for larger thrift institutions? How much do costs vary within given thrift asset-size groups? Are differences in efficiency associated with particular operating strategies? And is there a close correlation between efficiency levels and bottom-line profitability?

The analysis, admittedly a rather rudimentary one, suggests that there are some efficiency gains from bigness. But they aren't terribly significant. The ratio of noninterest expenses to assets does indeed fall as thrift asset size increases, but not by much—at least for those thrifts with less than $5 billion in assets.

In fact, the most efficient 25% of thrifts in asset-size groups of anywhere from $25 million to $1 billion were all able to post expense ratios of close to 1.40% – an excellent showing. Those superefficient thrifts (top quartile of cost performers) with between $1 billion and $5 billion had a somewhat lower cost ratio, 1.26%. But only among thrifts with assets of over $5 billion were the superefficient able to record cost ratios that were substantially lower than 1.40%.

Focusing on Intragroup Gaps

However, far more significant than the cost savings achieved from bigness are those obtainable from more efficient operation at any given asset size. Otherwise put, the cost gap between the least and most efficient thrifts within selected size categories is substantially greater than that across the size spectrum.

Thus, the expense gap between the average top-quartile thrift (most efficient) in the $25-million-to-$50-million size class and the average top-quartile thrift in the $500-million-to-$1-billion class was a mere 14 basis points. But the gap between the average least and most efficient $25-million-to-$50-million firms was a yawning 246 basis points. And that between the least efficient and the next-to-least efficient (third-quartile) cost controllers in the $25-million-to-$50-million asset group was almost as wide – 162 basis points.

So efficiency seems to depend more on will and skill than on scale, although in highly competitive markets even the 14-basis-point deficiency that can be reasonably attributed to inferior scale may prove crucial. It should also be pointed out that, unlike banks, thrifts are not deeply involved in the business of processing transactions accounts – an activity that has been found to be highly scale sensitive.

A Case of Nonfeasance

The authors of the *Journal of Retail Banking* article suggest three possible reasons for the huge variation in operating costs within size classes. The first is pure nonfeasance. Some associations may have simply failed to control costs regardless of their asset size and operating strategy.

A second explanation is redundant branches and operating locations. But while it is true that the high-cost associations in each size group have more physical outlets than the low-cost thrifts, the differences in operating costs on a percentage basis far exceed the differences in the number of offices. Although operating costs are always at least two or three times higher at the bottom-quartile than at the most efficient associations, the number of offices is generally less than 50% greater.

The third explanation for intragroup cost differences is asset mix. As is well known, it costs substantially more to originate and administer nonresidential-mortgage and commercial mortgages than it does to handle traditional residential mortgages. Therefore, those associations with higher ratios of nontraditional thrift loans to assets can be expected to have higher cost structures. And, indeed, the data show that the ratio of nontraditional loans to assets is more than twice as high at bottom-quartile cost controllers as it is at the most efficient thrifts.

The key question is whether the play is worth the candle. Although nontraditional lending promises higher nominal margins, are these margins sufficiently high to offset the concomitant increase in the operating and nonoperating costs of loan administration? Based on 1988 results, the answer seems to be no.

The most efficient cost controllers in seven out of nine asset-size categories enjoyed higher 1988 net interest margins than did the most efficient. On average, however, this margin advantage was only 15 basis points.

But measured on a bottom-line basis – that is, in terms of the return on assets – the results were decidedly different. The ROAs of the best cost controllers in eight of the nine asset-size groups were higher than those of the bottom-quartile performers. On average, the most efficient thrifts made 70 basis points on assets, while the least efficient registered a minus-19-basis-point return.

Thus the modestly higher interest margins generated by the high-cost firms did not translate into improved bottom lines. The margin gains were apparently offset by both higher operating costs and the presumed higher level of loan losses associated with higher-margin and therefore riskier lending. It would appear that the attraction of higher-margin asset categories is largely meretricious.

An Unstable Return

Although, as noted, the most efficient among the GAAP-solvent thrifts made a 1988 ROA of 70 basis points, it must not be concluded that this is a stable return. A substantial portion of the net interest margin of these thrifts was no doubt attributable to maturity mismatching.

A mismatching or short-funded strategy will work when interest rates are low and the yield curve is upward sloping. But it will backfire in periods of rising rates and/or inverted yield curves.

In point of fact, the sustainable net interest margin of the average thrift, which is the margin earned from matched rather than mismatched maturities, probably amounts to no more than 100 basis points. (Those thrifts that made 70 basis points on assets in 1988 averaged 233 basis points of margin.)

Subsisting on Low Margins

Still, if the typical thrift can reduce its expenses to around 140 basis points of assets (the average 1988 expense ratio of the top-quartile cost controllers was 138 basis points), it may be able to earn enough origination, servicing, and deposit fees to manage a positive return on assets with only 100 basis points of margin earnings.

And, as has been indicated in previous columns, given the leverage that is consonant with a risk-minimizing strategy, a thrift can translate even a barely positive return on assets into a competitively viable return on equity. However, as has also been indicated, it may not be possible to earn even a barely positive asset return if the basic mortgage-funding spread continues to deteriorate, further eroding that 100 basis points of sustainable net interest margin. □

> **"Cost increases frustrated the thrifts' asset-diversification attempts."**

LETTERS *to the editor*

Congress Ignored Gray's Warning

To the Editor:

I took note of your mention of Bert Ely in the Aug. 2 edition ["The Vindication of Bert Ely," page 1], and I can't abide the impression that the Federal Savings and Loan Insurance Corp. and the Bank Board were stalled by incredible "boobs."

The regulatory staff was predicting in 1981 that the FSLIC fund was heading toward failure, and in 1982 the career staff knew that the Garn-St Germain Act made failure a virtual certainty.

Just for the record, in 1986 Edwin Gray, then Bank Board chairman, asked me, the regional director for the Dallas District, to estimate what it would cost the FSLIC to clean up Texas alone. Mr. Gray wanted this to support his request for recapitalizing the deposit insurance fund.

The number I gave him in 1986 was $42 billion for Texas and at least $80 billion for the entire country. I presume that political circumstances wouldn't allow Mr. Gray to use it. After all, he had Jim Wright to contend with and was hoping to get merely $10 billion to $15 billion to buy some time.

So, if Mr. Ely was able to come up with a fairly good estimate of losses based on faulty estimates leaked to him by Bank Board employees Dan Brambaugh and Jim Barth, that's fine. But none of those gentlemen could predict from the economic data the real level of losses that examination and supervisory data were disclosing at the time.

Ed Gray tried to warn everyone, but key lawmakers wouldn't let the story be told.

Joseph M. Arendes
Dowell, Md.

Interest Rates Reflect Costs and Competition

To the Editor:

I take exception to the comments made by Richard G. Kelley, chairman/CEO of First National Bank of New Jersey, in the "Sound Off" column of the *American Banker* on July 9, page 4.

Mr. Kelley said that "under the present system, a savings and loan can pay 2% more in interest than a commercial bank." There appears to be no regulatory basis for the foregoing. Regulation Q has been rescinded for more than four years, and commercial banks and savings and loans now set their rates on the basis of cost of money considerations as well as a review of rates offered by local competition.

I do, however, agree with Mr. Kelley that the FDIC should adopt risk-based insurance premiums.

Barry J. Zadworny
Senior vice president
Roma Savings Bank
Trenton, N.J.

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Credit Crunch Is 'Healthy,' San Francisco Fed Chief Says

Reuters

SAN FRANCISCO — Robert Parry, president of the Federal Reserve Bank of San Francisco, said the current credit crunch is a "healthy" response to an uncertain U.S. business environment.

"It's true, lenders have become more cautious," Mr. Parry said last week in a speech to business leaders in Salt Lake City. "This is a normal and healthy response to a business environment that has become more uncertain."

Although more prudent lending practices will make the U.S. economy more stable, he said, the transition to those standards has the potential to slow the economy temporarily.

Mr. Parry said the best odds are that the U.S. economy will continue to "chug ahead slowly." He did not rule out the possibility, however, that in the second half of the year, "the nation's output won't grow at all or might even decline."

Many economists say the U.S. economy is entering a period of negative growth. Even without the Iraqi invasion of Kuwait and the subsequent oil crisis, some say, a recession was likely.

U.S. Treasury Secretary Nicholas Brady said last Wednesday that he and President Bush want the Fed to lower interest rates. Many suggest the current situation calls for major easing of monetary policy.

Mr. Parry said that the risk of a downturn in the economy is one of the Fed's most important concerns in charting monetary policy. "At the same time," he said, "we've got to be careful not to overreact to today's weak economic numbers.

Mr. Parry did not rule out the possibility of zero growth in output in the coming year.

"If we lose sight of our ultimate goal, we'll end up with a kind of rudderless monetary policy that tends to generate higher and higher inflation."

To make lasting progress on controlling inflation, he said the U.S. economy must grow at only a moderate pace for some time.

Through the end of 1990, "we're likely to see sluggishness in inventory investment to allow businesses to get inventories back in line with sales," he said, adding that conditions are in place or soon will be in place for growth in 1991. "Once inventories get back in line with sales, inventory investment will pick up again. This will be a positive influence in 1991."

Growth in the West

Also in his speech, Mr. Parry said the economy in the western region of the United States likely will fare better than other regions over the coming year.

Population growth has helped keep the West's economic performance better than most other U.S. regions in the 1980s, he said. Mr. Parry said that population growth in California, Arizona, and Nevada soared over the national average for the 1980s, and that recent "rapid population growth in Oregon and Washington has stimulated economic growth as well."

Key industries such as aerospace have enjoyed strong manufacturing activity, and the region's strategic location to Pacific Rim nations also are important factors driving growth. The region's economic diversity has moderated the impact of problems that hit the agriculture industry in the mid-1980s. □

Southmark Emerges from Bankruptcy

DALLAS — Southmark Corp. emerged last week from bankruptcy proceedings, a little more than a year after the real estate and financial services concern filed for protection from creditors. The company's financial problems were a result of bonds it had issued.

The parent of San Jacinto Savings Association said it transferred $76 million in cash and new securities to parts of its creditors and shareholders pursuant to its reorganization plan announced in April.

Southmark also named Glen Adams to succeed Arthur Weiss as chairman, president, and chief executive officer. Mr. Weiss resigned Friday along with most of Southmark's board, who will be replaced by directors nominated by the unsecured creditors' committee.

Losses Exceeded $1 Billion

Southmark, one of the largest companies to seek bankruptcy protection, filed for Chapter 11 in July 1989 after a third-quarter loss of $1.08 billion put it in violation of net worth agreements on some of its publicly traded bonds.

Pursuant to its plan, Southmark shifted $100 million in assets to its wholly owned thrift, Houston-based San Jacinto Savings. The plan provides for the thrift's recapitalization and the release and settlement of any thrift or real estate claims against Southmark. The company, however, will have no management control of San Jacinto.

Southmark proposed deferring about $8 million in fees to representatives of the creditors' and equity holders' committees and the court-appointed examiner in the bankruptcy proceedings. — **Reuters**

Focus On A Changing Industry
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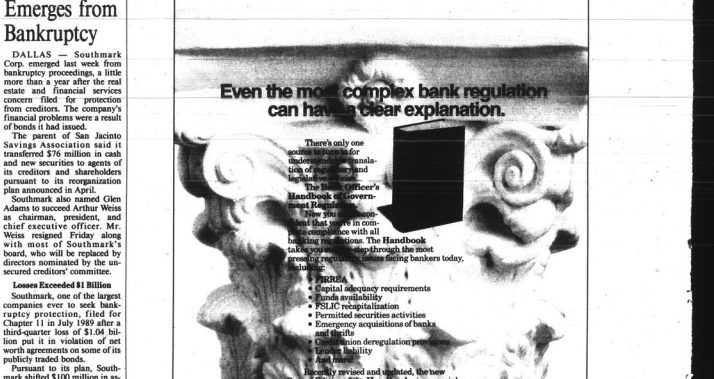

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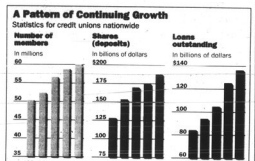


Industry Keeps Growing – And So Will Federal Fees

By BARBARA A. REHM

The credit union industry put its 1989 performance out for review last week and braced to pay higher fees to its regulatory agency in 1991.

The National Credit Union Administration, the federal regulator, infuriated some in the industry by announcing a 16% increase in its budget for next year. This is expected to translate into a 9 to 10% increase in fees for credit unions, according to the federal regulator.

Forces beyond its control are responsible for the ballooning $77 million budget, said Herbert S. Yolles, the agency's controller. The thrift-bailout law requires people working in the various financial regulatory agencies, such as the Federal Deposit Insurance Corp. and the Federal Reserve System, to be paid comparable salaries.

Salaries Increase

We lagged below market, way below market," Mr. Yolles said in an interview last week. The federal agency raised salaries almost 20% and employee benefits more than 27%, he said. Salaries and benefits now make up 57% of the total budget.

Separately, the industry's largest trade association, the Credit Union National Association, released its 1989 performance report. The figures on asset growth, capital levels, and loan performance are intended to illustrate that credit unions are safe and strong, yet not nearly big enough to threaten commercial banking's hold on the deposit market.

Credit unions "stick to their knitting and focus on serving their members with consumer and residential mortgage loans," said the trade association's chief economist, William Hampel.

Though credit unions say they have more than 60 million members, their assets represent just 6.2% of the commercial banking industry's total.

$205 Billion in Assets

At yearend, there were 15,144 credit unions; their assets totaled $205 billion. Though the number of institutions declined 3.5% last year, assets grew by 4.7%.

Nearly half the institutions have less than $2 million in assets. The typical credit union in this category has 852 members, each of whom averages $2,272 in savings and $3,838 in outstanding loans.

Credit union capital rose to 7.9% of assets last year, the highest level for the 1980s. The industry's reserves hit $9.5 billion, up 10.7%. "With loan delinquencies at their lowest yearend level of the decade, credit union safety and soundness is manifest as the 1990s begin," the trade association reported.

Budget Criticized

The National Association of Federal Credit Unions complained that the latest budget for the National Credit Union Administration represents the fifth consecutive annual increase and the third double-digit hike since 1986. NAFCU criticized the agency for adding 14 people to its Washington office in this time of rising salaries.

"With personnel costs rising 46.7% due to increases in salaries and benefits, this is no time for CUNA to be adding 14 positions to headquarters staff," according to a NAFCU statement. "If new positions at headquarters are absolutely essential . . . they should be provided from examiner spaces which can be reduced as a result of continuing decline in the number of credit unions required to be examined."

Association Defends Increases

CUNA, often at odds with NAFCU, has taken a different view of the regulatory agency's burgeoning budget.

"I don't see that they have a lot of wiggle room, based on what's required by law," said CUNA spokesman Larry Blanchard. "I don't see any waste."

Mr. Yolles defended the staff additions, noting that five of the 14 positions are simply conversions of contract data processors to full-time employees and will save the agency money. Two more positions are for lawyers needed to handle a heavy load of lawsuits. □

How to Thrive in the 1990s With No ATMs

Continued from *page 1*

in an age when many institutions see ATMs as a business necessity. Golden West's thrifts do not even issue cards that customers could use in outside ATM networks.

Unique for Their Size

"For that size, they are absolutely unique. They probably are the largest retail depository institution in the country without ATMs," said Paul R. Mattaus, research director for Payment Systems Inc., a Tampa consulting firm.

Though it lacks electronic tellers, Oakland, Calif.-based Golden West is far from a horse-and-buggy operation.

It is generally recognized as one of the best managed thrifts in a much battered business, consistently ranking among the industry's top performers. Last year, Golden West earned $157.9 million, equal to an 0.85% return on assets and a 16.3% return on equity.

Gurus Preach Simplicity

Its cochief executives, the husband-and-wife team of Herbert M. and Marion O. Sandler, have built reputations as savings and loan gurus preaching a doctrine of simplicity and common sense as a formula for profitability.

Golden West's refusal to install ATMs reflects the Sandlers' hard-boiled philosophy: shy away from trendy products and services unless they fit a focused business strategy and pass stiff profitability tests.

"The thing you have to guard against is jumping on the bandwagon," says Mrs. Sandler.

ATMs Seen as Necessary

Although electronic tellers usually do not produce direct profits, other big thrifts view them as a service they must provide because customers demand it.

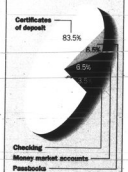
"We consider ATMs to be pretty vital," says Gary L. Sutula, senior vice president and retail operations manager with American Savings Bank, Irvine, Calif. "I couldn't really imagine operating without them."

Golden West may be putting some customers off by not having ATMs, Mrs. Sandler admits. "I'm probably losing some business," she says.

But, in Golden West's case, the costs of installing and maintaining ATMs are not worth the benefits, according to Mrs. Sandler.

What it boils down to is that many of the customers Golden West loses are customers Mrs. Sandler does not want. That, in turn, reflects the thrift's unusual business strategy.

While other thrifts have diversified into a wide range of products and services, Golden West has stuck to its core business of selling certificates of deposit to fund adjustable-rate mortgages.



Many thrifts crave low-interest-rate checking account deposits. Golden West scorns them.

Larger Accounts Needed

A company survey once showed the average checking balance was $800. "We lose money on accounts of $800," says Mrs. Sandler.

And while other deposit-takers fight over high-spending baby boomers, Golden West tries to lure older, prosperous savers, using slightly-higher-than-average interest rates on its certificates of deposit as bait.

At the end of 1989, checking accounts represented only 3.5% of Golden West's deposits. Certificates of deposit made up 83.5%.

A Special Niche

"They have effectively targeted a nonstandard niche," says W. Coleman Bitting, a thrift analyst with Kidder, Peabody & Co., Inc.

Industry experts say that only a handful of other midsize or large thrifts have followed a similar strategy. Among them is $2.6 billion-asset Washington Federal Savings and Loan Association, Seattle, another top-performing thrift without ATMs.

The kinds of savers Golden West seeks generally carry out fewer transactions than checking customers and have much less need to access their accounts through ATMs, electronic banking experts say. And Golden West's older customers are less inclined to use high-tech hardware than the computer-savvy baby boom generation.

Primary Accounts Elsewhere

What's more, Golden West executives acknowledge, many customers have primary relationships with another bank or thrift, where they have access to ATMs.

"It has not been demanded by the customers we serve," says senior vice president Thomas C. McBroom, who runs Golden West's savings programs.

A look at a World Savings branch in action demonstrates the point.

"There are minimal lines, an older crowd, much less floor traffic," says Mr. Bitting. "It's entirely different from a commercial bank.

Chance to Test Policy

Acquisitions in Texas and Ohio, plus a management agreement with federal regulators to run a Florida thrift, have given Golden West an unusual opportunity to test its ATM policy.

In Florida and Ohio, Golden West recalled ATM cards usable on local networks after taking over. In Texas, it actually ripped electronic teller hardware out of its branches.

"We did rather extensive research," says Mr. McBroom. "In each case, the customers who were most active [on ATMs] were not the customers we wanted to have."

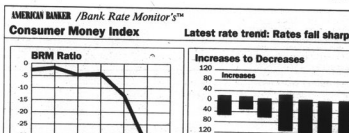
The ATM users were "low-balance, high-volume" customers, Mr. McBroom says, the opposite of the ones Golden West targets.

Analysts generally praise

See **HOW** *page* **10**

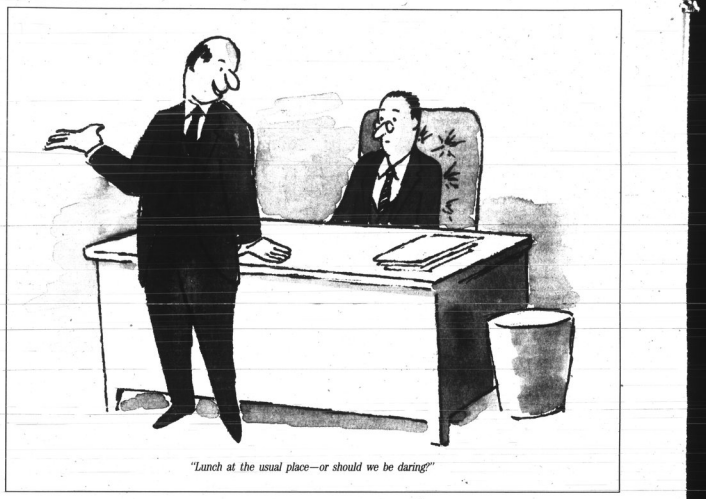
AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index — **Latest rate trend: Rates fall sharply**



Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it usually signals the beginning of the end of a cycle. The graph shows how the ratio has moved over the past 8 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.

Source: Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330



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Tuesday, August 14, 1990

Rivals, Legal Issue Hobble Banks that Try Realty Advising

Continued from page 1

kerage by state-chartered banks, New York does not.

"We can't call it brokerage, but it sure seems like a close cousin to me," said Michael J. Leahy, newly hired managing director of the real estate capital markets group at the flagship subsidiary of Continental Bank Corp., Chicago.

'It's a Duck'

"If it looks like a duck and quacks like a duck; it's a duck," said Mr. Leahy, who has a real estate license.) "We'll probably bump into the state brokerage laws."

Mr. Leahy's group is part of his bank's real estate department and does not do business under the aegis of a state-chartered bank, according to Stuart Unger, a Continental attorney.

Most banks deny they offer real estate brokerage. They call it financial advising and insist that their activities satisfy both federal and state law.

"We will introduce you to investors who would be interested in buying your building, and we may assist you in negotiations," said Jackson Tai, a managing director at J.P. Morgan & Co., "but we do not engage in the act of real estate brokerage. We are financial advisers."

Sales at Heart of Business

But to compete toe-to-toe with the investment banking likes of Morgan, Stanley & Co. and Goldman, Sachs & Co., which dominate the industry, banks must offer the same services. Sales are a key part of the overall business because in general real estate firms give their financing business – where the real money is – to firms that help them sell buildings.

If they didn't offer these services, banks would only be entitled to small finder's fees – not fees ranging from 75 to 200 basis points – and would finish out of the running in the brutal "beauty contests" and "bakeoffs" that are a prominent part of real estate investment banking.

State regulators believe banks can't stay on the adviser's side of the fine line between advisory work and brokering.

Illinois Regulator's View

"If you're negotiating the sale of a property, you require a real estate license. If you offer to sell, offer to buy, or offer to lease, you require a real estate license," said Harold Tecktiel, supervisor of real estate investigations for Illinois' Department of Professional Regulations.

Alan Schott, the Comptroller of the Currency's chief counsel, calls the matter "a complex area and also fact-dependent. The OCC has permitted national banks to accept finder's fees in connection with real estate transactions. But if you're engaged in negotiations, you'd have to have an agency relationship, and we've not authorized that."

The OCC is reluctant to brand real estate investment banking as real estate brokerage; it distinguishes between brokerage and acting as a finder and generally considers real estate investment banking to be a finding activity.

> "The OCC has permitted national banks to accept finder's fees."
>
> **Alan Schott**
> *Comptroller's office*

Jurisdictional Squabble

To complicate matters, no one agrees whether OCC rules take precedence over state law or vice versa. Each side claims ultimate power, and each said it would sue if the issue arose.

"In most cases, federal preemption of state laws only takes place where there's a clear intention of a federal organization to occupy a particular area," said Larry Alamo, staff counsel of the California Real Estate Department. "If the courts say banks *may* engage in real estate brokerage, it doesn't mean they can do it without a license. On the other hand, if the courts say they *shall*, it would be different."

Banks involved in real estate investment banking are aware of the problem.

Banks Move Carefully

Many, such as Bankers Trust New York Corp. and Chemical Banking Corp., acknowledging how gray a legal area this is, move very carefully. They want their actions and how they write their documents to support the contention that they are financial advisers, not brokers.

Security Pacific Corp. skirts the problem by conducting all property sales through a California-chartered bank, which is permitted to conduct brokerage. It limits its real estate investment banking activity to debt placement. Others, like Bank-America Corp., considered entering the business but backed off, fearing it was impermissible activity.

Banking companies that offer real estate investment banking include J.P. Morgan, Chicorp, Chase Manhattan Corp., Bankers Trust, Chemical, First Chicago Corp., Continental, and Security Pacific.

Aside from the potential regulatory problems, hurdles facing anyone entering the business are high and expensive.

Several Wall Street firms, for instance, have tried and failed to make the cut in real estate investment banking. Also, banks are competing for business against well-entrenched players. But aside from being crowded and fiercely competitive, the business is one in which total volume is shrinking.

Industry observers estimate that the face amount of debt and equity placements reached perhaps $30 billion in 1988 but has since fallen 20% to 30%. And along with shrinking volume has come shrinking fees.

"It's very likely that the investment banking firms, to keep their armies of young professionals employed, will engage in more price cutting," said J.P. Morgan's Mr. Tai.

And while such deals are lucrative, they're also expensive to execute, which squeezes profits.

Expenses Are Great

"This ain't the LBO business," said Raj Singh, a Chase vice president, referring to leveraged buyouts. "There ain't a lot of money in this. There are some high-profile deals, but the expenses are very high."

Real estate investment banking carries with it problems of fitting into the corporate culture, too. "The banks have been in lending for so long that, when you start an advisory business, you have a natural tension between people who want to be principals and the fancy-dancy agent," said Mr. Tai. □

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NEWSMAKERS
Equitable Unit Bets on a Market Upturn

By ANDREW REINBACH

Anticipating better times in a few years, Equitable Real Estate Investment Management Inc. is investing $500 million in renovations to 20 shopping centers it owns.

"It's the best investment we can make," said George R. Puskar, chairman of the unit of Equitable Life Assurance Society of the United States. "We've been in a big real estate recession for several years, but we [the real estate industry] led the nation into the recession, we'll also lead it out," he said.

Some Signs of Improvement

"We're already seeing some turnaround in the San Francisco area, but the vacancy rate on our 175 million square feet of space out there fell from 11.5% last year to 9% this year, and we're seeing some rent rises, too. I think that's a good sign."

Mr. Puskar holds banks responsible for many of the overbuilding problems the country now faces, but thinks the lending will atone for their mistakes.

"This is not a happy time – it's a very difficult time – for lending relationships," he said. "But banks have to be patient, they need to be flexible, they need to work these problems out. They can't just draw a line and say, 'That's it! We're not doing real estate anymore.'"

The current credit crunch in real estate finance is not such a bad thing, Mr. Puskar added, if it restores balance to supply and demand in real estate.

"I feel bad about some people who need credit, but we needed a credit crunch on unnecessary development," said Mr. Puskar.

"The problem is that the credit pendulum swings too violently. When the business was going great guns, people didn't make quality decisions. And now that it isn't, they still aren't making quality decisions."

Mr. Puskar said he is optimistic that banks will correct this mistake by eliminating the weak underwriting and lack of market knowledge that he considers to have been the fundamental flaws in their real estate lending.



George R. Puskar
Equitable Real Estate Investment Management Inc.

The Importance of Continuity

"You had unbridled activity by people without real proximity," he said. "A bank in Hartford would have kids with no real experience making apartment building loans in Charlotte, N.C., or strip shopping center loans in Florida. What did they know about it? And then they took them off the real estate desk and rotated it to another kid."

As a result, said Mr. Puskar, is that good developers have been ruined by overbuilding created by amateur developers who were set up in business by banks.

"When credit is so loose that it allows amateurs to build unwarranted projects, those are the first to go," he said. "But the level of the problem is so great that it takes down some very good people." □

U.S. League Skips Pressured O'Brien in Naming Chairman

Continued from page 1

of the U.S. League that wants to polish the group's tarnished image. Although the $6 billion-asset Carteret currently meets all capital requirements, some analysts regard it as a weak institution. They cite lackluster earnings, large additions to loan loss reserves, New Jersey's depressed real estate market, and the uncertain financial health of its parent company.

Mr. Shackelford, by contrast, is chairman of State Savings Bank, Columbus, Ohio, with $1.5 billion in assets, $105 million in net worth, and no taint from the thrift industry crisis.

"It's an issue of the haves and the have nots," said one state savings league official. "A good part of the membership wants to draw the line in the sand and say, 'From now on, we are an industry of strength.'"

Mr. Shackelford fills the bill, sources said. He is "identified with a part of the U.S. League membership that is very concerned about projecting an image of capital strength," the state league official said.

But "there may be some divisiveness. He's got a perspective that some people can rally to and some can't."

The shakeup in the U.S. League's highest ranks is a symptom of the turbulence that has rocked the thrift industry in recent years, sources said. The current chairman, Kenneth Seaton, has been distracted from the trade group's business by a shareholder proxy fight at his D&N Savings Bank, Hancock, Mich. And former league chairman Theo Pitt returned to serious earnings problems at Pioneer Savings Bank, Rocky Mount, N.C., after a year at the U.S. League's helm.

Problem of Continuity

In selecting a chairman for 1990, "you sure don't want a guy who, halfway through the year, is going to have his company sold out from under him," one source said.

U.S. League spokesman James Grohl said Mr. Shackelford "has a track record that is the envy of a lot of other people in the business. He really presents a good role model for the industry."

Mr. O'Brien insisted that concerns over Carteret's troubles did not figure into his decision to postpone his rise to the top. "We feel we are adequately reserved, and could meet demands for additional reserves if necessary," Mr. O'Brien said.

No Move Is Seen

"This was done at my request," he added, because of the restructuring program at Ambase. Carteret's parent, which is an insurance holding company. He also insisted there was no move to force him out. "It was at my request, and it came as surprise to the nominating committee."

Nor was there pressure from Ambase to give up the League post, despite persistent rumors to the contrary, he said.

"We were very proud of Bob serving on the League. It was done with the full support of the company," said Robert L. Woodrum, senior vice president of Ambase. He said that although Ambase announced plans in February to sell its three insurance subsidiaries, its options remain open. "I'm not saying we've considered spinning off Carteret," Mr. Woodrum said. "We just want to be in a position to do anything in this restructuring."

"We felt it was better for him



Donald B. Shackelford
State Savings Bank

and us and our shareholders if Bob remained pretty much committed to Carteret," Mr. Woodrum said.

But thrift analyst Henry Pelz said that while Carteret's capital is adequate, the thrift faces tough times. Mr. Pelz, of Keefe, Bruyette & Woods, New York, who followed Carteret until it was acquired by Ambase, said the thrift's problems "are akin to those of other companies that are faced with new [capital] regulations, and the fact that they operate in New Jersey, at least in part. That is a tough market." □

Crisis in the Persian Gulf Creates a Dilemma for Fed

By GARY SEIDMAN
Reuters

NEW YORK — Faced with a scenario it had long hoped to avoid – rising inflation and slowing economic growth – the Federal Reserve now must cut interest rates more aggressively if it hopes to avert a recession.

But central bank officials find themselves in a tough spot, economists said.

Normally, slower growth subdues inflation. But the surge in oil prices since Iraq's invasion of Kuwait Aug. 2 has upset the relationship by boosting inflation. That makes it more difficult for the Fed to act, since lower interest rates can also be inflationary.

Inaction Could Mean Recession

If the Fed fails to move, however, higher oil prices will further hamper economic growth and plunge the economy into recession for the first time in nearly eight years.

The last recession, in 1981-1982, has been followed by the longest domestic peacetime expansion on record.

The Fed's most recent money supply figures show continued sluggish growth, a sign to some experts of economic weakness. The figures, released Thursday, showed that M-2, a broad measure of the money supply, rose a meager $300 million, to $3,270.4 billion, in the week ended July 30.

"There is definitely sluggish money growth," said economist Kevin Flanagan at Dean Witter Reynolds Inc. "For some people, that is a harbinger of recession," he said, although he discounts the relationship.

Data Encourage Lower Rates

The money supply figures and recent signs of weakness in employment mean the Fed will likely settle on easing credit faster than envisioned before the Iraqi invasion in order to avoid a recession, economists said.

Some said it is already too late. Recession, a strong possibility even before the Mideast crisis, now is certain, they said.

"When the economy is growing at about a 1% rate and higher oil prices are likely to reduce real growth even further, then inflation is not the issue, recession is," said Charles Lieberman, an economist at the banking unit of Manufacturers Hanover Corp. Higher oil prices mean rising costs for business and less disposable income for consumers, who must spend more on energy.

Mr. Lieberman stopped short of saying the economy was in a recession. "It is at least flirting with it," he said, though.

Fed Funds Cut Likely

The Fed is likely to force down the federal funds rate, a closely watched interest rate that banks charge each other for overnight loans, Mr. Lieberman said. This charge widely influences rates for many consumer loans.

"I expect a quarter-point cut in the federal funds rate before the Aug. 21 meeting" of the Federal Open Market Committee, which sets Fed policy on interest rates.

The rate will probably have to be cut several times before yearend to keep the economy growing, said Darwin Beck, an economist at First Boston Inc. "I see it down 100 basis points [one percentage point] by yearend."

The Fed last eased credit July 13, forcing the fed funds rate down a quarter point, to 8%. It cited a credit crunch at commercial banks and weak money growth.

Move in Long-Term Rates

Since the Iraqi invasion, inflation worries have pushed long-term interest rates higher, a classic response that itself could compound the credit crunch, analysts said. As a result, "stagflation," a term coined during the oil shortages of the 1970s to describe slow growth with inflation, has returned to the lexicon of the financial markets.

"In an instant, oil became the linchpin of American economic policy," said a U.S. Treasury market analyst. Higher oil prices mean higher costs for business and could lead to further cutbacks in production and payrolls.

Job growth is already suspect. The government reported a sharp rise in unemployment Aug. 3, and last Wednesday, the Fed's region-by-region economic survey showed that, even before oil prices rose, weakness was widespread. □

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FDIC to Open Big Boston Office

Continued from page 1

New England, the largest of the region's troubled banks and a subsidiary of the $23 billion-asset Bank of New England Corp., Boston.

Mr. Heller estimates there are anywhere from 23 to 42 problem banks in the six New England states, which could also be the reason for the FDIC's wanting to open a liquidation office.

Robert M. Cittadino, deputy regional director of the FDIC's division of liquidation in New York, said he could not comment on whether the office is being set up to handle a large failure, or whether the agency expects increased bank failures in New England.

"I am not at liberty to disclose our projections for closings," he said.

Mr. Cittadino said the office is being established to handle the liquidation of $1.2 billion in assets from four institutions in Boston and Milford that have recently failed.

> "There has got to be something big if they are staffing up to that level. I think you have got to consider BNE is a possibility, without a doubt."
>
> **Warren Heller**
> *Veribanc Inc.*

Mr. Cittadino said the liquidations would have been handled out of South Brunswick, N.J., but activity has picked up.

"We are not in position at this point to address those banks in the South Brunswick office," which opened in March, he said.

The new field office could be open by mid- to late October if a lease for space is signed by the end of this week, Mr. Cittadino said. He said it will have about 460 employees and contain three divisions: liquidation, legal, and accounting.

Already on the job, in addition to the 40 new hires, are 15 others "on detail" from the FDIC to help with such jobs as interviewing prospective candidates. They are working out of four small offices set up at institutions in liquidation.

Mr. Cittadino said the staff size will be just above the average of 350 to 400 for liquidation offices. Reflecting the scope of the Texas banking crisis, a consolidated field office in Dallas has 600 people, supplemented by 400 in a North Dallas office.

Varied Tasks to Perform

Of the anticipated 460 people in Boston, about 350 people will represent the division of liquidation. The rest will handle legal and accounting work.

"We don't want to go too much larger than that, Mr. Cittadino said. "If we get activity that warrants a larger staff we would be inclined to open up another office."

Mr. Cittadino said the office will be staffed by FDIC employees who transfer into the region, local individuals, and others hired from failed banks. He expects it will take three to five years for the office to complete its liquidation assignments. □

How to Thrive With No ATMs

Continued from page 6

Golden West's decision.

"They understood where ATMs would or would not fit in and costed it out," observes Linda Fenner Zimmer, a Connecticut-based researcher. "A lot of banks have no idea what ATMs are costing them."

Joseph A. Jolson, a thrift analyst with Montgomery Securities, notes that even without electronic tellers, Golden West's deposits have grown faster than the industry average in the last year. In the 12 months ending March 31, the company's deposits grew 14.3%, compared with 11.8% for H.F. Ahmanson & Co. and 8.9% for Great Western Financial Co., both ATM providers.

"Golden West has been gaining market share without ATMs," Mr. Jolson says.

Strategy Questioned

But some rivals question whether Golden West is being short-sighted by refusing to install ATMs.

They note that older customers increasingly are accepting electronic banking. At the same time, prime ATM users are moving into the age and income brackets Golden West wants.

Golden West managers do not disagree. In fact, they have hedged their bets: all new branches are wired for electronic tellers.

"We've been continuously evaluating this for 10 years," says James T. Judd, senior executive vice president and chief operating officer. "From a total company systems point-of-view, we're not quite ready."

> Some rivals question whether Golden West is being short-sighted by refusing to install ATMs.

But, says Mr. Judd: "If people using them now became a bigger part of our marketplace, if the cost of the equipment were to dramatically go down, if it could be serviced easier, if everybody who used [ATMs] were willing to pay . . . These are the things one would have to ask oneself." □

U.S. Savings Bonds
The Great American Investment

Chase, Met Life Officers Join Planning Institute

WASHINGTON – James F. Murray and Glen E. Coverdale have been appointed trustees of the Urban Land Institute, an organization dedicated to improving the quality of land-use planning and real estate development.

Each will serve a three-year term.

Mr. Murray is executive vice president, real estate, of Chase Manhattan Bank, New York; Mr. Coverdale is executive vice president and member of the corporate management office of Metropolitan Life InsuranceCo., New York. □

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Midwest Banks in Slight Decline

Continued from page 2

for the rest of the year are for continued growth in jobs and wages, although at a slower pace. Kemper Financial Services Inc. economist John E. Silvia, said in a recent report that the relative strength of Illinois' export-manufacturing sector contributed to the state's falling unemployment rate.

Mr. Silvia's comments are echoed by the Federal Reserve Board outlook, a prediction that demand from abroad is likely to support continued growth in the nation's jobs and production.

There are also signs that the interest margin picture may improve. Although short-term rates are drifting downward; analysts said, money-center banks are not anxious to cut their prime lending rates.

Excitement at Continental

Among the region's biggest bank companies, Continental Bank Corp., with a $57 million loss, provided a full measure of excitement in the quarter. Just as the quarter was closing, it announced it was laying off 900 employees and taking a $50 million charge against earnings. Then, less than a week before it reported, Continental said it was doubling its domestic nonperforming loans.

While the company said the one-time charge was the major factor in the loss, it also reported a $21 million loss on the sale of government securities, only partly offset by a gain on the sale of real estate.

Big drops in earnings were also reported at First Chicago Corp. and Minneapolis-based First Bank System Inc.

First Chicago blamed its 35% decline on a larger provision for loan losses, a big jump in nonin-

> "Overall, a pretty boring quarter, but boring is good these days. Excitement is usually bad news."
>
> **Kenneth F. Puglisi**
> *Keefe, Bruyette & Woods Inc.*

terest expenses, and a decline in foreign exchange trading profits. First Bank System said its 43% drop was due to a higher provision for loan losses and declines in net interest income and noninterest income.

Outstanding Results at Norwest

The standout on the plus side was Minneapolis-based Norwest Corp., which reported a 12% increase due to strong results from consumer lending and fee generating businesses.

Banc One Corp., Columbus, Ohio, reported a 14% increase. The rise was due chiefly to added earnings from Banc One Texas, acquired last year, which more than offset increases in nonperforming loans and provision for credit losses. Without the Texas earnings, results were flat with the year-earlier quarter.

Society Corp., Cleveland, earned $39.9 million compared with $28.69 million a year earlier. The latest period includes the results of Toledo-based Trustcorp, which Society acquired earlier this year. Trustcorp reported a loss of $88.6 million in the 1989 quarter; if Society had owned Trustcorp then, the bank said it would have reported a loss of $59.9 million.

Midsize Bank Results

Among midsize banks, higher provisions for loan losses reduced earnings at INB Financial Corp. and Merchants National Corp., both Indianapolis; Michigan National Corp., Farmington Hills, Mich.; Ameritrust, Cleveland; and Marshall & Ilsley Corp., Milwaukee.

At Harris Bank Corp., Chicago, a subsidiary of Bank of Montreal, earnings plunged because of a $16 million charge to cover tariff cuts.

Strong performances were recorded at Fifth Third Bancorp, Cincinnati, where earnings rose 7%, and at Mercantile Bancorp, St. Louis, where profit doubled due to a halving of its loan-loss provision. □

DC Bank Fined for Money Laundering

Continued from page 2

more than $10,000.

Banks are allowed to exempt certain customers, such as supermarkets, which frequently make large cash transactions, said Lawrence Batdorf, a Treasury spokesman.

The Washington bank, however, was making exemptions not allowed by Treasury, Mr. Batdorf said.

The bank's system for recording required information about customers making larger than $10,000 transactions was not consistently used, said Mr. Batdorf.

Banks Fined in Past

Although it comes nowhere near the $4.7 million fine in 1986 against the Bank of America for money laundering charges, the penalty against NBW is among the largest the Treasury has assessed, said Mr. Batdorf. In one of the largest recent assessments for faulty transaction reporting, Bank Leumi Trust Co., a New York subsidiary of Bank Leumi of Israel, pleaded guilty to Bank Secrecy Act charges late least year and paid $533,000 in civil and criminal penalties.

National Bank of Washington, a subsidiary of Washington Bancorp., in 1986 had been warned and cited for other instances of having improperly exempted transactions from reporting.

The earlier violation did not result in a fine.

"Despite an earlier warning by Treasury and the involvement of its former senior vice president in money laundering, NBW continued to rely on a woefully inadequate Bank Secrecy Act compliance program which, led to a number of violations and created a situation ripe for money laundering," said Treasury Assistant Secretay Peter K. Nunez in a statement. □

Valley Federal Savings Closing Three Offices

VAN NUYS, Calif. — Valley Federal Savings and Loan Association said it will close three offices and transfer their business to three existing locations in the San Joaquin Valley.

"These consolidations are consistent with our goal of increasing efficiency and overall cost-effectiveness of Valley Federal's operation without sacrificing customer service," said Scott A. Braly, president and chief executive officer.

"We are sensitive to what this consolidation means to our employees, and we believe these consolidations will be effected with minimum disruptions," he said. □

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LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Merrill Lynch Capital Markets.

	8/9 Bid	8/9 Offer	8/2 Bid	8/2 Offer
Algeria	80.00	82.00	80.00	82.00
Argentina	14.50	15.00	14.00	14.50
Bolivia	11.00	12.00	11.00	12.00
Brazil	20.00	20.50	20.38	20.88
Chile	70.50	71.00	70.00	70.50
Colombia	63.25	66.00	63.25	66.00
Costa Rica series A	37.00	39.00	37.00	39.00
Costa Rica series B	30.00	32.00	30.00	32.00
Dominican Republic	17.00	18.00	17.00	18.00
Ecuador	16.25	16.75	16.25	16.75
Honduras	18.00	20.00	18.00	20.00
Ivory Coast	6.00	8.00	6.00	8.00
Jamaica	40.00	42.00	40.00	42.00
Mexico (par)	44.13	44.63	43.25	43.63
Mexico (discount)	65.00	65.50	64.50	65.00
Morocco	49.00	49.50	44.25	44.75
Nicaragua	4.00	6.00	4.00	6.00
Nigeria	28.50	29.50	29.00	29.50
Panama	12.00	13.00	12.00	13.00
Peru	4.00	5.00	4.75	6.00
Philippines	50.00	50.50	47.00	48.00
Poland	16.75	17.25	16.00	16.50
Senegal	36.00	38.00	36.00	38.00
South Africa	69.50	70.00	69.50	70.00
Sudan	4.00	6.00	4.00	6.00
Uruguay	49.25	50.00	49.25	50.00
Venezuela	47.00	47.50	46.13	46.75
Yugoslavia	61.25	61.75	62.00	62.50
Zaire	19.00	21.00	19.00	21.00

Source: *LDC Debt Report*

Japan's Banks Shun New Loans In Venezuela Debt Negotiations

TOKYO — Few Japanese banks will opt for new lending under a Venezuelan debt relief package, bankers here said. Rather, most will choose options that effectively reduce Venezuela's debt burden.

"We will avoid new lending to Venezuela, as we do not want to increase Venezuelan debt exposure any more," said one banker. "But we will probably choose one of the other options anyway."

The Venezuelan debt package, aimed at helping to cut part of that country's $20.5 billion in commercial bank debt, offers five options. Banks have been asked to reply by Wednesday.

Objectives May Differ

Bankers said some smaller Japanese banks might want to get rid of all of their Venezuelan debt this time, while others still want to maintain a certain level of exposure.

But some bankers said rising oil prices, triggered by Iraq's invasion of Kuwait, could affect banks' last minute decisions by encouraging more banks to seek business ties with Venezuela.

"Venezuela's status as a big oil-producing country has been raised following the Iraqi invasion. This may make some banks more positive toward Venezuela," said a manager at a leading Tokyo bank.

Five Options Available

The package allows banks to choose among five options – new money; exchange of debt for 30-year Venezuelan bonds at a reduced interest rate (fixed 6.75%) or reduced principal (70% of face value); exchange of debt for "step-up" bonds (with a 17-year maturity and gradually rising yields); and debt repurchase at a 55% discount.

Bankers said that among Japanese creditor banks, the trust, long-term, and regional banks are likely to opt for debt repurchase, as their outstanding loans are not as large as those of city banks.

But city banks are expected to choose mostly interest-rate-reduction bonds. — *LDC Debt Report*

Top Japanese Banks Downgraded

Moody's Bounces Dai-Ichi and Fuji from Aaa Rank

By JAMES R. KRAUS

Japan's Dai-Ichi Kangyo Bank Ltd. and Fuji Bank Ltd., the world's biggest and third-biggest banks measured by assets, have lost their Aaa debt ratings with Moody's Investors Service Inc.

Monday the agency cut the long-term ratings of both Dai-Ichi Kangyo and Fuji to Aa1.

No Change for Short-Term Debt

The downgrading affects $2 billion in Fuji's long-term outstanding debt and $1.5 billion in long-term debt at Dai-Ichi Kangyo. The agency maintained both banks' short-term debt rating at Prime-1.

The downgrading leaves only three of Japan's big commercial banks with a triple-A rating. They are Mitsubishi Bank, Sumitomo Bank, and Industrial Bank of Japan.

Masaru Kakutani, associate director at Moody's in New York, said that Fuji's and Dai-ichi Kangyo's exposure to real estate lending and highly leveraged transactions as well as higher funding costs in Japan had created long-term uncertainty for both banks.

"We see some risk, but we don't really know whether they will be serious over the next few years," Mr. Kakutani said.

The recent fall in prices on the Tokyo stock exchange is also forcing the two banks and others to use more expensive subordinated bonds, he added.

1% Dividend Is Typical

Most Japanese banks pay an annual dividend of about 1%. That compares with 6% to 7% annual interest they have to pay on the subordinated bonds that they issue.

"We highly regret this decision, which we believe does not accurately reflect the bank's state of affairs," Dai-Ichi Kangyo said Monday in a statement.

A spokesman for Fuji Bank in New York declined to comment on the downgrading. □

Oil Price Rise May Stall East Europe Debt Payments

By JOHN EVANS

Price increases for oil and gold are "bound to improve the Soviet Union's position."
William Newman *Narodny Bank*

LONDON — The sharp rise in oil prices caused by tensions in the Persian Gulf could reduce the ability of Eastern European countries to repay loans and hamper their economic reforms, bankers and analysts said.

But the Arabian crisis could prove to be a boon for the Soviet Union, the experts said.

David Roche, an East Europe specialist at Morgan Stanley International Ltd. in London, said Soviet oil supplies were being reduced in Eastern Europe and "there is hardly enough hard currency to fund replacement purchases from the West."

Servicing Difficult

This will make Eastern Europe's hard currency debts even more difficult to service, notably in the case of Hungary, Bulgaria, and Poland, he said.

"Even in Germany," he said, "higher oil prices will substantially raise the cost of unity by making the energy-inefficient East German economy fail even more dramatically."

Morgan Stanley estimates that $30-a-barrel oil will absorb 20% of Hungary's hard currency income, 33% of Poland's, 90% of Czechoslovakia's, and more than 100% of Bulgaria's.

At the Soviet-owned Moscow Narodny Bank Ltd. in London, assistant general manager William Newman said the Soviet Union would be a "windfall" gainer from the soaring oil price, which might helpit overcome recent problems in meeting hard currency payments on its gross $52 billion of debt. "The increase in the price of oil and the associated gain in the price of gold because of Middle East tension are bound to improve the Soviet Union's position."

As of the beginning of next year, the Soviet Union will charge its former East European allies in convertible currency such as U.S. dollars for the imports of Russian oil, which they formerly enjoyed at highly subsidized rates, he noted.

Hungary has foreign debt of $20.7 billion, of which $12 billion is owed to Western and Japanese banks. Economists say its cushion of reserves is small.

Bad News for Hungary

At Moody's Investors Service, analyst David H. Levey said Hungary's international payments position would worsen as a result of oil price hikes and Soviet demands for hard currency for energy exports. "They are skating on the edge," said Mr. Levey, an assistant vice president. "I won't go as far as to predict rescheduling . . . but the country will probably need some form of debt relief. It has little financial flexibility."

The picture for other East bloc economies, according to a survey, is as follows:

- For Yugoslavia, which owes $20.5 billion, the higher oil price will have an adverse impact on the nation's reform program, may spark new inflation, and disrupt management of its external debt, economists agree.
- Poland, with a total of $39.5 billion in debts, will be badly affected. "Just as it's climbing back on its feet, it will be knocked off course again," one economist said. Western banks are owed $10.3 billion.
- Czechoslovakia, which owes $7.9 billion, may find higher oil prices "manageable." But the nation, which owes overseas banks $5.2 billion with foreign deposits of $2.2 billion, will be knocked off course.
- East Germany, with $20.5 billion of debts but a healthy $17 billion of reserves, is partly protected by impending unification with its Western neighbor.
- Rumania, which has oil production capacity and little foreign debt, should escape relatively unscathed. □

Key International Rates*

	Day-to-day money		3-mo. interbank			6-mo. interbank			Discount rate			Prime-equivalent		
	8/13	8/10	8/9	8/13	8/10	8/9	8/13	8/10	8/9	8/13	8/10	8/9	8/13	8/10	8/9
United States	8.12	8.12	8.00	8.00	8.00	7.94	8.00	8.00	7.94	7.00	7.00	10.00	10.00	10.00	10.00
Japan	7.43	7.40	7.38	7.87	7.94	7.88	8.00	7.93	7.94	5.25	5.25	7.13	7.13	7.13	7.13
Canada	11.50	13.00	13.38	13.06	13.12	13.18	12.82	12.68	12.82	13.34	13.34	13.41	14.75	14.75	14.75
U.K.	15.06	15.06	15.00	15.06	15.06	15.06	14.93	14.93	15.00	# NA	14.33	14.34	15.00	15.00	15.00
West Germany	8.12	8.06	8.13	8.50	8.50	8.56	8.75	8.75	8.75	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.31	8.43	9.13	9.12	9.06	9.25	9.18	9.12	9.75	6.00	6.00	6.00	10.88	10.88	10.88
France	10.00	9.62	9.75	9.62	10.12	10.07	10.00	10.25	10.13	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.25	11.00	11.50	11.68	11.62	11.50	11.93	11.87	11.56	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	7.80	14.50	8.75	6.02	7.98
6 to 12 months	7.97	13.52	8.99	6.45	8.07
12 to 24 months	8.01	12.09	8.12	7.67	7.85

*Midday quotes in the New York market

Source: Nomen, Astley & Pearce Inc., New York.

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INDEX *of top stories*

The following is a selective index, arranged by subject, of the top articles in *American Banker* last week. The date of appearance precedes each item. This column was compiled by Matt Barthel.

COMMENTARY

8/6 Never mind interest rate risk and credit risk – now banks have to contend with "covariance risk" and "career risk," writes Paul Nadler. *Page 4*

8/7 By persistently demanding that banks operate with ever higher ratios of capital to assets, the regulators may end up doing a disservice to the industry, to the country, and to themselves, writes Sanford Rose. *Page 1*

8/8 For consumers and financial institutions alike, ATM duality is an idea whose time has come, says John O. Smith. *Page 4*

COMMERCIAL LENDING

8/6 Moving to resolve a thorny legal controversy, the Environmental Protection Agency said it plans to revise the Superfund rules by yearend to clarify lenders' liability for cleaning up toxic wastes on foreclosed properties. *Page 1*

8/7 At a time when banks are at least paying lip service to relationship banking, their interest in securitization could endanger the relationships that have always driven middle-market lending. *Page 1*

8/8 Just when corporate bankers were sensing that deals were reappearing and lending spigots might open again, the crisis in the Middle East has put hopes of a loan revival on hold. *Page 1*

8/10 The day of reckoning is rapidly approaching for many companies that used interest-deferred securities to finance recapitalizations or leveraged buyouts. For banks, that will provide both opportunities and dangers. *Page 1*

COMMERCIAL REAL ESTATE

8/7 The bottom fell out of the real estate portfolios of the nation's largest banks in the first half as the banks racked up massive nonperforming loans. *Page 8*

8/10 The $33 million secondquarter loss posted by Bank of New England Corp. did not conclusively signal whether the deeply troubled institution can rebound from staggering real estate loan problems. But it is looking as if the third quarter could be decisive. *Page 1*

8/10 The commercial banking industry does not need forbearance from regulators, but it does require "a little breathing room" to adjust to the softening real estate markets, a prominent bank stock analyst told a House panel. *Page 1*

CONSUMER SERVICES

8/6 Mortgage originations at H.F. Ahmanson were $6.9 billion in the first half, up 42% from a year earlier. *Page 9*

8/6 Some private lenders have stopped disbursing student loans guaranteed by the Higher Education Assistance Fund, pending resolution of financial problems facing the agency. *Page 2*

8/7 Valley Bank of Nevada's application to accept ATM cards bearing the Cirrus logo could touch off another round of lawsuits in an industry already jittery over antitrust litigation. *Page 6*

8/8 The turmoil in the Middle East, the rapid rise in oil prices, and sharp declines in stock and bond prices have added new elements of danger to an already soft consumer lending market. *Page 1*

8/8 In an effort to tighten loan underwriting procedures, many private banks are revising their financial disclosure forms to place more emphasis on cash flow. *Page 6*

8/9 In yet another bond between the bank card and telephone industries, Comerica Inc. and U S West Inc. have struck a deal that could allow all MasterCard and Visa cards to be used as calling cards. *Page 1*

8/9 Boatmen's Bancshares has abandoned conventional wisdom market research and is instead using media campaigns to ask people what, exactly, they want in a bank. *Page 8*

8/10 A handful of big banks will announce nationwide ATM machine cards bearing the logos of either Cirrus or Plus when the networks begin sharing ATMs on Aug. 20. *Page 8*

CREDIT CARDS / POINT OF SALE

8/9 In yet another bond between the bank card and telephone industries, Comerica Inc. and U S West Inc. have struck a deal that could allow all MasterCard and Visa cards to be used as calling cards. *Page 1*

DEPOSIT INSURANCE

8/10 Following hints from Federal Deposit Insurance Corp. Chairman L. William Seidman that banks' premiums could go higher than expected next year, several industry analysts now say the industry should expect a substantial increase – perhaps approaching the FDIC's legal limit of 19.5 cents for each $100 of insured deposits. *Page 1*

EARNINGS

8/6 Bank of New England Corp. lost $33 million in the second quarter as asset quality continued to deteriorate in a declining regional economy. *Page 2*

8/8 Rising oil prices are likely to worsen a perceived credit crunch and further depress bank earnings, according to industry experts. *Page 1*

8/9 Credit quality concerns and slumping real estate markets overshadowed the results at Southeastern banks in the second quarter. *Page 2*

8/10 The $33 million secondquarter loss posted by Bank of New England Corp. did not conclusively signal whether the deeply troubled institution can rebound from staggering real estate loan problems. But it is looking as if the third quarter could be decisive. *Page 1*

FINANCE

8/6 Just a year ago, HomeFed Corp. was a darling of savings and loan investors. But suddenly, chairman and chief executive Robert F. Adelizzi is fighting for the survival of his thrift. *Page 1*

8/6 The stock market sold off sharply on Friday amid fears about the economic impact of turmoil in the Middle East, helping to push bank and thrift stocks to new lows at the end of their worst trading week of the year. *Page 1*

8/6 As banks find it more difficult to raise capital, the gap between the haves and the havenots grows wider. *Page 20*

8/7 In its first move to boost capital and liquidity since disappointing second-quarter results prompted funding difficulties, MNC Financial Inc. said that it will privately place $180 million of preferred stock with an already powerful member of its board of directors. *Page 1*

8/7 Major bank and thrift stocks fell sharply Monday as heavy across-the-board selling continued. *Page 20*

8/8 Citing the Mideast crisis as justification, the union group seeking to buy UAL Corp. will ask for another 30 to 90 days to obtain financing for the proposed $4.4 billion buyout, a banking source reported. *Page 30*

8/8 Bank of New York Co. said it is closing its BNY Securities unit, a primary dealer of U.S. government securities, because of unsatisfactory profits. *Page 2*

8/9 A huge, unprecedented gap has opened between bank equities and most other stocks during the past two days. *Page 24*

8/10 Wilmington Trust has stayed several steps ahead of the industry, bucking the downward trend among East Coast bank stocks. *Page 16*

8/10 R.H. Macy selected Manufacturers Hanover Real Estate to arrange a mortgage on several warehouses and distribution buildings. The proceeds will be used to reduce bank debt. *Page 16*

HOME MORTGAGES

8/6 Mortgage originations at H.F. Ahmanson were $6.9 billion in the first half, up 42% from a year earlier. *Page 8*

8/8 Fannie Mae and Mortgage-Power system, which lets borrowers collect bids for entering borrowers to the bank, is eliciting a chorus of protest in Washington. *Page 6*

INTERNATIONAL

8/6 The stock market sold off sharply on Friday amid fears about the economic impact of turmoil in the Middle East, helping to push bank and thrift stocks to new lows at the end of their worst trading week of the year. *Page 1*

8/6 Responding to an unclear presidential decree on Thursday, banks froze assets and asked questions later about accounts linked to the Kuwaiti and Iraqi governments. *Page 1*

8/6 Barclays Bank is the latest large British institution to report weak earnings. *Page 12*

8/7 Amid confusion over the terms of a freeze on Kuwait's assets, First National Bank of Chicago blocked and then released a $111 million payment to a Kuwaiti bank. *Page 12*

8/8 Rising oil prices are likely to worsen a perceived credit crunch and further depress bank earnings, according to industry experts. *Page 1*

8/8 Just when corporate bankers were sensing that deals were reappearing and lending spigots might open again, the crisis in the Middle East has put hopes of a loan revival on hold. *Page 1*

8/8 The sharp rise in oil prices since Iraq invaded Kuwait has strengthened economic prospects for oil-producing developing countries, but the crisis could have severe implications for Brazil. *Page 1*

8/8 The turmoil in the Middle East, the rapid rise in oil prices, and sharp declines in stock and bond prices have added new elements of danger to an already soft consumer lending market. *Page 1*

8/8 A former officer at the Atlanta branch of Italy's Banca Nazionale del Lavoro tells the inside story of its secret loans to Iraq. *Page 2*

8/8 U.S. bank branches in Britain are getting conflicting instructions from the U.S. Treasury and the Bank of England on the freezing of Kuwaiti assets. *Page 20*

8/8 Union Bank of Switzerland, one of the largest banks in the world, is making inroads into the private banking market in the United States. *Page 18*

8/9 Amid worries overseas about the health of U.S. banking, at least four U.S. dealers halted all trading here in the subordinated debt and floating-rate notes of U.S. banks issued in the international bond markets, London-based sources said. *Page 1*

8/9 Yutaka Hasegawa, general manager of the New York branch of Mitsubishi Bank, is urging better communications between Japanese and Americans. *Page 14*

8/10 Argentina will try harder to privatize state-owned companies to improve its finances and help pay its commercial bank debt. *Page 10*

LEGAL CRIME

8/6 Responding to an unclear presidential decree on Thursday, banks froze assets and asked questions later about accounts linked to the Kuwaiti and Iraqi governments. *Page 1*

8/7 James M. Fail defended himself against charges that he misled regulators about his plan to acquire Bluebonnet Savings Bank. *Page 2*

8/8 The Fed's "source of strength" doctrine, which says that bank holding companies must provide capital to troubled subsidiaries, suffered another legal blow. *Page 2*

8/8 A former officer at the Atlanta branch of Italy's Banca Nazionale del Lavoro tells the inside story of its secret loans to Iraq. *Page 2*

8/8 The theft of PCs from Bank of America underscores the need for heightened security as branches install the more expensive machines to replace terminal-based systems. *Page 3*

8/9 The government has lost the first round of a legal battle that could force it to repay billions of dollars to thrifts that are complying with an accounting provision in the 1989 bailout law. *Page 1*

8/10 Stepping up its effort to salvage some cash from the ruins of Lincoln Savings and Loan Association, thrift regulators took action to obtain $40.9 million in restitution from Charles H. Keating Jr. and five former directors of American Continental Corp., Lincoln's Phoenix-based parent. *Page 1*

8/10 The commercial banking industry does not need forbearance from regulators, but it does require "a little breathing room" to adjust to the softening real estate markets, a prominent bank stock analyst told a House panel. *Page 1*

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8/9 Some progressive banks are trying to cut costs by measuring and enhancing the productivity of their officers. *Page 10*

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8/6 Experts say that price of avoiding political controversy in thrift rescues is exceedingly high, and that message came through loud and clear when the Resolution Trust Corp. revealed that it was running out of cash and was stuck with $37 billion of assets left over from 207 thrift rescues. *Page 1*

8/6 Sen. Jake Garn, R-Utah, says he has taken a bum rap for the financial reform legislation that he and former Rep. Fernand St Germain, D-R.I., shepherded through Congress in 1982. *Page 9*

8/7 By persistently demanding that banks operate with ever higher ratios of capital to assets, the regulators may end up doing a disservice to the industry, to the country, and to themselves, writes Sanford Rose. *Page 1*

8/7 Manuel H. Johnson, in his departing remarks as vice chairman of the Federal Reserve Board, said the Fed may move away from the holding company structure that he has advocated. *Page 2*

8/7 James M. Fail defended himself against charges that he misled regulators about his past to acquire Bluebonnet Savings Bank. *Page 2*

8/8 A proposal by the Office of the Comptroller of the Currency to relax some restrictions on trust departments' investment accounts appears likely to smooth the entry of commercial banks into the growth mutual fund business. *Page 1*

8/9 The Federal Reserve's latest report on regional economic conditions provided more evidence that much of the U.S. is entering a recession. *Page 1*

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"Yesterday's UAL sell-off in New York Stock Exchange composite trading began after the American Banker, a financial newspaper, reported that Citicorp had withdrawn from a group of banks . . ."
—The Wall Street Journal

"The American Banker . . . reported yesterday that representatives from Citicorp and Chase Manhattan had not attended a meeting scheduled last week to discuss possible financing of the takeover . . . That caused speculation that the two banks may be withdrawing . . ."
—The New York Times

"Arbitragers said the report, published in the American Banker's Tuesday edition, raised speculation that Citicorp and Chase Manhattan may be withdrawing . . ."
—Reuter

"Citicorp spokeswoman Holly Cherico and Chase Manhattan spokesman Ken Mills declined to comment on the American Banker report."
—AP




Bankers Seem Skittish on Buyout As Aug. 9 Deadline Nears on UAL

By WILLIAM GOODWIN

Citicorp and Chase Manhattan Corp. representatives stayed away last week from a meeting with banks lined up to finance the union-led buyout of UAL Corp., raising speculation that the two banks have joined Chemical Banking Corp. in balking at the $4.38 billion deal.

Sources said Citicorp has in fact withdrawn from the bank group – at least for the time being – though it was not immediately clear why. A Citicorp spokeswoman declined to comment.

These rumblings come at a time when a spokesman for the union group said it is close to finding an outside investor, which could draw skittish banks back into the deal.

Equity Is Sticking Point

Chemical told the other banks on Friday that it was pulling out because the union group had failed to attract an outside equity investor, a source said. For that reason, Chemical did not attend the Friday meeting of bankers.

Citicorp and Chase Manhattan Corp. also canceled out of the meeting, leaving only Bankers Trust New York Corp. and Manufacturers Hanover Corp.

See **UAL** *page* **18**

this newspaper that Citicorp and Chase were likely to pull out of the deal. The stock was down as $21 before rebounding somewhat late in the day.

The union group proposed to buy the airline holding company in March for $201 a share and securities totaling roughly $4 billion from the banks.

See **CITICORP** *page* **22**

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Look for *"Sound Off"* every Monday on page 4 in the *American Banker.*

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MERGERS ACQUISITIONS

8/7 Banks of Iowa, which recently canceled a nine-year-old agreement to merge into First bank System Inc. of Minneapolis, said that it would instead be acquired by Firstar Corp. *Page 1*

PEOPLE

8/7 Manuel H. Johnson, in his departing remarks as vice chairman of the Federal Reserve Board, said the Fed may move away from the holding company structure that he has advocated. *Page 2*

8/9 Chemical Banking Corp. realigned its senior management structure, giving a younger generation of executives clear mandates for directing the bank's four major business sectors. *Page 1*

8/10 Rex R. Veal, top lawyer at the Resolution Trust Corp., is laying down his guns and going into private practice. *Page 2*

REGIONAL BANKING

8/6 Bank of New England Corp. lost $33 million in the second quarter as asset quality continued to deteriorate and declining regional economy. *Page 2*

SECURITIES

8/7 In its first move to boost capital and liquidity since disappointing second-quarter results prompted funding difficulties, MNC Financial Inc. said that it will privately place $180 million of preferred stock with an allnonthly powerful member of its board of directors. *Page 1*

8/10 The day of reckoning is rapidly approaching for many companies that used interest-deferred securities to finance recapitalizations or leveraged buyouts. For banks, that will present both opportunities and dangers. *Page 1*

TECHNOLOGY

8/6 C&S/Sovran Corp. will turn over processing of its big bank-card operation to Total System Services, Atlanta. *Page 1*

8/7 Geoserve, the wholesale banking arm of Manufacturers Hanover, is creating relational data bases for customer and product information. *Page 3*

8/8 The theft of PCs from Bank of America underscores the need for heightened security as branches install the more expensive machines to replace terminal-based systems. *Page 1*

8/8 Union Bank of Switzerland, one of the largest banks in the world, is making inroads into the private trust market in the United States. *Page 18*

8/9 Banks that plan to install PCs in their branches face the risky decision of which software they should choose to run basic functions. *Page 3*

8/10 SeraTest is upgrading its systems to take advantage of opportunities for low-risk fee income in the trade finance arena. *Page 3*

THRIFTS

8/6 Experts say that price of avoiding political controversy in thrift rescues is exceedingly high, and that message came through loud and clear when the Resolution Trust Corp. revealed that it was running out of cash and was stuck with $37 billion of assets left over from 207 thrift rescues. *Page 1*

8/6 Just a year ago, HomeFed Corp. was a darling of savings and loan investors. But suddenly, chairman and chief executive Robert F. Adelizi is fighting for the survival of his thrift. *Page 1*

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E.F. Pazio Auct'r Lic #798972 Sells on 08/29/90 9 AM At 290 Drake Ave, New Rochelle, '81 Carver 32ft #C2CR390303181 Inc. S. Mitchell, '86 Thompson 25ft #TM5S2470T686/NY94765PK Rt. G. Capello, 10 AM at 3909 Pitcoust Ave, Bx, '84 Honda #1HGAH2256EA045448 Rt. L. A. Hassinger; 10:30 AM at 1828 Webster Ave, Bx, '82 Chevy #2G1AW35E1C1421468 Rt. W. S. Kersey, '83 Chevy #1G1AW19R3DX6855830 Rt. T. J. Marino, '87 Nissan #1N4PB22S9HC835534 Rt. S. Bowen, '89 Ford #1FAFP37X5KK183049 Rt. A. Joyce, '88 Mercury #1ME8M6049H6169350 Rt. D. Talento, '77 Ford #7F03F127272 Rt. D. Lyons, '84 Datsun #JN1PB11S3EU603462 Rt. F. Hernandez &/Or Lessors, 12:30 PM at 131-41 Sanford Ave, Qns '79 Ford #9F02Y255887 Rt. S. A. Powell; 1 PM at 47-01 Kissena Blvd., Qns '84 Olds #1G3AM19W7ED316539 Rt. D. S. Kim; 2:30 PM at 471 Baltic St, Bklyn, '87 Chevy #1G1BN51J2HR194448 Rt. P. Perrone; 3 PM at 279-81 Scholes St, Bklyn, '83 Olds #1G3AJ27R9DD310597 Rt. G. Arnold, Jr.; 3:30 PM at 276 7th Ave, NYC '88 BMW #WBAAB6401EJ010448 Rt. C. G. CIO; 4 PM at 516 West 27th St, NYC, '86 Jeep #1JCWC7822GT186096 Rt. Progressive INS, '87 Lincoln #1MRBP98F8EY625431 Rt. I. Perez; 4:30 PM at 500 East 30th St, NYC, '88 Ford #KNJBT06K5J6410773 Rt. K. Roger; Published 8/14 & 8/21/90.

E.F. Pazio Auct'r Lic #798972 Sells on 08/22/90 9 AM At 1165 Ogden Ave Bxs '77 Olds #3J57R7G132198 Rt: C.S. Goldman; 9:30 AM At 3645 Dyre Ave Bxs '85 Buick #1G4AH19R0FT411672 Rt. S. D. Johnson, '89 Dodge #2B7HB21Y7KK365189 Rt: W. Cheng; 10 AM at 1840 East Tremont Ave Bxs '89 Jaguarsic, 1 PM at 382 Kennan Ave Bklyn, '73 Chevy #1H57H3B516012 Rt: E. Marshall; 1:30 PM at 5714 Clarendon Road Bklyn '77 Ford #F25HEY20279 Rt: C. J. Provenzano, Jr.; 2 PM at 259 58th St Bklyn '87 Chevy #1G1GG11G7HP110356 Rt: EDS, '80 Peugeot #551AA5114704 Rt: D. Sanchez; 2:30 PM at 265 58th St Bklyn '80 Mazda #SA22C623158 Rt: J. Fernando; 3 PM at 468 Rodney St Bklyn '91 Plymouth # 1P3BM44B8CD156650 Rt: D. K. Perrone; 3:30 PM at 352 West 24th St NYC '81 Pontiac #1G2AA54X4B7106653 Rt: T. D. John; 4 PM at 2 West End Ave, NYC '88 Mitsubishi #JA3HB46A8JU021487 Rt: C. Ng; 4:30 PM at 276 7th Ave NYC '73 Olds #1070441202523502 Rt: A. S. Ciriano. Published 08/07 & 8/14/90.

LIEN SALE: FRANK E. SEIPP, Auctioneer Sells Aug. 24, 1990 at 1 PM at 284 Ave. X, Brooklyn, N.Y. Fixtures & Equipment for the acccupt of Ro-Sal Restaurant Inc., Auct'r as Agent for the Camille Lombardi & Elizabeth Tucci Lienors who reserve the right to bid &/or purchase. Auct'rs DCA #732234.

Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX THE GREEN POINT SAVINGS BANK, Plaintiff against AIDA MARTINEZ et al Defendant(s). Pursuant to a judgment of foreclosure and sale entered herein and dated July 6, 1990, I, the undersigned Referee will sell at public auction in Part 11H, Room 711, 851 Grand Concourse, Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises beginning at a point on the south side of Watson Avenue, 150 feet westerly from the corner formed by the intersection of the southerly side of Watson Avenue and the easterly side of Virginia Avenue, being a plot 103.06 feet by 25 feet and known as 1946, Watson Avenue, Bronx New York. Approximate amount of lien $214,705.81 plus interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 19198/89. Dated August 14, 1990. Ira Greenberg, Referee, Cullen & Dykman Attorneys for Plaintiff, 233 Seventh Street, Garden City, NY 11530.

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MAGRILL AUCTIONEERS CO., INC., Auctioneers Sells Aug. 24, 1990 at 1 PM at Gen Pawnbrokers Corp. 378 Schemerhorn St., Bklyn to Sell All Unredeemed Pledges From D92280 &/4/80 To 2/24/78 1/5/89. Of Watches, Jewelry, Etc. On August 15th At 9 A.M. At Gem Pawnbrokers Corporation, At 216-15 Jamaica Ave., Queens Village, N.Y.

Ronald Zuas Auct'r Lic #940731 sells 8/28/90 9 AM at 4568 Third Ave Bx, '78 Olds #3L69R8X175573 Rt: J. Reyes, '79 Cadi #6L5R9R659861 Rt: C. Fish & Chemical Bk; '87 Toyota #JT5FJ92K6H7091212 Rt: State Farm; Published 8/14 & 8/21/90.

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DEALS

Guinness Peat Confirms Sale-Leaseback Talks with UAL Buyout Group

By WILLIAM GOODWIN

A Guinness Peat Aviation official confirmed that the company has discussed a sale-leaseback transaction with the unionled UAL Corp. buyout group "in the range of $500 million," but added that Guinness Peat has had virtually no contact with the group for several weeks.

Colm Barrington, chief executive of GPA Capital in New York, denied persistent reports that the aircraft leasing firm has discussed providing equity or on-balance-sheet debt financing for the proposed $4.4 billion buyout.

Mr. Barrington also denied that GPA has signed a letter of intent to provide financing.

Mr. Barrington added, though, that GPA remains interested in a sale-leaseback deal with the buyout group.

"There's a lot of good equipment in UAL – it's one of their greatest assets."

Colm Barrington *GPA Capital*

"There's a lot of good equipment in UAL – it's one of their greatest assets," Mr. Barrington said. UAL owns a much higher percentage of its aircraft than most of its airline peers.

Market rumors continued to circulate Monday that the buyout group had obtained letters of intent from a number of financing sources, including five banks, ahead of last week's meeting with the UAL board of directors.

In addition to the buyout group's lead banks – Bankers Trust Co., Manufacturers Hanover Trust Co., and Security Pacific National Bank – the other banks rumored to have provided letters of intent are Long-Term Credit Bank of Japan and Bank of America.

Syndication Remains an Issue

In the case of Bank of America, a well-placed banking source said the California bank did not sign a letter of intent, but would be interested in participating in the transaction if it can be satisfied about the ability to syndicate the loans. Long-Term Credit bank officials did not return calls by press time.

An official with one of the three lead banks working on the buyout financing said the group continues to be on structuring a deal that will appeal to the broad bank syndicate market.

Need for 'Credible Case'

"We've got to come up with a credible case people can understand and buy into," the official said.

"That's what's going on right now," he added.

No matter how well the deal is structured, though, syndicate officials at several banks said it will be tough to sell the deal following the collapse of Citibank, Chase Manhattan Bank and Chemical Bank. □

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Highlights for Monday, August 13

TOP 10 GAINERS %

Riggs National Corporation	13.5
Provident Bankshares Corp.	8.7
UJB Financial Corp.	6.5
First Security Corporation	6.3
Trustmark Corporation	5.8
MidAmerica Bancorp	5.6
UST Corp.	4.5
La Jolla Bancorp	4.0
Trust Co. Bank Corp NY	3.5
Citizens Banking Corporation	3.5

TOP 10 LOSERS %

Merchants Bank of New York	-8.3
Evergreen Bancorp, Inc.	-6.1
Banks of Iowa, Inc.	-6.0
F & M National Corporation	-5.8
National Bancorp of Alaska	-5.7
Lake Shore Bancorp., Inc.	-5.1
Planters Corporation	-5.1
Bank of New England Corp.	-4.8
Citizens First Bancorp, Inc.	-4.6
Summit Bancorporation	-4.6

MOST SHARES TRADED

Citicorp	1117200
Chase Manhattan Corporation	665100
BankAmerica Corporation	440100
First Chicago Corporation	425800
Bank of Boston Corporation	379300

VOLUME AS % OF AVERAGE

Imperial Bancorp	497.3
First Security Financial Corp.	407.7
Mark Twain Bancshares, Inc.	399.9
Bancorp Hawaii Inc.	385.7
Wilmington Trust Company	353.4

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively.

Dow Jones Industrial Average			American Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
1.11	1.12	-7.83	0.36	2.12	-10.59	-0.65	1.34	-18.45

Capital Holding Gets Credit Line For $450 Million

By STEPHEN KLEGGE

Credit Suisse First Boston Ltd. has arranged a $450 million line of credit, good for five years, for Capital Holding Corp. a Louisville, Ky., insurance organization with $15.4 billion of assets.

The fast-growing company's $750 million in credit lines, which initially was opened in 1986 by a group dominated by U.S. banks, are "a backup for our commercial paper program," treasurer Barbara J. Laski said. She said she would be surprised if Capital Holdings has to tap the lines .

Ms. Laski said Capital Holdings has similar arrangements from other insurance companies by functioning as a financial intermediary. "We don't take credit risk," she said.

Margaret Alexandre, analyst for Salomon Brothers Inc., said an accumulation and investment group and a credit card and consumer lending division, are among its fastest-growing units.

"We view the lines as a fair price for a safety net," Ms. Laski said, noting that Capital Holding pays an annual fee to the bank groups to keep the lines open.

Participants in the new syndicated facility include Credit Suisse, Australia and New Zealand Bank, Bayerische Vereinsbank, Credit Lyonnais, Dai-Ichi Kangyo Bank, Mitsui Taiyo Kobe Bank, Royal Bank of Canada, Sanwa Bank, Algemene Bank Nederland, Bank of China, Banque Nationale de Paris, BHF-Bank, Canadian Imperial Bank of Commerce, Deutsche Bank, Sumitomo Bank, Swiss Bank Corp., and Westpac Banking. □

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to-bk	Cls.	Chg.
24¾	18¼	1stSourceCorp/IN	6.3	96.7	19	-¼
14¾	10¼	AffiliatedInvstrs CO	15.8	64.6	11⅝	…
28⅜	20	AmericanBkInc/MD	7.7	60.5	20	+⅛
19¾	12¼	AmoreInFnl.L	8.1	82.7	14	-⅛
23¾	14¾	AmeritrustCorp/OH	24.6	81.8	14½	-⅛
22⅞	18½	AssociatedBanc-WI	8.6	118.2	18¾	-⅛
24⅝	18	BB&T Fincorp/NC	8.6	110.4	18¾	…
15¾	8¾	BaltimoreBancMD	6.5	46.3	8¾	…
49⅜	36½	BankFirst/WI	13.9	149.4	44	…
33½	26	BancOne/Corp OH	10.5	163.2	28	-¼
26	17⅜	BancorpHawaii/HI	6.0	90.8	18	-⅛
56¾	42	BancorpHawaii-wi	8.2	137.1	42¾	-¼
14¼	8	BancorpWestAZ/AZ	6.9	47.8	8¾	…
36¼	21⅜	BankAmericaCorp/CA	4.9	93.1	23½	¼
24	17⅜	BankAmericaCorp/DE	13.2	83.2	21¼	…
23¾	21¼	BankNewEngland-MA	NM	50.0	21¾	…
14¾	8	BankNorthGrp/Cal	6.9	37.6	12⅝	…
57⅝	35	BankersTrust/NY	NM	132.4	36¼	⅛
21⅝	10¾	BankAtlantic/FL	5.0	54.4	10¾	…
29⅜	10¼	BanksNorth-MI	NM	39.2	10¼	…
15¾	12¼	BanksOfIowa-IA	NM	46.2	12¼	…
12	8	BarnwldAnne-OK	NM	47.3	8	…
92⅜	63	BarnettBanks/FL	NM	99.2	63	-¼
39¾	27¾	BarnettBanks/wi FL	8.6	100.4	27⅝	-⅛
56¼	37¼	BayBanks-MA	9.6	106.3	37¼	-⅛
36¾	28½	BoatmenBcshrs-MO	7.6	89.0	29¾	…
16¾	12¼	BrenhamBancsh-IL	7.8	105.0	16	…
16¾	12¼	BrenhamBancsh-IL	7.5	102.8	14½	…
45⅜	34¼	BkNewYork/NY	9.4	218.3	35¾	…
22¾	15¼	CCB Corp/IN	6.3	89.3	15¾	…
22⅜	18¾	CNB Corp/IN	8.9	119.9	20¾	…
27	20¾	CPB Inc./IL	10.2	145.7	21¼	…
28	12⅜	CVB Fin'Corp/CA	7.5	218.3	12¾	…
30¾	17	CalFed/Beal CA	6.7	138.0	19	…
16¼	12⅜	CentralBcshrs-AL	7.8	91.5	13⅜	…
16¾	12¼	CentralBcshrs-IA	8.2	99.4	15¾	…
27	10¾	CentralIowaInv/IA	6.3	97.6	20¾	…
44¾	17¾	CharterMacorp/FL	NM	54.1	18¾	¼
41¼	20¾	ChemicalBanking/NY	NM	89.6	33¾	…
35	29¾	ChemicalFncl/MI	NM	98.6	29¾	…
35¼	18½	Citicorp/NY	NM	78.3	20	…
19¾	15¾	CitizensBancorp-MD	7.1	91.0	16	…
29¾	20¾	CitizensBanking-MI	7.6	72.8	22	…
19¾	15¾	CitizensFirst/MS	7.2	106.2	19	…
34¾	21	CitizensSouthrn-GA	8.4	96.5	21¾	…
27½	15¼	CityNational/CA	8.6	178.4	26¾	…
22½	12⅞	ColoradoNatBksh-CO	36.9	82.8	14¾	…
20¾	15¾	CommBcshrs/KS	8.4	98.1	15¾	…
29¼	21⅛	CommerceBcshrs-MO	6.9	93.3	21¾	…
20⅝	15½	CommerceBcshrs-NJ	7.1	83.3	15½	…
37½	10½	ConsolidatedIn-NJ	6.9	38.6	11¼	¼
28¾	10¾	CorestatesFncl/PA	NM	68.7	10¾	…
49¾	33¾	CoreStatesFnCp/PA	7.3	129.9	34¾	…
14¾	10¾	CrestarFncl Corp/VA	6.6	78.4	10¾	…
18¾	7¾	CullenFrost-TX	39.8	51.7	10¾	…
37¼	26¾	DauphinDeposit-PA	7.8	114.7	27	…
32	21¼	DepositGuaranty-MS	8.0	70.2	22¾	¼
25¾	11⅜	DominionBcshrs-VA	8.7	74.4	11¾	⅛
15¾	3½	EquimarkCorp/IN	NM	26.3	3½	…
21¼	11½	EvergreenBan-WI	5.7	78.7	13½	⅛
15¾	12¼	F & M NatCorp-VA	10.0	153.9	12¾	…
14½	11½	FNB Corp/N	8.0	96.3	11½	…
26	21⅛	FNW Bancorp-IL	10.2	168.6	22	…
29	27¾	FarmersCapital-KY	11.9	118.4	27¾	…
39¾	28¾	FifthThirdBcp-OH	9.9	152.8	28¾	…
38¾	32	FinancialTrust-IN	8.1	134.1	32½	…
51¼	34	FirstSecrtyNE	8.7	90.1	36¼	¼
19¾	15¾	FirstAlabama-AL	8.1	102.5	15¾	…

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to-bk	Cls.	Chg.
24¾	9¾	FirstAmerCorp-TN	NM	57.5	9¾	…
34½	21¼	FirstBancorp/OH	7.4	98.0	22¼	-¼
12¾	10	FirstBankSystem-MN	NM	106.2	13⅜	…
49¾	33¾	FirstChicago-IL	7.2	87.2	34¾	…
39½	33¾	FirstCitizens-VA	7.6	88.2	33¾	…
39½	18	FirstCityBncr-TX	3.3	45.4	21½	-⅛
18¾	11¾	FirstCmtcorp/AL	8.8	106.2	12¾	…
23¾	17¾	FirstCommerce-LA	8.2	92.6	18	…
29¾	21¼	FirstCommerce-NC	8.5	88.7	21¼	…
21¾	17¾	FirstCommerce-AL	9.8	108.2	17¾	…
19¾	15¾	FirstCommercial-AR	7.9	114.8	17¾	…
19¾	14¼	FirstCommunity-IL	11.1	113.6	16¾	…
35½	18¾	FirstEastern/PA	7.1	64.4	19¾	…
72	56½	FirstEmpire-NY	7.7	91.1	57	½
33¾	13¾	FirstFedFin-NJ	NM	70.5	14¾	…
50	39	FirstFederCP/OH	12.2	175.8	39	…
18¾	15¾	FirstFinCpIn/IL	7.1	84.2	15¾	…
36¾	20¾	FirstHawaiian-HI	8.9	183.6	20¾	…
33	24¾	FirstHorizon/TN	9.4	132.2	25¾	…
26½	19	FirstHorizCapA-MI	7.9	121.8	19¼	…
21¾	16¾	FirstHspitlsNJ	4.8	77.4	16¾	…
19¾	12½	FirstSecurity-KY	11.0	100.7	13¾	…
18	12⅜	FirstSecurity-NY	12.5	185.5	14	…
33¾	23¾	FirstSecurity-UT	7.2	75.1	25	…
21¾	15¾	FirstTennessee-TN	8.5	98.7	15¾	…
25⅜	15¾	FirstUnionCorp/NC	6.3	79.4	15¾	…
45⅜	22¾	FirstVirginia-VA	7.4	92.8	42¾	…
45⅜	37¾	FirstWachovia-NC	9.8	148.0	39	-¼
24¾	18¾	FirstatCorp/FL	6.8	108.7	20¾	…
20½	17¼	FirstbankNE-IL	8.3	104.1	17¾	…
55¾	42¾	FleetBostonFin-MA	7.4	92.8	42¾	…
29¾	18	FleetNorstar-RI	12.3	85.9	18	…
19¾	15¾	FortWayneBancp-IN	8.8	115.2	16¾	…
28	20¾	FourthFinCorp-KS	13.7	133.8	20¾	-¼
14¾	12¼	FranklinBcp-MI	8.2	112.5	12¾	…
24½	18½	GBC Bancorp-CA	8.2	200.8	18¼	-¼
37½	28¾	GeorgiaBancshares-MD	37.1	98.6	29¾	…
21¾	14¾	GeorgiaBancorp-GA	3.9	104.2	15¾	…
21¾	14¾	HamiltonBcshrs-FL	8.1	120.4	14¾	…
17¾	14¾	HiberniaCorp-LA	17.7	109.3	15	…
20¾	13¾	HuntingtonBcshrs-OH	7.6	100.6	13¾	…
21¾	16¾	IBS Bancorp-CA	7.3	84.7	19¾	…
27¼	13½	ImperialBancorp-CA	7.3	84.7	19¾	…
20¾	16¾	IndependentBk-MI	8.1	97.0	17¾	…
30¾	19¾	IntegraFnCp/PA	10.1	97.0	19¾	…
18	15¾	InvestBancp/IN-IA	8.8	115.2	16	…
48	33	J.P. Morgan/NY	NM	145.3	36	…
18¾	17¾	JeffersonBkshrs-VA	7.5	97.4	17¾	…
15¾	11¾	KeyCentCorp-WV	9.6	100.6	11¾	…
29¾	22¾	KeycorpNY	7.2	100.0	24¾	…
26	21¼	KeystoneFin-PA	8.4	122.7	22¼	…
35¾	27¾	KeystoneHeritg-PA	9.5	145.0	27¾	…
14¾	8¾	LaSalleExchange-CA	14.4	252.2	11½	½
21¾	17¾	LakeShore-IL	8.4	178.2	17¾	…
18	10	LandmrkBcshrs-MO	7.4	58.9	10¼	…
20¾	21¼	LibertyNatBan-KY	7.9	101.4	21¼	…
17¾	14¾	LincolnFirCp-IN	6.8	81.1	16	…
29¾	8¾	MNC Financial-MD	9.0	55.1	8¾	¼
18	12¾	MagnaGroup-IL	9.0	90.8	12¾	…
60	38¼	ManufacturersNat-MI	5.8	87.8	39¼	…
44½	28¾	ManufacturersNY	NM	73.2	30¼	…
21	18¾	MarineCorp-IL	12.4	134.9	20¾	…
20¾	13¾	MarTrustBnkBrs-MO	7.9	99.7	14¾	…
37¾	28¾	MarshallBkNA-WI	8.2	98.2	28¾	…
36	21	MellonBankCorp-PA	8.2	98.2	21	…
39¼	21	MercantileBanc-MO	35.3	83.0	23¼	…

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to-bk	Cls.	Chg.
23¾	16¾	MerchantsBancCp-IO	NM	98.7	20¾	…
14	11	MerchantsBncs-WI	7.5	87.9	13	…
17½	12¼	MeritCorp/Inc-NC	7.3	96.8	12¾	-¼
62	52	MetroCorp/Houst-TX	7.1	101.0	52	…
32¼	27	MetroMidwayn-MD	8.8	105.1	27¾	…
27¼	21¾	MidwstBancorp-WI	8.6	107.0	21¾	…
36	22½	MidwCapCorp/IN-V	7.4	135.7	23¼	…
28¼	18¾	MidwestFncl-IL	7.5	141.2	25	…
30¾	11⅜	MidwstCapCp/AZ	111.5	63.9	14½	…
87½	66¾	MidlndCapCp-IA	4.7	115.7	82¾	…
33	26¾	MidlandsBcp-WV	8.9	104.9	32	…
21¾	15¾	MissSthBcshrs-MS	7.2	98.8	21¾	…
25¼	17¾	MontanaNatlBnc-CA	11.9	147.2	21	…
19¾	14¾	MorganKeegan-TN	8.4	145.0	18	…
13¾	9¾	NorthernBancp-AR	8.0	114.8	11¾	…
32¼	25¾	NorthBancorp-OH	6.9	95.8	27¾	¼

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to-bk	Cls.	Chg.
24¾	18¼	Amerson-CA	7.4	83.8	17¾	-¼
30¾	20¾	AmFedBk/SC	8.4	87.1	30¾	…
28⅜	8⅜	CalFedInc-CA	25.0	16.5	9	…
15¾	11¼	CharterMacp-CA	9.1	67.2	12¾	…
20¾	3	CoastSavngsFin-CA	NM	32.8	4¼	…
15½	10¾	DimeSavBk/NY	5.0	68.8	10¾	…
24	13	DomeySavngs-CA	21.9	94.0	14	…
21¾	18½	FirstFedSciCp-CA	6.6	110.9	20¼	…
21¼	12	FirstFedMichCp-MI	5.8	30.9	12¾	…
34	29¾	GLENFED-CA	2.9	26.6	10¾	…
22¾	22¾	GoldenWestFn-CA	9.4	148.2	26¾	…
14¾	10¾	GreatNwstrnDvCA	14.4	70.5	11¾	…
47¼	31¾	GtAmericanBcp-CA	NM	17.0	1¾	…
31¾	21¾	HomeFedBcp/LA-W	10.2	89.6	31¾	…
18½	10¾	HomeFedBcp/LA-W	10.2	89.6	18	…
31¾	25¾	SanMateoBancCA	8.7	182.4	28	…
25¾	9¾	PeoplesHstnNY	30.3	39.8	5¾	-¼
19¾	15¾	RochesterCmty-IT	8.5	43.3	15¾	…
22¾	8¼	SecurityFncCp-CT	6.5	41.5	9¾	…
15¾	10¾	SfgwBancorp-VI	6.6	110.9	20¾	…
12¾	6¾	StandardFedBk-MI	5.9	50.5	7¾	…
15¾	12¾	WashingtonFd-WA	9.1	174.1	14¾	…
31¾	25¾	WashingtonFd/DS-WA	9.2	183.8	26¾	…
13¾	6¾	WayneBncp-OH	10.0	85.3	7¼	…

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded U.S. banks. The 25 largest thrifts are listed separately. Bank size is measured by the market value of all common stock outstanding as of June 30, 1990, the most recent quarter available, as a percentage of $56.71 mil and for thrifts $107.8 mil.) **52 Wk Hi** (or the moving 52-week high and low prices for the previous 52 weeks). **PE** is the price ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. **Mkt. to book:** the ratio of the current day's closing price to the stock's book value, expressed as a percentage. **Book value** is adjusted for announced earnings and dividends. **Cls.:** The price at which the stock last traded. If no trade was reported the day, the last bid. **Chg.:** Change in the last trading day's closing price from the stock's previous market value and the top thrifts in **bold** face. Additionally, **especially highlights** show largest percent gainslosses in price, and two-volume leaders. Stocks are listed alphabetically under a heading as a percentage of average shares traded daily and thrifts in general.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables; Thomson News Network, Vienna, VA, provides SNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended August 11

LARGEST PRICE GAINERS*	% change	8/04/90	8/11/90
Coast Svgs Fncl Inc.	15.90%	$ 7.55	$ 8.75
Old Stone Corp.	17.24	7.25	8.50
First City Bancp.	14.38	19.13	21.87
Chemical Bkg Corp.	13.86	20.75	23.63
Nat'l Penn Bancshares	11.43	35.00	39.00
LARGEST PRICE LOSERS*	**% change**	**8/04/90**	**8/11/90**
Equimark Corp.	-12.50%	$ 4.00	$ 3.50
Cafteil Inc.	-12.20	10.25	9.00
Howard Svgs Bk	-10.75	4.75	3.37
City Nat'l Corp.	-9.29	17.50	15.86
Bayfleets Inc.	-9.09	12.50	12.25
LARGEST CHANGES IN VOLUME*	**Multiple**	**Average**	**Last week**
First Eastern Corp.	8.25	478.00	410.000
Fostar Fin'l Inc.	6.10	15.148	92.400
Cal Fed Bancorp Inc.	6.08	1.430	10.000
Puget Sound Bancorp	5.55	175.833	975.600
Commerce Bancshares Inc.	4.52	60.250	272.600

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gain, the five with largest price decline, and the five largest volume leaders during volume 1 of the previous week are identified. (*)= Percentage change calculated by dividing last week's close by the previous week's close. (**)= The **multiple** of last week's trading volume to the average weekly volume over the previous 10 months.

Stock Source: Salomon Brothers Inc. New York

Key Rates

(August 13, 1990)

8/13	7/18	8/06
Federal Funds-domestic range:	8-⅛*/a	8-⅛	7¹⅛/a-8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Prime	7.50	7.45	7.40
6 Month Posted	7.50	7.45	7.40
1 Year Posted	7.55	7.55	7.40
Eurodollar Deposits*			
3 Month	7⅞	7⅞	7¹¹/₁₆-¾
6 Month	7⅞	7⅞	7¹¹/₁₆-¾
1 Year	8.00	8.00	7⅞
LIBOR*			
3 Month	NA	8.00	7¹⅛/a
6 Month	NA	8.00	8.00
1 Year	NA	8.00	8.00

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks. (**)— Late London bid (†)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

Analyst Sours On 'Good' S&Ls, Citing Exams

By TERESA CARSON

LOS ANGELES — A prominent savings and loan analyst has plucked his last few healthy thrifts off the buy list until the regulators finish working the thrifts over in upcoming examinations. Given the possibility of increased loan-loss reserves, the workover may not be pretty.

S&L Reserve Ratios Weaker Than Banks'

Loan loss reserves as percent of total loans; figures as of June 30

Savings institutions	
H.F. Ahmanson	.40%
CalFed	.91
Coast Savings Financial	.57
DF Southeastern	.36
GlenFed	.53
Golden West Financial*	.15
Great Western Financial*	.66
HomeFed	2.47
Rochester Community	.58
Standard Federal*	.31
Banks	
Wells Fargo	1.83%
Security Pacific	1.79
NBD Bancorp	1.53
CoreStates	1.30
First Wachovia	1.12
Comerica	1.27
NCNB	1.46
First Union	1.58

*As of March 31

Source: First Boston

Eric I. Hemel, a respected thrift analyst at First Boston Corp., said he is worried about "the possibility of negative and surprising results from upcoming regulatory examinations even at the 'healthy' savings and loans."

From 'Buy' to 'Hold'

H.F. Ahmanson & Co., Los Angeles; Great Western Financial Corp., Beverly Hills; Golden West Financial Corp., Oakland, Calif.; DF Southeastern Corp., Atlanta; and Citadel Holding Corp., Glendale, Calif., are now off Mr. Hemel's buy list and are relegated to hold.

"This regulatory issue is casting a pall over all the thrift stocks," Mr. Hemel said in an interview.

A former a director of policy and research at the Federal Home Loan Bank Board, Mr. Hemel said new examiners from the Federal Deposit Insurance Corp. are applying much tougher standards than the old thrift examiners from the Federal Savings and Loan Insurance Corp. That is especially true regarding the level of reserves and nonperforming assets.

"The regulatory risks currently facing all savings institutions would deter us from further purchases until the position to be taken by the FDIC in the examination process becomes clarified," Mr. Hemel wrote recently.

The commercial bank examiners are used to seeing higher levels of reserves to both total loans and nonperforming loans. "Most commercial banks post loan-loss reserves – relative to nonperforming asset levels – at 60% or higher. Most thrifts by contrast, post loss-reserves-to-NPA levels of 40% or lower," said Mr. Hemel.

Of course, the thrifts' portfolios are secured by real estate, much of it single-family homes. Commercial banks, in contrast, have mostly unsecured debt. "But whether the FDIC examiners will accept this rationale in all instances remains uncertain," Mr. Hemel said.

At least one thrift executive believes Mr. Hemel could be on the mark. William C. Walbrecher, president and chief executive of Citadel, said he agrees with Mr. Hemel's comments but believes his institution will escape any tougher treatment. "The auditors are asking most thrifts to increase reserves," Mr. Walbrecher said. "But we don't expect that. We think we are more than adequately reserved."

Citadel's problem loans are only 0.69% of its total. "They [nonperforming assets] have been going down, and at the same time we have been increasing reserves," said Mr. Walbrecher. He expects his $5 billion-asset thrift will host the FDIC examiners before the end of the year.

Even the healthiest thrifts have taken a beating. Ahmanson, at $18.625 on June 25, was priced at $17.50 in early afternoon trading on Monday. Great Western fell from $17 to $14.875, and Golden West from $28.875 to $26.50.

Others have fared much worse. HomeFed Corp., San Diego, has plunged from $21.875 at June 25, to $9.625, and CalFed Inc., Los Angeles, is off from $18.375 to $9.125. □

CAPITAL

Small Indiana Bank to Issue Convertibles

By FRED VOGELSTEIN

Many big banks are concerned these days about whether the capital markets are even open to them. Tiny CNB Bancshares in Evansville, Ind., however, is preparing to issue $15 million in convertible bonds, an even more difficult task for banks today.

Convertibles have benefits over straight bonds or equity because they allow the issuer to pay a reduced coupon to holders, but allow holders to convert at a premium to the current market price.

In return, the issuer gives holders the option to participate in the growth of the company and the ability to receive interest, albeit below market rates, until that growth occurs.

Stock Price Vital

But convertibles depend on solid stock prices, as companies do not like to issue equity at depressed prices.

They also depend on low dividend yields; high dividend yields mean high coupons on convertible debt, making straight debt cheaper. The logic there is that since investors think of convertible debt as the equivalent of stock, they require a premium over its dividend yield to invest in something else, such as a convertible.

With bank stock prices at all-time lows and dividend yield at all-time highs, the conditions could not be worse for most banks to issue convertible debt.

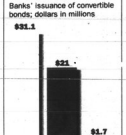
Price Above Book Value

CNB, with assets of $1.6 billion, seems to be one of the exceptions. Having avoided many of the problems plaguing the industry, its stock price, in the $20 to $21 range, is above its book value of $18.17, and its dividend yield is a low 4%.

"Convertible debt comes to us at lower cost than straight debt and allows us to issue stock three to four years down the line when we think it might be necessary," said David Knapp, CNB chief financial officer. In addition to general corporate purposes, proceeds of the offering will be used to complete two acquisitions.

A Small Market Gets Smaller

Banks' issuance of convertible bonds; dollars in millions



*As of Aug. 10

Source: Securities Data Co.

The company recently announced it was acquiring Valley Federal Savings in Terre Haute, Ind., for $11 million, or $10.50 a share, and Henderson Bank in nearby Henderson, Ky., for $1.7 million.

Before the merger, CNB's capital ratio was 9.5%. He said the mergers would reduce that to 8.5% because the banks it is merging with are not as highly capitalized.

Looking to Future

Mr. Knapp acknowledged the numbers seem high given the capital levels of most banks today. However, he said, "We're not sure people will be talking about excess capital in a few years."

The debt, which should be issued in late September, matures in 15 years and is convertible at any time into stock, probably at a 20% premium to the market price at the time of issue, said Woody McCoskey, head of corporate syndication at Burns Pauli & Co., one of the underwriters of the deal. He said the coupon on the debt should be around 7.5%. The actual terms will be set when the bonds are priced.

The bonds are noncallable for two years and after that callable at a premium above par that starts at 108 and declines one point a year until the bonds are callable at par, Mr. McCoskey said.

* * *

MARKET MONITOR

In a shelf filing with the Securities and Exchange Commission, Bankers Trust New York Corp. said it would periodically float debentures totaling up to $500 million. Proceeds will be used for general corporate purposes, including investments in, or extensions of credit to, its banking subsidiaries.

* * *

Citing increasing worries about real estate exposure, Standard & Poor's Corp. said it might downgrade Baltimore Bancorp's subordinated debt and the certificates of deposit of its subsidiary Bank of Baltimore. About $72 million in debt is affected.

The ratings have been on credit watch since neighbor First Maryland Corp. made an unsolicited takeover proposal in April. S&P had said it would raise the ratings if the deal went through and had said it would probably not alter them if the deal failed.

In last week's move, the rating agency affirmed that it would raise the ratings if the deal went through but probably cut the ratings if the deal failed.

The subordinated debt is rated BB-plus and the CDs are rated BBB/A-3. □



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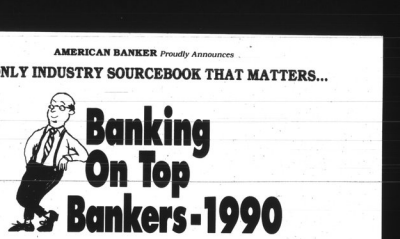

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Bankers Foresee 3% Capital Rule Stifling Growth

By LINDA CORMAN

WASHINGTON — Federal Reserve Board officials insist most banks have little reason to contest its most recent minimum capital requirement, known as the 3% leverage ratio. But some bankers disagree as controversy lingers over the usefulness of this method of measuring capital.

The standard, adopted Aug. 2 by the Fed – other regulators are soon to follow – requires the strongest banks to hold equity capital equal to at least 3% of assets. Bank health is measured on the regulators' Camel scale, an index based on capital, asset quality, management, earnings, and liquidity.

ANALYSIS: *Follow-up on the news*

Lower-rated banks will have to maintain leverage ratios at least one percentage point higher than 3%.

The leverage ratio must be met in tandem with the broader, risk-based capital requirement. At the end of this year, for example, banks must meet both the 7.25% risk-based standard and the 3% capital requirement.

Problem Only in U.S.

Therein lies the rub for U.S. banks. While most major foreign banks must comply with risk-based capital rules, they do not have to worry about the additional requirement that, in effect, limits U.S. banks' ability to leverage their assets.

The 3% capital must consist of Tier 1 capital, defined as common equity and perpetual preferred. State institutions must deduct goodwill.

Much of the debate over the risk-based capital requirements occurred several years ago in anticipation of the international negotiations that culminated in the Basel accords, which made the risk-based requirements an international standard.

The Fed, however, has gone beyond the Basel agreement by adopting the 3% leverage ratio as well, which some domestic bankers say will hinder them in competition with overseas institutions not equally restricted.

Problem for Some Banks

U.S. bankers also argue the 3% leverage ratio prevents a bank with a large portfolio of low-risk assets from taking full advantage of the risk-based capital standards.

Beyond the dispute over the leverage ratio, analysts say banks already are on edge. To meet higher capital minimums,

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INSIDE NEWS

THRIFT CRISIS

COLUMBIA SAVINGS and Loan Assoc. announced that it lost $136.5 million in the second quarter. The loss increased Columbia's capital deficit 63% to $352.1 million, increasing the likelihood that it will be seized by regulators. *Page 2*

THE RESOLUTION Trust Corp. decided to extend to all investors the same quality guarantees on mortgage-related assets that it gives the governmental secondary-market agencies. *Page 2*

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A POWER OUTAGE in New York's financial district continued to disrupt many back-office bank operations on Tuesday, as institutions diverted resources to keep trading and funds-transfer areas working smoothly. *Page 3*

FINANCE

THE SPIKE IN RATES on government securities could hold for a while, and a debate is emerging over whether the rate increase and resulting plunge in prices has further wounded the already limping banking industry. *Page 24*

CITICORP, First Chicago, and Bank of Boston, among others, are expected to look long and hard before agreeing to a plan by Atlanta developer John C. Portman to give his unsecured lenders a security lien. *Page 22*

CONSUMER

THE CIRRUS and Plus networks can proceed with their plans to share automated teller machines without fear of antitrust litigation – at least for now. *Page 8*

INTERNATIONAL

BANK OF MONTREAL caught industry analysts and money market participants off guard when it cut its prime rate to 14.25% from 14.75%. *Page 14*

COMMENT

REGULATORS are in the process of rethinking their position on the treatment of asset sales with recourse, writes Gail Patelunas. *Page 4*

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FDIC Premiums to Skyrocket 63%

Insurer Votes Largest Allowable Increase for 1991

By BILL ATKINSON

WASHINGTON — Moving to replenish the dwindling bank insurance fund, the Federal Deposit Insurance Corp. board voted Tuesday to raise bank premiums next year by a record 63%.

The proposed increase – the maximum allowed in a single year – is to 19.5 cents for every $100 of insured bank deposits in 1991. The 1990 rate is 12 cents per $100.

In a unanimous vote for the 19.5-cent rate, the five-member FDIC board superseded a scheduled 3-cent rise that had been mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The higher rate for next year would become official after a 30-day period for public comment.

7.5 Cents More in 1992?

The FDIC has authority to consider another 7.5-cent rise in the rate to take effect in 1992.

The move came after a month of hints from FDIC Chairman L. William Seidman and other officials that a premium hike beyond the scheduled 3 cents per $100 was in the offing. While the increase will shore up an insurance fund that is at an all-time low relative to the deposits it covers, bankers and industry analysts have noted that higher insurance premiums will mean lower profits.

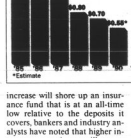
But a study by the FDIC staff concluded that the 7.5-cent assessment increase "would have a minimal impact on current industry capital levels." Commercial banks with deposits backed by the bank insurance fund had $224.7 billion at yearend 1989.

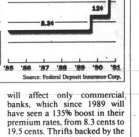
The increase in the premium will affect only commercial banks, which since 1989 will have seen a 135% boost in their premium rates, from 8.3 cents to 19.5 cents. Thrifts backed by the savings association insurance fund, which now pay 20.8 cents per $100, are to pay 23 cents next year.

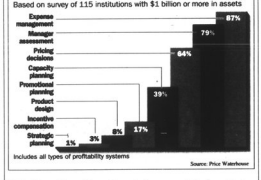
Impact on Bank Costs

At the 19.5-cent premium level, banks insured by the FDIC's bank fund face a $1.1 billion in-

See **FDIC** page 12







Major Banks Seeking to Calculate Profitability of Products, Clients

By RICHARD LAYNE

In an attempt to bolster stock prices and allocate capital more effectively, major banks are building sophisticated information systems that measure the profitability of individual products, customers, and lines of business.

While many sizable banks can measure profitability company-wide, only a handful have taken the next, crucial step: installing systems that measure the risk-adjusted return on equity for business units. With such systems, banks can manage their enterprises with the same eye to unit costs and dead wood that a manufacturer has.

About six of the nation's 20 largest banks have already developed such systems, including Security Pacific Corp., Bankers Trust New York Corp., First Chicago Corp., and Mellon Bank Corp., according to James M. McCormick, president of the First Manhattan Consulting Group, New York. Another eight or so, including Chase Manhattan Corp., Chemical Banking Corp., and PNC Financial Corp., are in the midst of de-

See **BIG** page 10

Global Data: U.S. Banks In Retreat

By JOHN EVANS

LONDON — Plagued with rising credit problems and worldwide concern about the health of the U.S. banking industry, American banks staged a major retreat from international credit activities in the first quarter, according to the Bank for International Settlements.

U.S. overseas banking assets fell $47 billion, or 8%, to $550.8 billion from the period ended Dec. 31, the Basel-based central banking organization said in a report prepared for release today. Foreign borrowings of U.S. banks declined $36 billion, or 6%, to $611.2 billion.

The BIS said the reduction was the sharpest it every recorded, surpassing a 4% decline of U.S. banking assets overseas and a 3% decline in liabilities in the quarter ended June 30, 1989.

All Areas Involved

The scaling-back of the international activities of American banks was worldwide and involved "all geographical areas and included both interbank and final lending business," the BIS said. The reduction in the first quarter reflected "the grow-

See **U.S. BANKS** page 14

GRAPEVINE/ *By Jed Horowitz*

Stand Up and Resign.

In the best tradition of Madison Avenue, Chase Manhattan Corp. last week offered "for only a limited period of time" an enhanced severance package to several thousand junior employees.

In an internal memorandum, president-elect Arthur Ryan and chairman-elect Thomas



Labrecque urged employers to jump on the "voluntary separation" bandwagon before Sept. 10. People laid off after that date will be paid according to the bank's "regular" severance policy, the memo said.

The one-month special offers two weeks' pay for each completed year to employees with 10 to 20 years' service, double Chase's typical severance, a bank source said.

Veterans of 20 years or more can sign out for three weeks' pay per year versus two under Chase's routine policy.

Employees who accept the deal must leave the bank by Sept. 21. And they won't get any tax benefits, since payments are being made in a lump sum.

Chase expects to take a $50 million third-quarter charge for costs related to the severance plan.

Approximately 125 of Chase's senior officers are not eligible.

Neither are Chasers working outside the United States, despite senior management's announced intent to wield a sharp ax overseas.

Chase executives aim to cut some 3,200 jobs by the end of the year as part of a goal to slash operating expenses by $300 million annually. The memo said that cost-cutting plans and strategies for each business will be completed by the end of August and implemented "at designated times throughout the remainder of the year."

* * *

Poor Richard's Hot Auction.

Bidders are waiting in line to get their hands on the books of Benjamin Franklin Federal Savings and Loan Association, Oregon's largest thrift.

In an unusual show of eagerness, four potential buyers completed due-diligence reviews before an Aug. 9 bidders conference in Washington, sources said. About 15 have asked the Resolution Trust Corp. for information packets on the $3.8 billion-asset thrift, which was seized by federal regulators last February.

BankAmerica Corp. – which last spring outbid Security Pacific Corp. for Western Savings and Loan Association in Phoenix – is again facing its rival in the contest for Benjamin Franklin. Both California giants see the thrift as key to expansion plans in Oregon.

Two Seattle thrifts, Washington Federal Savings and Loan Association and Pacific First Financial Corp., a subsidiary of Canada's Royal Trustco Ltd., also have scoured Ben Franklin's books, Oregon sources said. Washington Mutual Savings Bank also has a due-diligence date later this month, the sources said.

Wells Fargo & Co., which has no Northwest presence, scrubbed earlier plans to review Benjamin Franklin, sources said. Wells and the three Seattle thrifts declined to comment. Final bids are due next Tuesday, but the deadline is likely to be extended.

— Sam Zuckerman

* * *

Abboud Stakes Up.

Putting his money where his mouth is, A. Robert Abboud has filed a change-in-control notice with the Federal Reserve Bank of Dallas to increase his holdings in First City Bancorporation of Texas.

Mr. Abboud, the company's chairman, owns about 6.2% of



the Houston bank's common stock but has warrants and options that could increase his stake to 10.87% if exercised by next January, according to the Fed filing. That would make him the bank's largest shareholder, based on the company's proxy statement as of the end of March.

Mr. Abboud's holdings are actually smaller, a bank spokesman said. But the Fed requires him to report ownership of all 1.6 million shares and options controlled by a limited partnership owned equally by Mr. Abboud and First City Vice Chairman Frank C. Cihak.

Most of the shares owned by the partnership were purchased when the former First Chicago chairman restructured the bank at $19.68 per share, a 6% discount to the market price. First City's stock closed at $21.125 a share last Monday.

* * *

CitiSells.

En garde, card issuers. Citicorp is rolling out a campaign to cross-sell a variety of bank products to the 27 million Americans who hold its credit or charge cards.

Citibank officials admit they've been lax in such efforts. Until now, bank services were cross-sold only to cardholders in the New York City area, said Richard J. Srednicki, general manager of Citicorp Credit Services.

"We were decentralized almost to a fault," he said, noting that his sector rarely talked to other retail bank units.

Citicorp, through a new group dedicated to cross-selling, is initially targeting cardholders who live within five miles of a branch. Winning 25% of those customers would double the company's assets, Mr. Srednicki said.

The new push jibes with Citi's effort to present itself with one voice, a process dubbed internally as "Citibanking." The company is replacing *Citicorp* with *Citibank* in many venues, and has adopted a new advertising slogan: "Not just banking, Citibanking."

— Yvette Kantrow

A $136.5 Million Loss Puts Columbia at Risk of Seizure

By TERESA CARSON

LOS ANGELES — Columbia Savings and Loan Association, announced on Tuesday that it left $136.5 million in the second quarter. The loss increased the thrift's capital deficit 63% to $352.1 million, increasing the likelihood that it will be seized by regulators.

"It is obvious from our negative capital position that we will need the continuing patience and cooperation of our regulators if Columbia is to survive," president and chief executive officer

Regulators may first try to dispose of Columbia's junk bond portfolio.

Edward G. Harshfield said in a statement.

Beverly Hills, Calif.-based Columbia said it lost $65 million "from real estate investment operations due largely to the declining commercial real estate market in Southern California."

The rest of Columbia's loss resulted from an $88.5 million provision for losses on its junk bond and loan portfolios, a $29.2 million loss related to corporate facilities, and a $20.9 million writedown in the portion of the mortgage-backed securities portfolio that is held for sale.

Although Columbia is best known for its huge investments in junk bonds and high-flying former chief executive Thomas Spiegel, the thrift is also actively involved in real estate business.

Columbia had about $2.3 billion at March 31 in real estate loans outstanding and also about $3.1 billion invested at year-end in commercial real estate joint ventures. The thrift also developed luxury homes in Beverly Hills. Columbia did not make public details of its real estate portfolio in the second quarter, and company officials were not available for comment.

Columbia's commercial investments included office buildings, shopping centers, and hotels in Los Angeles, Beverly Hills, Orange County, and elsewhere. Columbia is attempting to sell or refinance its equity investments in real estate over the next five years as a result of the Financial Institution Reform, Recovery, and Enforcement Act requirement of higher capital for these investments.

In July, Columbia reached an agreement to sell its junk bond portfolio for $3 billion to a group of international investors called Gordon Investment Corp. The controversial sale, which Columbia would finance, must be approved by the regulators. The investors must make a down payment of only 10% on the bonds and could return them if the portfolio drops in value more than 10%. If that happened, either Columbia or the government could end up with the portfolio again. Thrifts were required to dispose of junk bonds under the bailout law.

Columbia said there had not been a substantial change in the market value of its $2.9 billion high-yield bond portfolio during the second quarter.

Analysts said regulators are probably trying to dispose of Columbia's junk bond portfolio before they seize the thrift. The regulators are loath to take on another big junk bond portfolio. The Resolution Trust Corp. already owns $3.7 billion in junk bonds.

With a capital deficit of that magnitude, the regulators "have no choice" but to take over Columbia, said Allen Bortel, an investment banker with Sutro & Co., San Francisco.

In the six months, Columbia lost $429.9 million, compared with net income of $14.3 million in the year-earlier period. Columbia's second-quarter loss compares to a profit of $6.4 million, or 16 cents a share, last year. □

See RTC *page 6*

RTC Widens Mortgage Guarantees

By BARBARA A. REHM

WASHINGTON — The Resolution Trust Corp. decided Tuesday to extend to all investors the same quality guarantees on mortgage-related assets that it gives the governmental secondary-market agencies.

The move is expected to entice more investors to the residential mortgage loans, mortgage-backed securities, and mortgage-servicing rights in the RTC's portfolio. The agency holds approximately $70 billion in mortgage assets seized from failed thrifts.

"The more [the RTC] adopt standard practices, the better off they will be in drawing a broad number of investors."

Jayne J. Shontell *Fannie Mae*

The agency first proposed extending these quality guarantees, called representations and warranties, beyond the Federal Home Loan Mortgage Corp. and the Federal National Mortgage Association to all investors on May 31. Tuesday's action finalized that proposal.

A Boost to the Market

G. David Fensterheim, a partner with Rivkin, Radler, Bayh, Hart & Kremer and executive director of the Real Estate Capital Recovery Association, said broadening the guarantees will attract more buyers to the mort-

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TECHNOLOGY/OPERATIONS NEWS

NY Banks Focus on Critical Areas

Back-Office Units Affected Most by Power Outage

By JEANNE IIDA

NEW YORK — A power outage in New York's financial district continued to disrupt many back-office operations of banks Tuesday, as institutions diverted resources to keep trading and funds transfer areas working smoothly.

Offices of several money-center banks remained without power and were operating through backup facilities.

"We've switched over to emergency generators in 60 Wall St., and we're providing power to priority functions," such as trading, a spokesman for J.P. Morgan & Co. said Tuesday. "Other functions are not being staffed – some people are not coming in today."

Six banks, including the flagship subsidiary of Manufacturers Hanover Corp., moved funds transfer and other operations to a "hot site" run by a vendor in New Jersey.

Banks that had recovered power were working to restore back-office systems that were using information up to 24 hours old. Operations of trading and systems for personnel records, accounting, or retail support, which provide data to on-line systems such as automated teller networks.

Impact Limited

Observers said the impact of the power outage was limited because the city's money-center banks had alternative generators for critical operations.

Electricity failures were first reported in the Wall Street area around 1 p.m. Monday, following a fire at a nearby utility substation. Consolidated Edison said that three of the four networks that failed Monday resumed operating by 5 p.m. that day. The fourth area – which encompasses the headquarters of the Bank of New York Co., J.P. Morgan , and the Federal Reserve Bank of New York – may be without power for several days, the utility said.

"This was not as bad as other disasters I've seen because the systems affected were not as complex and not as critical," said Edward Nyce, executive vice president at Manufacturers Hanover. "The main data centers were backed up, and everything performed beautifully for us."

Moving to New Jersey

Manufacturers Hanover Trust Co., which still had two buildings without power Tuesday, moved some of its operations to a hot site operated by Comdisco Recovery Services in Carlstadt, N.J. Employees worked there to restore accounting and other administrative files that had been shut down when the outage occurred.

Both Fed Wire® and Chips stayed open later than usual to settle their funds at the organizations said there were no dramatic problems.

Officials of those groups said the power disruption was not as severe as in earlier disasters, including the 1977 blackout in New York. After that incident, many banks installed alternative energy sources to prepare for future emergencies.

A spokesman for the New York Fed said that Fed Wire, which was able to settle Monday at about 10 p.m., did not open at all the day after the 1977 blackout.

Working Through an Outage

"This was an emergency, and it was trouble, but we worked our way through it," said John D. Lee, president of the New York Clearing House Association, which operates Chips.

Chips cleared $820 billion Monday, which the clearing house characterized as a normal day. Fewer than banks would have to "eat" funds because they would be unable to make payments appeared unfounded.

Mr. Lee said that fewer than 10 of Chips' members lacked power by Tuesday afternoon. They were using emergency facilities provided by Chips or correspondent banks to perform transactions.

Alternative Power

Because of their alternative power supplies, most major banks were able to continue working at their regular offices. Medium-sized banks and foreign banks fared less well. It was primarily those institutions that moved processing to outside vendors, said Comdisco officials.

The disaster recovery company declined to provide a complete list of the institutions using its hot site but said Credit Lyonnais was one.

Banks put their greatest emphasis on keeping trading desks open immediately after the electrical failures. Bankers Trust New York Corp., for example, said traders continued to work but at a slower pace. Morgan said trading was lighter than normal; it reported no disruptions in its securities area.

Citibank on Backup

Among the institutions still relying on backup power Tuesday was Citibank's correspondent banking operations. The banking subsidiary of Citicorp, which still lacked power in its 111 Wall St. offices, sent some employees to a New Jersey backup site for correspondent operations. Other locations had regained power but were scrambling to bring systems back up to speed. □

Software Alliance to Market Mellon's InFiSery Software

By KAREN GULLO

NEW YORK — Mellon Bank Corp. is turning over the marketing and servicing for its InFiSery trust management software to Software Alliance Corp., which will develop several enhancements for the product.

Under the agreement, announced Tuesday, Software Alliance will gain exclusive rights to market licenses for InFiSery software, which runs on IBM mainframes. Terms of the partnership were not disclosed.

Mellon will continue to market a trust processing service based on InFiSery and support existing customers.

Pittsburgh-based Mellon, which has 100 bank customers using the InFiSery system, said recently that it planned to invest $30 million to expand its trust capabilities.

Software Alliance, a banking software firm based in Berkeley, Calif., will develop seven to 10 enhancements for InFiSery. These include the ability to handle multicurrency transactions and track stock positions through the trust accounting system.

Mellon executives said that other additions are still being worked out and that it is too soon to project when the features would be made available.

SEI Corp., a Wayne, Pa., vendor of trust-accounting for 200 banks, is in the process of adding multicurrency capabilities and is working on other enhancements to its securities area.

Allan P. Woods, senior vice president and head of Mellon's new financial institutions services, says the enhancements will make InFiSery more competitive and boost Mellon's share of the trust services market. "We think they will make the product very appealing to customers," he said.

Mellon, which ranks among the top 10 providers of trust services, purchased InFiSery last year. Mellon does trust processing for some customers on its computers in a service bureau arrangement and licenses the InFiSery software for a fee to banks that want to install it on their own computer systems.

Too Busy In-House

The bank decided to have an outside firm develop enhancements for and market InFiSery software because the bank's in-house programmers and marketers have their hands full maintaining existing accounts.

"We didn't feel we had the ability to have a concurrent R&D schedule," said Mr. Woods. "A lot of people are re-evaluating their trust accounting vendor, and we think there's a significant window of opportunity there, but we're very conscious trying to digest more change and new business than the company is able to handle in-house."

Mellon will continue to provide service to existing customers that hold InFiSery licenses and to all service bureau customers.

Mellon is aggressively pursuing a greater chunk of the market for transaction processing, including trust and other fee-income generating services. The bank recently restructured its service organization into two units for corporate and institutional clients. The financial institution service unit handles trust accounting services, electronic funds transfer processing and other transactions. A technology products unit handles cash management and mortgage processing. □

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DIEBOLD

COMMENT/ *By Gail Patelunas*

Regulators Examining Risk In Asset Sales with Recourse

Presently, banks and savings associations do not follow the same practices in reporting asset sales with recourse for regulatory reporting nor in calculating capital adequacy. For both banks and savings associations, the divergence between regulatory reporting and capital requirements presently requires capital for recourse contingencies twice for the same institution.

An allowance is established for estimated credit losses at the time of sale, and capital is generally required for the off-balance sheet recourse contingency as if the assets sold were still on the institution's books.

These treatments impact competition, pricing, and efficiencies of the secondary market for mortgages.

This article will look at how recourse is treated by banks and savings associations for regulatory reporting and capital adequacy purposes and some of the issues presented by these treatments.

Positions Under Review

The regulators are in the process of rethinking their position on the treatment of asset sales with recourse, given the convergence of savings association regulations with those for banks and the Financial Institutions Reform, Recovery, and Enforcement Act mandate for the federal thrift and banking agencies to establish uniform regulatory accounting standards.

The Federal Financial Institutions Examination Council recently issued a request for public comment on recourse arrangements. The paper addresses a wide range of recourse arrangements, regulatory reporting requirements and the capital ramifications. Issues covered include:

- When is a sale with recourse a sale?
- When is it a financing?
- How does recourse affect the amount of capital required to support the activity?
- Should regulatory reporting differ from generally accepted accounting principles in this area?

Comments received in response to this request will ultimately affect the way in which asset sales are reported for regulatory purposes and the amount of capital required for the recourse contingency.

Risks Taken in Early 1980s

Prior to the adoption of risk-based capital guidelines, capital requirements for banks were only levied against balance sheet assets. Formalization of bank capital guidelines in the early 1980s encouraged management to take risks off the balance sheet, thus spawning new products and variations of securitization and asset sales with recourse.

This article addresses recourse as a credit enhancement only. Many other forms of recourse exist to protect the investor from such things as interest rate risk and risks stemming from natural disaster.

Heretofore, savings associations' capital requirements were based on liabilities and other risk factors, rather than on assets and the attendant credit risks. Savings associations took advantage of securitization to restructure their balance sheets and stabilize and grow earnings through risk-controlled arbitrage.

Mortage-Backed Securities

The securitization market has grown substantially in the past decade providing a liquid secondary market for mortgages on one- to four-family homes. The volume of mortgage-backed securities has grown from $373 billion at year-end 1985 to $859 billion by the third quarter of 1989, or more than 238%, compounded annually.

Regulators have recognized risks presented by the growing volume of recourse assumed during the securitization process and have taken steps to measure it and require capital for the credit risk it presents. In this effort, bank call reports have been modified by adding supporting schedules to capture information regarding the amount of loans sold each quarter and the amount of recourse retained by the selling institutions.

In all but limited situations, banks do not follow generally accepted accounting principles in reporting asset sales with recourse for regulatory reporting, nor in calculating capital requirements. Under generally accepted accounting principles, assets sold with recourse can be removed from the balance sheet provided certain requirements are met.

"Regulators have recognized risks presented by the growing volume of recourse assumed during the securitization process and have taken steps."

However, under regulatory reporting for banks, if a sale results in the retention of recourse, the transaction is treated as a financing for regulatory reporting; the asset is not removed from the balance sheet. The Call Report instructions specifically state that this treatment is "for purposes of . . . determination of capital adequacy."

Secondary Mortgage Markets

One major exception to this rule would be the sale or swapping of mortgages to one of the federal or federally-sponsored agencies. In such instances, the reporting bank may account for the transaction as a sale for regulatory reporting purposes, thereby removing the mortgages from the balance sheet even if risk is retained. Where no risk is retained, securitized mortgages can reduce the amount of capital required under the risk-based guidelines from 50 to 20%, or even to zero, based on the weight assigned to the security.)

During the development of the secondary mortgage markets, banks soon found that the best prices could be obtained if the mortgages, since the securitized assets were still treated as a sale for regulatory reporting purposes.

Privately issued mortgage-backed transactions also may be accounted for as a sale for regulatory reporting, depending on the structure and amount of risk retained. If the selling bank retains recourse representing less than a "significant risk of loss," the transaction is reported as a sale for regulatory reporting purposes, and the mortgages are removed from the balance sheet.

A "significant risk of loss" exists when the maximum contractual recourse exposure retained by a bank exceeds its estimated probable loss. Many private deals do not meet the test for treatment as a sale because the recourse retained is several times the amount of the expected losses.

Capital Requirements for Loans

For regulatory capital requirements, removing assets from the balance sheet reduces capital requirements for the leverage ratio which is calculated using balance sheet assets. However, recourse retained on mortgages sold requires the selling bank to hold capital for the entire amount of loans sold under the risk-based capital ratio as if the loans were still on the books.

If the security is held by the securitizing bank, it is not required to be capitalized in addition to the underlying mortgages. However, if the security is subsequently sold, capital is required to be maintained by both the depository institution that securitized the loans with recourse, and the depository institution purchasing the security. This is referred to as "double counting," that is, the original mortgages now require capital twice within the banking system, by the holder of recourse and by the purchaser of the security.

In addition, the diverging treatment of recourse under generally accepted accounting principles and for capital adequacy purposes is the equivalent of requiring capital twice for the same bank. A number of large players in the residential mortgage market are publicly reporting banking organizations using generally accepted accounting principles.

Under GAAP, a bank's obligation under the recourse arrangement is estimated and a allowance is established for this contingency at the time of the sale. However, this allowance for loss no longer counts as capital under the new risk-based capital calculations.

Under the capital requirements, capital is required to be held for recourse on the securitized assets. Therefore, under GAAP, a charge to income is taken to establish an allowance for the recourse contingency, but capital is still required to be maintained.

Savings Associations

Savings associations are required to follow generally accepted accounting principles in regulatory reporting for asset sales with recourse. Like banks, assets sold with recourse can be removed from the balance sheet, thereby reducing capital for the leverage requirement. And, like banks, savings associations must hold capital for recourse provisions under the risk-based capital framework.

However, the capital requirement for savings associations is slightly different from that for banks. The leverage requirement is somewhat easier for savings associations to meet, given their ability to report sales with recourse in accordance with GAAP, regardless of whether they are to agencies or without a significant risk of loss.

Banks are only accorded this exception in limited instances. Savings associations are required to maintain risk-based

See **COMMENT** *page* **6**

Ms. Patelunas is a senior manager with KPMG Peat Marwick in Washington, working in its financial institutions advisory service.

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LETTERS *to the editor*

Chemical Chief: Shake-Up Gives More Responsibilities to Hartigan

To the Editor:

Chemical Banking Corp. would like to lodge a strong protest over a reference to one of our senior executives, Maurice H. Hartigan II, in an article on Aug. 7 ("Younger Executives Gain in a Shake-Up at Chemical," page 1).

The article said that Mr. Hartigan became an "apparent also-ran" under a realignment of Chemical's top management and implied that his duties were changed because Chemical's real estate lending is "troubled." Both contentions are incorrect.

Under Mr. Hartigan's leadership, Chemical reduced its real estate lending by 22% since 1988. Mr. Hartigan also shifted Chemical's focus away from construction lending, which is now the most troubled part of the market, toward lower-risk types of lending and advisory activities. Recent developments in the real estate market clearly prove that his conservative strategy was correct.

Rather than becoming an "also-ran" under the new structure, Mr. Hartigan has assumed much broader responsibilities as the No. 2 executive in charge of Chemical's New York region, including our consumer, middle market, and private banking businesses, as well as real estate.

Walter V. Shipley
Chairman
Chemical Banking Corp.
New York

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SDDN pending FCC approval.

COMMENT

Continued from page 4

capital equal to the lesser of that required for the full amount of the loans sold with recourse or the contractual amount of the recourse.

In future transactions, savings associations may use this point to reduce their capital requirement by accepting less recourse under the securitization contract than the amount of capital that would be required on the underlying mortgages.

For example, one hundred million dollars of one-family to four-family mortgages would require risk-based capital of $4 million (half of 8% of $100 million). If they are sold and the amount of contracted recourse is less than $54 million, the capital requirement becomes the dollar amount of the contractual recourse.

This may be a temporary method of reducing capital, since the regulators have indicated that if this practice becomes common, the capital guidelines will be amended to eliminate the opportunity to reduce capital in this fashion. Of course, the ability to reduce recourse obligations will depend on pricing considerations and the characteristics of the underlying pool.

Ultimate resolution of the recourse issue, at least for regulatory reporting purposes, will be begin with the FFIEC's recent efforts. Pressure to meet capital requirements coupled with the redundancies of the GAAP treatment of asset sales with recourse and the capital requirements for recourse should bring about changes in regulatory capital adequacy guidelines as well.

"Single family loans had a serious delinquency rate of 0.38% during 1989."

Inasmuch as GAAP require an allowance for the estimated amount of loss to be established at the time of the sale, capital requirements in addition to these allowances appear unnecessary. Although some aspects of GAAP addressing recourse financing are being reevaluated in connection with a larger financial instruments project undertaken by the Financial Accounting Standards Board, completion of the project is not expected in the near future.

As a result of the new risk-based capital requirements, a growing number of savings associations are striving to reduce capital required for recourse contingencies on assets that have already been securitized. One method of doing so is to purchase credit enhancements in the form of letters of credit or surety bonds which relieves the issuing savings association from some or all of the recourse liability under the sales contract. This has successfully reduced the amount of capital needed at these institutions.

Recourse Likely to Decline

Until reporting requirements and capital treatment of recourse become compatible, the amount of recourse retained in future securitizations will likely decline. This may be the case for federal agency securitization, in particular, since the high underwriting standards result in relatively low delinquency and default rates, making it unnecessary for banks and savings associations to keep 100% recourse. For example, the Federal National Mortgage Association's 1987 conventional single family loans had a serious delinquency rate of 0.38% during 1989.

Lower amounts of recourse will result in changes in the pricing and structure of securitization, and in the costs of third party credit enhancements. Private securitization will become more costly if less recourse is retained because, typically, some multiple of the expected losses must be covered either by recourse, guarantees or other credit enhancement arrangements in order to obtain a high credit rating. □

RTC Widens Its Mortgage Guarantees

Continued from page 2

gage assets and will allow the RTC to get better prices.

"What this does is put the RTC on a more level playing field in the disposition of these assets because when the RTC demands [to make exceptions to standard market practices] people get nervous and require substantial discounts," he said.

Attractive to More Investors

"The more they adopt standard practices, the better off they will be in drawing a broad number of investors," said Jayne J. Shontell, vice president for business and product development at Fannie Mae.

Representations and warranties are facts – related to legal, underwriting, or servicing issues – about a loan that any seller ought to be able to know with certainty. Such facts might include loan balances, maturity dates, or incomes of borrowers. They are important, particularly in the secondary market, because buyers do not typically perform on these loans.

"The secondary market is very efficient because a buyer doesn't have to do quality exams," Ms. Shontell said. "He trusts the seller to represent and warranty the quality of a loan." □

Brenton Acquisition Aids Expansion Plan

DES MOINES — Brenton Banks Inc. said its Brenton Savings Bank subsidiary has bought the Cedar Rapids and Marion, Iowa, branches of Banc Iowa Federal Savings Bank.

Terms were not disclosed. The acquisitions added $110 million in deposits to Brenton's base in the Cedar Rapids area, where it plans to add offices.

In a related move, Brenton Banks said it would merge the operations of Brenton Savings Bank and Brenton Bank & Trust Co., Cedar Rapids. □

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EXECUTIVE *changes*

Women's Bank Chooses Smith To Be President

The board of directors of **First Women's Bank of Maryland**, a community bank based in Rockville, elected Clyde P. Smith president.



Clyde P. Smith

He formerly was president and chief executive officer of Federal City National Bank, Washington.

"Clyde Smith brings an outstanding record in banking to FWB," said **Joan Schoenholtz**, who heads the board. "His credentials made him the obvious choice to position FWB's move into the 1990s as a major community bank in the metropolitan area."

"We are committed to the Community Reinvestment Act," Mr. Smith said, "and plan to take full advantage of FWB's ability to make loans up to $1 million."

He joined Federal City National in 1988 as president and CEO. Since then, the bank has grown by 67% and moved from a loss of more than $500,000 in 1988 to a $280,000 profit in 1989. From 1979 to 1988, he was with Crestar Bank, Washington, as manager of the Commerce office and then as senior vice president in the corporate banking division.

Brenton Brothers Shift Bank Roles

C. Robert Brenton, president of **Brenton Banks** Inc. for 20 years, has been elected chairman of the Des Moines-based regional bank holding company, replacing his brother, **William H. Brenton**, chairman since 1969.

Robert Brenton is now chairman of the company's policy committees and of some individual bank boards and continues to head the trust and financial services division.

William Brenton, as company vice chairman, continues as chairman of the executive committee and of most metro division banks.

J.C. Brenton, executive vice president since 1970, succeeds his brother as president of the holding company. He assumes responsibility for administration of the company's operating entities and support staffs.

The new leadership slate was adopted to ensure a smooth management transition, the company said, and follows William Brenton's announcement of his changed role under terms of an agreement with the company that runs through 1995. The three brothers have been in banking and farming all their adult lives.

Others elected company officers include: **R. Dean Duben**, senior vice president; **Robert L. DeMeulenaere**, senior vice president-metro bank division; **Roger D. Winterhof**, senior vice president-agribank division; **Norman D. Schaenzer**, senior vice president-lending; **Saulene M. Richer**, senior vice president-marketing-technology; **Steven T. Schuler**, chief financial officer and vice president-treasurer-secretary; **Phillip L. Risley**, vice president-operations, and **Craig V. McGarry**,..vice president-trust.

M&I Subsidiary Elects Lathrop

Thomas C. Lathrop was elected president and chief executive officer of M&I Thunderbird Bank, Phoenix, a subsidiary of **Marshall & Ilsley** Corp., a multibank holding company headquartered in Milwaukee.

Mr. Lathrop joined the company's flagship institution, M&I Marshall and Ilsley Bank, Milwaukee, in 1960. He became vice president of the commercial loan division in 1974 and has headed it since 1985.



Thomas C. Lathrop

He replaces **James S. Lee,** who resigned. The company's Phoenix subsidiary has 14 offices.

— **Franklin Smith**

NEW ENGLAND

Webster Financial Corp., Waterbury, Conn., holding company for First Federal Savings and Loan Association, elected **Lee A. Gagnon** executive vice president and chief operating officer and **John V. Brennan** senior vice president and chief financial officer of both entities.

MIDWEST

Society Corp., Cleveland, appointed vice chairman **James W. Wert** chief financial officer, succeeding **Robert M. Patrick**, senior vice president, who took a new post with responsibility for strategic financial analysis.

MIDDLE ATLANTIC

Sandler O'Neill & Partners, New York, appointed **H. Robert Monsky** associate director and **Thomas Glasser** senior vice president.

Mr. Monsky, formerly an associate director at Bear, Stearns & Co., will market fixed-income products to middle-market banks and thrifts. Mr. Glasser will market investment products to insurance companies. He formerly sold mortgage-backed securities at UBS Securities.

SOUTHEAST

SourceOne Consulting Group, Atlanta, hired **Roger L. Cupp, Laura A. Raymond,** and **Larry E. Franklin** as senior associates.

Mr. Cupp joined SourceOne from a vice presidency at BEI-Goelmbe, Atlanta. Ms. Raymond was formerly with Wessell Group Inc., Grand Rapids, Mich. Mr. Franklin was vice president and trust officer at Hibernia National Bank in New Orleans.

SourceOne Consulting Group is a financial firm specializing in strategic earning improvements for bank trust departments. □

CONSUMER NEWS

PRIVATE BANKING

A Bank of New York Unit Goes Courting in the City

By MAUREEN NEVIN DUFFY
Special to the American Banker

Despite real estate credit woes in the overall bank, the Bank of New York is actively soliciting and booking loans in the private banking area.

In July, real estate problems prompted Prudential-Bache Securities to place a sell recommendation on Bank of New York's stock. But the custom bank, as the private banking unit is known, has had "very few problem loans," said David W. Kilbride, vice president and group head.

When pressed for numbers, Mr. Kilbride said, "It is a short list, and the numbers are not significant when weighed against the individuals' portfolios."

Advertising Campaign on the Agenda

The $49 billion-asset institution is also shopping for a slick marketing image for the custom bank. It is now reviewing themes for a campaign from ad agency Ally & Gargano, New York. The bank, which has private bank operations only in Manhattan, considers its competition to be Citibank, U.S. Trust Corp., and Boston Safe Deposit and Trust Co.

Bank of New York's custom banking area gained about a third of its clients through the merger with Irving Trust. That combination, completed 18 months ago, expanded its deposits from affluent clients to roughly $3 billion.

Generally, Irving's emphasis had been more on deposit gathering, and Bank of New York's on asset and loan growth.

But Mr. Kilbride said the structures and sales cultures of the two private banks were similar, easing the merger.



"There are pockets of potential still in areas of the city."
David W. Kilbride
Bank of New York

Bucking the trend toward integration, Bank of New York has kept its trust and private banking operations decentralized, with specialized departments.

The investment sector, headed by Charles Booth, and the trust sector, which handles some asset management and is headed by Thomas Archibald, report to Peter Herrich, vice chairman.

Custom banking falls under the branch banking sector. The advantage is that professionals handling a business transaction are experts in that particular business, said Mr. Kilbride, who also runs the New York City branches. "The people who work for me are experienced bankers; they understand deposits and lending.

"If a client had some money to invest, within five minutes we'd have the officer from the investment side in the office to meet the client."

The Manhattan market is divided among 13 geographic units, which are grouped into four clusters.

Each cluster is run by an officer who also has operational responsibilities for some of the 13 units.

Chairman Takes a Hand in Wooing Clients

J. Carter Bacot, chairman of the company, makes a point of personally meeting with custom bank clients, as well as assisting with the initiation and cultivation of relationships.

Apparently, the "hard nose" image he developed in the takeover fight for Irving has not discouraged potential clients and may have created some intrigue, said Mr. Kilbride.

Publicity Helps Attract Customers

"Private bank clients find him informed and eager, and they are interested to meet him because of the publicity."

The custom banking sector looks for people willing to make $10,000 interest-free or $25,000 interest-bearing deposits – a relatively low level in the New York market.

The criteria are flexible, depending on the entire financial profile and growth potential. "We don't want to exclude people," said Mr. Kilbride.

Bank Will Concentrate on New York Market

For now, the bank has no plans to mine custom bank clients outside Manhattan. "There are pockets of potential still in areas of the city. We don't feel it's worthwhile spreading our resources too thinly."

Additional acquisitions, however, are another story. "We have no strict geo preference but would probably like it to be outside the Northeast," said Mr. Kilbride.

"For good diversity of funding, it should be outside the area." The wish list includes, banks of $10 billion to $15 billion in assets that are No. 1 or No. 2 in their market.

Ms. Duffy is a freelance banking reporter based in New York.

ATM Sharing Plan Clears Review

14 States Won't Object Now to Cirrus-Plus Network

By YVETTE D. KANTROW

NEW YORK — The Cirrus and Plus networks can proceed with their plans to share automated teller machines without fear of antitrust litigation – at least for now.

The 14 state attorneys general examining the national networks' machine-sharing plan wrote Cirrus and Plus executives Monday that they have "no current intention of instituting litigation." But the state officials told the networks' general counsels their letter was not an "approval or authorization" of the sharing plan.

"We are concerned . . . that, in the long run, ATM sharing may actually reduce ATM deployment, stifle technological innovation, and lead to undue concentration in the ATM and other payment system markets," the attorneys general wrote. "We are also concerned that the Cirrus-Plus ATM sharing arrangement may adversely affect or inhibit point-of-sale debit card development."

Monitoring Promised

In the letter, the attorneys general indicated they would monitor the sharing plan and its impact on the electronic banking industry. That prospect is not being taken lightly by ATM executives, many of whom fear that the Cirrus-Plus agreement will harm regional networks.

"At a minimum, the fact that they said they are not going to consent to the plan and will watch it means there will be a cloud over it," said Richard P. Yanak, president of New England Network Inc., operator of the Yankee 24 regional network.

"They didn't have any time to do anything significant. But the issue is far from dead."
Del R. Tonguette
GulfNet Inc.

He said the pledge to continue watching Cirrus and Plus will deter smaller machine-owning banks from joining the so-called machine duality plan.

Several larger banks have said they will use the Cirrus and Plus sharing arrangement.

Industry executives said they are not surprised by the position taken by the attorneys general. Under pressure to issue a statement before Aug. 20 – when the sharing arrangement is to take effect – the officials had no choice but to take a wait-and-see approach, these executives said.

"They didn't have any time to do anything significant," said Del R. Tonguette, a regional network executive who has been critical of the Cirrus and Plus plan. Because Cirrus and Plus have not yet shared machines, the attorneys general could not prove that the arrangement is anticompetitive, he said.

"But the issue is far from dead," added Mr. Tonguette, president of GulfNet Inc., Mandeville, La.

The attorneys general have been examining the national networks' plan to share ATMs since May, when the states squashed a joint effort by MasterCard International and Visa U.S.A. to develop the Entree debit card system. The settlement of that antitrust lawsuit contained a provision preserving the states' right to challenge Cirrus and Plus duality if they find it anticompetitive.

Cirrus, Downers Grove, Ill., is wholly owned by MasterCard, and Visa owns a small interest in Denver-based Plus.

Mr. Tonguette said it is only a matter of time before the attorneys general begin to examine other activities of the bank card associations.

"In light of the comments being made by these people, they will be looking at credit card duality," he said, referring to banks' ability to belong to both Visa and MasterCard. □

Suit Accuses Indiana Lender of Loan Overcharges

Reuters

NEW YORK — Consumers have launched a class-action lawsuit against an Indiana lender for alleged errors on adjustable-rate loans, part of a problem that some experts said may mean billions of dollars in overcharges nationwide.

The suit, filed Friday against Workingmen's Federal Savings Bank, Bloomington, may be joined by consumers nationwide as early as September, a plaintiffs' lawyers said Monday.

"We hope to have the majority of lawyers in other states on board in 30 days," said Henry Price of the law firm Price & Shula. Lawyers from Alabama, California, the District of Columbia, Florida, Illinois, Maryland, Michigan, New York, Pennsylvania, and Texas are preparing to join, he said.

Outside Review Urged

The plaintiffs want lenders to pay outside firms to review their adjustable-rate loans and correct any mistakes. Workingmen's has rejected that proposal.

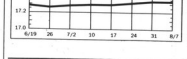
Lawsuits will be filed and consolidated against other Indiana institutions if they refuse to allow external review of their lending practices by Aug. 22, according to Mr. Price.

Workingmen's declined to comment on the lawsuit until it has reviewed the court papers.

Separately, the Senate Banking Committee, the General Accounting Office, and financial regulators are working to find how much overcharges may total. The Federal Deposit Insurance Corp. acknowledged the problem this year and promised to reimburse borrowers. □

AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index



Personal loan rates and fees

Here are the personal loan rates and fees charged by selected large banks and thrifts nationwide on August 14. The rates are for a $3,000 unsecured personal loan with a fixed rate and a 24-mo. term. The 8-week trend is based on rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.

Banks

BANK	RATE	FEES
Fidelity Bank, Philadelphia	15.40%	None
Manufacturers Nat'l, Detroit	16.00	$30 Processing
Northern Trust Co., Chicago	16.50	1% Loan fee
Provident Nat'l Bank, Philadelphia	16.99	None
Shawmut Bank, Boston	19.00	None

Thrifts

THRIFT	RATE	FEES
Citicorp Svgs, Washington	16.00%	None
Crossland Svgs Bank, New York	17.00	None
Newgrld BK for Svgs, Boston	18.00	None
Phil. Svgs Fund Society Philadelphia	18.00	None
Standard Federal Bank Troy, Mich	15.00	None

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330



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Big Banks Seek Deeper Data on Profitability to Aid Stock

Continued from *page 1*

veloping them, he said.

The growing importance of these systems has not gone unnoticed on Wall Street. Analysts say that banks lacking these systems are more likely to stay in losing businesses and fail to back potential winners.

These profitability systems, which cost millions of dollars to design and install and can require a bank to solve some knotty accounting problems on allocating equity, are the managerial tools of choice for a new breed of executive.

An Eye on Risk and Reward

Observers call this group "systematic managers," for their focus on managing businesses based on apples-to-apples comparisons of such performance criteria as risk-adjusted return on equity for business lines.

Members of this new class say they can strengthen their companies' return on equity by as much as two percentage points. The average return on equity for all banks last year was 7.79%, while in 1988 it was 12.79%. Return on equity, or ROE, is a significant determinant of stock value.

The need for profitability systems is spurred by the growing complexity of the banking business. A bank operating 100 lines of business in several states must be able to optimally price products and decide on a quantitative basis, primarily ROE, which business to exit or build up.

"Banks that have this capability have a leg up on understanding their resources," said Arthur P. Soter, a banking analyst with Morgan Stanley & Co.

"That doesn't guarantee success, but it increases the likelihood that they are putting their money to work in the better opportunities."

Mr. Soter said the use of a profitability-measurement systems was a key factor in the recent turnaround of Detroit-based Comerica Inc.

"Not having such a system hurts banks," said Diogo B. Teixeira, a banking technology specialist with McKinsey & Co. If "you don't know your product profitability, it's hard to make the right decision on how to price a product or whether to drop out of a business."

Setting the Standards

At a meeting last month in San Diego, Security Pacific's top 85 managers sat on the edges of their seats while executives announced which of the bank's 49 major businesses reached the goal of a 20% ROE. Fourteen businesses did not. The result: Security Pacific plans to announce the sale of some units and will restructure others.

For Security Pacific, the focus on ROE, derived via the profitability system, is new. "We've never been able to monitor these businesses as well before – we had some gut feelings, but you couldn't prove them," said John Singleton, the new chief operating officer at Security Pacific.

"In manufacturing, you live and die by unit costs and product costs," said Mr. Singleton. "Banking never had to do this."



"You had some gut feelings, but you couldn't prove them."

John Singleton
Security Pacific Corp.

A Heavyweight Group

Mr. Singleton is one of the new systematic managers, a group that includes Edward Miller, vice chairman of Manufacturers Hanover Trust Co., New York; Terrence A. Larsen, chairman of CoreStates Financial Corp., Philadelphia; and Anthony P. Terracciano, who used such a system at Mellon before taking the top job at First Fidelity Bancorp, Newark, N.J.

Executives at Security Pacific believe the the system can increase ROE by 1.5 to 2 points.

"If you are going to be a powerhouse acquirer, you have to drive your stock price up," said Mr. Singleton.

Security Pacific is not alone. At CoreStates, which finished its profitability system last year, hundreds of financial analysts, wholesale bankers, and even the chairman, Terry Larsen, check the system regularly, monitoring the performance of customers, business units, and products, according to Robert N. Gilmore, executive vice president.

Other banks must follow the example of these pioneers, according to observers.

"How can you manage without knowing how profitable your businesses are?" asks Mr. McCormick of First Manhattan Consulting.

Mr. McCormick said the first profitability system was installed in 1983, although he declined to name the bank.

Mr. McCormick said that in a sizable bank holding company with some 100 businesses, a third have a high ROE; a third have an ROE from 10% to 20%; and a third have an ROE of less than 10%.

"Once you know the ROE for lines of business, you behave fundamentally different – you know whether to fix, restructure, or wind down," he said. "That's the world that allows for the systematic management for shareholder value."

While few banks have systems that measure return on equity, most can measure profitability to some degree.

In a 1989 survey by the accounting company Price Waterhouse & Co. of 115 of the 250 biggest bank holding companies, all but a few said they had at least some ability to measure the organizational unit profitability, whether through return on assets, net income, or performance to budget. The study said product and customer profitability systems were far less common.

The Price Waterhouse study did find that two out of every three bank holding companies with more than $1 billion in assets said they planned to install or enhance their profitability system within two years.

Accounting Needs Work

Building profitability systems is an enormous undertaking. First, the bank must hammer out the accounting practices: how to allocate equity, funds transfer pricing, and goodwill, to name just a few.

Then it must overcome the technological hurdles. A profitability system sits on top of a bank's transaction processing systems. It must snatch up-to-the-minute information from scores of systems to create individual balance sheets and income statements on balance.

Then the data gleaned from the bank's operations must be stored in such a way that managers can easily retrieve it.

Mr. Soter and others point to the unique problems of banks as compared with other industries that has slowed this progress: a lack of separation between lines of business, issues in transfer pricing, the allocation of capital.

ISSUES

Machine Dialing Speeds Collections

By KAREN GULLO

NEW YORK — Using technology that automates telephone dialing, banks have discovered that they can greatly speed collection operations, reduce labor costs, and increase their telemarketers' productivity.

Banks began installing automatic or "predictive" dialing systems in the mid-1980s to make collections and telemarketing operations more efficient. Such systems can be programmed to dial several hundred phone numbers an hour and route calls and customer information to operators.

In Massachusetts and a few other states, any company using an autodialing system for telemarketing must buy lists from the phone company of consumers who do not want to receive the calls. So far, banks that use such systems for collections are not covered by such legislation.

200 Bank Installations

Davox Corp., a Billerica, Mass.-based major provider of such systems, said it has installed autodialing systems at about 200 U.S. banks. Citicorp is one of its largest customers, with systems for its nationwide Visa and MasterCard account collection network. Last spring, the banking company ordered $1.4 million worth of Davox products for its regional collection center in Erlanger, Ky.

A typical system uses personal and mainframe computers with a dialing device. The mainframe sorts delinquent files with customers' names, addresses, and phone numbers and sends them to the PC.

Contacting More People

The PC is programmed with calling criteria that sort the accounts by area code and delinquency period. The information is passed to the autodialer, which begins dialing numbers in rapid succession and passing answered calls to operators.

"The system allows us to talk to more people," said William H. Haddock, collection manager in the credit card group at Star Banc Corp., Cincinnati.

His company installed its first Davox system in the loan collection department two years ago. With 5,000 delinquent accounts to contact each day, collections moved slowly; operators contacted two to five customers an hour. The automated dialing system picked up the pace to 20 to 35 calls an hour. □

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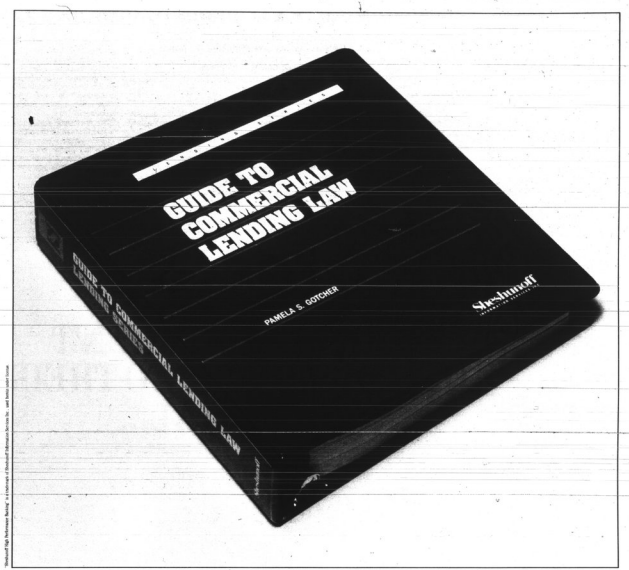

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FDIC Hikes Deposit-Insurance Premiums by 63% for 1991

Continued from *page 1*

crease in operating costs before taxes – above total costs anticipated with the 15-cent premium rate – while the insurance reserve would increase by that amount.

On an after-tax basis, the increase in premiums would represent about 5% of the $15.7 billion in net income earned by FDIC-insured banks in 1989 and about 3% of industry earnings in 1988, said Bert Ely of Ely & Co., Alexandria, Va.

"The big question for banks is how much of the premium increase can be pushed through to the customer," said Mr. Ely. "A lot of bankers say they can't pass it through, and to the extent banks operate in competitive markets, they will have to absorb the extra costs.

"This puts that much more pressure on banks to cut operating costs," Mr. Ely added. "Maybe more people will be laid off because of these increases than would have been."

The FDIC said that, if banks pass along to depositors the full amount of the higher assessment, interest payments would fall by 4.5 cents per $100, or $4.50 on a one-year time deposit of $10,000, disregarding compounding.

No Panic Seen

At Tuesday's FDIC board meeting, Mr. Seidman sought to play down what would be the largest single premium hike in the FDIC's history. "I don't see any panic," he said in response to questions.

The FDIC's bank fund covered 70 cents per $100 of insured deposits at the end of 1989, and coverage has since fallen to 60 cents, said Mr. Seidman, who has repeatedly said the fund is adequate to deal with foreseeable problems. He recently said the coverage ratio would fall this year to between 50 and 60 cents – after $2 billion in anticipated losses brings the balance down to $11 billion at yearend.

The FDIC Tuesday said a premium increase to 15 cents next year would have raised $750 million; the 19.5 cents will generate $1.85 billion more than the current premium for the bank insurance fund.

"They are reaching for every last buck," said Mr. Ely. "In effect, it is looking out only for the FDIC's interests and ignoring the impact of this on the healthy banks in the country."

"We are slowly strangulating the healthy segment of the banks," he said. "Basically, deposit insurance is becoming increasingly unfair to America's healthy banks. In effect, we have the good subsidizing the bad."

Roger V. Smith, president and chief executive officer of Palo Alto, Calif.-based Silicon Valley Bank, said this year his bank will pay $550,000 in insurance premiums at the 12-cent rate. An increase to 19.5 cents would bump up the payment to $896,000.

"That is substantial," Mr. Smith said. "You are talking about [not hiring] a lot of good loan officers. Clearly, it is penalizing the good guys for the bad apples in the system."

But he supports the FDIC. "As a banker, I hate to pay it, but I think we should," he said.

The health of the FDIC's insurance fund has already become a high priority in Congress, which is anxious to avoid any duplication of the thrift crisis. Late last month, Sen. Donald W. Riegle Jr., D-Mich., sent a letter to Federal Reserve Board Chairman Alan Greenspan, expressing concern about the health of the fund. The "Fed should take a fresh look at that now," he said.

"I think that this issue over the period of the next six to eight weeks will just about move everything else off the agenda," said James Buters, a Washington attorney and lobbyist.

Mr. Butera said he believes Congress will be wary, because it has already experienced the S&L crisis, of an outcry from the banking industry that the assessment is too draconian.

The American Bankers Association said in a statement that the FDIC's proposed action reinforces the need to reform the deposit insurance system in a way that protects the fund's soundness without requiring additional premium increases.

"The banking industry cannot, nor should it be expected to, go on endlessly paying higher premiums," it said. "Putting more money into the fund is not a panacea."

Another trade group, the National Council of Savings Institutions, issued a statement saying, "the higher costs add to already overburdened operating costs" and "highlight the need for policymakers to move as quickly as possible toward a restructuring of the federal deposit insurance system that will put that system on an economically sound basis for the long term." □

> **"We are slowly strangulating the healthy segment of the banks."**
>
> **Bert Ely**
> *Ely & Co.*

Opinions and Insights. Read it in

Management

Thursday's AMERICAN BANKER

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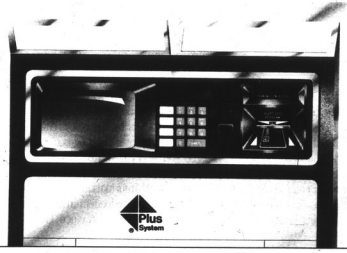

U.S. Mortgage Debt Thrives, Defying Mideast-Led Rout

By RICHARD CHANG
Reuters

NEW YORK — The U.S. mortgage securities market is thriving, even though the Mideast crisis fueled inflation fears in the bond markets and propelled investors to safe investments such as Treasury bills.

Real estate mortgage investment conduit securities, or Remics – which were created to fill the appetites of short-term and long-term investors – boomed in volume in the past two weeks, with an estimated $8 billion in new issues. This already exceeds July's $6.5 billion, suggesting that August could break May's record volume of $12.5 billion, analysts said.

As Treasury bonds slumped on Mideast unrest, mortgage issues – the next-safest market – weakened less and often firmed as the mortgage securities offered much higher yields.

This fueled a flood of new Remics which, in turn, pushed up the price of simpler mortgage pass-through certificates as dealers bought these to repackage into Remics.

"There's a Remic collateral crunch" as dealers scramble for a limited supply of pass-throughs, one trader said.

Yield Spreads Anemic

Yield spreads are at the lowest levels since early 1989 and could fall even below the 100 basis-point range for benchmark mortgage pass-throughs, analysts said. Early this week, banks and insurance companies wary of recession snapped up short-term classes of Remics, which resemble corporate bonds but are not hurt by events that could harm individual companies.

"Mortgage securities' credit quality is so high" that they attract funds whenever event risk hits the market, said Andrew Davidson, managing director of Merrill Lynch Capital Markets.

Long-term Remic classes drew funds and individuals as yields rose along with inflation expectations.

Dealers were able to meet this demand as "the Remic bid came back very strongly" due to the Middle East crisis, said Monica Barry, vice president of Morgan Stanley & Co.

Dealers can profitably create Remics only when long-term debt yields exceed those on short-term paper, analysts said. This allows them to buy high-yield 30-year pass-throughs to create shorter-term Remic securities with lower yields.

> **"Mortgage securities represent good value and can hold their value."**
>
> **Andrew Davidson**
> *Merrill Lynch Capital Markets*

Arbitrage Opportunity

This arbitrage opportunity – marked by a steepening of the yield curve – presented itself when the Middle East crisis depressed bond prices and forced up long-term debt yields.

"Dealers can upsize a lot of [recent] deals and are confident that the bonds they create will keep moving," one trader said.

Remic sales have become easier as oil-led inflationary fears cut the major risk affecting mortgage securities. As rates rise, borrowers are less likely to refinance the securities' underlying loans. Bondholders can thus be more assured that their interest income will not fall.

Further Tightening Foreseen

As the trend continues, "some further tightening [in yield spreads] is possible to less than 100 basis points," said Mr. Davidson of Merrill Lynch.

"But mortgage securities represent good value and can hold their value," he said.

"There may be a short-term disturbance if there is a rally in the market," Ms. Barry of Morgan Stanley added. "But there is no end in sight to strong demand for high-quality, high-yielding paper." □

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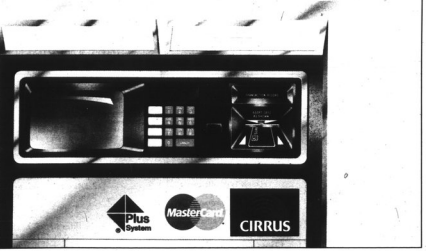


Realtors Fearful Of Higher Rates From Gulf Crisis

WASHINGTON (UPI) — A prolonged crisis in the Middle East could significantly harm potential first-time home buyers, whose median income was about one-third short of what was necessary to purchase a typical starter home during the second quarter, the National Association of Realtors said.

Higher family incomes allowed first-time buyers to offset rising home prices and mortgage rates in the second quarter, but their purchasing power remained much below that of repeat buyers.

Norman D. Flynn, president of the NAR, said if the situation in Kuwait blew over quickly, interest rates would return to their earlier trend downward. But Mr. Flynn warned that "if the crisis is of longer duration, we expect there to be a significant negative impact on housing markets and affordability, especially for first-time buyers."

Pressure on Rates

A prolonged crisis in the Middle East could force the Federal Reserve to maintain or increase interest rates to contain inflationary pressures created by higher oil prices.

The NAR's first-time home buyer affordability index measured 72.9 for the second quarter, indicating the typical entry-level buyer had only that percentage of the income needed

See **REALTORS** *page* **16**

INTERNATIONAL NEWS

GLOBAL *dispatches...*

Bank of Montreal Reduces Prime Rate by Half a Point

Reuters

TORONTO — The Bank of Montreal caught industry analysts and money market participants off guard when it cut its prime rate to 14.25% from 14.75% late Monday.

Analysts and traders said they had not expected Canada's big five banks to start dropping their primes – the lending rate for top commercial customers – until early next week.

Usually, the banks wait to see the results of the Bank of Canada's weekly treasury auction Thursday and the setting of the central bank's key rate.

"It's a little bit of an aggressive move," said analyst Kevin Choquette of First Boston Canada Ltd.

No Reaction from Other Top Banks

Canada's big five national banks tend to drop their prime rates on the same day, but none of the others immediately reacted to the Bank of Montreal's move. Spokesmen for the other banks were either unavailable for comment or declined to say whether they planned rate cuts before Thursday's central bank auction.

Industry analysts said there have been cases in the past where one bank has cut rates a week before its competitors.

"They seem to be anticipating a lower bank rate on Thursday and perhaps trying to get a bit of an edge on the competition," said analyst Susan Cohen of Deacon Barclays de Zoete Wedd Ltd. She added that the Bank of Montreal had acted aggressively with regard to rate cuts in the past, so today's move was not out of character.

The analysts said the bank's early move might be perceived positively by consumers.

Bank and money market players expect the Bank of Canada to cut its key rate Thursday after fresh evidence late last week that the country's economy is slowing.

Recession Called Possible

Some economists said reports Friday that unemployment climbed and housing starts tumbled in July mean Canada may even be on-the verge of a recession.

Canada's unemployment rate, seasonally adjusted, rose to 7.8% in July from 7.5% in June, Statistics Canada said. Housing starts fell 11% in July to a seasonally adjusted annual rate of 173,000 units, from 195,000 in June.

Bond traders said they had already discounted the effect of a rate cut on prices. But Peter O'Marra of Richardson Greenshields Canada said the timing of the Bank of Montreal cut was not discounted.

Mr. O'Marra said news of the prime cut pushed short bonds up a nickel in late trading. "There's room to trade up early tomorrow," he added.

The Bank of Montreal cut was effective as of Tuesday.

... by country

MIDDLE EAST

The U.S. Treasury Department is still putting together an exact accounting of Iraqi and Kuwait assets held in the United States nearly two weeks after they were frozen, Treasury officials said.

"There's a lot of reporting that's coming in," one official told reporters. "[The assets] are significant. As to an exact number, I don't have that right now."

The Treasury has established teams to handle queries from companies affected by the freeze.

The Treasury is working with oil companies to ensure that any payments they make for Iraqi or Kuwaiti oil shipped before the economic embargo go into blocked bank accounts, Treasury officials said.

"I think we're resolving that problem with the oil in the high seas," said one official.

The officials also confirmed that **Kuwait Real Estate Bank** had been added to a list of banks covered by the Presidential order to freeze Kuwaiti assets.

JAPAN

Major Japanese banks face more downward pressure on their credit ratings because of rising rates and changing markets in Japan, U.S. analysts said.

Moody's Investors Service said on Monday it downgraded to Aa-1 from Aaa the long-term debt of **Fuji Bank** Ltd. because of its "higher risk profile," and **Dai-Ichi Kangyo** Bank Ltd. because of greater margin pressures and vulnerability to an earnings squeeze as rates rise.

Standard & Poor's Corp. on negatively changed the credit outlook on five Japanese city banks on Monday, reflecting changes making it harder for them to meet historical operating levels.

The agency reduced its rankings Dai-Ichi, **Kyowa Bank** Ltd., **Mitsubishi Bank** Ltd., **Sanwa Bank** Ltd., and **Sumitomo Bank** Ltd. Late last week, S&P also said it might downgrade Tokai Bank Ltd.'s CDs and letter-of-credit backed issues.

"We're letting the market know what likely direction the ratings will move over a 12- to 36-month period, if any action were to take place," said Ernest Napier, a ratings analyst with Standard & Poor's.

The by country **briefs were supplied by Reuters.**

U.S. Banks Retreat on Global Lending

Continued from *page 1*

ing caution of banks at a time of greater 'perceived vulnerability of the U.S. financial system."

The void created by U.S. banks was filled by European banks, which increased their international business in the first quarter by $106 billion, or 4.3%, to $2.5 trillion. Japanese overseas banking assets decreased to $829 billion, a drop of 1.5% or $13 billion.

Overall, overseas cross-border lending rose $85 billion, or 3.1%, to a total $2.8 trillion.

Focus Is Changing

U.S. banks in recent years have been dismantling their overseas operations in the wake of tougher capital requirements, mounting credit problems, and heightened competition. The international downsizing is part of a broader restructuring aimed at focusing on their home markets, where many face a growing challenge from better-capitalized and more profitable regional banks.

U.S. bank assets now account for 9.5% of the worldwide total, compared with 12.5% in 1987.

The BIS said the decline of U.S. overseas banking assets in the first quarter was partially due to the $48 billion debt reduction package signed with Mexico in March. The accord allowed many banks to exchange their loans for collateralized bonds at a 35% discount, resulting in a $41 billion reduction in all banks' claims on Mexico, the BIS said.

Loans Written Down

In addition, the agency said, many banks wrote down the values of their loans to developing companies.

International banking experts say worldwide nervousness about the health of the U.S. banking system is hampering the international activities of U.S. banks. European banks, particularly those that retain AAA ratings, indicate they have been enjoying a "flight to quality" as interbank lines to the U.S. and Japanese banking systems are curtailed because of credit worries.

BIS data in fact confirm there was such a slowdown in first-quarter 1990 in U.S. banks' activity in the interbank market, an important mechanism used by banks worldwide for helping to fund cross-border business and a system highly sensitive to credit quality issues.

Change of Direction

U.S. interbank transactions with overseas banks contracted by $48 billion, or 6.3%, to $696 billion after expanding $61 billion in the previous three months.

Dennis Weatherstone, chairman of J.P. Morgan & Co. said in recent testimony to the House banking committee, that credit problems like troubled highly leveraged transactions and junk bonds, "have made many U.S. institutions – not just banks – less acceptable as counterparties in global trading."

John S. Reed, chairman of Citicorp, concedes the U.S. banking system is being affected to some degree by credit worries. Asked whether U.S. banks are feeling the backwash of deteriorating quality perceptions versus more highly rated banks overseas, Mr. Reed, speaking during a recent London visit, said: "I suppose that, at the margin, you have to say yes."

Moody's Investors Service senior analyst Christopher Mahoney said a tightening of bank-to-bank lines "is going on everywhere in the U.S. and Europe" in line with worries over credit quality.

Intra-European banking activity has been expanding fast as a result of moves to integrate the European Community into a single market from the end of 1992. Interbank transactions among European banks increased $73.6 billion, or 11.3%, to $955.7 billion, after growth of 38.5 billion in the previous quarter.

Tokyo Market a Factor

The BIS attributed the decline in Japanese overseas banking assets to the major decline in stock prices on the Tokyo stock market as well as in the yen earlier this year. This resulted in a deterioration of the capital ratios of Japanese banks by reducing the value of their Tier 2 capital and increasing the yen value of their foreign currency assets.

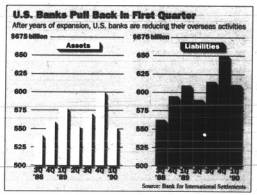
Among borrowing nations, Eastern Europe cut its funding from international banks by $100 million after being the largest group of borrowers in 1989.

But the big drop came in borrowing by Latin America, which contracted by $18.6 billion – a decline largely associated with the effects of Mexico's debt reduction package.

Most banking activity was concentrated within the advanced industrial nations, whose gross new borrowings of $106 billion were equivalent to the growth figure posted in fourth-quarter 1989. Among the major borrowers here was France, which raised $19 billion from international banks as domestic business migrated overseas after the nation fully abolished capital controls on Jan. 1. □

U.S. Banks Pull Back in First Quarter

After years of expansion, U.S. banks are reducing their overseas activities



Source: Bank for International Settlements

Analysts say credit problem such as junk bonds have made U.S. banks less desirable partners in global lending transactions. Writedowns of Mexican loans have also been a factor in the lending retreat.

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Retail Sales Stagnation Could Prod Fed, Analysts Say

Reuters

NEW YORK — Despite upward revisions in U.S. retail sales data for May and June, the lower-than-expected figures for July show a continued flat pattern that suggests further easing by the Federal Reserve, analysts said Tuesday.

"Year-over-year retail sales were up 2.8% in July 1990 over July 1989, that is obviously not keeping up with inflation," said Joseph Liro of S.G. Warburg and Co.

The Commerce Department reported July retail sales rose 0.1%, compared to economists' expectations of an increase of 0.4%.

"I think the trend is still down; the fact that June and May were revised up doesn't really change that year-over-year retail sales are declining in real terms," said economist Lawrence Krohn of Shearson Lehman Hutton.

Fed Ponders Response

But he said the Federal Reserve is clearly wrestling with the question of "to what extent they should withhold the ease because of the inflationary impact of higher oil prices."

Retail sales for June were revised to a 1.1% increase from a gain of 0.5% reported previously. The May number, previously reported as down 0.6%, was revised to show a drop of 0.1%.

> **"Year-over-year retail sales are declining in real terms."**
>
> **Lawrence Krohn**
> *Shearson Lehman Hutton*

"Despite the inflation jolt, the Fed is still going to be easing policy, it's just a question of when," said Bruce Steinberg of Merrill Lynch and Co.

Tightfisted Consumers

He continued, "As we moved into the summer, the consumer was showing no great desire to spend money and I imagine that has only intensified." Now, with energy prices rising, "consumers are going to remain a very subdued lot."

Mr. Steinberg said the most likely course of action by the Fed would be a further reduction of a quarter of a percentage point in the federal funds rate, now around 8% after a quarter-point drop in June.

Charles Lieberman of Manufacturers Hanover Corp. said the May through July numbers, "while a bit higher, are not suggesting that the consumer is doing well or spending actively." Excluding autos, he said, spending has simply kept pace with consumer inflation.

Repercussion of Iraqi Invasion

The Fed, he added, "probably would have eased monetary policy in the absence of the Iraqi invasion, but now they're simply biding their time."

One of the surprises in the numbers, Mr. Lieberman added, was the strength in furniture and building materials over the three months, which was unusual considering the weak housing market.

Mr. Liro of S.G. Warburg said the next move by the Fed could be a reduction of one-quarter to three-eighths of a percentage point in the Fed Funds rate, bringing it down to roughly 7.70%.

Recession a Possibility

Merrill Lynch'sMr. Steinberg, who expects a similar reduction, said "the odds have risen" that the U.S. economy could be in a recession by the fourth quarter.

Mr. Krohn of Shearson Lehman said the third-quarter gross national product could be flat or negative. A recession is defined as two consecutive quarters of declining gross national product. □



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Realtors Fearful Of Higher Rates

Continued from *page* 13

to buy the typical starter home. The index was at 73 in the preceding quarter and at 71 in the period a year ago.

The index shows the ability of renters, who are prime potential first-time buyers, to qualify for a conventional mortgage on a starter home. Their median income represents the typical income of a renter family with wage earners between the ages of 25 and 44.

The 72.9 index for first-time buyers was 29.9% below NAR's composite housing affordability index, which measures affordability for all buyers of existing homes. The composite index measured 104 for the second quarter.

During the second quarter, the median income of first-time home buyers was $23,368, up $245 since the first quarter. The median starter-home price rose to $81,800, from $81,500 in the first quarter.

The interest rate – the closing contract rate plus fees or points paid at settlement – used in the index rose to 10.15% from 10.04%. The additional charge of private mortgage insurance raised it to 10.40%, the NAR said. □

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R. A. Felder Lic Auctr #793917 sells on 8/23/90 10:30 AM at 356 Ave. St., Newburgh 99 Buick #2G4WB14WXK1402197 Rec'f: Martinez; 11 AM at RD1, Oswego, '69 Chate #CW132369 Rec'f: Loverland & Trepasso; 12:30 PM at 146 No Rte 45, Sprng-valley, '82 Ford #1FMEU13G8CLA54411 Re: C. Lutz. Published 8/8 & 8/15/90.

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SUPREME COURT - COUNTY OF BRONX THE GREEN POINT SAVINGS BANK Plaintiff against AIDA MARTINEZ et al Defendant(s). Pursuant to a judgment of foreclosure and sale entered herein and dated July 6, 1990, I, the undersigned Referee will sell at public auction in Room 118, Mezzanine, 851 Grand Concourse, Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises bearing at a point on the south side of Watson Avenue, 244.91 feet easterly from the corner formed by the intersection of the southerly side of Watson Avenue and the easterly side of Virginia Avenue, being a plot 103.06 feet by 23 feet and known as 1946, Watson Avenue, Bronx New York. Approximate amount of lien $214,705.81 plus interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 15198/89. Dated August 14, 1990. Ira Greenberg, Referee, Cullen & Dykman Attorney(s) for Plaintiff, 233 Seventh Street, Garden City, NY 11530.

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R. A. Felder Lic Auctr #793917 sells on 8/28/90 2:30 PM at Box 647 Rt 52 Glenham, '77 Chev #1N69U7110829 Re: R. Polanco-Mendez; sells 8/30/90 10 AM at 40 So. Cotiird Ave, Harrsdale, '83 Merc #1MEBP8936DG655825 Re: J. Ahearn. Published 8/15 & 8/22/90.

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Bankers Argue that 3% Leverage Rule Will Hinder Growth

Continued from page 1

or simply if they have aspirations to grow, banks will have to confront a stock market that at best has been indifferent to bank stocks, they said.

An additional concern is that if the economy dives into a recession – as seems increasingly likely – the newly set requirements may go beyond the reach of more banks. Banks would then be forced to shed assets, said Robert Litan, a research fellow at the Brookings Institution.

Burden Was Noted

When the Fed proposed the 3% leverage ratio, a handful of commenters told the agency the ratio was overly burdensome. Among them were Continental Bank Corp. of Chicago, PNC Financial Corp. of Pittsburgh, and Citicorp of New York.

"We're comfortable with the risk-based capital guidelines," said Brian W. Nocco, vice president of Continental. "Our feeling is, do you really need [the leverage ratio]? If investment banks can leverage up, why shouldn't banks?"

Continental currently has no problem meeting the leverage ratio, Mr. Nocco said. But for Continental and other large banks moving toward more liquid assets, the leverage ratio could become a constraint, he said.

Competitive Problem

Not only does the leverage ratio put banks at a competitive disadvantage against nonbank financial institutions, but it also handicaps U.S. banks against foreign competitors, said Mr. Nocco and other commenters.

Others objecting to the leverage ratio in the context of international competitiveness were Chemical Banking Corp. and Chase Manhattan Corp.

But it is banks' desires to pile on more assets that regulators are trying to prevent, suggests Robert F. Miailovich, the Federal Deposit Insurance Corp.'s assistant director of the division of supervision.

> **"Their argument is exactly what's giving us pause. They're saying we ought to be able to be bigger with the same amount of capital."**
>
> **Robert F. Miailovich**
> *Federal Deposit Insurance Corp.*

Argument Called Faulty

"Their argument is exactly what's giving us pause. They're saying we ought to be able to be bigger with the same amount of capital," said Mr. Miailovich. "The whole idea of risk-based capital is to improve analysis, not to be able to reduce capital.

"No one is arguing our banking industry is overcapitalized."

The FDIC, which soon will come out with its own leverage guidelines, will probably follow the Fed's lead. For the sake of interagency uniformity, the FDIC is no longer arguing that the 3% leverage ratio may be too low. The Office of the Comptroller of the Currency, which has endorsed the 3% leverage ratio, should be issuing its final rule shortly.

How difficult the broad set of new capital standards is for banks to achieve will also largely depend on how stringent bank regulators are, observers said.

"If the economy continues troubled and regulators require more write-offs, institutions will have more trouble meeting the guidelines," said Robert Mannion, former deputy general counsel at the Fed. "It is all a function of where the economy is going."

Subjectivity Charged

Ever since the leverage rule was first proposed, the American Bankers Association has registered strong disapproval. Its main objection is that regulators want to link a bank's Camel rating to its leverage ratio; the lower the rating, the higher the leverage must rise above 3%.

The Fed contends that most banks should have no trouble meeting that standard, most of all the strong banks that receive a rating of 1 on the five-point Camel scale. The ABA says the dependence on the Camel rating leaves a bank too vulnerable to the subjective judgments of regulators. □

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Ex-Thrift Chief Is Indicted on Embezzlement

BEAUMONT, Tex. — Alan Rothery, former chairman of a failed Texas thrift, has been indicted on charges of embezzling more than $4 million from the institution, a federal prosecutor said.

Mr. Rothery, a California lawyer who headed Trinity Valley Savings and Loan Association in Cleveland, Tex., faces up to five years in prison and a fine of $250,000 if convicted on any of 31 counts, said U.S. Attorney Bob Wortham.

The indictment, which was handed up Aug. 2 and unsealed Tuesday, charges that Mr. Rothery borrowed money from Trinity Valley Savings to fund California real estate ventures. The thrift failed two years ago.

Losses to the federal government, which controls the loan portfolio after having seized the thrift and reimbursed depositors, are expected to be about $33 million, said Mr. Wortham.

Trinity Valley was one of the top 100 savings and loan fraud cases on a list prepared by the Justice Department, according to Attorney General Dick Thornburgh. — Reuters

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COMMENT/MERGERS
Key Centurion Grows by Annexing Strong Franchises in W. Virginia

By JOSEPH F. SANCHEZ
SNL Securities

How did Key Centurion Bankshares emerge as the largest banking company in West Virginia? "We are the creature of an acquisition program. We have increased our size at least 25% in additional assets every year," said Larry Stark, vice president and investor relations coordinator for the Huntington-based company.

Key Centurion is the result of a series of mergers of community banks. There was no large lead bank or substantial central organization around which a string a series of smaller acquisitions. The company's expansion program has positioned it to reach $3 billion in assets, making it the undisputed leader among West Virginia's financial institutions. Last April, within the span of a week, Key Centurion announced two acquisitions

> **"Key Centurion tends to acquire profitable, well-capitalized, clean institutions."**

in different regions of the state that would increase the company's assets by 24%.

The deals with Beckley-based Southern Bankshares, and Wheeling-based Spectrum Financial Corp., are the 15th and 16th announced by Key Centurion since the creation of bank holding companies was allowed in the state in 1982, and would place it in the enviable position of being about as large as the next two in-state competitors combined ($1.2 billion-asset United Bankshares Inc., and $1.9 billion-asset One Valley Bancorp.).

Going into New Territory

With the exception of its pending acquisition of Southern Bankshares, the company has normally targeted regions in which it has had little or no presence. This strategy of adding new local markets has dictated a particular expansion style. Key Centurion acquires banks with solid management teams that will remain in place and continue to operate with a great degree of autonomy.

While this style has the benefit of low central overhead, the opportunities for immediate synergies through cost reductions are limited. As a result, Key Centurion has had to avoid paying large premiums for its acquisitions.

The company has proved to be an adroit acquirer, incurring little dilution in earnings per share, with most new affiliates contributing at least somewhat during the first year of combined operations. While it takes a projected 22 years for the buyer in the average bank merger to achieve its return-on-investment target, Key Centurion usually expects to reach its goals in 12 years or less.

Key Centurion tends to acquire profitable, well-capitalized, clean institutions. "We have done nothing to disturb the credit profile that was there to begin with. In the rare exceptions where a bank is not a high performer, we go in on a different basis, and we have paid a lower price," said Mr. Stark.

The only significant case is the First National Co., a $221 million-asset one-bank holding company in Pikeville, Ky., which had some loan problems when it agreed to be acquired. That deal was priced at 1.04 times book value and structured so that if First National earned $2.7 million, which would be roughly 1% on assets, its shareholders would receive additional consideration. First National's reserves were increased before it became part of Key Centurion's balance sheet.

Good Track Record

The West Virginia company has managed to perform well while accumulating in rank. It has posted an average return on assets of 1.15% since 1985 and maintained a strong capital position, with an equity-to-assets ratio currently at 10.15%. During a period when most banks have suffered deterioration in asset quality, Key Centurion has improved its ratio of nonperforming loans to total loans from 1.84% in 1985 to 0.97% as of June 30. In all these measures, the company exceeds the averages for publicly held banking institutions in West Virginia and the nation.

According to chief executive Michael Perry, an important ingredient in Key Centurion's dealmaking is that it not only buys good managements, but also creates a class of motivated "owner-managers" who regard their financial well-being as closely tied to the company's. In West Virginia's fragmented, family-owned banking industry, the directors and senior officers at Key Centurion's acquired institutions usually have had large percentage ownerships of their banks. "If you do a stock deal with them, they then have a goodly number of your shares," said Mr. Stark.

Management by Consensus

To coordinate affiliate operations, local managements, as corporate board members, hold monthly meetings at which each subsidiary's performance is examined, experiences are shared, and decisions are jointly made concerning policies and procedures.

This system of participative coordination, which Key Centurion calls "management by consensus," is instrumental in assisting local boards in solving local problems and finding new business opportunities, and in shaping the company's overall direction and performance.

For example, among the policies developed by the company were one dealing with meeting data processing requirements and another concerning loan policy and documentation.

In early 1987, Key Centurion signed a long-term contract with Mellon Datacenter, the high-profile Mellon Bank Corp. data processing unit, to provide the West Virginia company with the capacity to grow to $3 billion in assets without a proportional increase in data processing cost.

Savings from Outsourcing

The contract is being renegotiated at present, but the outsourcing of each additional acquired institution's data processing requirements has saved Key Centurion an average of $1 million a year since 1987.

Working committees of Key Centurion's subsidiaries have made recommendations on loan policy and documentation that have already been adopted by a majority of the subsidiary boards. By the end of this month, the company will have a common loan policy and loan documentation in place throughout the franchise. An important element of this policy is that all lending is done at the subsidiary level.

> **"Key Centurion has distinguished itself as a bank able to structure moderately priced acquisitions by expanding its markets and building its management team in the process."**

Since each unit is a separate legal entity, there is a lending limit applicable in each case, and even though Key Centurion's lending limit on a corporate basis is over $35 million, the largest single credit at any subsidiary would be $10 million. "And there are precious few of those credits," noted Mr. Stark. Key Centurion is in good company. A similar policy is followed at Banc One Corp., which because of its larger size sets a $50 million maximum exposure to any individual customer.

Maintaining the lending cap at $10 million helps the company avoid excessive exposure with any one borrower. The policy does not infringe on a loan manager's ability to recommend a credit or price a transaction, because his or her experience with the local market is what determines those types of decisions.

Room for Growth

There is still room for growth for Key Centurion in West Virginia. The pending Spectrum and Southern acquisitions would increase the company's statewide deposit share to 15.5%, but with West Virginia's deposit cap of 20%, additional acquisitions in the state should be expected. The company is also eager to make headway in Kentucky, where it operates in only out-of-state banking unit. In the Blue Grass State, the only sizable banking institutions are $3.5 billion-asset Liberty National Bancorp and $1.7 billion-asset First Security Corp.

Key Centurion has distinguished itself as a bank able to structure moderately priced acquisitions by expanding its markets and building its management team in the process.

If the company remains independent, it will have to face the issue of creating a stronger centralized management. Given its size, it may also have to consider affiliating with a large out-of-state regional bank. Since such an option is not likely to be created until regional bank stocks recover, Key Centurion may be doing fine, waiting for several years to come. □

Acquisition History
Key Centurion Bankshares

Company Acquired	Date Announced	Accounting Method	Assets (Millions)	Price-Book Ratio	Price-Earnings Ratio
Spectrum Financial	4/90	Pooling	$263.7	1.46	12.5
Southern Bankshares	4/90	Purchase	$301.4	1.45	12.2
Farmers and Citizens	2/89	Purchase	$45.0	1.04	-
Guyan National Bank	10/88	Purchase	$25.0	1.45	10.3
First National Co.	9/8*	Purchase	$221.0	1.04*	8.7*
				1.45*	24.2*
National Bank of Commerce	12/87	Pooling	$82.1	1.32	11.9
Lincoln National	10/87	Pooling	$61.2	1.45	10.9
Central National Bank of Buckhannon	4/87	Pooling	$169.2	1.44	9.1
Wayne Bancorp	9/86	Purchase	$59.1	1.28	8.9
Union National of W.Va.	9/86	Purchase	$326.7	1.55	12.5
Nicholas County Bank	10/86	Purchase	$69.7	1.45	10.0
Boone National Bank	12/85	Pooling	$98.5	1.08	7.2
Carnahan Bancorp	3/85	Purchase	$508.2	0.97	11.3
Huntington Trust	11/84	Pooling	$84.7	1.03	9.2
National Bank of Logan	11/83	Purchase	$123.4	0.95	6.0
Citizens of Pt. Pleasant	12/82	Purchase	$81.7	1.37	9.5

*Minimums and maximums based on conditions of definitive agreement

Private Acquisition Deals
(Dollar Amount in Millions)

August 6-13

Status	Seller	City/State	Assets	Value	Buyer	Assets
P	**River Oaks Bancorp**	Houston	437	44	**Central Bancshares, Ala**	4,617
P	**Bank of Iowa**	Des Moines	2,481	219	**Firstar Corp., WI**	8,530
P	**American Bank Shares**	Great Bend, Kan	111	NA	**Fourth Financial, Kan**	4,151

Status: C= Completions; P= Announcements; T= Terminations; N= Non Binding Intent

Government-Assisted Acquisitions

August 6-13

Resolved Institution	City/State	RTC/ FDIC	Deposits ($ millions)	Acquirer	Premium * (in Ownership)
National Bank of Washington	Washington, DC	FDIC	$1,000	**Riggs National Corporation**	33,000
Baldwin County Fed. Svgs Bk	Robertsdale, Ala	RTC	139	**First Alabama Bancshares, Inc.**	4,500
First Nat'l Bank of Corpus Christi	Corpus Christi, Tex	FDIC	121	**First City Bancorporation of Texas**	2,514
Banc Iowa Federal Svgs Bk	Cedar Rapids	RTC	120	**Multiple Acquirers**	3,861
Banc Iowa Federal Svgs Bk	Marion,	RTC	$118	**Brenton Bank, Inc.**	3,502
Banc Iowa Federal Svgs Bk	Iowa City	RTC	2	**Hills Bancorporation**	359
First Pacific Bank	Beverly Hills, Calif	FDIC	110	**CCB Bancorp Inc, Santa Anna**	501
Citizens of Tex. Sdd. Assn.	Saydown, Tex.	RTC	109	**West Loop Sdd. Assn.**	300
Colonial Federal Svgs Assn.	Prairie Village, Kan	RTC	99	**First Bancorp of Kansas**	3,000
Gannett Sdd. Assn.	Gannett, Kan	RTC	15	**Dole Synagie Enterprise, Inc.**	286

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source: SNL Securities

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER

DEALS

Atlanta Developer in Restructuring Negotiations with Bank Groups

By STEPHEN KLEEGE

Lenders are expected to look hard and long before agreeing to a plan by Atlanta developer John C. Portman to give his unsecured lenders a security lien.

The Portman Co.' secured lenders, including Citicorp, First Chicago Corp., and Bank of Boston Corp., appear resistant to sharing their collateral with unsecured creditors. They will meet Friday in New York.

A senior vice president of one of his lenders, asked whether he would allow a second lien, responded: "Are you kidding? We wouldn't think of it."

The usually secretive Portman Cos. announced a restructuring of its debt – $1.6 billion on Atlanta properties alone – following reports in the *Atlanta Journal and Constitution* suggesting that Mr. Portman's "debt woes" are comparable to Donald Trump's. The company hasn't missed an interest payment, but could have problems rolling over existing debt.

Potential Creditors' Conflict

The Trump analogy is apt in some ways because of the potential conflict within the creditor camp. Industry sources noted that the type of financing used by Mr. Portman usually does not permit a second mortgage.

Mr. Portman said the restructuring was needed because of more stringent examination standards being imposed by the bank regulators. Ellen Stockbridge, agency director of the Atlanta office of the Comptroller of the Currency, confirmed that examiners "are more careful about personal guarantees" than formerly.

The *Atlanta Journal* said Mr. Portman is developing a major Atlanta office tower with a $300 million construction loan and a $78 million personally guaranteed loan personally from Citicorp. The bank declined comment. One source said Citicorp's attempt to syndicate the construction loan had "no success in the marketplace."

Security for the Unsecured

Mr. Portman, noting his unsecured debt amounts to only a small portion of his overall debt, said he was proposing "the commercial equivalent of a home-equity loan" to give his unsecured lenders a security interest in certain properties.

While Mr. Portman said in a prepared statement that it's "business as usual" for his company to negotiate with lenders, real estate analysts suggest Mr. Portman may have trouble leasing the 1.2 million square feet of space which is expected to come on the market in 1992. The Portman Cos. control seven hotels, 17 office buildings, five "mart" and showroom buildings, and other properties in Atlanta, San Francisco, New York, and Shanghai.

"Our equity in this vast portfolio is more than adequate to provide security positions to our currently unsecured lenders and to meet the new, more-stringent guidelines," Mr. Portman said.

The Atlanta newspaper, citing court records, lists the following loans to Mr. Portman:

- A $140 million construction loan from First Chicago Corp., due December 1990.
- A $152 million loan from First Chicago and Swiss Bank Corp., also due December 1991.
- A $132 million construction loan granted late last year by Security Pacific Corp. and recently increased by $5 million.

Several insurance companies and Japanese financial institutions are also listed among Mr. Portman's creditors. □

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Highlights for Tuesday, August 14

TOP 10 GAINERS %

Central Jersey Bancorp	7.1
First Security Financial Corp.	7.1
First Fidelity Bancorporation	6.8
Citizens First Bancorp, Inc.	5.3
Summit Bancorporation	4.8
Bancorp Hawaii, Inc.	4.7
National Bancorp of Alaska	4.4
Provident Bankshares Corp.	4.0
Central Fidelity Banks, Inc.	3.9
Multibank Financial Corp.	3.7

TOP 10 LOSERS %

Pacific Western Bancshares	-5.3
North Fork Bancorporation	-5.3
Mid-America Bancorp	-5.3
National Penn Bancshares, Inc.	-5.1
Valley National Bancorp	-5.0
Heritage Financial Services	-4.7
Sanwa Bancorp	-4.7
Trustco Bank Corp NY	-4.3
Key Centurion Bancshares, Inc.	-4.3

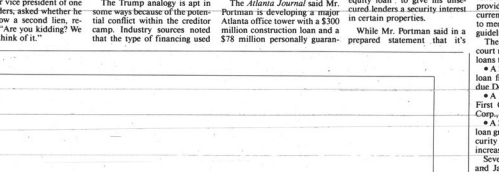
MOST SHARES TRADED

Citicorp	829300
BankAmerica Corporation	579100
First Union Corporation	521700
Citizens and Southern Corp	336400
First Security Corporation	293800

VOLUME AS % OF AVERAGE

Mid-America Bancorp	1098.9
Liberty National Bancorp, Inc.	551.8
Imperial Bancorp	429.2
Sanwa Bancorp	379.8
First Security Corporation	339.2

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts 1/3/89=100

Percentage Changes

Computed from the indices reported 2½ and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.04	1.37	-8.40	0.19	1.73	-10.92	-0.40	0.44	-20.03

TOP 225 BANKS / 25 THRIFTS

52 Wk Hi	Lo	Name	PE	Mkt. to bk.	Cls.	Chg.
29¾	19¾	FirstAmCorp/TN	NM	58.9	10	¼
34½	21¾	FirstBancorp/PR	7.3	87.0	22	¼
29¾	12¾	FirstBankSystem/MN	NM	106.2	13¾	¼
49¾	23¾	FirstChicago/IL	7.2	66.9	24	¼
29½	23¾	FirstCitizens/NC	7.6	88.1	29¼	¼
39½	18	FirstCityBanc/TX	3.1	60.3	20¾	¼
19¾	11¾	FirstColonial/IL	9.2	116.4	19	¼
23¾	17¾	FirstCommerce/LA	8.3	93.2	18¾	¼
29	21½	FirstCommerce/NE	8.5	88.7	29½	¼
21¾	17¾	FirstCommercial/AL	9.8	108.2	17¾	¼
19¾	18¾	FirstCommercial/AR	8.1	118.1	17¾	¼
19¾	14¼	FirstCommunity/IL	11.1	113.8	16½	¼
35½	18¾	FirstEastern/PA	7.0	85.3	19	¼
7	56½	FirstEmpire/NY	7.6	90.3	56½	-½
33¾	13¾	FirstFidelity/NJ	NM	75.3	15¾	¼
50	39	FirstFlorida/OH	12.2	175.9	39	...
34¼	18½	FirstFtrsMgmt/IL	9.5	72.9	19¼	¼
18¾	14¼	FirstMichBank/CpMI	7.9	109.9	14½	...
24¾	17	FirstMidAmer/IL	9.7	136.7	17¾	¼
26½	19	FirstNatBancorp/GA	7.9	121.6	19¼	...
44	19¼	FirstPrvdnc/NJ	4.7	75.5	19¼	¼
19¼	12¼	FirstSecurity/KY	11.0	100.7	13¼	...
18	13¾	FirstSecurity/NC	13.4	177.3	15	...
33¾	24½	FirstSecurity/UT	7.4	77.4	25¾	¼
26¼	21¾	FirstTennessee/TN	7.6	95.7	22¾	¼
25¾	15¼	FirstUnionCorp/NC	8.3	75.4	15¼	¼
35¾	22¾	FirstVirginia/VA	7.1	99.8	22¾	¼
45¼	37¼	FirstWachovia/NC	10.1	151.8	40	1
9	6¾	FiserCorp/MI	6.8	106.2	8¾	¼
20¼	17¼	FirstbankIL/IL	8.3	104.1	17¾	...
9¾	6¼	FirstofAmerica/MI	6.6	95.0	6¼	...
29¾	18	FleetNorstar/RI	12.5	87.3	19¼	¼
25	19¾	FlorPwrReal/CpFL	8.5	103.5	19¾	¼
28	20¾	FourthFin/CpKS	14.0	137.0	21¼	¼
21¾	15	FulbrtFin/CpFL	7.2	112.5	15	...
24½	16¾	GBC Bancorp/CA	8.2	200.8	19¼	...
15¾	8¾	GenesisEnt/Inc/MS	17.1	65.3	8¾	¼
9¼	6¾	GeneseeCorp/NY	3.9	104.2	6¾	...
21¾	14¾	HeritageFin/SvcIL	8.7	114.8	15¾	¼
28	14¼	HiberniaCp/LA	17.7	109.3	15	...
20½	13¾	HuntingtonBcshr/OH	9.1	100.8	13¾	...
32¾	19¼	INBFin/CpIN	7.3	84.7	19¼	...
27¾	13½	ImperialBancorp/CA	6.6	95.0	15¼	...
26¾	18	IndependenceBk/PA	9.1	97.0	17¾	...
13¾	8½	IntegraFin/CpPA	13.6	89.1	10¾	...
48	35	IowaNatBcshrs/IA	8.8	115.6	36	...
43	31	J.P. Morgan/NY	NM	148.2	39¾	¼
29¼	17¼	JeffersonBcshrs/VA	7.5	86.0	17¼	...
15¾	11¾	KeyCenturion/NY	4.9	67.1	11¾	-½
29¾	23½	KeyCorp/NY	8.9	98.2	23¾	¼
29¾	22¾	KeystoneFin/PA	8.0	122.7	24¼	¼
35¾	26½	KoreaFund/CpFA	8.1	138.5	26½	¼
34¾	23¾	LaSalleFinancial/IL	14.7	216.8	31¾	¼
39¾	30¾	LaSalleStreet/IL	14.7	229.6	31¾	¼
18	10	LandmarkBcshrs/MO	7.4	58.9	10¾	...
31¾	21¾	LeaseAmFin/Bancs/NY	7.8	100.3	23	...
27	17½	LincolnFin/CpIN	6.5	78.0	18¾	¼
11¾	8¾	MNC Financial/MD	8.7	53.5	8¾	...
18	12¾	MagnaGroup/IL	8.9	89.0	12¾	...
60	38¾	ManufacturNat/MI	5.8	92.6	39¾	...
44¾	28¾	Manufacturers/NY	NM	74.7	30¾	¾
21	16¾	MarineCorp/IL	12.1	131.6	20	¼
20¾	13¾	MarkTwainBcshrs/MO	7.9	99.7	14¾	...
28¾	20¾	MarshallBcshrs/WI	8.2	106.3	20¾	...
36	20¾	MellonBank/CpPA	4.2	68.4	20¾	¼
28¼	21	MercantileBancMD	34.8	82.0	21¼	¼
23¾	16¾	MercantileBancorp/MO	NM	97.5	20	¼
14	11	MetroBancshrs/MO	11.8	87.8	11½	...
17½	12¼	MetroCardinal/NC	7.1	93.8	12¾	¼
67	52	MetroCoastBk/NC	10.2	104.3	57½	...
32¼	21¼	MetroMidwest/MO	8.6	107.0	21¾	...
29¾	22¾	MetroCapCp/NY	7.8	135.7	29¾	...
28¼	19¼	MetroNatBancs/AL	7.1	134.2	19	-¼
111.5	84	MetroNatlCorp/AZ	11.5	147.2	84	...
87½	80¾	MetroFargo/CA	4.7	116.7	82½	½
20¾	15¾	MichBancs/MI	8.6	97.1	15¾	...
27¼	21¾	WestOneBancorp/ID	7.7	97.7	22½	...
25¾	19¾	WestcoastBancorp/OR	11.9	147.2	19¾	...
44¼	35¾	WilmingtonTrust/DE	10.6	248.2	38½	½
19¾	15¾	WorthBancorp/MN-AK	7.1	117.3	15¾	...
32¼	25¾	ZionsBancorp/UT	6.8	94.3	27¼	-¾

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt. to bk.	Cls.	Chg.
16¼	12¾	Almanson/CA	7.2	82.1	17¼	-¼
45¾	30¾	AppleBancorp/MI	7.8	67.5	38¼	¼
28¼	8¼	CalFed/Inc/CalBanc	24.7	16.3	8¾	-¼
55¾	41¼	CitadelHldg/CA pf	9.0	66.6	42¼	¼
28¼	24	CoastSavings/CA pf	NM	34.3	24¼	¼
16¼	5½	DimeSvgBk/NY	NM	19.6	5¾	...
24	13	DonerSavings/CA pf	21.9	94.0	14	...
27	18¾	FirstFedFin/CA pf	6.7	112.3	20¾	¼
21¾	12	FedNetMort/CA pf	6.1	32.4	13¾	¼
25	9¾	GLENFED/CA	2.9	28.6	10¾	...
34¾	21¾	GoldenWest/Fin/CA	9.2	145.4	26¼	¼
24¾	14¾	GreatWestern/Fin/CA	13.5	92.3	15	...
14	9¾	GtAmericanBk/CA pf	NM	15.8	13¾	...
47¼	9¾	HomeFed/CpCA pf	NM	20.7	9¾	-¼
27¾	13¾	HomeSvgBanA/M pf	16.0	88.3	17¾	...
16½	10¾	NBB Bancorp/MA	10.6	45.3	10¾	...
43¾	32	NewYorkBancC/ pf	11.5	41.9	41¾	¼
25¾	9¾	PeoplesWstchstr/NY	6.5	32.5	10	...
18½	9¾	RochesterCty/MN pf	6.5	41.3	9¾	...
22¼	6¼	SocietyFor/Svgs/CT	4.6	35.0	7¾	¼
19¾	9¾	SPSvBk/Bancorp/CA	5.6	58.8	9¾	-¼
12¾	6¾	StandardFed/Bk/MI	5.8	49.7	7¾	-¼
26¼	17¾	WashingtonFed/CO	9.3	54.9	17¾	...
21¾	15¾	WashingtonFed/IL-WA	9.3	187.1	20¼	½
11¼	9¾	WestcorpFin/CA pf	6.5	88.6	9¾	...

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding. (As of June 30, 1990, the market value cutoff for banks was $56.71 mil. and for thrifts $107.8 mil.) 52 Wk Hi (or the moving 52-week high and low for the stock. PE, the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share as reported by primary announced earnings. Mkt. to bk., the ratio of the stock price to the company's book value, expressed as a percentage. **Book value** is adjusted for announced earnings and dividends. Cls. The price at which the stock last traded. If no trades for the day, the latest bid. **All Banks and Thrift Indexes:** A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights show the largest percent gainers in price and two volume indicators most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

First Chicago Launches Unit

By NANINE ALEXANDER

CHICAGO — Taking advantage of the many overleveraged companies now in trouble, First Chicago Corp. announced a new business group on Tuesday that will make equity investments in troubled, debt-laden companies.

The restructuring advisory department will also offer financial consultant services to troubled companies, said Lawrence Fox, senior vice president, a 23-year veteran of First Chicago who will head the department. The division will not do business with First Chicago borrowers, to avoid any conflicts of interest.

Even though banks invest in companies through venture capital subsidiaries, it has not been banking practice to take stakes in troubled firms.

$10 Million to $30 Million Range

"It's a kinda the church of what's happening now," said Mr. Fox, at a news conference. He said the company would seek a board seat in the case of an equity investment, but not in the case of an advisory arrangement. Mr. Fox said the unit will make investments in the range of $10 million to $30 million, with a goal of 17% return on investment within three years.

The group will also work with creditors of financially troubled companies. First Chicago has targeted companies with debt exceeding $50 million or creditors with more than $50 million in problem loans.

"We're looking for final fixes for companies," said Peter B. Sweet, a senior advisor to the restructuring group, adding that the goal would be to exit a company in three to four years. □

Key Loan Registrations

August 6 - 10

Dollars in millions			
Working Cap./Gen'l Corp. Purposes		**Debt Repayment**	
Courtyard Credit Institutions	$560.0	American Steel & Wire Corp.	$60.0
Bank of Greece	500.0	Diagnostek Inc.	30.0
Amerco	280.0	Rhodes	30.0
Destec Energy	250.0	Metro Airlines	6.0
Sauer-Sundstrand Corp.	37.0		
Diagnostek Inc.	25.0	**Placements**	
Tesoro Corp.	22.5	A.P.S. Inc.	$105.0
A.P.S. Inc.	15.0	Crown Cork & Seal Company	100.0
Metro Airlines	6.0	Burlington Coat Factory Warehouse	90.0
		American Steel & Wire Corp.	35.0
Real Estate			
Woodcrest Inc.	$25.0	**Takeover**	
		Crown Cork & Seal Company	$100.0
		Acer Inc.	80.0
Recapitalization			
RJR Nabisco	$2,250.0	BEI Electronics	25.0

Description: This table tracks key corporate financial filings made weekly with the SEC. +1=Debut Older Than 1yr.
Data Source: Loan Pricing Corp., New York (212) 489-5455

Key Rates

(August 14, 1990)

	8/14	8/13	8/07
Federal Funds-domestic range:	8⅞*/a–8¾	8–8¼*/a	7¾*/a–8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit†			
3 Month Posted	7.50	7.50	7.40
6 Month Posted	7.50	7.50	7.40
1 Year Posted	7.55	7.55	7.45
Eurodollar deposits‡			
3 Month	7⅞	7⅞	7¹³/₁₆–¾
6 Month	7⅞	7⅞	7¹³/₁₆–¾
1 Year	8.00	8.00	7¹³/₁₆–¾
LIBOR‡			
3 Month	8.00	NA	7¹³/₁₆–¾
6 Month	8.00	NA	8.00
1 Year	8¼	NA	8¼

Mid-afternoon quotes, New York market. (†)— Largest offering rates at selected NYC banks (‡)— Late London bid (*)— Annualized money market basis' source: Manufacturers Hanover Tr.

STOCKS
Analysts Back SunTrust After It Passes Exam

By GORDON MATTHEWS

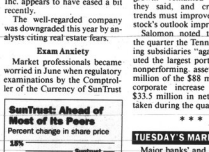
NEW YORK — After months of uneasiness, investor concern about Atlanta's SunTrust Banks Inc. appears to have eased a bit recently.

The well-regarded company was downgraded this year by analysts citing real estate fears.

Exam Anxiety

Market professionals became worried in June when regulatory examinations by the Comptroller of the Currency of SunTrust

SunTrust: Ahead of Most of Its Peers
Percent change in share price



*Average of 225 largest publicly traded commercial banks by market capitalization
Source: DB Technology Inc.; Standard & Poor's Corp., DRI, Schedule I

banking subsidiaries ran longer than they expected. At the time, anxieties surrounding such exams were high.

But SunTrust emerged relatively unscathed. Although its second-quarter nonperforming assets increased 21%, partly because of a tougher regulatory stance, the company still earned 4.5% more per share than in the second quarter of 1989.

That led Goldman, Sachs & Co., among others, to upgrade its investment opinion of SunTrust from "hold" to "long-term attractive" based on "the company's strong balance sheet and better-than-expected asset quality indicators" from the exam.

Rising Investment Ratings

Analysts in Atlanta at Interstate/Johnson Lane raised their rating on the company from "accumulate" to a more aggressive "buy" stance, based on their feeling that SunTrust shares are undervalued in the near term.

Recently, the shares have weakened on profit taking in better-known bank stocks; SunTrust closed Monday at $20.25 a share. But the stock has fallen only one-third as much as those of other banks since the end of the first quarter.

SunTrust was formed in July 1985 when Trust Company of Georgia, Atlanta, merged with the larger Sun Banks of Florida, Orlando. It was one of the first banking combinations later to be dubbed superregionals, and it is regarded by industry observers as among the nation's best interstate banking deals.

In 1986, the company expanded by acquiring Third National Corp., regarded as the best banking firm in Nashville. But real estate overbuilding and a sluggish economy have caused problems and led some analysts to be wary of the company.

Not all analysts, though, are singing the praises of SunTrust. Analysts at Salomon Brothers Inc. called the second-quarter results "disappointing." Loan growth "remained lackluster," they said, and credit-quality trends must improve before the stock's outlook improves.

Salomon noted that during the quarter the Tennessee banking subsidiaries "again contributed the largest portion of new nonperforming assets – $39.5 million of the $88 million total corporate increase – despite $33.5 million in net chargeoffs taken during the quarter."

* * *

TUESDAY'S MARKET

Major banks' and thrift institutions' share prices were mixed in moderate trading Tuesday as analysts said the stock market continued cautiously to assess the impact of developments in the Middle East on the U.S. economy.

Citicorp, the nation's largest banking company, gained 12.5 cents a share to climb back above $20. The stock had been weak for several weeks after disappointing second-quarter earnings were reported.

Meanwhile, two other money-center banks whose shares have suffered did well. Chemical Banking Corp. was up 37.5 cents, to $24.375 a share, and Manufacturers Hanover Corp. rose 12.5 cents, to $30.25.

"Investors are familiar with the situations at these companies, and they are comfortable with their earning levels," said James J. McDermott Jr., research director at Keefe, Bruyette & Woods Inc. □

CAPITAL
Have Banks Overeaten at Treasury Table?

By FRED VOGELSTEIN

Some experts are starting to wonder if the recent spike in interest rates hasn't further wounded the already limping banking industry.

Jerry L. Jordan, chief economist at First Interstate Bancorp and a member of the Shadow Open Market Committee, is concerned that some banks, seeing weakening economic conditions and slowing loan demand in July, "loaded up" on government securities in their investment portfolios.

If that proves true, they now have a chunk of holdings that are "under water," he said.

Recent data from the Federal Reserve show that banks have significantly increased their holdings of Treasury securities.

Bank analysts and funding experts, however, doubt banks would have purchased enough in July to severely impact the portfolio. Also, since gains and losses in investment portfolios don't impact earnings until the holdings are sold, they say short-term paper losses are irrelevant.

In for the Long Term

"Even if banks do end up with a negative market valuation [in their Treasury portfolios] that's not something to be concerned with because they're not liquidating tomorrow, they're holding for the long term," said a funding expert at a New York bank.

J. Richard Fredericks, an analyst for Montgomery Securities Inc., noted that banks with slack loan demand and excess funds from deposits would do better to reduce deposit flow by cutting CD rates than to hunt for places to put their money to work.

Since Aug. 1, the day before Iraq's invasion of Kuwait, the maturities in which banks do most of their buying – intermediate securities – are up between 10 basis points and 34 basis points.

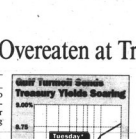
Two-year Treasury notes are up 10 basis points, five-year notes are up 30 basis points, and seven-year notes are up 34 basis points. Longer maturities are up even more with the 10-year bond up 38 basis points and the 30-year bond up 43 basis points.

Mr. Jordan acknowledges the criticism, but says short-term earnings impacts are not the only indicator worth looking at. He said that increased holdings of negatively valued securities reduce a bank's ability to use those funds for other, more profitable purposes.

"[If it's true,] it means their flexibility has been reduced," he said.

In their current depressed state, many banks can't increase their assets without putting more pressure on their capital ratios than regulators will tolerate, he said. Selling the securities at a loss has the same negative effect on capital.

Cash' Turnout Sends Treasury Yields Soaring



Source: American Banker, Reuters

Banks are further constrained to deal with losses in their securities portfolios because raising capital today is either impossible or very expensive.

"To the extent that banks acquired bonds at lower yields and they popped up because of the [Kuwaiti] crisis, they are stuck holding them until yields fall," Mr. Jordan said.

Statistics on bank Treasury security holdings for July were not available. However, economists at Midland Montague believe the heavy buying of the first and second quarter continued.

Fed Data Confirm Growth

Federal Reserve Board statistics compiled by Midland Montague indicate that, during the second quarter, bank holdings of Treasury securities grew at a 23.72% annualized rate, following a 27% jump in the first quarter.

"[They] remain the fastest-growing [sector] of the banking system's assets ..." said Midland Montague economist William Schultz in the report.

Th fact that the portfolios are growing fast is of more concern to some analysts than whether bank Treasury security holdings are in investment portfolios or trading accounts.

"It is a factor that will weigh heavily on margins," said Raphael Soifer, an analyst at Brown Brothers Harriman & Co.

He said the margin squeezing will come from the fact that increasing holdings of Treasuries without corresponding increases in loans reduces the average yield of a bank's assets, since Treasuries have a lower yield than loans.

He said, however, that if the Fed eases rates, banks may be able to offset that by lowering their cost of funds. □

FINANCIAL TECHNOLOGY UPDATE

NCR's Electronic Journal (EJ) automates the audit data collection of ATM operations.
EJ eliminates costly journal printers and supplies in favor of floppy disk storage in the existing disk drive.

EJ simplifies replenishment, speeds customer inquiries, and increases storage capacity of audit data for the ATM.

PC utilities allow bank personnel the ability to browse, search, and store diskette data contents. And the diskette is reusable after the transfer of its contents.

NCR's 5223 Passbook/General Purpose Printer is a compact, light-weight device which has been designed to print on passbooks and most non-continuous documents.

It can be used by tellers, either as a dedicated unit or in a multi-user mode. The printer's multi-functional characteristics, its reliability, high speed, and friendly, human interface, make it ideally suited for today's financial and office environments.

The NCR 5367 Financial Workstation is designed to provide an effective price and performance solution for the different functional areas of the branch.

The 5367 Financial Workstation has standard security features like battery back-up for storing totals and protecting sensitive data in the event of a power failure, and it can support multiple peripherals.

Various options enhance the workstation's capability. These options include 2-speed NBS/DES Encryptor which protects data files and other sensitive information being transmitted or stored.

The 5367 Financial Workstation can be customized for specific environments and it is based on industry standard components and an open architecture... making sure it can meet the growing needs of financial institutions.

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Open, Cooperative Computing.
The Strategy For Managing Change.

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AMERICAN BANKER
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Western Banks May Be Facing Leaner Times

By SAM ZUCKERMAN

SAN FRANCISCO — A marked slowdown in California's economy and signs that the state's real estate market is losing steam suggest the West's banking boom may be drawing to a close.

"Whatever the second quarter showed isn't necessarily an indicator of what the third or fourth quarter or first quarter next year will show," said Michael Abrahams, an analyst with Bateman Eichler, Hill Richards Inc., Los Angeles.

Second-quarter profits at California banks rose up 7.4% over the year-earlier period, compared with a 3% decline for banks nationwide, according to Keefe Bruyette & Woods Inc., New York.

Analysts said bank loan demand, margins only slightly down from a year ago, and surprisingly stable credit quality accounted for most gains in the West.

"Volume growth in the consumer sector continues to be strong, and middle-market businesses continues to chug along," said Arthur P. Soter, an analyst with Morgan Stanley & Co.

Total assets of big western banks grew 5.2% last quarter, faster than the 3.6% increase in nonperforming assets during the same period, according to Montgomery Securities Inc., San Francisco.

Nevertheless, downturns in the defense and construction industries are beginning to hit the West. Analysts said that bank earnings will suffer, although there is no consensus on how bad the pain will be.

"We have seen the beginnings of a slowdown," said J. Richard Fredericks, an analyst with Montgomery Securities. "Will there be a rout? I don't think so. It will be somewhere between [the forecasts of] the bulls and the bears."

In California, cutbacks by Pentagon suppliers, overpriced housing, and an exodus of commercial real estate market have started to take the snap out of the state's economy.

Nonfarm Jobs Rise

Boosted by Census Bureau hiring, nonfarm jobs in the Golden State grew at a 2.8% annual rate during the first six months of 1990, down from 3.5% growth in 1989, according to the UCLA Business Forecasting Project. But UCLA projects job growth of only 2.3% for the

See WEST page 18

INSIDE NEWS

FINANCE

Baltimore Bancorp. On Roller Coaster Ride
Price per common share



Price was $9 at 3 p.m. on Wednesday
Source: DB Technology Inc.

DOUBTS HAVE ARISEN
whether First Maryland will keep pursuing Baltimore Bancorp. in light of the decline in bank stock prices and weakness in the local real estate market. *Page 24*

ANALYSIS: *Follow-up on the news*

WASHINGTON

ALAN GREENSPAN conceded that the competitiveness of U.S. banks overseas will be further eroded in the short run if they must raise more capital, as the Fed has recommended. *Page 2*

ROSEMARY STEWART resigned as enforcement chief of the Office of Thrift Supervision. *Page 2*

TECHNOLOGY

CITIBANK continued to feel the effects of a power outage in New York's financial district. *Page 3*

INTERNATIONAL

BAYERISCHE Vereinsbank, Germany's sixth-largest bank, will close agency offices in Atlanta and Cleveland as part of a reorganization of U.S. operations. *Page 10*

CONSUMER

CIRRUS SYSTEM Inc. approved Valley Bank of Nevada's application to accept ATM cards with the Cirrus logo, even though Valley imposes usage surcharges on other banks' customers. *Page 3*

MANAGEMENT

SOVRAN SAVED $2 million last year by following the advice of its own employees. *Page 8*

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Bank and Thrift Stocks	23

1988 Sale of 200 Failed S&Ls Cost Taxpayers $4.6 Billion

By STEPHEN KLEEGE

NEW YORK — The Federal Home Loan Bank Board's controversial 1988 sales of more than 200 failed thrift institutions cost taxpayers $4.6 billion in 1989, according to a report obtained by the *American Banker* from the Federal Deposit Insurance Corp.

The FDIC tally is the first official accounting of costs associated with the 1988 deals, which included guarantees by the government that investors in the failed thrifts would earn a spread over their cost of funds for a 10-year period.

The $4.6 billion cost of the first full year after the sales is in line with current government estimates that they will cost the taxpayers $50 billion to $60 billion over the 10 years.

Tax Breaks Not Included

The estimates do not include tax breaks granted to the purchasers of those thrifts, and are only a portion of the costs associated with the thrift-industry bailout that got fully under way with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

The complex 1988 deals have come under fire from members of Congress and other critics for the way they handed to well-connected entrepreneurs who acquired thrifts with minimal contributions of their own money. Among the prominent buyers were Ronald O. Perlman, chairman of Revlon Corp.; William E. Simon, former U.S. Treasury Secretary; and Ford Motor Co.'s First Nationwide Financial Corp.

But the biggest share of the assistance money – $750 million – went to a thrift that has yet to be sold to an outside investor. That thrift, Sunbelt Savings of Dallas,

Where the Money Went In 1988 Thrift Deals
Dollars in millions

Sunbelt Savings Dallas	$763
First Gibraltar Dallas	$483
United Savings Houston	$372
Southwest Savings Dallas	$273
Guaranty Federal Dallas	$219
AmWest Savings Olney, Tex.	$212
First Nationwide Bank*	$186
86 remaining deals	$2,137
Total taxpayer cost**	$4,634

* Includes acquisitions in 3 states
**Does not include tax breaks to acquirers
Source: Federal Deposit Insurance Corp.

See 1988 SALE page 16

Bankers Support FDIC Decision To Hike Rate

By BILL ATKINSON

WASHINGTON — Bankers around the country on Wednesday rallied around the Federal Deposit Insurance Corp.'s proposal for an unprecedented hike in insurance premiums, conceding that it is better to take the bitter medicine now than risk a government bailout later.

"If there is a problem, we ought to step up to it," said John B. McCoy, chairman of Columbus, Ohio-based Banc One Corp., whose remarks typified the views of many senior bankers.

"Our fund should handle it. I'd like it [the premiums] to be zero, but it is the cost of doing business. I'd much rather have a viable industry."

Highest Boost Ever

The industry was reacting to an FDIC board decision Tuesday to raise bank premiums a record 63% to 19.5 cents for every $100 in insured deposits – the

See FDIC page 21

Eleven Banks Form Group For Clearing Checks Faster

By KAREN GULLO

NEW YORK — With the deadline to shorten check-hold times rapidly approaching, several large banks plan to begin processing each other's checks this month through a new nationwide clearing house that will use electronic check information to speed operations.

The Electronic Check Clearing House Organization, which named its officers and outlined its plans Wednesday, was established by 11 large regional and money-center banks.

Through it, institutions will be able to use electronic information from the magnetic-ink line of the check to begin processing, instead of waiting for the actual check to be delivered.

Preparing for New Rules

The group's goal is to help banks identify checks more quickly that are not backed by sufficient funds. On Sept. 1, regulations take effect that shorten the time banks may hold deposited checks, and banks are worried about increased losses as they make funds available more readily. Banks on the East Coast

See CHECK page 3

Architect of Fleet/Norstar Growth Sees No Reason for a New Design

By SUZANNE CHRISTY

PROVIDENCE, R.I. — J. Terrence Murray of Fleet/Norstar Financial Group is not letting the business cycle get him down.

Defying the troubled New England economy that has taken a toll on Fleet's earnings and brought unusually close scrutiny by regulators, Mr. Murray continues to talk the language of growth and diversification that he used in bringing Fleet to the forefront of New England banking in the 1980s.

To outsiders, it might seem the talk of a contrarian gambler taking long odds, but Mr. Murray says he intends to play the same strong hand that brought him thus far.

Not Really Time to Relax

"Psychologically, it might seem like the time to relax," said the chairman, president, and chief executive officer of the $34 billion-asset company. "The troops have been beaten up and are stressed out.

"But that is a lot of baloney," he added in a recent talk to the



Constance Brown

J. Terrence Murray
Fleet Norstar

top managers of Fleet's eight banks and 20 nonbank subsidiaries.

"We should be tearing up the ground, not letting people feel sorry for themselves. We're in

See ARCHITECT page 8

PEOPLE *in the news*

Atlanta Banker Splits Time Between Job and Association

By FRANKLIN SMITH

Having risen to the presidency of the National Association of Urban Bankers, which represents minorities in the profession, Tony B. Oglesby said he does not regret leaving his original career choice behind.

He set out to be a freelance photographer and said he got into banking accidentally, through part-time work at Trust Company Bank in Atlanta.

Now an 18-year banking veteran, with 14 of those years spent at Trust Co., a subsidiary of SunTrust Banks Inc., Mr. Oglesby, 36, is group vice president and division manager of operations support services. In March 1986, he became the first black executive at Trust Co. to gain the rank of group vice president, which brought him prominence in the urban bankers group.



Tony B. Oglesby

"Sometimes, it feels like I have two full-time jobs, working at the bank and with the association and my community involvement," Mr. Oglesby said. "But my primary focus is Trust Company Bank."

Organized in 1973, the Washington-based National Association of Urban Bankers represents more than 1,500 minority professionals in 30 regional chapters, but Mr. Oglesby wants to see it grow.

"There are a lot of people in the financial industry who are not aware of the association," Mr. Oglesby said. "I'm tired of hearing the number 1,500 strong. Why not 10,000 members strong?".

Move to Broaden Financing

"I want to make sure that we concentrate more on the administrative side of NAUB," he said, "and that everything is operating smoothly and is in focus."

To improve its finances, the association will seek support from companies outside the banking industry that share a desire for a strong minority contingent in the industry, Mr. Oglesby said.

"In moving toward the year 2000, NAUB must evolve with the financial services industry," he said. "For many years, NAUB has had to contend with the issue of 'glass ceilings,' downsizing, and more recently the savings and loan crisis."

Plans to Attract Minority Youth

He said the association is prepared to respond to these issues, particularly with educational programs aimed at African-American youth.

Mr. Oglesby said he and other senior executives met with President Bush and discussed the association's expanding legislative agenda. The President urged the urban banker the advocates to meet with his domestic affairs adviser, Roger Porter, to continue the discussions. "We'll have a follow-up meeting with the President later," Mr. Oglesby said.

He has worked at the former First Georgia Bank and the Federal Home Loan Bank of Atlanta and is active in community and professional organizations. "Sometimes, you cannot be involved in a lot of community activities because of the time element and have to say no," he noted, however.

He is past chairman of the executive committee of the Atlanta Exchange Inc., past board member of Creative Options Inc., and president of the Brown High School Alumni Association. □

NEWS *briefs*

Chemical Plans to Raise Loan Loss Reserve for Half

NEW YORK — Chemical Banking Corp. said in a Securities and Exchange Commission filing that it expects to make more loan-loss provisions in the second half than in the first six months of 1990.

The company cited deteriorating economic conditions but did not specify an amount. Chemical added $152 million to reserves in the first six months. Nonperforming loans will rise from the current $3 billion, the filing said, but "the corporation does not anticipate that its total nonperforming assets at yearend will exceed Dec. 31, 1989, levels" of $3.3 billion.

MCorp Reports a Loss

DALLAS — MCorp, the Texas banking company in voluntary reorganization under Chapter 11 of the bankruptcy code, reported a net loss of $188,000 or 1 cent a share in the second quarter, compared with earnings of $1.4 million or 3 cents a share a year earlier.

Mortgage Rate Stable

WASHINGTON — The final average contract interest rate on conventional mortgages for existing single-family homes was unchanged in June, at 9.85%, the Office of Thrift Supervision said. The contract rate excludes fees and points.

The News Briefs were supplied by Reuters.

Greenspan: Rule Would Hurt U.S. Banks Abroad

By LINDA CORMAN

WASHINGTON — Federal Reserve Board Chairman Alan Greenspan has conceded in a letter to the Senate Banking Committee that competitiveness of U.S. banks overseas will be further eroded in the short run if they must raise more capital as the Fed has recommended.

But in the long run, he added, Basle's risk-based capital will make U.S. banks more competitive and will make the present shortrun setbacks worthwhile.

"In the short run, higher capital requirements for U.S. banks are likely to place foreign banks in somewhat better competitive positions," Mr. Greenspan said in a letter dated Aug. 10, responding to questions submitted by Donald W. Riegle Jr., the Michigan Democrat who heads the Senate Banking Committee.

Discipline of Market

"However, it would be shortsighted to overlook the urgent need to induce market-sensitive behavior by banks: Over the long run, our banks, to compete successfully, must be prepared to meet new opportunities and changing circumstances. Well-capitalized banks are best positioned to do that, by continuously ensuring the scope of their activities and in exploiting profit opportunities."

Mr. Riegle's questions followed up on testimony Mr. Greenspan gave last month in which he said that the Fed might reconsider its advocacy of thick firewalls separating securities from banking activities in the subsidiaries of holding companies. The chairman said that tougher capital standards, early intervention and increased supervision might adequately replace the firewalls.

In his follow-up questions, Mr. Riegle asked whether the chairman's recommendations would inadvertently hamper the already lagging competitiveness of U.S. banks.

Mr. Greenspan, in acknowledging that they would, noted that "raising capital will be neither easy nor cheap for U.S. banks."

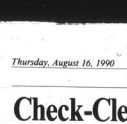
The Fed chairman also said that his earlier recommendation for early intervention did not embody a recommendation for market-value accounting, as Mr. Riegle also asked.

Mr. Greenspan said marketvalue accounting — which assigns present rather than historic values to assets and liabilities — had its positive attributes and was under study. But he also said it had its drawbacks in that it could diminish confidence in banks by introducing volatility into the evaluation of financial conditions.

Also, market values cannot be determined for some assets and increased reporting costs and requirements could be overly burdensome, he said.

His proposal to intervene quickly to forestall bank problems can be adopted using existing accounting principles, he said.

"A key part of this proposal is the conduct of on-site examinations — focusing on the quality of asset portfolios and off-balance sheet commitments – at least annually, where it is not already in practice." This would ensure that loan loss reserves are "consistent with the quality of the portfolio." If they were not, early intervention would mean regulators would require banks to take immediate steps to improve their capital positions. □



Rosemary Stewart
Office of Thrift Supervision

Chief Enforcer To Leave OTS

By DEBRA COPE

WASHINGTON — Rosemary Stewart, who weathered congressional rage over the government's handling of the Lincoln Savings and Loan failure, has resigned as enforcement chief of the Office of Thrift Supervision.

Ms. Stewart, a 16-year veteran of the thrift regulatory system, will join the Washington law firm of Jones Day Reavis & Pogue. She will formally step down from her OTS post on Aug. 31.

Her departure, coming as the OTS embarks on a vigorous enforcement agenda, surprised few observers. Sources said Ms. Stewart, 41, had earned the confidence of her new boss, chief counsel Harris Weinstein, but was fed up with criticism over

See **CHIEF** *page* **15**

Corrections

In an article published Tuesday ("DC Bank Fined for Money Laundering," page 2), it was incorrectly reported that the lead banking subsidiary of BankAmerica Corp. was fined $4.7 million in 1986 for money laundering. The bank was charged with failure to report transactions involving more than $10,000 in cash.

■

A table published Tuesday ("Second-Quarter Earnings at Top Midwest Banks," page 2) incorrectly listed the percentage change at Society Corp. from the corresponding period of 1989. Its earnings were up 39%.

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TECHNOLOGY/OPERATIONS NEWS

Check-Clearing Group Formed

Continued from *page* **1**

and West Coast are particularly vulnerable to losses from checks drawn on institutions on the opposite coast.

"Electronic check presentment should be especially beneficial to banks with large-dollar, large-volume transit checks, checks going between Federal Reserve districts," said Alan Holroyde, executive vice president at Wells Fargo Bank and chairman of the organization.

Members of the clearing house are Bankers Trust Co., Bank of America, the Bank of California, Banc One Texas, Chemical Bank, First Interstate Bank of California, First Tennessee Bank, Manufacturers Hanover Trust Co., Security Pacific National Bank, Texas Commerce Bank, and Wells Fargo Bank. The banks, which will pay dues to the clearing house, worked with J.D. Carreker, a Dallas-based consulting firm, to establish the clearing house organization.

David K. Sias, executive vice president of Bankers Trust, was named president of the group, and Richard Ercole, senior vice president of Security Pacific Corp., was named secretary-treasurer. Dennis Carreker, head of the consulting unit, was named executive director.

Under its plan, banks that belong to the clearing house will send each other electronic files containing check information at night. The checks will then be sent the following day to complete processing. Some checks will be returned to customers as with traditional check processing.

Bankers Trust, New York, and Wells Fargo, San Francisco, began testing electronic presentment of checks two weeks ago.

Some other banks are expected to join the test this month. Other banks may need several months to modify their systems before beginning electronic transmission of check information.

'An Early Warning System'

"The system is doing what we'd hoped it would," said Dominick Cavuoto, senior vice president of operations at Bankers Trust. "We're trying to establish an early warning system. Based on what I hear from Wells, it's working."

In its tests, Bankers Trust is sending Wells Fargo a nightly electronic transmission over telephone lines containing data from the magnetic-ink line of checks drawn on Wells. Bankers Trust processes a few thousand checks each day from Wells.

> **"The system is doing what we'd hoped it would."**
>
> **Dominick Cavuoto**
> *Bankers Trust*

Wells compares the data with account-balance information on its computers and is able to determine which checks may be paid and which must be returned because of insufficient funds.

Crucial Time Savings

The system shaves almost a day off the funds-collection process. This time saving is considered crucial to the bankers, who must make deposited funds available more quickly on Sept. 1. At that time, Regulation CC stipulates that funds for local checks must be available within two business days of deposit, instead of the current three, and five days for nonlocal checks, instead of seven.

Bankers working to create the new clearing house had hoped that the Reg CC clock would not start with electronic presentment but when the check arrived the next day. After consulting with lawyers, bankers have determined that presentment occurs when the electronic information arrives at the bank.

Bankers still consider electronic presentment a distinct improvement because they can obtain information and begin the funds collection process quicker.

Coast-to-Coast Tests

In the Bankers Trust pilot, Wells will begin sending electronic information on checks drawn on the New York bank in a few weeks, Mr. Cavuoto said. The number of checks in the test represents a small fraction of the banks' total check volume. Mr. Cavuoto said a significant portion of the checks processed by Bankers Trust will eventually come from the organization's California members.

The members will send electronic files containing check information directly to computers at other member banks. As membership in the organization grows, a switching facility for sending and fetching files may be established, possibly in conjunction with existing regional clearing houses.

Modifications Required

Participation in the organization will require some major modifications in existing check-processing operations.

To send information, banks must alter computer systems to sort the data on the magnetic-ink line of checks from various banks, establish specifications for the electronic files, and pay for the transmission.

To receive information, banks must install software that can handle the incoming transmission, compare the information to account information residing on large computers, and reconcile the electronic information with the paper check when it arrives. □

The Latest in Banking Automation
TECHNOLOGY REPORT
Every Wednesday in AMERICAN BANKER

NY Power Outage Cuts Off Direct Deposits at Citibank

By JEANNE IIDA

NEW YORK — Citibank customers said they had difficulty accessing funds on Wednesday as the institution continued to report ripple effects from a power outage in New York's financial district.

Customers of the Citicorp unit said they could not access direct deposit funds that normally would have been available Wednesday, the 15th of the month, through automated teller machines.

Such funds may not have been posted because of continuing problems at a Citibank processing center. The bank shut down nonessential processing at 111 Wall Street again on Wednesday, according to industry sources.

Backup Generator Fails

Operations were curtailed because a backup generator failed at the processing site, which handles correspondent and retail banking, sources said. Those back-office operations have been shut down twice in the past three days.

Because of the continuing power outage in a limited area around Wall Street, the Federal Reserve Bank of New York was said to be considering moving its operations to Pearl River, N.Y. Consolidated Edison said electricity might not be restored until Monday.

"We're operating on alternate power, and only if our alternate power failed would we change sites," a spokesman for the Fed said.

Citibank was expected to make an announcement late Wednesday about its operating difficulties.

At Citibank branches, customers could obtain advances against their payroll stubs. Customers were told to expect a 24-hour delay in the posting of direct deposit funds because of systems problems.

Problem Downplayed

A Citibank spokeswoman, however, minimized the problem and said the New York Clearing House Association was responsible for any delays.

No other major New York bank, however, reported similar

> **Citibank customers could obtain advances against their payroll stubs.**

problems with the posting of direct deposit funds.

John F. Lee, president of the New York Clearing House Association, said the Automated Clearing House system, through which direct deposit transactions are made, experienced no difficulties at all this week. The ACH processing site, which is located in New Jersey, "has about four times as much capacity as I need," Mr. Lee said.

Frustrations

One Citibank customer said she tried to get funds from an ATM to no avail and then contacted a customer service operator, who instructed her to go to her bank branch. When she went into her branch at 11 a.m., there were already long lines of customers with similar problems, the woman said.

"They told me their systems were down for wire transfers," she said. "They said for a lot of people who got paid on the 15th, the transfers just didn't happen." □

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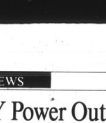

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COMMENT/ *By Kenneth H. Thomas*

A Critic Points Out Flaws In GAO's Junk Bond Study

The March 1989 General Accounting Office study titled "High-Yield Bonds: Issues Concerning Thrift Investments in High-Yield Bonds" has long been used by the junk bond lobby as the primary defense against critics of thrift junk bond investments.

In fact, this GAO study was most recently cited in the April 2 *Junk Bond Reporter*'s commentary, "Lobbying Effort Needed to Halt Further Regulation," by David K. Aylward, executive director of the Alliance for Capital Access.

Our July 1989 study "The Case Against Thrift Junk Bond Holdings" contained the original and most comprehensive evaluation of the GAO report. This study was prepared by our firm in support of the Congressional prohibition of thrift junk bond investments.

We should point out, however, that most representatives of Congress who supported the thrift junk bond prohibition backed away from associating themselves with our study, because we were the lone critic of the GAO -- the highly esteemed congressional investigative agency.

GAO Report Limitations

Our evaluation of the GAO report revealed the following limitations regarding its study of thrift junk bond investments:

1. The GAO failed to complete its own objective study of the risk and return tradeoffs of junk bonds compared with alternative investments and loans that thrifts are permitted to make.

The argument that junk bonds are "good investments" for thrifts, which the GAO later made, must be based on such an objective study. We believe it was a major error of omission for the GAO not to complete such a study.

The GAO mentioned on several occasions that such risk and return data were generally unavailable. This is no reason why the GAO should not have completed the study itself.

Surprisingly, the junk bond lobby expressed some concern that the GAO might not be able to complete the required study. Therefore, the junk bond lobby offered its assistance in the way of suggesting sampling procedures and even a questionnaire.

The GAO ultimately obtained and analyzed a study sponsored by the junk bond lobby.

Reliance on Industry's Figures

2. The GAO placed undue reliance on a study sponsored by the junk bond industry because the GAO did not complete one itself.

The subject study was completed by the WEFA Group. Formally known as Wharton Econometric and Forecasting Associates, this group is a separately incorporated forecasting service. It has not been affiliated with the Wharton School of the University of Pennsylvania since early 1987.

The study was sponsored by the Alliance for Capital Access, the main voice for the junk bond lobby.

Prophetic Speculation

Prior to the completion of the WEFA study, the alliance speculated on the possible results of

See **CRITIC** *page 12*

Kenneth H. Thomas is president of K.H. Thomas Associates, a bank consulting firm based in Miami.

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LETTERS *to the editor*

Plan to Seize Healthy Mutuals Seen Illegal, Unworkable, Reprehensible

To the editor:

An article by Reid Nagle and Kevin Stiroh ("Auction of Mutual Thrifts Could Raise Bailout Funds," July 5, page 14) suggested that Congress may seek to confiscate healthy mutual savings associations in an effort to defray the cost of the resolution of the thrift crisis. The article estimated that up to $10 billion could be raised through the sale of these healthy institutions.

Close analysis of this concept, however, reveals that it is tenuous from a legal perspective. Moreover, as a policy matter, the idea is unworkable and would be reprehensible behavior on the part of the United States government.

The problem with this concept in a legal context is that the depositors in a healthy mutual association have cognizable ownership interests in the institution. The article by Mr. Nagle and Mr. Stiroh suggests that the management of a mutual thrift is the true owner and that management can be "persuaded" to agree to turn over the institution if properly compensated.

However, this approach will not work from a legal perspective because it totally ignores the depositors' ownership interests.

The Office of Thrift Supervision regulations authorizing mutual-to-stock conversions of healthy institutions -- the ones that would presumably be most coveted under this approach -- carefully accommodate the ownership interests of mutual depositors to comport with principles of due process of law under the Fifth Amendment to the United States Constitution.

First, the regulations require that a mutual-to-stock conversion be approved, after full and fair disclosure, by at least a majority of the outstanding votes of the association's members. This recognizes the depositors' right as owners to direct the fundamental corporate matters of the association.

Second, the regulations require that the stock of the association be sold pursuant to an independent appraisal, thereby ensuring that fair value is received for the institution, and that the association's members receive a meaningful priority right to purchase the stock of the converting association. This recognizes the depositors' ongoing interest in maintaining an ownership interest in the institution.

Finally, the regulations require that the converting association establish a "liquidation account" as of the time of conversion in an amount equal to the association's net worth prior to conversion. This account provides mutual depositors with a priority distribution of net worth in the event of a liquidation of the institution and is intended to preserve the depositors' interest in the liquidation value of the association.

Confiscation of healthy mutual savings associations would not satisfy any component of the depositors' ownership interest, let alone all three. It is true that the regulators and the courts have recognized that a depositor's equity interest in a healthy mutual thrift is secondary to his interest as a creditor.

However, this is a far cry from concluding that the equity interest does not exist or can be eradicated with impunity. It should also be noted that this approach would raise serious questions of federalism insofar as the federal government sought to seize healthy state institutions without the approval of the appropriate state regulators.

Aside from legal issues, the concept is simply unworkable. Does anyone really believe that the market will bear the introduction of 900 thrifts such that fair value would be received?

The more likely result is a fire sale approach, which will create downward pressure on the pricing of the institutions involved. Moreover, the flooding of the thrift market with healthy institutions would provide fatal competition for the RTC, and that agency's ability to dispose of failed thrifts and acquired assets would be severely hindered.

Whatever funds are generated by the sale of healthy mutual thrifts would easily be offset by increased clearing costs on the RTC side. It is also worth noting that the government's efforts as auctioneer thus far have not exactly gone smoothly.

Also, by seizing healthy mutuals and selling them, the opportunity for mutual-to-stock conversions, a proven approach that has raised billions of new capital for the thrift industry, will be lost. Further, sales of the magnitude contemplated by this approach would diminish the capital raising ability of commercial banking industry since banks are the most likely acquirers of the healthy mutuals. This will result in less protection to the Bank Insurance Fund at a time of increasing loan quality problems in many sections of the country.

Aside from the impracticality of the concept, a more fundamental thought should be considered. Do we really want our government engaged in activities of this nature? The FIRREA era has seen the United States government attempt to abrogate contracts entered into by acquirers of failed thrifts, repudiate bonds issued by thrifts subsequently placed in the RTC, authorize RTC institutions to call home equity loans held by innocent borrowers, and permit acquirers of failed thrifts to repudiate certificate of deposit rates.

Surely, there must be something better when the government will not sink in the name of political expediency. It is not a giant leap from seizing healthy mutual thrifts, once the precedent is set, to extending the precedent to mutual insurance companies, stock thrifts, or commercial banks the next time.

Douglas P. Lacette
Muldoon, Murphy & Faucette
Washington

Mutuals Didn't Cause the Problems

To the Editor:

The proposal by Reid Nagle and Kevin Stiroh in a July 5 article ("Auction of Mutual Thrifts Could Raise Bailout Funds," page 14) to have the federal government confiscate successful mutual thrifts, auction them off, and apply the estimated $10 billion proceeds to the S&L bailout is the most irresponsible suggestion ever offered for the thrift debacle.

The mutual thrifts did not cause the problems. For the most part, they are conservatively local institutions that do a good job of providing credit and deposit services to their communities.

We need well-managed, local institutions.

In Colorado, we have seen what happens when large, out-of-state banks and thrifts purchase local ones. Many jobs are lost, money flows out of Colorado to other, more populated areas, and involvement in the community becomes a very low priority.

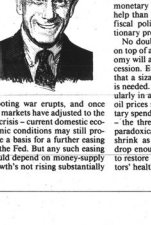
Let's not destroy the responsible, well-managed side of the business to pay for the sins of the high fliers who raided the stockholder-owned thrifts.

The Nagle-Stiroh proposal is one trial balloon that needs to be shot down.

Malcolm E. Collier
Chairman and CEO
First Federal Savings Bank
Lakewood, Colo.

COMMENT/ *By Stephen H. Axilrod*

Mideast Crisis May Prompt Fed to Refrain from Easing



The United States now faces a need to adapt its monetary and fiscal policies to the great uncertainties stemming from the Mideast crisis.

Both higher oil prices and greater military spending than were expected are likely outcomes of the crisis, even if the present worldwide economic, political, and military pressures against Iraq can be sustained and successful.

2 Reasons Not to Ease

From a monetary policy perspective, the confrontation with Iraq should retard moves toward a further easing.

There are two reasons.

• First, and most obvious, the crisis makes potential inflationary pressures greater.

• Second, a good argument can be made that the Federal Reserve should, to the extent consistent with overall stability, let markets adjust on their own to the crisis, so that any economic impacts may be better gauged in light of market reactions unimpaired by potential misinterpretations of any Fed action.

As it happens, financial market reactions have been fairly strong, mainly in domestic sectors, but not destabilizing. The dollar has been reasonably stable on foreign exchange markets during the first week, after rising substantially as would have been expected if a worldwide capital flight to safety had developed nor declining sharply as an abrupt rise in inflationary fears might have prompted.

Orderly Market Retreat

The U.S. stock and bond markets have retreated considerably but under relatively orderly conditions. This suggests both some rise in inflationary expectations and also, at the margin, a market fear that the economy and profits will worsen as the Federal Reserve acts to contain inflation.

The markets have told the Fed that a new and potentially dangerous factor is now affecting economic calculations, that the tradeoff between inflation and unemployment is worsened, but that they do not expect the situation to get out of hand.

Indeed, there is reason to believe that inflationary pressures in the United States will not be excessively strong as a result of the boycott of Iraqi and Kuwaiti oil.

Underlying supply-demand conditions in the oil market appear more favorable for containing upward price pressure than in the 1970s, and in any event, the Organization of Petroleum Exporting Countries is in some disarray at the moment as a result of Iraqi actions and the world's response. In addition, key U.S. economic sectors, such as construction and spending on consumer durables, remain weak.

While consumer spending as a whole appears to have perked up a bit recently, it will still be difficult for businesses to transform added cost pressures into bigger price increases, given the underlying caution in attitudes toward debt and spending.

Thus, profits are likely to remain constrained, with possible adverse consequences for business spending on plant and equipment.

This suggests that – if no shooting war erupts, and once the markets have adjusted to the oil crisis – current domestic economic conditions may still provide a basis for a further easing by the Fed. But any such easing would depend on money-supply growth's not rising substantially and persistently and on continued signs of undue weakness in the economy's nonfinancial sectors.

Unfortunately, because of recession fears, it now appears that monetary policy will get less help than had been hoped from fiscal policy to suppress inflationary pressures.

No doubt, a rise in oil prices on top of a relatively weak economy will add to the threat of recession. Even so, I would argue that a sizable budget deficit cut is needed. Without one – particularly in an environment where oil prices remain high and military spending is less constrained – the threat of recession could, paradoxically, grow rather than shrink as interest rates fail to drop enough, and soon enough, to restore weakened private sectors' health.

Moreover, the structural need for a smaller federal budget deficit remains compelling – and, indeed, may have become even more compelling after the latest revision in the nation's gross national product statistics.

Budget Deficit Must Fall

The personal savings rate had been thought to have risen to about 6% before the revisions, but it now appears to be closer to 5%. That one-percentage-point difference means that consumers are saving about $40 billion less than we thought at current levels of disposable income.

A steadily smaller budget deficit seems to be the main, if not the only way, to increase revisions, to reduce our dependence on foreign funds, and to cut domestic interest rates more or less permanently. □

Mr. Axilrod, retired staff director of monetary and financial policy at the Federal Reserve Board, is vice chairman of Nikko Securities Co., New York.

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MARKETING/ADVERTISING

A Chorus of Realty Agents Sings Praises of FirstFed

By TERESA CARSON

A thrift company in Santa Monica, Calif., believes it has found a way to make itself heard above the advertising din created by big financial institutions.

In the latest advertising campaign for FirstFed Financial Corp., 50 real-life real estate agents describe their positive experiences working with the thrift. FirstFed considers the radio spots effective not only in winning mortgage customers, but also in building a good image among real estate agents.

The $2.8 billion-asset parent of First Federal Bank of California shuns advertising that's oriented to products or price, said Martin Gottlieb, executive vice president of the holding company. "There will always be someone with a lower mortgage rate or a higher certificate-of-deposit rate," he said.

Choosing the Battlefield

"Dollarwise, we are not in a position to compete" with Great Western Bank, Beverly Hills, or Home Savings of America, Los Angeles, he said. "We want to stand out because we are different."

The agents were afforded true star treatment. Recording sessions began with a tony buffet lunch with the thrift's top brass in the executive dining room. Then the agents were whisked to a Hollywood recording studio in a limousine.

Agents were allowed to write the copy for their own 60-second spot. One chose to emphasize that First Fed stands behind its loan commitments. Steve Springer of Del Rey Realty, Venice, Calif., said: "All too often buyers focus on getting the rock-bottom rate at the sacrifice of all else. When it is just a few days from the closing of escrow and the lender backs away from the deal or imposes new conditions, the buyer is in the worst kind of crunch."

> **"We want to stand out because we are different."**
>
> **Martin Gottlieb**
> *FirstFed Financial Corp.*

Mr. Springer said making the commercial was fun. "And they really are neat guys. The commercial was no baloney."

Thrift Shows a Profit

Results are hard to refute. Though many thrifts reported red ink in the second quarter, First Fed posted $7.1 million in profits, up 74% from $4.1 million a year earlier.

The thrift also originated $271.7 million in mortgages in the second period, which executives say is on schedule with their goal of $1 billion for the year. For the first six months of the year, its return on equity was 19.92% and its return on assets was 1.05%.

Apart from the agent ads, First Federal is continuing to run a radio and print campaign tied to specific holidays and other sentimental issues.

The image ads are aimed at attracting new depositors instead of mortgage customers, said David Newmark, executive vice president of Newmark & Associates, Santa Monica, which created the advertising.

Praise for Teachers

One spot is designed to be a tribute to the nation's teachers. It praises teachers for giving "so much of themselves . . . with patience and tenderness."

First Federal's chairman, William S. Mortensen, introduces the radio commercial by saying, "The state of education today is one of our most important issues. Equally important is the respect and the public acknowledgment we give our teachers."

Holiday-specific ads run at Thanksgiving, Mother's Day, and Father's Day.

"They are designed to make people feel that the people that run First Federal are good, honest people," said Mr. Newmark of the ad agency.

Cruise Program Does Double Duty

Coast Federal Bank, Los Angeles, which earlier this year launched a program to provide discounts on cruises to its high-balance customers, is attempting to franchise the program to other financial institutions.

Through an arrangement with an outside tour operator, Coast offers its own customers 25% and greater savings on cruises. Coast gets a cut of the commissions for the income. That totaled $130,000 in the program's first six months.

Coast said it was negotiating intensively with one institution interested in adding the program. Along with generating fee income, the program can help institutions retain and attract customers, Coast officials said.

Participating institutions would receive the discount travel packages, a quarterly magazine for customers, direct response mailers, statement stuffers, and a customer newsletter. □

Cirrus to Allow an ATM Surcharge

Exception Applies Only to Banks in State of Nevada

By YVETTED. KANTROW

NEW YORK – Cirrus System Inc. has approved Valley Bank of Nevada's controversial application to accept automated teller machine cards bearing the Cirrus logo – despite the bank's aggressive ATM pricing policies.

The Downers Grove, Ill.-based network also gave approval to 87 other financial institutions that want to place the Cirrus logo on their machines. These institutions – which include units of BankAmerica Corp., Chase Manhattan Corp., Security Pacific Corp., and others – will be among the first to accept cards bearing either the Cirrus or Plus logo when the networks begin sharing ATMs on Aug. 20.

> **Valley Bank's ATMs are mostly found in hotels, casinos, and other Las Vegas tourist attractions.**

Valley Bank of Nevada is hardly the largest member of Cirrus System Inc. that sought permission to accept Cirrus cards. But its application was by far the most widely watched.

Litigation Sidestepped

Electronic banking executives feared a denial of the bank's request would touch off the latest round of lawsuits in an increasingly litigious industry. Valley – which filed a lawsuit last year against Plus alleging price-fixing – had said it would take Cirrus to court if its application to the network was not approved.

The bank routinely charges customers of other banks a $1 fee each time they use its ATMs, which are mostly found in hotels, casinos, and other Las Vegas tourist attractions. But these surcharges are prohibited by Cirrus, as they are by Plus.

At a board meeting on Tuesday, Cirrus voted to retain its prohibition on surcharging, said G. Henry Mundt 3d, senior vice president for the network. But it adopted an exception to its surcharging rule to bring it into compliance with a new Nevada law – a move which also allows Valley to accept its cards.

Constitutional Challenge

The law, which essentially empowers banks to levy surcharges, was passed two months after Valley filed its antitrust claim against Plus. That network has challenged the constitutionality of the law and the case now stands before the U.S. Court of Appeals for the Ninth Circuit.

"The only reason we are where we are is because the state law does allow surcharging," Mr. Mundt said, reiterating Cirrus' objections to the pricing policy. The exception will be withdrawn if the law is overturned, he said.

Cirrus has asked Valley to notify 90 days before applying the $1 surcharge to Cirrus transactions. "They want to be able to notify their members," said Jon A. Joseph, executive vice president and general counsel for Valley Bank. "We believe it is a reasonable request." □

C&S Expands ATM Statement Availability

By TOM LEANDER

Aiming to increase its lead in the Georgia retail market, Atlanta-based Citizens and Southern Corp. is enhancing 200 automated teller machines to print account statements.

C&S has been offering the statement-printing service through its ATMs in South Carolina since 1986. The service will be available at all its Georgia ATMs by the end of October, the company said.

Expansion Possible

"It's a transportable technology," said Gerald O'Meara, an analyst for Robinson Humphrey Co. in Atlanta. "It's logical to assume that they'll transfer it to other states." C&S also serves Florida and will add Virginia, Tennessee, Maryland, Kentucky, and the District of Columbia to its list of markets through its soon-to-be-completed merger with Norfolk, Va.-based Sovran Financial Corp.

BayBanks Inc., Boston, which has boosted its retail earnings in recent years by developing a widespread ATM franchise, is the only other bank company to offer printed statements to customers through the machines, said Cynthia Wilson, spokeswoman for the Bank Marketing Association in Chicago.

Scott Screedon, a C&S spokesman, declined to say how much it cost to refit the ATMs or to expand the project.

C&S is already the dominant retail bank in Georgia, with a 19.5% share of deposits, according to Mr. Screedon. With the enhanced ATMs, it expects to woo depositors away from Trust Company of Georgia, a subsidiary of SunTrust Banks Inc., Atlanta, and First Atlanta Bank, a subsidiary of First Wachovia Corp., Winston-Salem, N.C.

The printed statements will be available to people with instant checking or money saver unlimited checking accounts. Other checking account customers must request the service by pressing a series of buttons.

No Charge for Statements

The statement lists balance information, checks that have cleared, and withdrawals and deposits that have been posted to the customer's accounts. Statements reflect all account activity for the month ending on the previous day.

Nothing is charged for the ATM bank statement, and customers will continue to be mailed monthly statements. □

AMERICAN BANKER /Bank Rate Monitor™

Consumer Money Index — Auto, personal and credit card rates

Market	CREDIT CARD 5/14/90	8/6/90	PERSONAL 5/14/90	8/6/90	AUTO 5/14/90	8/6/90
New York	19.29	19.29	18.71	18.71	13.79	13.79
Los Angeles	18.16	19.16	20.12	20.12	13.25	13.30
Chicago	18.70	18.70	17.18	17.10	11.96	11.96
San Francisco	19.74	19.74	20.12	20.12	12.87	12.88
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Atlanta	18.00	18.00	15.82	15.87	11.91	12.01
Boston	17.40	17.40	17.56	17.56	12.79	12.79
Houston	18.12	18.12	14.62	15.56	11.49	11.49
Dallas	19.17	19.17	16.87	16.87	11.37	11.37
Washington D.C.	16.81	16.81	16.70	16.55	11.56	11.45
BRM Index	18.04	18.04	17.28	17.33	12.26	12.26

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $10,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account offering annual fees or grace periods.

SOURCE: ©Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES	8/6/90
First Pennsylvania, Philadelphia	12.48%
Philadelphia Nat'l Bank, Philadelphia	12.99
Provident Nat. PA, Philadelphia	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank of America, San Francisc	21.25
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Town Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.90
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Svgs, Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Sygs, Houston	15.90
HIGHEST CREDIT CARD RATES	
World S&L, San Francisco	20.90%
Homestead Savings, San Francisco	20.90
Riggs Nat'l Bank, Washington	19.80

EXECUTIVE *changes*

Upstate NY Bank Elects Heineman, Hoy to New Slots

Herbert A. Heineman Jr. president of **Glens Falls National Bank,** Glens Fall, N.Y., has been elected to the additional post of chief executive officer.

Mr. Heineman previously served as president and chief operating officer, a position he assumed in 1989.

He joined the bank in 1963 as an assistant vice president and commercial loan officer, and was elected vice president in 1966. He assumed responsibility for the bank's loan division in 1972, and was elected executive vice president in 1977. He was elected senior executive vice president and a director of the bank. In 1987, he was appointed executive vice president and elected a director of Arrow Bank Corp.


H.A. Heineman Jr.

He also serves as a director of the bank's parent company, **Arrow Financial Corp.**

In another move, **Thomas L. Hoy** has been elected executive vice president of the Glens Falls bank. He was formerly a senior vice president.

Mr. Hoy, division head for the investment, trust, and marketing departments, will assume additional administrative responsibilities.


Thomas L. Hoy

Bank One Unit Gets New Chief

Raymond E. Heh, executive vice president and senior lending officer of Bank One, Akron, a unit of **Banc One Ohio Corp.,** has been elected president, chief operating officer, and a director.

Mr. Heh is now responsible for daily operations within the bank's commercial banking, consumer lending and community banking divisions. The community banking division includes the 37 branches of Bank One, Akron.

"We are extremely pleased that Ray Heh has accepted the responsibility of this position," said Richard D. Headley, chairman and chief executive officer of the bank.


Raymond E. Heh

Prior to Mr. Heh's appointment, Mr. Headley served as both chief executive officer and chief operating officer.

Mr. Heh is a 26-year veteran of the banking industry. He joined Bank One, Akron, in his former position in 1985.

— **Franklin Smith**

MIDDLE ATLANTIC

Tokai Bank Ltd., which is headquartered in Nagoya, Japan, has named **Takashi Motoi** as general manager of its regional headquarters, Americas. Mr. Motoi will oversee all of the bank's operations in North and South America.


Takashi Motoi

He has also been appointed president of Tokai Trust Co., New York.

Mr. Motoi succeeds **Kazuo Takeda,** who is returning to Japan as general manager of the Osaka branch office, with operating responsibility for western Japan.

Since June 1988 Mr. Motoi has been general manager of the bank's international banking headquarters in Tokyo.

Oppenheimer & Co. Inc., New York, said **Charles Tulloh 3d** has joined the firm as a senior vice president. He will head the investment banking and brokerage firm's new restructuring and reorganization advisory services group.

Mr. Tulloh comes to Oppenheimer from Pittsburgh's Mellon Bank where he was senior vice president and manager of the bank's commercial credit recovery group.

SOUTHEAST

Crestar Bank, Richmond, Va., has named **Beryl W. Ball** manager of its institutional financial services division, a unit of the trust and investment management group.

Mrs. Ball, who is a senior vice president, was previously manager of benefits and executive compensation for Crestar.

First Union National Bank of North Carolina, Charlotte, has named **Ronald L. Fisher** to community/urban banking officer.

Mr. Fisher, who is currently manager of employee relations for the North Carolina bank, will be responsible for managing First Union's lending efforts in low- and moderate-income communities and directing economic development activities across the state.

Mr. Fisher will replace W.


Ronald L. Fisher

Earl Bardin, First Union's Raleigh-based corporate banking executive and community reinvestment coordinator, who is retiring Sept. 1.

Mr. Fisher will be based in Charlotte, reporting directly to **Frank H. Dunn Jr.,** president of First Union NB.

"I share the concerns of neighborhood and community leaders who say help is needed for the disadvantaged, for small and minority owned businesses, and for young families seeking their first home," Mr. Fisher said.

MIDWEST

First Bank System Inc., Minneapolis, said **Robert H. Sayre** is joining the company as a senior vice president and director of human resources, effective Sept. 1. □

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Introducing the Lending Examiner, from Syntelligence.

A new application software product that automatically flags deteriorating commercial loans in your bank.

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Architect of Fleet/Norstar Expansion Sticks to Blueprint

Continued from *page 1*

better shape than most. And now is the time to go on the offensive and capitalize on business opportunities that our competitors are too sick to go after."

Taking the Risks

Mr. Murray well knows that a growth strategy in a tougher business climate could have negative consequences. Still, the hard-driving banker, who at the age of 51 has already logged 12 years as president and eight years as CEO, is sticking to his guns.

Fleet has been identified as one of the best-managed and best-positioned companies by such industry watchers as PaineWebber Inc., First Manhattan Consulting Group, and Moody's Investor Service.

One of the Largest

At midyear it ranked No. 17 in the country and just $3 billion in assets smaller than No. 16, Bank of Boston Corp.

Fleet's reputation has survived a rocky 1990 that included increased loan-loss provisions, a $98 million loss in the first quarter, and a downgrade of its debt rating in the wake of an intensive examination by state and federal regulators.

The company rebounded to a $60 million profit in the second quarter, about half of it coming from nonbanking affiliates such as Fleet Finance and Fleet Mortgage Group – which Mr. Murray sees as justification for a "diversified earnings base."

"In comparison to its competitors – Bank of New England Corp. and Bank of Boston – Fleet/Norstar is in much better shape, said Salomon Brothers Inc. analyst Thomas H. Hanley.

A Shirtsleeve Style

Fleet and its vision are largely the products of an atypical banker, an affable strawberry blond with a self-deprecating sense of humor who frequently chooses sports jackets or shirtsleeves over the usual banker's pinstripes.

His family background and early career stages were far from patrician.

His mother was a switchboard operator and his father a factory worker and later a purchasing agent for a manufacturing company. Mr. Murray developed strong work habits in his youth as a newspaper boy and waiter.

A Rhode Island native, he was known as a promising athlete and more than a little streetwise. After working in a textile mill for a year, he said he was frightened enough by the mundane job to realize it was time to get serious, and he wound up at Harvard University.

Family Formed Early On

At age 20, while still in college, he married a Radcliffe student and, before he graduated, two of their five children were born. Upon graduation in 1962, he searched for a job as a stockbroker, but settled for a position as an $85-a-week trainee at Fleet National Bank's predecessor, Industrial National Bank. He never left.

Though it was not his lifetime dream to become a banker, the need to make a living for his young family was great motivation. He purchased a two-family house, living in one part and renting out the rest. It was his start as a mini-real estate mogul that supplemented his then-low salary.

Fleet bankers still rave about the complex deals Mr. Murray put together, his negotiating skills and investment savvy. By 1967, he was a force to be reckoned with. By the mid-1970s, still in his 30s, he was the second-ranking officer at Industrial National. He rose to CEO after John Cummings Jr. died in 1982, and engineered Fleet's merger with Norstar Bancorp. in 1987.

A Tough Consolidator

When interstate banking arrived in the early 1980s, Mr. Murray snapped up some of the best banks in the Northeast and showed his colors as a stern taskmaster in the consolidation of operations.

The consolidation that most impressed analysts was the biggest, with the upstate New York operation of Norstar. The similarities between the two companies – both served middle-market businesses, featured decentralized management, and had been acquiring other banks for several years – made them a good fit.

"The Norstar combination was a godsend," said Montgomery's Mr. Fredericks.

Predecessor Had Vision

In fact, the Norstar deal was the pinnacle of a diversification strategy – both functional and geographical – that Mr. Cummings launched in 1968.

"Diversification may have been his predecessor's idea, but the fulfillment of it is the most certainly the auspices of Terry," said Mr. Fredericks.

Fleet needed the broader canvas. In 1982, Rhode Island was suffering unemployment rates as high as 12%.

A Major Expansion

At the time, Fleet's assets totaled $4 billion and yielded a net income of $39 million. Last year, with more than 1,000 offices in 40 states, assets totaled $33 billion with profits of $371 million after taxes.

One of its steadiest sources of income is the mortgage servicing business. Fleet Mortgage has grown into the second-largest mortgage company in the United States. Its portfolio skyrocketed from $3.2 billion at the end of 1980 to more than $40 billion loans worth $42 billion at the end of last year.

That revenue stream may be just what the bank needs. But in June, the bank put $2.9 billion of its servicing portfolio up for sale in a rocky market, raising eyebrows among those who saw it as reactive.

The bank has also scaled back its auto leasing business, and Mr. Murray predicts further consolidation in Fleet's credit card servicing business. Already, Fleet has sold $200 million of its $450 million card portfolio.

Diversifying the Lending

Mr. Murray believes in diversifying not only product lines, but lending strategy as well. Even though the company has a legal lending limit of $300 million, it has no loans greater than $50 million.

Fleet bankers make a point of the fact that they did not get caught in the web of Third World loan problems, and they pulled out of the condo market before most. But the company has not escaped entirely.

"Some of the criticisms the examiners had on us was that we should have had more detailed data on our loan breakdowns," Mr. Murray said. "We should have been tracking delinquency trends and used that as a short-term warning system. And while we do well on the consumer end of the business, we don't do so well on the commercial side."

Not to be deterred, Mr. Murray assigned Michael R. Zucchini, the bank's chief information officer, to bring the technology up to speed to monitor such things. Whether he can, in light of what are sure to be tight cost controls, remains to be seen.

Flexibility Is Praised

One analyst praises Mr. Murray for being flexible, even on the seemingly single-minded commitment to diversification.

"There is no set strategy that cannot be violated. Murray and his group are not afraid to modify their tactics," said Thaddeus W. Paluszek, a vice president at Kidder Peabody & Co., New York.

Four years ago, Fleet was outbid by Bank of New England for Conifer Group Inc., a respected Worcester, Mass. banking company. At the time, Mr. Murray was viewed as the loser. Since then, he has been vindicated.

In fact, speculation surfaced in late December that the company would buy part of the troubled Bank of New England. Mr. Murray admitted only to conducting due diligence at the BNE subsidiary, Maine National Bank, but recently withdrew from the negotiations.

Thinking Like a Shareholder

With Mr. Murray holding 150,000 shares of Fleet – "which is a substantial amount of my net worth" – he is hungry for every basis point he can get for shareholders.

Fleet offers generous stock option programs for most of its managers. "The majority of our senior managers have almost half of their net worth in Fleet stock," said Mr. Murray. Eight senior people made more than $500,000 last year.

The generous incentives have gone a long way toward keeping managers in place. Mr. Murray is not the only lifetime banker at Fleet, and despite his relative youth says his succession is a major concern. Most top managers are of his generation, be-

See **ARCHITECT** *next page*



COST CONTROL
Employees Give Sovran Tips on Efficiency

By MICHAEL WEINSTEIN

Sovran Financial Corp. saw dollar signs when an alert systems analyst spotted a way for the company to cut payroll costs.

Maureen Henry reckoned that Norfolk, Va.-based Sovran was spending an average of 42 cents a month on each of 9,500 employee checking accounts by sending statements through the U.S. mail. But at her suggestion, Sovran began distributing those statements via the company's internal mail system.

Total savings on the move: an estimated $45,000 a year.

14-Year-Old Program

Ms. Henry's brainstorm was among the latest in a series of cost-cutting ideas at Sovran solicited under a program called Ideabank. It has saved the $26 billion-asset company several million dollars since its inception in 1976. Last year alone, Ideabank helped Sovran reduce costs by nearly $2 million.

Another idea came from Libby Patterson, vice president and manager of cash management products. She recommended that the company pay interest only on the investible balances of commercial accounts, not on the larger collected balances.

Using the suggestion, Sovran reduced overall interest expense by about $1.4 million.

Sticking Cash Drawers

And when the cash drawers in Sovran's automated teller machines were sticking in cold weather several years back, the company considered installing heaters for each unit. Cost estimates topped out at $1,200 per machine.

But an operator who answered customers' calls from the ATMs suggested the bank simply run a light-bulb circuit inside each cash drawer to keep it warm. That cost only about $100 per machine.

Employees are motivated to participate in Ideabank partly by the cash paid for their suggestions, said Mary Belk, who oversees the program. Sovran gives employees 10% to 15% of the first year's savings on any accepted suggestion.

For example, Ms. Henry got $4,500 for her postage initiative. Ms. Patterson, who dreamed up the interest-saving scheme, collected $20,000. Last year, Sovran handed out some $70,000 in rewards.

15% of Ideas Are Used

Employees with the rank of senior vice president and above are ineligible for cash awards.

Ideabank, part of Sovran's human resources division, has two full-time staffers, including Ms. Belk. On average, the two evaluate 70 suggestions a month. About 15% of them turn out to be winners, Sovran said.

"We're not really pushing numbers as much as the quality of the suggestion," Ms. Belk said. About 60% of the winning suggestions boost the quality of service, she said.

As Sovran has expanded through mergers into Tennessee, Maryland, Kentucky, and Washington, D.C., it has brought Ideabank with it.

"Every we time we have a merger, it's a wonderful way to make employees feel they belong," Ms. Belk said.

Mr. Weinstein is a freelance writer based in Cave City, Ky.

For Bankers Who Mean Business
Commercial Real Estate
Every Tuesday in
AMERICAN BANKER

Architect of Fleet/Norstar Expansion Sticks to Blueprint

Continued from *page 8*

No Need for Words

"We know each other so well that my managers know when I'm mad without having me rant and rave," said Mr. Murray, who admits that he is better at letting people know when he is unhappy than when he is happy.

Recently, a handful of employees systemwide – who Mr. Murray felt were responsible for some of the bank's problem loans – were fired. "There is a whole new breed of managers out there that have never faced hard times. I lived through the rough times in the 1970s. These guys haven't. But that doesn't mean they should not be held accountable for their mistakes."

"In tough times like this, Terry is the kind of boss who can inspire the loyalty of the troops," said Mr. Ackerman.

In his typical, blunt style, Mr. Murray demurs. "These guys are here because this is a heavily incentive-oriented company, right down to the bottom line."

A Spirited Cadre

Outsiders talk about the esprit de corps at Fleet.

"Everybody works pretty hard, and they play hard too," says Charles M. Vincent, vice president at Provident National Bank, Philadelphia. "If you lived on Narragansett Bay, you'd do a little playing too."

Managers say even though Mr. Murray is firmly in control, he lets them run their own show.

"It is a very open company. If you were to ask for an organization chart, we probably couldn't reach in the drawer and give it to you," said chief financial officer John W. Flynn, a 20-year veteran who is Fleet's No. 2 man. **"But in the final analysis, we don't rule by committee. There is one boss – and it's Terry."**

Meetings on the Fly

Mr. Murray said he keeps abreast of developments with a lot of impromptu meetings – a haphazard style that could be ineffective in a far-flung regional empire. But far from being hands-off, Mr. Murray is known by analysts as detail-oriented, with a dazzling command of the performance data.

When the regulators were examining the books last March, Mr. Murray flew to Boston through more than 50 loan reviews.

But the CEO is far from a workaholic. "I don't work long hours," said Mr. Murray, who usually exercises in the corporate gym for an hour before showing up at his office around 8:30. Most nights he wraps it up by 7:00, and "in the summertime, I try to get out by 5:30.

"I can't be worrying about my kids and my job in the same breath. So I make room for both. "I don't think I have that whatmakes-Sammy-run type of personality."

To turn his mind off, Murray enjoys boating (he has a 20-foot Boston Whaler), golfing (typically shoots an 85 and admits he hates to loose), and is an avid reader and Red Sox fan.

Mr. Flynn says that two of the most important ingredients for being successful at Fleet is having a sense of humor and an interest in sports. "You can probably survive without sports, but having a little bit of fun doesn't suggest you are not serious or not accomplishing anything."

"You get the sense there is a collegiate atmosphere among the top managers," said one banker at the Bank of New England. **"God bless Murray if he goes on a business trip to Europe** and gets some personal travel in as well."

Two years ago, Mr. Murray slashed the number of company cars and eliminated first-class travel and club membership for executives. And Mr. Murray is known for having the guts needed to consolidate costs.

Mr. Murray puts a lot of stock in keeping the lines of communication open. Robert Lougee Jr., Fleet's director of corporate communication, said Mr. Murray spends a good 40% of his time communicating in some fashion or another.

A Chance for Others

Reflecting on his future, Mr. Murray said, "I've been here quite a long time. It wouldn't be fair for me to stay here forever and not give my top managers a chance to lead the bank."

Some have speculated that he might become a player in the political arena, but Mr. Murray said he is probably much more suited to starting his own business – if his sons were interested in joining him.

In July, he created a vice chairman position and gave additional responsibilities to some senior vice presidents. Their success is by no means guaranteed.

"There will continue to be pressures to consolidate. The survivors will be the ones who can be low-cost providers and who can drive volume through operations," says Tom Brown, an analyst at PaineWebber.

"The surviving banks will need diversity to its earnings mix," he added. "One must not only be able to acquire but more importantly to integrate. So far, Fleet is above average on all these scores," but New England conditions make Mr. Murray's gamble far from a sure thing. □

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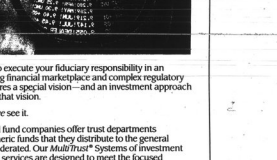

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INTERNATIONAL NEWS

GLOBAL *dispatches...*

IMF Is Expected to Press Brazil on Debt Repayment

By RICH MILLER
Reuters

WASHINGTON — Before striking a new financing deal with Brazil, the International Monetary Fund is expected to put pressure on it to agree to resume debt payments to creditor banks, according to international monetary sources.

"Any IMF agreement would require some form of progress [on mending relations with the banks], probably including some debt payment," said one source, who declined to be identified.

Brazil, the Third World's biggest debtor nation, and its banks have been at loggerheads since July of last year, when the country stopped making payments on its medium-term and long-term bank debt.

Brazil is about $6 billion behind on its payments to the banks and has shown little willingness to pay off any of the arrears.

Compromise Is Expected

The banks are pressing Brazil to clear all its arrears but the IMF is likely to strike a middle ground between that demand and Brazil's refusal to make any payments, one source said.

An IMF team is in Brazil trying to negotiate a standby credit agreement with the country, which has about $115 billion in external debt. A final agreement on a new financing package is not likely until next month.

As part of its financing package with the IMF, Argentina agreed in May to resume debt payments to its bank creditors.

Given that Brazil is relatively better off than Argentina, it would probably be expected to make a larger payment than that, one source said.

Reforms Are First Step

The IMF decided last year to start lending money to Third World nations that take tough economic reforms even though they had not yet struck debt agreements with their banks.

That policy angered the banks, who complained that the fund was encouraging debtor nations to pile up arrears and thus discouraging new lending by the banks.

The monetary official also expressed concern that what he called Brazil's "bad behavior" would spread. "Perhaps Brazil is a country where we should draw the line," he said.

The country, though, has impressed many analysts with its tough economic reforms, which have succeeded in slashing inflation.

... *by country*

UNITED STATES

The Securities and Exchange Commission has proposed to ease registration requirements for foreign banks and insurance companies that offer securities in the United States.

The proposal, an amendment to the 6c-9 exemption of the Investment Company Act, would allow foreign banks and their finance subsidiaries to sell equities in the United States without registering as investment companies.

It also would exempt foreign insurance companies and their finance subsidiaries that sell debt and equity.

Foreign banks and insurance companies are considered investment companies under the Investment Company Act but they cannot meet the stringent requirements. To sell securities in the United States, they apply for individual exemptions. U.S. banks and insurance companies already are exempt.

In 1987, the SEC agreed to let foreign banks sell debt and nonvoting stock in the United States. The proposed amendment would expand this rule to cover bank equities as well as debt and equity offerings by insurance companies.

SAUDI ARABIA

The Saudi Arabian Monetary Agency stepped in Tuesday to help its banking system, which has been besieged by calls for cash from worried depositors since Iraq invaded Kuwait.

Dealers in the kingdom said the central bank had made it easier for banks to get funds by allowing them to use a greater percentage of government bondholdings as security.

"This gives us more room to breathe," said one Saudi bank treasury manager.

TURKEY

Turkey is likely to discuss with the World Bank next month a possible fresh loan to help it weather the economic consequences of enforcing U.N. sanctions against neighboring Iraq, a Treasury official said.

"Right now, neither the amount of any new loan nor the timing have been determined. We expect it will be discussed at regular meetings with the bank in September," said the Turkish official, who asked anonymity.

Turkey joined U.N. sanctions against Baghdad and Kuwait on Aug. 7, including closing its end of two major Iraqi oil pipelines.

Banking sources say Turkey relied on Iraq for 63% of its oil imports last year.

Kuwaiti officials have indicated they also might help Turkey financially to offset losses caused by the embargo.

The By country briefs were supplied by Reuters.

German Bank Closing 2 U.S. Offices

Strategy of Bayerische Shifts to Specialized Products

By KENNETH CLINE

ATLANTA — Bayerische Vereinsbank, Germany's sixth-largest bank, said it planned to close its agency offices in Atlanta and Cleveland this week as part of a reorganization of its U.S. operations.

The Munich-based bank said it had decided to switch its focus from geographic-based marketing to specialized products, according to a senior officer in New York. "To do that, we do not need an office in Atlanta or Cleveland," the officer said.

He said the bank would concentrate its lending efforts out of its offices in New York, Chicago, and Los Angeles.

Variety of Products

Bayerische Vereinsbank's new marketing effort will emphasize asset-based securitization, multinational and real estate lending, and other products and services being reviewed by the board, said the officer, who said company policy prohibited him from being identified.

"We're following the old adage of 'trying to be smarter than the next guy,' " he said.

The Atlanta office has five employees, the Cleveland office seven or eight, according to the officer. He said some of the employees would be offered transfers to the bank's New York and Chicago offices.

Although Bayerische Vereinsbank came to Atlanta 11 years ago, it experienced management turnover and has had difficulty establishing itself in the Southeastern market, according to local banking sources.

It is the second German bank to withdraw from the Atlanta market. Hamburg-based Vereins-und Westbank closed its four-year-old representative office in April to concentrate on retail opportunities opening up in East Germany, said David N. Muirhead, the bank's former Atlanta manager.

The bank will emphasize asset-based securitization and multinational and real estate lending.

"This was the big chance to re-establish [Vereins-und Westbank] in that area. You've got to take care of the domestic market before you start taking care of everything else," Mr. Muirhead said.

Vereins-und Westbank continues to cover the Southeast from its Miami agency, but has retreated from the U.S. corporate lending market in favor of servicing German companies in the region, Mr. Muirhead said.

Commerzbank and Deutsche Genossenschaftsbank, both Frankfurt-based, will be the only German banks to maintain a presence in Atlanta. Commerzbank, which arrived in 1978, has been involved in some major syndicated deals for Southeastern companies, including Atlanta-based Georgia-Pacific Corp.

"We've been here a long time and we're happy here," said Peter K. Thiels, Commerzbank's manager in Atlanta.

DG Bank opened its Atlanta office in May 1989.

Atlanta Still a Focus

With the departure of Bayerische Vereinsbank and Vereins-und Westbank, Atlanta will remain home to 23 foreign bank agency and eight representative offices.

Cleveland, which is not a major center for foreign banks, will be left with three representative offices.

An agency office is licensed to originate loans, but cannot take deposits. A representative office can advise and refer business, but cannot conduct any business of its own. □

Ex-Im Bank Set to Cover Some Iraqi Credits

By JAMES R. KRAUS

NEW YORK — The United States Export-Import Bank said it has applied to the U.S. Treasury to reimburse banks for $2.5 million in unpaid export credits to Iraq.

An Ex-Im Bank official said that although the Iraqi payments are not yet technically in default, the agency doubts the money will be paid. Any delay in payment makes the Ex-Im bank liable for interest payments on the amount due.

"It doesn't look like Iraq's going to pay and the interest clock is ticking. It's getting more expensive the longer we wait," said Kenneth Tinsley, loan officer in the Ex-Im Bank's insurance division.

The $2.5 million in payments are between 30 and 60 days past due but have not yet passed the 90-day period the Ex-Im Bank usually waits before paying default claims.

Short-Term Payments Insured

The Ex-Im Bank has insured short-term payments on around $60 million worth of goods already shipped to Iraq and a further $25 million in payments for goods not yet shipped.

"We can still pull the cover on the $25 million, but we consider it potential exposure," Mr. Tinsley said.

The Ex-Im Bank, through the Foreign Credit Insurance Association, insures only short-term export credits of less than one year for Iraq. The agency halted all medium- and long-term export credit insurance for Iraq in 1985 because of that country's poor record of payments.

The insurance is mainly for letters of credit issued to exporters. Typically, a bank pays the exporter as soon as the goods have been shipped, then obtains payment from the foreign importer.

Around 10% of the Ex-Im Bank's $3.2 billion in outstanding insurance has been issued for exports to the Middle East.

In addition to the $85 million in insurance for exports to Iraq, the agency has insured exports valued at $79 million to Saudi Arabia, $42 million to Turkey, $33 million to Israel, and $11.9 million to Kuwait.

Separately, the Commodity Credit Corp., an arm of the Department of Agriculture that has issued around $2 billion in credit guarantees for food exports to Iraq, has requested a Treasury license to pay out insurance claims banks have submitted for nonpayment by Iraq.

The Commodity Credit Corp. is currently unable to pay out any claims on Iraq because of the Aug. 2 executive order barring all trade and financial transactions related to Iraq. □

Table Unavailable

Because of continued power-outage problems in New York, the *Key International Rates* table does not appear today.

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COMMENT
A Critic's View Of GAO Study

Continued from *page 4*

such a study in a GAO hearing. This speculation was on a result that would clearly favor the junk bond lobby. Its speculation was indeed prophetic as the junk bond industry study resulted in such a favorable conclusion.

This industry-sponsored study was unduly relied upon by the GAO and formed the primary basis for this study's finding that junk bonds have been "good investments" for thrifts.

Accuracy of Findings Untested

3. The GAO failed to evaluate or test the results contained within the junk bond industry-sponsored study.

The GAO stated that it reviewed the methodology and assumptions of the industry-sponsored study but "did not test their accuracy." The GAO would have been far better off spending its time preparing its own objective study rather than reviewing and utilizing an industry-financed study.

"The GAO placed undue reliance on a study sponsored by the junk bond industry."

A critical evaluation of the industry-sponsored study would have revealed that inappropriate junk bond default rates were utilized. The combination of understated junk bond default rates and overstated credit losses for commercial loans (as independently verified by the Federal Reserve Bank of New York) helped make junk bonds look much more attractive than commercial loans. This was a critical conclusion for the industry-sponsored study in the overall comparative evaluation of risks and returns.

Little Cooperation from Thrifts

4. The GAO obtained little useful data from thrifts on comparative risks and returns of alternative investments.

Only two of the 11 thrifts the GAO visited provided comparative risk and return data, and there was no indication as to the quality or quantity of it. Imperial of California, the second-largest thrift junk bond purchaser, submitted one table of risk/return tradeoffs in a GAO hearing. Utilizing a risk-adjusted comparison of rates for one day only and an unrealistically low 1% junk default rate, Imperial concluded that junk bonds were nearly 60 times more attractive than fixed-rate residential mortgages!

Focus on Default Risk

5. The GAO report focused on the default risk of junk bonds as compared with their liquidity or interest rate risk.

The GAO study focused on default risk, with some attention being given to interest rate risk but virtually none to liquidity risk. The study sponsored by the junk bond lobby did not consider interest risk or liquidity risk at all. Of course, by excluding these other two risk categories, junk bonds look much better on a comparative basis.

The GAO's conclusion that junk bond have been "good investments" for thrifts after accounting for comparative risk is therefore a questionable one because of the study's focus on default risk compared with the other two types.

Packing the Hearing

6. The majority of witnesses in the GAO's "public" hearing were junk bond market participants.

The GAO stated that it "solicited and obtained comments from market experts and interested observers" for a March 1, 1988, public hearing. Seven of the 11 witnesses, who accounted for two-thirds of all the pages in the hearing transcript, represented the junk bond lobby in the form of issuers, purchasers, or mutual fund managers.

An academic panel of three witnesses, representing just over one-fourth the volume of the hearing transcript, were all in favor of junk bond investments with no restrictions for thrifts and even, in two cases, for commercial banks. Two of these academic witnesses were well known proponents of junk bonds, and the third was a third-year law student.

"Understated junk bond default rates and overstated credit losses for commercial loans helped make junk bonds look much more attractive than commercial loans."

The only witness who was in any way critical of junk bonds was a representative of Standard & Poor's Corp. whose testimony and exhibits represented only 7% of the transcript. Because this "public" hearing was dominated by market participants strongly in favor of junk bonds and thrift junk investments, it was of limited value for purposes of an objective analysis.

Gaps in Data

7. The GAO report failed to collect data from two of the top 10 thrift holders of junk bonds.

The GAO stated that it collected data and visited only eight of the top 10 thrift holders of junk bonds. One thrift that was not visited because it "was not near the others" was Northeast Savings of Hartford, the 10th-largest holder of Junk bonds. The other thrift for which the GAO did not collect data was excluded because it "did not respond to our contacts."

We independently identified all of the thrifts in the GAO sample and determined that this noncooperating thrift was none other than Lincoln Savings and Loan of Irvine, Calif., the fifth-largest holder of junk bonds at that time.

In fact, a previous February 1988 GAO study of seven California thrifts with large junk

See **LIMITATIONS** *next page*

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COMMENT
Limitations Seen In GAO Report

Continued from *page 12*

bond holdings also excluded data on Lincoln, but no reason was given at that time. The refusal of Lincoln to cooperate with the GAO studies allowed that thrift to keep secret the details of its junk bond portfolio and policies. Lincoln's failure to respond to the GAO's contacts should have motivated this watchdog agency to pursue the study of this maverick with even greater vigor, rather than walk away – as the GAO apparently did.

Soundness Issue Bypassed

9. The GAO failed to examine the generally unfavorable financial condition and risk profiles of the major thrift junk bond investors it surveyed.

After independently identifying all 11 of the thrifts in the GAO study, we proceeded to examine their respective financial performance. We considered the 11 surveyed thrifts plus the two excluded by the GAO.

Almost all of the resultant 13 major thrift junk bond holders, which represented 82% of all thrift junk bond investments at that time, were underperforming ones. Specifically, six of the 13 were insolvent, in conservatorship, or otherwise troubled last year. Six of the remaining seven had overall "below average" financial ratios.

The condition of these 13 thrifts has significantly worsened, and only five of the original 13 have yet to be taken over by the government. Those five are considered below-average performers, with some being highly likely government takeover candidates.

To examine the thrift junk bond investors without evaluating their overall financial condition and health to determine any important patterns or relationships is indeed a limitation of the GAO study. The GAO should have pursued an in-depth investigation of the overall performance of each thrift and related it to that company's junk bond investment strategy.

Such an analysis would have pointed out the high-risk profile nature of such thrifts and the likely consequences for them, especially those that did an inadequate job of junk bond risk portfolio management.

"The GAO's conclusion that junk bond have been "good investments" for thrifts after accounting for comparative risk is a questionable one."

Points of Agreement

The GAO's economic analysis of thrift junk bond investments was fatally flawed for the nine reasons mentioned above. The GAO, however, was correct on two counts. These two counts have been the junk bond lobby's rallying cry since the GAO study was released and widely publicized.

First, the GAO was correct in noting that junk bonds had yet to cause any thrift to fail at that time. Although true for 1989, this is no longer the case with the failure of CenTrust Bank, which we predict will be the costliest thrift failure of all time.

Imperial Bank was the second thrift to fail primarily as a result of its junk bonds. Moreover, many failed thrifts (e.g., City Federal and both Gibraltar and Lincoln of California) had substantial junk bond portfolios, assembled in some cases as "end-of-game" plays.

"The GAO report failed to collect data from two of the top 10 thrift holders of junk bonds."

Concern for the Future

Second, the GAO was correct in noting that junk bonds did not cause the thrift crisis. But, we agree with many market observers that we should be more concerned about preventing the next thrift crisis. The RTC already holds nearly $4 billion in junk bonds from failed thrifts. We estimate that the government will become the largest single holder of junk bonds.

The junk bond lobby's (but not the GAO's), latest claim has been that Congress' thrift junk bond prohibition "caused" the junk bond crisis. Repeated editorials in *The Wall Street Journal* have similarly blamed Congress for the junk bond market's collapse.

A gradual selloff by a handful of thrifts with a roughly 7% market share can hardly be blamed. Congress had nothing to do with the two major shocks last June and September, namely Integrated Resources and Campeau, respectively, that precipitated the downfall of the junk bond market. Maybe a secondary "aftershock" impact but nowhere near being the cause of the problem.

Rather than blaming Congress for the junk bond crisis, the junk bond lobby and other observers should face up to the fact that it was just a matter of time before such "market corrections" resulted from grossly mispriced corporate debt obligations. Unfortunately, we believe we have yet to see the last of such market corrections. □

California Real Estate Slowdown Expected to Be Moderate

By MARGUERITE NUGENT
Reuters

LOS ANGELES — Sky-high California property values have fallen prey to a national economic slowdown, but industry experts say the state will sidestep the full-blown real estate downturn under way in other parts of the nation.

To be sure, parts of California are showing the strains of a housing market that jumped as high as 30% a year in the late 1980s – leaving homes out of reach of many buyers.

Economists are also concerned about the rising level of vacancy rates for office buildings, hotels, and shopping malls, which have glutted the market and gone begging for tenants.

Slump Seen Ending in 1991

Still, "this is not a crisis," said Joseph Wahed, chief economist at San Francisco-based Wells Fargo Bank. Although Mr. Wahed expects little improvement in the commercial real estate market over the next year, he said the slowdown in the housing market should end in 1991.

"The real estate sector has clearly slowed," said Robert Parry, president of the Federal Reserve Bank of San Francisco.

"Price appreciation in certain geographical areas and in certain market segments has actually declined."

But he described the situation as a pause in the market, or a flattening out, rather than the beginning of any sharp decline.

Investors on the Watch

Despite that optimism, investors are carefully watching California to see whether the real estate recession under way in the Northeast will jump the continent and hit the West Coast.

Nowhere is this more evident than in the share prices of the state's four large banks, which have fallen sharply as the problem loans of Northeastern banks have mounted, casting a shadow over the entire industry.

San Francisco-based Wells Fargo & Co. has been hit hard, as has Security Pacific Corp. of Los Angeles, albeit to a slightly lesser degree. BankAmerica Corp. of San Francisco and First Interstate Bancorp of Los Angeles have also felt the impact.

An Eye on Writedowns

While banking analysts believe all four of the major banks have protected themselves from potential real estate losses, investors remain wary. This is especially true now that some of the state's savings and loan associations, such as San Diego-based HomeFed Corp., have had to write down the value of many of the real estate loans in California.

But economists are concerned about rising vacancy rates for office buildings, hotels, and shopping malls.

Adding to the uneasiness has been a spate of announcements of big layoffs by defense contractors, such as McDonnell Douglas Corp., Lockheed Corp. and Northrop Corp., which account for a huge chunk of the state's economy.

Already, economists say, the housing markets in Los Angeles, San Diego and the San Francisco Bay Area are showing signs of weakness.

However, they say that values in the inland areas, such as Sacramento and the Central Valley in the north, are rising, helped along by more reasonable prices than in other areas. Condominium prices and sales are also gaining statewide.

"We [California] have been slowing for the past year because of the escalation in the market in 1988 and 1989," said Leslie Appleton-Young, vice president of research and economics at the California Association of Realtors, which is based in Los Angeles.

During the boom period, houses were on the market for an average of about four months before being sold, compared with a historical average of 11 to 12 months.

Sales Rate Was High

Single-family homes during the period were selling at a rate of about 600,000 a year, while prices increased 30 to 35% each year.

In the past months, home sales have slowed and prices have started to come down. The California Association of Realtors said home sales dipped 5.2% in June from the May level and 10.2% below sales in June 1989.

In June, the median price for a single-family home was $194,821, which was 0.6% below the median price for May and 2.3% below the price a year earlier. At the median price, half of all sales sell above that price and half below.

Incomes Need to Catch Up

"What we are seeing is an adjustment period, when buyers' incomes catch up with home prices," said Ms. Appleton-Young. Although she doubts that home sales will return to the high levels of 1988 and 1989 period, she does not see them falling to the levels of the 1982 recession.

The commercial property market is perhaps the most worrisome, largely because of continued high vacancy rates.

"The commercial property market has been in a recession for the past three or four years and is likely to remain high for the next few years," said Wells Fargo's Mr. Wahed.

"But this is not a crisis. And while the rates are high, they are not nearly as high as they are in other troubled real estate markets like Texas, Arizona, and the Northeast," the Wells Fargo executive said.

— Reuters

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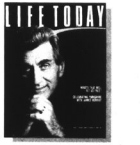

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Seidman: Realty Ills Unlikely To Cause Wide Bank Failures

By DONNA SMITH
Reuters

WASHINGTON — Real estate markets are in trouble nationwide and lenders will be suffering some losses, but Federal Deposit Insurance Corp. Chairman L. William Seidman says he does not see those problems causing widespread bank failures.

"Right now we don't see many banks that can't handle the kinds of losses that they're going to have," Mr. Seidman said in an interview this week. "They are going to show losses, but they are not going to fail."

Real estate prices have softened nationwide, with commercial properties and high-priced homes suffering from a lack of buyers, Mr. Seidman said.

Problems Are Nationwide

"There are very few parts of the country that are not having some problems in real estate," he added. New England in particular has been suffering from a deteriorating real estate market, putting some banks in trouble.

Whether other banks suffer similar problems depends largely on how long the recession in the real estate market continues and whether the downturn spreads throughout the economy, Mr. Seidman said.

The deposit insurance fund is expected to lose about $2 billion this year after years of record bank failures. The fund totaled $13.2 billion at the end of 1989.

FDIC Fund Ratio at Low Point

The loss would bring the ratio of the fund to insured deposits to about 50 cents per $100 of deposits, its lowest level in the FDIC's 56-year history. Mr. Seidman said it will be years before the fund is restored to the $1.25 level deemed safe by the savings and loan bailout legislation signed into law last year.

The board voted Tuesday to raise insurance premiums to shore up the fund.

The number of bank failures so far this year, at 118, is behind last year's at this time. But Mr. Seidman said he expects the number of failures this year to total 200, about the same as last year.

Interest Rates Hold the Key

The key to the health of the banking industry and the success of the government cleanup of the savings and loan industry is interest rates, Mr. Seidman said.

Oil price increases following Iraq's invasion of Kuwait have brought fresh inflationary pressures to the economy and raised chances of a recession, economists have suggested. While higher oil prices may help real estate values in oil-producing states like Texas, where the RTC has substantial property holdings, inflation could bring higher interest rates and more problems for the banking industry, Mr. Seidman said.

"I do think the bottom line on the adverse effect is if it results in substantially increased interest rates. Because those clearly increase our costs, it will increase the chance of institutions failing and reduce the market for the assets we're selling," Mr. Seidman said.

Mr. Seidman said he expects to resolve about 40% of the RTC's expected caseload by the end of this year and have about 75% completed by the end of next year. □

Pittsburgh Home Loan Bank Reports Interest from Banks

By TOM LEANDER

Some Pittsburgh-area banks appear to have a keen interest in joining their local Federal Home Loan Bank to secure low-cost funding.

Iron and Glass Bank, a subsidiary of Iron and Glass Bancorp, disclosed this week that it has been accepted as a member of the thrift agency. And a spokeswoman for the federal regional bank said that a major bank in its jurisdiction is negotiating to become a member.

Major Bank in Talks

The spokeswoman would not name the bank or say whether it is based in Pennsylvania, West Virginia, or Delaware. "It's not the largest," said Rosemary A. Abendroth, "but it's a large company in the area."

Ms. Abendroth also said the Home Loan Bank expected to approve applications from two small commercial banks and a credit union in coming weeks. Ten commercial bank applications are pending at the system's Pittsburgh branch, she said.

Analysts said the commercial banking companies most likely to join the Pittsburgh Home Loan Bank were Integra Financial Corp. and Equimark Corp., both of Pittsburgh. Integra has 15% of its $7.6 billion in assets in one- to four-family homes; Equimark, 18.5%, according to James Marks of SNL Securities.

"It's a large company in the area."
Rosemary A. Abendroth
Pittsburgh Home Loan Bank

Officials at both banks were unavailable for comment.

Analysts ruled out the banking subsidiary of Mellon Bank Corp., second-largest bank in the region. It has only 3.4% of its assets in residential home mortgages.

The Federal Home Loan Bank system, which offers a cheaper source of funds than the Federal Reserve's discount window, is proving popular with small banks around the country. Twenty-five community banks in the past year have joined the system, which was set up to give thrifts low-cost funding.

The troubled Boston-based subsidiary of Bank of New England Corp. is negotiating to join the system, but to date, no major commercial bank has been accepted.

Before the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the Federal Home Loan Bank system's membership was limited to savings and loans. The new law, however, expanded eligibility to commercial banks and credit unions with at least 10% of their assets in residential mortgage loans.

Iron and Glass' residential mortgage portfolio is $13 million, or 12% of total assets.

Iron and Glass, a community bank with $116 million in assets, is the second bank to join the Pittsburgh Home Loan Bank. First National Bank of Keystone, W.Va., joined last month. □

Chief Enforcer To Leave OTS

Continued from *page 2*

the Lincoln case, which will cost an estimated $2 billion to resolve.

"She probably said, 'Enough is enough,'" said one attorney who worked closely with her. Ms. Stewart could not be reached for comment at press time. OTS spokesman William Fulwider said only that Ms. Stewart was not asked to resign.

Ms. Stewart has kept a low profile since November 1989, when she was called on the carpet during a House Banking Committee investigation of the government's two-year delay in shutting Lincoln Savings. The Irvine, Calif., thrift owned by American Continental Corp. and its chairman, Charles H. Keating Jr., was closed on April 14, 1989.

Ms. Stewart is the last of the front-line decisionmakers on the Lincoln case to exit the agency. The congressional probe brought down OTS chairman M. Danny Wall and prompted the reassignment of another key official, regulatory chief Darrel Dochow.

Linkage to Lincoln

It was Ms. Stewart who concluded in July 1987 that Lincoln could not be seized by the government, overriding the recommendations of Lincoln's supervisors at the Federal Home Loan Bank of San Francisco, according to a supervisory chronology released by the OTS.

In the regulatory scramble that followed, Lincoln in May 1988 negotiated a settlement with the Federal Home Loan Bank Board, OTS's predecessor, that stripped San Francisco of its jurisdiction over the S&L.

Ms. Stewart's name was so closely linked to the Lincoln fiasco that Bank Board wags dubbed it "Rosemary's baby."

"It's a matter of record that a lot of the committee was highly critical of her work on Lincoln," said Joseph Lewis, an aide to House Banking Committee Chairman Henry B. Gonzalez.

Ms. Stewart gets high marks from her colleagues.

"I've known her for many years, and have nothing but the highest regard for her abilities as a lawyer," said Thomas Long, the Jones Day partner who hired her. □

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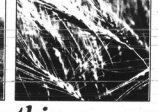

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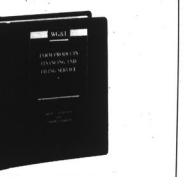

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1988 Sale of 200 Failed Thrifts Cost Taxpayers $4.6 Billion

Continued from *page 1*

is a conglomeration of failed institutions with about $10 billion of assets.

Quarterly Reimbursements

The assistance payments, detailed in a report by the division of the Federal Deposit Insurance Corp. that now handles the operations of the defunct Federal Savings and Loan Insurance Corp., represent quarterly cash "reimbursements" to investors.

The size of the payments depends on the terms of contracts that committed the FSLIC to make up the difference between targeted returns on the investors' business and the sick thrifts' actual performance.

"We are operating as a recycling operation for all the junk of America," said Thomas J. Wageman, president of Sunbelt, defending the taxpayer payments to the thrifts. "We're supposed to create a value out of this for the insurance fund, for a reasonable return."

Fast Pace of Sales

Mr. Wageman said more was paid into Sunbelt than others because of the pace at which it has been disposing of assets. He said Sunbelt receives a payment each quarter for "capital loss coverage," representing the loss on each asset sold.

To date, Mr. Wageman said, Sunbelt has sold more than $465 million of assets, most of that during 1989.

> **"We are operating as a recycling operation for all the junk of America. We're supposed to create value of this for the insurance fund."**

"We think we got less than anybody in yield maintenance," he said, referring to another form of assistance that was used in most of the deals.

A staff member of the House Committee on Banking, Finance, and Urban Affairs who is preparing for a hearing next month on the deals, said virtually all of them relied at least in part on grants of yield maintenance.

"It's a cash-poor way of doing business," he said, adding that "you don't see the Resolution Trust Corp. doing yield maintenance at all, although they do allow acquirers a free look at assets."

By offering guarantees that assets would continue to provide investors a spread over their cost of funds, the cash-strapped Federal Home Loan Bank Board was able to sweeten the pot without putting any money up front, the staff member said.

The Bank Board used the prospects of tax benefits to attract investors, he said, and the generous yield maintenance gave the investors profits against which to charge the benefits.

Incentives Questioned

But yield maintenance also entails "perverse incentives" for the acquirer to keep bad assets on the books, the congressional staff member noted.

In addition to capital loss coverage and yield maintenance, the assistance packages in the 1988 deals included promissory notes from the FSLIC to bring the institutions' net worths up to zero.

In some cases, as with the acquisitions by Ford's First Nationwide Bank, acquirers agreed to pay back part of the tax benefit resulting from past losses of their thrifts, and that amount was subtracted from those acquirers' cash assistance payment.

Aid Level Was $185 Million

First Nationwide, which made several sizable acquisitions from FSLIC in 1988, received $185 million in assistance in 1988.

Bluebonnet Savings Bank, controversial lately because of questions about the business background of its buyer, James B. Fail, received $169 million of assistance in 1989.

First Gibraltar Bank, Dallas, was acquired by a group led by Ronald Perelman in a deal that was criticized as overly generous for granting about $600 million of tax benefits. The direct aid received in 1989 was $483.4 million, second only to Sunbelt's amount.

And the government paid $372.3 million to United Savings Association of Texas, Houston, a thrift controlled by mortgage-securities guru Lewis S. Ranieri.

Some Have Failed

While these thrifts have used the assistance to post impressive profits, the government also funneled taxpayer money into a handful of institutions that have failed despite assistance, notably Southwest Savings Association, Dallas, which received $273 million.

"When it's all over, a lot depends on real estate markets," said former Federal Home LoanBank Board member Roger Martin, who argued the Bank Board's method, necessitated by a lack of cash, is proving better than the methods used by the Resolution Trust Corp.

"By leaving the assets with the acquirer, we're paying yield maintenance, sure, but you have in place the people who are going to move those assets," Mr. Martin said. "Now think about the RTC. We're about 12 months into this, and they haven't sold much of anything."

"The issue" Mr. Wageman of Sunbelt said, "is, are we doing it better than the government." □

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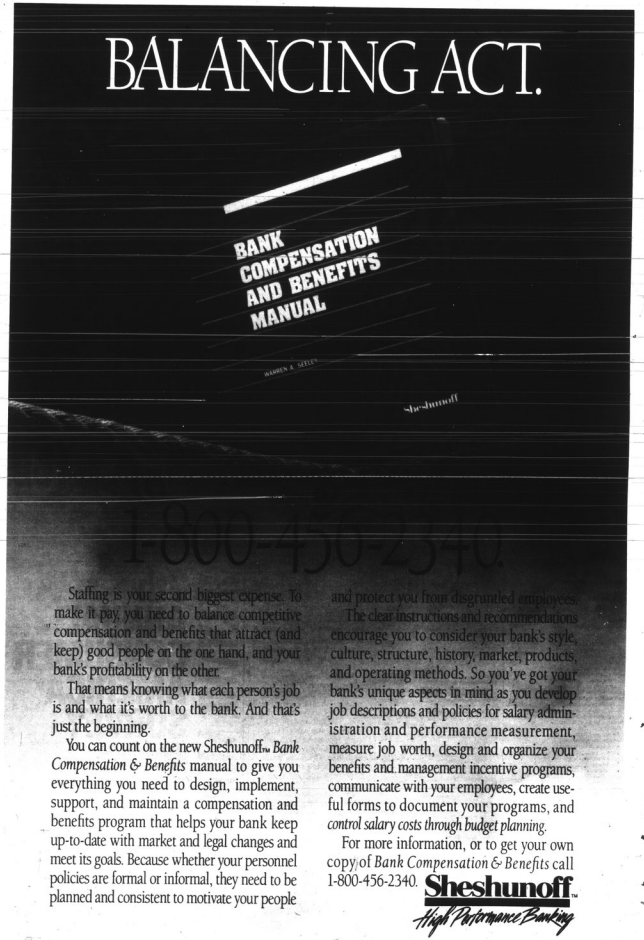

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Banks in West May Start to Feel Effects of Slower Economy

Continued from page 1

full year, followed by 1.1% in 1991 and 1.5% in 1992.

The state's long-predicted real estate slump seems to be under way, affecting both the housing and office markets.

Home prices are beyond the reach of four out of five Californians. As a result, new construction is in a free fall, off more than 40% since the beginning of the year.

For months, office vacancies have been near 20% in much of Southern California. Commercial rents have started to fall in some markets, and several major building projects have been foreclosed.

Ameliorating Factors

Analysts said California's diversified economy and growing population should soften the effects of a real estate recession. "The signs are ominous," said Mr. Soter. "But California does not have the kind of downside risk of Connecticut or Massachusetts."

Although several large California thrifts have reported big real estate losses, the slump has not yet cut deeply into the profits of most banks. Earnings trends were mixed for banks headquartered in the state.

Sumitomo Bank of California, majority owned by Japan's Sumitomo Bank Ltd., reported a 38.3% increase over the second quarter of 1989, a result of improved interest margins and good expense control.

Moderate Increases Posted

Security Pacific Corp.; Wells Fargo & Co.; Union Bank, 77% owned by the Bank of Tokyo; and the Bank of California registered moderate increases in operating income. Improvement at the Bank of California, a unit of Japan's Mitsubishi Bank Ltd., came despite a 63.3% rise in problem real estate assets to $116 million.

Net income was down 12.2% at BankAmerica Corp. to $267 million, largely because last year's second quarter included $54 million in Brazilian interest payments.

City National Corp. said lower interest margins reduced operating earnings about 1%. First Interstate Bancorp and Sanwa Bank of California also reported earnings declines from the year before.

Among big California-based banks, Security Pacific, Wells Fargo, and Union experienced small increases in nonperforming real estate assets in the second quarter.

Problem Assets Seen Rising

Nonperforming construction and commercial mortgage credits declined at BankAmerica and First Interstate. But, in a statement accompanying its second-quarter earnings report, First Interstate warned that problem assets "are likely to increase" at its California bank if the state's real estate market continues to weaken.

In other parts of the West, bank results reflected widely varying regional economies.

With foreign trade strong and the technology and commercial aircraft industries humming, the Pacific Northwest is the one part of the continental U.S. where the economy can still be called booming.

As a result, Portland, Ore.-based U.S. Bancorp, which operates the largest bank in Oregon and the third largest in Washington, boosted loans nearly 21% and net income 23% from last year's second quarter.

Even the Northwest showed signs of slowing, however. Job growth in the region is down from last year, prosperous Seattle faces its own commercial real estate slump with several downtown office towers facing foreclosure.

There was no sign of a downturn in Hawaii. As a Pacific Rim hub, the state continues to enjoy a commercial and tourism bonanza.

At Bancorp Hawaii, the state's largest banking company, assets and profits soared 26.3% and 16.8%, respectively. At No. 2 First Hawaiian Inc., assets were up 23.2% and 17.9%.

Arizona is still mired in the nation's worst real estate recession, which has pounded the state's financial institutions.

Although few observers will say definitively that Arizona's real estate market has turned the corner, there were signs of improvement at the state's largest banking company. Valley National Corp. reported modest earnings of $2 million in the second quarter, compared with a $83.2 million loss a year ago.

Valley's problem loans and foreclosed real estate both declined 3.6% from the second quarter of 1989. Although nonperforming assets still represented 7.3% of loans and foreclosed property, the drop was the first reported since the second quarter of 1988.

Valley's second-quarter loan-loss provision was $34.3 million, while net chargeoffs totaled $34 million. Loan-loss reserves at the end of the period represented 4.04% of total loans and 78.7% of nonaccrual credits. □

Second-Quarter Earnings at Top Western Banks

Assets in billions of dollars, income in millions of dollars

	Assets	2Q '90 Income	Income % change	ROA*	Equity/ assets**
BankAmerica	$104.0	$267.0	-32.2%	4.08%	8.77%
Security Pacific	94.5	195.2	5.8	3.75	5.21
First Interstate	55.1	95.1	-7.8	5.16	4.91
Wells Fargo	51.7	232.4	57.7	2.84	6.10
U.S. Bancorp	17.7	47.3	23.1	1.84	6.33
Union Bank	16.0	36.3	6.6	2.26	6.18
Valley National	10.4	2.0	NM***	7.29	4.29
Bancorp Hawaii	9.0	22.9	16.8	0.45	5.79
BanCal Tri-State Corp.	8.4	-14.7	10.5	4.07	6.28
Sanwa Bank California	7.1	6.4	-23.1	2.86	6.98
First Security Corp.	6.3	12.6	9.8	2.33	7.16
First Hawaiian	5.6	17.4	17.9	0.25	5.49
City National Corp.	4.9	13.8	-14.6	0.70	6.44
Sumitomo Bank of California	4.4	11.0	38.3	NA	NA

*Loans in default, repurchased loans and foreclosed properties as a percent of total loans and foreclosed properties. **Equity capital as a percent of total assets. ***Not meaningful.

Bank Call Notice

CONSOLIDATED REPORT OF CONDITION OF

United States Trust Company of New York

and Foreign and Domestic Subsidiaries, a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts in Thousands
Cash and balances due from depository institutions	
a. Noninterest-bearing balances and currency and coin	$ 217,429
b. Interest-bearing balances	138,999
Securities	623,491
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
a. Federal funds sold	441,000
Loans and lease financing receivables:	
a. Loans and leases, net of unearned income 509,246	
b. LESS: Allowance for loan and lease losses 6,596	
c. Loans and leases, net of unearned income, allowance, and reserve	952,650
Premises and fixed assets (including capitalized leases)	104,389
Other real estate owned	5,067
Investments in unconsolidated subsidiaries and associated companies	495
Other assets	78,172
TOTAL ASSETS	$ 2,781,399
LIABILITIES	
Deposits:	
a. In domestic offices	$ 2,009,009
Noninterest-bearing 1,216,629	
(2) Interest-bearing 992,209	
b. In foreign offices, Edge and Agreement subsidiaries, and IBFs	59,918
(1)Interest-bearing 59,918	
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
a. Federal funds purchased	81,070
b. Securities sold under agreements to repurchase	142,582
Demand notes issued to the U.S. Treasury	13,046
Other borrowed money	20
Mortgage indebtedness and obligations under capitalized leases	8,913
Subordinated notes and debentures	17,606
Other liabilities	53,402
TOTAL LIABILITIES	2,385,566
EQUITY CAPITAL	
Common stock	14,995
Surplus	40,000
Undivided profits and capital reserves	122,088
TOTAL EQUITY CAPITAL	177,083
TOTAL LIABILITIES AND EQUITY CAPITAL	$ 2,781,399

I, Daniel M. Clavin, Senior Vice President of the above-named bank do hereby declare that this report of condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

DANIEL M. CLAVIN

We, the undersigned trustees, attest the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

H. MARSHALL SCHWARZ
JEFFREY S. MAURER
FREDERICK S. WICKHAM
Trustees

Bank Call Notice

REPORT OF CONDITION OF

Barclays Bank of New York, N.A.

of New York City

In the state of New York, at the close of business on June 30, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter number 158-41. Comptroller of the Currency 02 District.

ASSETS	Dollar Amounts in Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 251,086
Interest-bearing balances	1,377
Securities	371,978
Loans and lease financing receivables:	
Loans and leases, net of unearned income 2,553,509	
LESS: Allowance for loan and lease losses 33,188	
Loans and leases, net of unearned income, allowance, and reserve	2,520,321
Premises and fixed assets	28,133
Other real estate owned	5,088
Customers' liability to this bank on acceptances outstanding	1,767
Intangible assets	4,715
Other assets	69,421
TOTAL ASSETS	$ 3,251,845
LIABILITIES	
Deposits:	
In domestic offices	$ 2,672,721
Noninterest-bearing 811,110	
Interest-bearing 2,061,611	
Federal funds purchased	122,100
Securities sold under agreements to repurchase	107,289
Demand notes issued to the U.S. Treasury	4,994
Other borrowed money	66,297
Mortgage indebtedness and obligations under capitalized leases	517
Bank's liability on acceptances executed and outstanding	1,767
Subordinated notes and debentures	20,000
Other liabilities	54,064
TOTAL LIABILITIES	$ 3,049,739
EQUITY CAPITAL	
Common stock	$ 67,000
Surplus	30,399
Undivided profits and capital reserves	104,708
TOTAL EQUITY CAPITAL	$ 202,106
TOTAL LIABILITIES, AND EQUITY CAPITAL	$ 3,251,845

I, William R. Jeremias, Vice President & Controller, of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

WILLIAM R. JEREMIAS
July 25, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

PETER G. BLAND
JOHN F. MARIT
ARTHUR I. GELLERT
Directors

Thomson Exec To Step Down

NEW YORK — The Thomson Corp. said Wednesday that Robert J. Jachino would step down at yearend as corporate executive vice president and chief executive officer of the Information/Publishing Group, which is the parent of American Banker • Bond Buyer.

Michael Brown, president of the Thomson Corp., said Mr. Jachino had "asked to relinquish his executive role" after six years in the post. The Information/Publishing Group earned operating income of $325 million last year on revenue of $2 billion. Operating profit in the first half of 1990 was $108 million, up 46% from a year earlier.

Mr. Jachino said he wanted to scale back his travel commitments and spend more time with his family. He will retire as a Thomson Corp. director and take the role Jan. 1 of nonexecutive chairman of the Information/Publishing Group.

Robert C. Hall, currently chief executive officer of Thomson Financial Services, will move into Mr. Jachino's posts Jan. 1. Effective Sept. 1, Mr. Hall will be chief operating officer of the publishing group.

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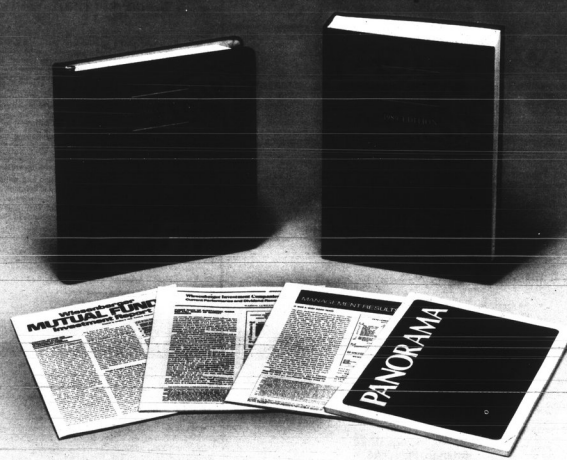

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Foundation Notice

NOTICE
The annual report of THE BRYCE FOUNDATION for the fiscal year ended April 30, 1990 is available at its principal office located at c/o Chamberlain & Steward (Attn: Mr. Bryce) 717 Fifth Avenue, New York, NY 10022, (212) 371-4980 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Mrs. J. H. Bryce.

Auction Notice

Ronald Zaza Auct'r Lic #840731 sells 8/30/90 9 AM at 83 Derby St, Valley Stm, '83 Volks #WVWFA0323CD006577 Re: J. DiStefano & Somerset Tru Co., 10 AM at 101 Nepperhan Ave Elmsford, '80 Toyota #TE7220466133 Re: N. Colon. Published 8/16 & 8/23/90.

Auction Notice

ADJOURNED SALE: Security Agreement Made By Percy Lane to Super Laundry Equip. Corp. I Will Sell On 8/17/90 at 10:30 AM At 621 Washington Ave., Bklyn., N.Y. All Right, Title & Interest In & To Machinery Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents.

M. SKOLNICK DCA LIC #793108 and/or S. GORELICK DCA LIC # 841437 Sell August 23, 1990 2:15 P.M. 468 Tarrytown Rd White Plains 1986 Hyundai 4 Dr Sdn KMHLF31JXGU028694 Re: V. McKee. Metropolitan Auctioneers, Inc. Published August 8, 1990 & August 16, 1990.

Focus On A Changing Industry
Home MORTGAGES
Read It Fridays in AMERICAN BANKER

LEGAL ADVERTISING

Citation Notices

File No. 3445-1987 CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD, FREE AND INDEPENDENT To Attorney General of the State of of New York; "Bobby" Howard (true first name unknown), if living, and if dead, her executors, administrators, successors and assigns, whose names and post office addresses are unknown and cannot after diligent inquiry be ascertained by the petitioner herein; William Grimaldi; Nancy Traeger; New York Telephone; William V. Grennan; Krimappa Sangavaram; New York City Health & Hospitals Corporation; Joseph T. Aronson; And to the distributees of WILLIAM HOWARD, also known as AMERICUS GRIMALDI, deceased, whose names and post office addresses are unknown and cannot after diligent inquiry be ascertained by the petitioner herein, being the persons interested as creditors, legatees, devisees, beneficiaries, distributees or otherwise in the estate of WILLIAM HOWARD, also known as AMERICUS GRIMALDI, deceased, who at the time of his death was a resident of 12 West 72nd Street, New York, N.Y. Send Greeting: Upon the petition of the Public Administrator of the County of New York, having her office in Room 311, in the Surrogate's Court Building, 31 Chambers Street, New York, N.Y., You and each of you are hereby cited to show cause before the Surrogate's Court of New York County, 31 Chambers Street, in the County of New York, on September 28, 1990, at 9:30 a.m., why the account of proceedings of the Public Administrator of the County of New York, as administrator of the goods, chattels and credits of said deceased, should not be judicially settled. Dated, Attested and Sealed, Aug. 03, 1990. (L.S.) HON. MARIE M. LAMBERT A Surrogate, New York County Robert M. Reaves Chief Clerk Attorney: Philip Bekerman, P.C. Tel. No. (212) 732-9400 Address 291 Broadway, New York, N.Y. 10007.

File No. 3002-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT. To The distributees of Conrad H. Waldstein, if living and if they or any of them be dead, their respective personal representatives, distributees and successors in interest, all of whose names, places of residence and post office addresses are unknown and cannot after diligent inquiry be ascertained. Public Administrator, County of New York Attorney General, State of New York A petition having been duly filed by Henry H. Grant, Jr., who is domiciled at 23 East 39th Street, New York, New York 10016 YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 509, 31 Chambers Street, New York, on September 18, 1990, at 9:30 a.m., why a decree should not be made in the estate of Conrad H. Waldstein, lately domiciled at 23 East 39th Street, New York, New York 10016 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 14th, 1989, (a copy of which is attached), and ordering that Letters of Testamentary issue to Henry H. Grant, Jr. (State any further relief sought). Dated, Attested and Sealed, July 31, 1990. (L.S.) HON. MARIE M. LAMBERT Surrogate, County of New York Robert M. Reaves, Clerk of the Surrogate's Court Name of Attorney: Steven E. Ring Telephone Number: (212) 206-1666 Address of Attorney: 186 Fifth Avenue, New York, New York 10010. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

Partnership Notices

Certificate of Continued Use of Partnership Name - Section 81, New York Partnership Law. The undersigned, who are continuing to use the firm name of Ehren & Co., and under the same, as partners, to carry on, conduct and transact business in the State of New York, DO HEREBY CERTIFY: 1. The name under which such business is carried on, conducted and transacted is as aforesaid, Ehren & Co. 2. The location of the principal place of business of said partnership is within the County of New York, State of New York, and the address thereof is 1 Chase Manhattan Plaza, New York, New York 10081. 3. The true and real full names of the persons carrying on, conducting and transacting business under such name, all of whom are of full age, with their respective places of residences are as follows: Danny J. Andros, 3154 Spencer Street, Bellmore, New York 10465; Anthony Peru, 102 Shelley Lane, Yardley PA 19067; Eugene A. Rei, 430 Race Trace Road, Ridgewood, New Jersey 07450; Stuart C. Plant, 12 Canterbury Circle, Somerset, NJ 08871. The original certificate, duly signed -and acknowledged, was filed in the New York County Clerk's Office on March 13, 1990.

Certificate of Continued Use of Partnership Name - Section 81, New York Partnership Law The undersigned, who are continuing to use the firm name of Timm & Co., and under the same, as partners, to carry on, conduct and transact business in the State of New York, DO HEREBY CERTIFY: 1. The name under which such business is carried on, conducted and transacted is as aforesaid, Timm & Co. 2. The location of the principal place of business of said partnership is within the County of New York, State of New York, and the address thereof is 1 Chase Manhattan Plaza, New York, New York 10081. 3. The true and real full names of the persons carrying on, conducting and transacting business under such name, all of whom are of full age, with their respective places of residences are as follows: Ronald W. Scaglia, 41 Holland Avenue, Floral Park, NY 11011; Isaac L. Murchison, 8 Fisher Drive, Franklin Park, NJ 08823; John B. Johnson, 380 Cortine Avenue, Brooklyn, NY 11207; Steve C. Horsford, 72 Ingraham Blvd, Hempstead, NY 11550. The original certificate, duly signed and acknowledged, was filed in the New York County Clerk's Office on March 13, 1990.

Partnership Notice

Certificate of Continued Use of Partnership Name - Section 81, New York Partnership Law The undersigned, who are continuing to use the firm name of Bender & Co., and under the same, as partners, to carry on, conduct and transact business in the State of New York, DO HEREBY CERTIFY: 1. The name under which such business is carried on, conducted and transacted is as aforesaid, Bender & Co. 2. The location of the principal place of business of said partnership is within the County of New York, State of New York, and the address thereof is 1 Chase Manhattan Plaza, New York, New York 10081. 3. The true and real full names of the persons carrying on, conducting and transacting business under such name, all of whom are of full age, with their respective places of residences are as follows: Leon I. Bernard, 1495 Morris Avenue, Apt. 3G, Bronx, New York 10457; Peter G. Kraeker, 20 Hemp Lane, Hicksville, New York 11801; Donna Eng, 476 Joralemon Street, Belleville, New Jersey 07109; Joanne B. Gallo, 11 Fifth Avenue, New York, New York 10003; John M. Hinda, 2511 Newark Avenue, Brooklyn, New York 11226. The original certificate, duly signed and acknowledged, was filed in the New York County Clerk's Office on March 13, 1990.

Auction Notice

Joel Pope auct'r Lic #794209 sells on 8/24/90 9 AM at 148-26 Hillside Ave, Qns NY '85 Olds #1G3BW69V7FY320755 Re: S. Gabini, Transportation SHC Inc.; 10 AM at 5-10 Rehrnd Pla, Bx NY '79 Olds #3369R5M158254 Re: E. Zeiger; 11 AM at 2355 Webster Ave, Bx NY '80 Olds #3R47A8M200193 Re: J. Ramirez, '76 Datsun #JN1HT13S7CT031992 Re: E. Simmons; 1 PM at 37-26 13th St, Qns NY '89 Olds #1G3WH14W3KD300909 Re: W. Miller, GMAC; 1 PM at 185 Maspeth Ave, Bklyn NY '85 Olds #1G3AJ19EXFG322845 Re: D. Butler, '84 Chev #2G1AN69H4E1172063 Re: Fluoriting Auto Salvage Inc, '85 Post #1G2JR2702F7606596 Re: D. Lelo, '86 Hyundai #KMHLF31JOGU072058 Re: A. Freire, Trst Co of NJ, '86 Ford #1FABP26A1GF262509 Re: Astf George. '72 MEBE #114011120091?? Re: H. Acevedo; 2 PM at 413 Meeker Ave, Bklyn NY '76 Fiat #128AF1203853? Re: Rysurd Majewski; 3 PM at 55 Ludy St, Hicksville NY '67 Chev #124377N101510 Re: E. Pearson, '78 Ford #2F35UHB102020 Re: B. Horowitz. Published 8/9 & 8/16/90.

Bankers Back FDIC Move To Hike Rate

Continued from *page 3*

highest rate increase ever. Banks now pay 12 cents per $100 and had been expecting premiums to rise 3 cents to 15 cents on Jan. 1. Instead, the increase will total 7.5 cents.

The FDIC has been forced to step up the premiums because the fund has lost $5 billion in the past two years and could lose as much as $2 billion by the end of 1990. The Bank Insurance Fund has slipped to about 60 cents backing every $100 in insured deposits, the lowest level in its 56-year history.

FDIC Chairman L. William Seidman wanted an even larger increase, but said FDIC lawyers advised him 7.5 cents was the largest increase allowable by law in any one year.

He said that with premiums at 19.5 cents, it could still take five years to recapitalize the fund to a desirable ratio of $1.25 for every $100 in deposits.

In a letter Wednesday to Mr. Seidman, House Banking Committee Chairman Henry B. Gonzalez applauded the proposed premium increase, but said it was not enough. The Texas Democrat said he was considering a proposal to lift the current ceiling on annual premium increases, as well as the ceiling on designated insurance fund reserves.

"Given the present difficulties facing the Bank Insurance Fund," Mr. Gonzalez said, "do you think that the premium assessment should be raised to 0.23% [23 cents], the rate currently imposed on savings and loans?"

Reacting to the prospect of a 19.5-cent premium in 1991, a majority of bankers interviewed Wednesday appeared more than willing to pony up the extra fees if it means avoiding their sagging insurance fund.

"It is a conservative move," said James G. Lindley, chairman of Columbia-based South Carolina National Bank. "What I think we have to do is take the extra mile to promote a strong signal that the banking industry is going to support a strong fund. We are not going to let it deteriorate."

Still, some bankers were surprised at the steep increase and argued that the deposit-insurance system should have been reformed years ago.

Money-Centers Blamed

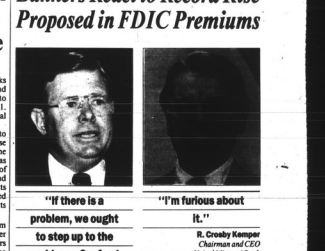
"I'm very upset that we're being penalized to pay for the frivolity and foolishness of the money-center banks," said R. Crosby Kemper, chairman and chief executive of Kansas City-based United Missouri Bank.

Carl J. Schmitt, chairman and chief executive of Community National Bank and Trust Co. in Palo Alto, Calif., said he hoped the increase would prompt the industry to operate more carefully.

"It is time that the industry shapes itself up a bit," he said.

Louis Gerhardstein of the Media Networks Service contributed to this story.

Bankers React to Record Rise Proposed in FDIC Premiums



"If there is a problem, we ought to step up to the problems. Our fund should handle it. . . . I don't think it will reduce our earnings 1%."

John B. McCoy
Chairman
Banc One Corp.
Columbus, Ohio

"I'm furious about it."

R. Crosby Kemper
Chairman and CEO
United Missouri Bank
Kansas City, Mo.

"We are sorry that it had to be done without a concurrent reform."

Joel R. Wells Jr.
Chairman
SunTrust Banks Inc.
Atlanta

"I think it is a conservative move. I think what they have done is gone the extra mile to promote a strong signal that the banking industry and the [FDIC] are going to support a strong fund."

James G. Lindley
Chairman
South Carolina National Bank
Columbia

"The most important thing is the safety and soundness of the system."

John W. Flynn
Vice chairman, CFO
Fleet/Norstar Financial Group
Providence, R.I.

DEALS

Progress at Consolidated Freightways May Be Costly to Chemical Bank

By WILLIAM GOODWIN

A recent improvement in Consolidated Freightways Inc.'s operating results could mean the loss of a substantial piece of business for Chemical Bank.

In June, the Chemical Banking Corp. unit committed to provide $500 million of a new senior secured credit facility for Consolidated, and agreed to raise up to $360 million more on a best-efforts basis.

The new five-year loan package was to be used in part to replace an existing $300 million revolver from a group of banks led by Security Pacific National Bank.

Revolving Credit Terminated

Consolidated was restricted from drawing on the revolver because of the continuing losses at its Emery air freight subsidiary, which was acquired in April 1989. The revolver was terminated last month.

While the Emery operation continues to lose money, there are signs that it may have begun to turn the corner.

Emery's second-quarter operating loss narrowed to $30.9 million from $69.5 million in the first quarter, and the positive trend is continuing, a Consolidated Freightways spokesman said.

Cheaper Credit Considered

As a result of the improvement at Emery and the continued strong results from its trucking operations, Consolidated is reexamining the need for the $860 million credit, and is now discussing the possibility of obtaining a smaller, cheaper credit facility from three major money-center banks.

While the identity of the three money-center banks has not been disclosed, Chemical is not believed to be among them.

Chemical officials declined through a spokeswoman to comment on Consolidated. Chemical also refused to say whether it received a fee for the $500 million commitment, which remains in place.

Sustaining Relationship

Even if Chemical loses the business, it still has a relationship with Consolidated through a short-term $75 million revolving receivables purchase facility. That facility was provided in June.

Details of the proposed $860 million credit have been sketchy, but it is believed to consist of a term loan and revolver. It was designed to handle Consolidated's corporate financing requirements over the five-year period.

The credit facility also included payment of common dividends for the near term. As a result, Consolidated suspended dividend payments in June.

"As the company's financial condition continues to improve, the board of directors will consider reinstatement of dividends," the company said in a letter mailed to shareholders this week.

* * *

Sumitomo Trust Is Lender On Marriott Hotel Project

NEW YORK — Sumitomo Trust & Banking Co. has issued a $240 million, seven-year bullet loan to a limited partnership sponsored by Marriott Corp. to finance the Fairfield Inns, the economy lodge division that is the fastest-growing unit in the Marriott chain.

Marriott builds its hotels and sells them to such partnerships in order to get them off the books and avoid the impact of depreciating property on its earnings, a financial expressed concern over this strategy, given the softness of the hotel markets and the reluctance of American banks to finance hotel properties.

As is typical of its financings, Marriott is providing Sumitomo with a limited guarantee on the principal of the loan.

— Stephen Kleege

* * *

Mortgage-Backed Paper Sold to Cigna Insurance

National Cooperative Bank, Washington, sold $13.7 million of securities backed by commercial mortgage loans on 22 apartment buildings in New York and one in Washington to a unit of Cigna Corp.

The issue received an A rating from Duff & Phelps Inc. on the strength of the location of the cooperatively owned properties and the low loan-to-value ratios, according to a Duff & Phelps report.

The mortgage loans were made to finance improvements to cooperatively owned apartment buildings, said Daniel B. Campbell, assistance vice president in the treasury department of the cooperative bank.

Limit on Residential Lending

He said the bank routinely sells the loans it makes on residential properties because its nonresidential mandate caps its residential lending at 35% of assets.

The proceeds will be used for additional lending and for general corporate purposes.

As a credit enhancement to support the A rating, the bank is obligated to advance up to three months of principal and interest as a liquidity guarantee.

— Stephen Kleege

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Highlights for Wednesday, August 15*

TOP 10 GAINERS %

Northeast Bancorp, Inc.	12.9
First Bancorporation of Ohio	8.0
Lake Shore Bancorp., Inc.	6.6
National Community Banks, Inc.	6.2
First Security Bancorp, Inc.	5.8
First Citizens Bancshares Inc.	5.4
Union Planters Corporation	5.3
Bankvest Group, Inc.	4.8
Citizens Banking Corporation	4.7
United Bankshares, Inc.	4.6

TOP 10 LOSERS %

Plaza Commerce Bancorp	-8.7
Merchants Bank of New York	-6.4
F & M National Corporation	-5.8
First Security Corporation	-5.7
First Security Financial Corp.	-5.0
First Kentucky Corporation	-4.8
Valley Bancorporation	-4.6
Mid-America Bancorp	-3.6
Multibank Financial Corp.	-3.6
Ohio Bancorp	-3.5

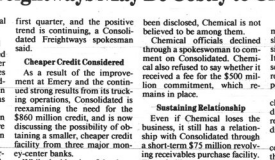
MOST SHARES TRADED

BankAmerica Corporation	710500
Citicorp	577000
Chemical Banking Corp.	362100
Chase Manhattan Corporation	312300
U.S. Bancorp	311400

VOLUME AS % OF AVERAGE

United Missouri Bancshares Inc	1928.5
Santa Monica Bank	886.8
First Eastern Corp.	554.5
First Florida Banks, Inc.	490.0
National Penn Bancshares, Inc.	483.4

Stock Index Trends



Percentage Changes
Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	5	21	Day	5	21	Day	5	21
0.32	0.79	-8.11	-0.29	0.60	-10.94	0.35	-0.95	-19.44

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18½	1stSourceCorp.IN	6.3	86.8	19¼	-½
14¼	10¾	4FBancorporation MO	8.9	113.9	13¾	...
28¾	20	AmSouthBancorp AL	8.0	83.0	20¼	¼
18¼	13¾	AmeribankInc	8.1	82.7	14	...
29	14¾	AmerifirstCorp OH	24.8	82.5	14¾	¼
22¾	18¾	AssociatedBanc WI	8.9	122.9	19¼	¼
24¼	18	BBAT FinCorp NC	7.8	107.9	18¾	¼
15¾	8¾	BalfourMacklin MD	6.8	47.0	9	¼
48¾	36¾	BarPonce PR	13.9	148.4	46	...
20¼	16	BarclaysCorp OH	10.4	127.6	20¼	...
35½	17½	BancoPopular PR	6.0	90.6	18	...
56¾	42	BancorpHawaii HI	8.5	142.7	44½	...
23¾	18	BancorpMiss MS	6.9	87.8	18½	...
36¼	21¾	BankAmericaCorp CA	5.0	56.1	24	...
24	17¾	BankGranite CorpNC	13.2	233.2	21¼	...
23¾	24	BankNewEngland MA	NM	50.0	2½	...
14¾	8	BankSouthCorp GA	9.2	87.3	8¾	...
57¾	35	BankersTrust NY	NM	102.8	38¾	½
21½	10¼	BankersTrGroup KY	5.2	57.0	11	¼
29¼	10¼	BankmontFinancial FL	NM	39.2	10¾	...
50½	23¾	BanksOfMI WY	NM	70.0	24¾	...
12	8	BanksvilleCorp OK	NM	43.8	8¾	...
82	81	BarksonRowan IL	9.9	96.1	81	...
39¾	29¾	BarnettBanks FL	8.2	86.3	38¼	...
40½	12¾	BayBanks MA	NM	37.0	12¾	...
14¾	10¾	BeaverCountyBcshs PA	7.5	83.9	13¾	...
23¼	15¾	BeaumontBancsh LA	221.4	101.7	15¾	...
16¾	13¾	BerkshireBcshs MA	7.6	104.6	14¾	...
43¾	33¾	BetCorpAC	8.0	107.2	31¼	...
22¾	13¼	CCNB Corp PA	8.0	97.3	13¾	...
22¾	18¾	CNB Bancshares IN	10.2	122.8	21¼	...
27	20½	CPB Inc	9.4	216.2	20¾	...
17¾	12¾	CalFedBancCA	7.6	108.7	13¾	...
33¾	17	CalFedBancCA	6.1	93.3	14	...
18¼	12¾	CapitalBancorp CA	6.7	80.3	14	...
34¼	23¾	CentralBcshs VA	7.4	105.2	27	½
17¾	11¾	CentralFinancial IL	8.7	89.6	11¾	...
44¾	17¾	CheseMarketplace NY	NM	53.3	18¼	¼
41¾	30¾	ChemicalBanking NY	NM	68.0	33¾	¼
35	29¼	ChemicalFinCorp MI	8.8	96.6	30¼	...
35¼	18¾	CitizensFirCorp MT	7.8	109.1	18¾	...
25¾	15¾	CitizensBancorp MD	7.3	89.5	15¾	¼
29¾	20¾	CitizensBanking MI	7.7	116.2	27¼	...
15¼	7¾	CitizensFirst NJ	NM	113.0	8¼	¼
34¼	21	CitizensFinancial RI	9.4	98.1	22¼	...
27¼	15¼	CityNatlCorp CA	8.8	159.3	15¾	½
23¾	15¾	CoastalBancorp TX	8.8	107.2	15¾	...
56¾	36½	CoreStatesFinCorp PA	8.2	90.8	39	¼
29¼	21½	CommercialNatl MO	8.3	97.2	21½	...
20¾	15¼	CommonwealthPA	7.1	89.3	15¾	...
37½	33¼	CrestabankNJ	8.0	111.6	33¼	...
20¾	10¾	CumberlandL	NM	47.1	10¾	¼
40¾	33¾	CyprusBcshs FL	9.3	127.5	34¼	...
34	18¾	CrestarFinCorp VA	6.7	81.5	18¾	¼
37¾	26¾	CrestarBank VA	39.8	91.7	33¾	...
37¾	26¾	DauphinDeposit PA	8.0	119.0	28	¼
32	21¼	DeposBancorp MS	8.0	70.2	22¾	½
25½	11¾	DominionBcshs VA	8.9	76.0	12¼	¼
15	3¾	EquimarkCorp IN	NM	27.2	3¾	...
21¼	11¼	EvergreenBancHI	8.0	84.9	12¼	...
15¾	12¼	F & M NatlCorp VA	10.0	153.9	12¾	...
14½	11¼	FNB Corp PA	8.0	96.3	11½	...
26	21¼	FNB Bancorp IL	10.2	188.6	22	...
29	27¾	FarmersCapital KY	13.4	117.6	27¾	...
39¾	28¾	FifthThirdBancp OH	10.2	156.8	29¾	...
38¾	31	FinancialTrust PA	8.5	127.9	31	...
51¾	34	FirstTarNatl NE	8.7	92.7	39¼	¼
19¾	15¼	FirstAlabama AL	8.1	103.4	15¾	¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
26¼	9¾	FirstAmerCorp TN	NM	57.5	9¼	¼
34½	21¾	FirstBancorpPR	7.9	93.9	23¾	¼
26¾	17¾	FirstBankSystem MN	NM	105.2	17¾	...
49¾	23¾	FirstChicagoIL	7.6	65.5	23¾	...
29½	23¼	FirstCitizensNC	8.0	93.0	24½	¼
39¾	18	FirstCollinsTX	3.0	41.2	18¼	...
18¾	11¾	FirstColonialIL	9.2	116.6	12	...
17¾	11¾	FirstCommercialA	8.2	92.6	18	...
29	21½	FirstCommerceMS	8.0	88.7	28½	...
21¾	17¾	FirstCommercialAL	9.8	108.2	17¾	...
19¾	16¾	FirstCommercialAR	8.2	113.8	18	¼
14¾	11¾	FirstCommunityIL	11.1	113.6	13¾	...
35¼	18¾	FirstEasternPA	7.0	85.3	19	...
72	56½	FirstEmpireNY	7.6	90.3	56½	...
33¾	13¾	FirstFidelityAJ	NM	75.9	15¾	...
32	17¾	FirstFinBancOH	12.2	175.8	18	...
34¾	18¾	FirstFloridaFL	9.8	74.8	19¾	¼
24¾	20¾	FirstHawaiianHI	9.1	188.1	20¾	¼
11	6¾	FirstIllinoisIL	9.3	158.4	7	¼
30¾	20¾	FirstInterstateCA	NM	36.3	32¾	...
7	5¾	FirstInterstateIA	7.6	99.0	5¾	¼
8¾	6¾	FirstMichBankCp MI	8.0	110.9	6¾	¼
24¾	18¾	FirstMidwestIL	9.3	131.8	18¾	¼
26¼	19	FirstNatBancorpCA	7.9	121.6	19¼	...
14¾	9¾	FirstPeoplesNJ	4.8	76.5	20¼	...
14¾	10¾	FirstSecurityAR	10.3	86.0	10¾	...
18	13¾	FirstSecurityKY	12.7	168.4	14¾	...
17¾	14¾	FirstSecurityUT	7.4	77.4	15¾	...
28¾	21¾	FirstTennessee TN	7.7	92.2	22¼	¼
29¾	15¾	FirstVirginiaCorp	6.5	77.9	15¾	...
25¾	22¼	FirstVirginia VA	7.1	99.8	22¾	¼
27¾	20¾	FirstWisconsin WI	9.9	148.4	20¾	...
45	27¾	FirstbancCorp PR	6.8	106.3	28¾	...
25¾	17¾	FirstbancorpNC	8.4	87.2	17¾	...
50¾	42¾	FirstbancorpOH	7.3	91.5	42¼	¼
29¾	21¾	FleetNorstarRI	8.2	87.3	28¾	...
17¾	12¾	FloridaBanksFL	13.5	107.2	13¾	...
28	20¾	FourthFinCorpOK	14.0	137.5	20¾	...
15	10¾	FultonFinCorp PA	9.1	123.0	11	...
24½	16¾	GBC Bancorp CA	8.2	200.8	19¾	...
15¾	8¾	GreenvalleSavingsAS	17.6	98.1	9¾	...
9¼	6¾	HawkeyeBancorp IA	3.9	104.2	6¾	...
24¾	14¾	HerbaghtonBcshs IL	8.7	114.8	14¾	...
26	14¾	HiberniaCorp LA	17.7	109.3	15	...
13¾	10¾	HuntingtonBancsh	6.9	99.7	13¾	¼
32¾	19¼	INBFinCorp IN	7.6	88.0	20	¼
24¾	17¾	IndependentBancp CA	6.7	98.6	19¾	...
26¾	16	IndependenceBcsh PA	8.8	94.2	17	...
20¾	16¾	IntegraBankIN	13.8	90.2	20	...
48	35	IowaWestBancshs IA	8.8	115.6	36	...
47¾	32¾	JacksonBcshs IL	9.0	146.6	32¾	...
26¼	17¼	JeffersonBcshs VA	7.5	86.0	17¼	...
15¾	11¾	KeyCentralBancp WV	9.6	100.6	11¾	...
29¼	23¾	KeyCorp NY	6.9	98.9	23¾	...
24¾	16¾	KeystoneFinCorp PA	8.4	122.7	24¼	...
35¾	26¼	KeystoneInvestCo PA	9.1	138.5	26¼	...
14¾	8¾	LSBBancshares SC	15.0	224.4	12	...
29½	20¼	LakeShore IL	15.7	195.5	22¼	1¾
18	10	LandmarkBancshs MO	7.3	97.5	10	...
30¼	21¾	LibertyNatlEnterp KY	7.9	101.4	23¾	...
27	17¾	LincolnFinCorp IN	6.5	79.0	18½	...
29¾	8½	MBC Financial MD	9.1	55.8	9	¼
28¾	12¾	MagnaGroup IL	8.7	87.2	12¾	...
60	38¼	ManufacturNatl MI	5.8	88.2	39¼	...
44½	29¼	ManufacturersHNY	9.6	73.5	30¼	...
21	16½	MarineCorp IL	12.1	131.6	20	...
20¼	13¾	MarkTwainBcshs MO	7.9	98.7	14¾	...
37¾	28¾	MarshallBcshs WI	8.3	108.7	29¼	...
36	21	MellonBankCorp PA	4.3	70.1	21¾	...
28¼	21	MercantileBancMO	35.3	83.0	21¼	¼

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
24¼	19¾	UnitedBanksCalCO	NM	97.5	20	...
14	11	UnitedBanksMn	7.8	91.8	11½	½
17¾	12¼	UnitedCarolinaNC	7.1	93.9	12¼	...
62	52	UnitedCounties NJ	7.1	101.0	52	...
32¼	27	UnitedTrustNH	8.9	106.1	28	½
27¼	20¾	ValleyBancorp WI	8.2	102.1	20¾	½
26	22¼	ValleyCapCorp WV	7.4	135.7	23¾	...
28¼	18¾	ValleyNatlBanc NJ	7.3	136.8	19¾	½
12¾	9¾	ValleyNatlBcshs FL	11.5	97.3	9¾	...
87¾	60¾	WachtelCorp CA	4.8	117.4	62¾	½
30	25½	WachoviaCorp GA	7.1	93.9	29¾	...
27¼	21¾	WestOneBancorp ID	7.7	87.7	22½	...
20¾	17¾	WestamericaBcp CA	12.1	148.8	18¾	...
44¼	35¾	WilmingtonTrust DE	10.5	245.8	38¼	...
19¼	15¾	WorthenBancorp IN	8.1	117.3	15¾	...
32¼	25¾	ZionsBancorp UT	6.8	94.3	27¼	...

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
24¾	16¼	Ahmanson CA	7.2	82.1	17¼	...
30¾	30¼	DeltaBankcorp IN	10.6	68.8	30	...
28¼	8¾	FedPacific CA	24.3	58.2	9¾	...
55¾	41¼	ChicagoMiniature IL	7.0	42.6	42¼	...
20¼	3	CoastSavingsBnk NJ	NM	33.8	4¼	...
13¾	9	CommercialBcp NJ	NM	26.2	10¼	...
24	13	DowneySavings CA	21.9	94.0	14	...
17¾	12	FedNatMortAssn	6.7	112.3	16¾	...
21¾	12	FirstFedMich MI	6.6	34.9	14	½
25	9¾	FirstWSBCO	7.4	26.2	10¼	...
34¾	22¾	GoldenWestFin CA	9.2	145.4	29¼	...
14¾	10¾	GreatWesternFin CA	13.7	118.4	14¾	...
13¾	1¼	GtAmericanBank CA	NM	13.8	1¼	...
47¾	9¾	HomeFedCorp CA	NM	10.4	10¾	...
21¾	13¾	HomeSvgBankAM	16.1	88.9	17¾	¼
18½	10¾	HSB Bancorp IN	10.4	108.4	10¾	...
10¾	5¾	People's Bank CT	30.9	40.6	5¾	...
95¾	75¾	PeoplesMutualBnkPA	9.5	123.5	95	...
18¾	9½	RochesterCmtySB NY	6.7	43.1	10¼	¼
6¾	4¼	SoconFederal GA	6.4	44.4	4¼	...
19¾	9¾	SPSBancorp PA	NM	58.8	10¾	¼
12¾	8¾	StandardFedBk MI	5.8	60.7	11¾	...
26¼	13¾	WestMutualSB WA	9.4	55.9	13¾	¼
31¾	23¾	WesternFedSvg WA	9.4	170.4	23¾	...
11¼	6¾	WestcorpCA	10.2	86.8	7¼	...

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the total assets of their most recent annual reports as of June 30, 1990, the market value cutoff for banks was $56.71 mil. and for thrifts $127.8 mil.) 52 Wk Hi and Lo are the highest 52-week high and low prices for the stock. PE: the price-earnings ratio. It is the current stock price divided by the four-quarter earnings per share adjusted for latest announced earnings. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. **Book value** is adjusted for announced earnings and dividends. Chg.: The price at which the stock last traded. If no trades for the day, the latest bid. **All Bank and Thrift Stocks:** Daily closing prices for the 250 banks and thrifts with market value of $56.71 million or more, respectively. Highlights show large percentage increases in price, and so may also indicate most shares traded and today's volume as a percentage of average shares traded the daily over last year.

Data sources: SNL SECURITIES, Charlottesville, VA 804-977-1600; Standard Data, Financial News Network, Vienna, VA; provides SNL with the daily prices.

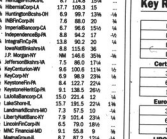
Libor Swap Yield Curve

August 8



Wednesday, August 15, 1990

August 15



Data source: Manufacturers Hanover Trust Co., New York

Description of table: For lenders and borrowers in interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used to active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates

	8/15	(Δ••• vs 8/14	5, 1990) 8/08
Federal Funds-domestic range:	8¼-⅜	8¼-⅜	8.00
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRINY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.40	7.50	7.35
6 Month Posted	7.40	7.50	7.35
1 Year Posted	7.45	7.50	7.35
Eurodollar deposits*			
3 Month	7⅞	7⅞	7⅞
6 Month	7⅞	7⅞	7¹⁵/₁₆
1 Year	8.00	8.00	8⅛
LIBOR*			
3 Month	8.00	8.00	8.00
6 Month	8.00	8.00	8⅛
1 Year	8⅛	8⅛	8¼

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (•)— Late London bid (••)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

Price Slide May Signal Death of Maryland Merger

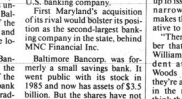
By GORDON MATTHEWS

Doubts are setting in about the likelihood that First Maryland Bancorp will pursue its unsolicited $17-a-share bid for Baltimore Bancorp., in light of the decline in bank stock prices and the growing weakness in the local real estate market.

The stock of Baltimore Bancorp. has fallen steadily in the past few weeks, a victim of the general anemia afflicting bank equities. On Wednesday it traded unchanged at $8.875, an astonishing 47% below the offer by First Maryland, which is a subsidiary of Allied Irish Banks PLC.

Baltimore Bancorp. On Roller Coaster Ride

Price per common share.



"Obviously nobody thinks the deal is still on, or the stock wouldn't be trading that low. It's been several months, and we haven't seen further steps by First Maryland," said Lacy M. Shockley, banking industry analyst at Smith Barney, Harris Upham & Co., New York.

Worse Drop Than Average

The stock's 25% tumble since the end of the first quarter has been even worse than that of banks in general. Over the same period, the *American Banker* index of the 225 largest publicly traded bank stocks has declined 15%.

Baltimore Bancorp. sharply rejected the offer, saying it wanted to remain independent. But some shareholders have asked the company to reconsider and have written letters to the board of directors.

Some observers suspect that the slowdown in the real estate market and local economy in the Baltimore-Washington area and stricter examinations by bank regulators have dampened enthusiasm for dealmaking at First Maryland.

A spokeswoman for First Maryland said Wednesday that the offer remains on the table but declined to say when or how the company might pursue it. She also declined to comment when asked if the bank was currently being examined by the Office of the Comptroller of the Currency.

The stock was trading at around $10 when the $17-a-share offer was made on April 30. It jumped to $15.25 on the news but has eroded steadily since then, except for a small uptick in late May when First Maryland said it might raise the bid.

The offer is believed to be the first hostile attempt by a foreign banking company to acquire a U.S. banking company.

First Maryland's acquisition of its rival would bolster its position as the second-largest banking company in the state, behind MNC Financial Inc.

Baltimore Bancorp. was formerly a small savings bank. It went public with its stock in 1985 and now has assets of $3.3 billion. But the shares have not performed well in the past three years as the company has struggled to achieve higher efficiency and profitability.

* * *

MARKET MONITOR

Major bank and thrift stocks were mixed and mostly traded in a narrow range on Wednesday, appearing to mark time along with the rest of the stock market as news of further developments was awaited from the Middle East.

"There is nothing new about bank stocks for the moment and they are at a standstill for the time being," said one analyst. Volume in most of the bank and thrift issues was small.

J.P. Morgan & Co., the nation's premier money-center institution, was off 62.5 cents to $35.125, while Citicorp, the country's largest bank, was off 25 cents to $20.

The largest decline in late afternoon trading was posted by Texas Commerce Bancshares, Houston. Its shares, off $1 to $19.75, appeared to be giving back some of the gains they tallied on early news of Iraq's invasion of Kuwait and the subsequent upward spike in oil prices. □

CAPITAL

Banks Gearing Up to Tap Debt Markets

By FRED VOGELSTEIN

Despite a rise in Treasury bond rates spurred by the Iraqi invasion of Kuwait, experts say the recent spate of shelf offerings suggests that banks are gearing up to issue debt. And the modest narrowing of bond spreads makes the financing cheaper relative to Treasuries.

"There seem to be a fair number that want to get in," said William J. Downes, a vice president at Keefe, Bruyette & Woods Inc. "I'm not saying they're all going to want to issue in the next two weeks, but I think they will pick a number of points to issue between now and the end of the year."

Banks have been dipping their toes in the debt markets since the beginning of summer. Bank-America Corp., Bankers Trust New York Corp., NCNB Corp., and First Chicago Corp. have issued a total of $750 million in subordinated debt since June.

More May Test Waters

But with talk of interest rate easing by the Federal Reserve Board, continued pressure on bank capital ratios, and the dearth of supply in bank debt, experts say more and more are thinking of taking the plunge.

"A lot of issuers would like to come in at what spreads are now," said Richard Kendrick, syndicate manager at Donaldson, Lufkin & Jenrette.

In fact, Banc One Corp. was in the market on Tuesday, successfully selling a $200 million offering of 20-year bonds through Salomon Brothers Inc. that is expected to be priced today at about 140 basis points over 20-year Treasuries.

Mr. Kendrick noted that spreads have narrowed in selected credits, signaling that some institutions, such as Barnett Banks Inc., should consider issuing debt now before spreads widen.

Bank Bond Spreads Tighten Marginally

Spread over 10-year Treasury bonds, in basis points, for selected bank issuers

	July 24	Aug. 7	Aug. 15
Barnett Banks Inc. 8.5% debentures of 1999	180	180	170
Bankers Trust New York Corp. 9.5% debentures of 2000	135	135	130
Chemical Banking Corp. 8.75% debentures of 2000	375	385	365

Source: Keefe, Bruyette & Woods

He said banks could move fast when they see an opportunity to issue because it will evaporate quickly. They may not want to issue tomorrow, but if the Fed eases and the Treasury market rallies, only a few banks will be able to get into the market before the spread between bank bonds and Treasuries gets wide.

Spreads on the debt of Barnett Banks have narrowed versus 10-year Treasuries around 10 basis points in recent weeks, according to Keefe Bruyette, while spreads on Bankers Trust debt were about 5 basis points tighter. Some debt of Chemical Bank's narrowed as much as 60 basis points.

The pace of shelf filings has clearly picked up. Banc One, Columbus, Ohio, filed a shelf at the end of July that for $300 million in subordinated debt as part of its effort to raise funds for acquisitions, and Barnett Banks last Friday filed a shelf for $100 million in debt for general corporate purposes.

Others Filing Recently

Other banks recently filing shelf registrations are Bankers Trust New York Corp., Chemical Banking Corp., and Great Western Financial Corp.

Not everyone, however, believes the spate of shelf filings is meaningful.

"The banks that sorely need capital are capped out on subordinated debt," Anne McDermott, an analyst at Kidder, Peabody & Co. "What they need is equity, which is impossible to raise given the depressed state of bank stock prices."

Ms. McDermott acknowledged the flurry of shelf registrations that have been filed recently but said that since they are good for two years, they don't necessarily mean a flurry of offerings is imminent.

* * *

MARKET MONITOR

Standard & Poor's Corp. downgraded the ratings of Continental Bank Corp. on Wednesday, citing the erosion of core profitability "as a result of a lower volume of transactions, particularly for leveraged buyout financings."

The bank's senior debt was dropped from BBB-plus to BBB; the preferred stock rating fell from BBB-minus to BB; and its commercial paper rating was affirmed at A-2. About $1 billion in securities are affected.

S&P added that it is "concerned about Continental's large exposure to highly leveraged transactions and the recent deterioration in that portfolio's asset quality," factors that are an adequate level of capital and full reserves for the remaining exposure to lesser-developed countries. □

Security Pacific Agrees to Exit South African ADRs

By TERESA CARSON

LOS ANGELES — Security Pacific Corp. said it would stop backing South African securities after a union put pressure on the company.

But Security Pacific charges that Amalgamated Clothing and Textile Workers Union has a hidden agenda. The union has been in a dispute with Security Pacific over the fate of Health-tex Inc., New York, a big maker of children's clothing. The textile workers have charged that Security Pacific is trying to liquidate Health-tex. Security Pacific was one of a group of banks that helped finance a leveraged buyout of Health-tex in 1985.

'A Very Small Player'

"It strikes us as a little strange that they have picked Security Pacific for this type of action, since we are a very small player in this market," Russell A. Freeman, Security Pacific's executive vice president and general counsel said in an interview.

At issue is Security Pacific's involvement in the market for American depositary receipts, certificates that represent securities in foreign companies. Foreign stocks that do not trade in the United States can be deposited with a bank, which issues depositary receipts representing those interests. The ADRs can be traded in U.S. markets and pay the dividends of the underlying stocks.

> **"It strikes us as a little strange that they have picked Security Pacific for this type of action, since we are a very small player in this market."**
>
> **Russell A. Freeman**
> *Security Pacific Corp.*

Security Pacific maintains that these ADRs do not benefit the South African companies. Still, the bank decided to pull out of the market.

"To avoid the appearance that Security Pacific might be even indirectly supporting apartheid, we are taking steps to withdraw from our existing ADR business involving South African securities and no new depositary agreements will be accepted for ADRs involving South Africa securities," Mr. Freeman wrote in a letter to the union.

"Your actions appear to be motivated more by a desire to seek retribution against Security Pacific for its participation in the Health-tex matter, rather than a commitment to eliminate apartheid," Mr. Freeman said.

"Security Pacific is trying to dodge the issue," said Damon A. Silvers, international representative for the textile workers union.

Bank's Allegations Denied

"We have been very active on apartheid issues," Mr. Silvers said, "this has no connection with Health-tex." He said Security Pacific was selected for action because they had gone into the business most recently of all the American banks.

Mr. Freeman said the bank has no timetable for withdrawing from this business and is exploring ways to exit. □

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Why Did Fed Finally Reject Northeast Deal?

By GORDON MATTHEWS and BARBARA REHM

NEW YORK — The Federal Reserve Board rejection of Bank of New York Co.'s foot-dragging bid to acquire Northeast Bancorp probably stifles what life was left in the moribund bank merger and acquisition scene.

The question some observers are now asking is whether the Fed has raised the capital requirement for bank mergers.

"I doubt if too many years are being shed at Bank of New York over this, but the message here may be that regulators right now will not approve any deal in which capital ratios are weakened, even when they don't go below the minimum limits," said Felice M. Gelman, a bank analyst at Dillon Read & Co.

Meanwhile, Northeast, based in Stamford, Conn., signaled that it is not yet ready to give up the fight. It asserted Thursday that Bank of New York deliberately filed an incomplete application with the Fed to ensure that the deal would be rejected.

'Breach of Contract'

"Northeast believes that the lack of a proper capital plan within the application constitutes a breach of contract, and it will decide within the next few days whether to pursue legal action," Frank J. Kugler Jr., its chairman, said in a statement.

"We were not asked by the Fed to submit a capital plan," responded a spokesman for Bank of New York. "Moreover, the management at Northeast saw this application before it went to the Fed, and we did not previously hear from them that it was incomplete."

The Fed operates mainly behind closed doors. So industry sources were unsure Thursday whether the Bank of New York order, released late Wednesday, signaled that the Fed is applying a higher capital standard to acquisition requests.

Reading Fed Intentions

"I think the Fed has been intensifying, but I'm not sure whether it is an increase or not," said a former Fed governor, who did not want to be named. "The Fed is clearly committed to high capital, but I don't think there is a specific level. I think they do it on a case-by-case basis."

About the only clear implication is that "the Fed doesn't like large cash deals," said Mark

See **EXPERTS** *page* **14**

ANALYSIS: *Follow-up on the news*

INSIDE NEWS

FINANCE

CALIFORNIA bank stocks were hammered in the wake of estimates of lower earnings for Security Pacific Corp. A Merrill Lynch analyst precipitated the slide by reducing her 1990 earnings estimates to $5.70 a share from $6.35 a share. *Page 16*

AMERICAN STORES Co. closed a $76 million loan this week that was not only solegarded by a relatively unknown Japanese bank, but syndicated exclusively to regional Japanese lenders. *Page 14*

INTERNATIONAL

THOMAS COOK Group, a unit of Britain's Midland Bank, got Fed approval to acquire the U.S. retail foreign exchange operations of Deak International from Jarden Morgan Ltd., a New Zealand-based financial services company. *Page 7*

CONSUMER

BRITISH CONSUMERS will make more payments with debit cards than checks before the year 2000, a trade group predicts. *Page 8*

MORTGAGES

OPPOSITION from member thrifts of the Federal Home Loan Bank of New York has derailed a plan by that bank to invest in jumbo mortgages. *Page 2*

THE TOP 25 mortgage lenders accounted for 34.7% of all originations last year, up from 31% in 1988, according to a study by SMR Research. *Page 6*

A PROPOSED SALE of one of the Resolution Trust Corp.'s largest mortgage-servicing portfolios has fallen into limbo, with part of the buyer group coming under pressure to exit. *Page 13*

COMMENT

A SUGGESTED amendment requiring lenders to adopt "uniform" pricing could have the effect of hurting the very people the Federal Housing Administration is intended to help, argues Angelo Mozilo. *Page 4*

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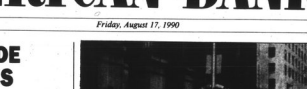


Peggy Torbert

WORK IN PROGRESS: Citibank's branch at 55 Wall St. was closed Thursday as Consolidated Edison toiled to restore power in the fourth day of a blackout in the heart of the financial district.

Citibank Works to Bring Accounts Up to Date After Generator Failure

By KAREN GULLO

NEW YORK — Citibank scrambled to update customers' accounts Thursday after bringing in additional generators to restore back-office computer systems for its New York City branches.

A power outage in New York's financial district has become an operational nightmare for the giant bank, affecting key computer systems supporting correspondent and retail banking operations and customer service.

The systems failure delayed posting of withdrawals and deposits to consumers' accounts, but the number of accounts affected could not be determined. Corporate accounts were affected to a lesser degree, bank officials said.

"We're doing catch up right now, but we're almost completely caught up," said Daniel J. Denaci, vice president in charge of retail banking for Citibank in south Manhattan. He said account activity had been posted through Tuesday.

Two Citibank branches, including one at 55 Wall Street, remained closed Thursday because power had not been restored three days after a fire destroyed a utility station operated by Consolidated Edison Co. in lower Manhattan. Customers were diverted to other branches in the area.

Operations for the retail and correspondent banking systems were disrupted Wednesday when a backup generator failed at the bank's downtown Manhattan processing site at 111

See **CITIBANK** *page* **3**

Fed Wire Disrupted, Is Moved to Backup Site

By JEANNE IIDA

NEW YORK — A backup generator at the Federal Reserve Bank of New York failed Thursday morning, disrupting the Fed's nationwide wire-transfer system and adding more confusion to a federal funds trading market already in turmoil following a blackout in Lower Manhattan earlier this week.

The Fed's wire network, which processes more than $900 billion in payments a day, opened two-and-a-half hours late as officials scrambled to move operations to a backup site 24 miles north of the city.

Payment Bottleneck

Corporate and interbank payments faced bottlenecks as the tedious process of linking users to the new site slowed operations well into the afternoon. The Fed Wire was expected to close after its normal 6:30 p.m. deadline, officials said.

"We're not out of the woods yet," E. Gerald Corrigan, president of the New York Fed, told a press conference at 4 p.m. Thursday. "What we are talking about are terribly complex systems."

However, Mr. Corrigan stressed he was encouraged by how the backup system was op-

See **FED** *page* **3**

Hanover Exiting From Sweden And Switzerland

By JOHN EVANS

LONDON — Manufacturers Hanover Trust Co. announced on Thursday that it is closing its branches in Switzerland and Sweden as part of a global restructuring of its wholesale banking business.

The move is consistent with a broad retreat by U.S. banks overseas in the wake of rising credit problems and international concerns about the health of America's banking industry. Though Switzerland has traditionally been considered an essential component for a global banking network, Hanover insisted the pullout will not damage its international operations.

Ten U.S. banks operate branches or subsidiaries in Switzerland, including Citibank, Bank of America, Morgan Guaranty Trust Co. of New York, and

See **HANOVER** *page* **7**

Ameritrust Will Cut 780 Workers, Take Charge of Up to $18 Million

By NANINE ALEXANDER

CHICAGO — Ameritrust Corp. announced Thursday that it will reduce its staff by 11.5% and take a charge of as much as $18 million against third-quarter earnings.

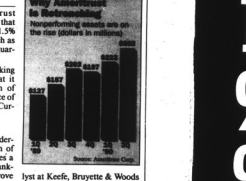
The Cleveland-based banking company also disclosed that it has signed a memorandum of understanding with the Office of the Comptroller of the Currency.

Lightest Regulatory Act

A memorandum of understanding is the lightest form of regulatory control; it involves a written declaration that a banking company intends to improve its business practices.

Most analysts were not surprised by Ameritrust's planned restructuring charge, but several said they were concerned about the OCC accord. "I don't think it restricts their operations," said Kenneth F. Puglisi, an analyst at Keefe, Bruyette & Woods Inc., referring to the OCC memorandum, "but it does send a negative signal."

Ameritrust's stock closed Thursday at $14 a share, down 62.5 cents from Wednesday's



See **AMERITRUST** *back page*

AUG 17 1990

PEOPLE *in the news*

FDIC Veteran Woos Buyers For RTC Bulk Asset Sales

By BARBARA A. REHM

If, as is widely assumed, the biggest problem facing the Resolution Trust Corp. is selling assets seized from failed thrifts, then Thomas F. Horton has the RTC's toughest job.

Mr. Horton is the first director – he is officially acting director – of the RTC's real estate sales office in Washington. His mission is to attract big-time investors to do big-dollar deals. Those, by Mr. Horton's definition, are transactions ranging from $200 million to $1 billion.

Putting Together Large Packages

"Our whole goal right now is to put together large packages of loans and REO [real-estate owned] that we can sell in bulk," Mr. Horton said in an interview Monday. "We have to establish some credibility that we are willing to do a big deal."

But don't expect a salesman in a plaid sports coat hawking used assets. Mr. Horton is more a systems man.

At 43, Mr. Horton is one of the band of men who defected from the Federal Deposit Insurance Corp. to the RTC when the latter agency was born, last August. These ex-FDIC people make up most of the RTC's top staff.

> **"We have to establish some credibility that we are willing to do a big deal."**
>
> **Thomas P. Horton**

Mr. Horton has focused on asset sales.

The agency, which has regional sales centers in nine states in addition to the Washington office, has five big asset-sales deals in the works, Mr. Horton said. Two $40 million deals are ready, and three larger packages are being put together.

"We expect to have three packages on the street for bidding by yearend," Mr. Horton said. These deals will not be homogeneous like the two packages currently out for bid, which feature about 10 pieces of property each. One package comprises hotels and motels in Texas, Colorado, Arizona, Arkansas, and Florida; the other, multifamily housing, mainly apartment buildings, in Florida.

Investors May Be Scarce, but 'Market Is Ready'

Mr. Horton said the RTC is peddling bulk sales to investment bankers and consortiums of people with several hundred million dollars to invest.

How many of those are there?

"Let's be frank about it. There aren't that many people in the world today with that much money to invest in real estate," Mr. Horton said. "But I think the market is ready to bid on these packages."

Sources in and out of the RTC agreed that Mr. Horton is a nice guy who gets things done.

"He's a straight-up guy," said Joseph E. Robert, chairman and chief executive of J.E. Robert Co., an Alexandria, Va.-based real estate asset management firm. "I know for a fact the industry has a lot of respect for him." □

Chase Discloses Dividend Pinch

NEW YORK — Chase ManhattanCorp. said in a regulatory filing that its lead bank would not have been able to declare dividends at the end of the second quarter under proposed regulations of the Comptroller of the Currency.

Even under existing limitations, Chase Manhattan Bank's ability to pay dividends during the remainder of 1990 and 1991 "is likely to be severely impacted," the company said.

Chase made a similar prediction in the first quarter, but at that time it said its lead bank would have been able th declare dividends of $38 million under the proposed rules.

Chase pays out about $400 million a year in common and preferred dividends to shareholders, but it earned only $96 million in the first half of 1990. The company repeated in its 10-Q filing this week that it expects to pay its declared dividends with funds from other bank and nonbanking subsidiaries.

Manufacturer Hanover Trust Corp. reported in its 10-Q that Manufacturers Hanover Trust Co. has not paid dividends to its parent this year in order to build capital, despite the fact that it historically pays 50% of its net income in the form of dividends to the parent.

Problem Loans Seen to Rise

Through another SEC filing, Bankers Trust New York Corp. became the latest of several major banking companies to say problem loans are likely to rise further this year.

In the first half of 1990, nonrefinancing country, cash-basis loans rose $122 million from the end of 1990 to $772 million. Included were $221 million of highly leveraged loans at the end of June and $312 million at the end of December 1989. □

'Jumbo' Purchase Plan Dropped

New York Home Loan Bank Yields to Opposition

By DEBRA COPE

WASHINGTON — Opposition from member thrifts of the Federal Home Loan Bank of New York has derailed that bank's plan to invest in jumbo mortgages.

The bank had been considering the loan-purchase program since March. It was part of an effort to increase its asset yields as member institutions have closed or cut down on home loan bank borrowings.

The program would have involved the purchase of loans of more than $187,450, which generally are not eligible for purchase by the Federal Home Loan Mortgage Corp. or Federal National Mortgage Association.

Member thrifts objected because they saw the New York home loan bank crowding them out of one of their most lucrative markets. They also raised questions about the appropriateness of a government-backed institution participating in the upscale housing market.

Sources expected a vote on the proposal to purchase $4 billion of jumbo mortgages over the next three years at the New York bank's board meeting Thursday, but the question never made it onto the agenda.

On Inactive Status

Brian Dittenhafer, president of the New York home loan bank, said the mortgage-purchase program is no longer under active consideration. But in a telephone interview, he added, "I wouldn't want to preclude it forever."

A Federal Housing Finance Board official said several of the other 11 Federal Home Loan banks are discussing purchases of mortgages – both loans that conform with Fannie Mae and Freddie Mac standards and those that do not – but "New York was further along than the others."

The housing finance board, the agency created last year to oversee the home loan bank system, would have to approve such a program. The board had not indicated how it might rule, but it has been sympathetic to the district banks' need to boost earnings.

The New York proposal "hit a raw nerve, particularly with institutions in the same market that don't want [the bank] and some systems had been diverted to a backup facility in Secaucus, N.J. The bank said it did not plan to move the entire processing operation to its backup site in New Jersey.

Getting Up to Date

Customer service representatives at branches advised customers Thursday that postings would be delayed at least a day.

Some customers were unable to withdraw funds because automated teller machines Wednesday because deposits had not been posted to accounts. To withdraw funds from deposits that had yet to be posted, customers were instructed to bring deposit receipts to a Citibank branch, where they would receive cash.

Most direct payroll deposits were not posted to accounts on Wednesday, the 15th of the month, because of the outage, but Citibank officials said all direct deposits were completed Thursday afternoon.

Processing for some corporate clients is also handled at the 111 Wall Street location, but bank officials said the impact was limited on corporate accounts because cash management is handled elsewhere.

Along with delayed deposits, withdrawals may not have been up to date on some accounts.

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Clarification

An international news brief in Wednesday's issue (page 14) reported that Standard & Poor's Corp. had adjusted downward its credit outlook for the following five Japanese banks: Dai-Ichi Kangyo Bank Ltd., Kyowa Bank Ltd., Mitsubishi Bank Ltd., Sanwa Bank Ltd., and Sumitomo Bank Ltd. S&P did not lower the credit rating of any of the banks.

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TECHNOLOGY/OPERATIONS NEWS

Citibank Scrambles to Update Accounts

Continued from *page 1*

Wall Street.

The interruption in back-office operations was the second this week for the Citicorp unit. Systems went down Monday, but were brought back up the following day.

Citibank said its retail processing site was up and running Thursday. The generator that failed Wednesday had been replaced, the bank said, and some systems had been diverted to a backup facility in Secaucus, N.J. The bank said it did not plan to move the entire processing operation to its backup site in New Jersey.



Peggy Lachard

CLOSED FOR THE DAY: A Citibank employee at 55 Wall St. directed customers and employees to other facilities Thursday.

Getting Up to Date

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Along with delayed deposits, withdrawals may not have been up to date on some accounts.

Some customers therefore could have overdrawn their accounts without the bank knowing it. Bank officials declined to comment on what its exposure might be.

Many customers have "overdraft protection, Citibank officials said, but some checks coming in for collection on other accounts would be returned for insufficient funds, they said.

"In the worst case, we could return a check, but if it was a problem return caused by the delays, we would fix it," said Matthew Kissner, managing director for New York bank marketing.

Customers appeared to be taking the problems in stride. The scene inside downtown Manhattan branches was business as usual, except at 111 Wall Street, where lights and air conditioning were shut off to conserve power. And a refreshment stand provided relief for utility workers and bank customers and employees.

Extended Hours

Mr. Kissner said Citibank branches would extend their hours for the next several days to make up for the inconvenience. Branches were scheduled to stay open until 7 p.m. Thursday, and to open from 8 a.m. to 7 p.m. Friday.

The bank will also take out full-page ads in New York newspapers explaining the situation, said Mr. Kissner. □

> **"We're doing catch-up right now."**
>
> **Daniel J. Denaci** *Citibank*

Fed Moves to Backup System To Process Wire Transfers

Continued from *page 1*

erating and said he was hoping that Friday would be "as close to a normal business day as possible."

The Fed's problems came as the continuing power outage in the Wall Street area taxed institutions' backup systems to the limit.

Funds Market Disrupted

The failure of major clearing systems to operate normally has also lead to account imbalances that have pushed the fed funds rate as high as 15% this week. Banks have found themselves either holding excess reserves they need to sell or scrambling to find fed funds and avoid being overdrawn.

"It's a debacle," said Lawrence J. Toole, a senior vice president at the fed funds broker Fulton Prebon (U.S.A.) Inc. "People don't know what their positions are. They're frozen in time. They're trading on suppositions." (See Capital column on page 16.)

The Fed Wire failed to open at 8:30 a.m. Thursday because of a rupture in a 10-inch pipe providing water to a generator, Mr. Corrigan said. The generator, which stopped operating at 3 a.m., had been running at full speed around the clock since the blackout cut power to the Fed Monday, Mr. Corrigan said.

The problem forced the Fed to shift operations to its backup site in Pearl River, N.Y.

The Fed began linking banks to the securities and funds wires from its alternate site at 11 a.m.

Because banks had to connect to the backup system over regular telephone lines, rather than the leased lines normally used, many banks were not hooked up until the afternoon, sources said.

Less than 24 hours earlier, a failure in a backup generator at Citicorp's main processing center brought down its retail and correspondent banking systems. The Fed Wire and Chips, the other major payment network, had to stay open unusually late to accommodate the payments from Citicorp, whose systems did not come back up until 11 p.m.

Citicorp, which clears about $50 billion on an average day through its Fed Wire and Chips, was up and running normally on Thursday.

Bankers in areas such as domestic custody said the disruptions in the payments system would cost them primarily in overtime.

Chips, the Clearing House Interbank Payments System, experienced "accelerated" volumes as it worked faster to handle volume unusually sensitive to the Fed Wire, but officials believed that by the end of the day volumes would be normal.

"We discussed closing Chips early [on Thursday] to ease the strain on banks that are running on diesel generator power," said John F. Lee, president of the New York Clearing House Association, which operates Chips. "Nobody wants to take the chance that they won't be operative five minutes longer than necessary."

However, it was decided that Chips would close at its normal time, 4:30 p.m.

The Fed Wire has opened as late as 11 a.m. before because of systems problems, sources said.

This is the first time the Fed has used the Pearl River site, which the Fed has owned since late 1987.

Institutions were much better prepared to cope with this power outage than they were with the aftermath of the 1977 blackout, when the Fed Wire did not open for a day.

Yvette Kantrow contributed to this article.

"THERE IS NO SUCH THING AS A COMMODITY."
PROF. THEODORE LEVITT

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William A. Hodgson, Chairman and Chief Executive Officer, Commonwealth Mortgage

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COMMENT/*By Angelo Mozilo*

Amendment Could Injure Low-Income FHA Buyers

The Federal Housing Administration's home-ownership program is intended to facilitate the delivery of mortgage credit to qualified borrowers. Over the years, this purpose has generally been well served.

However, due to the escalation of home prices in recent years, FHA financing has become unsuitable for many buyers in high-cost housing markets because of the unrealistically low loan limit – $124,875 – authorized by Congress.

To add to this problem there is an amendment to the 1990 Housing Bill (HR 1 180), currently wending its way through Congress, that would prohibit lenders from imposing different interest rates, discount points, origination fees, or other charges on FHA loans with different loan amounts.

Tiered Pricing Is Target

Ostensibly, the aim of the amendment, sponsored by Rep. Thomas Ridge, R-Pa., and Rep. Mary Rose Oakar, D-Ohio, is to help lower-income buyers. The proposed legislation would force lenders to make loans in lower-cost areas of the country and control fees charged by eliminating "tiered" pricing.

Mr. Mozilo is president and chief executive officer of Countrywide Funding Corp. and vice president of the Mortgage Bankers Association

In reality, though, it is the customary tiered pricing methodology that has permitted lenders to make loans in economically deprived areas on a sound business basis.

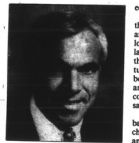
Even if well-intended, as I believe this amendment is, this legislation is an attempt to legislate economics – an impossible task. The authors would make lenders charge the same percentage, regardless of the loan amount.

Unintended Results

This practice, without question, would result in pricing lenders out of those communities where FHA financing if an essential ingredient for the viability of the housing market. The Ridge-Oakar amendment would clearly have the effect of shutting off FHA housing credit to many who are seeking the opportunity of home ownership.

The reason is simple and straightforward: The cost of originating a loan is a dollar amount, not a percentage. Regardless of size, every loan requires the same documentation and time; all loans incur virtually the same amount to originate. This patent fact of economics is the key to understanding the fallacy of the proposed amendment.

Admittedly, if a borrower or a congressman does not understand that our origination costs are roughly equal regardless of



"The true result of an amendment requiring lenders to adopt 'uniform' pricing would be far from uniform."

the size of the loan, then the current method of pricing would appear unfair. However, the true result of an amendment requiring lenders to adopt "uniform" pricing would be far from uniform.

Rather, it would be grossly unfair. Consider the following: Under this amendment, the borrower of $120,000 would pay 12 times as much as the borrower of $10,000. No doubt, higher-balance borrowers are apt to find this difficult to swallow.

Some Basic Arithmetic

A higher number of "points" – the percentage of the loan amount – on lower-balance loans translates into roughly equal dollar amounts being charged by lenders. Let's look at some basic arithmetic equations.

Six points on a $20,000 loan, three points on a $40,000 loan, and one point on a $120,000 loan all add up to the same dollar amount – $1,200. So, under the current tiered pricing structure, each of these hypothetical borrowers pays the same dollar amount to cover the lender's cost – a cost that is about the same in each case.

The proposed amendment is based on the premise that by charging more for higher-balance loans, lenders can subsidize the cost of originating lower-balance loans. This theory, though, is not practicable. Consider that currently the origination fee for all FHA loans is capped by the Department of Housing and Urban Development at 1% of the loan amount.

Originations at a Loss

In effect, higher-balance loans are subsidizing lower-balance loans. However, even on the highest balance loan currently allowed under FHA, which is $124,875, FHA lenders are unable to cover their average origination costs with the current 1% cap. In 1990, the average net loss to originate each single-family loan, regardless of size, was $1,244.

With the origination of loans already operating at a loss, lenders rely on income from points to make origination of these loans economically viable. If a mandate to charge a uniform number of points on all FHA loans, regardless of loan amount, is enacted, the result will be direct subsidization of low-balance borrowers by higher-balance borrowers.

As such, lenders will have no choice but to increase interest rates or points across the board to ensure adequate yields from higher-balance loans to cover costs of originating lower-balance loans.

As the cost of higher-balance FHA loans are forced up, these larger and more profitable loans might be lost by the FHA program to conventional financing. Consequently, the FHA program would be put under even greater financial stress.

Program with a Social Purpose

FHA is unarguably a program with a social purpose – fostering home ownership. But there is nothing in its legislative history mandating direct subsidy from one class of borrowers to another class of borrowers on the pricing of these loans.

The current practice of tiered pricing, where a higher number of points is charged on smaller loans, is not an effort to discriminate against lower-income borrowers or to covertly discourage lending in certain neighborhoods. Lenders have adopted tiered pricing practices simply to cover the cost of originating lower-balance loans.

Forcing lenders to discriminate against their higher-balance loan customers will only hurt the very people the amendment's sponsors are trying to help.

Furthermore, a law that forces a lender to operate at a perennial deficit would be unconstitutional. Such a law would only force lenders to shut off the availability of housing loans to those seeking small balances, thus taking home ownership away from the very American families that FHA has historically been intended to help. □

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LETTERS *to the editor*

Idea of Limiting FDIC Coverage Seen Threat to Banking System

To the Editor:

After having read Linda Corman's article "Putting Limits on Insurance: Is It Practical?" [Aug. 2, page 1]. I felt a few comments were appropriate.

Congress couldn't pick a worse time to consider reducing or curtailing Federal Deposit Insurance Corp. coverage. Obviously, there is no confidence in the savings and loan industry. Confidence in the banking industry is also dwindling, so reducing the insurance would only result in further erosion of confidence in be banking system. It is critical for the country, and maybe the world, that the financial system of the United States remain strong.

Savings Would Suffer

Americans don't save enough at present. Reducing insurance coverage would surely cause disintermediation, thereby reducing the banking system's ability to finance capital investments. Also, lowering the insurance would cause people who can afford to save to seek other investment opportunities.

I would respectfully suggest the most prudent use of the peace dividend is clearly to satisfy the government's obligations with regard to the savings and loan bailout. If our children are to enjoy at least the standard of living they are accustomed to, we simply owe it to them to get our financial house in order.

Congress' Priority

We all know what the cure is — raise taxes and reduce expenditures. When will members of Congress make this their No. 1 priority rather than thinking about getting re-elected? (Actually, that's probably one of the main reasons why we are in this position). Finally could hear President Kennedy once again: "Ask not what your country can do for you; ask what you can do for your country."

In conclusion, the key to a strong financial system is having confidence in the banking industry – and FDIC insurance just happens to be the cornerstone.

William W. Davis Jr.,
President, chief operating officer
Third National Bank & Trust
Scranton, Pa.

Reforming Mortgage Insurance

To the Editor:

On page one your newspaper ran Aug. 2 on the overhaul of Federal Housing Administration mortgage insurance ["House Votes for Overhaul of FHA Mortgage Insurance," page 7] was incomplete in describing the Vento-Ridge amendment. Our amendment includes several meaningful reforms to maintain the safety and soundness of the FHA insurance fund.

The Bush administration's proposal and our amendment both meet a higher capital standard for the FHA fund, but our amendment does it in a manner that is less harmful to potential homebuyers. The Vento-Ridge amendment will restore FHA to sound financial footing without the adverse side-effects of the administration's proposal.

With young families finding it more and more difficult to purchase a home, it is imperative that we do not impose unnecessary obstacles to home ownership.

Rep. Bruce F. Vento
Democrat of Minnesota
Rep. Thomas J. Ridge
Republican of Pennsylvania

Editor's Note: The Vento-Ridge proposal, which would lower the initial FHA mortgage-insurance fee payable by homebuyers and spread the cost over the life of the loan, passed the House in late July on a vote of 418 to 2.

Friday, August 17, 1990

Handy Excuses When Your Boss Asks Why You Didn't Get The Best Deal On Seasoned Loans.

We've Never Sold Seasoned Product To Fannie Mae Before. How Was I To Know Their Price For Seasoned Loan Cash Sales Was Better Than Their Posted Quote For Current Production?

Somehow I Missed That Fannie Mae Will Negotiate A Guarantee Fee With Us Based On The Seasoning And Quality Of The Package.

I Admit Their Flexibility In Pricing Seasoned ARMs And Almost Any Fixed-Rate Mortgages Caught Me Off Guard. This Will Really Help My Portfolio Restructuring.

The Loans On My Shelf Don't Fit Fannie Mae's Current Underwriting Standards, So I Wasn't Sure They'd Even Look At Them.

I Just Plain Forgot How Much Better Their Price Is For An MBS When We Swap Our Loans And Sell The Security.

Since Most Of Our Seasoned Stuff Is On Non-Standard Documents, I Never Dreamed Fannie Mae Would Accept Them.

I Must Have Overlooked Their PC-Based Delivery And Reporting System. MORNET™ Makes Our Loan/Pool Delivery And Reporting More Cost- And Time-Efficient. They Can Help Us Straighten Our Loan Portfolio, Too.

I Wasn't Sure They'd Take The Time To Help Smaller Lenders And New Customers Walk Through The Seasoned Loan Transaction.

I've Never Done Business With Fannie Mae Before. I Will Now.

When it comes to seasoned loans, there's simply no excuse for not talking to Fannie Mae. No matter whether you're swapping or selling the loans outright, Fannie Mae has the edge. There is just no excuse for passing up a better deal.

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NEWSMAKERS

Freddie Mac Chooses a Liaison For Deals on RTC-Held Loans

NEW YORK — Jo Ann Pierson, a 17-year veteran of the Federal Home Loan Mortgage Corp., or Freddie Mac, has been chosen to guide the agency to one of its newest business frontiers.

Leland C. Brendsel, Freddie Mac's chairman and chief executive, this week named Ms. Pierson full-time liaison to the Resolution Trust Corp., which eventually may funnel a large number of mortgages through Freddie Mac.

"My goal as liaison is to find out what they [RTC officials] want to do and how they want to do it and to then bring the right Freddie Mac resources to the table," Ms. Pierson said in an interview.



Jo Ann Pierson
Working closely with RTC

An Important Signal

As a vice president, Ms. Pierson has been working closely with the RTC since March. But observers said the formal appointment was an important sign of Freddie Mac's commitment to the task.

Freddie Mac and the rival Federal National Mortgage Association, or Fannie Mae, are angling to help the RTC dispose of mortgage-related assets that total about $70 billion. The quasi-governmental agencies specialize in buying and securitizing home mortgages.

Bruce Harting, an analyst at Solomon Brothers Inc., estimated that RTC-held mortgages could boost Freddie Mac's purchase volume by up to 10% in the next three or four quarters.

Overture to Congress

Moreover, he said, the special liaison could help Freddie Mac curry favor with Congress because the appointment shows that the agency wants to aid the massive RTC asset liquidation.

Ms. Pierson, 42, rose through Freddie Mac's finance ranks and was treasurer from 1988 to 1988. She became vice president of operations at the agency's five regional offices and, in February 1989, vice president of distressed-asset management.

— **Phil Roosevelt**

Top 25 Lenders Gain Market Share

Will Size Bolster Profits as Competition Intensifies?

By PHIL ROOSEVELT

NEW YORK — The giants of the mortgage industry just keep getting bigger.

A new study by SMR Research Corp., Budd Lake, N.J., found that the nation's top 25 mortgage lenders accounted for 34.7% of all originations last year, up from 31% in 1988. It was the first time the giants accounted for more than one-third of the market.

The gains, which apparently are continuing this year, are the latest sign of an industry consolidation that began in the mid-1980s. The trend reflects both a broader consolidation of financial services and ambitious expansion plans by some of the nation's biggest mortgage lenders.

"A number of companies are driven by visions of huge size, which they think can be equated with prosperity," said SMR president Stuart A. Feldstein. "And maybe they're right."

The company's annual study has found, however, that mortgage lenders of all sizes are facing hard times from a weak economy and heavy competition. The giants tend to be more profitable than the rest of the industry, but few are posting truly strong results, Mr. Feldstein said.

The top 25 are a mix of banks, thrifts, and mortgage companies. In line with previously published rankings, SMR pegged Citicorp, New York, as the 1989's top originator, with estimated volume of $13.7 billion. For the first quarter of 1990, the latest period tracked by SMR, Fleet/Norstar Financial Group, Providence, R.I., was No. 1, with $3.9 billion.

This month, the newsletter *Inside Mortgage Finance* identified H.F. Ahmanson & Co., Los Angeles, as No. 1 originator for the first half of 1990, followed by Fleet/Norstar.

Pressure on Small Fry

The emergence of industry giants clearly has put some pressure on the thousands of smaller lenders. For example, the giants are sometimes able to beat their smaller peers on loan pricing, said Thomas T. Shealy, chief executive of the mortgage unit of SunTrust Banks Inc., Atlanta.

To respond to the price challenge, his midsized unit tries "to bend over backward and give a little better service," Mr. Shealy said. "Hopefully, we can give more hands-on service than the big boys."

Many small lenders have shifted strategies to concentrate on funneling loans to the giants.

Indeed, a sizable part of the growth of the top 25 is attributable to increased wholesale purchases of new loans. Such deals — counted as an origination by the buyer when closed in the buyer's name – allow big lenders to increase their volume and geographic diversity without opening more branches.

"It appears that the wholesale business is here to stay," said Mr. Feldstein of SMR. "With that in mind, we would expect the top 25 to break the 40% market share during the next two or three years."



Stuart A. Feldstein
SMR Research Corp.

In the first quarter of 1990, the latest period for which the government has estimated total mortgage originations, the top 25 lenders accounted for 33.4% of all new loans, SMR said.

Though less than the 1989 market share, this number is misleading because the Department of Housing and Urban Development has changed the way it estimated total market size, SMR said. If HUD had not changed its method, SMR said, the share of the top 25 would have grown more than 35%.

Commercial Banks Advance

The research company's study noted that several thrifts have fallen from the top 25, reflecting turbulence in that industry. But commercial banks and some mortgage companies have been coming on strong.

The study zeroes in on nine "new players," based on growth in originations and servicing, most are affiliated with commercial banks.

Two of these – mortgage units of Norwest Corp. and Wells Fargo & Co. – are already in the top 25. The others are units of NCNB Corp., Hyperion Partners, Banc One Corp., Huntington Bancshares, Meridian Bancorp, General Electric Capital Corp., and the soon-to-be formed C&S/Sovran Corp. □

Key Interest Rates

	Week ended 8/16/90	Week change from 8/09/90	Year ago 8/11/89
30-year fixed-rate mortgage	10.17	9.84	10.08
1-year adjustable-rate mortgage	8.21	8.23	8.58

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 8/16	Week's change	Yield	Week's change from 8/09	Treasury spread	Week's change
Ginnie Mae 9½%	99-11	0-23	9.74	-0.13	+110	-6
Fannie Mae 9½%	99-15	0-21	9.67	-0.13	+102	-6
Freddie Mac 9½%	99-30	0-20	9.67	-0.13	+103	-5

Yields bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread, the mortgage security yield minus that on the current 10-year Treasury bond in basis points. (•)— Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

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GLOBAL *dispatches...*

Likelihood of Credit Squeeze Looms over Japan Investors

By SCOTT MILLER
Reuters

TOKYO — Belt tightening at Japanese banks is threatening to lead to a credit squeeze that could force up the cost of borrowing and choke corporate investment.

Bankers said Tokyo's stumbling financial markets are forcing them to cut back lending in an attempt to meet international banking standards and boost profitability.

"Japanese companies are going to face upward pressure on their borrowing costs as a result of stock market weakness," said Hidehiro Iwaki, economist at Nomura Research Institute Ltd.

Government Thinks Tightening Would Help Control Inflation

While a credit squeeze would be bad news for Japan's corporate borrowers, Mr. Iwaki and other analysts said Japanese financial authorities would welcome the tightening as they fight to control inflationary pressures.

Since Jan. 1, the key 225-share Nikkei index has lost 29.2% of its value. About one-third of this loss has occurred since the Aug. 2 Iraqi invasion of Kuwait. But bond yields have soared. The yield on the government's benchmark 10-year bond, for example, has topped 8% in the past two weeks, to near its high since 1983.

"Banks are going to ration credit," said Roger Gough, senior financial analyst at Baring Securities (Japan) Ltd.

Bankers said the three Japanese long-term credit banks are likely to raise their long-term prime rate in September, probably to 8.2% from this month's 7.9%. A rise in the long-term prime rate above 8% would be the first since early 1984, bank officials said.

> **"Japanese companies are going to face upward pressure on their borrowing costs as a result of stock market weakness."**
>
> **Hidehiro Iwaki**
> *Nomura Research Institute Ltd.*

While part of that rise may be due to generally strong economic conditions in Japan, bankers said, they have reasons of their own to restrict lending, starting with planned new banking rules.

Japanese and other international banks must meet an 8% ratio of capital to risk assets by March 1993 under requirements set by the Basel, Switzerland-based Bank for International Settlements. Japanese banks had relied on so-called hidden assets – the difference between market and book values of their stock holdings – to meet much of the requirement.

Banks are permitted to count 45% of their hidden assets toward their capital bases. As of March 31, 1990, some of Japan's biggest banks, including Industrial Bank of Japan Ltd., Nippon Credit Bank Ltd., Mitsui Taiyo Kobe Bank Ltd. and Sakura Bank Ltd. were below the 8% ratio.

Many banks have found it difficult to raise capital by issuing equity or by other means and are now trying to meet the standard by limiting lending growth. On bank balance sheets, loans are considered risk assets.

"There are not a lot of options for Japanese banks right now," said a senior official at Mitsubishi Bank Ltd. "You are going to see much slower and more selective lending in future."

Rising Interest Rates May Also Force Reduced Lending

Analysts said risk-weighted asset growth at Japanese banks has been expanding at a rate of about 15% annually but that the rate is slowing to less than 10%.

Soaring interest rates, which have eroded profitability, may also force banks to cut lending. They now pay nearly 8%, annualized, on three-month certificates of deposit that cost just 5.2% a year ago.

The climbing cost of funds and looming capital standard spell trouble for some Japanese corporate borrowers. The rate that top companies have paid for loans has risen by about 250 basis points in the last year, to more than 8%. So far, most companies have been able to shrug off the higher borrowing costs, but they may not be able to do so indefinitely.

Banks' Moves Could Cut Capital Spending by Companies

Capital spending by Japanese companies rose by an average 21% in the financial year ended March 31, according to data from the government's Economic Planning Agency. But a further tightening in bank lending could cut that to 10% to 15%, analysts said.

However, Alicia Ogawa, financial analyst at S.G. Warburg Securities (Japan) Inc., said medium-sized Japanese companies are in the late stages of a capital spending boom. Their demand for bank loans could be declining, she said.

A recent Bank of Japan survey showed that liquidity levels among small and medium-sized companies were at their highest levels since World War II. Analysts said those funds may be enough to last midsized companies for about eight months. □

Hanover to Quit Sweden, Switzerland

Branch Closings Part of Global Restructuring Plan

Continued from *page* 1

Bankers Trust Co.

"We can serve Swiss and other major corporations in a pan-European environment out of London, the main center for our investment banking and corporate finance activities in the European Community," said James Brokken, Hanover's group executive for Europe.

Hanover has branches in Zurich and Geneva employing a total of 50 people. Its branch in Stockholm also employs 50.

Mr. Brokken said Hanover is not planning additional closings in Europe. He said the bank aims to develop local banking businesses on the Continent, where it feels it has competitive advantages.

Focus on Growing Economies

He noted that Hanover is expanding its presence in Spain, Portugal, and Turkey, countries that have been enjoying strong economic growth.

"These fast-developing countries have special needs, demanding local specialities, and you can't service them out of your global activities," he said.

The Zurich Geneva branch, which specializes in private banking, will close immediately. The Zurich branch, which operates commercial and investment banking and corporate finance, will be wound down over the next three months.

The Swiss operations earned a "small positive net" profit last year, Mr. Perkowsky said. The bank will maintain a representative office in Zurich, focusing exclusively on correspondent banking services for its New York headquarters.

> **The bank is expanding in Spain, Portugal, and Turkey, whose economies have been growing fast.**

The decision to close these branches is part of the company's plan to reshape its global business and cut 1,400 jobs, Mr. Perkowsky said.

"Everyone in the international financial community is asking himself whether the things he did in the last five years are going to give a good enough return on capital in the five years ahead."

He added, "Many banks, even the Swiss themselves, now run much of their European corporate finance and related activities from London. It's where the important markets you need for that business – like swaps, foreign exchange, and structured finance – are based."

Hanover's private banking operation in Geneva has about 200 clients, typically high-net-worth individuals.

"We hope to keep them in our network but if they decide that they need to keep their funds in Switzerland, they'll have to find a new home for their money," Mr. Perkowsky said.

Many U.S. banks in recent years have been dismantling their international operations as part of a broader restructuring aimed at focusing on their home markets. The retreat was especially pronounced in the first quarter, when U.S. overseas banking assets fell $47 billion, or 8%, to $550.8 billion from the period ended Dec. 31, according to the the Bank for International Settlements. Foreign borrowings of U.S. banks declined $36 billion, or 6%, to $611.2 billion. □

Fed Approves Cook Purchase of Deak Offices

By JAMES R. KRAUS

NEW YORK — Thomas Cook Group, a unit of Britain's Midland Bank, got Federal Reserve Board approval to acquire the U.S. retail foreign exchange operations of Deak International Inc. from Jarden Morgan Ltd., a New Zealand-based financial services company.

Midland is paying $12 million to acquire Deak International's banks, including Deak International Bank Ltd., Mitsui Taiyo Kobe Bank Ltd. were below the 8% ratio.

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Data Unavailable

Because of continued power-outage problems in New York, data for the *Key International Rates* table, which normally appears in this space, were not available.

and Deak International Bank.

Deak International, headquartered in Toronto, reported $35 million in revenues for the year ended April 30.

Deak Offices to Be Renamed

"It's a marriage made in heaven for us," said Christopher Rodrigues, chief operating officer of the Thomas Cook Group.

Deak offices in the United States and Canada will be renamed Thomas Cook Foreign Exchange and will be run separately from the 300 franchised Thomas Cook Travel offices in the United States.

Thomas Cook was acquired by Midland in 1971 and has 1,600 offices worldwide. The British bank is barred from owning travel-related operations in the United States under the Bank Holding Company Act.

Midland Executive Tapped

H. Eugene Lockhart, Midland's chief executive for United Kingdom banking and deputy chairman of Thomas Cook, has overall responsibility for the travel services group.

As Deak & Co., the concern filed for bankruptcy in December 1984. It had encountered severe liquidity problems after a run on liabilities at its banking unit, Deak-Perera International Banking Corp., prompted by a report that the bank was being used for money laundering. In 1985, the firm's founder, Nicholas L. Deak, was shot to death by a deranged homeless woman in his New York City office. □

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AUG 17 1990

SMALL BUSINESS

Lenders Skittish over Cleanup Liability

By LAURYN FRANZONI
Special to the American Banker

Concerns about environmental liability are prompting small-business bankers to alter their lending policies, according to a recent survey.

The 49 bankers who responded to a poll by the American Bankers Association's Community Bankers Council reported being "concerned" or "very concerned" about environmental liability. More than three out of four said they had changed their lending policies in some way to avoid it.

Banks can become liable for cleanups of contaminated sites in several ways under the Superfund regulations enforced by the Environmental Protection Agency. If the borrower is unable to pay for decontamination or is unable to repay a loan because of environmental liabilities, the bank may have to pay for the cleanup.

Conditions of Liability

A bank may also be liable for a cleanup if it exercises control over a borrower's board or influences management's daily operating decisions, if it forecloses on contaminated property and becomes the owner, or if its trust department owns or manages property as a trustee or executor.

Community banks with assets of less than $250 million appear to be most concerned about the potential threat.

"We have to look cautiously at any loan," said J. Bart Colwell, executive vice president of First State Bank, Brazil, Ind. "EPA is using Superfund to go after the deep pockets that a bank has when the borrower doesn't have the resources. Even government officials say people who never expected to be associated with the property will be."

Certain Businesses Shunned

Mr. Colwell said his bank has turned down some loan applications from dry cleaners, service stations, and manufacturing companies in recent months because of the potential risk. In one case, the bank backed away from an oil distributor whose business it had pursued for five years.

The biggest threat Mr. Colwell sees is a trend toward assigning liability to banks when they provide financial advice to their clients. "Lenders have been construed to be operators if they serve on the board of directors of the business," he said.

"In small communities like ours, a lot of what we do is provide financial advice," he said. "That could make us liable for the cleanup." First State is a $34 million-asset unit of First Financial Corp., which has $800 million in assets.

"It's scary when you look at the overall impact on economic development of small communities," Mr. Colwell said. In addition, he fears that loans made through Small Business Administration programs will be curtailed because of the agency's tradition of providing operating and management advice to its borrowers. Based on current legal trends, even the SBA could become liable for an environmental cleanup.

Strong Impact Seen

According to David Gohn, chairman of the ABA community bankers' council and president of West Plains Bank, West Plains, Mo., "The results of the survey emphasize how strongly environmental liability is impacting banks and their customers." The ABA did not ask members how much they have spent on cleanup activities.

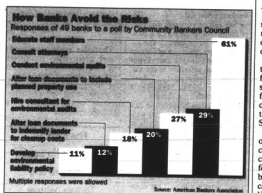
The ABA reports that banks are already taking steps to protect themselves. Several respondents said they have consulted attorneys, arranged environmental audits, and redrafted loan documents.

Some banks have altered their loan papers to include borrower information about the loans and planned property use. Others have redrafted loan documents to have the borrower indemnify the lender for all cleanup costs, regardless of fault.

Even though a small number have made such changes to date, more than half of those surveyed plan to begin environmental audits and a third plan to revise loan documents.

Mr. Colwell of First State says all banks – and especially community banks – should be reviewing their exposure. "You've got to know what the borrower is doing with the property," he said. "Chances are, if he's producing anything, the property can be contaminated." Agricultural loans should also be examined, because chemicals used for fertilizers and other purposes are under increased scrutiny as pollutants.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.



Debit Card Use In Britain May Outrun Checks by 2000

By JOHN EVANS

LONDON — British consumers will make more payments with debit cards than checks before the year 2000, according to an industry forecast.

The cards, which are essentially plastic checks, will account for more than four billion consumer payments in 2000, versus fewer than three billion via checks, predicted the Association for Payment Clearing Services.

The industry group, which is operated by Britain's major commercial banks, expects debit cards to emerge as the dominant force driving consumer banking business in Great Britain. Debit card transactions totaled 60 million last year. Some 13.5 million cards are in use, for a penetration of about 30% of the British adult population.

Checks Seen Peaking in '91

Check volume, whose growth has been slowing in recent years, is expected to peak this year or in 1991 at about 3.7 billion items before declining during the remainder of the 1990s.

Debit cards will also cut into the market for credit cards, held by about 40% of the adult population, the association said. Credit card transactions grew only 4% last year; debit cards may cause volumes to level off or even fall, the group said.

This trend may be accentuated by a recent antitrust ruling ordering banks to stop discrimination practices that have prevented retailers from offering discounts for cash transactions.

Use of Cards to Quadruple

Withdrawals through automated teller machines are expected to continue rising rapidly, reaching almost 1.4 billion by 2000, compared with more than 800 million in 1989.

Overall, transactions made with all types of plastic cards are likely to quadruple from 1.7 billion last year to about 6.6 billion in 2000, the group said.

Total transmissions of non-cash items, including direct debits from checking accounts for charges like utility bills, will grow about 5% annually, reaching 13 billion items by the year 2000, according to the association's research. The predictions were based on trends among the almost 90% of adults in Britain who now hold some form of bank or thrift account.

Spending patterns are expected to favor Britain's banks.

These spending patterns are expected to favor Britain's banks, which are facing rising costs in their credit card operations, industry analysts say. Growing numbers of customers are paying their card bills on time to gain free credit for a month.

While some banks here have begun to add annual charges for credit cards, they are also strongly promoting debit cards. Banks stand to make an estimated $750 million annually by processing debit transactions for retailers.

The main cooperative debit card system in Britain is Switch, whose chief operator is Midland Bank PLC. □

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Consumer Money Index

Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on August 15 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns 0 (lowest) to 3 (highest) of the information is not guaranteed.

Retail Yields		
Six-month		
Heritage Svgs Bank, Richmond, Va.		8.82%
John Hancock Svgs, Bellsville, Md.	*	8.75
Maine Savings Bank, Portland		8.72
Imperial Fed Svgs, San Diego, Calif.		8.67
First Dep Nat'l Bk, Tilton, N.H.	***	8.63
One-year		
Heritage Svgs Bank, Richmond, Va.		8.93%
Maine Savings Bank, Portland		8.78
Imperial Fed Svgs, San Diego, Calif.		8.78
John Hancock Svgs, Bellsville, Md.	*	8.75
MVR Svgs Bank, Midwin, Va.	*	8.70
Five-year		
MVR Svgs Bank, Midwin, Va.	*	8.80%
Eastern Svgs Bank, Plant Valley, Md.	**	8.75
The Bank Mart, Trumbull, Conn.	*	8.75
Calif. ThriftLoan, Santa Barbara, Calif.	***	8.73
Virginia Beach Fed Svgs Bk, Virginia Beach	**	8.72

Jumbo Rates		
Six-month		
First America Fed Svgs Bk, Longmont, Colo.	*	8.85%
Heritage Svgs Bank, Richmond, Va.		8.58
Western Gulf S&L, Bay City, Tex.		8.50
Brookside S&L, Los Angeles, Calif.		8.50
Westwood Savings & Loan, Westwood, Calif.		8.50
One-year		
Calif. ThriftLoan, Santa Barbara, Calif.	***	8.65%
Heritage Svgs Bank, Richmond, Va.		8.65
Western Gulf S&L, Bay City, Tex.		8.63
Imperial Fed Svgs, San Diego, Calif.		8.50
American General Fin'l Center, Midvale Utah	***	8.45
Five-year		
Metropolitan Bank for Svgs, Arlington, Va.	***	9.00%
Bank Hapoalim, Chicago, Ill		8.75
Am General Fin. Ctr. Thrift, San Francisco	***	8.70
Brownsville Bank, Brownsville, Tenn.	***	8.50
CorEast Svgs Bank, Richmond, Va.	*	8.50

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Independent Ohio community bank seeks an experienced CEO with comprehensive community banking ability, including skills in lending, operations, and financial controls and investments. Strong managerial, team-building, and communication skills are required, and the ability to effectively lead a competitive and independent bank.

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Correction Notice

CORRECTION NOTICE: E.F. Fazio Ass't Ltr #769872 Sold on 8/7/90, 1:30 PM at 373 Kent Ave, Bklyn, 71 Motto-Guzzi 850T/PEA/PEK/Conv Ser: Rr: 1 Doc. Published 8/10 & 8/17/90.

CONSULTING SALES

Atlanta-based consulting firm, specializing in earnings and productivity improvements for financial institutions, seeks an outstanding individual. This assignment will be in direct sales and client relationships, and requires contact and negotiations with CEOs and executives of financial institutions throughout the Northeast. Travel required, but relocation not necessary.

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NOTICE

The annual report of the MERIMAC FUND, INC. for the fiscal year ended July 31, 1990 is available at its principal office located at 301 Roaring Brook Road, Chappaqua, NY 10514, (914) 238-5571 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Louise Rosenfeld. Dated: August 17, 1990.

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Do you have an important legal notice? Call Gail Edwards at 212/943-5718

Partnership Notices

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of GONSKY & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of GONSKY & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Madera, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of GONAT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of GONAT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Madera, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of WINT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of WINT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Madera, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of MADDER & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of MADDER & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Madera, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of WYO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of WYO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of FINMAN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of FINMAN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ROMMEL & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ROMMEL & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of JENKINS & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of JENKINS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of HENDL & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of HENDL & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Madera, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

Auction Notices

Laura Rivera Auct'r Lic #641890 Sells on 8/24/90 9 AM at 1778 Jerome Ave, Bronx, NY '77 Font #2B3S5Y7B7B106823 Rr: 1 D. W. Nesch. 9:30 AM '76 Chevy #5S22K6R140759 Rr: C. I. Calderon, 10 AM '85 Kawas #JKAZX7A13FA001948 Rr: L. Raymond, 10:30 AM '84 Mazda #JM1BD2218E0750400 Rr: G. Cuevas, 11 AM '81 Pym #1P3BK4HB4F1050494 Rr: Cris-Bar Contracting Co., 11:30 AM '82 Renault #VF1BC35BC1500225 Rr: J. A. Figueroa, 12 PM '80 Ford #E1E3H2A4030 Rr: J. Mateo, 12:30 PM '83 Chev #1G1AP8712DN119583 Rr: R. Sanchez, 1 PM '83 Buick #1G4AG8133E8942392 Rr: I. Mosha, 1:30 PM '83 Chevy #3087351188O Rr: J. Doe. Published 8/10 & 8/17/90.

G. Delnevo sells R/T/I 8/27/90 12 Noon at 1702 E. 233rd St, Bx, NY '68 Chev #1Z43T8M417905 Rr: Y. Perez, '86 Chrysler #1C3BU6635GG049397 Rr: R. Crute, '77 Porsche #9307800401 Rr: Unknown Auto, '84 Buick #1G4AZ57YXE4223552 Rr: W. Marucci, '78 Volvo #YC244451J306687 Rr: Used R US, '83 Plym #1P3BP3CC1EF140907 Rr: R. Sims, '76 Chev #1L47Y6121894? Rr: P. Dougherty. Published 8/10 & 8/17/90.

C. Pyne Will Sell at Public Sale on 8/25/90 9 AM C 4458 Main St, Pt Wash NY, '82 Cadi #1G6AD69NSC9100607 Rr: C. Alvarez. Published 8/10 & 8/17/90.

DEFAULT In Security Agreement Made By John Koorevaars to Peter Zervas I Will Sell On 8/29/90 at 11:30 AM At 1985 University Ave., Bx., N.Y. All Right, Title & Interest In Fi Fiesta, Vehicle Identification #3FADP07A2FR140207 INC. As Agents

Liquor License

Notice is hereby given that S.L.A. License Number EB 14231 141 has been issued to the undersigned to sell beer, at 224 Lafayette Street, New York, NY 10012 for on premises consumption. Teresa Ong Ka Yee for Shop Inc., 224 Lafayette Street New York, NY 10012.

R. A. Felder Lic Auctr #793017 sells on 8/27/90 10 AM at 1427 Valley Dvy, Syr, '88 Ford #1FAPP2592JT163879 Rr: R. L. Green; on 8/28/90 10:30 AM at 435 City Isl Ave, City Isl, '82 Richardson #43114, Rr: G. & R. Greenbaum; 11:30 AM at 98 No. 5th St, Bklyn, '59 Chevy #9S867S100410 Rr: #T2B4L4S179001619 Rr: R. Cespedes. Published 8/10 & 8/17/90.

Have an Important Legal Notice? Call Penny Papakostas at 212/943-5739

Foundation Notice

NOTICE

The annual report of the EDWARD C. MADDEN MEMORIAL OPEN HEARTS CLUB, INC. for the fiscal year ended March 31, 1990 is available at its principal office located at c/o McGee and Marcellino, 1615 Northern Blvd., Manhasset, New York 11030, (516) 627-7700 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Mr. Donald Gaffney.
Dated: August 17, 1990.

Guilty Plea in $52 Million Loan Fraud

By BILL ATKINSON

WASHINGTON — A former chief financial officer of a defunct New Jersey-based textile converting firm has admitted to playing a role in fraudulently obtaining a $52 million loan from a subsidiary of Bank of Boston Corp.

Bruce M. Bloom, 44, former director and chief financial officer of Laurence Harbor, N.J.-based Coated Sales Inc., faces a maximum of 10 years in prison and a $250,000 fine. U.S. District Judge Alfred J. Lechner Jr. accepted Mr. Bloom's plea to a one-count federal felony information.

Mr. Bloom faces a maximum of 10 years in prison.

May Be Record N.J. Fraud

The case is believed to be the largest dollar-volume bank fraud in the history of the District of New Jersey, U.S. Attorney Michael Cherkoff said Thursday.

In April 1988, BancBoston Financial Co., an asset-based lending subsidiary of Bank of Boston, agreed to lend Coated Sales $52 million for debt restructuring.

As an outgrowth of the fraud, BancBoston transferred more than $45 million to four banks on behalf of Coated Sales. The Justice Department said the banks were First Fidelity Bank, and Midatlantic National Bank, both of Newark; First Eastern Bank, Wilkes-Barre, Pa., and Citizens Savings Bank, Providence, R.I.

Wayne Taylor, a Bank of Boston spokesman, said his company cooperated with the U.S. Attorney in the investigation.

Cost To Shareholders

When asked if the bank has recovered the funds, Mr. Taylor said, "I think it is inappropriate for us to comment further.

There is really not a whole lot more that I can tell you – this is still the subject of an investigation."

The collapse of Coated Sales, which specialized in finishing and treating fabrics for industrial use, is estimated to have cost shareholders $100 million. □

Opinions and Insights

Management

In Thursday's AMERICAN BANKER

Toll Free 800-221-1910

LEGAL ADVERTISING

Partnership Notice

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ALM & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ALM & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of SECNAT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of SECNAT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of COSMO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of COSMO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of HILLERS & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of HILLERS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ROBIN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ROBIN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CHEMICO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CHEMICO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CLOCO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CLOCO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of COBB & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of COBB & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of LISTER & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of LISTER & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

Report on Buyer Hampers RTC Asset Sale

By PHIL ROOSEVELT

NEW YORK — A proposed sale of one of the Resolution Trust Corp.'s largest mortgage-servicing portfolios has run into limbo, with part of the buyer group coming under pressure to withdraw.

A lawyer for Barron Financial Group, Tustin, Calif., said the RTC has renewed its attack the company's participation in a deal to buy the $7.2 billion portfolio of Commonwealth Mortgage of America, Houston.

The lawyer, George Hannen of Irvine, Calif., said a federal report that alleges a questionable mortgage banking tactic by Barron, a mortgage company, helped prompt the RTC action. Mr. Hannen, however, said the report is false.

Deal with Bass Affiliate

Earlier this month, a preliminary agreement was announced whereby Barron and an affiliate of the Robert M. Bass Group, Fort Worth, would buy the Commonwealth portfolio for an undisclosed sum. Commonwealth is a unit of a thrift under government control.

The proposed sale immediately raised eyebrows among Wall Street mortgage professionals, who knew of the report citing Barron's mortgage banking practices.

In the June 15 report by the inspector general of the Department of Housing and Urban Development addressed "live free," or planned refinancing, mortgages. Such loans, when packaged as mortgage-backed securities, can cause unexpected losses to investors because they prepay them off very quickly. Many mortgage professionals consider the tactic deceitful.

The report suggested that Barron had originated and sold such loans, but Barron said it has not.

Pressure from Wall St.

Some Wall Streeters reportedly pressured the Government National Mortgage Association, Ginnie Mae, to block Barron from the Commonwealth deal. Much of the Commonwealth servicing portfolio relates to loans packaged as Ginnie Mae securities, so any sale would require that agency's approval.

"The RTC has indicated that it will not go through with the deal with Barron as a deal participant," Mr. Hannen said in an interview this week. "We're exploring our option to withdraw," he said, suggesting that the affiliate, Lazarre Partners, may proceed on its own.

A spokesman for Castine said only, "We're still looking at the portfolio and trying to make a decision whether to go ahead."

The RTC has indicated it would be receptive to a bid from Commonwealth's management. Commonwealth is said to be considering a bid from Mr. Bass' Lazarre Partners, which may proceed on its own.

Officer at Fleet Mortgage Retires

NEW YORK — Loyal V. Laplante, head of loan production at Fleet Mortgage Corp., has retired after 30 years with the company and become director of mortgage banking services at Sentinel Advisors, an advertising and public relations concern in Brookfield, Wis.

Mr. LaPlante, 57, started at Milwaukee-based Fleet Mortgage as a loan officer when the company had only three branch offices. The company – one of two mortgage banking units of Fleet Financial Group – now has more than 100 offices.

Most recently he had been executive vice president of loan production and sales.

Fleet officials said he said his retirement stemmed in part from some reorganization of Fleet-Norstar's management operations. Mr. LaPlante said he concluded that his best opportunities would be at the helm of a smaller mortgage unit, in Columbia, S.C. But "at this point in my life," he said, "I don't feel very transferable."

Fleet said that he looked forward to a career change.

— Phil Roosevelt

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LEGAL ADVERTISING

Partnership Notice

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of C.A. ENGLAND & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts quoted in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of C.A. ENGLAND & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CORBETT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CORBETT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CUMMINGS & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CUMMINGS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of RAPCO for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of RAPCO and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

Victim of a Thrift Failure Weeps at Senate Hearing

By KATHLEEN FIEWEGER
Reuters

CHICAGO — A victim of the nation's thrift crisis wept openly at a Senate committee hearing here this week as she recounted the loss of her life savings.

Senators Paul Simon of Illinois, Howard Metzenbaum of Ohio, and Herbert Kohl of Wisconsin, all Democrats, listened as Mabel Dixon of Peoria, Ill., described how an official of Germania Bank in St. Louis persuaded her to buy $229,000 of its subordinated, unsecured debt issued in January 1988.

Ms. Dixon said that she had to pay for expensive cancer treatments because she had no medical insurance. She was, therefore, especially cautious about investing her money.

"I asked him over and over again, 'Is this secure?' And he'd say, 'Oh, yes.'" She said the man never identified himself by name, simply as the man from Germania Bank.

Debt Holders File Suit

The federal government took over Germania Bank in 1989 when it stopped paying interest on the notes. About 800 debt holders, mostly elderly people, have filed a class action seeking to recover their money.

But Marie Zarlingo, another Cahokia resident, testified she was not hopeful she would get her money back.

"I trusted them because it was an old establishment," Ms. Zarlingo said. "It's really been a devastating thing."

According to Mr. Simon, Germania's investment ventures, including an office complex and a Colonial-era theater, have all failed.

Individuals were not the only ones duped. St. Louis-based Laclede Gas Co., in disclosing Monday a second-quarter loss of 47 cents a share, said it set aside $5.8 million for possible losses in investments in Germania.

Nine hundred insolvent thrifts, or about one-third of the savings and loan industry, are still losing an estimated $10 to $15 billion per year, according to Robert Litan of the Brookings Institution in Washington.

Of the estimated $500 billion needed to clean up the industry, "I'd be surprised if we got back 10 cents on the dollar," Mr. Litan said. "Over 90% is gone."

Frand Blamed in Losses

Sen. Kohl said about $150 billion of the $500 billion bailout price tag stemmed from fraud. Such assertions have prompted regulators, legislators, and law enforcement officials alike to blame each other as the public fume over the mounting cost estimates.

Sen. Metzenbaum criticized law-enforcement agency representatives for not doing enough to recover the money.

"Let's face it, money doesn't disappear," Mr. Metzenbaum said. White collar criminals have not been threatened hard enough with stiff prison terms and thus have no incentive to produce the money cached in safe haven accounts.

Prison Terms Average 2 Years

James Richmond, special counsel for financial institutions at the Department of Justice, conceded that prison terms for those convicted of thrift fraud average a mere two years.

About 15% of those convicted have had their sentences suspended.

DEALS
American Stores Closes All-Japanese Loan

By STEVEN LIPIN

American Stores Co. closed a $75 million loan this week that was not only sole-agented by a relatively unknown Japanese bank, but syndicated exclusively to regional Japanese lenders.

While U.S. companies acquired by Japanese corporations have in the past used only Japanese lenders, this loan is thought to be one of a handful in which an American-owned company raised bank funds through an exclusively Japanese syndicate.

The deal was not arranged by one of the Japanese leaders in the U.S. The term loan facility was arranged by Bank of Yokohama Ltd., the 58th-largest bank in the world and the largest regional Japanese bank, but a minor player in the U.S. market. The company had no previous relationship with the bank.

"They called on us for a year and a half," said Gerald Glancey, treasurer of the West Coast grocery and drug chain. "We replaced existing debt and got a better rate."

A banker from the Bank of Yokohama said that the deal reflects the growing role the bank wants to play in the U.S.: "Our strategy is to use our position as the lead Japanese regional bank to continue to find deals and then syndicate them with our regional bank network."

Morgan Guaranty Trust Co.

American Stores' traditional bank. The J.P. Morgan & Co. unit arranged a $5.1 billion facility for American's acquisition of Lucky Stores. This $75 million HLT replaces part of the existing facility, Mr. Glancey said.

The Bank of Yokohama's only relationship with the borrower was purchasing pieces of the existing American Stores facility. "We had no direct relationship with the borrower," the banker said. "This was the first major deal that Bank of Yokohama has led in the U.S."

He attributed the mandate to "selling effort" and thinner pricing than the existing facility, which reportedly pays around 175 basis points over the London interbank offered rate.

Mr. Glancey said the company may save 20 basis points or 30 basis points a year on the new facility, and said Bank of Yokohama arranged a group that also lowered the company to lock in attractive fixed-rate funding.

"We caught the swap market at a good time," the Bank of Yokohama official said. He declined to elaborate. □

Morgan Leads Revolving Facility Backing MNC Financial's Paper

By WILLIAM GOODWIN

MNC Financial Inc. said it obtained a $750 million revolving credit line from a group of banks led by Morgan Guaranty Trust Co.

Members of the syndicate are believed to include the banking units of BankAmerica Corp. and Manufacturers Hanover and as well as Union Bank of Switzerland.

The new 18-month facility is intended as a backup line for the issuance of new commercial paper and variable-rate renewable notes, an MNC official said.

Tied to 'Financial Initiatives'

MNC has $1.1 billion of commercial paper outstanding and $823 million of outstanding variable-rate renewable notes, the official said.

Up to $600 million of the new bank facility will be available initially. That amount will rise to $750 million by January 1991 if MNC achieves "certain planned financial initiatives," the Baltimore-based superregional said in a statement.

MNC is also exploring the sale of three nonbank units that together comprise MNC Credit Corp.

The three units – MNC Commercial Division, MNC Leasing Division, and LeaseFirst – have combined assets of about $1.2 billion.

Goldman, Sachs & Co. is assisting MNC in the possible sale.

MNC also recently announced that it was raising $180 million in much-needed capital through a private placement of convertible preferred stock with insider directors.

Hit by real estate problems in the Washington-Baltimore area, MNC reported a second-quarter loss of $74.7 million, after adding $233 million to its reserve for possible loan losses. □

Highlights for Thursday, August 16

TOP 10 GAINERS %

Valley Capital Corporation	7.5
Sumitomo Bank of California	5.5
F & M National Corporation	5.1
Ohio Bancorp	3.6
Northern Calif. Community Bncp	3.6
Boulevard Bancorp, Inc.	3.7
First Community Bancorp, Inc.	-6.3
River Forest Bancorp	-6.3
First Eastern Corp.	-6.2
Statewide Bancorp	-6.1
	-5.6

TOP 10 LOSERS %

Northeast Bancorp, Inc.	-30.0
Security Pacific Corporation	-9.5
Union Bank	-7.3
Bethlehem Bancorp	-7.0
FinTier Financial, Inc.	-6.7
Trust of Bancorporation	-6.4
La Jolla Bancorp	-6.3
Citizens and Southern Corp	-6.2
Evergreen Bancorp, Inc.	-6.1
MNC Financial, Inc.	-5.6

MOST SHARES TRADED

Citicorp	797000
BankAmerica Corporation	769000
Security Pacific Corporation	735000
Northeast Bancorp, Inc.	563000
Wells Fargo & Company	471000

VOLUME AS % OF AVERAGE

Northeast Bancorp, Inc.	2597.4
Iowa National Bankshares Corp	670.1
Boulevard Bancorp, Inc.	535.1
Heritage Financial Services	439.2
Mid-America Bancorp	403.7

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts. 1/3/89=100

Percentage Changes
Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-2.43	-2.81	-10.07	-2.18	-2.60	-12.52	-1.71	-4.03	-20.45

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to bk	Mkt Cap	Chg.	Chg.
27¾	19	MercantileBncp MD	8.2	123.7	139¾	¼	
90¾	44	MerchantsBanc NY	11.6	177.1	47		
22	16¾	MerchantsNat IN	9.6	79.5	139¾	¼	
25¾	13¾	MeridianBancorp PA	5.1	73.2	124¾	¼	
24	20	MetrophilGetCorp MI	9.0	51.0	250	-1¼	
18¾	13¾	MidAmericaNY	7.2	81.0	39¾	¼	
27¾	17¾	MidlinJnc OH	8.4	130.7	47¾	¼	
47¾	10¾	MidlanticCorp NJ	7.0	27.9	1,000	¼	
10¾	6¾	MidStatesBnk	NM	34.4	4		
26¾	20¾	NBD Bancorp MI	8.4	122.5	29¾	¼	
15¾	10¾	NCNB Corp NC	6.6	118.2	34		
27¾	17¾	NCalCentralBncp CA	14.3	150.0	18¾	¼	
47¾	32	NationalCityCp OH	7.4	102.5	39¾	¼	
51	35	NationalFinn PA	11.1	196.9	38		
10¾	6¾	NationalGrpBncp AK	9.3	111.8	29	¼	
25	20¾	NatlCommerce TN	9.4	161.3	22		
44¾	15¾	NatlCommunity NJ	5.3	81.4	181½	¼	
4	2¾	NorthFtBancNY	4.7	55.9	9		
12¾	12¾	NorthCentralBncp	NM	40.8	12¾	0¼	
33¾	25	NorthernTrustIL	8.2	153.5	25		
22¾	15¾	NorthwestBncp IA	6.8	125.9	17¾	¼	
32¼	21	OhioBancorp OH	8.6	90.4	21¾		
29¾	24¾	OldBankPCorp MI	7.5	105.3	23		
26¼	24¼	OldNatlBancorp IN	12.8	154.5	24¼		
23¼	13¾	OneNationBancWV	6.8	83.3	20	½	
48¾	24¾	PNC Fin Corp PA	7.6	84.3	24¾	¼	
26¼	20¾	PacificBncp CA	10.3	146.6	24¾	¼	
13¾	9	PacificWestern CA	7.0	128.0	9		
19¾	14¾	PeoplesBancorp NC	8.4	115.1	14¾		
27	26	PikerNatNatl KY	9.8	124.9	27		
19¾	12¾	PioneerCommerce CA	8.1	151.1	19¾		
6¾	3	PremierBancorp LA	20.5	60.8	3¾		
15¾	11¾	ProvidentBancorp MD	10.1	130.1	23		
14	5¾	ProvidentBnkrs MD	NM	36.6	6¾	¼	
27¾	18¾	RepFirstSunBancs MA	10.1	97.8	18¾	¼	
53¾	42¾	RepublicNYCorp NY	139.4	121.9	46	-½	
12¾	8	RiggsNationalDC	8.0	58.7	14¾	¼	
22¾	15	RiverForest IL	12.8	284.0	20¾	¼	
24¾	16¾	RiverviewBancorp FL	8.6	180.3	18¾	¼	
16¾	10¾	SecurityBancorp MI	7.5	137.5	17		
51¾	39¾	SecurityPacific CA	4.8	77.1	39¾	-3	
49¾	39¾	ShawmutNatCorp MA	NM	45.5	8¾	-¼	
42¾	14½	SouthTrustCorp AL	4.8	57.6	19¾	¼	
3¾	2¾	SouthValleyBncp	9.0	98.5	28¾	-¼	
27¾	18½	SouthwestBancOp SC	6.7	87.3	17¾	¼	
3¾	2¾	SouthwestBncp OK	NM	37.1	7¾		
15¾	11¼	SouthwestMidCp NC	9.4	129.7	11½	-¼	
10¾	6¾	SouthwestCorp IL	6.8	88.8	17¾		
43¾	25¾	SovereignCorp PA	6.1	91.8	25¾	-¼	
37¾	17¾	StBancCorp CA	8.1	105.4	17¾	-¼	
42¾	32¾	StatesStBncp MA	10.1	97.8	32¾	¼	
24¾	16¾	SterlingBancorp NY	8.6	100.3	16¾	¼	
25¾	16	SuburbanBancorp IL	13.5	87.5	17¾	¼	
34¼	22¾	SumitomoBankCA	5.1	80.9	34¼	¼	
22¾	15¾	SummitBncp PA	7.1	88.9	16	¼	
10¾	6¾	SunBancorp NJ	5.6	62.0	10¾	¼	
26¾	19¾	SunTrustBanks GA	7.5	118.6	23¾	¼	
24¾	16¾	SuntrustBnksNNM	81.0	78.6	17¾	¼	
22¾	16¾	SunquehannaBncsPA	7.2	84.3	17¾	¼	
24¾	14¾	SynovusFinancial GA	10.8	164.6	17¾	¼	
16½	13	ThePiedmontCp NC	8.7	118.8	14¾		
17¾	13¾	TheSouthBancorp MS	8.5	147.1	16	¼	
21¾	15	TrustcompanyNJ	7.4	123.4	15		
17¾	12¾	TrustmarkCorpMS	11.7	174.5	17¾	¼	
29¾	24¾	U.S. BancorpOR	7.3	108.7	24¼	-1¼	
25¾	20¾	U.S.TrustCorp CT	11.7	178.0	24¾	¼	
18¾	10¾	UB Financial IN	6.3	64.1	12	-¼	
19¾	14¾	UST Corp MA	5.8	83.1	19¼	¼	
32	19	UnionBank CA	4.6	73.1	19	-1½	
15¾	7	UnionPlanters TN	NM	58.7	15¾		
29¾	18¾	UnitedBankCapCO	NM	98.7	20¾		
14	11	UnitedBancorp MI	8.8	105.1	13¾		
17½	12¾	UnitedCarolina NC	7.1	93.9	12¾		
12¾	8¾	UnitedCommBncp IL	7.4	98.8	12		
32	22¾	UnitedMissouriMB	8.8	105.1	27¾		
27¾	20¾	WellsFargoNB	8.4	104.5	21¾		
36	22½	WestCoastBncsOR	7.9	145.9	25	1¾	
28¾	18¾	WestSideHldgsCA	9.3	137.7	19¾		
30¾	11¾	WesternBncpAZ	107.7	81.7	14		
15¾	10¾	WestmarkBancorp FL	7.2	101.3	15¾		
33	26¾	WeststernNY	8.9	154.9	32		
25¾	17¾	WhitakerBancorpCp	8.2	97.6	25¾		
25¾	17¾	WestamericaBncCA	12.1	148.9	21¼	¼	
13¾	9¾	WilmingtonTrustDE	8.4	101.3	13¾		
13½	9¾	NorthernBancsp MI	8.1	118.1	11¾		
15¾	11¾	WorthenBancorp IN	6.8	84.3	27¼	-¼	

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt to bk	Chg.
22¾	16¾	AmcargaCp CA	7.1	80.3	16¾ -¼
45¾	30¾	AppleBancorp NY	7.5	66.2	30¾
28¼	6¾	CalFederal	3.4	55.0	8¾ -¼
55¾	41¼	CitadelHldgCorp CA	9.0	55.2	41¼ -¼
14¾	10¾	CoastSavBncp CA	8.6	65.4	10¾ -¼
16¼	5¼	DimeSvgBk NY	NM	19.2	5¼
24¾	14¾	EquitableBncp MD	6.6	110.3	20 -¼
27	18¾	FirstFedOne CA	6.6	110.3	20
21¾	12	FirstFedMich MI	6.1	94.3	12 -¼
25	9¾	GLEMED CA	2.9	25.9	10¾
34¾	23¾	GoldenWestFn CA	21.5	80.6	23¾ -¼
24¾	14¾	GreatNthernFn CA	13.5	92.3	15 -¼
16¾	10¾	HF Bancorp CA	7.1	81.1	10¾
47¾	8¾	HomeFedCorp CA	NM	19.3	8¾ -¼
16¾	10¾	HomeFedBncp IN	10.4	89.3	13¾ -¼
16¼	10¾	NBB Bancorp MA	10.6	45.3	10¾ -¼
25¾	9¾	People's BancCT	8.5	70.1	9¾ -¼
25¾	9¾	PeoplesHntnBncp IN	6.8	34.2	10¼ -¼
24¾	14¾	PeoplesSvgBncp CA	8.4	41.2	15¾ -¼
22¼	6¼	SociecyFnCapt CT	4.3	33.3	7¾ -¼
16¾	10¾	StandardFed MI	5.7	48.9	14¾ -¼
12¾	6¾	StandardFedBk MI	5.7	48.9	7¼ -¼
33¾	23¾	WashingtonFed WA	9.3	186.2	32¾ -¼
21¼	6¾	WestcorpCA	10.0	80.0	8¾ -¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking companies and the 25 largest publicly traded thrifts, measured by the market value of all common shares outstanding (as of June 30, 1990, the market value cutoff for banks was $58.71 mil. and for thrifts $107.8 mil.) 52 Wk Hi: Set the moving 52-week high and low prices for the stock. PE: The price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. to bk: Stands for ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for latest announced earnings and dividends. Cha.: The price at which the stock last traded, relative to the day's close on the latest bid. 52 Wk Chg.: The percentage change in market value of the top 250 banks in market value and the top 25 thrifts over the past 52 weeks. Highlights cites stocks with the most adventurous increases in price; and two volume indicators most shares traded, and shares traded as a percentage of average shares traded daily over the past year.

Data sources: SNL Securities, Charlottesville, Va., 804/971-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Selected Data from the Federal Reserve Board

From the New York Fed's weekly report released Aug 16, 1990, ($ billion)

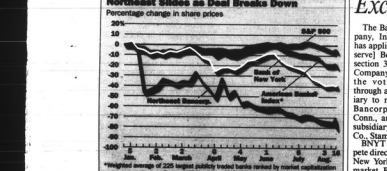
Monetary Aggregates*	6/06/90	7/30/90	Change	7/25/90	7/16/90	7/09/90
M1- weekly average	$ 813.0	$ 824.0	+$ 2.0	$ 827.0	$ 822.0	$ 822.0
M2- weekly average	3,289.2	3,278.1	+11.1	3,270.1	3,273.9	3,274.0
M3- weekly average	4,078.4	4,088.6	+9.8	4,056.6	4,052.0	4,058.0
M1- annual changes						
Latest 13 weeks			+1.8%			
Latest 26 weeks			+3.8%			
Latest 52 weeks			+4.1%			
Other data	6/06/90	6/01/90	Change	7/25/90	7/16/90	7/11/90
Business Loans#						
8 New York City banks	$ 58.2	$ 58.4	-$0.2	$ 57.2	$ 57.6	$ 56.9
All large banks	317.1	316.8	+0.3	318.0	320.4	320.0
Demand Deposits						
8 New York City banks	$ 44.8	$ 45.1	-10.3	$ 45.4	$ 49.5	$ 23.0
All large banks	243.9	+0.0	215.0	222.6	222.6	
Commercial Paper						
All issuers	546.6	542.9	+2.7	545.5	542.6	538.9
Finance companies	366.5	361.8	+1.4	360.5	366.8	362.0
Non-finance companies	147.0	145.8	+1.4	144.9	146.0	146.9

(*)— Seasonally adjusted. (#)— Excludes bankers' acceptances and commercial paper.

Key Rates

	8/16	8/15	(August 16, 1990) 8/09
Federal Funds-domestic range	8¼–8¼	8⅛–8¼	8–8⅛
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.40	7.40	7.35
6 Month Posted	7.40	7.40	7.35
1 Year Posted	7.40	7.45	7.35
Eurodollar deposits*			
3 Month	7⅛–¼	7⅛	7⅛–¼
6 Month	7⅛–¼	7⅛	7⅛–¼
1 Year	8.00	8.00	8.00
LIBOR*			
3 Month	8⅛	8.00	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8¼	8⅛	8⅛

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (**)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.



Experts Try to Figure Out Why Fed Rejected Northeast Merger

Continued from page 1

Lynch, a banking analyst at Bear, Stearns & Co., "but we knew that." He said it also appeared clear "that Bank of New York did not want this deal approved anyway."

Richard V. Fitzgerald, a former chief counsel for the Office of the Comptroller of the Currency and now a Washington partner in the law firm of Muldoon, Murphy & Faucette, said the Bank of New York decision is noteworthy because merger applications are normally withdrawn if the capital level of the merged company is declared insufficient by the staff.

"Usually, this kind of thing is resolved in staff discussions," said Michael C. Bradfield, a former Fed general counsel who is now a Washington partner in the law firm of Jones, Day, Reavis & Pogue.

Carol Berger, an analyst at C.J. Lawrence, Morgan Grenfell Inc., said she could not recall the outright rejection of a merger on capital grounds in a situation similar to the Bank of New York case. "Usually, the questions on capital end up as attached conditions," she said.

Northeast, whose shares plunged $5.25, to $12.25, on the news Thursday, said it was "deeply disappointed" at the rejection. In its statement, it appeared to lay part of the blame on Bank of New York's 1988 acquisition of Irving Bank Corp. Bank of New York shares rose 12.5 cents, to $24.625.

'Strange Logic' Seen

"The logic of this complaint is strange, if not fantastic," said Michael M. Pascale, spokesman for Bank of New York. "Are they saying that we paid through a 14-month hostile takeover battle to acquire Irving in order not to have to acquire Northeast?"

Bank of New York struck its bargain to buy Northeast in August 1983. The landmark deal prompted the U.S. Supreme Court to say that two New York states did not violate the Constitution by forming exclusive regional compacts on interstate banking in order to bar banks from large states like New York.

That ruling ushered in an era of limited interstate banking and was the catalyst for creation of what became known as superregional banks. But it put the Bank of New York-Northeast deal on hold until this year, when Connecticut finally removed its legal barrier. □

Excerpt from Fed's Bank of New York Ruling

The Bank of New York Company, Inc., New York (BNY), has applied for the prior approval [Federal Reserve] Board's approval under section 3 of the Bank Holding Company Act to acquire all of the voting shares of, and through a wholly owned subsidiary to merge with, Northeast Bancorp, Inc., New Haven, Conn., and thereby acquire its subsidiary bank, Union Trust Co., Stamford, Conn.

BNY and Northeast compete directly in the Metropolitan New York-New Jersey banking market. BNY is the fifth largest commercial banking organization in this market, controlling deposits of $20.6 billion and representing 7.3% of total deposits in commercial banks in the market ("market deposits"). Northeast is the 26th largest commercial banking organization in the market with deposits of $1.9 billion which represents less than 1% of market deposits. Upon Consummation, BNY would become the fourth largest commercial banking organization, controlling $22.5 billion in deposits and representing 7.9% of market deposits.

In evaluating this application, the Board is required, under the terms of section 3 of the BHC Act, to consider the financial resources of the companies and the banks involved and the effect of the proposed acquisition on the future prospects of the bank and applicant organization. The Board has stated and continues to believe that capital adequacy is an especially important factor in the analysis of bank holding company expansion proposals.

In this regard, the Board has stated that it expects banking organizations contemplating expansion proposals to maintain strong capital levels substantially above the minimum levels specified in the Board's Capital Adequacy Guidelines without significant reliance on intangibles, particularly goodwill.

The Board carefully analyzes the effect of expansion proposals on the preservation or achievement of strong capital levels and has adopted a policy that there should be no significant diminution of financial strength below these levels for purposes of effecting major expansion proposals.

Thus, for example, the Board has generally approved proposals involving a decline in capital only where the acquiring company promptly restored their capital to preacquisition levels following consummation of the proposal and have implemented programs of capital improvement to raise capital significantly above minimum levels.

"The Board finds that financial considerations are not consistent with approval of these applications."

BNY proposes to acquire Northeast for approximately $195.6 million, excluding BNY's existing investment of $43.2 million in Northeast common stock, warrants and nonvoting stock. . . . Although the purchase price is in dispute, the Board has assessed the impact on capital of the proposed transaction on the basis most favorable to the applicant by using the lower purchase price projected by BNY.

Under either financing alternative, however, the proposal is inconsistent with the Board's capital policy that an expansion-minded organization not interfere with an applicant's ability to maintain a strong capital position above the minimum levels required under the Board's guidelines, without significant reliance on intangibles.

After the proposed acquisition, tangible capital ratios for the combined organization would not be substantially above the Board's minimum capital levels and would be less than the current average levels of BNY's peer group of the nation's largest regional banking organizations. BNY has also failed to present any proposal to strengthen the capital levels of the combined organization within a short period of time after the consummation.

In addition, BNY's tangible common equity to tangible assets ratio would be below the applicable capital commitment required by prior Board order. (The Board notes that BNY has been required to achieve, within one year of consummating its acquisition of Irving Bank Corporation, a 4.1% tangible common equity to assets ratio, based on the deduction of all intangibles from the calculation of this ratio and not only goodwill, under the Board's capital guidelines applying this acquisition). Accordingly, based upon all the facts of record in this case, the Board finds that financial considerations are not consistent with approval of these applications.

Managerial resources and considerations relating to the convenience and needs of the communities to be served are sufficient weight to warrant approval of these applications.

On the basis of all the facts of record, the Board concludes that the banking considerations involved in this proposal present adverse factors bearing upon the financial resources and future prospects of BNY that are not outweighed by any other factors. Accordingly, it is the Board's judgment that the proposal and these applications would not be in the public interest and that the applications should be, and hereby are, denied. □

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER.

STOCKS

Bank Issues Take A Beating After Analysts Weigh In

By FRED VOGELSTEIN

California bank stocks were hammered in the wake of analysts' estimates of lower earnings for Security Pacific Corp.

The drop in California banks, and the fall in the overall market, drove other bank stocks lower. Also, an across-the-board earnings estimate reduction for banks by Salomon Brothers Inc. analysts contributed to the selloff.

The broader market was off sharply, with continued fears of the economic repercussions from the Iraqi invasion of Kuwaiti. The Dow Jones industrial average was down 66.83 points to 2681.44 at the close.

Merrill's Revision On Security Pacific

Earnings per-share	New	Old
3Q '90	$1.27	$1.55
1990	5.70	6.35
1991	6.20	6.80

Source: Merrill Lynch

Security Pacific started the slide on Thursday after Livia Asher of Merrill Lynch & Co., said that she was reducing her 1990 earnings estimates to $5.70 a share from $6.35 a share because the Los Angeles-based bank holding company announced it was building its loan-loss reserves.

Others Follow Suit

Oppenheimer & Co. analyst Cheryl Swain said she lowered her 1990 estimates to $5.95 a share from $6.40, and Montgomery Securities analyst J. Richard Fredericks said that while he had not formally lowered his, he was also inclined to drop them to the $6-a-share level.

In late afternoon trading, Security Pacific was off $3 to $28.75, Wells Fargo & Co. was off $3.125 to $59.65, and First Interstate Bancorp. was off $1.375 to $31.25.

Shares in Bankers Trust New York Corp. were off $1.25 to $37 on news that its problem loans may continue to rise through the end of 1990. A downgrade by Moody's Investors Service Inc. sent shares in First City Bancorporation of Texas tumbling $1.25 to $18.50.

Other banks that dropped sharply were Michigan National Corp., which was off $1.75 to $25; U.S. Bancorp, which was off $1.50 to $24.25; Banc One, which was off $1 to $26.75; and Citizens and Southern Corp. and Sovran Bank, which were off $1.375 each to $20.75 and $25.875, respectively.

Nancy Bush, an analyst at Brown Brothers Harriman & Co., said her traders told her that Sanford C. Berstein & Co. was a big seller of Citizens' stock and that Sovran was probably moving in sympathy. The two are in the process of merging.

Future Estimates Also Drop

In her report on Security Pacific, Ms. Asher said she was also lowering her 1991 estimates to $6.20 from $6.80. "I just assume that some of the trends that are affecting them now will be impacting them next year as well," she said.

In addition to increased reserves, Ms. Asher said that the bank's announcement of expected weakness in the growth of noninterest income prompted her decision to lower estimates. Noninterest income represented 19.3% of total income for the first half of 1990. The information was disclosed in the bank's 10Q report, filed with the Security and Exchange Commission on Wednesday.

Ms. Asher said she was not lowering her ratings on Security Pacific, however, which are now a "neutral" short term and an "attractive" long term. "To dump the stock at this point would be an overreaction," she said.

John F. Kooken, Security Pacific's chief financial officer, responded to the downgradings: "We clearly expected people would change their estimates as a result of the announcements. ... I don't think we are as pessimistic on California real estate as much of the rest of the investment community is."

Commenting on recent pessimistic statements on the California economy by Robert F. Adelizzi, chairman of HomeFed Corp., and Thomas Marrie, chief financial officer of First Interstate Bancorp, Mr. Kooken said: "My general memory of it is that it sounded more pessimistic about California real estate than we are."

He said that he did not know how much reserves would be increased but that they would "at least go to 1.7%" of credits outstanding, excluding LDC obligations, by the end of the year. □

CAPITAL

Power Outage Jolts Fed Funds Market

By KELLEY HOLLAND

The difficulty that financial institutions are experiencing because of Monday's power outage in Manhattan sent shudders through the overnight federal funds market.

The failure of major clearing systems to operate normally has meant the federal funds market has been open late into the evening all week. The Fed funds rate moved as high as 15% at closing when clearing imbalances caused retention of reserves.

And banks have found themselves either holding excess reserves they need to sell or scrambling to find fed funds and avoid being overdrawn.

'Trading on Suppositions'

"It's a debacle," said Lawrence J. DiTore, a senior vice president at the Fed funds broker Fulton Prebon (U.S.A.) Inc. "People don't know what their positions are. They're frozen in time. They're trading on suppositions."

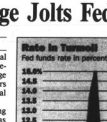
"Banks freeze up," said one fed funds trader at a money-center bank. "They don't want to sell because they don't see money coming in."

The problems in the fed funds market have not yet created major liquidity problems for any banks, sources say. But bankers pointed out that banks finding themselves short of funds late in the day are having to pay exceedingly high rates.

Also, banks with substantial excess reserves are either having to pay for funds they do not need or lend those funds, possibly in amounts under the credit lines they normally extend to other banks.

Immediately after the power outage on Monday, the fed funds market stayed open until 10 p.m. as the rate rocketed up to 15%, traders said. The market remained open Tuesday, closing at 7 p.m., only slightly later than the normal 6:30 close, with fed funds at 8.25%.

Rate in Turmoil
Fed funds rate in percent



But Wednesday, Citibank's clearing system, which handles trades for many correspondent and foreign banks, did not operate until 7 p.m. When the market finally closed nearly five hours later, the fed funds rate had moved to 11%.

Fed Wire Moves Upstate

Operational problems continued on Thursday. The Federal Reserve's clearing system, Fed Wire, failed to open until 11:15 a.m. on Thursday as its operations were moved to a contingency site in upstate New York.

Meanwhile, foreign banks traded nervously, with spurts of buying activity, amid uncertainty about the viability of the Fed Wire's backup system and of Citibank's clearing operations. And fed funds traders said the Fed had asked the New York Clearing House Association to close the Chips system an hour early, at 3:30 p.m., and requested that securities firms keep trading activity on the securities wire to a minimum.

An official at Citicorp said his bank was experiencing no problems clearing fed funds transactions on Thursday. But bankers elsewhere in Lower Manhattan said that, with the Fed Wire opening late, it was hard to tell which commercial banks were operating normally.

With clearing systems out of order, banks are finding themselves operating without firm information about their fed funds position relative to their reserve requirements.

Scores of regional banks, settling with regional Federal Reserve banks, have found themselves with excess reserves in the morning when late-clearing New York systems have pumped extra funds into them. The confusion has also made many banks loath to sell fed funds because they want to avoid being overdrawn at their local Federal Reserve bank.

At the same time, a number of New York and foreign banks have been coming up short at the end of the day.

In response to the natural drain, the Federal Reserve executed four-day system repurchase agreements on Thursday to inject new supply into the system. But the fed funds rate remained slightly above the target level of 8%.

Bankers and fed funds brokers are thankful for one thing, though: the power outage did not take place during a settlement week. "To have that happen on a settlement day would have wreaked havoc," said one banker.

* * *

MARKET MONITOR

Banc One Corp. has issued $200 million in 20-year subordinated bonds in an offering leadmanaged by Salomon Brothers Inc. and co-managed by Goldman, Sachs & Co. and J.P. Morgan Securities Inc., a subsidiary of J.P. Morgan & Co.

The bonds, which carry a 10% coupon, were priced at 140 basis points over 30-year Treasuries to yield 10.25%. □

Ameritrust to Cut 780, Take Up to $18 Million Charge

Continued from page 1

close.

The company said its costcutting is expected to reduce expenses by $26 million next year and $32 million in 1992. It plans to cut 780 people from its total work force of 6,800. Ameritrust's operating expenses in 1989 totaled $380 million.

Offsetting Gains Cited

The company said a restructuring charge of $14 million to $18 million would be partly or wholly offset by gains from "extraordinary transactions." A spokesman said the gains may include a sale of assets, but he declined to identify them.

Areas being targeted for reduction include nonrelationship corporate lending, especially in national syndicated loans.

Ameritrust's nonperforming loans have risen steadily; they totaled $262.4 million at the end of the second quarter. The spokesman said nonperforming loans could increase by as much as $30 million in the year's second half.

The Ohio company reported first-quarter loss of $51.6 million after taking a $120 million loan-loss provision. Its secondquarter profit declined 39%, to $18.4 million.

Despite Thursday's disclosures, Thomas K. Brown, an analyst at PaineWebber Inc., reaffirmed an earlier buy recommendation for Ameritrust stock, which he said was undervalued.

Mr. Brown said Ameritrust has gotten most of its credit-quality problems behind it, adding that much misunderstanding exists about the company.

"Management is moving in the right direction," said Mr. Brown. "Unfortunately for investors, that's not necessarily a straight line."

Some analysts have been critical of management for uneven performance. "They seemed to fumble around a lot," said one analyst who stopped following the company because of its erratic performance. □

> **"Management is moving in the right direction. Unfortunately for investors, that's not necessarily a straight line."**
>
> **Thomas K. Brown**
> *PaineWebber Inc.*

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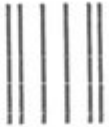

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Securitization: Can It Work in Middle Market?

By SANFORD ROSE

As pointed out in a recent report in this newspaper, some banks have expressed an interest in securitizing middle-market loans. What are the obstacles to securitization of commercial as opposed to consumer loans? And how can these obstacles be surmounted?

Economic theory and common sense – unfortunately, the two don't always coincide – seem to hold that a market will not long exist if the inequality of information between buyers and sellers is too great.

An asymmetry of information between buyers and sellers causes a problem if two conditions hold: First, the seller has detrimental information about a product, say a loan, that he chooses to withhold from the potential buyer; and, second, the cost to the buyer of discovering the relevant information on his own is significant relative to the value of the product.

If sellers withhold information and buyers have no cost-effective way to obtain that information, a market cannot long be sustained. This is called the agency or adverse-selection problem.

There apparently is only a small agency problem when banks sell the loans of rated companies to other banks, thrifts, or pension funds. The buyer has access to the agency ratings at minimal cost in order to remedy his information disparity.

Role of Deal Managers

There is a somewhat larger, though still perhaps not an insuperable, agency problem when pieces of large, well-publicized leveraged buyout credits are sold down. The deal managers and the agent banks make it their business to clarify the nature of the cash-flow projections, thus eliminating the information asymmetries.

But there is a larger and perhaps formidable agency problem when banks sell pieces of less-publicized LBO deals, or when they sell middle-market commercial loans. How does the buyer know that he isn't getting a lemon?

If the buyer knows less about the credit than the seller and lacks the ability to bridge this information gap in a cost-effective fashion, shouldn't he demand a higher yield on the loan than did

See **LOAN** *page* **8**

INSIDE NEWS

FINANCE

Treasurers Hit Big Californian Banks

Percentage change in share prices



MAJOR BANK stocks and the broader market were clobbered again Friday on concerns that rising inflation and weak real estate markets have put the Fed in a no-win position. *Page 16*

THE NEW JERSEY Gaming Commission is expected to approve a $65 million bridge loan for Donald Trump, despite its doubts that the Trump real estate empire can support the restructured debt load. *Page 14*

OPERATIONS

AS PAYMENTS systems returned to a semblance of normality after the power outage in Lower Manhattan, bankers braced for more unpleasant surprises. *Page 2*

NEW ENGLAND

BANK OF New England Corp. has received a firm offer for its Rhode Island unit, but regulators will approve the sale only if the proceeds are pumped into the bank's troubled flagship bank in Boston, according to a filing with the SEC. *Page 2*

CONSUMER

MNC FINANCIAL Inc. is said to be gearing for growth in its credit card operation despite heavy losses from real estate loans. *Page 6*

WASHINGTON

MONTHS AFTER Justice Department officials were pilloried by Congress for not working fast enough to throw wayward thrift executives in jail, the agency is boasting bigger numbers. *Page 9*

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RJR Loan Is Flop in Syndication

By STEVEN LIPIN

The general syndication of RJR Nabisco Inc.'s $2.25 billion bank facility is basically a failure.

While some bankers boasted that the $7 billion in commitments the company received reflected the willingness of commercial lenders to invest in RJR, agent banks had sold a mere $200 million as of Friday. That's out of a pool of roughly $1.4 billion that they are trying to sell off. Bankers in and out of the deal attribute the failure to the skimpy fees reoffered.

The general syndicate is set to expire Aug. 24, and banks will likely continue selling in the secondary market. Officials in the deal did not expect to sell much more of the deal before Friday's deadline.

'Not Too Pretty'

"A billion four went in and over a billion is coming out," said one syndicate official in the deal. "That's not too pretty."

While RJR is not directly affected, the figures are significant because many banks, reluctant to increase their exposure to highly leveraged transactions, will nevertheless be holding a greater portion of RJR loans than they had hoped.

Most do not want to retain more than $25 million to $50 million, bankers in the deal say. With concerns over credit quality from both regulators and shareholders, "the trend is to get fees up and risks down," one banker involved in the deal said.

Secondary Fees Blamed

And the fees are certainly generous in the RJR Nabisco deal. Not only are fees over 300 basis

See **RJR** *page* **13**

Gonzalez Seeks Ouster Of Vocal FDIC Critic

By BARBARA A. REHM

WASHINGTON — House Banking Committee Chairman Henry B. Gonzalez is seeking to fire the outspoken economist R. Dan Brumbaugh from a committee-sanctioned study of the Federal Deposit Insurance Corp.

Mr. Brumbaugh, a senior research scholar at Stanford University and one of three economists preparing a report for the House financial institutions subcommittee, has attracted considerable media attention in recent weeks to his argument that the bank insurance fund is technically insolvent and inadequate to handle a likely spate of bank failures.

Objectivity Questioned

Mr. Gonzalez said in an interview last week that Mr. Brumbaugh is unable to do an objective analysis of the FDIC because he has testified against the government in lawsuits against thrift managers.

"I wasn't aware of his involvement as a paid witness against FDIC," the Texas Democrat said, referring to Mr. Brum-



William Mercer McLeod

R. Dan Brumbaugh
Stanford economist

See **GONZALEZ** *page* **8**

Morgan Helps Japanese Bank Skirt Barrier to Subordinated Bond Issue

By KELLEY HOLLAND

A Japanese bank Friday found a way around a recent move by the Ministry of Finance to make it more difficult to issue subordinated bonds.

A J.P. Morgan & Co. unit devised an innovative method of skirting the ministry's near prohibition and used it to help Daiichi Kangyo Bank Ltd. raise $500 million in capital.

Ministry's Stand Assessed

Capital markets specialists said they expect the ministry's restrictions to be short-lived in any case. "They want to put people on hold for a month or two while they reconsider," said one investment banker. "They're not shutting [the banks] down."

The Ministry of Finance authorized Japanese banks to issue subordinated loans early this summer in a move to give banks more options for raising capital. At that time, ministry officials indicated they would not rule out authorizing banks to issue public subordinated bonds but said such deals would be approved only case-by-case.

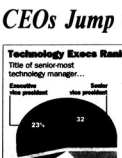
Almost immediately after its decision on subordinated debt issuance was made public, the ministry allowed a subsidiary of

See **DAI-ICHI** *back page*

CEOs Jump on Technology Bandwagon

Technology Execs Rank High on Totem Pole

Title of executive technology manager...



Whom those managers report to...



Source: American Banker Technology Survey

By JEFFREY KUTLER

NEW YORK — Shedding some of banking's past conservatism and mistrust of computers, chief executive officers are getting in on the technology act. They are doing so with great enthusiasm and, perhaps paradoxically, gaining the loyalty and respect of underlings from very different career backgrounds.

The CEOs' increasingly hands-on role and technology managers' positive response are clearly evident in the 1990 *American Banker* technology survey.

At three out of four institutions, the top operations or tech-

See **CEOS** *Page* **3**

"SOUND OFF"

Stocks in the S&P 500 carry dividend yields averaging 3.6%, while the shares of many of the biggest U.S. banks trade at prices that put their dividend yields at or near double digits. Jed Horowitz, chief of the American Banker's Northeast bureau, asked the following question:

In light of the depressed earnings at many banks, should they be cutting their dividends?

■ William C. Ferguson
President and CEO
Ferguson & Co.
Washington



I suspect that many of the money-center banks will be forced to cut dividends in the near future to meet the new risk-based capital standards and to offset the impact of decreased earnings and real estate writeoffs. They are simply going to have to be cut because capital is king.

If you're not making enough income to support a dividend, then in effect you are returning capital as opposed to distributing earnings. Every time some of these banks pay a dividend they are writing their own prescription for takeover.

Prudence would dictate that banks should go ahead and bite the bullet themselves. But they are under tremendous pressure from shareholders and highly leveraged holding companies that need the continued income stream of dividends to meet obligations.

Also, some controlling shareholders borrowed a large amount of money to buy bank stock and need this income to pay off their loans.

■ W. Anthony Hitschler
President, chief investment officer
Brandywine Asset Management
Wilmington, Del.



Many of the banks need to build up capital. I don't see how they're going to do it, other than by cutting their dividend or merging.

These high yields are saying that nobody believes the dividends can be sustained. It will be interesting to see what will be happening toward the end of this year when dividend rules [from regulators] are expected to change.

It is likely that a dividend cut will be disguised in some kind of intramarket merger transaction.

■ Robert Bertolotti
Vice president, analyst
Bessemer Trust Co.
New York

Given capital requirements and the deterioration of their earnings, many money-centers and some regionals are paying out an intolerable amount. Some have used their high yields shamelessly to increase capital through dividend reinvestment programs. . . . first, you drag the money in, then you cut the dividend.

■ Howard Sherman
Director of proxy advisory service
Institutional Shareholder Services
Washington

Cuts should only be made in the most extreme cases, but obviously there are many of those around today.

It's a much tougher question for a bank than for an industrial firm. A lot of investors purchase bank shares because of the dividends. But as a long-term business strategy, all constituents in a bank – its stockholders, in particular – are much better off if a bank realizes which if it has to and builds up cash reserves.

Institutional shareholders – pension funds, in particular – by nature are long-term investors, since their planning horizons go out 30 years. In practice, they still have a very short-term orientation. But some of our clients are questioning whether they are placing too much emphasis on short-term quarterly results.

■ J. Richard Fredericks
Analyst
Montgomery Securities
San Francisco



I don't think there is a bank around that will cut a dividend unless they see no possibility of eking it out. But I think that many of the money-centers are on, or ready to go on, a short leash with regulators [regarding dividends].

If a bank is poorly rated by the regulators [with a 3, 4, or 5 Camel ranking] and is not covering its dividend through earnings, it better have a legitimate plan to present to regulators, or else the dividend is suspect. Based on what is happening at some money-center banks, I think regulators will probably give banks that are not covering the dividend three to five quarters to show results. □

Skeptical Bankers Remain On Alert in Wall Street Area

Power Surges, More Outages Feared

By JEANNE IIDA

NEW YORK — As payment systems returned to near normal on Friday, bankers braced for more unpleasant surprises as electricity began to be restored to the Wall Street area.

Bankers whose buildings had electricity expressed concerns about losing it when darkened areas were relit, and others fretted about power surges in the coming week.

Representatives of the Federal Reserve Bank of New York, the New York Clearing House Association, and major banks met at 8:30 a.m. on Friday to review the situation. Among other issues, the officials discussed how long diesel back-up generators could continue to hold up. The Fed also said it expected to bring Fed Wire operations, which were moved to an alternate site Thursday, back to Manhattan on Monday.

Con Ed Cites Sunday

Consolidated Edison Co. of New York, whose substation caught fire Monday and touched off the week-long power disruption, said it was expecting electricity building-by-building on Friday and would be finished by Sunday.

Bankers were more skeptical. "Con Ed says we'll be back in power sometime Sunday, but we're going to be cautious about moving operations back," said Carl Klemme, executive vice president, National Westminster Bancorp.

He said National Westminster, which moved all its New York City operations except funds transfer to Long Island earlier this week, would wait till about midday Saturday. By then, the bank hopes Con Ed will be providing "clean" power, without voltage variations.

Citibank, which shifted downtown operations to several locations, was said to be considering keeping Manhattan retail operations permanently at a site it owns in Secaucus, N.J. The bank moved the retail systems to New Jersey on late Wednesday after its backup generator failed at 111 Wall Street. Sources said it was considering keeping those activities there because of the unreliability of facilities in the city.

Staying 'On Alert'

A Wall Street investment firm that was receiving power from Con Ed on Friday put its provider of disaster recovery services "on alert" as the utility began to turn on the juice in other parts of the district.

"As Con Ed begins to reconnect, they don't have confidence that power will stay up," said Judith Eckles, a spokeswoman for the vendor, SunGard Data Systems in Wayne, Pa. She declined to identify the brokerage house.

No On-Line Backup

The events of the past week are bound to lead many banks to reassess their disaster recovery plans and may encourage them to install more expensive back-up systems for protecting time-critical data, such as funds transfer transactions.

Few banks have on-line backup for such functions. When banks move these on-line activities to another location, they therefore have to reconstruct transactions that have already taken place that day.

Partly for this reason, many New York City banks kept funds transfer operations running this week at their normal sites using diesel generators to provide power. As the electrical outage continued, some backup systems began to fail, creating problems at the Fed and Citibank

See **POWER** *page* 5

Buyer Found For Unit of Ailing BNE

By TOM LEANDER

Bank of New England Corp. has received a firm offer for its Rhode Island unit, but regulators may approve the sale only if the proceeds are pumped into the company's troubled flagship bank in Boston, according to a 10-Q regulatory filing with the Securities and Exchange Commission.

Analysts said the possible regulatory restriction casts doubt on the company's chances of converting the majority of its $700 million in outstanding debt to equity.

It is widely believed that Bank of New England needs the cash from the sale of the Rhode Island unit to finance a debt-for-equity exchange with its bondholders. The debt-for-equity exchange is considered crucial to Bank of New England's survival, because it would eliminate about $60 million in annual interest payments.

Bank of New England's Rhode Island unit has $1.3 billion in assets and equity capital of about $70 million. The sale would yield Bank of New England Corp. an estimated $60 million to $80 million.

Some analysts also speculated that Bank of New England bondholders would be reluctant to exchange their holdings for stock in a company that cannot retain proceeds from asset sales.

A Bank of New England spokesman declined to comment.

'Source of Strength' Concerns

"The regulators and the bondholders are on the opposite side of the ring on the issue of an exchange offer," said Kristina E. Anderson, an analyst with Kidder Peabody & Co., alluding to the legal doctrine known as "the source of strength." This says that regulators have the right to

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CEOs Awaken to Strategic Importance of Data Processing

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nology officer reports directly to the president or chief executive. At another 7%, the president or CEO takes direct responsibility for back-office functions.

Meanwhile, most technology managers said they receive substantial support from CEOs. On a scale of 1 to 5, with 5 denoting total support, the CEOs at the banks in the survey rated a solid 4.

The data come from a poll of the senior technology managers at 333 banks with at least $75 million in deposits. Trans Data Corp., an *American Banker* research affiliate in Wayne, Pa., conducted the survey by telephone in March and April. A magazine containing summaries and analyses of the findings has been sent to subscribers.

While many technology executives still feel removed from the banking mainstream – more than half say it is unlikely that someone of their background will become a bank president or CEO – their close contacts with top managers have brought them credibility and respect that they lacked a decade ago.

"To say I am hands-on in technology may be a little unfair, but I'm talking to those people a lot," said Samuel McCullough, chairman and chief executive officer of Meridian Bancorp, Reading, Pa. "Aside from credit quality, the area where I have to be most concerned about things going wrong is data processing.

"We are committed to devote the talent and resources necessary to this increasingly important part of our business," he added. "I feel very comfortable with the way data processing is run."

Mutual Admiration

The feeling seems mutual: Most technology officers give their CEOs credit for making a reasonable, if not strong, commitment to automation and innovation. Six out of 10 in the survey described their CEO's attitude as "costs are monitored but opportunity exists for major return on investment." Few complained about technology falling victim to obsessive cost cutting, as some bank automation enthusiasts had feared.

"The use of automation in the delivery of products and services is well understood among our senior management – in some cases the technology is the product or service," said Robert Dressel, executive vice president of United Banks of Colorado, Denver. Typical of many technology chiefs in this era of apparent good feeling, Mr. Dressel says he has no complaints about the attention and support, or lack thereof, that his area receives from the chief executive.

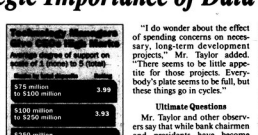
"At our bank," he said, "I think those old conflicts vanished 20 years ago, when the CEO at the time launched an effort to create a new data processing system and got everyone behind it. Other banks may not have been so fortunate, but today technology is certainly less controversial than it was several years ago."

Need for Big Decisions

The need to make major data processing choices is a common thread drawing CEOs into technology decision-making.

"For us it happened in 1983 and 1984, when we had to decide whether to continue running our data center in-house or moving to a service bureau," said Willard Bunn 3d, chairman and chief executive of Marine Corp. and Marine Bank of Springfield, Ill. "Staying in-house required an extensive systems upgrade, but we decided it was in our best interests to do it. To us it was important to control the computer resource."

Mr. Bunn says that resource allowed Marine to forge a reputation for automation far exceeding its $1 billion-asset size. Marine Bank is second only to Chase Manhattan, the second-largest money-center bank, in processing of automated clearing house transactions.



At Chase Manhattan Corp., "the top officers are totally there now," Michael Urkowitz said of their commitment to technology. He is president of Chase Information International, the company's wholesale services unit.

In a sign that times have changed, he said, Chase chairman Willard C. Butcher devoted a recent senior management meeting "specifically to our technology and how it stacked up against the competition."

With a few conspicuous exceptions such as Citicorp, where automation czar John S. Reed rose to chairman in 1984, the topic would have gotten short shrift in banking as recently as five years ago.

"The technology has become so critical to the business of banking, so strategic, that many of the decisions that have to be made must come from the top," said David Van L. Taylor, a group executive at the Bank Administration Institute who has extensively studied technology's rise through the management ranks.

"I do wonder about the effect of spending concerns on necessary, long-term development projects," Mr. Taylor added. "There seems to be little appetite for those projects. Everybody's plate seems to be full, but these things go in cycles."

Ultimate Questions

Mr. Taylor and other observers say that while bank chairmen and presidents have become more active in this area, they are just beginning to confront issues that could transform the back office even more radically during the 1990s.

"Bankers should be asking, What is the ultimate role we want technology to play?" said Diogo Teixeira, a McKinsey & Co. consultant and coauthor of "Technology in Banking," a 1990 report that won wide acclaim in the industry.

Mr. Teixeira predicted that as the analysis proceeds, many bankers will conclude that processing is not their business, or is just too burdensome. This would lead them to farm their processing out – sometimes called outsourcing – to vendors or service specialists. Some are already moving in that direction, with CEOs making the ultimate decision.

Old News at Small Banks

CEOs' close involvement is old news at many small banks. With managers few and organizational structures flat, their operations decisions have long been made at the top. Among institutions in the survey with $75 million to $250 million in deposits, 9% of CEOs manage technology directly and 85% have the senior technology official reporting to them.

But even as technology has grown in complexity, larger banks with far more elaborate management structures are endorsing close CEO oversight. More than 90% of banks above $250 million in deposits assign day-to-day technology management to a senior or executive vice president, and 70% have that manager reporting to the chief executive.

The big-bank CEOs' closer involvement picked up in the early 1980s.

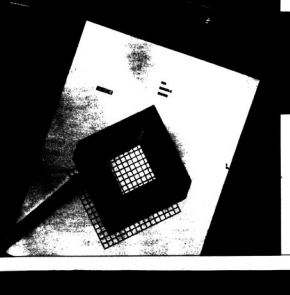
Back-office machinery and personnel costs were major contributors to annual expense increases of 20% or more at some large banks in the early 1980s. CEOs took it upon themselves to rein those costs in, which required closer working relationships with the managers of those areas.

Cooperation and understanding were lacking. In a 1986 Coopers & Lybrand survey of senior management attitudes to technology in banking and financial services, one-fourth of CEO executives said they were not knowledgeable enough to make competent automation decisions.

The entreaties of consultants and in-house technologists notwithstanding, many top managers said they did not view technology investments as a route to competitive advantage. Hence the concentration on expense control, in which nontechnologists could wield considerable power.

Coinciding with the cost inflation was the beginning of the bank merger boom, which spurred senior-level strategists to identify the mutual benefits – known as synergies – in a combined organization. Invariably, operations budgets and centers were consolidated, with technology decisions increasingly centralized and put higher on the management ladder.

It stands to reason that the people responsible for these critical areas and their sizable budgets – hundreds of millions of dollars a year at the biggest banks – would gain prestige and influence in the management hierarchy. □



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COMMENT/ *By Paul S. Nadler*

Plenty of Blame to Go Around For the Real Estate Collapse



Looking at the collapse in home prices and commercial construction and the impact on the value of bank mortgage loans for all kinds of real estate, I cannot help thinking of the man who trained his horse to live without food only to find to that just when the beast was getting the hang of it, it died.

That's pretty much what happened in home finance.

First, the regulators became extremely strict in evaluating the worth of loans for homes, shopping centers, office buildings, and the like. Then, the banks and thrifts curbed lending drastically to satisfy the regulators. That restraint has so curtailed real estate finance that prices have declined and the fears of the regulators have been realized.

In sum, the horse died.

Problem's Roots Go Deep

But to be fair, while much of the blame today is being placed on the regulators and lawmakers for being too strict on mortgage loans after a decade of being too lenient, the roots of the mortgage market collapse go deeper.

What are some of these roots?

• First, we must recognize that we are now paying for a decade of overbuilding of all types caused by a sympathetic Congress that wanted money readily available for housing in good years and bad, whether it was needed or not.

This was the basis for the legislative and regulatory favoritism that the thrifts experienced all through the 1980s. And it is the reason the commercial bankers complained they could not get a "level playing field" in the competition for funds. As money flooded into the thrifts, they lent it out, and we overbuilt the nation's real estate stock.

• Second, obsolete laws that keep banks from providing full financing for the public led to the growth of so-called nonbank banks and of foreign institutions' power. This forced U.S. banks to concentrate more resources in areas where they did have the power to operate, notably commercial real estate.

• Third, laws preventing geographic expansion of banks forced them to concentrate lending in their own regions and to forgo the comfort of diversifying geographical risk.

• Fourth, the inability of unit banks to generate large volumes of core deposits led to reliance on volatile purchased funds. This helped cause problems in states like Texas and Oklahoma. And it is ironical that because of unit banking laws intended to protect Texas from outsiders every major Texas bank now is owned by non-Texas interests!

• Fifth, the mania for going public that hit so many mutual thrifts in the 1980s left them with new capital burning holes in their pockets – capital that was put to work financing real estate ventures that otherwise might not have been built.

• And finally, as we try to see why real estate prices have collapsed, we find that much of the decline is merely a return to normal from an era of speculative fever. As prices pushed up, real estate owners felt their property was worth many times what they had paid for it.

When the bubble burst, it was impossible to recognize that a home was really salable at 80% or less of what we had thought it was worth. Similarly, Texas did beautifully on $2 oil, superbly on $35 oil, but then fell on its face with $18 oil.

Up to this point, one can conclude that it was restrictive laws and promotional legislation that skewed the nation's available funds and led to the overfinancing of construction. This, coupled with the overreaction to day, is causing our housing and commercial construction slump, many potential borrowers hold.

But one can look further.

Much of the financing that did take place was based on overoptimistic sales and price estimates. Builders decided that, if the banks would provide all the money, they would provide "sweat equity."

Banks Took Most Losses

The result: Banks that financed projects that turned sour took most of the losses.

On top of this, many homebuyers and other borrowers have hidden under the mantle of personal bankruptcy when their plans went awry.

The result is a far more cautious banking system.

So there are many roots to our housing collapse and the attendant depression for some banks. We cannot place all the blame on regulators. But we can learn the lesson the Soviet Union also is learning: Watch out when you take away allocation of funds from the free market and give it to government officials. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

COMMENT/ *By Jeffrey R. Weisman*

Build Relationships to Win New Middle-Market Clients



Lending officers, by definition, make loans. Now we're asking them to become marketers – to create new business relationships and to sell services.

Many banks offer sales training, but success is slow in coming. The bankers' basic skills are in lending and relationship maintenance. It's difficult for them to unlearn the old habits and adapt to the new selling ways of business.

In the business of getting new business from middle-market companies, one statement by the controller of a $12 million manufacturing company truly applies:

"Your opportunity to switch a company from one bank to yours only comes once – when his current bank screws up."

Windows of Opportunity

But when will that happen? And how does a bank position itself to be the one called or considered when the opportunity arises? In service businesses such as banking, clients don't run out of the service – as the consumer does with Tide and Crest.

There aren't frequent opportunities to win business. And experience in soliciting new business demonstrates that companies that appear most anxious to select a new bank are invariably the companies not very desirable as new clients.

Beyond Quarterly Thinking

What can a banker do to insure a steady flow of new business? First of all, the bank (and banker) must depart from quarterly thinking to longer-term, relationship thinking. New business is not won after one visit.

It takes eight or 11 or 14 months to land a new client. It requires building a relationship so that when the prospect's current bank "screws up" you and your bank are called as the replacement or to make a proposal.

Quarterly make-the-numbers thinking must be changed. Bankers need the time to develop relationships – and banks need to foster the atmosphere to develop them. This implies a system to measure new business development beyond just accounts signed up.

Give Credit for Activity

In manufacturing companies, work in process is measured or counted. The same can apply in service-company new-business efforts. As a relationship builds, it becomes more of an asset to the bank – since presumably the company will become a client at some point in the near future.

Bankers can receive credit for relationships in process – making initial contact, meeting in-person, developing a first-name relationship with the decision-makers and/or users, maintaining top-of-mind awareness, getting referrals, selling additional services.

Relationship-building goals can be applied to each level at the beginning of the year. Moreover, bankers will not become frustrated if a sale is not made – because there will always be prospects at varying stages in the pipeline.

Communications Tools

Bankers need to communicate with prospective customers. They need personalized letters and other sales aids – to make contacts, to get in the door, to leave behind, and to keep their name and the bank's name in front of the prospective customer. Bankers should have marketing-communications tools that recognize the value of relationship building. These sales tools should be personalized to the greatest extent possible.

Centralize and Localize

Bankers may be able to write proposals and financial reports but rarely persuasive business letters. So prepare their marketing communications tools centrally: letters, scripts, leave-behinds, attention getters.

Bankers will randomly uncover leads in their normal course of business, but a formal lead-generation program should be coordinated on a centralized basis. Buying a list, cleaning it, and running it against the bank's customer file is a task for marketing management, not line bankers.

Give the bankers the leads to pursue locally and individually. Besides professionally prepared marketing-communications tools, give them the capability to produce letters at the branch or commercial-center level. In this way, they control their marketing efforts while they identify, engage, and professional marketing standards of the bank remain high and consistent.

Decentralizing this part of the process will foster the individual style and success methods of the bankers that are needed to cultivate relationships.

Keep Track of Progress

Bankers can be evaluated from their performance with the leads. Performance evaluation calls for objective measures of relationship building. The sale is not the only thing, since it can take months to accomplish.

Who do leads belong to? In the brokerage business, leads traditionally belong to the brokers. Yet in banking, organized selling and relationship building remain relatively new concepts, so leads conceivably still belong to the bank.

By keeping track of progress, the continuity of contact will be maintained if a banker is reassigned. □

Mr. Weisman is president of Weisman & Associates, a marketing services company based in New York.

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Power Surges, Outages Feared

Continued from *page 2*

among others.

"If you're operational, you'd much rather stay than move, because something unexpected could happen when you move," said Mr. Klemme of National Westminster.

After experiencing problems Thursday night when a back-up generator failed, J.P. Morgan & Co. reported operations were back to normal early Friday.

The back-up failed about 5 p.m. Thursday, prompting the firm to ask the Fed to keep Fed Wire open. The Fed declined, and the firm completed securities settlement by hand that night.

Power was restored by 9:15 p.m. Thursday, and systems were running by midnight, said a Morgan official. Morgan expects to remain on emergency power Monday.

Traders at several firms said they had been instructed to keep activity to a minimum because banks could not accurately assess their positions.

"When you have threats to the Fed Wire, you are a little reluctant to do too much trading because you have to look at the settlement risk – the capacity to trade is affected," the Morgan official said.

Bankers said payment systems were operating slowly on Friday. Volume on the Fed Wire and Chips – the Clearing House Interbank Payments System – was normal on Thursday, with Fed Wire handling $1.4 trillion and Chips about $850 billion. Fed Wire settled at 6:45 on Thursday night, the earliest time of the week.

During the week, vendors said eight commercial banks, including Citicorp, had moved into their disaster recovery sites. Other banks moved into facilities they own or used facilities of other banks for crucial functions.

Citicorp moved some of its processing to a SunGard site in Philadelphia. Six banks, including Manufacturers Hanover Trust Co. and Credit Lyonnais, moved some operations to Comdisco Disaster Recovery Services, Inc., Rockaway, N.J. Another bank moved operations overnight Monday to International Business Machines Corp.'s recovery site in Franklin Lakes, N.J. The vendors declined to disclose the names of the other banks.

Jed Horowitz in New York contributed to this article.

Ailing BNE Has Buyer for Unit

Continued from *page 2*

force bank holding companies to provide capital to their troubled subsidiaries.

Bank of New England said the buyer has offered to purchase all of the Providence unit's assets and most of its liabilities. The buyer was not identified, but analysts believe it is Commercial Financial Group Inc., a thrift unit of the Royal Bank of Scotland.

Citizens Financial officials could not be reached for comment.

Citizens has $2.2 billion in assets and about $222 million in equity capital.

Bank of New England admits the severity of its problems in its 10-Q filing.

"If the corporation is unsuccessful in addressing its current difficulties, it is likely that external assistance from third parties and/or regulatory authorities will be required," it said.

Bank of New England also disclosed that its flagship bank in Boston was under its call report with regulators for the 1989 third quarter, complying with a request from the Office of the Comptroller of the Currency.

Bank of New England Corp. and its subsidiaries are operating under consent cease-and-desist orders that place all major decisions under tight regulatory supervision. □

Regulators Reject FarWest Capital Plan

By TERESA CARSON

LOS ANGELES — FarWest Financial Corp. announced that regulators rejected the capital plan of its FarWest Savings and Loan Association, Newport Beach, Calif., and imposed operating restrictions.

FarWest, which is 57% owned by the Belzberg family of Canada, is appealing the decision by the Office of Thrift Supervision, according to Fred Zaninovich, holding company's chairman and chief executive officer. "We hope we are successful and we can get on with our capital plan," he said late last week.

More Capital than Belzbergs

The capital plan would have included a rights offering under the Belzbergs, would have been asked to put up more capital, FarWest has said.

FarWest also said it is in the middle of a regular examination by the OTS, the Federal Deposit Insurance Corp., and the California State Banking Commissioner's Office.

Analysts have said that the FDIC examiners are likely to take a tougher approach to savings and loans than prior examiners. FarWest's statement acknowledged that the company may have to bolster reserves as a result of the examination.

The OTS operating restrictions prevent the $3.7 billion-asset thrift from buying or selling assets or making new loans or commitments without approval of the federal thrift regulator.

The company lost $3.7 million in the second quarter due to a $16.9 million provision for losses on loans and investments.

A year earlier, FarWest earned $10.8 million in the second quarter. Its tangible net worth at June 30 was $37.7 million.

The FDIC rejected the capital plan because it would liquidate a unit into FarWest Savings.

The statement said that, if the company cannot proceed with the liquidation plan, its tangible capital on a regulatory basis would be a negative $23.6 million, which could be adjusted to as much as a $75 million deficit should accounting and tax issues not be favorably resolved. □

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COMMUNITY RELATIONS

Some Florida Banks Take A Risk by Taking a Position

By KENNETH CLINE

Ever anxious to avoid antagonizing customers, banks are usually reluctant to get involved in contentious local political issues. But several banks in Sarasota, Fla., have stepped up to oppose a proposed two-year moratorium on construction.

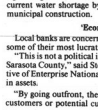
The referendum, which goes before the voters on Sept. 4, is designed to give Sarasota County time to come up with a solution to its current water shortage by halting all commercial, residential, and municipal construction.

'Economic Survival Issue'

Local banks are concerned that the moratorium would shut down some of their most lucrative lending activities for two years.

"This is not a political issue; this is an economic survival issue for Sarasota County," said Stephen E. Kunk, president and chief executive of Enterprise National Bank of Sarasota, which has $37 million in assets.

"By going outfront, there was the potential we could upset some customers or potential customers. But if we upset them, we could look them in the eye and tell them why we're doing it," Mr. Kunk added.



Dan H. Leroy

Mr. Kunk's bank joined most of the other banks in the county in contributing to Citizens for Responsible Solutions, an organization created to oppose the moratorium.

Citizens for Responsible Solutions, which has raised more than $300,000 in the past few months, is chaired by Dan H. Leroy, vice chairman of Barnett Banks of Southwest Florida, Sarasota, an affiliate of Jacksonville-based Barnett Banks Inc.

C. Frederick West, Barnett's president and chief executive in Sarasota, is on the speakers' list for the group. Barnett also has provided other assistance in the form of supplies and office space.

Jim Ford, president of Growth-Restraint and Environmental Organization (GEO), the pro-moratorium group, cites Barnett as one of his most effective adversaries. "I'm quite aware that Barnett has a position against the CEO initiative," Mr. Ford said.

Bank Promotes Political Action

Barnett Banks, which operates one of the largest Political Action Committees in the Southeast, "always encourages its people to be involved in every campaign — it doesn't matter whether it's a candidate or an issue that the company or PAC itself is promoting," Mr. Leroy said.

Among the county's smaller banks, Enterprise National took a prominent position by distributing 6,000 copies of a newsletter against the moratorium.

All Banks Against Moratorium

Banks that did not speak out publicly have privately expressed their desire to stop the moratorium effort.

"It's very obvious that all of [the banks] are opposing the moratorium. They just do not have people who are out on the [front line]," said Barnett's Mr. Leroy.

Despite the controversial nature of the building issue in Sarasota County, Mr. Kunk claims reaction from Enterprise National customers has been "100% positive" to its campaign to prevent a moratorium.

In Brooklyn, a Bank for the Neglected

Community Capital Bank, a Brooklyn institution founded to make capital available to underserved low- and middle-income New York neighborhoods, expects to open its doors in November.

The bank, the third of its kind in the country, recently announced that its $6 million public stock offering has been fully subscribed.

Forty-one religious organizations, representing many denominations, purchased a third of Community Capital's stock, a spokeswoman said. Another third of the offering was purchased by institutional investors, including Metropolitan Life, American Express Co., and Time Warner Inc. The remaining shares were bought by 189 individual investors.

Founder to Serve as Chairman

The bank, which will gather deposits at competitive rates, is chaired by its founder, Lyndon Comstock. Mr. Comstock has served as a lending officer in the New York offices of First Chicago National Bank and Wells Fargo Bank.

Day-to-day operations will be overseen by Community Capital's president, Stephen Laine, a banker who has been at the helm of many start-up institutions. □

MNC Aims to Double Card Business

Strategy Could Help Offset Realty Losses, Analysts Say

By BILL ATKINSON

WASHINGTON — Despite suffering heavy losses from real estate loans, MNC Financial Inc. is gearing for growth in its credit card operation, say industry analysts.

The Baltimore-based banking company expects the credit card unit, MBNA America, to nearly double in size to about $13 billion in assets over the next three years, according to analysts who toured the operation last week. If the economy enters a recession, the company will scale back its growth plan to a $10 billion-asset goal.

The unit has grown in the past by targeting "affinity groups," or people with a common interest or profession, and future advances are expected to come from a similar marketing strategy.

Inconsistency Seen

Some analysts who checked out the card operations were baffled by what they termed an inconsistency in MNC's management. Even though the credit card business is superbly managed, the real estate lending business is suffering and has been largely blamed for MNC's $74.4 million loss in the second quarter, they noted.

"It is night and day," said Gerard Cassidy, a bank analyst in Boston with Tucker Anthony Inc. "I was extremely impressed with the operations of MBNA, but what I find so ironic is how one side of their business can be run so expertly when the other side of the bank is such a disaster."

Analysts say it is unlikely that MNC is bolstering the credit card business to put it on the block.

If real estate loan losses continue to mount, the bank would rely heavily on its credit cards to pull it through the tough times, said Mr. Cassidy.

"I think this is what is going to prevent MNC from being the next Bank of New England," he added.

MBNA claims to be the country's fourth-largest of bank credit cards in loans outstanding and the nation's largest issuer of Gold MasterCards.

This year, MBNA expects to earn $160 million on assets of $6.5 billion. Last year it contributed more than 40% of the banking company's $212.6 million in net income.

"The numbers are just very impressive," said Richard Stillinger, a bank analyst at Keefe, Bruyette & WoodsInc. "Just from every angle, you get the feeling that they are on top of what they are doing."

Targeting Affinity Groups

MBNA's practice of targeting affinity groups for credit cards has proved extremely effective. The institution's chargeoffs are about 2%, compared with an industry average of 3.5% to 4%.

Anthony R. Davis, a bank analyst at Richmond, Va.-based Wheat, First Securities Inc., and Singer, contends MBNA has ample room to grow even in a down market.

"This is not helter-skelter growth, it is just continued plowing of the same field they have been in," he said. □

Law Capping Loan Rates May Cause Shell Shock

By PHIL ROOSEVELT

NEW YORK — For consumer bankers, volatile economic conditions may not be the only fallout from the conflict in the Persian Gulf.

Some lawyers and bankers are studying an obscure law that may require lenders to slash interest rates on loans to people who enter military service.

"It's a potentially serious issue," said an official at the Department of Veterans Affairs.

The law – a provision of the Soldiers' and Sailors' Civil Relief Act of 1940 – limits to 6% the interest rates that lenders may charge to borrowers who enter the service.

Originally intended to ensure that servicemen's rates did not rise too much, it could now force dramatic reductions in rates. That is because market rates have risen since the law was adapted, but the cap has never been raised.

Home mortgage rates are now about 10.2%, and personal loans are being offered at 17.3%.

Family members of some of the growing U.S. force in the Middle East already have been requesting rate cuts from lenders, said Laurence E. Platt, a mortgage banking specialist with the Washington law firm of Brownstein Zeidman & Schomer.

"Apparently, the word is floating around the military to go back to your lender and get a lower rate," he said. He added that lenders may well have to eat any losses resulting from such reductions.

He said the benefits apparently would be extended to any individuals with loans who either enlist in the military or are called from reserve status into active duty. People who incur debts after they enter the military do not get the lower rate, even if they are sent to combat.

How many loans might be affected is unclear. But President Bush is contemplating activating at least 50,000 members of the National Guard and reserves to boost the effort in Saudi Arabia.

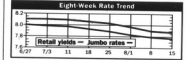
The law did not surface as an issue during the Vietnam war, partly because many servicemen in that conflict were very young and did not own homes, a VA official said.

Mr. Platt said that lenders with loans subject to rate reductions under the law probably would recieve no government assistance to compensate for the lost revenue, though that could raise constitutional questions. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index

Retail and Jumbo CDs



Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 largest banks and thrifts in each of the nation's 10 largest markets on August 15. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Retail Yields

	6-month	1-year	5-year
New York	7.77%	8.05%	8.27%
Los Angeles	7.83	8.02	7.95
Chicago	7.52	7.65	8.06
San Francisco	7.82	7.98	8.07
Philadelphia	7.71	7.76	8.01
Detroit	7.44	7.68	7.86
Boston	7.99	8.17	8.26
Houston	7.54	7.59	7.81
Dallas	7.56	7.66	7.88
Washington	8.11	8.26	8.31
BRM NATIONAL AVERAGE	7.73	7.88	8.05

Jumbo Rates

	6-month	1-year	5-year
New York	7.52%	7.66%	7.98%
Los Angeles	7.81	7.74	7.74
Chicago	7.58	7.67	8.18
San Francisco	7.81	7.89	8.03
Philadelphia	7.68	7.66	7.97
Detroit	7.71	7.72	7.79
Boston	7.84	7.88	8.01
Houston	7.58	7.69	7.85
Dallas	7.62	7.71	7.94
Washington	7.89	7.96	8.22
BRM NATIONAL AVERAGE	7.70	7.77	7.96

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COMMENT

Loan Securitization: Can It Work in the Middle Market?

Continued from page 1

the originating bank? This would seem to preclude sale.

If he nevertheless buys the loan, is it because the seller is providing some sort of implied recourse which, if discovered, would lead to a capital charge against the seller, also precluding further sales? Or is the buyer taking the credit on pure faith, because he is the greater fool, a circumstance that also suggests a short-lived sales relationship and eventual market dissolution.

In the retail area, the process of loan sales or loan securitization is well-advanced and functions smoothly. But that is because of credit enhancements in order to get a triple-A rating for securities backed by, for example, auto loans, the issuing bank must get a letter of credit from the credit enhancer.

And in order to get that letter of credit, the bank must disclose enough information about the risks in its auto-loan portfolio to allow the credit enhancer to make a fair assessment of these risks. After analyzing the portfolio, the credit enhancer will reach an agreement with the issuing bank specifying the degree of protection it requires in order to issue the letter of credit.

The securitization process has thus helped to close the information gap between the borrower (the car buyer) and the ultimate investor (the public). But credit enhancers feel safe in warranting the receivables only because auto-loan losses are actually predictable.

Because of this element of predictability, the expectation of loss is already built into the pricing of the loans. The credit enhancer can have no such confidence in warranting a set of receivables backed by commercial loans. If he seeks to interpose himself between the bank or banks originating commercial loans and the public or bank investors in a securitized pool of these loans, the would-be credit enhancer confronts a situation in which loss experiences are so variable that pricing cannot cover loss contingencies.

The credit enhancer's task becomes twofold. He must assess the average probability of loan default. Then he must diversify the pool of loans in such a manner that actual losses come as close as possible to this mean or average probability.

There are problems with both tasks. Like the individual bank loan buyer, the credit enhancer suffers from an information asymmetry. How does he know that he isn't being asked to warrant a group of lemons?

Scope for Models

One approach already attempted by at least one unsuccessful commercial loan credit enhancer was to examine in detail the loan underwriting strengths of the banks contributing loans to the pool. This approach is probably far too laborintensive to be practical.

Another approach is to employ an unbiased credit model that will enable the credit enhancer to initially assess borrower creditworthiness and, more importantly, to subsequently monitor changes in that creditworthiness.

There are models that track changes in creditworthiness based on the behavior of such leading indicators as changes in stock prices or bond prices. But suppose, as will be true in most cases, the borrower is a private company with no publicly traded debt or equity.

Can the credit enhancer extract enough information from the changes in the debt and equity prices of publicly traded firms in the same business as the private borrower to be of use in monitoring the latter's fortunes? Some experts say that this can now be done.

The Uses of the Past

The second set of complexities concerns the diversification issue. The task is to gather portfolios of loans to companies whose business fortunes are as independent as possible from each other as possible. The degree of independence is measured by the correlation or covariance of loss experiences.

In this connection, an experiment on which this writer recently reported offers some hope. The experiment showed that a bank can use the historical correlation of industry bankruptcies as a guide to improved portfolio selection.

That is, if pairs of industries have shown relatively low correlations in the past, these correlations tended to remain negative. So by analyzing historic loss correlations and adjusting a portfolio to include more loans to pairs of industrial borrowers that were negatively correlated – whose bankruptcy experience varied inversely – one could improve the portfolio's future loss performance.

Size Is the Solvent

Unfortunately, only a small percentage of industries – about a 10th – exhibit negative loss correlations. The fortunes of most industries are positively linked. That's because most industries are tied to the vicissitudes of the national economy.

The trick is to lend to pairs of industries whose positive loss correlations are lower than those of other industry pairs. But suppose that two industries with a 20% correlated in the past (a 1% decline in the market value of the assets of one was associated with 0.2% decline in the value of the other's assets). Will they remain so weakly correlated in the future? In other words, the extent of correlation may not be particularly stable, and those that were 20% correlated in the past may now be 30% linked – a circumstance that presages more frequent loan defaults than are anticipated.

This problem may be solved by creating loan pools so large that the extent of loss correlations becomes almost irrelevant because actual losses will asymptotically approach expected losses. In like fashion, if one flips a coin enough times, the results will approach the average values of 50% heads and 50% tails.

Raising Return Per Unit of Risk

If the prospective credit enhancer can solve the problems posed by the agency issue and the correlation of losses, he can indeed securitize commercial loans for fun and profit. This type of securitization can make a key contribution to improving bank risk management by enabling regional and small banks to off-load their in-market risk concentrations.

Every bank failure in the United States in the '80s was a failure of imperfect diversification. If some way could be found to create pools of commercial loans and then allocate shares in that pool; it would solve the bank problem in the United States.

Quite conceivably, after contributing middle-market loans to the pool, these banks will buy back shares in the pool they helped to create. That should cost them some nominal yield, but another analysis to which this reporter has been privy indicates that if the pool is well-constructed, the reduction in risk, as measured by the standard deviation of that risk, will be greater percentagewise than is the reduction in return. Therefore, return per unit of risk should rise, which should increase stock prices and improve the viability of the commercial bank system. □

"Banks that would credit enhance middle-market loans face both the lemons problem and the loss-covariance issue."

Justice Says Long Arm of Law Reaching More S&L Cases

By BILL ATKINSON

WASHINGTON — Months after Justice Department officials were pilloried by Congress for not working fast enough to throw wayward savings and loan executives in jail, the agency is boasting of bigger and better numbers.

In a study compiled as of July 22 by the department, Justice estimates that 243 S&Ls have been "victimized" since Oct. 1, 1988, and that 328 people have been charged with crimes in thrifts.

In addition, 213 defendants have been convicted, only five have been acquitted, and prison sentences have reached a combined total of 415 years. Fines stand at nearly $1 million, and judges have ordered the convicted to cough up a total of $56.6 million in restitution, the study said.



Coordinator Is Upbeat

"The track record of federal investigators and prosecutors in financial-institution fraud investigations and prosecutions is impressive," said James G. Richmond, U.S. Attorney for the Northern District of Indiana and special counsel to coordinate federal enforcement of thrift-related crimes. "We are confident it will even get better in the years ahead."

Mr. Richmond made his comments last week before the Senate Judiciary Committee in Chicago.

Justice's numbers game comes several months after the agency was criticized by Rep. Doug Barnard, D-Ga., and other members of the House Government Operations subcommittee on commerce, consumer, and monetary affairs. Mr. Barnard complained that the department wasn't doing enough to prosecute crime at failed thrift institutions.

"Are we really trying to bring justice to bear in these criminal cases?" Mr. Barnard asked at the hearing last March.

In June, President Bush held what amounted to a pep rally for senior federal prosecutors.

He created a federal strike force to catch criminal activity at financial institutions, and said that the agency would "not rest until the cheats, the chiselers, and the charlatans spend a large chunk of their lives behind bars."

Justice aims to carry out the President's mandate. According to the agency, the number of federal financial institutions under investigation by the Federal Bureau of Investigation jumped 31% to 530 in February, up from 404 at the end of 1989. In 1986, the FBI launched probes into 206 financial institutions.

Lone Star Leader

Texas leads the nation in the number of FBI investigations into failed financial institutions, with a total of 198. It is followed by California with 41 investigations, Louisiana with 36, and Oklahoma with 32 investigations.

Although Mr. Richmond expects to find more evidence of fraud in the Northeast, as yet the region doesn't boast the Texas-size numbers. New York heads the pack with nine investigations, followed by New Jersey with four and New Hampshire with two.

Defending the Government

The agency has assembled a team of attorneys in the civil division to defend the federal government against suits that challenge certain provisions spelled out in last August's Financial Institutions Reform, Recovery, and Enforcement Act, Mr. Richmond said.

One of the most widely publicized cases challenged the appointment of M. Danny Wall as director of the Office of Thrift Supervision.

"Many other challenges to FIRREA are in litigation, and more are on the way," Mr. Richmond said.

Changed Rules?

For example, plaintiffs in 20 pending actions have alleged that new capital requirements under the reform act constitute an abrogation of previous contracts or forbearances the institutions entered into with regulators in 1988.

In those deals the government gave some thrift acquirers tax breaks, yield-maintenance agreements, and notes from the Federal Savings and Loan Insurance Corp. □

CRA Efforts to Be Probed In House Banking Hearing

By BARBARA A. REHM

WASHINGTON — The House Banking Committee said Thursday it will hold a field hearing Oct. 12 in Los Angeles to examine execution and enforcement of the Community Reinvestment Act.

"For too long, CRA has remained a low priority on the agenda of banks and the regulators to the detriment of local communities," said Rep. Henry B. Gonzalez, D-Tex., the committee chairman. "We intend to see that a new emphasis is placed on CRA, and the hearings in California will be part of [an] intensified oversight effort by the committee."

Ratings to Be Public

The 1989 thrift bailout law required federal regulators, as of July 1 this year, to make public the CRA ratings they assign to banks. The first ratings should be available in September, said Ken A. Quincy of the Federal Deposit Insurance Corp.'s supervision division.

The Los Angeles hearing's witness list is not final, but consumer groups, banks, local governments, and federal regulatory agencies are expected to be represented.

The committee also will hold a series of hearings in September on ways to reform the federal deposit insurance system.

Federal Reserve Board Chairman Alan Greenspan is to kick off the four-hearing series with testimony scheduled Sept. 13. The central bank chief is to be followed by Robert D. Reischauer, director of the Congressional Budget Office.

Bowsher, Seidman Scheduled

Charles A. Bowsher, comptroller general, is to give his views Sept. 19, and FDIC Chairman L. William Seidman will wrap up testimony Sept. 25.

The invitation letter to witnesses asks their opinions on issues such as merging the bank and thrift deposit insurance funds, assessing insurance premiums on the basis of risk, and shifting insurance responsibilities to the private sector.

On the "too-big-to-fail" issue, Rep. Gonzalez raised the prospect of ranking banks by size, then forcing all in a particular category to pay for losses caused by failure of any bank in that group. □

Gonzalez Seeking to Oust Brumbaugh

Continued from page 1

baugh's appearances in court cases as an expert witness against the regulator.

"To me, that renders him ineligible. He is already biased. There is no other conclusion that he can possibly come out with," Mr. Gonzalez said.

Mr. Brumbaugh expressed outrage at Mr. Gonzalez's remarks, terming them illogical and "McCarthyesque."

"This kind of insinuation, that one must use the government line in order to serve the public interest, is a chilling example of McCarthyesque techniques and is clearly an attempt to intimidate," the economist said in an interview on Friday. He added that such tactics "must not be allowed."

In Annunzio's Court

Mr. Brumbaugh accused the FDIC of pressuring Mr. Gonzalez to dismiss him. While Mr. Gonzalez, as committee chairman, could fire Mr. Brumbaugh, he is leaving the final decision to Rep. Frank Annunzio, D-Ill., who is chairman of the financial institutions subcommittee.

"It's really up to Mr. Annunzio what he wants to do, if anything," said Kelsay Meek, banking committee staff director.

It is well known that Mr. Gonzalez and Mr. Annunzio are not great friends. Mr. Gonzalez appears to be trying to pressure Mr. Annunzio to dump Mr. Brumbaugh. A spokesman for Mr. Annunzio refused to comment on whether Mr. Annunzio would agree to fire Mr. Brumbaugh.

Mr. Gonzalez's move may backfire because Mr. Annunzio could turn this around and criticize the chairman for trying to muzzle a messenger bearing bad news.

'Public Enemy No. 1'

"I'm public enemy No. 1 in the eyes of the bureaucrats at the FDIC, and they've attempted to punish me in this way," Mr. Brumbaugh said. "They'll deny that, but they have an incentive to attack me."

Mr. Gonzalez said he has not talked with FDIC Chairman L. William Seidman about Mr. Brumbaugh. Mr. Seidman was out of town Friday, but his deputy, John Bovenzi, said the FDIC has not tried to silence Mr. Brumbaugh. Mr. Bovenzi added, "Obviously we don't think he ought to be [involved in the study] since we don't think he is unbiased."

The study was commissioned last March by the financial institutions subcommittee.

The subcommittee hired Mr. Brumbaugh, a former Federal Home Loan Bank Board economist who is now affiliated with Stanford University's Center for Economic Policy Research, along with Brookings Institution economist Robert E. Litan and James R. Barth, former chief economist at the Bank Board and now a professor at Auburn University. Each was to be paid $15,000.

With a November deadline approaching for delivery of their report, Mr. Brumbaugh has been passionately and quite publicly claiming the FDIC has already gone bust.

On July 31, in a debate with Mr. Seidman on ABC News' "Nightline" program, Mr. Brumbaugh said the FDIC's existing and likely liabilities outstrip its resources. He also said several major banking companies – Chase, Chemical, Manufacturers Hanover, Citicorp, and BankAmerica – are on the brink of insolvency.

In the course of his study, he has accused the FDIC of withholding data from him to hide the fund's problems. Mr. Brumbaugh is battling the FDIC for access to individual bank examination reports and a list of the more than 1,000 banks on the FDIC's problem list. □

AMERICAN BANKER
Monday, August 20, 1990

WASHINGTON Monday

A weekly feature

THE WEEK ahead

MONDAY, AUGUST 20

The House and Senate are both in recess. The House returns Sept. 5, and the Senate reconvenes Sept. 10.

The Congressional Budget Office releases its latest assessment of the nation's economic outlook and the budget deficit.

The Supreme Court is in recess until Oct. 1.

TUESDAY, AUGUST 21

The Federal Open Market Committee meets to decide whether to alter Federal Reserve Board monetary policy. Most Fed-watchers had expected the FOMC to again let short-term interest rates fall in order to stimulate a flagging economy, but economic data released late last week showed a 0.9% increase in core inflation, far stronger than expected, with the prospect of worse to come.

Surging oil prices caused by the Iraqi invasion of Kuwait, and the subsequent boycott of the 4.4 million barrels a day of oil that those countries were producing, will raise the inflation rate to 5.2% for 1990 and reduce economic growth to 1.1% this year and 0.5% in 1991, said Donald Ratajczak, director of the Georgia State University economic forecasting center.

Economists say an easing is still expected but will be postponed by the FOMC events in the Middle East stabilize and the direction of oil prices becomes clear. 202-452-3000.

The Resolution Trust Corp. board holds an open meeting. Topics include affordable housing rules and revisions of its ethics rules. 202-416-7566.

WEDNESDAY, AUGUST 22

No significant events scheduled.

THURSDAY, AUGUST 23

Durable goods orders and shipments figures for July are to be released by the Commerce Department.

FRIDAY, AUGUST 24

The Federal Reserve Board releases the minutes of the Federal Open Market Committee's July 2-3 meeting, which will show whether it decided to change Fed monetary policy. 202-452-3000.

The first revision of real gross national product figures for the second quarter is to be announced by the Commerce Department.

Preliminary corporate profit figures for the second quarter are to be released by the Commerce Department.

PEOPLE

Wells Fargo Replaces Retiring Lobbyist



Craig G. Wolfson
He'll take over

The banking subsidiary of Wells Fargo & Co. will replace its retiring lobbyist **Jackson Schulte** with **Craig G. Wolfson** on Aug. 31.

Mr. Wolfson, 40, joined the San Francisco bank in April from the banking subsidiary of First Nationwide Financial Corp., also of San Francisco. He had run First Nationwide's government affairs office since September 1988. Before that, he was the thrift's acquisitions manager and, earlier, its corporate counsel. He holds a law degree from the University of Florida.

Mr. Schulte is staying with Wells Fargo under a three-year consulting contract for special government affairs projects.

Meanwhile, MNC Financial Inc., Baltimore, let go **Marguerite D. Ayers**, who had tracked Washington affairs for the $27 billion-asset banking company.

"Her function was eliminated as part of our consolidation process resulting from the merger with Equitable," said MNC spokesman **Daniel G. Finney**. "She was released with a severance package a couple of months ago."

Michael C. Middleton, MNC executive vice president, administration, remains top lobbyist.

Mr. Finney denied that MNC is cutting its lobbying effort by dropping Ms. Ayers. "The government relations function has been managed by an executive vice president of the holding company," he said. The company reported a $74.4 million second-quarter loss last month, as its nonperforming assets ballooned by 113%, to $757 million.

Gerald L. Jacobs is the Resolution Trust Corp.'s new special counsel, the top legal job at the thrift bailout agency. He replaces **Rex R. Veal**, who left the RTC Friday to return to private practice with Powell, Goldstein, Frazer & Murphy in Atlanta.

Mr. Jacobs, slated to start work Sept. 1, comes to the RTC from O'Connor, Cavanagh, Anderson, Westover, Killingsworth & Beshears, a Phoenix-based law firm where he has worked since 1963.

At its open meeting last week, the RTC settled a lingering question about whether the agency's legal office is separate from the Federal Deposit Insurance Corp.'s legal office. RTC lawyers will continue reporting to the FDIC general counsel, **Alfred J.T. Byrne**.

Mr. Byrne said in an interview last week that one general counsel makes the most sense because the FDIC and the RTC share boards of directors.

"Gerry Jacobs is an exceptional manager and a superb business and real estate lawyer," Mr. Byrne said. "He is someone I have known and respected for more than a decade."

Mr. Byrne worked with Mr. Jacobs in the late 1970s when he latter served as INA Corp., an insurance company where Mr. Byrne managed investments.

Mr. Jacobs holds a bachelor's degree in economics from Stanford University and a law degree from the University of Arizona.

Mr. Byrne said Mr. Jacobs was lured to the job by its challenge. "We are where the action is," he said.

— Barbara A. Rehm

GLOBAL *dispatches...*

Experts See West Handling Oil Shock If War Is Averted

By RICH MILLER
Reuter

WASHINGTON — The International Monetary Fund and World Bank expect the world economy to weather the latest oil shock without suffering a wrenching recession, monetary sources said.

The 40% rise in oil prices since Iraq's Aug. 2 invasion of Kuwait will modestly slow economic growth and moderately push up inflation, they said, but it's unlikely to trigger a recession, either in the United States or worldwide.

"This is not the end of the world," said a monetary source who declined to be identified. But he and others cautioned that all bets would be off if war broke out in the Middle East and oil supplies there were further disrupted.

> **"The longer-term fundamentals haven't changed."**
> Anthony Churchill
> *World Bank*

Economic policymakers from major nations have been in touch since Aug. 2, discussing the trade actions against Baghdad, the freeze of Iraqi and Kuwaiti assets, and the economic implications of the oil price rise.

Monetary sources said the possibility of holding a Group of Seven meeting to assess the situation has been discussed but that no final decision had been made. The group consists of Britain, Canada, France, Italy, Japan, the United States, and West Germany.

The word from within the International Monetary Fund and World Bank is that the world economy is better placed to ride out the latest oil shock than it was in the 1970s.

Industrialized Nations Have Improved Their Energy Efficiency

The United States uses about 25% less energy today for each dollar's worth of production than it did in 1973, when the first oil shock hit. Europe and Japan have improved their performance even more.

Oil-producing nations are more likely to spend the windfall profits from the latest oil price boom on Western goods now than they were in 1970s, when much of the money had to be "recycled" through commercial banks.

A World Bank official calculated that higher oil prices might reduce economic growth among the Group of Seven by about one-half to three-quarters of a percentage point and inflate consumer prices by about one percentage point.

Monetary Experts Believe U.S. Can Avoid Recession

The IMF's calculations for 1990 are not thought to be much different. In April, the IMF forecast economic growth in the major industrial countries of 2.9% in 1991 and an inflation rate of 3.6%.

"I don't think this is going to be a major hurdle for the world economy," a World Bank official said.

Even the United States, perhaps most vulnerable to a downturn, can probably avoid a recession, monetary sources said.

One World Bank official said U.S. economic growth might slow by one-quarter percentage point this year, from the 1.6% rate expected before the crisis. Growth in 1990 might come in at about 1.5%, instead of just under 2%.

Consumer Inflation Rate Is Likely to Top 5% Next Year

Consumer price inflation might be pushed up next year by about 0.75 point, to more than 5%, the official added. That might prevent U.S. interest rates from falling much, if at all.

The calculations assume that oil prices will fall back to about $20 a barrel by the middle of next year, from about $27 now.

The sources said both the IMF and World Bank seem hopeful that the spike in oil prices that came after the Iraqi invasion will not last, based on their further hope that the situation in the Persian Gulf does not deteriorate.

"The longer-term fundamentals haven't changed," said Anthony Churchill, director of the World Bank's industry and energy department.

Market Forces Expected to Push Oil Prices Down

Oil supplies were already ample before the Mideast crisis. Slower economic growth will put a crimp in demand and push prices back down, Mr. Churchill said.

Other World Bank officials see oil prices falling to about $22 a barrel in the fourth quarter, about $21 in the first quarter of 1991, and near $18 in the middle of next year.

European Commission President Jacques Delors proposed this month that finance ministers from the Group of Seven industrial countries meet quickly to coordinate strategy. "It's necessary for Western countries to show they are credible, that they are capable of handling the present situation," he said.

But some Group of Seven officials have questioned the usefulness of an early meeting. A British official said the ministers could do little before their next scheduled meeting, in Washington about the third week of September. Japanese Finance Minister Ryutaro Hashimoto will visit Europe Aug. 30 through Sept. 6, which would give the seven nations' ministers a chance to meet if they want to. □

U.S. Bancorp Planning Canada Unit

Company Aims to Expand Pacific Northwest Base

By SAM ZUCKERMAN

SAN FRANCISCO — Seeking to broaden its Pacific Northwest base, U.S. Bancorp of Portland plans to open a subsidiary bank in the Canadian province of British Columbia, company officials said.

The unit will be headquartered in Vancouver, the financial center of Canada's far west. U.S. Bancorp has discussed the expansion with Canadian authorities and "is on the verge of submitting an application," said Steven W. Driscoll, senior vice president in the company's international division.

Open in Six to 12 Months

It will take about six to twelve months before regulators can review the application and the bank can open for business, Mr. Driscoll estimated.

The unit would be a Schedule B bank under Canadian law, a category that permits 100% ownership and is the normal method for foreign banks to enter Canada.

Tentatively to be called U.S. Bank Canada, the bank will have its own board and operate as a subsidiary of the company's flagship unit, U.S. Bank of Oregon.

Geographic and Economic Ties

The expansion is a logical move for $17.7 billion-asset U.S. Bancorp, officials said, because British Columbia is geographically and economically tied to Oregon and Washington, the company's main markets. All three areas rely heavily on forest products, agriculture, tourism and Pacific-oriented foreign trade.

"There is a strong relationship between Portland, Seattle, and Vancouver," said Donald W. Magnusen, U.S. Bancorp executive vice president and merchant banking chief. "We need to bulldoze the border out."

> **"There is a strong relationship between Portland, Seattle, and Vancouver. We need to bulldoze the border out."**
> Donald W. Magnusen
> *U.S. Bancorp*

No Foreign Offices Since 1970s

Beyond that, the move into Vancouver represents an important expansion of U.S. Bancorp's fledgling international banking activities, analysts said. U.S. Bancorp has not had any foreign offices since closing its unprofitable Singapore operations in the mid-1970s.

"It's probably one of a series of small, strategic moves you are likely to see over the next few years to expand internationally" predicted Scott McAdams, an analyst with Ragen MacKenzie Inc., Seattle. "They are poised on the edge of the Pacific Rim. [Chairman and chief executive] Roger Breezley wants to be a player in that market."

U.S. Bank Canada, which will be capitalized at $10 million Canadian, or $8.4 million, will start on small scale, focusing on cross-border trade finance, Mr. Driscoll said. Cross-border business is expected to grow rapidly as a result of the free-trade agreement between the U.S. and Canada.

The bank will try to develop business from existing U.S. clients that have Canadian operations and Canadian firms that want to expand in the U.S. U.S. Bancorp also hopes to build relationships with Canadian companies in industries it knows well in the U.S., such as timber.

Company officials say they also want to establish merchant banking and private banking operations in Vancouver. That, Mr. McAdams noted, reflects the city's status as a major entry point for capital from Hong Kong, Taiwan and other parts Asia.

"They will try to position themselves as a conduit for Asian money to flow into merger and acquisition deals," he said.

Officials say U.S. Bancorp's commitment to Canada is not an experiment, but a strategic expansion. But they say the scale of the operation and the niches it occupies will depend on profit opportunities.

Hurdles to Success

It is hard for foreign banks to make money in Canada, they note, because raising funds is expensive without cheap retail or commercial deposits. Funds for U.S. Bank Canada will have to come mainly from the Canadian interbank market or through sale of commercial paper, Mr. Driscoll said.

"At the moment, we have no short-term plans" for opening offices outside Vancouver," Mr. Driscoll said. Nor does the company plan to enter the competitive Canadian retail banking business or expand into neighboring provinces. But those options could be reconsidered "down the line," he said. □

Leading Vienna Banker Dies of Heart Attack

By JAMES R. KRAUS

Gerhard Wagner, one of Austria's top bankers and chairman of Oesterreichische Landerbank AG, Vienna, died suddenly of a heart attack Thursday.

Mr. Wagner, 56, had been Landerbank's chairman since 1984 and chairman of the Vienna Stock Exchange since 1986, and had served on the boards of several large Austrian financial and industrial concerns.

Manfred Dreaning, deputy chairman of Landerbank, will assume Mr. Wagner's position until a new chairman is named by the Austrian government, a spokesman said Friday.

The government owns 53% of Landerbank and has majority control over most of Austria's big banks.

Viennese banking sources speculated that the chairmanship of Landerbank might fall to Gerhard Randa, deputy chairman of Creditanstalt-Bankverein, Austria's largest bank.

Before joining Landerbank, Mr. Wagner spent 20 years with Zentralsparkasse and Kommerzialbank, where he held top posts in the corporate and retail lending areas and served as chief credit officer.



Gerhard Wagner
Osterreichische Landerbank

Landerbank is Austria's third-largest bank, with $22.8 billion in assets at yearend 1989. As chairman, Mr. Wagner was instrumental in internationalizing the bank's operations.

Landerbank has expanded rapidly in the United States in recent years and is in the process of expanding its European network of offices, especially in Eastern Europe.

A close friend of Austrian Chancellor Franz Vranitzky, Mr. Wagner also played a key role in helping to deregulate Austria's capital markets and develop the Viennese stock exchange.

Interim Chairman Named

Mr. Randa, like Mr. Wagner, is a former credit chief of Zentralsparkasse and is affiliated with Austria's socialist party. □

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Data Unavailable

Because of continued power-outage problems in New York, data for the *Key International Rates* table, which normally appears in this space, were not available.

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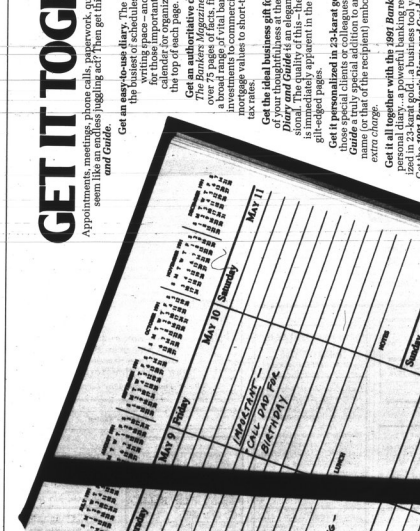

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DEALS: RJR Loan Flops in Syndication

Continued from page 1

points per allocation, but agents received a fixed fee of $5.25 million. Based on allocation levels, the agents received $8.25 million, or an effective fee of 8%, one lender said.

But in the secondary syndicate, the fees being offered are half a point to one point – which some say is why it failed.

"That kind of turns off participants," he said.

The purpose of the facility were the banking units of Bankers Trust New York Corp., Chase Manhattan Corp., Citicorp, Fuji Bank Ltd., Long-Term Credit Bank of Japan, Manufacturers Hanover Corp., and Security Pacific Corp. Each extended roughly $110 million in new loans.

Cues from Underwriters

One lender said some underwriting banks wink at potential participants to "wait until the selldown's over," and then resell loans afterward at a higher fee. "People hold out, and line up things on the side," one banker admitted.

Some bankers expected the fees to increase after the selldown as banks seek to reduce their exposure to the loans by reoffering more of the fees to potential lenders.

After the syndication, "it's going to be a free-for-all,' said one source, especially when the loans are competing with RJR's existing loans.

The existing RJR loans, which pay the London interbank offered rate plus 250 basis points, trade in the secondary market at up-front fees of 2 basis points to 2.5 points. The new loans carry lower fees in the secondary market but higher interest rates of Libor plus 350 basis points.

A Positive Side

There is a positive to the failed syndicate, however. While banks are not looking to increase their exposure to HLTs, the fact that the new loans pay a very high 350 basis points over Libor at least boosts net interest margins of banks.

When agent banks were raising a primary syndicate, they received a whopping $7 billion in commitments. But bankers say many of the commitments were "lobbed in" after it was clear that RJR had more than the $2.25 billion. There were supposedly two reasons for this strategy: the deal requires cash, and the desire to impress Kohlberg Kravis Roberts & Co., the most prolific borrower in Corporate America. □

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DEALS

New Jersey Agency Expected to Approve Bridge Loan for Trump

Trump's Biggest Lenders*

Bank	$ in millions	Collateral
Citibank	$993	Trump Palace Trump Shuttle The Plaza Hotel
Chase Manhattan Bank	$290	Trump Tower Lincoln West
Bankers Trust	$104 $80	None Grand Hyatt
Manufacturers Hanover Trust	$161	Assorted real estate
Midlantic National Bank	$107	Trump Castle Marina parcels
First Fidelity Bank	$75	Trump Taj Mahal equipment
National Westminster Bank USA	$60	Trump Taj Mahal equipment
CIT Group	$50	Helicopters
Boston Safe Deposit and Trust	$47	Florida residence Trump Princess
Home Savings of America	$38	Grand Hyatt
Marine Midland Bank	$27	Trump Plaza of the Palm Beaches
Equitable Life Assurance	$21	Grand Hyatt

*Face value of loans made. Figures do not include syndication of loans
Source: Trump Entertainment Resorts Corporate Committee

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Mellon Bank, N.A.	Duff 1
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Bank of Hawaii—Senior Debt	AA-
Citizens & Southern National Bank	AA-
Franklin Savings Association—Senior Debt	B-
Franklin Savings Association—Sub. Debt	CCC
Manufacturers & Traders Trust Company	A
Manufacturers Bank of Detroit	AA-
NCNB Texas National Bank—Senior Debt	AA-
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Notice: In the Duff & Phelps ad that appeared July 26th, the pluses and minuses were not clearly reproduced. We regret any inconvenience this may have caused.

By ANDREW REINBACH

The New Jersey Casino Control Commission is expected to approve a $65 million loan intended to rescue Donald J. Trump's financial future, despite the agency's doubts that the Trump empire's future empire can support the restructured debtload.

Under the laws of the state, the gaming commission has to approve the bank loans because they would affect Trump's casino and hotel holdings in Atlantic City.

According to documents released by the commission, Mr. Trump plans to surrender a deed to one of the lenders, Marine Midland Bank. He has also proposed selling or refinancing properties, and slashing operating expenses.

But survival of the Trump Organization may be in doubt with or without these measures, according to a report the commission received from the division of gaming enforcement of the New Jersey attorney general's office.

"The ultimate success of the casino properties is based upon their ability to generate ever-increasing cash at a time when the trend is otherwise," the commission said.

"It appears the real opportunity afforded by these agreements [for the bridge loan] is Trump's ego trip that it makes economic sense to break up the organization, sell off parts of the business that are more valuable outside the company, shrink overhead, and refocus its energies on a few core operations," the report said.

Some True Believers Remain

Some participants in the debt-restructuring negotiations, though, think the plan has a chance of success.

"The whole thing depends on what happens with the casinos in the next 90 days," said Stan Ross, the nonmanaging partner of Kenneth Leventhal & Co., who is managing the restructuring. The casinos are the wild card. If they do well, there's a chance."

Despite the bankers' guarded optimism, Thomas N. Auriemma, deputy attorney general in the New Jersey Division of Gaming Enforcement, announced Friday: "We reluctantly" recommended approval of the bank agreements to the casino commission – subject to a list of conditions – "because there were no options."

Commission's Conditions

Among the conditions was that no bank foreclose on Trump equity without commission approval, that no cash from the casinos be distributed by Trump without commission approval, and that Trump come up with a plan within three weeks to pay interest due to holders of Trump Taj Mahal Hotel and Casino bonds.

First Executive Life Insurance Co. has organized a bondholders' suit on the casino bonds that observers think might prove the undoing of the overall plan.

In the filing to the commission, Mr. Trump said he would surrender the deed to his West Palm Beach condominiums to Marine Midland, a unit of Hongkong and Shanghai Banking Corp., in lieu of foreclosure on a $27.1 million mortgage due this October.

Barriers to Survival

Even if he survives the cash crunch on his $3.365 billion in debt, Mr. Trump will be up against a projected $23.5 million cash shortfall by April 1991, $402.48 million in mechanics' liens, and 112 lawsuits.

Mr. Trump also owes a total of $195 million on unsecured loans held by units of Bankers Trust New York Corp., the Boston Co.'s Boston Safe Deposit and Trust Co., Chase Manhattan Corp., Citicorp, and National Westminster Bank. Bankers Trust, owed $104 million by Trump, is the largest unsecured bank lender. □

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Greenwald Goes to Japan on Quest For Financing of UAL Buyout Bid

By WILLIAM GOODWIN

In an effort to drum up Japanese financial support for the proposed management buyout of UAL Corp., Gerald Greenwald, the buyout group's leader, is scheduled to meet this week with a number of top bank officials in Tokyo.

Among the banks on Mr. Greenwald's itinerary are Long-Term Credit Bank of Japan, Fuji Bank, and Mitsubishi Trust and Banking Corp.

A spokesman for the buyout group would not comment on the trip, but several Japanese bankers stationed in the United States said the Tokyo meetings probably won't amount to much more than courtesy calls.

Major Issues Unresolved

An official in the U.S. branch of one of the banks on Mr. Greenwald's list said it is "too premature" for detailed discussions, because major issues relating to the proposed $4.4 billion transaction remain unresolved.

"We are still waiting for real equity coming in," the banker said. "We still have not got a real strong core group" of U.S. banks participating in the deal, he added.

The core group comprises the banking units of Bankers Trust New York Corp., Manufacturers Hanover Corp., and Security Pacific Corp.

Security Pacific joined the group after the withdrawal last month of Citicorp, Chase Manhattan Corp., and Chemical Banking Corp.

Mr. Greenwald's Tokyo trip was apparently timed to take advantage of a lull in activity here at home. At least members of the key American bankers working on the deal are off on late-summer vacations.

Indeed, little substantive progress on financing the buyout is expected until after Labor Day, banking sources said.

UAL's board of directors gave the buyout group an additional 60 days – until Oct. 9 – to obtain financing, and the group is expected to use all of that time.

The amount of financing the core banks are seeking to raise has been scaled back to about $2.5 billion from $4 billion.

The buyout group has been trying to raise the difference from UAL's outside suppliers. It's also possible that the $201-a-share buyout proposal will be restructured to involve less cash for shareholders, and more "cramdown" paper. □

Highlights for Friday, August 17

TOP 10 GAINERS %

Santa Monica Bank	9.3
United Carolina Bancshares	6.1
MNC Financial, Inc.	4.4
Evergreen Bancorp, Inc.	4.4
Commonwealth Bancshares	4.0
First National Bancorp	3.9
Banks of Iowa, Inc.	3.2
Suburban Bancorp, Inc.	2.9
FirsTier Financial, Inc.	2.6
Statewide Bancorp	2.5

TOP 10 LOSERS %

Imperial Bancorp	-10.0
Sumitomo Bank of California	-8.3
Pacific Western Bancshares	-8.3
GBC Bancorp	-8.2
Chemical Financial Corporation	-7.5
First Citizens Bancshares Inc.	-7.1
Plaza Commerce Bancorp	-7.1
Bank of Granite Corporation	-7.0
Union Planters Corporation	-6.7
United Bankshares, Inc.	-6.5

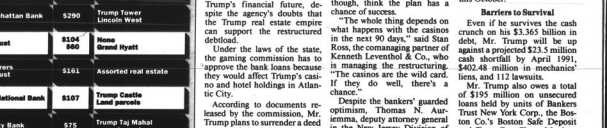
MOST SHARES TRADED

BankAmerica Corporation	1680200
Citicorp	1067200
Midlantic Corporation	924000
Wells Fargo & Company	753300
Security Pacific Corporation	694800

VOLUME AS % OF AVERAGE

Northeast Bancorp, Inc.	958.8
Citizens Bancorp	909.0
One Valley Bancorp of WV, Inc.	863.9
Trustmark Corporation	859.7
Bancorp of Mississippi, Inc.	607.4

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.37	-2.64	-11.66	-1.85	-3.36	-13.47	-1.18	-3.70	-18.72

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk	Cls.	Chg.
25¾	18½	1stBancorp(Fl)	NM	56.2	20¾	-¼
14¾	10¼	AFSBancshares CO	16.0	65.3	11½	-¼
28¾	20	AmeriTrust Corp	8.1	82.4	20¾	-¼
19¾	13½	AmeroFirst IL	8.1	82.7	14	
29	14	AmSouthBancorp FL	24.2	80.4	14¼	-¼
22¾	18¾	AssociatedBanc-WI	8.5	118.6	18½	-¼
34½	17¾	BB&T Financial	12.3	218.6	20	-½
15¼	7¾	BaltimoreBancshs MD	5.8	41.1	7¾	-¼
49¾	36¾	BancOne Corp OH	13.2	141.2	43¾	-¾
33½	25¾	BancOne Corp OH	9.7	150.8	25¾	-¾
20	17	BancoPopular PR	8.7	85.6	17	-¼
56¾	41¼	BancorpHawaii HI	7.9	133.1	41¼	-1¼
27¼	18	BancorpSouth MS	7.0	89.0	18¾	-¼
36¾	21¾	BankAmerica Corp CA	4.6	87.2	22	-1½
24	17¾	BankAtlantic FSB FL	12.3	218.6	20	-½
23¼	7¼	BankNewEngland MA	NM	44.9	24	-¾
14¾	7¾	BankSouth Corp GA	8.9	84.6	7¾	-¼
57¾	35	BankersTrust NY	NM	126.7	36¾	-¼
21½	10¾	BankersTrustCA CA	NM	49.4	10½	-¼
59¾	41¼	BankersTrustNY NY	NM	37.7	59	
20¾	13¾	BankNorth Group	NM	69.0	14¼	-¼
12	8	BanklstAmer OK	NM	45.8	8	
67	61	BanklstateBcshs	10.4	100.8	64	
39¾	24¾	BarnettBanksInc FL	7.6	89.5	24¾	-½
40¾	32¾	BayBanks Boston	9.2	85.4	32¾	-¾
39¼	27¾	BeatmanVaBcshs MD	7.4	85.9	27¾	
35¼	25¼	BostonBancorp	228.6	104.1	26	-¼
18¼	12¼	Brenton Banks IA	7.4	101.1	14¼	
49¾	30¾	CBT Group PLC	7.9	105.5	30¾	-¼
22¾	15¼	CCNB Corp IN	6.2	97.9	15¼	
23¾	18¾	CNB Bancshares IN	8.1	121.4	20¼	-¼
27	20¼	CPB Inc HI	10.2	145.7	21¼	-¼
37¾	27¾	CalFed Inc CA	9.2	93.0	28¼	-¼
33¾	17	CalFederal Cp CA	7.6	138.0	18	
14¾	10¾	CentralBancshs KS	7.8	87.7	10¾	-¼
34¾	23¾	CentralFidelity VA	7.0	99.4	25¼	-¼
27	19¾	CentralBancshs MO	7.3	74.0	20¾	
44¾	17¾	CharterBancshs NV	NM	51.9	18	
19¾	15¼	CharterBancshs TX	NM	67.7	19¼	-¼
35	28	ChemicalNyCorp MI	8.1	88.7	29¼	
30¾	19¾	CitizensBcshs MO	7.3	89.5	19¾	-¼
25¾	15¾	CitizensBancorp MD	7.3	89.5	15¾	-¼
25¾	15¾	CitizensBancorp VA	7.5	71.2	21¼	-¼
15¼	7¾	CitizensFirst MO	NM	113.0	8¼	
26¾	20¾	CityNational CA	9.8	132.2	20¾	-¼
27½	15¼	CityNatCorp CA	8.8	158.0	15¾	-¼
22½	17¾	ColonialBancGp AL	8.0	84.8	18	-¼
37¾	31¾	ComericaInc MI	7.9	97.3	37½	-¼
29¼	21¼	CommBancshs MO	7.5	93.6	21¼	
20¾	15¾	CommonwealthPA	7.5	93.6	19¾	¼
19¾	10¾	CommunityBk NJ	7.8	93.3	10¾	
28¾	17¾	CoreStates Fin PA	8.8	43.3	18	-¼
22¾	12¾	CrestfieldBcp GA	6.8	121.5	13¾	
34	17¾	CumberlandBcp TN	6.8	97.4	17¾	-¼
18¾	7¾	CullenFrost TX	35.0	102.2	8¾	-¼
20¾	15¾	DauphinDeposit PA	8.2	91.0	15¾	-¼
32	21¼	DepositGuaranty MS	7.7	87.9	22	
32¾	23¾	DetroitBancshs MI	8.8	87.3	24¾	-¼
14¾	3¼	EquimarkCorp IN	NM	39.3	3¾	
29¾	20¾	EvergreenBcp WA	8.0	84.5	20¾	-¼
35¾	12¼	F & M NatlCp VA	10.6	163.3	13	
14¾	11¼	FNB Corp FL	8.0	94.0	11¼	
26	21¼	FNH Bancorp IL	10.2	166.8	22	
25¾	17¾	FSB Bancorp MA	13.3	113.8	17¾	-¼
36¾	28¾	FifthThirdBncp OH	9.9	152.8	29¾	-¼
13¾	8¾	FinancialBcshs AR	8.4	127.8	9¾	
51¾	33¾	FirstTennNB	8.4	88.8	34	
19¾	15¾	FirstAlabama AL	8.0	101.7	19¾	-¼
20¾	9¾	FirstAmericanCorp TN	NM	56.2	20¾	-¼
14¾	10¼	FirstBancorp NC	7.5	90.0	22¾	
17¾	12¾	FirstBancshsSpringfield MO	NM	72.9	12¾	
49¾	21¾	FirstChicagoCp IL	8.6	61.0	21¾	-¾
19¾	13¾	FirstCitizensBcshs NC	7.6	87.2	13¾	
39½	18	FirstCityBancTX	2.7	52.3	18	-¼
19¾	11¾	FirstCommerceLA	7.1	116.6	11¾	
23¾	17¾	FirstCommerceLA	8.1	91.3	17¾	
29	21¼	FirstCommerceNE	8.5	66.7	29¼	
20¾	20¼	FirstHawaiianInc	9.9	109.7	18	
11¾	6¾	FirstHorizonTN	NM	71.7	15	
69¾	29¾	FirstInterstateCa	10.9	111.9	69¼	
9¾	5¾	FirstInterstateWA	5.9	84.2	9¾	-¼
72	55¾	FirstEmpireNY	7.5	88.9	59¾	
24¾	16¾	FirstFidelityIn	NM	71.7	15	
50	36¾	FirstFidelityOH	11.5	165.6	36¾	-¾
16¾	10¾	FirstFinancialIN	9.5	72.9	14¼	
28¾	20¾	FirstFinancialCorp WV	7.5	88.9	20¾	
18¾	14¾	FirstFinancialMI	8.3	130.2	14¾	-¼
39¾	13¾	FirstFinancialNJ	8.2	126.3	20	-¼
24¾	19¾	FirstFtWayneInd	8.5	120.2	19¾	
28	20¾	FirstFtWayneMI	8.3	130.2	21¼	-¼
24¾	18¾	FirstGeorgiaCp	7.5	134.3	18¾	-¼
24½	18¾	GBC Bancorp CA	7.5	134.3	18¾	-1¼
19¾	8¾	GreatAmerBancshs KS	17.3	67.2	9¾	
9¾	6¾	HarleysvilleGp PA	9.7	98.5	6¾	-¼
14¾	10¾	HarleysvilleNatCorp PA	8.7	94.8	14¾	
26	14¾	HiberniaCorp LA	17.5	108.3	14¾	
19¾	12¾	HighlandBancorp IL	7.5	86.8	12¾	
32¾	19¾	HiBkCp OH	7.5	86.8	19¾	
28¾	18	HuntingtonBancshs	7.5	86.8	18	
28¾	18	IndependenceBcp PA	8.6	91.4	18¾	
19¾	14¾	IndianaNatCorp IN	8.4	110.8	14¾	
34¾	24¾	InterNorthInc MN	8.4	110.8	24¾	
27¾	17¾	JeffersonBcshs VA	7.8	88.5	17¾	
28¾	20¾	KeyCorp NY	7.6	84.2	20¾	-¼
28¾	20¾	KeyCorp IN	6.6	84.2	20¾	-¼
28¾	20¾	KeystoneFinPA	7.6	84.2	20¾	-¼
14¾	8¾	LaSalleBancorp CA	13.3	108.4	8¾	
19¾	14¾	LeaderBancorp MD	11.5	135.2	14¾	
19¾	9¾	LeesvilleBcshs MO	8.9	54.6	9¾	
19¾	14¾	LincolnBancshs MO	8.5	90.1	14¾	
27¾	17¾	LincolnFinGp IN	6.5	80.1	18¾	
21¾	14¾	MBC Financial IN	8.3	83.8	14¾	
13¾	8¾	MagnaGroup IL	8.3	83.8	11¾	-¼
45¾	35¾	MarineMidland NY	8.3	83.0	35¾	
44½	28¾	ManufacturersHr IN	NM	68.6	38¾	-¼
44¾	28¾	ManufacturersHr NY	NM	68.6	38¾	-¼
20¾	13¾	MarshallBnkrsMO	7.2	98.0	14¾	-¼
36¾	24¾	MellonBankCorp PA	8.1	87.6	25¾	-¼
36¾	20¾	MellonBankCorp PA	4.1	87.6	20¾	-¼
28¾	21	MercantileBcshs MD	35.3	83.0	21¼	

52 Wk Hi	Lo	Name	PE	Mkt Bk	Cls.	Chg.
27¼	19	MercantileBncshs MO	8.0	120.5	19¼	-¼
90¾	44	MerchantsBancsh NY	11.6	177.1	47	
32	19½	MerchantsNatIn IN	9.4	78.0	19¾	-¼
20¾	15¾	MidAmericanIn IN	5.8	69.8	15¾	-¼
57	25¾	MichiganNatCorp MI	2.3	52.0	26	¼
18¾	13¾	MidAmericanIN	8.9	86.3	13¾	-¼
23¾	17	MidlinInc.-DE	8.6	133.2	17¾	-¼
10¾	6¾	MidlanticCorp NJ	6.7	78.8	10	-¼
25½	8½	MultibankInc MI	NM	33.1	8½	-¼
35¾	28¾	NBD Bancorp MI	8.0	115.4	28¾	-¼
53¾	32½	NCNB Corp NC	6.5	116.0	33¾	-¼
20¾	17¾	NatlCommBancpCA	14.3	150.0	18¼	-¼
41¾	31¾	NationalCityCp OH	7.2	121.9	31¾	-¼
36	30	NationalPenn PA	11.1	198.9	30	-¼
31½	25¾	NationscorpNM-AK	9.2	110.9	28¾	-¼
25¾	20¾	NationscorpTN	9.4	153.8	22	
44¾	15¾	NatlCommunity IU	5.4	79.8	15¾	-¼
20¾	15¾	NatlCommunity IN	4.8	56.7	15¾	-¼
72	12	NorthwestBanc CT	NM	40.0	12	-¼
28¾	20¾	NorthernTrust IL	8.2	153.5	25	
23¾	17¾	NorwestCorp MN	6.9	128.6	18¼	-¼
22¾	20¼	OneBancorp OH	8.6	80.4	22¼	
29¾	21¾	OshkoshFinCorp MI	7.3	102.5	22¾	-¾
29¾	21¾	OshkoshBancorp MI	12.8	154.5	24¼	
29¼	22¾	PacificBancorp WY	6.7	82.3	23¾	-¼
48½	34¾	PacificCorp CA	10.3	148.8	34¾	-¼
28¾	21¾	PacificBanc CA	10.3	148.8	24½	
13¾	8¾	PacificWestern CA	8.4	117.1	9¾	-¼
27¾	20¾	PeoplesBancorp IN	8.4	117.1	24¾	
27	20	PeoplesNatlKY	9.8	124.3	20	
15¾	9¾	PiedmontCorp GA	7.5	140.3	9¾	
6¾	3	PremierBancorp LA	20.8	61.9	3¾	
27	21½	ProvidentBcp OH	10.1	130.1	23	
14	5¾	ProvidentBcshs MD	NM	36.6	8¾	
27¾	17¾	PugetSoundBncs WA	9.8	95.1	17¾	-¼
52¾	42¾	RepublicNYCorp NY	135.6	118.6	44¾	-1¼
27	12	RiggsNatlCorp DC	7.9	56.2	14¾	-¼
32¾	25	RiverFront IL	12.7	262.5	28½	-¼
23¾	15¾	SanMarinoBancsCA	9.4	175.2	20¾	-¼
23¾	19¾	SecurityBancorp MI	7.4	124.7	19¾	-¼
53¾	29¾	SecurityPacific CA	7.5	89.7	30¾	-¼
28¾	8¾	SharmuHattCorp MN	NM	46.1	8¾	-¼
42¾	41¾	SignetBanking VA	4.8	56.7	41¾	-¼
38	28	SocietyCorp OH	8.7	95.9	28	-¼
39¾	15¾	SouthCarolinaBcp SC	6.7	86.9	15¾	-¼
28¾	7½	SoutheastBkCorp FL	NM	36.5	7¾	-¼
15¾	11¾	SouthernNatCorp KY	9.4	131.1	15¾	-¼
25¾	18¾	SouthtrustCorp AL	6.7	89.2	17¾	-¼
25¾	18¾	SouthtrustCorp GA	6.8	92.4	18¾	-¼
26¾	17½	Star Banc Corp. OH	8.2	106.9	17¾	-¼
47¾	32¾	SunBanksInc GA	11.5	190.4	33¾	-¼
20¾	4¾	StatewideBancp NJ	NM	104.2	5¾	-¼
34¾	22	SuburbanBancorp IL	13.9	89.7	22	
34¼	22	SumitomoBank CA	4.7	74.2	22	
21¾	15¾	SummitcorpIN	7.1	88.9	16	
21¾	10¾	SunmitBancorp NJ	5.8	83.8	11¾	-¼
21¾	15¾	SunTrustBanks GA	7.6	116.1	15¾	-¼
28¼	14¾	SunwestFinSvcs AM	78.6	77.3	16¼	-¼
19¾	14¾	SuperiorBancorp IL	7.1	92.5	14¾	-¼
19¼	14¾	SynovusFinCorp GA	16.5	243.0	15¼	-¼
22¾	16¾	TheParkersburgNB WV	8.6	117.7	14¾	
33	27¾	TrustCoBankCorpNY	8.5	147.1	28	
25¾	15	TrustcompanyNJ	7.4	123.4	15¾	-¼
23¾	17¾	TrustmarkCorp MS	6.2	72.5	17¾	-¼
29¾	24¼	U.S.BancorpOR	7.2	107.1	24¼	
41¾	33¾	U.S.TrustCorp. NY	11.5	175.4	33¾	-¼
20¾	15¾	UB Financial NJ	7.6	61.4	15¾	-¼
18	9¾	USTCorp-MA	5.8	80.5	10¾	-¼
15¾	7	UnionBancCa	4.3	69.2	14	-¼
15¾	7	UnionPlanters TN	NM	54.8	7	-½

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk	Cls.	Chg.
24¾	18¾	AmericanCo CO	NM	95.3	19¾	-¼
14	10¾	AmericanFed NY	7.3	83.2	10¾	-¼
17½	12¼	UnitedCarolinaNC	7.6	99.7	13	¾
62	52	UnitedCounties NJ	7.4	98.8	52	
32¼	27	UnitedMissouri MO	8.8	105.1	27¾	
27¼	20¾	WaterfordWamac MI	8.1	100.8	20¾	-¼
36	22½	WalleyCapCorp NY	7.6	140.1	24	-½
28¼	18¾	WalnutNatlCorp KY	7.1	134.2	18	-¼
30¾	11¾	WalnutNatlCorp AZ	NM	59.8	13¾	-¼
87¾	58	WesbancoInc CV	8.4	106.3	58	-1¾
33	25¾	WestbancoWV	8.4	96.3	30	-2
27¼	21¾	WestCoastBancpOR	7.4	114.2	21¾	
25¾	17¾	WestamericaBancCA	11.7	143.7	20¾	-¼
44¾	34¾	WestSideBancpOH	8.3	242.6	37¾	-¾
13½	9¾	WorthenBanking AR	7.9	113.8	11¾	-¼
32¼	25¾	ZionsBancorp UT	6.8	93.4	27	

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk	Cls.	Chg.
24¾	18¾	AmericanCo CO	NM	95.3	19¾	-¼
14	10¾	AmericanFed NY	7.3	83.2	10¾	-¼
17½	12¼	UnitedCarolinaNC	7.6	99.7	13	¾
62	52	UnitedCounties NJ	7.4	98.8	52	
32¼	27	UnitedMissouri MO	8.8	105.1	27¾	
27¼	20¾	WaterfordWamac MI	8.1	100.8	20¾	-¼
36	22½	WalleyCapCorp NY	7.6	140.1	24	-½
28¼	18¾	WalnutNatlCorp KY	7.1	134.2	18	-¼
30¾	11¾	WalnutNatlCorp AZ	NM	59.8	13¾	-¼
87¾	58	WesbancoInc CV	8.4	106.3	58	-1¾
33	25¾	WestbancoWV	8.4	96.3	30	-2
27¼	21¾	WestCoastBancpOR	7.4	114.2	21¾	
25¾	17¾	WestamericaBancCA	11.7	143.7	20¾	-¼
44¾	34¾	WestSideBancpOH	8.3	242.6	37¾	-¾
13½	9¾	WorthenBanking AR	7.9	113.8	11¾	-¼
32¼	25¾	ZionsBancorp UT	6.8	93.4	27	

New Bank and Thrift Securities

Most recent offerings

Issuer	Offer Date	Amount ($ MM)	Sec. Type	Offer Price	Offer Yield	Maturity
Security Pacific	8/16/90	$100.0	SUB	99.56	8.97	8/15/93
Merrill Lynch Capital Market						
Banc One	8/16/90	$200.0	SN	97.87	10.25	8/12/10
Salomon Brothers						
Affiliated Bankshares of Colo	8/14/90	$15.0	SEN	100.0	10.50	9/01/97
Boettcher						
Security Pacific	8/03/90	$100.0	FRN	Market	Floats	8/12/92
Merrill Lynch Capital Market						

Most recent SEC Filings

Issuer	Filing Date	Amount ($ MM)	Sec. Type	Market Maker
Pioneer Federal Bancorp	5/04/90	22.0	COM	Shearson Lehman Hutton
Evergreen Bancorp	4/03/90	10.0	SD	Ryan Beck
Financial Center Bancorp	3/21/90	8.0	COM	Keefe, Bruyette & Woods
IFED Financial	3/19/90	14.0	COM	Blunt, Ellis & Loewe

Sec. Type: Type of security issued. **Current:** Current offering. **Pipeline:** Security expected in pipeline. **Withdrawn:** Offering withdrawn. **Sub:** Subordinated debt. **SN:** Senior debt. **FRN:**

STOCKS

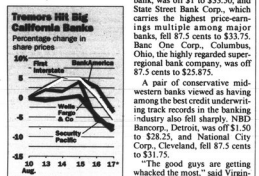
Fed Quandary, Gulf Crisis Spur Selling Frenzy

By GORDON MATTHEWS

NEW YORK — Major banks stocks were clobbered again Friday as the stock market sold off sharply for a second straight day on concerns that rising inflation and weak real estate markets have put the Federal Reserve Board in a no-win position to manage the economy.

Among the factors hurting banks was the decision by analysts at Salomon Brothers Inc., to cut earnings estimates for nearly two dozen banks, including all the major California institutions.

The *American Banker* index of the nation's 225 largest publicly traded banks fell for the 10th straight week. The index now stands 32.8% below the high point it reached last Oct. 9.



The worries of investors include the meeting this week of the Federal Open Market Committee, the Fed's monetary policy steering unit. One analyst said, "There is a degree of uncertainty and fear on what the Fed will or even can do at this point, since fighting inflation and handling a recession involve going in different directions on interest rates."

Jitters About California

Among banks, major California institutions led the way down on the renewed worries about a slowdown in the country's most populous and economically important state.

The latest round of nervousness began last Wednesday when Security Pacific Corp. disclosed in a Securities and Exchange Commission filing that it will increase loan-loss reserves. The Salomon Brothers action came a day later and was fully disclosed on Friday.

Thomas Hanley, the firm's chief banking analyst, said the action was taken "in view of sharply moderating real economic growth in the U.S., including the possibility of a recessionary environment through the middle of 1991."

Regarding California, he said there is "no question that employment trends might deteriorate even faster than the national economy." But he said the concern "does not extend to the housing sector, where demographic trends should continue to provide some cushion against serious credit difficulties."

First Interstate Bancorp. fell $1.50 to $29.75, while Wells Fargo & Co. declined $1.625 to $58 and BankAmerica Corp. slumped $1.50 to $22. Security Pacific fell 37.5 cents to $28.375.

Thrifts Also Decline

Several major California thrift stocks also were weaker. Golden West Financial Corp. was unchanged at $25.375, and Great Western Financial Corp., Beverly Hills, was off 37.5 cents to $14.625. H.F. Ahmanson & Co. was up 25 cents to $17.125.

The California tremors helped set the tone for many other banks stocks. Worst hurt were better-known banks whose shares had until recently weathered the slide in bank equities better than many others.

J.P. Morgan & Co., the nation's premier money-center bank, was off $1 to $33.50, and State Street Bank Corp., which carries the highest price-earnings multiple among major banks, fell 87.5 cents to $33.75. Banc One Corp., Columbus, Ohio, the highly regarded superregional bank company, was off $7.5 cents to $25.875.

A pair of conservative midwestern banks viewed as having among the highest credit underwriting track records in the banking industry also fell sharply. NBD Bancorp., Detroit, was off $1.50 to $28.25, and National City Corp., Cleveland, fell 87.5 cents to $31.75.

"The good guys are getting whacked the most," said Virginia A. Adair, a banking analyst at Merrill Lynch Capital Markets Group. "The reasons are both profit taking and fear.

"Investors are scared that the Middle East situation will begin unwinding in a way that is unfavorable to the banks in particular and the stock market in general," she said. □

CAPITAL

Dai-Ichi Kangyo Cuts Capital-Raising Cost

Continued from *page 1*

Sumitomo Bank Ltd. to issue 10-year subordinated bonds in the United States and Europe. But with the latest indications from the ministry, it now appears the Sumitomo offering may be the last from a Japanese bank for sogne time.

Bond Market Cheaper

Japanese city banks would like to issue subordinated bonds because the volatility in the Japanese stock market is making it hard for them to raise capital there. And they could issue bonds at a lower rate than they must pay on private loans.

Such bond issuance could have been done anywhere in the world, but most of it would likely have been in the United States, which has the most developed market for subordinated debt.

Long-term credit banks, however, which had been the only Japanese banks authorized to issue long-term bonds, have reportedly objected to the new powers for city banks. In response, the Ministry of Finance has apparently decided to reconsider the latest authorization.

Wait Until Next Year

"The sense I am getting is that they don't want banks to do these deals until next year," said Jeffrey Bell, managing director and head of the financial institutions group at Merrill Lynch Capital Markets. "I think they're trying to get a couple of these insurance-company, subordinated-loan deals done."

Japanese city banks have funded themselves in the past with deposits, short-term borrowings, and equity.

Dai-Ichi Kangyo became the first city bank to place subordinated debt since the ministry's latest regulations regarding subordinated borrowing.

Dai-Ichi's London branch placed a 10-year, $400 million subordinated loan with J.P. Morgan GmbH, Morgan's German subsidiary. That subsidiary then issued $500 million in 10-year subordinated floating rate loan participation certificates. Proceeds from the offering are used to fund the loan, a Euro-market source said.

While its balance sheet shows that it issued a subordinated loan, Dai-Ichi's costs are nearer those for subordinated bonds.

A Bond-Priced Loan

But while its balance sheet shows that it issued a subordinated loan, Dai-Ichi's costs are closer to the level appropriate for subordinated bonds. And the structure of the offering could prove to be a model for other city banks seeking to minimize their capital-raising costs.

The certificates carry a coupon of 25 basis points over the three-month London interbank offered rate for the first five years and Libor plus 35 basis points for the last five years.

A Morgan official declined to comment on the rate being paid by Dai-Ichi to Morgan, but it is likely to be equal to or only slightly higher than the rate Morgan is paying on its certificates.

"Economically, they're better off pursuing something in the public markets or something like this because it's less expensive than a subordinated loan," said the investment banker.

Implicit Approval

Ministry of Finance officials could not be reached to comment on the suitability of the Dai-Ichi structure. But the investment banker said Dai-Ichi almost certainly got ministry approval before completing the transaction.

"At this time, when it's very clear the ministry is reconsidering how the stuff is done, these banks would be pretty careful about what they are doing," he said.

Because Dai-Ichi's balance sheet shows it issued a subordinated loan, the Euromarket source expressed optimism that the ministry of Finance would allow the structure of its transaction to be copied by other Japanese city banks. But it is not likely to allow a flood of issues until it becomes more comfortable with city banks' long-term subordinated borrowing.

"I think the Ministry of Finance will continue to allow this," the source said, "but it won't allow an issue every week."

* * *

MARKET MONITOR

The Federal Reserve added temporary system reserves to the fed funds market Friday, seeking to offset the high fed funds rates that have prevailed since a power outage in lower Manhattan last Monday.

Fed funds traders said the rate went as high as 15% Thursday before closing at about 10%. The Federal Reserve's target rate is 8%.

Security Pacific Corp. issued $100 million in three-year noncallable senior notes with a coupon of 8.85%. The offering was comanaged by Lehman Brothers and Salomon Brothers Inc. □

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AMERICAN BANKER
VOL. CLV NO. 163 Tuesday, August 21, 1990 155th year

Is New Wrinkle In Loan Sales Doomed to Fail?

By WILLIAM GOODWIN

As the agent banks on a $2.25 billion credit for RJR Nabisco Inc. wrap up an unsuccessful effort to sell down $1.4 billion of the loan-in the secondary market, the lead banks on a $1.75 billion facility for Lin Broadcasting Corp. are gearing up for what some bankers are saying will be a similarly unsuccessful effort.

Like the RJR bankers, the three coagents on the Lin credit – Morgan Guaranty Trust Co., Toronto Dominion Bank, and Citibank – will seek to sell a portion of the loan in the secondary market through what is known as a pooled or controlled syndication. Under the arrangement of a pooled syndication, members of a primary bank syndicate pool the unwanted amounts of their loan holdings, which are then sold to buyers in the secondary market through the agent banks.

All sales reduce the share of all members' exposure on a pro rata basis. If one bank finds a $100 million buyer, for instance, that sale is spread out for all members shares to be reduced rather than the one bank receiving a $100 million reduction in its share.

Averting a Price War

The aim of the process is to avert a price war in the secondary market by keeping a lid on the fees offered to buyers, and to avoid a free-for-all in the secondary market.

Controlled selldowns also allow smaller banks in the primary syndicate to benefit from the distribution capabilities of the larger agent banks.

In theory, so-called controlled selldowns are supposed to promote the orderly sale of bank loans in the secondary market.

But, in practice, a growing number of bankers say, the process is anticompetitive, fraught with chicanery and almost always unsuccessful.

"Pools are what we call formulas for failure," said the head of loan sales in the New York office of a major foreign bank.

Few Sales Produced

In reality, bankers admit that controlled selldowns produce few sales, largely because buyers believe they will get a better deal once the pool is terminated.

Pools are always priced at the lowest tier of the primary syndicate, creating a "built-in pricing problem," one banker noted.

Moreover, the process is often

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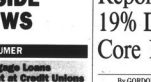
INSIDE NEWS

CONSUMER

Mortgage Loans Mount at Credit Unions
Real estate loans as percentage of total loans



REGULATORS are encouraging credit unions to sell some of their large mortgage portfolios in order to reduce interest rate risk. *Page 6*

MASTERCARD is planning to increase its interchange fees by about 11% next year. *Page 6*

INTERNATIONAL

THE DOLLAR'S DECLINE against the mark and the yen since the Gulf crisis began signals that the U.S. currency may no longer be viewed as a safe haven. *Page 12*

EARNINGS

THRIFT RESULTS were a mixed bag in the second quarter, with some companies posting big losses because of massive provisions for loan problems. *Page 2*

FINANCE

SUBURBAN ATLANTA entrepreneurs, in a contrarian move, are proposing to start their own bank. *Page 20*

REAL ESTATE

THE FACTORS now creating a virtual depression in real estate development may also hinder loan workouts in the 1990s. *Page 8*

TEXAS is emerging from an era of overbuilding, but the real estate market isn't out of the woods yet. *Page 9*

COMMENT

TO EARN ENOUGH to satisfy stockholders, banks will have to drastically alter the mix of their businesses, writes Sanford Rose. *Page 4*

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Report Sees 19% Drop in Core Profits

By GORDON MATTHEWS

NEW YORK — A Salomon Brothers Inc. report that drove down the price of bank stocks last Friday provides a gloomy outlook for the nation's largest institutions, including a projected 19% drop in core earnings this year.

The pall continued to hang over the stocks Monday, as the shares of most big banks fell for the third straight day despite a rebound in the overall market.

Salomon Brothers sliced profit estimates for most of the banks it follows after revising a composite earnings model. It indicated the banks' operating net income will fall nearly 20% from 1989 levels.

Highlights of Report

That and several other factors caused bank stocks to resume their long downward drift. Banks' shares had been trading in place with the rest of the market, which was awaiting further developments in the Mideast.

In the new report, Salomon Brothers' bank analysts said their earnings model for 35 major banks will be revised quarter-

See **STOCKS** *back page*

Acquirers Learn to Rack Up Savings With Artful Merging of Operations

By JEFFREY MARSHALL
Second of a Series

For years, banks have labored to shave operations costs in areas that become redundant after a merger. The process is still more art than science, but there is evidence that bankers are getting better at it.

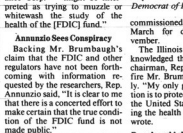
Institutions that have gone through a merger in the past two years said they managed to save, on average, 15% of their combined operations budget, according to the *American Banker*'s 1990 technology survey. That figure is well above the 11% reported last year.

More Bang for the Buck

While bigger banks are more likely to be involved in mergers, community banks are often believing greater proportional savings. Twenty-five percent of the responding banks in the $75 million to $100 million deposit range said they had effected savings of more than 20% after a merger. The same level of savings was achieved by 18% of those with more than $2 billion in deposits.

The data come from *American Banker*'s fourth annual technology survey, which was conducted in conjunction with

Postmerger Savings Vary by Bank Size
Average reduction in combined annual operating expenses



Trans Data Corp., the newspaper's research affiliate in Wayne, Pa. Last March and April, Trans Data polled 333 senior executives responsible for operations at commercial banks with $75 million or more in deposits.

A magazine containing results of the survey has been sent to *American Banker* subscribers.

Economies of scale used to offer large banks the biggest savings. But smaller banks have

See page **3**

Annunzio Opposes Bid To Fire FDIC Critic

By BARBARA A. REHM

WASHINGTON — Rep. Frank Annunzio is opposing efforts by House Banking Committee Chairman Henry B. Gonzalez to fire researcher R. Dan Brumbaugh, who is working on a study of the bank insurance fund.

In an escalating dispute between the committee's two highest-ranking members, Rep. Annunzio said that dismissing Mr. Brumbaugh – an outspoken critic of the Federal Deposit Insurance Corp. – "might be interpreted as trying to muzzle or whitewash the study of the health of the [FDIC] fund."

Annunzio Sees Conspiracy

Backing Mr. Brumbaugh's claim that the FDIC and other regulators have not been forthcoming with information requested by the researchers, Rep. Annunzio said, "It is clear to me that there is a concerted effort to make certain that the true condition of the FDIC fund is not made public."

Rep. Annunzio, D-Ill., made his accusation in a letter dated Friday to Rep. Gonzalez, D-Tex. Rep. Annunzio is chairman of the House financial institutions subcommittee, which



Rep. Frank Annunzio
Democrat of Illinois

commissioned the study last March for delivery in November.

The Illinois congressman acknowledged that, as committee chairman, Rep. Gonzalez could fire Mr. Brumbaugh unilaterally. "My only goal in this situation is to protect the taxpayers of the United States by determining the health of the" FDIC, he wrote.

Brumbaugh's Expert Testimony

Rep. Annunzio was responding to an earlier note from Rep. Gonzalez, who said Mr. Brumbaugh's "activities are inconsis-

See **FDIC** *page* **17**

Idaho Will Try To Block Entry Of U.S. Bancorp

By SAM ZUCKERMAN

Idaho banking authorities say they are exploring legal options to block an expansion move by U.S. Bancorp to enter the state by moving the headquarters of a Washington subsidiary across the border.

"The whole thing is a way of getting around state law that prohibits de novo entry for bank holding companies," said Belton J. Patty, director of Idaho's Department of Finance.

Tried to Enter Idaho Twice

Portland, Ore.-based U.S. Bancorp proposed the main office relocation plan last spring after two failed attempts to enter Idaho through acquisitions. The maneuver would involve transferring the headquarters of First National Bank in Spokane to Coeur d'Alene, Idaho, a move of about 30 miles. The bank's name would be changed to U.S. Bank of Idaho, company officials said.

If regulators approve the move, First National Bank would operate only in Idaho and have no remaining offices in

See **IDAHO** *page* **14**

PEOPLE *in the news*

Basham Juggles Full Plate Of Chores at the Treasury

By LINDA CORMAN

While Michael E. Basham was mulling an offer last August from Dai-Ichi Kangyo Bank to become a senior executive at its securities subsidiary in New York, he got a call from the Treasury Department.

Robert E. Glauber, under secretary for finance, offered Mr. Basham the opportunity to come to Washington for far less money to oversee the government's debt management policy.

A friend advised Mr. Basham to take the Treasury job – deputy assistant secretary for federal finance – unless the Japanese offered him $1 million or more.

Called on to Review the GSEs

Mr. Basham, 40, took the friend's advice and soon found himself enmeshed in a review of a passel of organizations with disarmingly friendly nicknames like Freddie and Farmer Mac, Sallie and Fannie Mae – the so-called government sponsored enterprises, or GSEs.

Besides overseeing the entire government's debt management policy, Mr. Basham was handed the job of conducting a study of the seven GSEs, quasigovernmental agencies that together have assets of nearly $1 trillion.

Congress mandated the study in the 1989 thrift-bailout bill to determine what liability the government might have and what might be done to reduce it at the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortage Corp. (Freddie Mac), the Federal Agricultural Mortage Corp. (Farmer Mac), and the Student Loan Marketing Association (Sallie Mae).

Mr. Basham points to the study, issued in May, as one of the major accomplishments of his first 11 months on the job.

Study Was Well Received

Organizing the massive study alone "was quite an endeavor" and was "very well received," including by academic journals, he said.

"If legislation results from it, it will be a significant accomplishment."

The White House is pressing to have the study's recommendations included as part of the budget agreement the administration and Congress are struggling to reach.

Among the recommendations is that the GSEs be required to obtain triple-A ratings from two prominent private credit rating agencies. The proposal was criticized by top officials of the agencies, who said it was likely to raise the costs of their financing programs.

The study also urged that GSEs be required to meet tougher capital standards and that each GSE's regulator be separate from the government agency that insures its safety and soundness.

Selling Refcorp Bonds Posed Big Challenge

Since coming to Washington, Mr. Basham has also faced the task of setting up the Resolution Funding Corp. to provide the working capital for the Resolution Trust Corp., which is liquidating the government's inventory of insolvent thrifts. Persuading investors to accept the Refcorp bonds was also a notable achievement, he said.

Also, Mr. Basham has been overseeing all decisions on government debt financing, which he said had been on "automatic pilot."

Though is pleased with his decision to join the government, he had not long planned on such a course. He majored in political science at the Air Force Academy and then the University of Southern Mississippi, but he did not contemplate a public-sector career.

After earning an MBA at the University of South Carolina in 1976, he worked in the government-bond business, most recently as a vice president of Wertheim Schroder & Co. in New York. □

2d Quarter S&L Earnings Skewed

By TERESA CARSON

LOS ANGELES — Thrift earnings were widely skewed in the second quarter, with some thrifts posting big losses because they set aside massive provisions for loan problems as real estate markets around the country slumped.

Among the nine largest institutions that released their quarterly earnings (privately held Irvine, Calif.-based American Savings does not), five reported profits and four reported losses. But the losses of CalFed Inc., HomeFed Corp., Great American Bank and Meritor Savings Bank totaled $405.9 million, overwhelming the $253.2 million in profits earned by H.F. Ahmanson & Co., Great Western Financial Corp., Glenfed Inc., Ford Motor Co.'s First National Bank and Golden West Financial Corp.

The 22 thrifts followed by Salomon Brothers had an overall drop of 22% in earnings from the year ago second quarter.

Problems Universal

"Generally everyone is having earnings problems," says Bruce Harting, thrift analyst with Salomon Brothers Inc., New York. Thrifts that had to take the big provisions in the second quarter were generally more heavily involved in commercial real estate or consumer lending. Single-family housing lenders fared better.

Those thrifts that made loans in the most depressed markets were hit the hardest.

Nonperforming thrift earnings reports "were all over the map. Some were up, some were down, some were deep in the red," said David Smith, president of the consulting firm Kaplan and Smith Inc., Glendale, Calif.

Erratic Earnings To Continue

These widely varying earnings reports will continue for at least several more quarters, analysts said. "The earnings over the next quarters will be determined by the loss reserve the thrifts have to take," said Henry Peltz, of Keefe, Bruyette & Woods Inc., New York.

"The $64,000 question is: Have the ones with the real estate problems gotten those problems behind them?" said J. Noel Fahey, director of research, for the U.S. League of Savings Institutions. "One would hope this is a one-time affair."

But that seems unlikely as the real estate markets seem to continue to deteriorate.

Flexibility Most Important Now

And the core meltdown in real estate is happening just at the time thrifts need financial flexibility the most. Many are struggling to conform to the new rules and higher capital requirements mandated under the Financial Institutions Reform, Recovery and Enforcement Act. Some are trying to write off goodwill, sell junk bonds and off-load commercial real estate.

"These dings in earnings are making it difficult for many thrifts to reach the phased-in capital requirements," says Campbell C. Chaney, thrift analyst at Sutro & Co., San Francisco.

Real estate woes pushed nonperforming loans up at most thrifts. HomeFed probably had among the most spectacular runups, jumping 56%, from $454 million to $708 million June 30. Philadelphia's Meritor Savings Bank saw nonperformers rise 11% to $359.4 million from $323.3 million at yearend.

But it was not bad news for all institutions. Glenfed, Glendale Calif., shaved $20 million off its nonperforming loans, which dipped to $449.4 million.

Market Value Vaporized

The thrifts paid dearly in the stock markets for their poor results. "The market value of these stocks has vaporized," said Robert Hottenson, an analyst at Goldman Sachs & Co. HomeFed's stock plummeted from $28.50 March 30 to about $8.25. CalFed Inc., Los Angeles, fell from $18.25 on March 30 to about $8.50. In late trading yesterday, the stock was off 50 cents to $7.875 and CalFed was unchanged at $8.50. On a brighter note, Sutro's Mr. Chaney pointed out that "from a core standpoint, many thrifts are making money. It is these provisions that are getting in the way."

Wider Margins Some Help

Indeed, most thrifts benefited from wider margins in the second quarter. "Since midyear

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Second-Quarter Results of Major Thrifts

	Net Income ($ Mil)	Net Income Year Ago	% change	ROAs*	ROAs* 90% of total assets
H.F. Ahmanson	$60.1	$39.7	+51%	596.9	1.25%
Great Western	$78.2	$51.9	+51%	623.2	2.55%
Glenfed*	$24.4	$29.2	-16%	449.4	1.76%
CalFed	($53.0)	$19.1	NM	423.5	1.81%
HomeFed	($108.2)	$28.1	NM	708.0	3.73%
First Nationwide	$41.3	$3.5	1080%	251.0	0.85%
Golden West	$49.2	$40.2	22%	123.8	0.58%
Great American	($107.9)	($1.2)	NM	688.9	4.48%
Meritor Savings	($136.8)	($21.2)	NM	359.4	5.20%

*Fiscal fourth quarter. Glenfed's fiscal year ends June 30.
NM: Not meaningful

NEWS *briefs*

First Interstate Suspends Sales of Discounted Stock

LOS ANGELES — First Interstate Bancorp said it had suspended a dividend reinvestment program designed to help it raise capital without a formal public offering.

A spokesman for First Interstate said the company's stock price was too low to justify continuation of the program. The stock was off 50 cents, to $28.875 a share, in late trading, well below the company's book value of $37.81 a share.

By offering stockholders a chance to use dividends to buy shares at a discount, the company had hoped to raise needed capital gradually. It had tried to raise capital in a formal offering this year but had trouble selling all the shares. — Reuters

Northeast Bancorp to Alter Lawsuit Naming Bank of NY

NEW YORK — Northeast Bancorp said it will file an amended complaint against Bank of New York Co., accusing it of breaching its contract with Northeast by failing to maintain its capital position in accordance with Federal Reserve requirements.

Northeast, based in Stamford, Conn., also said that this alleged failure led directly to the Fed's denial of Bank of New York's application to acquire the Connecticut holding company. The Fed cited insufficient capital, but Northeast charged that the merger application was incomplete. — Reuters

COMPANY *index*

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TECHNOLOGY/OPERATIONS NEWS

Artfully Done Back-Office Mergers Bring Promised Savings

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boosted their savings opportunities in recent years with better systems, which are geared to low-volume users, and they have gotten more sophisticated than ever in weighing alternatives, said consultant Jerry Cox. Mr. Cox is vice president of Charles Brooks & Associates in Charlotte, N.C.

Stellar Savers

While 20% savings may be a daunting goal for many banks, a few skilled hands have far surpassed it. Security Pacific Corp. has saved as much as 44% of expenses after centralizing certain operations, chief operating officer John Singleton told the American Bankers Association's national operations and automation conference in May.

Banking companies that have made a string of acquisitions are the most practiced at wringing out operations savings. Banc One Corp. has been lionized for its skill in this area. Charlotte, N.C.-based NCNB Corp. is pulling hard to rein in postmerger costs. The company said in May that it is merging multiple data and telecommunications systems into a centralized computing facility in Dallas, hoping to save 15% of its expenses in those areas.

But a lot of smaller companies are also proving adept at technology cost cutting.

Small Player's Game

Take First Colonial Bankshares Corp. in Chicago. With $1.6 billion in deposits, it is fleasized compared with Banc One or NCNB. But First Colonial has been a busy buyer, building a chain of 15 banks in Chicago and its suburbs over the past few years. It has added four banks just this year.

First Colonial appreciates postacquisition consolidation with a firm game plan, said president Robert Sherman.

"When we go into the bank, we have learned to move fairly quickly on those generic activities" like data processing and accounting, he said. "When we take over a back room, it's important to us to put them on the same data processing system.

"We don't tolerate lots of different systems," he added. "If it's an expense to get that done, so be it. In the long run, we feel it will be worth it."

Savings Outrun Projections

First Colonial's operations are actually performed by a wholly owned, profitable subsidiary, BankersTech Inc. Its president, Jon Knutsen, said that the savings realized from consolidated operations have exceeded projections. "We have more volume leveraged over the same cost," he said.

> **When operations managers address consolidation, they try to reduce the number of hardware and software vendors.**

Summit Bancorp., a successful regional company in New Jersey, has a somewhat different approach to cost containment. A few of Summit's eight banks still use service bureaus for item processing, but Summit keeps urging those banks to use its own data processing staff and software.

"We try to sell them on the idea that this will provide them with a better product line. And we charge them the same basic price as the service bureaus do," said executive vice president Eugene E. Schwarzenbek.

American Banker's survey found that bankers in mergers tend to identify similar systems targets for consolidation. Data processing, data communications, and programming and systems were the top three priorities for combining operations, just as they were last year. This year, 95%, 89%, and 87% of respondents cited those areas, respectively, as functions they had already combined or were planning to combine by the end of 1990.

"Data and item processing is a major issue. That's a piece that we try to address as soon as possible" after a merger, said Brent Thompson, a vice president at Fourth Financial Corp., the largest banking company in Kansas.

After item processing comes accounting, said Mr. Schwarzenbek of Summit. "That allows us to efficiently manage our consolidated financial picture," he said.

When operations managers address consolidation, they try to reduce the number of hardware and software vendors to a minimum. "We want to operate in a common technical environment in a common facility and deliver a common computer utility nationwide," said O. Darrell Hale, president of NCNB Support Services Inc.

A Single Vendor

Fourth Financial converted to a single systems vendor, the Kirchman Corp., in the past year, said Mr. Thompson. Instead of wrestling with multiple application systems, it is now able to bring acquired institutions quickly onto a company-wide standard.

Mr. Sherman of First Colonial said his company encountered a handful of different vendors as it acquired its network of banks, but unification "hasn't been the kind of challenge one might expect." Some of the acquirees had nice franchises in a position of leadership, he said.

> **Some bankers are convinced that outsourcing is best; others worry about losing control.**

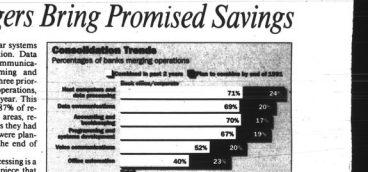
"Some bankers are convinced that outsourcing is best; others worry about losing control," said Richard Eichhorn, a senior vice president for corporate development at U.S. Bancorp. "There's a natural reluctance."

"Our goal is to keep everything in-house, to keep our control," said Mr. Schwarzenbek of Summit.

But First Colonial, which has effectively outsourced to its own company, believes it made the right move.

"We knew that we were going to be acquirers and that we needed the muscle of a much larger data processing and systems operation," said Mr. Sherman. "We chose to be serviced by someone else. We never wanted to find ourselves in a position where we wanted to make an acquisition but the data processing function was holding us back." □

Consolidation Trends
Percentages of banks merging operations



Base: 121 banks issuing merger advisories

Source: American Banker Technology Survey

"I think it's difficult to release control because that is so integral to customer operations," said Richard Eichhorn, a senior vice president for corporate development at U.S. Bancorp. "There's a natural reluctance."

"Our goal is to keep everything in-house, to keep our control," said Mr. Schwarzenbek of Summit.

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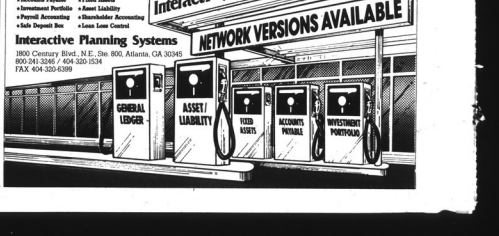

COMMENT/ *By Sanford Rose*

Why Banking Is A Zero-Sum Game

It is now widely understood that some bank businesses create shareholder value while others destroy it. However, the precise identity of the winning and losing businesses is not generally known to bank managements. And even if the identities are familiar, the magnitude of the gains and losses are not.

Recently, First Manhattan Consulting Group undertook an exercise to measure the amount

"Sadly, banking earns an ROE that is just about equal to the cost of equity capital."

of value creation and destruction by type of business. The analysis was based on a dissection of line-of-business profitability for some 15 large banking companies, with the findings extrapolated to the industry as a whole.

The results show that the average U.S. bank is creating a substantial amount of value in the branch-delivery system: somewhat less value in trust and securities processing, in commercial real estate (despite the current problems), and in credit cards; and still less value in middle-market lending, miscellaneous fee-based businesses, corporate finance, cash management, and capital-market activities.

It is, however, destroying substantial shareholder value in large corporate lending and somewhat less value in international corporate banking, on-balance-sheet mortgage lending, and in consumer lending other than credit card.



A Sizable Variance

It should be noted, of course, that what is true on average may not apply to individual institutions. There is considerable variability of returns among banks. Thus, while some banks may be generating ample value in the trust business, others may be running a trust operation that helps to impoverish the shareholder.

Equally, while the average bank should exit the business of direct and indirect installment lending – especially the indirect component, which is almost universally a loser – a few institutions seem to be making enough to justify continued activity.

Satisfying the Shareholder

What determines whether shareholder value is being created or destroyed? The short answer to this question is that if the business fetches a risk-adjusted, match-funded, fully expense-loaded return on equity that is greater than the opportunity cost of that equity – that is, the return that can be earned in other businesses of comparable riskiness – it is building shareholder value. If returns are less than the cost of equity, the business is erasing shareholder value.

More formally stated, if the discounted present value of its future net cash flows exceeds the amount of equity needed to support it, the business is throwing off free cash to the investor and thus increasing his wealth. If such discounted cash flows fall short of the amount of needed equity, the business is a loser.

EPS Doesn't Count

This doesn't mean that the business is actually losing money. It may in fact be making a fair chunk of money, contributing to the growth of corporate earnings per share. But it isn't making enough, relative to the amount of invested equity, to satisfy the shareholder's minimum requirements.

Hence, if the average of a bank's businesses had such a rate-of-return profile, the share price of the bank would slip be-

"The credit card business generates more value-added than does middle-market lending."

low book value, regardless of what was happening to earnings per share, as owners hastened to sell out in order to reinvest in companies whose mix of activities produced, on average, an acceptable return.

According to First Manhattan Consulting's calculations, the amount of equity needed to support the branch-delivery systems of U.S. banks amounted to some $35 billion at yearend 1989. And the net present value of the future cash flows – basically the returns on consumer and small-business deposits, net of their interest and noninterest costs, and discounted by what the consulting firm regards as the appropriate hurdle rate – came to some $75 billion.

Therefore, the much-maligned branch-delivery system is still a winner. As has been noted, however, the variability of returns among banks is substantial, amounting in this business to about 40 percentage points of ROE. That is, some delivery nets can be making no return or a subnormal return of 5%, while others could be garnering up to 45%.

A Third of Total Value

The figure for the net present value of delivery networks implies that if the sole business of banks consisted of branch delivery or deposit gathering, the market capitalization of the industry would equal $75 billion. In point of fact, the market capitalization of U.S. banks totaled around $205 billion at yearend 1989. So, according to this reckoning, branch-delivery systems accounted for more than a third of the value of bank stocks.

The deposit-gathering function is the largest absolute generator of shareholder value, adding some $40 billion. It is not, however, the most productive generator. That title belongs to the trust and securities processing business, which produced a net present value of $20 billion, or nearly a tenth of share values, on an invested capital base of only $5 billion. That is, the amount of value added is three times the amount of needed equity, although because trust is not an asset-based business, the computation of equity needed to support the activity becomes devilishly tricky. Here again, returns are quite volatile among banks; their range amounts to some 50 percentage points of ROE.

The credit card business is also a productive generator of wealth, accounting for some $15 billion of net present value – or approximately 8% of share worth – on an imputed equity of $5 billion. Reflecting the scale-sensitive nature of this business, the range of returns is almost as wide as in the branch-delivery business.

Overvaluing the Middle Market

By contrast, the full relationship middle-market business is not terribly productive at all. It generates an estimated $35 billion of value, but requires some $27 billion of equity support. In First Manhattan Consulting's view, nearly every bank overestimates its net returns in the middle market, perhaps because of the failure to adequately risk-adjust these returns.

Those businesses that destroy shareholder value – whose net present value is less than the amount of needed capital – include large corporate (loans and lines of credit), which wipes out an estimated $25 billion, residential real estate (on-balance-sheet mortgage lending) and international corporate banking, each of which destroys some $15 billion, and other consumer lending (basically direct and indirect installment), which erases some $5 billion.

There is, moreover, less volatility in the returns from these benighted activities than from other businesses. In other words, even if a bank is much more efficient than the average market participant, it is unlikely to earn a decent profit in, say, large corporate lending or in residential real estate.

The Industry Is a Wash

According to First Manhattan Consulting's analysis, the amount of shareholder value created in businesses that are on average viable is almost precisely counterbalanced by the amount of shareholder value destroyed in the nonviable businesses.

This reflects the fact that, in the aggregate, the U.S. banking industry earns an ROE that is just about equal to its shareholders' cost of equity. To become a net-value creator, the industry will have to drastically alter the mix of its businesses, abandoning those whose increasingly commoditized nature makes it difficult to earn a return attractive to the long-suffering bank equity owner. □

LETTERS *to the editor*

Freeze Urged on 'Ill-Gotten Gains' Of Big Bankers Under Indictment

To the Editor:

The FDIC's proposal to increase deposit insurance premiums should trigger a demand to end the agency's carte blanche benevolence that greatly reduces the cost of coverage for certain favored classes of banks.

The "too-big-to-fail" umbrella has holes in it. The holes were caused by reckless and greedy policies commonplace during this past decade, particularly among banks in that category. The holes were also caused by extending coverage to foreign deposits and to deposits in excess of $100,000 on which not one cent of premium was ever paid. The FDIC can change this. The FDIC *should* change this.

Increases Would Fall Unfairly

Ironically, the increases would come mostly from banks who suffer from, rather than benefit from, this "too-big-to-fail" policy of federal regulators.

Finally, it is time a way is found to put a stop to the gross display of garish opulence and arrogance by high-profile hot dogs who treat federal indictments against them as something akin to parking tickets on their limousines.

Tie Up the Parachutes

To the public and to honest and conscientious operators of the nation's mostly well-run financial institutions, it would seem reasonable for assets of those under indictment, including golden parachutes, to be frozen while a case is heard.

And it does *not* seem reasonable that they be allowed to bankroll their defense with ill-gotten gains. Unless these abuses are stopped, it is safe to predict more premium increases. And the public will end up paying for them, either directly or indirectly.

Norbert McCrady
Minneapolis

Mr. McCrady, a consultant, was formerly executive vice president of the Independent Bankers of Minnesota and a director of the Independent Bankers Association of America.

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One State Street Plaza, New York, N.Y. 10004
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Managing Editor: Thomas J. Ferris
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COPY EDITORS
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ART
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FEATURES
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STATISTICS
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Contributing Editor: Paul S. Nadler
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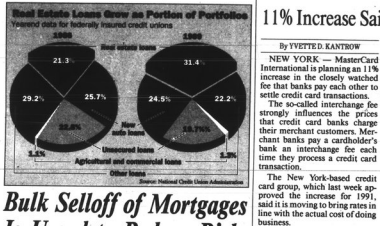


Bulk Selloff of Mortgages Is Urged to Reduce Risk

By BILL ATKINSON

WASHINGTON — Regulators and industry experts are encouraging credit unions to package and sell some of the large mortgage portfolios they have amassed in the past few years.

Unloading these loans in the secondary market to reduce interest rate risk is a relatively new practice for many of these institutions.

Credit unions traditionally made small consumer loans, such as auto credits. But they jumped into the mortgage business with a vengeance in the mid-1980s. To help reduce risk, they often made adjustable rate loans with terms of 20 years or less.

"Credit unions are getting heavier into mortgages," said Charles H. Bradford, chief economist with the National Credit Union Administration, the industry's chief regulator. "We are particularly concerned about interest rate risk. They should be able to prepare to sell those mortgages."

More Loans in Mortgages

Federally insured credit unions had 31% of their loans in mortgages at the end of 1989, up from 21% at the end of 1986, according to the agency. Although growth has slowed in the first half of 1990, mortgages represented 22% of credit union assets at yearend, up about from about 5% in the early 1980s.

With the high mortgage concentration at credit unions, the NCUA is urging institutions to package and sell loans to big buyers such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp.

"The concern most credit unions have is how to service the loans," said Louis Jennings, director of secondary marketing, Navy Federal Credit Union. "Being small it is difficult to do, but the positive aspects outweigh the negatives."

In May, the NCUA published a guide to the secondary mortgage market, explaining basics about servicing loans that are sold, the qualifications for selling loans, the role of Fannie Mae and Freddie Mac, the cost of a full-blown program.

Also touting the advantages of participation in the secondary market is the Credit Union National Association, a Madison, Wis.-based trade group.

Boosting Liquidity, Cutting Risk

Selling loans increases liquidity and reduces risk by passing it into the market, said Brad Murphy, president of the affiliate CUNA Mortgage Corp. Credit unions also may become better underwriters because Freddie Mac and Fannie Mae have strict standards for loans they purchase, he said.

CUNA Mortgage offers training programs to assist credit unions in the secondary market. It also maintains a $1.1 billion servicing portfolio of loans generated by credit unions.

Mr. Murphy said the servicing portfolio was begun in 1986 and has not yet turned a profit. But this year, it is close to breaking even, he said.

Rockwell Federal Credit Union, a $256 million-asset institution in Downey, Calif., has been selling in the secondary mortgage market for nearly 18 months and plans to increase its volume over the next two years. It expects to package and sell $35 million to $45 million in mortgages this year, and $50 million to $60 million in 1991.

"It allows us to become a little more sophisticated," said Bill Walker, real estate loan manager with Rockwell. The institution sells directly to Freddie Mac as well as banks and thrifts, he said.

One of the credit unions with the heaviest involvement in the secondary market is the Merrifield, Va.-based Navy Federal Credit Union, which has about $4 billion in assets.

Navy Federal expects to sell $400 million of mortgages into the secondary market this year, compared with about $300 million last year, Mr. Jennings said. "It has been a part of our philosophy since we got into the mortgage business 12 years ago," he said.

Navy Federal retains the servicing rights on mortgages that it sells.

"If the member has a problem with the mortgage, the member calls us. He doesn't call some servicer in Utah," Mr. Jennings said. "That is a big selling point for a lot of our members." □

MasterCard to Raise Interchange Fee

11% Increase Said to Reflect Cost of Doing Business

By YVETTE D. KANTROW

NEW YORK — MasterCard International is planning an 11% increase in the closely watched fee that banks pay each other to settle credit card transactions.

The so-called interchange fee strongly influences the prices that credit card banks charge their merchant customers. Merchant banks pay a cardholder's bank an interchange fee each time they process a credit card transaction.

The New York-based credit card group, which last week approved the increase for 1991, said it is moving to bring rates in line with the actual cost of doing business.

Rate Structure Intact

Although MasterCard had previously said it would vary prices by merchant type, the association elected to stick with its existing rate structure. Daniel F. Fox, a MasterCard senior vice president, said the association's executive board concluded that one pricing scale would make merchant processing less complicated.

Some executives in the card industry agreed. "The business is so complex that any attempt to keep the business simple is a step in the right direction," said William D. Kinard, an executive vice president for National Data Corp. in Atlanta.

Visa U.S.A. took its first major step toward variable merchant pricing in 1989. It now offers segmented fees to airlines, hotels, automobile rental companies, and direct marketing firms.

Visa Fees Will Also Rise

San Mateo, Calif.-based Visa also will raise its interchange rates for 1991. Earlier this year, it approved about a 20% increase in fees for electronic transactions and a 6% increase in fees for standard transactions.

The association concluded that one pricing scale would make merchant processing less complicated.

Mr. Fox called MasterCard's planned increases modest – a characterization with which Mr. Kinard agreed. The new domestic interchange fees will take effect April 1, 1991.

The MasterCard schedule has four separate rates. The standard rate is 2.08% of a transaction amount plus 8 cents, or about $1.43 on a $65 credit card sale. Merchant banks now pay a standard rate of 1.95% plus 7 cents.

Merit Rates

The three other sets, called merit rates, are designed to encourage retailers to use automated systems for authorizing and processing transactions.

The merit fees for 1991 range from 1.3% of a transaction amount for the most automated transaction to 1.6% plus 7 cents.

On a $65 credit card sale, fees would be about 85 cents at the lowest merit rate and $1.11 for the highest.

Under the current pay schedule, merit fees start at 1.15% of the transaction amount and rise to 1.55% plus 6 cents.

Electronic Edge

New rates at Visa, which are also structured to encourage electronic authorizations, will take effect April 1.

On a $65 sale, they range from about 98 cents for the most automated to $1.35 for a more standard transaction.

Changes in systems to accommodate the card associations' different pricing schedules will not be too burdensome, Mr. Kinard said.

"It's not the first time the card associations haven't been in sync," he said.

Merchant Value Program

With its interchange fees, MasterCard also announced progress in its Merchant Value Program to tailor services for different types of merchants.

MasterCard initially targeted the travel industry, but it is now adding services for the mail and telephone-order businesses and the restaurant and food service industries. □

Home Mortgage Rates Decline Slightly After Surge

NEW YORK — Interest rates on home mortgages, which soared earlier this month as the Persian Gulf crisis developed, declined slightly last week.

Lenders were offering 30-year fixed-rate mortgages at 10.14%, down from 10.17% in the week ended Aug. 10, according to HSH Associates, a Butler, N.J., mortgage research concern.

The company predicted "relatively stable" rates for the next several weeks, with weakness in the economy offsetting upward pressure on rates.

The Federal Home Loan Mortgage Corp., or Freddie Mac, also reported a drop in mortgage rates last week. But the agency said the uncertainty in the Middle East is likely to hurt home building and homebuying.

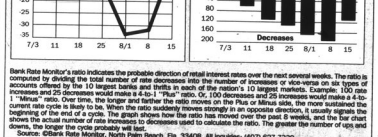
Mortgage-Backed Securities

Meanwhile, lenders have been helped by strong demand for mortgage-backed securities by Wall Street firms assembling collateralized mortgage obligations.

A report by Goldman, Sachs & Co. noted that the yield spread of Federal National Mortgage Association securities over 10-year Treasury securities diminished last week to the unusually low level of 101 basis points. The spread was to 107 basis points as recently as August 9. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index Latest rate trend: Ratio suddenly weakens



Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it usually signals the beginning of the end of a cycle. The graph shows how the ratio has moved over the past 9 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

EXECUTIVE *changes*

Loan Officers Pick Warren For Top Post

James W. Warren 3d, senior executive vice president of **First Florida Banks Inc.** and **First Florida Bank**, Tampa, is the newly elected president of **Robert Morris Associates.**

He will begin his one year term on Sept. 1.

The group, which has its headquarters in Philadelphia, is the national association of bank loan and credit officers.

Robert E. Greene, executive vice president and chief credit officer, **First Interstate Bancorp**, Los Angeles, has been elected the association's first vice president. **William J. Rossman,** president and chief executive officer of **Mid-State Bank and Trust** Co. Altoona, Pa., has been elected second vice president.


J. W. Warren 3d

Mr. Greene and Mr. Rossman will also serve one-year terms.

In addition, five new directors were elected to the board for three-year terms.

They are **C. Scott Bartlett Jr.,** executive vice president, **National Westminster Bank USA,** New York; **David L. Eyles,** vice chairman, **Mellon Bank,** Pittsburgh; **Carolyn Day O'Leary,** vice president, **First American Bankshares Inc.,** Washington, D. C.; **Warren J. Stell,** senior vice president, **City National Bank,** Los Angeles, and **Martin J. Strischek,** senior vice president, **Barnett Bank** of Palm Beach County, West Palm Beach, Fla.

Mr. Warren, who served on the association's board since 1985, is a past president of the association's Florida Chapter. He joined the association in 1971.

NEW ENGLAND

Chittenden Corp., Burlington, Vt., has named **Paul A. Perrault** as president and chief executive officer of the holding company and its principal subsidiary, Chittenden Bank. He succeeds **William H. Brnett Jr.,** who resigned in April.

Mr. Perrault formerly was president of Old Colony Bank in Rhode Island, Providence, a subsidiary of Bank of New England Corp, Boston.

MIDWEST

The Federal Home Loan Bank of Chicago has appointed **Gwendolyn J. Jordan** as a public interest director on its board for a term ending Dec. 31, 1993.

Ms. Jordan is currently director of the community development division of the Community Renewal Society.

PrimeBank, Grand Rapids, Mich., a new affiliate of First of America Bank Corp., has named **Kenneth J. Hoexum** as president and chief executive officer.

He previously served as executive vice president and chief operating officer of the bank.

Relative to PrimeBank's merger with First of America, Mr. Hoexum commented, "the bank will be able to expand its operations significantly in the western Michigan market, and continue to have a strong presence in the community."

Norwest Bank Nebraska, Omaha, has named **James A. Fougeron** to executive vice president, senior regional credit officer.

He had been senior vice president for special loan administration.

Mercantile Bank of St. Louis, the lead bank of **Mercantile Bancorp Inc.** has elected **Gary S. Martin** and **Donald W. Wiliams** as senior vice presidents in the corporate banking department.

Manufacturers National Corp., Detroit, has appointed **Gail L. Warden** to the board of directors of the corporation and of its principal subsidiary, Manufacturers National Bank of Detroit.

The Federal Reserve Bank of Chicago has named **Steven Strongin** to vice president and economic adviser, **Robert Schnorbus** to senior business economist and research officer, and **William Testa** to senior regional economist and research officer.

SOUTHEAST

AmeriFirst Bank, Miami, said **Dr. Laurence B. Brody,** a director since the spring of 1989, has been elected chairman. He is founder of the Cigna Dental Health Plan.

Dr. Brody started a software company as well as a management consulting company. He is currently spearheading the conversion of AmeriFirst's multicomputer systems into one.

WEST

Bank of America, San Francisco, a subsidiary of **BankAmerica Corp.,** said **Erick Goodbody,** regional director of the Orange County/San Diego region of the real estate industries division, has been named executive vice president.


Eric Goodbody

He is responsible for business development, new loan production, portfolio management, and personnel for the division's Orange County/San Diego region.

In addition, Mr. Goodbody is responsible for developing a long-term strategy for construction lending in Arizona as well as for **BankAmerica Sutter Mortgage Corp.**

Bank of California, San Francisco, has named **John C. Kaufman** to public relations manager in Los Angeles for its Southern California region.

Mr. Kaufman formerly served for two years as chief media spokesman for California Federal Bank in Los Angeles.

— **Franklin Smith**

AmSouth Names President

BIRMINGHAM, Ala. — AmSouth Bancorp's board elected John Woods, currently chairman and chief executive officer, to the additional position of president.

The slot opened recently when Dan Hendley resigned to pursue other business interests. □



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Commercial banking law. You've got to comply with it- but first, you've got to understand it.

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Demographics Dim the Prospects for Workouts in 1990s

By ANDREW REINBACH

Though banks are beginning to acknowledge that much of their late-1980s real estate lending is coming back to haunt them, many still hope the workouts will resemble the recovery from such debacles as the Real Estate Investment Trust crash in the 1970s.

But some say the factors now creating a virjual depression in real estate development will also work against successful loan workouts for banks in the 1990s.

Inflation and demographics bailed us out of the 1970s, but it won't be there for us now," said John Koskinen, president of of the Palmieri Co., a Washington-based workout firm.

"The '70s were kid's play. I think this will be the worst time for real estate that we've had in 60 years – since the 1930s."

19.2% Vacancy Rate

Some 637 million square feet of office space is now vacant or under construction, according to TCW Realty Advisors, based in Los Angeles. Vacancy rates soared from a low of 3.3% in 1982 to 19.2% at the beginning of this year.

"Leases expiring now are already above market, and we expect to get less as time goes on," said Thomas Yamin, an executive vice president at Eastdil Realty Inc., based in New York. "Rents got too high, so now they're seeking a market level."

This has already happened in Manhattan. Asking rents in the Times Square area are listed by the Edward S. Gordon Co. at $38.12 a year per square foot, down from $40.90 a year ago. But the actual market is widely said to be only $28 a year per square foot, plus a one-time $50 per square foot – the so-called "work letter" – to modify the space for the tenant.

Vision of Decline

If half the $350.4 billion face value of commercial real estate loans held by U.S. banks fell into some sort of adjustment – anything from a renegotiation to a foreclosure – and the overall loss in value in those transactions were only 25%, the reduction from book value would be $43.8 billion.

But things might get even worse.

"Banks often lent 100% of value on a project, while we only lend 75% of value," said Frank B. McDougal, president of Prudential Mortgage Capital Corp. Thus Prudential has "a 25% cushion on top of the cash flow," he said.

"Our typical loss in a foreclosure is 15% to 20% – so theoretically, banks could lose 45% of loan value."

A 45% loss of value on half the national banks' commercial real estate loans would total $78.8 billion.

Hidden Costs

The real costs of foreclosures are often higher – and hidden.

"It costs 10% of value a year just to carry a building, so the real costs of your average workout, all told, could be 40% of value," said T. J. Winiarski, a senior vice president at Manufacturers National Bank of Detroit. "There are tremendous carrying costs involved, and a lot of the accounting doesn't show them, because the fees associated with ownership are listed as expenses."

Office Vacancy Rates Soar in Top Markets

Vacancy rates as a percentage of total office space in 55 largest markets.



Even if banks and developers avoid workouts or foreclosures, lenders still face the prospect of losses that might reach 25% of face value. The reasons:

• Many current commercial mortgages are essentially renamed construction loans – the loan amounts are for the full cost of construction.

• New mortgages, however, will be underwritten on a strictly cash-flow basis.

• Therefore, loans maturing in coming years will often be replaced by smaller ones, even if the building is fully leased.

This change alone will create losses for banks.

Demographics will also be a problem

In the 1970s, the number of office-based jobs in the United States increased by 15 million, according to the U.S. Bureau of Labor Statistics, while 1.994 billion square feet of office space was built.

At a rule-of-thumb allocation of 200 square feet per employee, this meant that by 1979, surplus demand for office space totaled about 1 billion square feet of space.

It was this surplus demand, combined with the corollary demand for other types of real estate projects also created by the maturing of the postwar generation, that touched off the real estate boom of the 1980s.

But according to the U.S. Census Bureau, in the 1990s only 10 million net new employees will enter the job market. And no more than 50% of them will be employed in offices, if normal employment trends continue.

At the same allocation of space per worker, this means incremental demand for office space in the next 10 years will be only about 350 million square feet for the entire country. That is about 600,000 square feet of space per year for each of the nation's 55 top markets.

Compared to the building pace of the 1980s, this is almost no building at all.

Inflation May Not Help

Though demand for new space will disappear, demand for employees will grow. The U.S. Bureau of Labor Statistics projects that if growth is moderate, more than 12 million office jobs will be created through the decade of the 1990s.

Some believe this shortage of office workers will create wage inflation as employers compete for workers in the 90s.

Since real estate has historically tracked inflation, this should be good news for the industry.

But not this time.

For the first time in memory, in fact, real estate values may lag behind inflation, according to Salomon Brothers Inc.

"In the tough real estate operating environment we are now in, landlords will find that the significant oversupply in many major U.S. markets makes it difficult to increase rents, even if inflation surges. So the income component of real estate returns is unlikely to rise with inflation," said a recent Salomon study. "In addition, values may decline if unanticipated increases in inflation cause investors to apply higher discount rates to real estate cash flows."

In a property bid based on cash flow, investors calculate the price they are willing to pay by dividing the building's net operating income by a discount rate that is generally 250 basis points higher than prevailing five-year or seven-year Treasury bills. The time period referred to is determined by the amount of time investors expect to hold the property.

These discouraging considerations will not apply to every building in a metropolis. Some projects, built to the specification of tenants that will occupy the entire building, will be built and will prosper. This will encourage some origination of new construction loans and support a low level of building construction, nourishing the belief that the business of real estate development is not dead.

But in terms of the market as a whole, such building will only aggravate the situation. Every new building or lease in a new building means that another building or space is left vacant.

It seems likely that as high vacancy rates persist, rental income on the buildings banks financed in the 1980s will be flat, at best, and will lose ground to inflation, even if the buildings are fully leased. And rents may well continue to decline, as is occurring today.

Foreclosures Foreseen

As rental income falls, workout negotiations will naturally ensue on many commercial mortgages. And as matters proceed and the property's real economic condition becomes clear, such negotiations may often lead to foreclosure.

"Take your lumps, put it behind you, and go on to other things."

T. J. Winiarski
Manufacturers National Bank of Detroit

"There's an awful lot that gets uncovered when you read the leases and contracts that otherwise isn't known," said Ivan Fagan, director of the real estate practice at Arthur Andersen & Co. "There may be a land lease that includes participation in cash flow down the road – which the lender may not know about, since many loans didn't have enough due diligence done on them."

Banks hesitate to recognize mortgage problems, some observers say, but the facts may eventually force them to do so.

"They are beginning to take a hard look at reality and deciding which borrowers are so whacked out" that the bank should take over the property, said Henry Gallin, owner of Gallin Realty Co. in New York.

This may ultimately be the best course, old-timers say.

"Take your lumps, put it behind you, and go on to other things," advises Mr. Winiarski of Manufacturers National, who has 30 years' credit experience.

"The market can create a further loss of value, and it could become a dramatic loss of value, so you're often better off moving quickly and taking the property," he observes.

"The important thing to remember is that preventive action is better than remedial action." □

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Texas Real Estate Market Recovering, but Worries Abound

By JEFF FRANKS
Reuters

HOUSTON — Slowly but surely, the real estate market in Texas, epicenter of the depression that has afflicted the nation's oil-producing states since the mid-1980s, is emerging from a morass of overbuilding.

Skyscrapers in Houston and Dallas are finally finding tenants, and houses that sat empty as job seekers left the state are selling once again, although at lower prices.

"I think we've hit bottom and turned upward," said Jack Friedman, real estate professor at Texas A&M University.

Property Values Face Threat

But the massive amount of real estate held by failed thrifts and controlled by the government hangs like a threat over the market, since any big sell-off would send property values crashing once again.

Texas' real estate problems were rooted in the 1980s when the state's economy was booming. Thrifts and banks, savoring less regulation and flush with money reaped from rising oil prices, lent freely for real estate projects in the belief that economic growth would continue unchecked.

"I think we've hit bottom and turned upward."

Jack Friedman
Texas A&M University

But when oil prices fell in the mid-1980s, the energy-dependent economy collapsed, leaving developers with buildings they could neither fill nor pay off. The state's banks and thrifts, stuck with bad energy and real estate loans, were devastated. All but one of the 10 largest banks were recapitalized or bailed out by the government.

Louisiana and Oklahoma also suffered, but not as much as Texas.

Victim of Ego, Promotion

"Texas has that attitude that we're a great state and we can never do anything wrong. We were a victim of our own promotion and ego," Friedman said.

Oil prices, which plummeted to $10 a barrel in 1986, had recovered to around $20 a barrel before the recent jump, and the state's economy has inched back.

The unemployment rate, for example, has dropped from a peak of 10% in 1986 to 5.3%, according to the Texas Employment Commission.

As the economy has recovered, office building vacancy rates have fallen from around 30% two years ago to about 25% statewide, experts said.

Rents have risen as a result, although they remain far below previous levels. According to the Coldwell Banker realty company, June rates for first-class office space in downtown Houston were $15.70 a square foot, up from $11 two years ago but well below the $23.41 price in 1986 before oil prices collapsed.

Housing Recovers Somewhat

The state's housing market shows a similar pattern. According to the Texas Association of Realtors, 1990 home sales through real estate brokerage services were up slightly, with 36,358 units sold through May, compared with 31,853 for the same period in 1989.

But housing prices still remain low, with the median price for May sales at $67,000 versus the national median price of $95,300.

Uncertainty about the state's future appears to be preventing the influx of capital needed for a full-scale recovery. Even though Texas real estate is selling at bargain basement prices – a Houston office building can be bought for $40 a square foot, or about the same amount that space is renting for in New York City – investors are still cautious about the state, said Friedman.

Even though Texas real estate is selling at bargain basement prices, investors are still cautious about the state.

RTC Holdings Worry Investors

Investors' main concern, he said, surrounds the Resolution Trust Corp., which has acquired a large chunk of Texas since it was created by the government last year to oversee the bailout of the nation's failed thrifts.

"A lot of people are hesitant about buying because they're afraid the RTC will unload its properties and they'll lose the value of their investment," he said.

The RTC has repeatedly said it plans to dispose of the real estate taken over from Texas' failed banks and thrifts in a way that will not harm the market.

But investor skepticism is rooted in the vastness of its holdings.

According to an RTC spokeswoman, the agency has 20,000 properties worth $7.7 billion in Texas, which amounts to more than half of its nationwide total of 35,900 properties worth $14.9 billion.

Part of the problem keeping investors at bay is that returns on real estate, although recovering, are minuscule. Institutional real estate investors earned only 0.44% on their Texas holdings in 1989, far below the national average of 6.02%, according to a study by the National Council of Real Estate Investment Fiduciaries.

Still, Friedman said he believes that the state's problems are short-term. □

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INDEX *of top stories*

The following is a selective index, arranged by subject, of the top stories in the *American Banker* last week. The date of appearance precedes each item. This column was compiled by Matt Barthel.

COMMERCIAL REAL ESTATE

8/14 With commercial real estate lending all but dead, some banks are moving lending officers to real estate investment banking services. Fee income and comparatively low risks have convinced many large banks to reallocate resources to advisory work. *Page 1*

COMPETITION / BANK

8/14 Walk into any one of Golden West Financial Corp.'s more than 200 branches, and you'll find a lobby carefully designed to minimize clutter. What you will not find, inside or out, is a single automated teller machine. *Page 1*

8/15 Plagued with rising credit problems and worldwide concern about the health of the U.S. banking industry, American banks staged a major retreat from international credit activities in the first quarter, according to the Bank for International Settlements. *Page 1*

8/16 With the deadline to reduce check-hold times rapidly approaching, several large banks plan to begin processing each other's checks this month through a new nationwide clearing house that will use electronic information to speed operations. *Page 1*

8/16 Alan Greenspan conceded that U.S. banks' competitiveness overseas will be further eroded in the short run if they must raise more capital, as the Fed has recommended. *Page 2*

8/17 Manufacturers Hanover Trust Co. announced that it is closing its branches in Switzerland and Sweden as part of a global restructuring of its wholesale banking business. *Page 1*

CONSUMER SERVICES

8/13 Credit card debt will continue to outpace other forms of consumer debt this year, according to H. Spencer Nilson, an industry observer. *Page 6*

8/15 The Cirrus and Plus networks can proceed with plans to share automated teller machines without fear of antitrust litigation – at least for now. *Page 8*

8/16 Cirrus System Inc. approved Valley Bank of Nevada's application to accept ATM cards with the Cirrus logo, even though Valley imposes usage surcharges on other banks' customers. *Page 6*

8/17 Citibank scrambled to update customers' accounts after last week's New York City power outage; it brought in additional generators to restore back-office computer systems at its city branches. *Page 1*

8/17 British consumers will make more payments with debit cards than checks before the year 2000, a trade group predicts. *Page 8*

CREDIT UNIONS

8/14 The credit union industry put its 1989 performance out for review last week and braced to pay higher fees to its regulatory agency in 1991. *Page 6*

DEPOSIT INSURANCE

8/13 Some conservative economists argue that bank runs may serve a useful purpose by weeding out weak institutions. *Page 8*

8/15 Moving to replenish its dwindling bank insurance fund, the Federal Deposit Insurance Corp. board voted to raise premiums next year by a record 63%. *Page 1*

8/16 Bankers around the country rallied behind the Federal Deposit Insurance Corp.'s proposal for an unprecedented insurance premium increase, conceding it is better to take the bitter medicine now than risk a government bailout later. *Page 1*

EARNINGS

8/13 The Southwest banking rebound dissolved into a sloshy mess during the second quarter as portfolio problems and tough federal examinations hurt a number of institutions. *Page 1*

8/14 Midwest bank earnings were generally lower in the second quarter than in the year-earlier period. *Page 2*

FAILURES

8/14 In a move signaling a likely increase in bank failures in New England, the Federal Deposit Insurance Corp. is planning to open an asset liquidation office in the Boston area and will staff it with as many as 460 employees. *Page 1*

FINANCE

8/13 The Ministry of Finance in Tokyo is not likely to approve further overseas issues of subordinated bonds by Japanese banks. *Page 14*

8/13 Shares of Sovran Financial Corp. and Citizens and Southern Corp. have weakened recently, despite analysts' enthusiasm about the companies' imminent merger. *Page 16*

8/14 A prominent savings and loan stock analyst has plucked his last few healthy thrifts off the buy list until regulators finish working them over in upcoming examinations. Given the possibility of increased loan-loss reserves, the exam results may not

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be pretty. *Page 20*

8/14 A Guinness Peat Aviation official confirmed that his company has discussed a saleleaseback transaction with the union-led UAL Corp. buyout group "in the range of $500 million." *Page 18*

8/15 In an attempt to bolster their stock prices and allocate capital more effectively, major banks are building sophisticated information systems to measure the profitability of products, customers, and lines of business. *Page 1*

8/15 The spike in rates on government securities could hold for a while, and a debate is emerging over whether this rate increase and the concomitant plunge in prices has further wounded the already limping banking industry. *Page 24*

8/15 Citicorp, First Chicago, and Bank of Boston, among other secured lenders, are expected to look long and hard before agreeing to a plan by Atlanta developer John C. Portman to give his unsecured lenders a security lien. *Page 22*

8/16 Doubts have arisen whether First Maryland will keep pursuing Baltimore Bancorp. in light of the decline in bank stock prices and weakness in the local real estate market. *Page 24*

8/17 California bank stocks were hammered lower earnings were estimated for Security Pacific Corp. A Merrill Lynch analyst precipitated the slide by reducing her 1990 earnings estimate to $5.70 a share, from $6.35. *Page 16*

8/17 American Stores Co. closed a $75 million loan this week whose sole agent was a relatively unknown Japanese institution, Bank of Yokohama Ltd., and which was syndicated exclusively to regional Japanese lenders. *Page 14*

HOME MORTGAGES

8/17 Opposition from member thrifts of the Federal Home Loan Bank of New York derailed its plan to invest in jumbo mortgages. *Page 2*

8/17 The top 25 mortgage lenders accounted for 34.7% of all originations last year, up from 31% in 1988, according to a study by SMR Research. *Page 6*

8/17 A proposed sale of one of the Resolution Trust Corp.'s largest mortgage-servicing portfolios has fallen into limbo, with a member of the buyer group coming under pressure to exit. *Page 13*

INTERNATIONAL

8/13 The industrial world's banks, led by those based in Japan, are rapidly reducing their Persian Gulf business, including important interbank credit lines. *Page 10*

8/14 Dai-Ichi Kangyo Bank and Fuji Bank, the world's biggest and third-biggest in terms of assets, have lost their triple-A debt ratings from Moody's Investors Service. *Page 12*

8/15 Bank of Montreal caught industry analysts and money market participants off guard when it cut its prime rate to 14.25% from 14.75%. *Page 14*

8/16 Bayerische Vereinsbank, Germany's sixth-largest, will close agency offices in Atlanta and Cleveland as part of a reorganization of its U.S. operations. *Page 10*

8/17 Thomas Cook Group, a unit of Britain's Midland Bank, got Fed approval to acquire the U.S. retail foreign exchange operations of Deak International from Jarden Morgan Ltd., a New Zealand-based financial services company. *Page 7*

LEGAL / CRIME

8/13 James G. Richmond, coordinator of the Justice Department's investigations of bank and thrift crimes, said New England could be the next hot spot for fraud and management-abuse cases. *Page 13*

LEGISLATION / REGULATION

8/13 Shawmut National Corp., with joint headquarters in Boston and Hartford, Conn., said it has agreed with federal regulators to improve its lending practices, credit review, liquidity planning, and management information systems. *Page 1*

8/15 Moving to replenish its dwindling bank insurance fund, the Federal Deposit Insurance Corp. board voted to raise premiums next year by a record 63%. *Page 1*

8/15 Federal Reserve Board officials insist most banks have little reason to contest its most recent minimum capital requirement, known as the 3% leverage ratio. But some bankers contest the usefulness of this method of measuring capital. *Page 1*

8/15 The Resolution Trust Corp. decided to extend to all investors the quality guarantees on mortgage-related assets that it gives the government-sponsored secondary-market agencies. *Page 2*

8/16 The Federal Home Loan Bank Board's controversial 1988 sales of more than 200 failed thrift institutions cost taxpayers $4.6 billion in 1989, according to a report obtained by the *American Banker* from the Federal Deposit Insurance Corp. *Page 1*

8/16 Rosemary Stewart resigned as enforcement chief of the Office of Thrift Supervision after weathering congressional rage over handling of the Lincoln Savings and Loan failure by the OTS' predecessor agency. *Page 2*

MANAGEMENT / HUMAN RESOURCES

8/13 First Fidelity Bancorp. is close to signing a contract to turn over management of its $100 million technology operation to a third party, EDS Corp., according to industry sources. *Page 1*

8/16 Sovran saved $2 million last year by following the advice of its own employees on ways to improve efficiency. *Page 8*

8/17 Ameritrust Corp. announced it will reduce its staff by 11.5%, or 780 employees, and take a charge of as much as $18 million against third-quarter earnings. *Page 1*

MARKET FORCES

8/16 A marked slowdown in

See **INDEX** *page* **13**

INTERNATIONAL NEWS

LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Merrill Lynch Capital Markets

	8/16 Bid	8/16 Offer	8/9 Bid	8/9 Offer
Algeria	80.00	82.00	80.00	82.00
Argentina	13.50	14.00	14.50	15.00
Bolivia	9.00	11.00	11.00	12.00
Brazil	17.00	17.50	20.00	20.50
Chile	70.00	70.50	70.50	71.00
Colombia	63.00	65.00	63.25	66.00
Costa Rica series A	33.00	35.00	37.00	39.00
Costa Rica series B	29.00	31.00	30.00	32.00
Dominican Republic	17.00	18.00	17.00	18.00
Ecuador	16.50	17.00	16.25	16.75
Honduras	18.00	20.00	18.00	20.00
Ivory Coast	06.00	08.00	06.00	08.00
Jamaica	40.00	42.00	40.00	42.00
Mexico (par)	43.38	44.13	44.13	44.63
Mexico (discount)	64.75	65.25	65.00	65.50
Morocco	44.00	44.50	44.00	44.50
Nicaragua	03.00	04.50	04.00	06.00
Nigeria	27.50	28.00	28.50	29.50
Panama	12.50	13.50	12.00	13.00
Peru	04.00	05.00	04.00	05.00
Philippines	49.00	50.00	50.00	50.50
Poland	16.25	17.00	16.75	17.25
Senegal	36.00	38.00	36.00	38.00
South Africa	70.00	70.50	69.50	70.00
Sudan	04.00	06.00	04.00	06.00
Uruguay	47.00	48.00	49.25	50.00
Venezuela	45.75	46.25	47.00	47.50
Yugoslavia	61.25	61.50	61.25	61.75
Zaire	19.00	21.00	19.00	21.00

Source: *LDC Debt Report*

Brazil Won't Make Payments in '90

Reuters

SAO PAULO — Brazil is not planning on making payments on its foreign bank debt this year, Economy Minister Zelia Cardoso de Mello said in an interview.

"At this moment, we are not thinking about it," Ms. Cardoso said when asked if Brazil envisions making interest payments this year on commercial medium and long-term bank debt of $56.7 billion.

Negotiations with commercial banks will come after a pact is reached with the International Monetary Fund, she said.

Ms. Cardoso predicted an agreement will be reached with the Fund in early October.

"In principle, negotiations would be in that order" with the IMF first, followed by the Paris Club and next foreign bank creditors, the minister said. However, she did not rule out a change from this order.

Payments Skipped Since July 1989

Commercial banks have been demanding that Brazil begin negotiations and start making payments on the longer-term debt. Most payments have been skipped since July 1989 and arrears now total about $6 billion on the bank debt alone, Brazilian officials said recently.

In retaliation, Brazil effectively has lost $3 billion in vital short-term trade and interbank lines because of its failure to honor debt agreements, John Reed, Citicorp's chairman and chief executive officer, said recently.

"This is a normal reaction of bankers" to cut back these lines, Reed said. Citicorp has maintained its short-term lines at $630 million without change since July 1989, he said.

Brazil has continued paying interest on the credits because they are essential for financing exports and imports.

The decision on whether the government will allow debt swaps into equity of the companies being privatized will be made during the next two months, she said. □

Dollar No Haven in Mideast Crisis

Mark, Yen Gain on U.S. Currency Since Iraqi Strike

By JOHN EVANS

LONDON — The dollar's sharp decline against the German mark and Japanese yen since Iraq invaded Kuwait signals that the U.S. currency's longtime role as a safe haven in times of crisis is waning, analysts said.

Since the Mideast crisis erupted Aug. 2, the dollar has hit record postwar lows against the mark – Europe's key currency and the one that sets most currency exchange rates in the industrial world, analysts said.

In the past two weeks, the greenback has lost 6% of its value against the German currency, hitting a low of 1.5530 marks. It steadied Monday in Europe at 1.5585 marks.

Mark Outperforms Yen

In the same period, the dollar has fallen against the yen by about 3%, to 146.50. The Japanese currency, reflecting the Asian nation's substantial dependence on imported oil, hasn't benefited as much as the mark from the Iraq crisis.

One exchange rate analyst on banks from a falling dollar is a ballooning in the value of their assets denominated in foreign currencies. That would require putting more dollar-based core capital behind their business to comply with international capital adequacy requirements.

However, U.S. banks have already been scaling back their overseas assets, and unless the dollar continues to fall steeply, the balance-sheet impact will be "relatively small," said analyst Robert Law of Lehman Brothers International Ltd.

Use of Dollar Shrinks

The dollar already takes a shrinking share of international bank lending.

The Bank for International Settlements has reported that currencies like the mark, French

> **An "uncertainty premium" no longer seems built into the dollar.**
>
> **Mark Houghton-Berry**
> *Goldman Sachs International*

franc, and British pound were used increasingly as substitutes for the dollar in international lending during the first quarter of 1990. The Basel, Switzerland-based bank linked this trend to a simultaneous decline in cross-border activities by U.S. banks.

Dollar-denominated international bank lending grew only $22 billion in the quarter, but such lending in other currencies expanded by more than $129 billion. Total outstanding loans in foreign currencies, at $2.4 trillion, are nearing the dollar's total of $2.8 trillion, the BIS said.

Economists agreed that the dollar's traditional role as a haven in crisis has been based on a belief that the United States would be the last country to succumb if a regional conflict escalated into a superpower clash.

Old Rules Don't Apply

Now, "there doesn't seem to be any uncertainty premium built into the dollar," said Mark Houghton-Berry, analyst at Goldman Sachs International.

Frederick Gubler of Citicorp in Zurich said that, for the dollar, "the safe haven [concept] was created with the tension in Poland 10 years ago and the feeling that any crisis would be in Europe."

Apart from ebbing superpower tensions, another factor behind the dollar's weakness is the view that the United States could cut interest rates to prevent higher oil prices from tipping its sluggish economy into recession, thereby reducing foreign investors' return on dollar-denominated assets.

As a result, high-yielding currencies, such as Britain's pound and the Australian and Canadian dollars, have emerged as key beneficiaries of Mideast tensions. These currencies offer annual interest rates and investment yields of up to 20%.

Foreign exchange dealers still won't write off the dollar, noting its status as the single most widely used currency in international banking and commerce. As such, it has great liquidity and acceptability worldwide, reflecting the underlying strength of the U.S. economy. □

British Banks Stuck with 675 Tons of Unpopular Coin

By JOHN EVANS

LONDON — Britain's big banks have an unusual problem – they can't get rid of some of their money. And it's costing them a fortune.

This embarrassing banking blunder centers on Britain's 50-pence coin, worth about 95 cents.

Burning Holes in Pockets

Banks are now sitting on 50 million of the coins – a mountain of pocket change weighing 675 tons – because the British just don't like the heavy, seven-sided coin. It rapidly wears holes in trouser pockets and purses, consumers complain.

The 50-pence coin is being killed off by the new one-pound ($1.90) and five-pence (9.5 cents) pieces, which are being used as alternatives in change and vending machines.

The banks' hoard of 50-pence pieces, meanwhile, is proving costly. Nearly $7.5 million at an annual rate is being lost in missed interest on the piles of coins, which are worth more than $45 million but sit idle in bank vaults, according to the British Bankers Association.

The problem first emerged a year ago when banks found that, however hard they tried to distribute 50-pence coins, more were being paid back in.

The bankers association, principal trade group for big banks, said the problem is proving so intractable that it will write the government to urge a solution.

But despite earlier pleas by banks for help, Britain's Treasury and Royal Mint have refused to take the coins back, saying that it's the banks' own fault for overordering 50-pence pieces. A Treasury spokesman sniffed: "The Mint simply does not operate on a sale-or-return basis." □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	8/20	8/17	8/10	8/20	8/13	8/10	8/20	8/13	8/10	8/20	8/13	8/10	8/20	8/13	8/10
United States	8.12	8.12	8.12	8.18	8.00	8.00	8.18	8.00	8.00	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.43	7.43	7.40	8.00	7.87	7.94	8.12	8.00	7.93	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.00	11.50	13.00	12.75	13.06	13.12	12.50	12.62	12.68	13.94	13.94	13.94	14.75	14.75	14.75
U.K.	15.00	15.06	15.06	15.06	15.06	15.06	15.00	14.93	14.93	14.34	14.34	14.33	15.00	15.00	15.00
West Germany	8.06	8.12	8.06	8.50	8.50	8.50	8.75	8.75	8.75	6.00	6.00	6.00	10.00	10.00	10.00
Switzerland	8.00	8.12	8.43	8.93	9.12	9.06	9.00	9.18	9.12	6.00	6.00	6.00	10.00	10.00	10.00
France	9.93	10.00	9.62	10.31	9.62	10.12	10.50	10.00	10.25	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.50	11.25	11.00	11.56	11.68	11.62	11.50	11.50	11.87	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.06	14.56	8.72	9.09	8.15
6 to 12 months	8.18	13.70	9.05	8.46	8.25
12 to 24 months	8.94	13.62	8.23	7.88	8.04

*Mid-day quotes in the New York market

Source: Nomen, Ashby & Pearce Inc., New York

INDEX *of top stories*

Continued from *page 11*

California's economy and signs that the west's real estate market is losing steam suggest the West's banking boom may be drawing to a close. *Page 1*

MERGERS ACQUISITIONS

8/17 The Federal Reserve Board's rejection of Bank of New York Co.'s foot-dragging bid to acquire Northeast Bancorp probably stifles what life was left in the moribund bank merger and acquisition scene. *Page 1*

PAYMENTS SYSTEMS

8/17 A backup generator at the Federal Reserve Bank of New York failed, disrupting the Fed's nationwide wire-transfer system and adding more confusion to a federal funds market thrown into turmoil earlier in the week by a blackout in Lower Manhattan. *Page 1*

PEOPLE

8/13 In the wake of a stunning $74.4 million second-quarter loss, the job of Alan P. Hoblitzell – chairman and chief executive officer at MNC Financial Inc. – is on the line, say sources close to MNC. And the future of the $27 billion-asset superregional bank he built has suddenly become clouded. *Page 1*

8/14 In an unprecedented leadership shuffle, the U.S. League of Savings Institutions has bypassed vice chairman Robert B. O'Brien Jr., who was in line to become chairman in November, in favor of Ohio thrift executive Donald B. Shackelford. A league faction, reportedly eager to polish the thrift industry's tarnished image, was said not to want to put a spotlight on Mr. O'Brien's Carteret Savings Bank, a New Jersey thrift widely regarded as weakened. *Page 1*

8/16 Defying a troubled New England economy that has taken a toll on earnings and brought unusually close scrutiny by regulators, J. Terrence Murray, chief executive of Fleet/Norstar Financial Group, continues to talk the language of growth and diversification that he used in bringing Fleet to the forefront of New England banking in the 1980s. *Page 1*

REGIONAL BANKING

8/13 The Southwest banking rebound dissolved into a sloshy mess during the second quarter as portfolio problems and tough federal examinations hurt a number of institutions. *Page 1*

8/14 In a move signaling a likely increase in bank failures in New England, the Federal Deposit Insurance Corp. is planning to open an asset liquidation office in the Boston area and will staff it with as many as 460 employees. *Page 1*

8/16 A marked slowdown in California's economy is among signs that the state's real estate market is losing steam suggest the West's banking boom may be drawing to a close. *Page 1*

TECHNOLOGY

8/13 Big banks are expanding the cash management services available through mainframe-to-mainframe links with corporate customers. *Page 3*

8/14 A major power outage in the Wall Street area disrupted trading operations and forced major banks to shut down computer operations and send thousands of employees home early. *Page 1*

8/14 Walk into any one of Golden West Financial Corp.'s more than 200 branches, and you'll find a lobby carefully designed to minimize clutter. What you will not find, inside or out, is a teller automated teller machine. *Page 1*

8/14 IBM Corp. may be first to market an imaging system for check processing that runs on personal computers and can be installed at branches or regional operations centers. The system is designed to accommodate Fleet/Norstar Financial Group's decentralized approach to check operations. *Page 3*

8/15 In an attempt to bolster their stock prices and allocate capital more effectively, major banks are building sophisticated information systems that measure the profitability of products, customers, and lines of business. *Page 1*

8/15 A power outage in New York's financial district continued to disrupt many banks' back-office operations, as institutions diverted resources to keep trading and funds-transfer operations working smoothly. *Page 3*

8/16 With the deadline to reduce check-hold times rapidly approaching, several large banks plan to begin posting each other's checks this month through a new nationwide clearing house that will use electronic information to speed operations. *Page 1*

8/16 Citibank customers continued to feel the effects of a power outage in New York's financial district; many said they could not draw on their direct-deposit funds. *Page 3*

8/17 Citibank scrambled to update customers' accounts after last week's New York City power outage; it brought in additional generators to restore back-office computer systems at its city branches. *Page 1*

THRIFTS

8/15 Columbia Savings and Loan Association announced it had lost $136.5 million in the second quarter. The loss increased Columbia's capital deficit by 63%, to $352.1 million, and increased the likelihood it would be seized by regulators. *Page 2*

8/16 The Federal Home Loan Bank Board's controversial 1988 sales of more than 200 failed thrift institutions cost taxpayers $4.6 billion in 1989, according to a report obtained by the *American Banker* from the Federal Deposit Insurance Corp. *Page 1*

TRADE ASSOCIATIONS

8/14 In an unprecedented leadership shuffle, the U.S. League of Savings Institutions has bypassed vice chairman Robert B. O'Brien Jr., who was in line to become chairman in November, in favor of Ohio thrift executive Donald B. Shackelford. A league faction, reportedly eager to polish the thrift industry's tarnished image, was said not to want to put a spotlight on Mr. O'Brien's Carteret Savings Bank, a New Jersey thrift widely regarded as weakened. *Page 1* □

Finance Chief Named At Houston Thrift

NEW YORK — Anthony J. Nocella, formerly chief financial officer at Meritor Savings Bank, has been hired for a similar post at United Savings Association of Texas, a Houston thrift led by mortgage-securities pioneer Lewis S. Ranieri.

United announced on Friday that Mr. Nocella will serve as executive vice president and chief financial officer. He left Meritor in December 1987 and has since been president of his own management firm, specializing in asset and liability management for financial institutions.

He is considered an innovator in mortgage and credit card securitization.

Confirming earlier reports, United also named George Bender executive vice president of mortgage banking operations. Mr. Bender had led the mortgage unit of Centrust Bank, Miami, a thrift that is now under federal control. □

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Idaho Seeks to Block Entry of U.S. Bancorp

Continued from page 1

Washington. U.S. Bancorp would stay in the Evergreen State through another subsidiary, U.S. Bank of Washington, the state's third-largest commercial bank.

The U.S. Bancorp Idaho application is under review by the legal division of the Office of the Comptroller of the Currency. Officials said no decision would be made before autumn.

Mr. Patty petitioned the OCC and the Federal Reserve Bank of San Francisco to stop the relocation shortly after U.S. Bancorp submitted applications to the two agencies.

U.S. Bancorp said headquarters relocations across state lines are permitted under national banking laws. Michael W. Meltzer, a Portland attorney representing the company, said the move into Idaho represents "the exercise of a permitted banking power [that the] OCC has approved in half a dozen cases."

A 1959 amendment to the National Banking Act allows nationally chartered banks to move main offices "to any ... location" within 30 miles of its existing headquarters city, with the permission of the OCC. The amendment does not restrict transferring offices across state borders.

Since 1985, when Mark Twain Bancshares, St. Louis, moved the headquarters of a subsidiary from Missouri to Kansas, the OCC and the Federal Reserve Board have approved a handful of cross-border main office relocations.

State Regulators Complain

Bank regulators in several states where such moves have taken place have objected, see-

Bank regulators in several states view the relocations as infringements of state authority.

ing the relocations as infringements of state authority.

But courts generally have upheld the supremacy of federal law. In a precedent-setting 1986 case, a Pennsylvania federal court denied a petition by the state's banking authorities to halt the relocation of the bank of New Jersey's main office from New Jersey to Pennsylvania.

The second relocation, South Trust National Bank move from Alabama to Georgia, is on appeal in a District of Columbia federal court after a Georgia bank petitioned to overturn federal approval. Georgia banking authorities at first opposed the headquarters move, but withdrew their objections when South Trust agreed to dispose of its Alabama branches.

Amendment Called Loophole

The 1959 amendment "is a loophole," said William S. Eckland, an attorney with Morrison & Foerster in Washington, D.C. "I think [U.S. Bancorp] will win. Idaho's pleas will fall on deaf ears."

U.S. Bancorp proposes to use a main office relocation after coming up short on attempts to buy two Idaho financial institutions last year. The company was outbid on Norban Financial Group Inc. and Mountain Peak Savings Bank, both of Coeur d'Alene, by WTB Financial Corp., Spokane, and Security Pacific Corp., Los Angeles respectively.

Should the relocation maneuver succeed, U.S. Bancorp officials say they will quickly move to expand full-service banking into Boise, the state's largest metropolitan area. □

Bank Call Notice

REPORT OF CONDITION
Consolidating domestic and foreign subsidiaries of the

National Westminster Bank USA

of New York

In the state of New York, at the close of business on June 30, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter number 7750 Comptroller of the Currency Northeastern District.

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 709,110
Interest-bearing balances	399,438
Securities	1,960,910
Federal funds sold	17,000
Securities purchased under agreement to resell	85,972
Loans and lease financing receivables:	
Loans and leases, net of unearned income	11,309,182
LESS: Allowance for loan and lease losses	258,612
Loans and leases, net of unearned income, allowance, and reserve	11,040,560
Assets held in trading accounts	65,588
Premises and fixed assets	241,316
Other real estate owned	9,772
Customers' liability to this bank on acceptances outstanding	118,585
Intangible assets	111
Other assets	329,666
TOTAL ASSETS	$14,980,220

LIABILITIES	
Deposits:	
In domestic offices	$ 11,249,323
Noninterest-bearing 2,158,173	
Interest-bearing 9,091,150	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	1,540,536
Noninterest-bearing 13,987	
Interest-bearing 1,526,549	
Federal funds purchased and securities sold under agreements to repurchase	1,070,810
Securities sold under agreements to repurchase	112,152
Demand notes issued to the U.S. Treasury	75,170
Other borrowed money	81,909
Mortgage indebtedness and obligations under capitalized leases	1,387
Bank's liability on acceptances executed and outstanding	121,180
Other liabilities	235,511
TOTAL LIABILITIES	14,488,978

EQUITY CAPITAL	
Common stock	38,378
Surplus	338,657
Undivided profits and capital reserves	182,008
TOTAL EQUITY CAPITAL	359,241
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$14,980,220

I, Peter Wells, Vice President, of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

JOSEPH D. PERILLO
July 30, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

WILLIAM T. KNOWLES
ROBERT F. WALLACE
BRENDAN J. DUGGAN
Directors

Former Jersey Banker Indicted on Fraud

Reuters

CAMDEN, N.J. — A former executive vice president of Montgomery National Bank has been indicted in connection with an alleged $10 million fraud that forced the New Jersey bank into receivership in June, U.S. Attorney Michael Chertoff said.

Michael Schneiderman, 46, was charged with conspiracy, bank fraud, misappropriation of funds, and creation of false bank obligations. Maximum penalties on the charges total 45 years' imprisonment and $2 million in fines.

"These charges forcefully illustrate how corrupt and fraudulent conduct by senior officers can undermine the vitality of a financial institution," said Mr. Chertoff, who is based in Newark.

The U.S. attorney's office also said that former New Jersey savings and loan executive Eugene Unger pleaded guilty to embezzling $6 million.

Mr. Chertoff said Mr. Unger, 63, previously a vice president of Fidelity Mutual Savings and Loan in Westmont, N.J., embezzled the money between 1974 and 1990. Mr. Unger faces a maximum of 20 years in jail and $12 million in fines.

Mr. Chertoff said the Montgomery Bank scheme was allegedly conducted by Mr. Schneiderman and co-conspirator James Fredericks, a former senior bank officer who has pleaded guilty to federal charges.

The nine-count indictment by a federal grand jury against Mr. Schneiderman said the scheme precipitated Montgomery's insolvency and takeover by federal regulators in June. It has since reopened as part of Amboy National Bank.

The indictment charged that Mr. Schneiderman and Mr. Fredericks took money from customers for the Rocky Hill-based bank's repurchase agreements, or repos, which are interest-bearing accounts similar to certificates of deposit.

Instead of depositing the funds, Mr. Schneiderman and Mr. Fredericks gave customers fraudulent letters confirming the repurchase agreements and then used the money for other purposes, the indictment said. □

FHA Chief, at Odds with HUD Hierarchy, Resigns

By DEBRA COPE

WASHINGTON — Former investment banker Austin Fitts abruptly resigned late last week as the federal housing commissioner, after months of butting heads with her superiors at the Department of Housing and Urban Development.

Ms. Fitts, 40, joined HUD in May 1989 after 11 years with the investment banking firm Dillon Read & Co. She was a protege of Treasury Secretary Nicholas Brady, Dillon Read's chairman and chief executive until September 1988.

Arthur J. Hill, president of HUD's Government National Mortgage Association, or Ginnie Mae, will be nominated to succeed Ms. Fitts and face Senate confirmation. No successor to Mr. Hill has been named.

Good First Impression

Brash and confident, Ms. Fitts initially earned plaudits for bringing a marketwise approach to the Federal Housing Administration, HUD's floundering flagship program in homeownership. One of her goals was to reduce big banks' role in delivering home loans by overhauling FHA's coinsurance program.

But sources said she sparred with HUD Secretary Jack Kemp and Under Secretary Alfred A. Delli Bovi on matters of substance and style.

"It was a complete personality conflict," said one source. When Ms. Fitts was frozen out of the policy debate on restructuring the FHA that has dominated HUD's agenda for the past six months, the handwriting was on the wall, this source added.

Observers called her well meaning and a straight shooter but complained that she never learned the fundamentals of the FHA program. □

U.S. Sues Keating to Obtain a Financial Accounting

Reuters

WASHINGTON — On behalf of the Office of Thrift Supervision, the Justice Department last week sued Charles H. Keating Jr., who had headed the failed Lincoln Savings and Loan Association.

The federal lawsuit seeks to enforce an Aug. 9 order by the thrift regulatory agency to obtain an accounting of Mr. Keating's financial affairs. The embattled executive has claimed he is short of cash, but the OTS alleges he is maintaining an expensive lifestyle.

Profiteering Alleged

OTS Director T. Timothy Ryan Jr. has charged that Mr. Keating and five business associates at Irvine, Calif.-based Lincoln and its parent, American Continental Corp., Phoenix, profited from improper use of depositors' funds.

The OTS order required Mr. Keating, who remains chairman of American Continental, to provide financial statements listing all his assets, barred him from engaging in any aspect of the country, and required him to notify the regulator in advance of any transaction in excess of $5,000. The agency also sought restitution of $40.9 million.

Keating Hasn't Complied

The Justice Department said government officials have been unable to convince Mr. Keating to comply with the OTS order. In its lawsuit, the department sought immediate compliance. A hearing date has not been set.

Stephen Neal, an attorney for Mr. Keating, said, "It's another agency seeking to litigate issues, which a different government agency is already litigating exhaustively in Arizona."

"It's a total waste of taxpayers' money," said a spokesman for American Continental. □

Bank Call Notice

CONSOLIDATED REPORT OF CONDITION OF

THE MERCHANTS BANK OF NEW YORK

of New York, New York

And Foreign and Domestic Subsidiaries, a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this district pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts In Thousands
1. Cash and balances due from depository institutions:	
a. Noninterest-bearing balances and currency and coin	$ 48,047
b. Interest-bearing balances	6,660
2. Securities	354,412
4. Loans and lease financing receivables:	
a. Loans and leases, net of unearned income	294,648
b. Less: Allowance for loan and lease losses	3,948
c. Loans and leases, net of unearned income, allowance, and reserves	290,145
5. Customers' liability to this bank on acceptances outstanding	5,171
11. Other assets	28,383
12. TOTAL ASSETS	$727,418

LIABILITIES	
13. Deposits:	
a. In domestic offices	268,319
(1) Noninterest-bearing	158,002
(2) Interest-bearing	370,800
16. Other borrowed money	265
18. Bank's liability on acceptances executed and outstanding	5,048
20. Other liabilities	4,060
21. TOTAL LIABILITIES	278,692

EQUITY CAPITAL	
24. Common stock	$ 5,074
25. Surplus	19,779
26. Undivided profits and capital reserves	44,382
28. TOTAL EQUITY CAPITAL	$ 67,910
29. TOTAL LIABILITIES, AND EQUITY CAPITAL	$727,418

I, Richard A. Urbano, Vice President & Comptroller, of the above-named bank do hereby declare that this report of condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

RICHARD A. URBANO

We, the undersigned directors, attest the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

SPENCER B. WITTY
RUDOLF H. HERTZ
BERNICE AHRENS
Directors

Sunwest to Agrees to Notify Fed Bank of Dividend Plans

By STEVE KLINKERMAN

DALLAS — Sunwest Financial Services Inc. said it had agreed not to declare dividends without first giving written notice to the Federal Reserve Bank of Kansas City.

The agreement with the Fed covers dividends from Sunwest member banks to the parent company, and parent company dividends to shareholders, the company said.

Sunwest, the largest bank holding company in New Mexico, is current on its 28 cents per share dividend payments to shareholders, Sunwest said.

Sunwest's common stock trades at between $16 and $17 a share, roughly 25% below its book value.

The commencement of federal oversight on dividend payments caps a rough six months for Sunwest, which underwent back-to-back examinations by the Federal Reserve Bank of Kansas City and the Comptroller of the Currency.

Once renowned by analysts for its aggressive commercial real estate lending strategy, Sunwest racked up a 75% increase in average domestic real estate loans between 1986 and 1989, according to Ferguson & Co. But during the same period, its average caseload of delinquent and defaulted real estate loans increased by 122%.

Sunwest suffered additional portfolio deterioration this year. The company reported a 38.4% increase in nonperforming assets during the six months that June 30. It finished the period with $121 million of problem assets — equal to 7.2% of gross loans. □

Bank Call Notice

RESERVE DISTRICT No. 2
CONSOLIDATED REPORT OF CONDITION OF

Manufacturers Hanover Trust Company

of 270 Park Avenue, New York, New York 10017
and Foreign and Domestic Subsidiaries
a member of the Federal Reserve System,

at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amount In Millions
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 2,336
Interest-bearing balances	1,668
Securities	7,076
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs	2,490
Federal funds sold	25
Securities purchased under agreements to resell	
Loans and lease financing receivables:	
Loans and leases, net of unearned income 38,661	
Less: Allowance for loan and lease losses 1,833	
Loans and leases, net of unearned income, allowance, and reserve	36,828
Assets held in trading accounts	1,618
Premises and fixed assets (including capitalized leases)	811
Other real estate owned	241
Investments in unconsolidated subsidiaries and associated companies	20
Customers' liability to this bank on acceptances outstanding	1,143
Intangible assets	135
Other assets	1,737
TOTAL ASSETS	$56,488

LIABILITIES	
Deposits:	
In domestic offices	$24,175
Noninterest-bearing ..... $ 6,178	
Interest-bearing 17,997	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	19,060
Noninterest-bearing 212	
Interest-bearing 18,848	
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds purchased	2,482
Securities sold under agreements to repurchase	858
Demand notes issued to the U.S. Treasury	682
Other borrowed money	2,042
Mortgage indebtedness and obligations under capitalized leases	30
Bank's liability on acceptances executed and outstanding	1,150
Notes and debentures subordinated to deposits	1,109
Other liabilities	2,477
TOTAL LIABILITIES	53,856

EQUITY CAPITAL	
Common stock	350
Surplus	1,932
Undivided profits and capital reserves	334
Cumulative foreign currency translation adjustments	44
TOTAL EQUITY CAPITAL	2,632
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$56,488

I, Eugene M. McQuade, Executive Vice President and Controller of the above-named bank, do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

EUGENE M. McQUADE
EVP and Controller

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

JOHN F. McGILLICUDDY
THOMAS S. JOHNSON
EDWARD D. MILLER
Directors

OTS Backs Perpetual's Plan to Narrow Focus

VIENNA, Va. — Perpetual Financial Corp. said Friday it has entered into an agreement with the Office of Thrift Supervision that permits it to continue with a previously announced business plan to concentrate on retail banking and mortgages.

The parent of Perpetual Savings Bank said the agreement and the plan call for reduced nonperforming assets, its investment in service corporation subsidiaries, and the level of corporate and commercial real estate loans. Perpetual said it has agreed to review various policies and procedures and revise them where appropriate.

"We are pleased that our regulators considered it appropriate to build our agreement around

The plan is to concentrate on retail banking and mortgages.

Perpetual's business plan," said chairman Thomas J. Owen. He called the regulatory accord "a positive step for the bank."

9-Month Loss Hits $67.3 Million

Also on Friday, Perpetual reported a net loss of $5.3 million, or 45 cents per primary share, for its third fiscal quarter, which ended July 31, 1990. Its nine-month net deficit has mounted to $67.3 million, or $5.09 a share.

The $5.4 million-asset company earned $5 million or 29 cents a share in the comparable period of 1989, and $16.1 million or 96 cents a share in the first nine months of that fiscal year.

Perpetual said it continues to suffer from a soft economy and real estate market in the Washington area. Nonperforming assets rose by $91 million from April 30 to $334 million, or 6.14% of total assets, on July 31. But the company said it successfully resolved $41 million of problem assets in the latest quarter.

Perpetual took $11 million in loan-loss provisions during the third quarter, bringing total provisions for the year to $76 million – 10 times more than in the 1989 fiscal year – and total reserves to $72.2 million or 3.35% of total loans excluding residential mortgages. Including those mortgages, the coverage was 1.95% on July 31.

Downsizing Strategy

Reflecting a downsizing strategy, assets fell 4% from their July 1989 level, and deposits dropped 12% to $3.9 billion. Wholesale deposits were reduced for virtually all of that decline.

"We are on target with our business plan, but its early success, particularly in the area of asset quality and our ability to phase out real estate joint ventures, will be highly dependent on the duration of the current softness of the economy and real estate markets, and other factors beyond our control," Mr. Owen said. □

Bank Call Notice

CONSOLIDATED REPORT OF CONDITION OF

UBAF ARAB AMERICAN BANK

of 40 East 52nd Street, New York, New York 10022
And Foreign and Domestic Subsidiaries
a member of the Federal Reserve System, at the close of business June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts In Thousands
1. Cash and balances due from depository institutions:	
a. Noninterest-bearing balances and currency and coin ..... $ 10,780	
b. Interest-bearing balances 36,578	
2. Securities	102,000
3. Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
a. Federal funds sold	17,000
b. Loans and lease financing receivables:	
a. Loans and lease, net of unearned income, allowance, and reserve	533,007
5. Premises and fixed assets (including capitalized leases)	3,399
6. Other real estate owned	288
7. Customers' liability to this bank on acceptances outstanding	12,192
11. Other assets	13,317
12. TOTAL ASSETS	$730,566

LIABILITIES	
13. Deposits:	
a. In domestic offices	$ 13,360
(1) Noninterest-bearing $2,254	
(2) Interest-bearing $11,106	
b. In foreign offices, Edge and Agreement subsidiaries, and IBFs	583,726
(2) Interest-bearing 583,726	
14. Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
a. Federal funds purchased	39,000
16. Other borrowed money	73,898
18. Bank's liability on acceptances executed and outstanding	12,192
20. Other liabilities	14,287
21. TOTAL LIABILITIES	$ 736,551

EQUITY CAPITAL	
24. Common stock	$ 39,874
25. Surplus	39,786
26. Undivided profits and capital reserves	(75,745)
28. TOTAL EQUITY CAPITAL	(6,085)
29. TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$730,466

I, Tetsay Akeweh, Vice-Pres/Comptroller, of the above-named bank do hereby declare that this report of condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

TETSAY AKEWOH
July 31, 1990

We, the undersigned directors, attest to the correctness of this report of condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true and correct.

FAKHRUDDIN KHALIL
SADDIK HIJAZI
MOHAMED ABUSHADI
Directors

Earnings

Continued from page 2

1989, short-term interest rates have fallen 100 basis points, loan and deposit pricing has returned to normal." Joseph A. Jolson, thrift analyst at Montgomery Securities Inc., wrote in recent report.

For example, the margin at Golden West Financial Corp., Oakland, Calif., widened to 2.47% from the 2.30% in the 1989 second quarter.

"The $64,000 question is: Have the ones with the real estate problems gotten those problems behind them?"

J. Noel Fahey
U.S. League of Savings Institutions

Volume was up for some of the thrifts. But many continue to shrink in size to better meet the higher capital requirements being phased in under the thrift bailout law. Slower home sales also hurt volume.

Glendale Federal Bank, Glendale Calif., Beverly Hills, Calif., reported new loans in the second quarter amounted to $3.6 billion, up 6% from $3.4 billion a year ago. Glenfed wrote $1.57 billion in new loans, off from the $1.63 billion in the year earlier quarter.

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Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX THE GREEN POINT SAVINGS BANK, Plaintiff, against ANN MARTINEZ et al Defendants. Pursuant to a judgment of foreclosure and sale entered herein and dated June 6, 1990, I, the undersigned Referee will sell at public auction in Room 118, Mezzanine, 851 Grand Concourse, Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises known as 2 Point on the south side of Winston Avenue, 344.58 ft. westerly from the corner formed by the intersection of the southerly side of Winston Avenue and the easterly side of Virginia Avenue; run thence W 103.06 feet by 25 feet and known as 1946, Winston Avenue, Bronx New York. Approximate amount of lien $214,705.81 plus interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 15198/89. Dated August 14, 1990. Ira Greenberg, Referee. Cullen & Dykman Attorney(s) for Plaintiff. 233 Seventh Street, Garden City, NY 11530.

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"The longer they resist, the more inescapable it is that they have something they don't want revealed."

R. Dan Brumbaugh
Center for Economic Policy Research

FDIC Critic Defended Against Gonzalez Attack

Continued from page 1

tent with the needs of the committee." The chairman was particularly perturbed by Mr. Brumbaugh's appearances as a witness. "Expert witness in court on behalf of thrift executives against the FDIC:

"To me, that renders him ineligible," Rep. Gonzalez said in an interview last week. "He is already biased."

Mr. Brumbaugh is a senior research scholar at Stanford University's Center for Economic Policy Research. As an economist with the Federal Home Loan Bank Board in 1984, he accurately predicted the collapse of the Federal Savings and Loan Insurance Corp.

FDIC Called Insolvent

In recent appearances on national television, Mr. Brumbaugh has pronounced the FDIC insolvent and accused the agency of covering up the true condition of its insurance fund and of some large banks.

The controversial economist, in an interview Monday, accused the FDIC of using "bait-and-switch" tactics to keep him from getting confidential data on individual asks.

The FDIC strongly denied Mr. Brumbaugh's allegation. But there is no denying that the FDIC is at the weakest point in its 57-year history. It is forecasting a $2 billion net loss from its reserve fund in 1990, to a projected $11 billion at yearend.

Dramatic Rise In Premium

Aug. 14, the FDIC board proposed raising the premiums banks pay for deposit insurance a dramatic 63%, from the current 12 cents to 19.5 cents for every $100 insured.

"The longer they resist [in turning over the data], the more inescapable it is that they have something they don't want revealed," Mr. Brumbaugh said of the insurance agency.

The banking committee's ranking members have long been at odds, but their most recent tussle started last week when Rep. Gonzalez sent Rep. Annunzio the letter accusing Mr. Brumbaugh of bias and seeking his removal from the project sanctioned by the financial institutions subcommittee.

Rep. Annunzio was not budging.

Giving Taxpayers the Truth

"There are those among the regulators and within the banking community who want to silence Mr. Brumbaugh," Rep. Annunzio wrote. "As members of Congress, we owe it to the taxpayers to give them the truth."

Mr. Brumbaugh wants access to individual bank examination reports and the FDIC's list of

See ANNUNZIO page 18

Text of Gonzalez and Annunzio Letters on Brumbaugh

Henry B. Gonzalez, chairman of the House Banking Committee, sent the following letter, dated Aug. 16, to Rep. Frank Annunzio, chairman of the House Banking subcommittee on financial institutions.

Dear Frank:

Preserving or if need be, restoring the soundness of the deposit insurance system has been the major focus of your efforts and mine, throughout this Congress. I supported the study you proposed on the FDIC's soundness in the expectation that this would be a significant addition to the Committee's information on the problem. I am concerned, however, that the credibility of the study will be undermined by the actions of at least one of the contractors.

While Mr. Dan Brumbaugh comes with excellent credentials, he has also served as an expert witness in the defense of at least three management groups being sued by FDIC for improper actions. While there is nothing wrong per se with providing expert testimony to defendants in savings and loan liability suits, it is inconsistent for a contractor to argue that imprudent actions of such defendants were justified because regulatory attitudes did not discourage such actions, to be portrayed as a defender of the public interest. One can either accept employment defending highfliers, or providing expertise in the public interest, but it is difficult to do both and maintain the kind of credibility the Committee requires. The subject is simply too important to risk having it turn into a debate about motives.

I am sorry that you have not been aware of Mr. Brumbaugh's activities in the field of savings and loan defendants. I think you would agree that such activities are inconsistent with the needs of the Committee.

With best wishes.

Sincerely,

Henry B. Gonzalez
Chairman
Committee on Banking, Finance, and Urban Affairs

Rep. Annunzio responded to Rep. Gonzalez with the following letter, dated Aug. 17.

Dear Mr. Chairman:

Thank you for your letter of August 16 concerning the study of the soundness of the Bank Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), and one of the individuals hired to perform that study, Mr. Dan Brumbaugh.

I was deeply disturbed when my office received a phone call from a reporter from the *American Banker* who said that she had an interview with you in which you discussed Mr. Brumbaugh and the letter to me. I feel very strongly that common courtesy would have dictated that you discuss this matter with me, or at least given me an opportunity to receive your letter, before discussing it with the press. It is extremely awkward to be asked by a reporter to discuss a letter that I have not even seen.

I will be now get to the subject matter of your letter.

Mr. Brumbaugh, along with two other individuals, Mr. James Barth and Mr. Robert Litan, were hired under a contract dated April 20, 1990, to perform a study on the health of the Federal Deposit Insurance Corporation. These individuals, including Mr. Brumbaugh, were hired because they were among only a few individuals in the entire country who foresaw the savings and loan scandal and predicted it well before it happened.

Prior to entering into the contract, I asked each of the individuals to read the relevant interest rules regarding such contractual arrangements. All three individuals advised me that they had no conflicts of interest. In fact, Mr. Litan resigned a position with a law firm to avoid any appearance of a conflict of interest.

It is my understanding that Mr. Brumbaugh has in the past appeared as an expert witness for defendants in various civil lawsuits brought by the Federal

"The issue here is whether or not Mr. Brumbaugh is qualified to judge the health of the FDIC."

Savings and Loan Insurance Corporation (FSLIC) and its successors against directors of insolvent savings institutions. It is also my understanding that Mr. Brumbaugh has indicated that he would also appear as an expert witness for the United States government in such cases if asked to testify. I have also been informed that Mr. Brumbaugh, in a number of these cases, has testified that the directors failed in their duties.

The issue here is whether or not Mr. Brumbaugh is qualified to judge the health of the Federal Deposit Insurance Corporation. You apparently have some concerns, and it would have been appreciated if you had raised these concerns at the time the contract was written.

Mr. Brumbaugh may be outspoken in his belief that the FDIC is in bad shape. I am deeply concerned about the condition of that agency, and it should be noted that only this week the FDIC board voted to raise insurance premiums for banks by more than 60 percent. You immediately wrote to Chairman William Seidman suggesting that the premium increase was not great enough, and I applaud you for that action and strongly share your beliefs.

There are those among the regulators and within the banking community who want to silence Mr. Brumbaugh. My only interest is in finding out whether or not the FDIC fund is sound. The taxpayers are the ones that ultimately would have to pay for any bailout of the FDIC fund, as they are now paying for the FSLIC fund. As Members of Congress, we owe it to the taxpayers to give them the truth.

Unfortunately, the individuals conducting the study of the FDIC have been severely handicapped by their inability to receive information on the fund. For example, the FDIC said that it would provide all information about the fund to the contractors. That agency, along with the Comptroller of the Currency and the Federal Reserve Board, has refused to make examination reports and problem bank lists available to the contractors. It is my understanding that attempts are being made to secure the information reports and problem bank lists from the agencies.

I am confident that you have not been aware of Mr. Brumbaugh's activities in the field of savings and loan defendants. I think you would agree that such activities are inconsistent with the needs of the Committee.

With best wishes.

Sincerely,

Frank Annunzio
Chairman
Subcommittee on Financial Institution Supervision

DEALS

Are Controlled Selldowns, New Wrinkle in Loan Sales, Doomed to Fail?

Continued from *page 1*

undermined by the agent banks themselves, who reportedly cut side deals with buyers. No bank will rush to admit that, though.

The cheating is common-place, and almost impossible to prevent, bankers say.

Controlled selldowns have been a fixture of the loan sales market since the 1988 buyout of RJR Nabisco, which required more than $13 billion of bank loans.

Mixed Results at Best

The pooled selldown of a portion of the original RJR buyout loans met with mixed results at best, bankers recall.

Since then, very few pooled selldown have been successful, bankers say.

Bankers point to the controlled selldown of loans for McCaw Cellular Communication and Time-Warner as two of the more notable examples of such flops.

The pooled selldown of about $1.4 billion in new loans to RJR closes this Friday, and so far, a mere $200 million has been sold to buyers in the secondary market.

A syndication official at one of the coagent banks readily concedes that fees offered to buyers will rise as soon as the pool closes.

Little Buyer Interest Expected

Even before it gets under way, the controlled selldown of a portion of a new $1.75 billion loan to Lin Broadcasting is expected by at least one of the coagents to meet with little buyer interest in the secondary market.

"I'm much more of a believer in letting the market set the price," said a corporate finance official at Morgan Guaranty Trust, one of the coagents on the Lin credit.

"I don't know of a large syndicate where a controlled secondary has been that effective," he added.

Likely to Remain on Scene

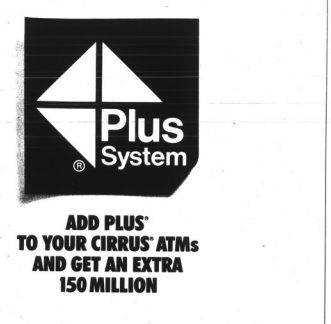
Still, bankers say pooled selldowns are likely to remain a feature of the loan sales market, at least for the time being.

Despite the glaring lack of success, agent banks continue to attract participants in primary syndicates with the promise of an orderly selldown in the secondary market.

"Only fools believe in that theory," said a syndications official. But he added, "I think banks are in many times willing to waking up in these matters."

Controlled selldowns also allow the agent banks to "restrict normal competition" from other members of the primary syndicate, the syndication official said.

The process allows the agent banks to make contact with potential buyers in the secondary market, unfettered by competition from the syndicate members, bankers say. □



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THE PREMIER ATM NETWORK

Annunzio Backs Expert's Work

Continued from *page 1*

problem banks. He said his two colleagues on the study – James R. Barth, former chief economist at the Bank Board, and now a professor at Auburn University, and Brookings Institution economist Robert E. Litan – met in mid-June with FDIC staffers and subcommittee aides to discuss how sensitive FDIC information could be turned over.

June 18, Mr. Brumbaugh said, he called his FDIC contact on the project, Charles V. Collier, and said that Mr. Barth were willing to sign a confidentiality agreement to get the data, complete with a list of participants to effect they divulged information.

FDIC Aide Taken Aback

Mr. Brumbaugh, reading from notes he took of that call, said Mr. Collier responded: "Excuse me if I'm gasping. We thought you didn't want confidential data after the meeting last week. I'll have to get back to you."

Finally, Mr. Brumbaugh said, he was told that the subcommittee would have to request the data.

Mr. Collier did not return a phone call, but FDIC spokesman Alan J. Whitney said: "I don't care [Mr. Barth, Brumbaugh] thinks he told Chuck Collier. It hasn't happened." Mr. Collier is assistant director of the FDIC's office of compliance and special activities.

The staff study stands, Mr. Whitney said, but he added that the subcommittee must respond to a letter FDIC Chairman L. William Seidman sent to Rep. Annunzio outlining conditions for releasing the information.

"Bait and switch is exactly what they did," said Mr. Brumbaugh. "This is a strategy to deny us the data."

Mr. Litan said he will not sign the confidentiality agreement but added that he does not need to see individual bank examiners because his part of the study is mainly an autopsy of past failures.

In the study, which is to be completed in November, Mr. Brumbaugh and Mr. Barth are trying to determine what would be the market valuation of banks if they lacked deposit insurance. □

Highlights for Monday, August 20

TOP 10 GAINERS %

Chemical Financial Corporation	7.1
Bank of Granite Corporation	6.9
Financial Trust Corp.	4.8
Marine Corporation	4.6
Susquehanna Bancshares, Inc.	3.7
Southeast Banking Corp.	3.3
Wesbanco, Inc.	3.3
Baltimore Bancorp	3.2
Pacific Western Bancshares	3.0
BB&T Financial Corporation	2.9

TOP 10 LOSERS %

United Carolina Bancshares	-5.8
F & M National Corporation	-5.8
Commonwealth Bancshares	-4.6
Sumitomo Bank of California	-4.6
Evergreen Bancorp, Inc.	-4.2
Suburban Bancorp, Inc.	-4.2
Landmark Bancshares Corp.	-4.0
First National Bancorp	-3.8
Valley National Corporation	-3.7
Mid-America Bancorp	-3.7

MOST SHARES TRADED

Citicorp	1144000
Bank of New England Corp.	789000
BankAmerica Corporation	641000
U.S. Bancorp	446000
MNC Financial, Inc.	406000

VOLUME AS % OF AVERAGE

Trustmark Corporation	911.0
Pacific Western Bancshares	905.6
CNB Bancshares, Inc.	493.4
Puget Sound Bancorp	385.7
Landmark Bancshares Corp.	353.5

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

1/3/89=100

Percentage Changes
Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.44	-3.29	-10.30	-0.51	-4.20	-13.23	-0.98	-4.02	-18.16

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18½	1stSouthCorp-Kn	6.1	84.0	18½	--
14½	10¼	1stUnionCorp	15.5	63.1	11¼	-¼
38¾	20	AmSouthBancorp	8.0	83.0	20¾	-¼
13¾	13¾	AmerBkr-Kn	8.1	82.7	14	--
29	14	AmerTrustCorp-Cl	23.9	79.7	14¼	-¼
22¼	16½	BB&T FinCorp-Cl	8.5	158.6	18½	--
24½	17¾	BB&T FinCorp-Kn	8.5	158.6	18	--
15¼	7¾	BalBancorp-MD	5.9	57.1	8	¼
48¾	36¼	BancPonce-PR	13.3	142.8	38¾	--
31¾	25¾	BancoPonce-Cp	9.7	150.0	25¾	--
25	18¼	BancoPonce-PR	5.5	83.0	25¼	--
56¾	40	BancorpHawaii-Kn	7.6	128.3	40	--
23¼	18	BancorpRhode-MS	6.9	87.7	18½	--
36¼	21¾	BankAmericaCorp-CA	4.5	85.7	21¾	-¼
24	17¾	BankGranite Corp-NC	13.1	231.8	21¾	1¾
23¾	21¼	BankNewEngland-MA	NM	44.9	21¾	--
14¾	7¾	BankSouthCorp-GA	8.8	83.2	7¾	-¼
12	8	BankersTrust-NY	NM	43.8	8	--
82	61	BanksofIowa-IA	10.4	100.8	64	--
38¾	24¾	BarnettBanks-FL	7.3	87.2	24¾	-¼
40½	11¾	BayBanks-MA	NM	34.7	11¾	-¾
39¼	27¾	BeneficialMaryland-MD	NM	91.9	18	--
25½	15½	BoulevardBanc-IL	225.0	102.5	15¾	-¼
18¾	12¾	BrenhamBcshs-TX	7.4	101.1	14¼	-¼
43¾	30½	CCB FinCorp-NC	8.0	106.3	31	-¼
22¾	15¾	CDNB Corp-PA	6.3	88.6	15¾	-¼
22¾	18¾	CNB Bancshares-IN	10.2	122.8	21¼	-¼
27	20¼	CPB Inc.-HI	10.2	140.7	21¼	-¼
28	12¾	CVB FinCorp-CA	9.1	208.0	12¾	-¼
33¾	17	CalFed Inc.-CA	7.6	138.0	19	--
16¾	12¾	CentralBcshs-KS	6.6	90.6	13¾	--
34½	23¾	CentralFidelity-IA	7.1	100.4	25¾	--
27	10¾	CentralJersey-NJ	6.4	76.6	10¾	-¼
44¾	17¾	CharterMidAtlantic-NY	NM	51.9	18	--
41¾	20¾	CharterMidAtlantic-NY	NM	66.6	22¾	-¾
35	28	ChemicalFinCorp-MI	8.7	95.0	30	2
35¾	18½	Citicorp-NY	NM	72.9	18¾	-¾
25¾	15¾	CitizensBancorp-MD	7.4	95.0	18	--
29¾	20¾	CitizensBanking-MI	7.5	71.9	21¾	--
15½	7¾	CitizensHldg-GA	9.0	113.0	8¼	-¼
34¾	30¾	CitizensSouthern-GA	8.1	91.5	30¾	--
27¼	15¼	CitizensUtilities-CO	6.8	154.2	15¾	-¼
22¾	12¾	ColonialBankBlanch-CO	34.1	76.5	13¾	-¼
38¾	37½	Comerica-MI	6.7	97.9	37¾	-¾
29¾	21½	CommercBcshrs-MO	6.9	92.8	21¾	¼
20¾	15½	CommercialNat-NE	7.1	83.3	15¾	-¾
37½	10½	CorestatesNet-PA	7.0	39.4	11¼	-¼
35¼	10¾	Continental-IL	7.0	44.4	10¾	-¼
49¾	32¾	CoreStatesFinCp-PA	6.7	120.5	32¾	-¼
34	17¾	CrestarFinCorp-GA	7.6	75.1	17¾	-¾
19¾	7¾	CullenFrost-TX	39.9	50.5	10¼	-¼
37¼	26¾	DeposBancshsA-PR	7.8	116.8	27¼	-¼
32	21¼	DepositGuaranty-MS	7.8	68.7	22¼	-¼
25¼	13¾	DominionBcshs-VA	8.6	73.6	13¾	-¼
14¾	3¾	EquimarkCorp-IN	NM	26.3	3¾	--
21¼	11¾	EvergreenBancorp-NY	5.7	60.9	11¼	-¼
15¾	12¾	F & M NatCorp-VA	10.0	153.9	12¾	-¼
14¾	11½	FNB Corp-PA	8.0	94.0	11½	--
26	21½	FNN Bancorp-IL	10.2	168.6	22	--
29	27¾	FarmersCapBk-KY	13.3	118.6	27¾	-¼
39¾	28¾	FifthThirdBncp-OH	10.1	155.4	29¾	-¼
38¾	31	FinancialTrust-IN	8.9	134.1	32½	1½
51½	33¾	FirstTenn-NE	8.4	86.8	34	--
19¾	15¾	FirstNations-AL	8.0	100.9	15¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
35¾	9¾	FirstAmerCorp-TN	NM	57.5	9¾	-¼
34½	21¾	FirstBancorp-OH	7.5	90.0	22¾	--
26¾	12¾	FirstBkSystems-MN	7.6	75.3	12¾	-¼
49¾	22	FirstChicago/L	6.7	62.7	22½	-½
39½	32¾	FirstCitizensNC	7.3	86.4	32½	-¼
39½	17¾	FirstCitybanc-TX	2.7	51.6	17¾	-¼
18¾	12¾	FirstCommnsIL	18¾	12¾	FirstCommnsIL	--
23¾	17¾	FirstCommerce-LA	8.1	90.7	17¾	-¼
25	21¾	FirstCommerce-NE	8.5	88.2	22¼	-¼
21¾	17¾	FirstCommerce-AL	9.9	109.7	18	--
21¾	18¾	FirstCommerce-GA	7.9	114.8	17¾	--
18¼	14¼	FirstCommunity-IL	10.9	111.9	16¼	--
15¾	8¾	FirstEastern-PA	6.9	84.2	10¾	--
73	58	FirstEmpire-NY	7.4	87.9	65	-¾
33¾	13¾	FirstFed Fin-CA	NM	71.1	14¾	--
50	30¾	FirstFedMich-MI	11.5	195.6	36¾	--
34¾	18½	FirstFederal-MI	9.1	71.0	18¾	-¼
18¾	14¾	FirstFederalCp-MI	8.7	108.0	14¾	--
24¾	18¾	FirstMidwest-IL	7.2	114.6	19¾	-¼
26½	13	FirstNatBanger-TX	7.9	121.8	19¾	-¼
44	29¾	FirstNiagara-NY	7.3	74.4	29¾	-¼
19¾	12¾	FirstOhioBncp-OH	7.4	89.1	21¾	--
25¾	15¾	FirstUnionCorp-NC	6.5	77.3	15¾	-¼
35¾	21¼	FirstVirginia-VA	6.8	96.5	21¾	-¼
45¾	37¾	FirstWachovia-NC	9.7	146.5	38¾	-¼
35	26¾	FirstarCorp-WI	6.6	103.7	26¾	-¼
24¾	18¾	FirstBancWI-IL	8.1	101.2	18¾	-¼
55¾	42¼	FirstofAmerica-MI	7.4	92.8	43¾	-¼
29¾	18	FleetNorstar-RI	12.1	84.4	19¾	-¼
25	19¾	FortWayneNatCp-IN	8.6	104.2	19¾	-¼
26¾	20¾	FourthFinCorp-KS	7.8	138.1	20¾	-¼
21¾	14¾	FultonFinCorp-PA	7.0	109.7	14¾	-¼
24¾	16¾	GBC Bancorp-CA	7.5	184.3	16¾	--
15¾	8¾	GranadaCorp-MS	16.8	65.3	8¾	-¼
41¾	31¾	HawkeyeBancorp-IA	3.7	38.6	32¾	-¼
21¾	14¾	HeritageFinSvc-IL	8.7	114.8	15¾	-¼
28	14¾	HiberniaCorp-LA	17.4	107.4	14¾	-¼
24¾	12¾	HuntingtonBcshs-OH	6.8	95.0	12¾	-¼
32¾	19¾	INBFinCorp-IN	7.3	84.7	19¾	-¼
27¾	13¾	ImperialBancorp-CA	6.0	85.7	13¾	-¼
29¾	18	IndependentBncp-MI	8.6	91.4	18¾	-¼
30¾	19	IntegraFin-PA	13.1	85.7	19	--
46	34¾	InterNorthBancs-IA	8.4	103.6	34¾	-¼
48	33	J.P. Morgan-NY	NM	137.8	33¾	-¾
28¼	17¾	JeffersonBancshs-VA	7.5	86.0	17¾	-¼
15¾	11¾	KeyCentrumn-WY	9.4	98.5	11¾	--
25¾	17¾	KeyCorp-NY	6.4	91.1	17¾	-¼
26	20¼	KeystoneFin-PA	7.9	115.8	21	-½
34¾	27¾	KimmonsBancshs-OK	8.9	135.8	28	--
24¾	8¾	LaSalleBancorp-CA	12.8	181.7	19¾	-¾
20¾	15¾	LaSalleBcshs-IL	15.1	186.0	20¾	-¼
18	9¾	LandmarkBcshs-MO	6.6	52.5	9¾	-¼
30½	21¾	LibertyNatBancs-KY	7.5	95.9	22	--
27	17¾	LincolnFinCorp-IN	6.7	82.2	19¼	-¼
29¾	8¼	MNC FinancialMD	8.1	55.8	9	-¼
18	11¾	MagnaGroup-IL	8.3	83.6	11¾	--
28¾	18¾	ManufacturersNat-MI	5.8	88.8	20¾	-¼
44½	28¾	ManufacturersNY	NM	68.7	28¾	-¾
21	18½	MarineCorp-WI	12.3	133.2	20¾	-¾
20¾	13¾	MartTrustedBnkrs-MO	7.7	96.3	14¾	-¼
37¾	28¾	MellonBkShs-PA	8.0	105.0	28¾	-¼
36¾	20¾	MellonBankCorp-PA	4.1	67.6	20¾	--
29¼	21	MercantileBncs-MD	34.8	82.0	21¼	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	19¾	MetroBankCal-CO	NM	96.3	19¾	--
14	10¾	MetroBkNew-NY	7.5	87.9	11	-¼
17½	12¼	UnitedCarolinaNC	7.1	93.8	12¼	-¾
62	52	UnitedCounties-IN	7.4	98.8	52	--
32¼	27	UnitedMissouri-MO	8.8	104.2	27½	-¼
27¼	20½	ValleyBancorp-WI	8.3	103.3	21	-½
36	22½	ValleyCapCorp-WV	7.6	146.1	24	--
28¼	18¾	ValleyNatBncrs-AZ	7.1	134.2	19	--
30¾	11¾	ValleyNatCorp-AZ	NM	57.6	13	-¼
37¼	27¼	VirginiaBkshs-VA	8.7	106.6	37¼	-¼
33	26¾	WesbancoInc-WV	8.8	101.6	31	1
21¾	16¾	WesternBancorp-CO	8.2	97.4	17	--
25¼	17¾	WestmarkmtcBancCA	11.7	143.7	20¼	--
19¾	12¾	WestSecBancorp-AR	10.2	109.4	13¾	-¼
13½	9¾	NorthernBancorp-AR	7.8	112.4	11¾	-¼
11¾	8	WilmingtonTrust-DE	9.8	94.3	27¼	-¼

Top 25 Thrifts (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
18¼	16¼	KimsancorpCA	7.1	80.3	17	-¼
45¾	30¾	AzpleBancorp-NY	7.4	83.5	36	--
25¼	8½	CalFedInc-CA	3.6	18.6	23¼	-¼
55¾	41¼	CrestarBkHldgCo-A	8.9	65.8	41¾	--
16¾	11¾	CrestarSavingsFin-CA	NM	19.6	11¾	--
16¼	5½	DimeSvgBk-NY	NM	19.6	5¾	¼
14	13	DowneyFinancial-CA	21.5	92.3	13¾	-¼
27	18½	FirstFedFinCp-CA	6.5	108.9	19¾	--
21¼	12	FirstFedMI-MI	6.4	54.0	13¾	--
24¾	9¾	GLENFED-CA	2.8	25.3	10¼	--
34¾	22¾	GoldenWestFin-CA	8.6	136.5	25	--
24¾	14½	GreatWesternFin-CA	13.1	89.2	14½	-¼
13¾	1	GtAmericanBancA-CA	7.1	80.0	17	-¼
47¼	7¾	HomeFedCorp-CA	NM	17.4	7¾	-¼
21¾	13¾	HomeSvgsAm-CA	15.9	87.7	17¾	-¼
16½	10½	NBB Bancorp-MA	10.5	44.8	10½	--
20¼	5¾	People's BancCT	30.3	96.4	19¾	-¼
25¾	9¾	PeoplesHistoricNY	6.6	33.4	10¼	-¼
18¾	8¾	RochesterCtyBnkNY	6.3	49.4	9¾	-¼
22¼	6¾	SovereignSvgsCT	4.3	32.7	7¾	--
18¾	9¾	SoWestBancorp-TX	4.6	50.0	9¾	-¼
12¾	6¾	StandardFedBk-MI	5.8	48.0	7¼	-¼
26¼	17¾	StandardFinancial-IL	8.3	49.3	12¼	-¼
31¾	23¾	WashingtonFed-WA	8.7	174.0	24¾	-¼
11¼	6¾	WestcorpCA	5.9	63.8	7	--

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding. (As of June 30, 1990, the thrift market value cutoff for banks was $56.71 mil. and for thrifts $107.8 mil.) 52 Wk Hi/Lo the moving 52-week high and low prices for the stock. PE the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for stock dividends/splits. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for preferred stock, earnings and dividends. Chg.: The price at which the stock last traded on the previous day was subtracted from it. All Bank and Thrift Indexes are calculated as an average of the top 250 banks in market value and the top 50 thrifts in market value. The Weighted Average Index is a market value weighted index which gives more emphasis to large companies in price; and two volume indicators most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides DNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended August 18

LARGEST PRICE GAINERS*	% change	8/11/90	8/18/90
Provident Bankshares	15.22%	$ 23.0	$ 26.5
Fortfied Mutn. Corp.	12.02	12.37	13.87
Riggs Nat'l Corp.	10.58	13.00	14.38
Santa Monica Bank	7.89	19.00	20.50
Summit Bancorporation	7.72	17.62	18.98
LARGEST PRICE LOSERS*	**% change**	**8/11/90**	**8/18/90**
Great American Bank	-33.33%	$ 3.87	$ 2.58
Northwest Bancorp Inc.	-21.31	15.25	12.00
First City Banc.	-17.71	21.88	18.00
Pacific Western Bancorp	-15.39	9.75	8.25
Bank New England Corp.	-14.29	2.63	2.25
LARGEST CHANGES IN VOLUME†	**Multiples**	**Average**	**Last week**
Pikeville Nat'l Corp.	17.23	2,274	41,300
Northwest Bancorp Inc.	6.62	121,545	870,600
United Mo Bancshares Inc.	4.66	13,826	83,600
Mid Amer Bancorp	4.48	9,003	46,300
First Commerce Bancsh	3.72	1,182	4,400

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price changes (in percentage terms) and the largest volume changes, and the five with largest increases in their average volume for the previous week are identified. The Percentage change calculated by dividing last week's close by the previous week's close. (FN– The multiple of last week's trading volume to the average weekly volume over the previous 10 months.)

Data Source: *Salomon Brothers Inc., New York.*

Key Rates

(August 20, 1990)

	8/20	8/17	8/13
Federal Funds-domestic range:	7¼/+-8¼/+	8¼–8⅜	8–8¼/+
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.55	7.45	7.50
6 Month Posted	7.55	7.45	7.50
1 Year Posted	7.55	7.45	7.55
Eurodollar deposits²			
3 Month	8⅛/+	8⅛/+	7⅞
6 Month	8⅛/+	8⅛/+	7⅞
1 Year	8¼/+	8⅛	8.00
LIBOR²			
3 Month	8⅛/+	8⅛/+	NA
6 Month	8⅛/+	8⅛/+	NA
1 Year	8¼/+	8¼	NA

Mid-afternoon quotes, New York market. (†)— Largest offering rates at selected NYC banks (††)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

Salomon Report Sees 19% Drop In Core Profits

Continued from page 1

lyto "shed further light on developing trends." They highlighted the following points:

• Net operating income is expected to drop 19.4% in 1990, to $9.6 billion from $11.9 billion in 1989, though reported net income may more than double because of lower loss provisions against developing country debt. Next year, Salomon said, it expects net operating income to recover about to 1989 levels "but with most of the room for adjustment to the downside."

Salomon Brothers' Key Concerns On Banks
1990 versus 1989

- Operating net income declining by 19.4%
- Nonperforming assets increasing by 30.5%
- Net chargoffs rising by 27%
- Growth in earning assets slowing to 6.55% from 8.15%

Revised projections from comparable earnings model for institutions in the Salomon Brothers 30-Bank Index
Source: Salomon Brothers

LDC Nonperformers to Fall

• A $4.3 billion surge in nonperforming assets, to $47.5 billion, despite a $5.5 billion decline in developing country nonperformers. Commercial loan nonperformers may rise by $10 billion, the analysts said. Nonperformers must stabilize in 1991, however, partly because net loan chargeoffs may rise.

• Meanwhile, growth in earning assets may slow dramatically, to 6.5% this year and 4.0% in 1991, compared to an 8.1% increase in 1989, "as a result of both lender caution and a slowing economy," the report said.

1st-Half Predictions Too Rosy

The analysts – Thomas H. Hanley, John D. Leonard, and Diane E. Glossman – said they expectations for bank earnings in the first half of the year had been tempered by credit quality deterioration, particularly in the real estate area, and by slackening loan growth and falling income from fees for corporate restructurings and other leveraged transactions.

The further reduction in expected earnings, they said, "reflects the growing probability of an economic recession."

In addition, they said, third- and fourth-quarter bank results should include "large additional loan-loss provisions" as managements prepare for changes in dividend rules expected to take effect Jan. 1.

* * *

MONDAY'S MARKET

Shares of the nation's largest banking company, Citicorp, which briefly topped $20 a week ago, traded Monday afternoon at $18.50, down 37.5 cents on the day.

Meanwhile, Wells Fargo & Co., the highly regarded San Francisco bank, fell 12.5 cents, to $57.375, a 28% decline from just two months ago.

NCNB Corp., based in Charlotte, N.C., was among the relatively few stocks to show signs of strength Monday, rising 75 cents a share, to $34.625. Its cross-town rival, First Union Corp., was also up on the day, by 12.5 cents, to $15.75.

Other banks posted modest gains deemed by analysts to be technical reactions to recent weakness. NBD Bancorp. was up 62.5 cents a share, to $29; and State Street Boston Corp. was up 37.5 cents, to $34.125.

Most money-center bank stocks lost ground. Besides Citicorp, J.P. Morgan & Co. was off 25 cents, to $33.375; Chase Manhattan Corp. was off 25 cents, to $17.75; Bankers Trust New York Corp. was off 25 cents, to $36.625; and Chemical Banking Corp. was off 37.5 cents, to $22.75.

Also falling again Monday were the major California banks. In addition to Wells Fargo, BankAmerica Corp., San Francisco, was off 37.5 cents, to $21.50; Security Pacific Corp., Los Angeles, was off 37.5 cents, to $28; and First Interstate Bancorp., Los Angeles was off 50 cents, to $28.875.

First Interstate said that it was suspending both the discount and optional cash purchase components of its dividend reinvestment program. □

CAPITAL

Atlanta Group Proposing to Start Bank

By FRED VOGELSTEIN

Most say there are too many banks in the country, but in suburban Atlanta some entrepreneurs believe there are not enough and are proposing to raise between $5.25 million and $7.5 million to start their own.

To be called the The Southern Bank, the institution would be based in Douglasville, an upper-middle class community with a population of 15,000. Organizers expect it to open in December or January, although its registration statement has not yet been approved.

The Southern Bank At a Glance

Shares to be issued:	525,000 – 750,000
Price:	$10 a share
Underwriter:	None. Shares to be sold directly by directors and officers. They have agreed to purchase 21.24% of the offering and as much as 100%

Source: Documents filed with the Securities and Exchange Commission

Proposes Shares at $10 Each

The bank's parent, SB Holdings Inc., is proposing to offer the shares at $10 each, according to its Securities and Exchange Commission filing. The 10 organizers plan not to use an underwriter, instead they have agreed as a group to buy 21.24% of the shares and market the remainder themselves. The group has agreed to purchase the entire offering if necessary.

The anticipated consolidation of the largest community bank in the area sparked the move to form the bank, according to Scott Watson, The Southern Bank president and chief executive officer-elect.

He said $5.1 billion Bank-South Corp.'s plans to acquire The Commercial Bank would, if successful, cause an erosion in service that The Southern Bank can exploit.

An Opportunity Seen

Watson has agreed to purchase at least 25,000 shares. But while the proposed BankSouth acquisition was the spark, Watson said that even if the merger does not succeed, a new bank in the area is needed.

He said the current turmoil in the banking industry will actually help the bank grow because "while most banks in the area will be focusing on their problem assets, we'll be focusing on their good customers who they might be neglecting."

Growth in Area

Also, Watson also said that the area is growing.

No current population or deposit growth figures were available. June 1989 figures in the SEC filing show deposits in Douglas County grew $46 million to $417 million, or 12.4%, from June 1988.

Population figures for 1989 show a 44.9% growth rate from 1980, rising from 54,000 to 79,000 people. Per capita income for the area doubled from 1980 to 1989, rising from $21,000 to $42,000.

A Big Challenge

Still, other banking experts say he's got a big challenge ahead of him.

"What the industry has is overcapacity. We don't need any more banks," said George Bicher, senior vice president of the financial institutions group at Kidder Peabody & Co. He said bankers, particularly in Georgia, tell him that there is a "dearth of good lending opportunities even at the small bank level."

The Commercial Bank, with assets of $160 million, has the largest presence in the area.

The Competition

Trust Co. of Georgia, a subsidiary of $31.2 billion SunTrust Banks Inc. has two branches in Douglasville and two others in neighboring towns. There are two other community banks in Douglasville with roughly $30 million in assets each.

Still, Watson, 53, is hardly a rookie to the Atlanta community banking scene. In his 20 years in the area he has run four community banks and overseen their acquisition by and integration with larger competitors.

He was hired in late 1989 to run the institution he hopes his bank will supplant, The Commercial Bank. He resigned when the owners decided to sell to BankSouth but said his experience convinced him that a new bank in the area could be viable.

* * *

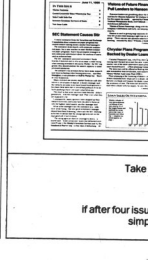
MARKET MONITOR

Standard Credit Card Trust 1990-7, a unit of Citicorp, said Monday that it issued $1.405 billion of credit card-backed securities backed by Citicorp-provided Visa and MasterCard credit cards.

The issue was in two parts. Series A totaled $1.25 billion with an 8.875% coupon. They were priced at 99.91 to yield 8.911% or 63 basis points over the three-year Treasury note.

Series B totaled $155 million with 9.125% coupon. They were priced at 99.85 to yield 9.182% or 90 basis points over the three-year Treasury note.

Citicorp was lead manager and Merrill Lynch Capital Markets was co-manager for both tranches. Goldman, Sachs & Co. also co-managed Series B. □


ASSET SALES REPORT

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AMERICAN BANKER
VOL. CLV NO. 164 Wednesday, August 22, 1990 155th year

The Pullback From Dividend Investment Plans

By KELLEY HOLLAND

When First Interstate Bancorp announced on Monday that it would suspend its discount dividend reinvestment program, it became the latest in a series of banks to show themselves unwilling to endure the shareholder dilution created by such offerings.

With many bank stock prices at new 52-week lows, other banks with no immediate need to raise capital could well consider following suit, some analysts said, especially because arbitragers are putting downward pressure on stocks that use a discount program. Already a number of large banks have suspended down or terminated such programs.

Nevertheless, analysts and bankers alike say discount dividend reinvestment programs are likely to remain in force at a number of banks concerned about the prospect of higher capital requirements and unwilling to publicly issue new equity in today's hostile market.

"This may be an expensive way to raise capital, but I don't think a lot of banks are going to move away from it," said Judah Kraushaar, an analyst at Merrill Lynch Capital Markets.

Long-Established Program

Some institutions have had dividend reinvestment programs for years. They let investors buy shares at a percentage discount – typically around 2.5% to 5% – off market price.

Such discount programs are more effective than market-value reinvestment programs because more investors participate and more equity is issued.

Banks find the programs effective because they make it possible to raise capital without having to overtly tap the capital markets. Instead, banks raise capital in small increments by issuing stock to program participants.

But when stock prices are low, discount dividend reinvestment programs become painfully costly. In recent months, banks have found themselves issuing new shares at sharp discounts to book value, dramatically diluting the holdings of shareholders.

Bait for Arbitragers

Moreover, dividend reinvestment programs are bait for arbitragers. It is easy for arbs to bid down the price of a bank's stock during the pricing period so they can buy at a discount to an artificially low price. Chase Manhat-

See PULLBACK back page

INSIDE NEWS

THRIFT CRISIS



EDWARD HARSHFIELD'S plan to rescue Columbia Savings may be in jeopardy if a Toronto-based company decides to pull out of a deal to buy the thrift's junk bond portfolio. *Page 2*

FINANCE

MAJOR BANKS' STOCKS sold off sharply as investors became fearful that the situation in the Persian Gulf is deteriorating. *Page 32*

INTERNATIONAL

WESTERN BANKS are reviewing their relationships with Arab banks in the Gulf, but most are keeping credit lines open, bankers said. *Page 2*

CREDIT SUISSE'S move to expand operations abroad and strengthen its business base at home is winning praise from analysts. *Page 10*

CONSUMER

FLEET/NORSTAR is rolling out a splashy program to increase use of its machines, at a time when some major ATM networks have thrown in the towel on promotional campaigns. *Page 6*

TECHNOLOGY

NORTHERN TRUST is bringing together several advanced technologies to enhance a corporate investment service that generates low-risk fee income. *Page 3*

COMMENT

THE GOVERNMENT may regret the credit contraction, but it is also helping it along, writes James Grant. *Page 4*

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ANALYSIS: *Follow-up on the news*

Tech Execs Say They Put Banks' Strategic Goals First

By ROBERT M. GARSSON
Third of a Series

Ask bankers to describe the benefits of technology, and they will often say it improves efficiency or reduces operating costs.

Ask bank technology managers the same question, and the answers might surprise. According to an *American Banker* survey, operations managers consider such strategic objectives as service quality, image enhancement, and marketing capabilities to be comparable in importance to hard-dollar payback – or even more important.

Technology Goals

Percentage of technology experts rating each objective as very important or extremely important

Improve customer service	90%
Reduce costs	72%
Improve bank's image	71%
Increase marketing capability	67%
Speed product introductions	61%
Reduce staff	47%

Source: American Banker Technology Survey

Cost Centers

Perhaps because the returns on technology investments are difficult to identify or measure, the vast majority of the 333 banks in the *American Banker* 1990 technology survey regard their operations areas as cost centers that support the various lines of business.

Only about 19% of the banks with more than $250 million in deposits treat any of their back-office functions as profit centers capable of paying their own way with revenues.

Therefore, when banking technologists think about return on investment, they are as likely to think of better service or improved marketing capability as of cost or staff cuts.

The technology survey was conducted in conjunction with Trans Data Corp., the newspaper's research affiliate in Wayne, Pa. A magazine describing the findings has been sent to *American Banker* subscribers.

Service Is Paramount

Staff reduction was deemed the least important of six strategic objectives measured in the

See TECHNOLOGISTS page 3

Comptroller, FDIC Lower The Floor for Appraisals

By BILL ATKINSON

WASHINGTON — Two federal bank regulators have agreed on a new standard for real estate appraisals that is at odds with a previously adopted Federal Reserve Board rule vigorously opposed by the appraisal industry.

The Federal Deposit Insurance Corp. published a final rule Monday that would require banks to employ licensed or certified appraisers on all real estate loans of at least $50,000. The Office of the Comptroller of the Currency completed a similar rule Tuesday and will publish it Friday in the Federal Register.

Fed's $100,000 Minimum

Earlier this summer, the Fed set a $100,000 minimum for residential loans requiring a licensed or certified appraiser, although properties involved in smaller loans would still have to be appraised.

While there are other, technical differences between the Fed's approach and that followed by

See REGULATORS page 7

Show Must Always Go On For Fed Wire

By JEANNE IDA

NEW YORK — Just before 5 a.m. on Sunday, Israel Sendrovic was awakened by a phone call at his home in Queens with bad news. A hose feeding a backup generator had cracked at the Federal Reserve Bank of New York's main building in Manhattan.

The Fed executive vice president, who is responsible for computer operations and telecommunications, called New York Fed President E. Gerald Corrigan and rushed into the city.

Move or Stay Put?

The Fed Wire, which is the nation's largest funds transfer system, was scheduled to begin daily operations at 8:30 a.m. And banks across the country rely on Fed Wire to make $1 trillion in daily payments.

The New York Fed had to decide whether to shift operations to a contingency site or attempt to repairs on the

See page 8

Top Corporate Lender Resigns From Beleaguered Bank of Boston

By JED HORWITZ

T. Lincoln Morrison Jr., the longtime head of commercial lending at Bank of Boston Corp., has resigned unexpectedly.

Mr. Morrison, a 25-year veteran of the bank, said his decision to leave was voluntary.

Some colleagues and analysts speculated that the pressures of overseeing a deteriorating portfolio may have contributed to the decision. At the end of June, 6.7% of the bank's $4.2 billion in loans to finance highly leveraged transactions were not accruing interest.

Bank of Boston's HLT Exposure

	2nd Q	1st Q
Highly leveraged transactions (HLTs)	$4.2 billion	$4.8 billion
Nonperforming HLTs	$281 million	$236 million
HLTs/equity	200%	226.6%

Source: Company Reports, Goldman Sachs & Co.

Troubled Real Estate Book

Just last March, Mr. Morison, 50, assumed oversight of the company's faltering $5.3 billion portfolio of domestic commercial real estate assets. At mid-year, 24% of that portfolio was nonaccruing.

Mr. Morison's resignation comes on the heels of a similar announcement by William Diercks, the chief lending officer of the much smaller Boston-based Neworld Bancorp, who also is leaving at the end of the month.

James Moynihan, an analyst for Advest Group, suggested that senior bankers throughout New England are having difficulty complying with increased regulatory constraints.

"Bankers say that regulators have come down so hard and are demanding so much more documentation than they are used to that their life as a lender is not as much fun as it was even one year ago," he said.

Reached at his office on Tuesday as he "filled wastebaskets with things I should have read over 25 years," Mr. Morison denied that he was pressured to go.

"It's a tremendously challenging time for banking in general, but I have the energy and the desire and capacity to look and think about some other things,"

See MORISON page 30

GRAPEVINE / By Jed Horowitz

Recycling the Lenders

As if anyone needed proof that commercial real estate lending has nearly ground to a halt in most markets, former lenders are now becoming workout specialists.

Out of about 500 people who once worked in Chase Manhattan Bank's real estate department, about 80 are now toiling at workouts, said an analyst who recently studied the group.

At the end of the second quarter, Chase had $1.3 billion of nonaccrual domestic real estate loans on its books, up from $884 million at the end of the first quarter. The total represents more than 13% of Chase's domestic real estate portfolio.

A Chase spokesman would not confirm how many people are devoted to workouts, but he conceded that "many of our professionals" are working on problem assets.

"There is a paucity of origination opportunities in the real estate business," he said with self-acknowledged understatement.

* * *

Congealing the Junk

Citibank has reunited its sales teams in unrated loans and unrated securities into one unit, in a consolidation that is part of Michael Callen's effort to streamline businesses in his investment and commercial banking sector for customers in Japan, Europe, and North America.

The combined distribution unit is being headed by Nancy Teachout, who most recently headed the Citicorp subsidiary's "institutional recovery management group," more commonly known as the workout unit.

Citibank officials did not return calls to explain the change, but some insiders said it is meant to eliminate administrative jobs. "They're tweaking here and fine-tuning there," one source said.

Reporting to Ms. Teachout is Robert Lawrence, head of the noninvestment securities distribution unit, which includes the bank's fledgling efforts to underwrite junk bonds.

Ms. Teachout will run the unrated loan distribution area directly.

Robert Woods, a 20-year veteran who had headed the syndication and distribution unit for about five years, will be reassigned, sources said. He was on vacation, and could not be reached for comment.

* * *

Iraq Means Swaps

The Middle East crisis and its inflationary consequences are bad news for most banks. But at a few banks, the relatively new area of commodity swaps – in which banks or Wall Street firms arrange deals allowing producers and users of oil and other commodities to lock in prices – is thriving, said a lender at First Chicago Corp. and spokesmen at Bankers Trust New York Corp. and J.P. Morgan & Co.

Other bank companies active in arranging such swaps in the past two years include Chase Manhattan Corp., which helped pioneer the commodity swap concept, and Chemical Banking Corp. Citicorp has arranged swaps for precious metals but not for oil.

* * *

Private Business

Though the new Securities and Exchange Commission rule that permit secondary market trading of private placements has not led to a flood of deals, J.P. Morgan & Co. has set up a special unit devoted to drumming up the quasi-public transactions.

Two members of the private placement desk at J.P. Morgan Securities shifted to the unit's capital markets and syndication desk about three months ago to form a so-called 144-A unit and solicit business from well-known companies, sources confirmed.

The two have not yet landed a deal but are believed to be negotiating for an asset-backed receivables deal.

They are working closely with Morgan's new corporate bond desk, which scored a coup last week by winning one of three underwriting slots for Banc One Corp.'s $200 million debt issue.

* * *

The Cost of Service

Wells Fargo & Co. scored consumer banking bragging points when it beat out Security Pacific Corp. this year with extended branch hours on Saturday. But Wells Fargo revealed in its latest 10-Q filing that cost was high.

Salary expenses grew 9%, to $329.6 million, in the first half of the year, in part because Wells hired about 500 people for the extra hours, the document said.

* * *

Strife at BT?

What was behind the walkout by about 25 employees in Bankers Trust Co.'s leveraged leasing and equity investment groups two weeks ago?

Former employees say the group that left – led by Charles Hill, the veteran boss of leasing – was particularly frustrated with Bankers Trust's continuing bonus-rewarded push for highly leveraged debts and big-money transactions over more annuity-like middle-market bank deals.

However, some sources say the group was losing power because revenues were down due to business conditions and Bankers Trust's inability to use tax shelters associated with leasing.

Nevertheless, the departures left a bitter taste for Bankers Trust chairman Charles Sanford. Recalling the departure earlier this year of the bank's respected head of European corporate finance, Mr. Sanford said in an internal memo to senior executives:

"We proved in the somewhat similar situation involving Alan Wheat that our franchise is more than strong enough to withstand an occasional defection of individuals or groups who cannot adjust to our chosen style of partnership." □

Western Banks Review Ties To Persian Gulf Institutions

Most Still Keep Credit Lines Open

By PIERRE THAN
Reuters

LONDON — Western banks are reviewing their relationship with Arab banks in the Gulf in the light of the Kuwaiti crisis, with most keeping credit lines to Gulf institutions open, bankers said in London.

"Not many [Western banks] will have rescinded their lines. . . . Once that happens, it gets around," said one Gulf banker who declined to be identified.

However, Japanese banks, normally big borrowers of dollars from Arab houses, have virtually disappeared from the Middle East scene, said Gulf bankers.

A Dependence on Foreign Banks

Some Gulf banks, notably the offshore banking units in Bahrain, have few retail customers for raising funds and rely on the interbank market.

They are heavily dependent on foreign banks' willingness to act as counterparties in trading instruments such as forward rate agreements (FRAs), currency and interest rate swaps, and foreign exchange deals.

"The stock answer by most banks is that we are continuing to trade normally within our limits, but not outside," one Gulf banker said.

However, some Western banks are already reducing their lines to Gulf institutions or asking a premium.

Smaller Banks Most Affected

The biggest banks, such as National Commercial and Riyad Bank, are probably raising funds without difficulty as they are backed by the Saudi Arabian Monetary Agency (SAMA). But smaller Gulf houses are likely to be using established banking links to do business, he added.

Another Gulf banker said Western banks are testing the defenses of Arab houses to evaluate their ability to trade.

Some Western banks are contacting dealing rooms of Arab institutions, known to be safely conservative, asking for forward positions and prices of various instruments to test their liquidity before committing themselves, the banker said.

Western Banks Face Stalemate

In the absence of decisive news from the Gulf, Western banks face a stalemate and are forced to wait and watch before deciding where their long term interests lie.

Some Gulf banks have few retail customers for raising funds and rely on the interbank market.

"We have been pleasantly surprised by the attitude of some [Western] banks who say they are keen to maintain their long-term relationship," a senior Gulf banker said.

Other banks say they will do the minimum but warn not to expect favors. However, some Japanese banks have largely closed their lines and no longer borrow funds from the region.

"It's amazing the speed with which they disappeared," the banker added.

Japanese Split on Approach

Toru Ishihara, joint general manager at Fuji Bank Ltd, said there have been rumours some

See WEST page 24

Gulf Turmoil Threatens Sale Of Junk Bonds

Reuters

LOS ANGELES — Columbia Savings and Loan Association's planned sale of its $2.7 billion in junk bonds to a unit of Toronto-based Gordon-Investments Corp. could hinge on developments in the Middle East related to Iraq's Aug. 2 takeover of Kuwait.

In its most recent 10-Q filing with the Office of Thrift Supervision, Columbia noted, among other things, that "Gordon's option to withdraw from the transaction is triggered by . . . the commencement of hostilities involving the U.S. or Canada."

Officials at Columbia and Gordon were not available to comment.

Plans Could Be Jeopardized

Any problem in completing the sale could jeopardize efforts by Edward Harshfield, the thrift's chief executive officer, to keep Columbia from being seized by federal regulators. Mr. Harshfield's strategic plan calls for a renewed commitment to traditional consumer banking and mortgage lending.

A sharp fall in the junk bond market late last year and early this year contributed to Columbia's problems; because the thrift had built up that portfolio as it turned away from the traditional business of a savings and loan.

The market has stabilized in recent months, but investors are now more prone to sell issues they believe are particularly vulnerable to an economic downturn.

Economists have noted that the U.S. economy was beginning to slow even before Iraq moved into Kuwait. But that action, and the growing hostilities in the area, sent oil prices soaring, fanning talk of higher inflation and

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COMPANY *index*

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TECHNOLOGY/OPERATIONS NEWS

Technologists Have Strategic Goals In Mind When Planning Outlays

Continued from page 1

survey. The most important was quality of customer service, which was rated very important or extremely important by 90% of the technology managers polled.

Three other strategic objectives of technology were on a par, falling within the survey's five-point scale's margin of error. Cost reduction was cited by 72%, improving the bank's image by 71%, and increasing marketing capabilities by 67%.

Those objectives were followed by the ability to introduce new products quickly, at 61%, and staff reduction, at 47%.

The question was then posed a little differently. Technologists were asked to rate the objectives on a scale of 1 to 5, with 5 signifying the most importance and 1 the least. On that scale, quality of customer service rated a 4.48, improving image 4.03, cost reduction 3.95, increasing marketing capabilities 3.87, quick product introductions 3.77, and staff reduction 3.35.

"If you had to do a forced ranking, it would be the same at each bank. They would all rank high," said Michael Simmons, executive vice president and chief technology officer at Bank of Boston Corp.

Pressed for his own criteria, he said service quality would be No. 1 and cost reduction No. 2, with the rest following closely behind. That puts Bank of Boston in the mainstream.

"Justification for technology improvements is more rigorously managed than it used to be, and service quality is clearly No. 1," said Robert Dressel, executive vice president at United Banks of Colorado, Denver. "The ability to add products, features, and quality to our delivery system is of paramount importance from senior management on down."

"Bankers are always willing to invest where they can improve the quality of customer service," said John Shain, president of Littlewood, Shain & Co., Exton, Pa.

The survey showed some differences in how institutions of different sizes view technology investments.

The differences were most dramatic on the question of cost-justification capability. Among banks with more than $2 billion in deposits, 79% said that objective was an important reason for investing in technology. But among the smallest institutions, those with $75 million to $100 million in deposits, only 51% said that objective was an important.

Somewhat less dramatically, larger institutions – those with more than $750 million in deposits – were more likely to cite cost reduction than any other group. Among institutions in the $2 billion-and-up category, 76% said cost reduction was extremely or very important. That was the response from 80% of companies in the $750 million to $2 billion range and 68% of those between $250 million and $750 million.

Among institutions with less than $250 million in deposits, just 60% said cost reduction was extremely important by 70% of the respondents.

Staff Reduction

Similarly, larger banks were more likely to cite staff reduction as a reason for investment. Among institutions with more than $2 billion in deposits, 62% said staff reduction was extremely or very important. Only 34% of those with $100 million to $250 million said staff reduction is an objective, as did 42% of those with $75 million to $100 million.

But when asked about improvements in customer service, banks of each size were within a few percentage points of each other. □

Advanced Systems Bring In Fees

Northern Enhances Corporate Investment Service

By JEANNE IIDA

NEW YORK Northern Trust Co. is bringing together several advanced technologies and balance a corporate investment service that generates low-risk fee income for the Chicago bank.

Under the service, a corporation provides employees and retirees with high-interest accounts while the company gains access to inexpensive short-term funds. Account holders have minimum balance requirements and check amounts, and they use the accounts to make big-ticket payments such as mortgages.

Northern Trust manages the accounts, which are deemed low risk because the funds are not guaranteed by the bank. Only a handful of institutions, including State Street Bank and Trust Co., Boston, offer a similar service.

Two Big Companies Signed Up

Northern Trust has two large corporations, totaling some 187,000 accounts, using the service, which was introduced a year and a half ago. One of those companies was added in January, after the bank beefed up its customer service through advanced technologies.

The bank is now evaluating bids from two vendors on a project to link incoming telephone calls with a computer data base, so that a profile of the customer will be automatically generated by a call. Few companies now have this advanced capability, called integrated services digital network, or ISDN. Northern Trust aims to have the ability by yearend.

Customer assistance is a large component of the corporate service. Northern Trust said it receives about 50,000 inquiries each month on the accounts. Because of improvements it has made in tracking and service, more customers reach representatives and their questions are answered more quickly, the bank said.

Strategic Importance

More than $500,000 has been invested in technologies for the service.

"We view it strategically as an important piece of business that brings in a lot of revenue for us," said Anna Quinlan, vice president of demand account services at Northern Trust.

Northern Trust has signed up two large corporations, totaling some 187,000 accounts.

"We've married the telephonic technology and the image technology to service our customers," she added. "That's the only way you can survive in this business."

Automatic Transfers

The bank automatically distributes calls to the next available operator, compiles detailed reports of how long it takes a representative to answer a call, and tracks peak calling times.

More than 50% of customer calls are now answered within 10 seconds. "We couldn't measure how long it took to answer customers before," said Juan Sistachs, vice president of cash management at Northern.

With the service improvements, the portion of customers who hang up the telephone before reaching a representative has declined to 1% from almost 4%, the bank said.

In the system, a customer calls an 800 number and is given the choice of speaking to a human or computerized operator. If using a touch-tone phone, the customer can key in account and social security numbers and get a series of options.

If the customer chooses to talk with a human operator, the representative then calls up a profile of the customer on his computer screen. If the question involves further research, the representative can look at the original application for the account and any supporting documents that are stored on the document image processing system.

ISDN capabilities would further reduce the time taken to answer calls. With the addition, the customer profile would pop up on the customer representative's screen as soon as the caller keys in the account number.

Privacy Is a Concern

Although the bank plans to install ISDN technology, it expects to move cautiously because of privacy concerns. Several states have ruled that recipients of telephone calls do not have the right to know who is calling them and that such knowledge is an invasion of privacy.

Northern Trust says it is treading carefully in this territory. When customers called from their home telephones, the bank's computers could identify them by the phone number, using ISDN.

But Northern Trust is wary of using that capability – at least for now. Instead, it will have customers continue to key in their account numbers.

"We're not pursuing that because of questions about privacy," Ms. Quinlan said about the caller identification capability. □

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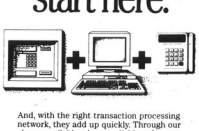

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COMPUTER ASSOCIATES

COMMENT/ *By James Grant*

U.S. Acts to Tighten Credit In the Face of a Recession

The government may regret the credit contraction, but it is also helping it along. Under the press of deficits, it is scaling back on guarantees, demanding more real capital from its citizen borrowers, and generally doing the opposite of what Lord Keynes would have it do in a recession.

Alan Greenspan is talking about a higher capital standard for banks, and the Treasury Department is proposing a higher capital standard for the Federal National Mortgage Association, better known as Fannie Mae.

L. William Seidman is asking for higher deposit insurance premiums for banks, and the Senate has voted to raise up-front premiums on loans provided by the Federal Housing Administration.

A million miles from here, Japanese bankers are expressing anxiety about the capital standards laid down by the Bank for International Settlements for implementation in 1992. In view of the local bear markets in stocks and bonds, they wonder if they will be able to meet the letter of the law. (The minimum ratio of capital to assets will be 8%.)

Distant as Japan may be in terms of space, it is around the corner in terms of money. It is, in fact, the pivotal provider of bank credit to the world, so the capitalization of its banks is of immediate and urgent concern to the rest of us.

Stock Issues Curtailed

Thus, the latest from the Home Islands – that the Ministry of Finance is refusing to let the banks issue new stock in the vast quantities required – is news in every hemisphere.

From the Aug. 11 *Japan Economic Journal*:

"While corporations generally raise funds in lots of $200 mil-

Mr. Grant is editor of *Grant's Interest Rate Observer*, a biweekly newsletter. This article appeared in the Aug. 17 issue.

lion to $300 million, it is expected that various banks would attempt to market issues in the range of $1 billion to $2 billion each to achieve the capital adequacy standards being imposed by the BIS.

"They [banks] will have to wait for the traffic jam to be eased," the Ministry of Finance official said.

"The bankers are citing an immediate need to raise their capital adequacy ratio, saying those ratios have fallen significantly recently due to decreasing latent profits resulting from the stock market plunge earlier this year and sharply increased overseas assets."

"Opinion aside, the tide of credit is turning in this country and Japan, and the weight of public policy is on the side of contraction."

"Latent assets" is another name for "hidden reserves." They are unrealized stock market gains, and the Japanese banks may count 45% of them toward capital. Thus, in Japan, a rising market is extra-bullish. Banks, taking a fraction of their paper gains into capital, may step up their lending, thereby exaggerating the rise.

By the same token, a decline is extra-bearish. Banks, feeling the loss of capital, must raise new equity or shed existing assets at the very worst time.

"Some observers," the *Japan Economic Journal* also reported, "have expressed concern that bankers will resort to selling bonds from their portfolios to meet the BIS standards, which will only compound current fears on the Tokyo financial markets."

Not to mention the New York markets. Moody's last week downgraded a pair of heretofore triple-A-rated Japanese banks, Fuji Bank and the mighty Daiichi Kangyo Bank, each to Aa1. The agency cited the slump in real estate, the rise in funding costs, and the reduced prospects for so-called core earnings.

After the latest action, we called Moody's to ask if a fundamental review might (at long last) be under way. "In light of the changing environment," the man at the other end of the phone replied, "we are looking at the ratings carefully."

Promises, Promises

The same tendencies are visible at home, but different causes produce them. If the federal government's credit were even under the cachet that it was passed. What made the 1980s unforgettable was the substitution of promises to pay money (frequently by the government) for money itself.

There was a boom in chits: standby letters of credit and payment-in-kind securities in the private sector, deposit insurance and loan guarantees in the public sector.

When the outstanding promised deal dead end, but the government's income-statement is not the main issue.

At the heart of the matter are the footnotes attached to the balance sheet that detail the government's contingent liabilities. These, especially deposit insurance, have fallen due in a clump. Granted, the government can raise taxes, but it may not want to. It may want to issue three-year notes, not 30-year bonds instead.

And it may wish to foreclose the possibility of another serious call on its outstanding promises. Thus, the Treasury has proposed that the so-called government-sponsored enterprises (GSEs) be made to pass muster with Moody's, Standard & Poor's, or Fitch as triple-A credits.

Bills in the Senate and House would require that homebuyers using the Federal Housing Administration put down more money at closing. Both proposals (FHA and Fannie Mae) are riding the political conveyor belt, and each has attracted fierce opposition from the housing lobby.

"If Fannie Mae were held to a triple-A rating, there would be no way to raise money except to slow or stop business and sell assets," said David R. Jeffers, vice president for corporate relations at the mortgage agency.

Mr. Jeffers condemned the atmosphere of budgetary crisis in which the AAA mandate is being discussed: "It's bribery," he said of having his employer's fate being decided at the budget summit rather than through congressional debate. "It's outrageous; it borders on being irresponsible." Checking around, we listened to similar condemnations of the Senate proposal to boost the amount of cash required to obtain an FHA loan.

Opinion aside, the tide of credit is turning in this country and Japan, and the weight of public policy is on the side of contraction. We happen to be fatalistic on the processes now under way. For whatever reason or reasons, the marginal debtor will find it more and more difficult to find accommodation. (On the simple fact, we think, financial events will increasingly turn.) □

COMMENT/ *By Roger Powell*

Crunch or Pinch? Whatever, Jawboning Played a Role

"Jawboning," known in economics as moral suasion, has never been held in high regard as a method of influencing the economy. However, the jawbone is now being used in a fashion that hasn't been seen since Samson slew Philistines with the jawbone of an ass. The difference is the source and method of this episode.

The source is not distant from the banker. It is as close as an examiner of the Office of the Comptroller of the Currency – the national bank regulator. Its suggestions, unlike those of the Congress or the Administration or even the Federal Reserve Board of Governors, are translated directly into loan loss reserves and increased underwriting discipline.

The example made by New England bank examinations was not lost on bankers in other areas of the country. And so it is that "jawboning" comes into its own.

Is this episode a credit crunch? Does effective jawboning, persuading bankers to more conservatively reflect risk on their balance sheets and extend less credit, constitute a credit crunch? The answer depends on which definition of credit crunch you care to use.

If credit crunch is the lack of available credit at a reasonable price, for reasonable business purposes, then it appears that technically there is no credit crunch.

However, if one defines a credit crunch as a reduction in the total available credit from the banking system to the economy, then the case may be made that we are entering such a period.

Few would argue that bankers have renewed underwriting discipline; fewer still would say that real estate credit was not likely to contract. The expected impact on the economy is much the same, although we may not have a technical credit crunch.

What is the expected economic impact? We presume that bank credit is still the most widely used lubricant of our economic machine.

So reduced bank credit implies a stickier economic machine, all other things equal. We also presume that appreciation in real estate prices was fueled by increased liquidity as transactions accelerated with favorable financing terms. Loss of bank credit implies reduced prices as fewer bidders are available for each property.

This reduced liquidity premium in real estate combines with other, more fundamental, factors slowing the sector and economy and acting on real estate.

These factors include prices, demographics, reduced inflation expectations, and changes in the tax law. Last-minute inventory methods, which reduce stocks required at intermediate levels in the production process, is another factor. Finally, there has been a slowdown in construction expenditures caused by the lack of demand, indeed, an oversupply, for improved real estate in many markets.

A credit crunch? Perhaps not, but it's not clear that it matters whether or not a technical crunch exists. The positive impact of an expanding loan portfolio in the banking system on transaction volumes and asset prices is being taken away from the domestic economy. Watch out for the credit crunch that isn't here. □

Mr. Powell is an analyst at Alex. Brown & Sons, Baltimore.

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COMMENT/ *By Irvine Sprague*

Finger-Pointers Rewriting History of the S&L Crisis

WASHINGTON — Beware. Revisionists are on the loose, attempting to rewrite the history of the savings and loan scandals in order to pin their tale on the elephant or the donkey.

Already I have had requests for background information from the staffs of both Democratic and Republican senators and congressmen. And from my service in the White House, I am certain that President Bush has a group working on a revised record to prove that he never once moved his lips during the entire debacle.

Tracing Slide to Disaster

The challenge is daunting for those who try to remove themselves from the record. Although written documentation is sparse, it is possible to spell out the history of the slow but steadyslide into disaster for taxpayers and to show who was involved. Understandably, memories differ 10 years after the fact.

The stakes are high for the politicians. The public has not yet really awakened. Yes, there have been many stories about the enormous cost of the savings

"Joe Public has not yet been personally hit. Watch out for the eruption when this happens."

and loan bailouts; the press has become increasingly wavolved with reports about the questionable deals to sell bankrupt institutions in the 1980s. The accounts of the looting that was widespread have made people mad.

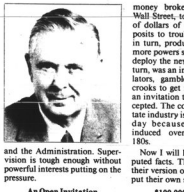
But Joe Public has not yet been personally hit. Watch out for the eruption when this happens.

Hasn't Hit Home Yet

Mention $300 billion and you get a big yawn. Talk about $100 and the ears prick up. Multiply this a few times and you really get attention. I say he, the average American, has not yet been hit, but he will be, for sure, when the budget deliberations are over and we have a combination of income tax increases, taxes on Middle America necessities like gasoline and beer, and sweeping cuts in vital services we all have been taking for granted. In the alternative we will get the devastation of Gramm-Rudman cuts, which would be worse.

To write or rewrite the history an author must address four key elements: deposit insurance was upped to $100,000, a figure at which interest rates were not controlled; the Federal government and the states joined in a frenzy of deregulation; supervision was cut back by an administration committed to "keeping the government off our backs"; and the cost was escalated by the Reagan-Bush policy of delaying addressing the problem until after the 1988 election returns were in.

Once the process was under way, it was interfered with by the Keating Five, Speaker Wright, lobbyists and no doubt many others from the Congress and the Administration. Supervision is tough enough without powerful interests putting on the pressure.



An Open Invitation

Let's take the elements in order, the insurance first because this was the catalyst that made it all happen. The $100,000 federal insurance opened the door for money brokers, mainly from Wall Street, to bring in billions of dollars of above-market deposits to troubled thrifts. This, in turn, produced pressures for more powers so the thrifts could deploy the new money. This, in turn, was an invitation to speculators, gamblers and outright crooks to get into the business, an invitation that was gladly accepted. The commercial real estate industry is in a depression today because of the thrift-induced overbuilding in the 1980s.

Now I will lay out the undisputed facts. Then those writing their version of history can each put their own spin on the story.

$100,000 Insurance

The banking bill of 1980 (PL 96-221) signed into law by President Carter on March 31, had a long, tortuous history. The House originally passed legislation in September 19 to allow banks to offer interest-bearing checking accounts. There was no mention of deposit insurance or deregulation.

In November 1979 the Senate amended the House measure, adding provisions to phase out interest rate limits on deposits and to begin deregulation by permitting limited lending powers to savings institutions. Deposit insurance was addressed for the first time when the Senate by voice vote upped the insurance from $40,000 to $50,000 on a motion by Senator Cranston of California.

During the Floor debate Senator Proxmire mentioned the $100,000 figure as being discussed as early as 1979. Senator Garn said he agreed with the Senator from Wisconsin that "we now need to move to make

See **COMMENT** *page* **19**

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PRIVATE BANKING

Morgan Follows the Money To Ever-Popular California

By MAUREEN NEVIN DUFFY
Special to the American Banker

J.P. Morgan & Co. has established a California trust company, enabling it to aggressively mine the fertile vein of affluent clients in the state.

As a New York trust company, Morgan previously could not act as a California fiduciary. The new unit, J.P. Morgan California, "shows our commitment to the market," said George W. Rowe, managing director of Morgan's California private banking group.

Morgan aims to devise specific products in investment management, trust, and lending for the California client. "We already do some entertainment industry financing," said Mr. Rowe. "The purpose of our being on the ground out there is to design products to fit that market."

Morgan also has hired another managing director to the California private banking group. Owen H. Harper, 52, assumes responsibility for developing client relationships in Los Angeles and San Francisco and will divide his time between those cities.

A Former Consultant with Banking Experience

Mr. Harper, formerly a consultant, is the fifth appointment this year to the California private banking group and the first from outside the banking company.

Before becoming a consultant, Mr. Harper was an executive vice president with Crocker National Bank. At Morgan he reports to Mr. Rowe.

> **"We wanted to increase our presence in California."**
>
> **George W. Rowe**
> *J.P. Morgan California*

Industry observers say the attention being paid to California is part of a logical progression, with bankers following the aging baby boomers to major population centers; such as New York, Florida, and California.

"We're seeing this across the board. I think they all went to the same seminar about two years ago," said John Laurino, managing director of Westport Consulting Group Inc., Westport, Conn., which performs product and development work for the financial services industry.

California is home to "an incredibly affluent group," Mr. Laurino said. "Couple that with the shrinking margins in other banking areas over the last 10 years and you have the increased interest in extending private bank services beyond home-based markets. They're going where the wealth is still being created. The California-based private banks are doing the same in New York."

Mining the Coasts for Business

San Francisco-based Bank of America has private bank offices in New York. Conversely, Citibank has offices in San Francisco and Los Angeles exclusively for private bank operations.

"We wanted to increase our presence in California, and we needed a business on which to base that presence – and that was private banking," said Mr. Rowe, who transferred to San Francisco in January from Morgan's corporate finance operations in London. Mr. Rowe, who ran Morgan's private bank operation at Fifth Avenue and 44th Street in New York City during the 1970s, reports to David Hopkins, head of private banking for Morgan.

Mr. Rowe cited the wine, entertainment, biotechnology, and high-tech industries as well as the agricultural and real estate wealth as attractions of the California market. The operation also will serve international private bank clients from the Orient, Europe, and Latin America, he said.

Ads Merge Concepts of Global and Local

Morgan is using the advertising agency of Backer Spielvogel Bates to introduce itself to the California market. Ads using the slogan "Global bank with the local touch" will appear in the local press, the western addition of *The Wall Street Journal*, the *Los Angeles Times*, and the *San Francisco Chronicle*. Morgan also plans to support certain charitable events on the West Coast as part of its promotional efforts.

Another recent appointment in the California unit is Richard Jones, vice president, who will direct private banking services for Southern California out of the Los Angeles office. Mr. Jones joined the bank in 1983 and previously worked with Morgan Guaranty private bank clients in New York.

Deirdre Atkin assumed responsibility in July for the private bank operations in San Francisco. Previously, she worked in the corporate finance operations of J.P. Morgan in Florida and Georgia. Nancy London, who formerly worked in the Tokyo branch of Morgan Guaranty, took over the West Coast real estate advisory business for the private banking group in July.

Ms. Duffy is a freelance banking reporter based in New York.

Look for *"Sound Off"* every Monday on page 2 in the *American Banker.*

Fleet Launches ATM Promotion

$100,000 Is Grand Prize in Scratch-Off Card Game

By TOM LEANDER

Taking a cue from major automated teller machine networks, Fleet/Norstar Financial Group Inc. is rolling out a splashy promotional campaign to promote its own machines.

The Providence, R.I., banking company is distributing a scratch-off game card to anyone who signs up for a new ATM card and to current cardholders who present a transaction receipt from any of the company's 315 ATMs.

Three Matches Win

Using a thumbnail or a penny, a player uncovers the six boxes, which contain dollar amounts ranging from $1 to $1,000. If three of the dollar amounts match, the customer wins.

Fleet also will hold a $100,000 grand prize drawing for ATM customers in early October. Customers automatically qualify when they use a Fleet ATM for a deposit, payment, or cash withdrawal. They also can enter by filling out the back of the game cards and dropping them off at boxes in bank branches.

Separately, the bank is distributing game cards to employees, but employees are not eligible for the grand prize.

"We have two reasons for launching the sweepstakes – to expand our ATM customer base and whip up awareness about electronic banking among our own employees," said Geoffrey Walters, vice president and product manager of electronic banking at Fleet/Norstar.

The ATM promotion, which began Monday and ends Oct. 5, targets cash-hungry customers during the summer vacation season, a time of high ATM use.

Timely Move

Analysts said the move was timely, given the economic downturn in the New England region, where Fleet ranks No. 2 overall.

"I was surprised that Fleet was doing this, but it makes sense," said Catherine Bond, a specialist in ATM marketing at C. Bond & Co. in Hartford.

"During a downturn, bank advertising is usually the first thing to go. Fleet could gain tremendous value from boosting its retail banking image now."

Using ATM sweepstakes is a relatively common marketing technique among large ATM networks. But the Cirrus national network recently chucked the idea of a sweepstakes, which it had used in previous years, in favor of a less expensive direct marketing campaign.

Only a handful of major banks have launched independent sweepstakes for their ATM networks, said Cindy Wilson, a spokeswoman for the Bank Marketing Association, Chicago. They include Seattle-First National Bank, National Bank of Detroit, and First American Bank in Washington.

Using game cards to attract business is also not unknown. Several supermarket networks have used the technique. And NCNB Corp., Charlotte, N.C., has used scratch-off game cards in the Southeast, offering loan customers lower interest rates as a prize. But Fleet is believed to be the first major bank holding company to use scratch-off cards for an ATM promotion.

"They're the lottery tickets," Mr. Walters said of Fleet's instant game cards. The odds of winning an instant prize are 1 in 100. The odds are skewed differently for employee cards, but the company declined to provide details.

Customers may collect prizes up to $20 immediately at the branch. To collect larger sums, they must mail wining cards to Fleet.

Ads supporting the campaign appear in several Rhode Island daily newspapers. Fleet is also using statement stuffers and posters in branches to alert customers to the sweepstakes. Fleet developed the campaign with the help of Promotional Marketing Corp., a consulting company in Westport, Conn. □

Visa Will Offer Travel Discounts

NEW YORK — Visa U.S.A. will offer savings on hotel stays, airline tickets, and car rentals to holders of its gold and business cards as part of a continuing effort to boost its presence in the travel and entertainment market.

The San Mateo, Calif.-based card association will begin distributing savings certificates next month. The certificates can be redeemed for discounts on Carnival Cruises, TWA and United Airlines, Avis and Hertz rental cars, and Marriott and Radisson hotels.

Visa will include the coupons in cardholder inserts each quarter. The program, called Exclusive Escapes, is scheduled to run until September 1992.

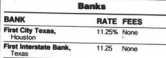
Next month all gold and business cardholders will receive certificates for Radisson Hotels. The hotel chain will provide consumers with a free Friday night stay when they present a Visa gold or business card along with Exclusive Escapes coupons upon check-in.

The promotion marks the fourth travel and entertainment program by Visa in the past nine months. In July, the association kicked off a sweepstakes aimed at getting more travel agents to guarantee hotel reservations with Visa cards.

Earlier this year, Visa announced a promotion that awards cardholders with a free gift whenever they use their cards to check in at more than 550 hotels nationwide. That promotion, called With Our Compliments, is set to run through summer. The association said the gift program has sparked a 25% increase in Visa hotel transactions.

Visa's first travel and entertainment incentive program was launched last December in conjunction with the Las Vegas Hilton. Through it, guests that paid with Visa received a special rate. □

AMERICAN BANKER /Bank Rate Monitor™ Consumer Money Index



Auto loan rates and fees

Here are the auto loan rates and fees being charged by selected large banks and thrifts nationwide on August 21. The rates are for a fixed-rate $9,000, new-car loan, with a 20% down payment and a 48-month term. The 8-week trend is based on the rates charged by the 10 largest banks and thrifts in each of the nation's 10 largest markets on the dates shown.

Banks

BANK	RATE	FEES
First City Texas, Houston	11.25%	None
First Interstate Bank, Texas	11.25	None
First Pennsylvania Bank, Philadelphia	11.49	None
Manufacturers Nat'l Bank, Detroit	11.50	$30 Processing
Provident Nat'l Bank, Philadelphia	11.49	None

Thrifts

THRIFT	RATE	FEES
Chevy Chase Svgs Bank, Maryland	11.50%	None
Citibank, San Francisco	12.50	None
Citibank, Chicago	12.50	None
Perpetual Svgs Bank, Mclean, Va.	11.00	None
Talman Home Fed S&L, Chicago	11.25	None

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

Regulators at Odds on Rules for Real-Estate Appraisals

Continued from *page 1*

the Comptroller and FDIC, the key point of contention is the dollar amount. The Fed is now expected to change, perhaps to the lower level set by the two other regulators.

"We definitely are considering reducing the *de minimis* level from the current $100,000," said Roger Cole, assistant director of the Fed's division of banking supervision and regulation.

The appraisal rules were mandated by the 1989 thrift-bailout legislation to guard against overvaluations.

Appraisers Oppose Fed

The $100,000 rule issued by the Fed in June was hotly contested by appraisers' associations, which feared much of their business would evaporate if less expensive properties did not require certified appraisals.

Bankers generally agreed with the Fed's reasoning that appraisal abuses, particularly inflated assessments of property values, were most likely to occur in the higher price ranges. Bankers also said less regulation of appraisals would lessen the cost of closing loans.

> **"The regulatory agencies caved in to the lobbying of the appraisers that was led by [Georgia Democratic Rep.] Doug Barnard."**
>
> **Kenneth A. Guenther**
> *Independent Bankers Association*

The Fed's rule stated that no residential transaction for less than $100,000 required an appraisal by a licensed or certified appraiser. The rule still required an appraisal.

FDIC, Comptroller Rules

Both the FDIC and Comptroller are requiring banks to either a licensed or a certified appraiser for any noncomplex, or nonresidential transaction valued at $50,000 to $250,000 and any noncomplex residential transaction worth $250,000 to $1 million.

Complex residential and nonresidential transactions from $250,000 to $1 million would require a certified appraiser, and any type of transaction of $1 million or more would require a certified appraiser, the two agencies' rules state.

Opponents Not Overjoyed

Banking and appraisal trade groups, which fought one another over the size of real estate loans that would require certified appraisals, expect the Fed to move in line with the other agencies. But neither side is overjoyed.

Bankers wanted to stick with the $100,000 as advocated by the Fed. By contrast, appraisers' representatives had argued for $15,000, as had been proposed by some regulators until the Fed raised the ante.

Mr. Cole of the Fed said he did not know when the central bank would reconsider the rule, and he was uncertain that it would adopt the $50,000 standard.

"We wanted consensus among the agencies," according to an FDIC staffer who requested anonymity. "We felt $50,000 is as good an amount as we can come up with.. We feel [the $50,000 level] meets safety and soundness standards."

> **"We wanted consensus among the agencies. We felt $50,000 is as good an amount as we can come up with," an FDIC staffer said. "We feel [the $50,000 level] meets safety and soundness standards."**

Trade Groups React

"The regulatory agencies caved in to the lobbying of the appraisers that was led by [Georgia Democratic congressman] Doug Barnard," said Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America. "It is just another unnecessary regulation on banks. It is a slap in the face to every loan officer."

The American Bankers Association was just as vociferous, warning that the rule would mean extra costs for banks. "They are going to incur costs which are going to be passed on to the consumer," said James D. McLaughlin, ABA director of agency relations.

Donald E. Kelly, vice president and director of Washington operations of the Society of Real Estate Appraisers, took some consolation from the $50,000 figure. "Certainly, the [$50,000] is much better than the [$100,000]. One hundred would cut out more than half of the residential properties in the country needing appraisals." □

Who has the largest installed base of branch automation systems?

For Bankers Who Mean Business
Commercial Real Estate
Every Tuesday in AMERICAN BANKER

TECHNOLOGY/OPERATIONS

AMERICAN BANKER
A weekly feature
Wednesday, August 22, 1990

Show Must Always Go On

Continued from page 1

backup generator. The generator had been running virtually nonstop for two days as the Fed worked overtime to accommodate payments from other banks experiencing operations problems.

It would eventually decide to move to an alternate site for the first time.

The crisis at the Fed was precipitated by a fire the previous Monday at a substation owned by Consolidated Edison Co. of New York, which left much of the financial district in the dark. Power was restored the same day at many buildings, but the Fed and several other institutions had to resort to backup power for the rest of the week.

During the crisis, some Fed employees worked by flashlight in 12-hour shifts and others traveled by bus to its backup site.

Managers Get Chocolate

"There was a tremendous amount of camaraderie and spirit," said Mr. Sendrovic, recalling that his staff members bought Godiva chocolates for business managers who kept some systems running on personal computers at another Fed building across the street from the main headquarters.

The drama began Monday, Aug. 13, at 11:45 a.m. when the lights flickered at the Fed's downtown headquarters. Shortly after the lights went out completely at 1:15 p.m., Fed officers met for the first time that week to discuss moving to a contingency site it has owned since early 1987 in Pearl River, N.Y.

The backup site works continuously, exactly duplicating the processing done at the headquarters.

The Fed processes 15 payment messages a second, with each payment averaging $4 million to $5 million.

"No outage is acceptable," said Mr. Sendrovic.

But on Monday, the Fed decided not to move operations. "If your systems are running, you'd rather operate with a site and a backup, rather than operate at the backup and have nothing else," said Mr. Sendrovic.

Fed Wire operated smoothly on Monday and Tuesday. But Citicorp, which processes some $50 billion funds transfers daily, had problems with backup generators Tuesday at its nearby Wall Street office. They were resolved late in the afternoon, but caused the Fed Wire to settle late, at 10 p.m., instead of the usual 6 p.m.

Systems – and backup generators – had to keep running afterward for end-of-day processing, in which all transactions are posted and reconciled.

On Wednesday, the generators at the Fed were still working, but Citicorp lost one of six generators. The bank finally came up on Fed Wire at about 8:30 p.m. Settlement was delayed until 11:45 p.m.

Then end-of-day processing began. "The later we close, the less time we have to process end-of-day transactions," said Mr. Sendrovic. "We had finished end-of-day processing around 4 a.m. The hose to the generator went shortly before 5 a.m." Thursday.

At 6 a.m., Mr. Sendrovic arrived at the Fed and discussed the situation with the vice president in charge of the building, John Eighmy. "There was still a chance the hose could be repaired," said Mr. Sendrovic. When Mr. Corrigan arrived at the bank shortly thereafter, Mr. Sendrovic nevertheless recommended moving operations outside the city.

"Fortunately, this occurred during off-hours," Mr. Corrigan said in a statement to the press late Thursday. "It gave us ample time to consider various options."

Then, mr. Corrigan instructed the crew to prepare to move and at 9:30 started placing calls to the chairmen of the major clearing banks.

The Fed runs a three-shift, seven-day-a-week operation in both Manhattan and at its backup site in Rockland County, N.Y., which always has a staff of 20. While Mr. Corrigan spoke to the bankers, Mr. Sendrovic sent a busload of 50 people, both computer types and business people in the funds transfer area, to bolster the staff at the contingency site.

At 10:20, Mr. Sendrovic received premission to move operations.

The Fed started opening the Fed Wire for business at 10:25 via the remote location. It brought the first banks onto the securities wire at 11 and onto the funds wire at 11:15.

"We had full confidence that that would work," said Mr. Sendrovic. The Fed tests the contingency site about four times a year. The last time it had tested was spring, when about 30 banks logged onto the system and tested their encryption systems.



Peter Tytheri

HAPPY ENDING: "The thing we had never done before was to come back" to the New York site, said Fed executive vice president Israel Sendrovic.

"The most difficult thing was establishing communications with the banking community – activating the communications lines," Mr. Sendrovic said.

An instrumental player in the move was Cathy Minehan, head of Fed Wire, who postponed her vacation for a week to act as direct liaison with the banks.

By 3 o'clock, Fed processing was working smoothly, Fed officials said.

Later that day, the Fed sent out "a broadcast" to banks that it would operate from Pearl River on Friday. End-of-day processing on Thursday and Friday was normal.

Saturday was a "day of rest" for most, except for the building crew, which worked with Con Ed to restore power throughout the Manhattan headquarters. Power was back in the computer rooms at 12:15 p.m. Sunday.

Pastrami by Flashlight

Just after midnight Sunday – before calling Mr. Corrigan to inform him computers were up and running in Manhattan – four executive vice presidents sat in Mr. Sendrovic's office with the lights turned off, eating pastrami sandwiches and pickles by flashlight – for old times' sake.

"The thing we had never done before was to come back" to the New York site, Mr. Sendrovic said, apparently pleased with the outcome.

On Monday, the Fed Wire came up a little early, at 8 a.m., and settled normally that night.

The only operation the Fed had to discontinue throughout the ordeal, Mr. Sendrovic said, was currency verification. "You need light to do it," he said. □

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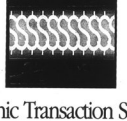

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STRATEGIES

18 Sacramento Supermarkets Test Credit Card System for Payments

By KAREN GULLO

Adding to the list of supermarkets accepting credit cards for payments, Raley's of Sacramento, Calif., has installed an electronic payment system that accepts Visa, MasterCard, or banks' automated teller machine cards.

The program is now installed at 18 stores in the Sacramento area, and Raley's expects to expand it to its 60 stores in California and Nevada by yearend.

Citicorp is servicing the bank card transactions as the acquiring financial institution. Banks have generally shied away from pursuing small-ticket merchants such as supermarkets, reasoning that profit margins and consumer appeal are too low.

Markets' Share of Payments

But a few big companies, including Citicorp and Bank-America Corp., have warmed up to supermarkets, which supply 10% to 15% of the payment business, according to industry sources.

"Research with our cardholders has documented their interest in greater card usage for day-to-day household necessities, including food purchases," said Meg Jacobson, senior vice president for MasterCard's U.S. merchant business unit.

MasterCard and Visa U.S.A. have begun a number of efforts designed to encourage customers to use credit cards with small merchants, which would make the market more attractive to member banks.

This summer, MasterCard began offering a high-speed authorization service for small-ticket businesses that authorizes charges of up to $25 within three seconds. Visa is also experimenting with quick authorizations for small transactions.

In another pilot program, Visa has teamed up with Bank-America and Safeway Inc. to study credit card acceptance at supermarkets. Safeway began accepting Visa cards for payments at 14 stores in California this summer.

The companies are tracking who uses credit cards in supermarkets and whether customers tend to buy more when they pay with a card. □

Rural Credit Markets Stabilized in 2d Quarter, Survey Finds

CHICAGO (UPI) — A survey of agricultural bankers in the seventh Federal Reserve district indicates conditions in rural credit markets were fairly steady during the second quarter, the Federal Reserve Bank of Chicago reported Monday.

Loan demand was strong, and banks had ample money available for lending to farmers in Illinois, Indiana, Iowa, Michigan, and Wisconsin.

Interest Rates Stabilize

Economist Peter Heffernan, writing in the bank's agricultural letter, said interest rates charged on farm loans stabilized following earlier declines, while the measure of repayment rates on loans to farmers dropped slightly from the high levels of earlier surveys.

Loan demand was strong, and banks had ample money for lending.

"Nevertheless, further improvements in the overall conditions of farm loan portfolios at banks in the district were noted," he said. "Those who responded to the survey expect farm lending at their institutions to continue expanding during the summer months, especially for operating funds and farm machinery purchases."

Thirty-six percent of the bankers reported an increase in farm-loan demand during the spring quarter, 18% reported a decline and the remainder said there was no change from year-ago levels.

Farm loan demand was greatest in Iowa and Indiana, Heffernan said, Wisconsin was average, and Illinois and Michigan bankers reported somewhat lower than average demand.

"The strengthening trend in farm loan demand that has been apparent from the survey during the last few years has coincided with rising loan-to-deposit ratios at the district's agricultural banks," he said. "At the end of the second quarter, the ratio of 56.5% was more than one percentage point higher than the previous three months."

Interest rates charged on loans to farmers were virtually unchanged from April through June. The average rates charged on feeder cattle and operating loans held at about 11.9% at the end of June and 11.1% on farm real estate loans.

"Agricultural banks in Iowa continued to report the lowest mortgage rates, averaging 10.9%," Heffernan said. "The rate was 11.3% in Indiana and 11.6% in Michigan, while Illinois and Wisconsin rates were near the average."

"Since the mid-1980s, higher levels of guaranteed lending have offset a portion of the declines in direct lending to farmers by the Farmers Home Administration."

Peter Heffernan
Economist

Problem Portfolios Down

He said the continuing improvement also was evident in the bankers' evaluations of the condition of their loan portfolios. The average proportion of farm portfolios with little or no repayment problems was just over 95%, up from 94% one year ago. Consequently, the proportion falling into more severe repayment categories continued to decline.

"Since the mid-1980s, higher levels of guaranteed lending have offset a portion of the declines in direct lending to farmers by the Farmers Home Administration," Heffernan said. "The survey indicates almost 70% of the respondents have farm loans secured by an FMHA guarantee with the proportion ranging from under 50% in Indiana to just over 90% in Iowa."

Bankers said the volume of farm lending, which has been trending upward the past few years, will likely show additional growth during the third quarter of 1990.

"More than one-fourth of the bankers expect operating loan volume to be above year-ago levels during the third quarter, while fewer than 17% foresee a decline," Heffernan said. □

Which branch automation company offers a single point of service and product management?

RTC Head Warns Of Fraud Danger

WASHINGTON — The potential for fraud is significant as the U.S. government tries to sell billions of dollars in real estate and other assets taken from failed savings and loans seized by the government, says Peter Monroe, president of the Resolution Trust Corp.

In a letter to the Senate Banking Committee, Mr. Monroe said the RTC Oversight Board will do what it can to protect against fraud and waste in the program.

"The Oversight Board is fully aware that fraud, waste, or misconduct could increase substantially the costs of the RTC's disposition of assets of failed savings associations," he wrote.

In a memo dated June 29 and released this week by the Senate Banking Committee, RTC Inspector General John Adair said his office will hire about 20 new staff to work with the RTC to help prevent waste, fraud, and abuse as it tries to sell properties.

— Reuters

GLOBAL *dispatches...*

Morgan Offers Debt Relief In Package for Philippines

Reuters

MANILA — New York-based J.P. Morgan & Co. is proposing itself as lead manager of a new debt-relief package for the Philippines, Finance Secretary Jesus Estanislao told reporters.

Under the proposal, the Philippines would float bonds, called temporary interest rate reduction bonds, to a syndicate of commercial banks headed by Morgan Guaranty Trust Co. The bonds will pay interest below the London interbank offered rate but carry payment guarantees.

The lower interest payment is a creditors' tradeoff for the guarantee, Mr. Estanislao explained.

Debt-Exchange Proposal to Philippines Confirmed by Morgan

A Morgan spokesman confirmed that the bank has proposed a debt-exchange plan to the Philippine government, but he would not comment on details. A source called it likely the proposal is similar to a plan Morgan unveiled several years ago on Mexican debt.

That Morgan plan, which guaranteed interest but not principal, was the forerunner of the so-called Brady plan of the U.S. government to reduce Third World debt burdens. Under its terms, Mexico guaranteed repayment of interest and principal on its bonds by purchasing zero-coupon U.S. government bonds.

The Philippine Senate and the House of Representatives have separately passed nonbinding resolutions asking President Corazon Aquino to negotiate a 30-month payment moratorium on repaying the country's $26 billion of foreign debt. Mrs. Aquino, as well as the Bankers' Association of the Philippines, oppose a moratorium.

U.S., Japan, Lending Agencies Commit Up to $1 Billion

Announcement of the Morgan proposal came after recent commitments by the International Monetary Fund, the World Bank, and the U.S. and Japanese governments to raise $800 million to $1 billion for Philippine debt relief.

The Morgan scheme is one of several being considered by Manila that use the debt-relief resources pledged by major creditors two weeks ago.

The Philippines paid off $1.34 billion of bank debt in January for only $650 million, using a 50% discount under a debt buyback program. Manila is now studying a proposal by the state-owned Philippine National Bank to cut the country's debt further under a similar buyback scheme. □

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Praise for Credit Suisse's Revamping

Analysts See Special Units as Key to Further Success

By JAMES R. KRAUS

NEW YORK — Like other big Swiss banks, Credit Suisse moved pell mell to expand operations abroad and strengthen business base at home in the 1980s.

The bank built up its investment banking activities in London, Tokyo, and New York; acquired other Swiss banks; and started a life insurance company. But as international securities markets soured and rising interest rates and deregulation squeezed profits in Switzerland, Credit Suisse is reorganizing.

Activities Decentralized

In a broad-ranging revamping, Credit Suisse last year split up its activities into commercial banking, investment banking, life insurance, financial services, and industrial holdings, and it put them under a single holding company, CS Holding.

This year, the bank went a step further by combining private banking activities of three subsidiaries, Bank Leu AG, Bank Hofmann AG, and Clariden Bank, with those of Credit Suisse.

Robert Jeker, president and chief executive of Credit Suisse and president of the executive board of CS Holding, said the structural changes take account of financial sectors' different natures.

Leading the Competition

"We have specialized products and need special units for them," Mr. Jeker said in a recent interview.



"We have specialized products and need special units for them."
Robert Jeker
Credit Suisse

The reorganization puts Credit Suisse, Switzerland's third-biggest bank with nearly $100 billion in assets, several steps ahead of its two big domestic competitors, Union Bank of Switzerland and Swiss Bank Corp., neither of which has a separate holding company.

"In terms of structure, they're way ahead of the others," said Rodney S. Schwartz, a banking analyst with Lehman Brothers International in London.

Analysts believe Credit Suisse's restructuring is not yet over and that the bank is contemplating a reorganization of its investment banking activities through Credit Suisse First Boston, parent of First Boston Corp.

First Boston Takeover?

Credit Suisse, which holds a grandfathered 45% stake in Credit Suisse First Boston, is barred from increasing its stake under the International Banking Act of 1978.

"The major next move for CS Holding will be to acquire majority control of CSFB," said Christopher Davis, an analyst with Barclays de Zoete Wedd in London. "It will give them more scope to integrate [CSFB] into the business of the group."

But the reorganization at Credit Suisse is broadly in line with what analysts called the shape of the future for so-called universal banks such as Credit Suisse, which can do both investment and commercial banking and engage in other businesses such as life insurance.

"An increasing number of organizations recognize that different businesses have to be run separately," said Timothy Schantz, a principal at Greenwich Associates, a Connecticut consulting firm.

Return on Equity Is Tops

"They split up a mass bank and segmented it according to their customer base," said Keith Brown, an analyst with Morgan Stanley & Co. in London.

Credit Suisse is still well ahead of Switzerland's other big banks in profits and has nothing to fear for its triple-A debt rating, Salomon Brothers Inc. said return on equity reached 10.10% in 1989, compared to 8.05% at Swiss Bank Corp. and 7.95% at Union Bank of Switzerland.

But streamlining operations is becoming increasingly urgent for Credit Suisse, which last month announced that second-half profits were down from their 1989 level. The bank does not break out half-year results, but analysts said they believe that poor earnings on securities activities and rising interest rates will squeeze Credit Suisse further this year.

Need Seen for More Changes

"They spent a fortune building up their international and investment banking businesses, but they have to get the international side, in general, and the investment banking side, in particular, into shape," said Mr. Davis.

For Credit Suisse, Mr. Jeker said, the reorganization means concentrating on return on equity and return on assets and focusing on specialized businesses.

"Competition in the different markets is getting fiercer," he said. "We have to concentrate on the products where we have an advantage." □

Brazil Says Capital Is Returning

Reuters

SAO PAULO, Brazil — **The nation's economic policies have caused citizens to repatriate capital, Economy Minister Zelia Cardoso de Mello said in an interview.**

"We have had a return of money to Brazil since the beginning of our economic plan," Ms. Cardoso said. She rejected an assertion by John Reed, chairman and chief executive officer of New York-based Citicorp, that Brazil is, in effect, financing capital flight.

"I think that his understanding is wrong," Ms. Cardoso said of Mr. Reed's view. "On the contrary, we have had a return of capital." However, she could not say how much.

Mr. Reed was recently quoted in the Brazilian newsweekly *Veja* as saying, "The Central Bank in fact is financing the flight of capital when it sells its gold reserves to artificially lower the price of the dollar in the parallel market."

The administration of President Fernando Collor de Mello has dropped a long-standing Brazilian policy of setting foreign exchange rates by Central Bank edict and is allowing rates to be set by supply and demand.

Japanese Interest Rates May Rise Above Those in the U.S.

By J. TERENCE GALLAGHER
Reuters

TOKYO — Short-term Japanese interest rates could soon rise above U.S. rates for the first time since 1985, setting up a chain reaction that could reverse the flow of money across the Pacific, strengthen the yen and further depress the dollar.

Japanese rates have seldom moved ahead of their U.S. counterparts, kept down by low inflation and a high penchant for saving among the Japanese. This has given Japanese companies the chance to obtain capital at low cost in order to expand.

Economists say the change now would likely slow down or even reverse the flow of capital from cash-rich Japan to the deficit-ridden United States.

This in turn would push up the Japanese yen.

"A short-term rate reversal could . . . aid in changing market sentiment in favor of the yen," said a recent research report from Salomon Bros. Asia.

The interest rate trend has already affected the flow of capital from Japan to the U.S.

The last time short-term market rates in Japan rose above U.S. rates was September 1985, when the Group of Five -- the United States, Japan, Britain, West Germany and France -- wanted to give the yen a boost against the dollar.

Rise Seen as Inevitable

"It seems inevitable that Japanese short-term rates will soon exceed those in the U.S., especially if you consider the trends in the economies," said Richard Woodworth, analyst at Merrill Lynch Japan.

"The U.S. economy is extremely weak, while the economy here shows no signs of wanting to slow down," he said.

Bank of Japan officials said economic conditions do not warrant another rise in the official discount rate now at 5.25%, but many money dealers think an increase could come in September.

Bond Rates Narrowing

Long-term yield spreads between Japan and the United States have also been narrowing. The key Japanese 10-year bonds now trade at a yield of 8.03%, while 10-year U.S. Treasuries yield 8.81%.

"It would be more significant if long-term Japanese bond yields were to exceed those in the U.S. Then people would really sit up and take notice," said Woodworth.

The interest rate trend has already affected the flow of capital from Japan to the United States. Japanese portfolio investment abroad slowed to $17.6 billion in the first half of this year from $45.3 billion in the same period last year.

And foreign investors have been stepping up purchases of Japanese bonds since November.

"Foreign investors are already less ready to put funds into the U.S.," said Woodworth. "Once we get an inversion [in U.S.-Japanese rates], it will add more pressure to the yen-dollar rate."

The dollar is near its record low against the mark, which also reflects a change in investor outlook.

The dollar has dropped to 146 yen, down nearly 9 percent from its level four months ago. □

Key International Rates*

	Day-to-day money		3-mo. interbank		6-mo. interbank		Discount rate		Prime equivalent	
	8/21	8/22	8/21	8/22	8/21	8/22	8/21	8/22	8/21	8/22
United States	8.12	8.12	8.18	8.18	8.03	8.25	8.18	8.00	7.00	7.00
Japan	7.43	7.43	7.43	8.06	8.00	7.87	8.25	8.12	8.00	5.25
Canada	13.00	13.50	11.50	13.12	12.75	13.06	12.50	12.50	12.62	13.34
U.K.	15.00	15.00	15.06	15.06	15.00	15.00	15.00	15.00	14.50	14.34
West Germany	8.06	8.06	8.12	8.50	8.00	8.81	8.75	8.75	8.00	6.00
Switzerland	8.62	8.50	8.31	8.93	8.93	9.12	9.00	9.00	9.18	6.00
France	10.00	9.93	10.00	10.37	10.31	9.62	10.56	10.50	10.00	6.00
Italy	10.50	8.50	11.25	11.62	11.56	11.68	12.02	11.93	11.56	12.50

Prime equivalent	
8/22	8/23
7.00	10.00
5.25	5.25
13.34	13.34
14.34	14.34
6.00	6.00
6.00	6.00
6.00	10.88
6.00	10.50
12.50	12.50

	10.00	10.00
	5.25	5.25
	13.34	13.34
	14.75	14.75
	15.00	15.00
	10.50	10.50
	10.88	10.88
	10.50	10.50
	13.00	13.00

	7.13	7.13
	5.25	5.25
	13.34	13.34
	14.75	14.75
	15.00	15.00
	10.50	10.50
	10.88	10.88
	10.50	10.50
	13.00	13.00

	7.13	7.13
	5.25	5.25
	13.34	13.34
	14.75	14.75
	15.00	15.00
	10.50	10.50
	10.88	10.88
	10.50	10.50
	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.06	14.50	8.63	8.00	8.26
6 to 12 months	8.25	13.60	9.07	8.62	8.38
12 to 24 months	8.00	12.95	9.26	8.82	8.12

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

Here's a hint: It's not IBM.

EXECUTIVE *changes*

Bankers Trust Names Two To Head Group

Bankers Trust Co., New York, appointed **Alan Levinson** and **James Clayton** to head the bank's leveraged leasing group following the recent departure of about 20 veterans from the unit.

Mr. Levinson, a managing director who helped shepherd the bank into the thriving commodity swaps business, most recently was responsible for managing liquidity and market risk for the bank's own loan portfolios. Mr. Clayton, also a managing director, recently returned from Europe, where he headed Bankers Trust's merchant banking department for Eastern Europe, Middle East, and Africa.

A Bankers Trust spokesman said the lease department is being restaffed. The former leasing employees and others from the bank's equity investment group are forming their own boutique. The group includes former leasing department head **Charles Hill** and his comanagers, **Sharon Peterson** and **C. Wesley Reynolds.**

— **Franklin Smith**

Monogram Picks Nissen

David R. Nissen has been elected a director and named chairman of **Monogram Bank, USA**, the Cincinnati, Ohio-based credit card bank subsidiary of **GE Capital**, Stamford, Conn.

Mr. Nissen is responsible for the continued growth of the bank card business and the development of consumer-related business by GE Capital banking subsidiaries.



David R. Nissen

Ranked in the top 20 largest credit card operations, Monogram Bank USA has 1.5 million credit card accounts, with over $1 billion in outstandings.

"The focus is on private label credit cards with a select number of partners and providing quality service to our customers," Mr. Nissen said.

Monogram Bank has been in operations for three years and has a strong growth record.

Mr. Nissen previously was vice president and general manager of private label financing, GE Capital Retailer Financial Services. Under his direction, GE Capital Retailer Financial Services established itself as the leading supplier of private label credit cards.

MIDDLE ATLANTIC

Ampersand Corp., York, Pa., has appointed **Allen F. Hardin** as vice president-sales for this leading producer of branch automation software for financial institutions.

S.G. Warburg & Co. Inc., New York, has appointed **H. Nicholas Verey** as chairman of this U.S. arm of the leading international investment banking and asset management firm, S. G. Warburg Group PLC.

He succeeds **David Brooke**, who has retired.

Since 1987, Mr. Verey, has been a member of the board of the parent company and has had responsibility for corporate development and planning. He is a director of S.G. Warburg Securities, the firm's securities sales and trading arm of the group.

American Express Travel Related Services Co. Inc., a subsidiary of **American Express Co.**, New York, has named **Dennis J. Beckingham** to senior vice president and controller.

He will coordinate control and planning across all TRS business units. He formerly served as senior vice president and chief financial officer of the direct marketing and travelers cheque group.

Citibank, New York, said its fiduciary and information services division has appointed **Neil C. Craig Jr.** as assistant vice president responsible for sales to public funds.

Mr. Craig comes to Citibank from Aetna Capital Management Inc., where he marketed investment management and administrative services, and oversaw approximately $230 million in assets.

BSI-Banca della Svizzera Italiana has announced the executive appointments of **Yves Gaden, John K. Burgess, and Glenn B. MacPherson** at its New York branch office. BSI is headquartered in Lugano, Switzerland.

Mr. Gaden joins BSI as a senior vice president, heading up the corporate division. He will oversee banking activities in the real estate, trade finance and corporate areas. Mr. Gaden was previously the chief executive officer and director of Banque Indosuez's operations for Italy.

Mr. Burgess, first vice president, joins BSI to run the bank's treasury and trading division. Previously with **J.P. Morgan Inc.**, Mr. Burgess headed its U.S. dollar treasury group based in London.

Mr. MacPherson, first vice president, is now responsible for BSI-New York's operations accounting and office management functions. He was formerly with **Toronto Dominion Bank**, where he headed operations at its New York branch.

Long-Term Credit Bank of Japan Ltd., has named **Takashi Uehara** as general manager of its New York branch.

He succeeds **Koji Hirao**, who returns to Tokyo headquarters as director and general manager of the bank's treasury and securities group.

United States Trust Co., New York, has named **Anthony P. Marshall** a senior vice president. He will continue as manager of its estate planning department.

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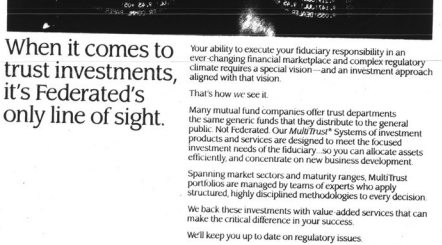

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REQUIRED READING/ *By W. Lee Hoskins*

Safety Net Needs a Good Shrinking

This speech, here slightly abridged, was presented recently to the New York Association of Business Economists.

The gathering movement for financial reform in the United States is creating controversy. Expanding the powers of commercial banks raises complex questions for the potential legislative reworking of long-standing regulatory divisions between commercial banking and investment banking, banking and insurance, domestic and foreign financial institutions – even between banking and commerce.

Financial reform, however, cannot be viewed simply as an enlightened attempt to remove artificial restraints on the rational deployment of private capital across lines of business.

Over the past 60 years, depository institutions in the United States have become the beneficiaries of an expanding federal safety net that, in effect, has become a taxpayer-backed substitute for private capital, liquidity, and contractual arrangements to manage and resolve financial failure.

"We lose the power and the safeguards of the market if the safety net intervenes to absorb losses or the risk of losses."

To maintain the safety net as banks engage in a wider range of business lines creates inconsistent both with the lessons we are learning from the unraveling thrift industry and, more generally, with growing concerns about federal credit guarantee programs.

Ironically, dependence on the safety net and regulatory restrictions to protect depositors appear to have contributed to low capitalization and the competitive disadvantage of banks in considering new lines of business.

What I want to talk about today, therefore, is not where to redraw the lines between banking and other lines of business. Instead, I want to talk about the precondition for redrawing those lines.

The precondition should be a matching reform of the federal financial safety net currently serving as a backstop for the operations of banks and other depository institutions.

Reform will require clarification of the objectives of the safety net and how it relates to systemic risk.

Shrinking the existing safety net, instead of tailoring it to exclude new lines of business, would make financial reform possible.

For many economists, contemplating financial reform is synonymous with further financial deregulation that picks up where elimination of Regulation Q and crumbling barriers to interstate banking have left off.

Normally, we would expect that removing further artificial barriers to competition would enhance efficiency, as the allocation of financial and real resources more fully responds to the play of market signals.

In a free-market economy, property owners, operating within the social fabric of the law, would be able to use their financial property in whatever way their ingenuity or lack of it suggests – as long as they can expect to enjoy the profits and suffer the losses.

A market system involves both profits and losses. We lose the power and the safeguards of the market if the safety net intervenes to absorb losses or the risk of losses and passes them along to the taxpayer.

Patching up the system whenever trouble arises, rather than allowing market arrangements to prevent or cope with trouble, skews decisions toward more risk.

Expanding the lines of business that banks can enter extends the realm of the economy underwritten by the federal safety net. Federal Reserve Chairman Alan Greenspan, in a recent speech, put the significance of this federal underwriting in clear perspective:



"The driving force that has permitted equity capital-to-asset ratios in banking to go from a little less than 25% in 1890 to a little over 6% in 1990 is the set of statutory and regulatory changes that have drastically lowered the risk to depositors."

"The major factors reducing depositor risk premiums and permitting banks in the United States to operate with considerably less capital than free market models would imply [are] deposit insurance and access to the discount window and to Fed Wire."

I define the safety net to include deposit insurance and access to both the discount window and Fed Wire. Access to the safety net assures that,regardless of managerial imprudence or exogenous events, deposits are safe and overnight financing and

See **SAFETY NET** *page* **14**

Mr. Hoskins is president of the Federal Reserve Bank of Cleveland.

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REQUIRED READING

Safety Net Needs Good Shrinking

Continued from page 13

intraday financing are assured.

Deposit insurance often is rationalized as a legislative effort, made in reaction to experience that led to the bank holiday in 1933, to forestall bank runs.

But had the Federal Reserve discount window and open market operations been managed differently in the years between 1929 and 1933 (as in October 1987, for example), those bank runs probably would not have happened – and if they had, they would not have produced the tragic results that occurred.

Access to the discount window was designed in 1913 to provide elasticity to the currency under the gold standard. Today, the Federal Reserve provides elasticity to base money through open market operations. Adjustment borrowing mostly reflects Reserve Bank rules made necessary by a subsidy discount rate.

Access to Fed Wire, in a formal sense, is not part of the safety net, but it has become 100% payment insurance for Fed Wire payments through automatic access by banks to free credit during the day.

This component of the safety net originated inadvertently when telecommunications innovations outstripped the Fed's control of Reserve Bank credit.

The typical rationale for maintaining this set of federal programs now is that by protecting the individual depositor and the individual bank, they protect society against financial panic and collapse – against systemic risk.

> **"The safety net increases the very risk against which the safety net protects, and transfers exposures away from private market participants toward the taxpayer."**

Some minimal level of deposit insurance might be socially convenient just to protect unsophisticated holders of small deposits against credit risk. The discount window might be a convenient way to handle banks when they are unexpectedly short of funds at the end of a day, although reliance on the present penalty rate for overnight overdrafts might do the job just as well.

However, the specter of systemic risk seems to be the principal rationale for the current expanded safety net.

The Nightmare of Failures

The systemic risk rationale is easy to state but difficult to define. The image which comes to mind is one of widespread failures of banks, where one bank's failure causes other banks to fail and so forth in a widening wave of failures reflecting the intricate interdependence of credit relationships in a modern banking and financial system.

"Failure," however, can have a variety of meanings. It might refer simply to a delay in making a payment during the day, or perhaps to the premium an illiquid bank has to pay in selling illiquid assets to balance its books at the end of a day. On the other hand, it might refer to the outright supervisory takeover of a troubled bank that lacks enough capital to satisfy regulatory standards.

A cascade of failures is not the automatic result of the failure of an individual bank. The systemic problem is more one of gaining time and information for the resolution of potential losses than of a vast evaporation of capital through actual losses.

Safety Net Can Increase Risk

Exposure of the banking system to systemic risk depends on the prudential holdings of cash, liquidity, and capital of each bank. As Chairman Greenspan's words remind us, systemic risk is created when the safety net is allowed to become a substitute for capital and liquidity and cash.

Through moral hazard, the safety net increases the very risk against which the safety net protects, and transfers exposures away from private market participants toward the taxpayer.

Another factor underlying systemic risk is the extent to which participants in the banking and payment systems protect themselves against the risk of adverse developments by estimating and controlling their susceptibility to potential failures of their counterparties – even when those risks stem from the risk of failure of others.

> **"In short, systemic risk need not be a catastrophic problem."**

The myth that exposure to systemic risk can be controlled only by government intervention is debunked by the extensive private clearinghouse and other private contractual arrangements that seem to have been successful in the past in managing risk exposures among interdependent counterparties.

Living with Systemic Risk

In short, systemic risk need not be a catastrophic problem.

In the United States, the safety net has been substituted for private capital and liquidity and cash, making it appear that systemic risk would be extreme in the absence of the safety net. But in the absence of the safety net, rational managers of banks would hold larger cushions of cash and liquidity and capital, raising thresholds of payments gridlock and electronic bank runs and interrelated banking insolvencies.

Moreover, private risk-control measures would be developed and adopted as rational bank managers sought to guard against systemic risk by taking actions ahead of time that would assure the time and contractual basis for dealing with failures in an orderly way.

Fed Wire Illustrates Challenge

Access to Fed Wire is a useful case study both because it is little understood and because it illustrates the challenge of trying to limit the scope of the safety

See **SAFETY NET** *page* **16**

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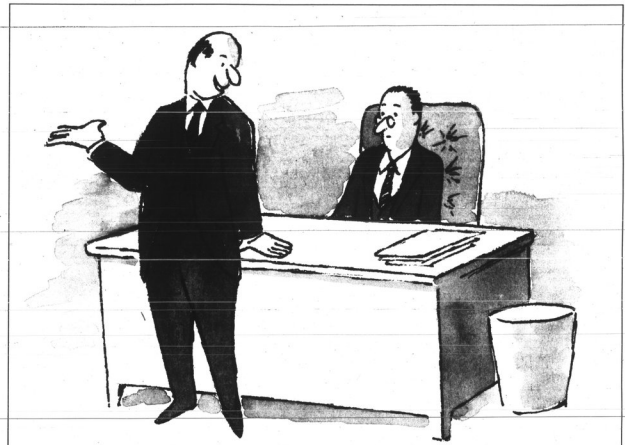

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net's coverage.

Fed Wire provides receiver finality. This simply means that upon receipt of a Fed Wire payment message, a bank acquires irrevocable ownership of an equivalent deposit credit at a Federal Reserve Bank.

Starting about 25 years ago, the Fed began making Fed Wire payments regardless of whether the bank sending the payment had a sufficient balance in its Fed account at the time it made the transfer.

Now, with Fed Wire volume near $1 trillion daily, the Federal Reserve Banks automatically provide daylight overdrafts with peak values in excess of $100 billion daily, trusting the overdrawn banks to top-up their accounts by the time Fed Wire closes and the banking day effectively comes to an end.

Unintended Result

Providing daylight overdrafts to fund Fed Wire payments was an unintended result. Apparently, the practice began when the Fed and its customers installed

"There is a wide variety of possible private arrangements for dealing with failure."

on-line, real-time telecommunications technology without redesigning procedures to check each on-line Fed Wire payment against the payor banks' deposit balance.

This safety net feature has assumed growing importance as the first line of defense against failure and systemic risk. It provides both time and the contractual basis for resolution of potential losses when a bank unexpectedly runs into trouble.

The troubled bank can continue to make payments all day on Fed Wire. If the bank can't balance its books at time end of the day, it is the Fed that is left holding the bag. The Fed must choose between lending at the window or working with the deposit insurance system to keep the bank open or to close it.

The contractual basis for resolving failure is that the smart money can run from the bank during the day, while the Fed lends to the bank overnight, eliminating systemic risk. If the bank can't survive, the remaining uninsured creditors are left to work with the FDIC to determine their losses.

However, there is no reason that every conceivable transaction should be promised a same-day payment guarantee by the federal government. The withdrawal of that implicit promise would curtail some transactions but, more importantly, would encourage private arrangements to reduce risk.

Overdraft Overhaul

The Federal Reserve has been struggling with this issue and has recently adopted a policy for dealing with daylight overdrafts. The policy is an attractive alternative for dealing with failure and systemic risk because it discourages Fed Wire daylight overdrafts and has led to the development of private contractual arrangements for dealing with failure.

Initially, the risk policy of the board of governors' payment system was to reach an agreement with each bank about the expected upper limit on its daylight overdraft, with supervisory remonstration to follow if a bank seem not to be taking the limit seriously.

Then, a year ago, the board published for comment a more complete set of proposals, including a flat penalty fee of 25 basis points per dollar of daylight overdraft in excess of 10% of a bank's capital.

This fee is not actuarially determined, and no actual or shadow reserve fund is contemplated. The fee is simply a penalty designed to discourage Fed Wire daylight overdrafts and encourage private alternatives for dealing with failure.

Real-Time Lock

A more effective way to prevent Fed Wire daylight overdrafts would be an outright, real-time lock on Fed Wire making it impossible for a bank to send a payment that would create an overdraft (or an overdraft in excess of some limit). This is already done for certain institutions, including banks known to be in trouble, and there is no reason it couldn't be done for all Fed Wire users.

"The infallible contractual way to assure that banks don't fail to make payments during the day is to require that they hold enough cash."

There is a more important – indeed, critical – point about the safety net. If federal supervisors act consistently to prevent large banks from failing, little can be gained by reducing Fed Wire daylight overdrafts. If the federal government stands ready to assume the risks involved, there is little incentive for private markets to develop careful counterparty risk scrutiny and effective loss sharing arrangements.

Shrinking the safety net requires a pervasive understanding that when trouble arises the Fed and FDIC will stand aside, leaving participants in private payments arrangements to bear the costs of failure.

Supervision of private payments arrangements to assure effective sharing of loss creates the possibility that banks won't fall into the safety net. This is the route the Federal Reserve's policy seems to be taking.

A more effective way to assure an incentive for meaningful private contractual arrangements to reduce systemic risk is precommitment by federal supervisors that the risk of loss will fall on private market participants.

Private Arrangements

Undoubtedly, there is a wide variety of possible private ar-

See SAFETY NET next page

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rangements for dealing with failure. For these to be effective, they must be based on the requirement that the private counterparties deal with the problem when cash or liquidity or capital runs out.

Let me mention just a few of the ways that creating an incentive for private contractual arrangements might influence the way we deal with payments.

The Cash Alternative

One alternative to Fed Wire daylight overdrafts is cash itself. The infallible contractual way to assure that banks don't fail to make payments during the day is to require that they hold enough cash.

Several years ago, Fed Governor Wayne D. Angell made a cogent proposal for inducing banks to hold more cash, including the payment of interest on excess reserves, but his proposal has not made much headway. Banks could use the existing stock of cash more effectively during the day.

Many people still incorrectly understand this to be slowing down the flow of payments to avoid daylight overdrafts. Conceptually, that might be possible, but it would not be a major factor in avoiding systemic risk in the payments system.

Far more likely – because examples already are in place – are contractual agreements by

"The crucial feature of any private arrangement must be a contractual agreement placing risk of loss squarely on the parties to the arrangement."

which counterparties condense their transaction during the day into a moving net obligation to be paid by one party to another at the end of the day.

If the payment can't be made, the transactions are still good but the damage is limited – because only the smaller net debt of the overextended or failed party must be resolved.

Net Settlement Arrangement

Another avenue – with an important example scheduled to begin in October – is for banks to condense the payment they make to one another during the day into a single net settlement payment at the end of the day.

In the event of failure, the participants in the net settlement arrangement cover the failed position of their troubled counterparty, buying time to work out resolutions of its problems and their potential losses.

The example is Clearing House Interbank Payment System (CHIPS), the electronic foreign exchange payments network operated by the New York clearinghouse, handling a volume of payments rivaling Fed Wire funds transfers.

In October, CHIPS is scheduled to implement an agreement for loss sharing, with a $4 billion pool of participants' liquid collateral to back that agreement.

The crucial feature of any private arrangement must be a contractual agreement placing risk of loss squarely on the parties to the arrangement. Consequently, participants have an incentive to monitor the creditworthiness of their counterparties and enforce standards that limit the risk being assumed.

In addition, some of the underlying financial-market transactions that now generate payments may no longer be feasible because private parties will not be willing to assume the risks of failure to which they would be exposed on terms acceptable to the transacting parties.

Shrinkage Is Feasible

I am encouraged because the payment system risk example demonstrates that it is feasible to shrink the safety net and therefore meet the precondition for financial reform.

As long as the monetary authorities protect liquidity in the economy as a whole through appropriate open-market and discount window policies, protection against failure and systemic risk can be handled by private contractual arrangements, as demonstrated both historically and in emerging private payments arrangements.

The design of effective private arrangements for containing risk will evolve from market ingenuity – with occasional lapses, of course – when there is an incentive to do so.

Perhaps the biggest obstacle to shrinking the safety net, and therefore the biggest obstacle to proceeding with financial reform, will be convincing beneficiaries and custodians of the present safety net that it is in their interests to limit the net and avoid the temptation to extend it in times of trouble.

By removing this obstacle, we should be in a position where banks can expand their lines of business without putting the taxpayers at further risk. □

RTC Sells $915 Million Of Auto Loans to GE

NEW YORK — The Resolution Trust Corp. said it sold $915 million worth of automobile loans to General Electric Capital Corp. in the largest whole-loan transaction since the thrift-bailout agency was formed last year.

The loans were on the books of Empire Federal Savings Bank, Buffalo, which has been under RTC supervision since Jan. 24.

The portfolio acquired by the General Electric Co. subsidiary consisted of 140,000 car loans held by Empire or its subsidiary, Empire of America Consumer Finance Corp. First Boston Corp. solicited bids for the sale.

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COMMENT

History Retold For S&L Crisis

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it higher."

So the seeds were sown. And by no less than the chairman and the ranking minority member of the Senate Banking Committee.

Accounting for Inflation

In February 1980, the House held extensive hearings and I, as FDIC chairman, testified for an increase to $60,000 to keep up with inflation. My testimony read: "The insurance was last changed from $20,000 to $40,000 in 174, and if $40,000 was the right figure then, taking inflation into account, $60,000 would be the appropriate figure today."

House Banking Committee Chairman St Germain responded that the correct figure six years earlier should have been $50,000 "but we couldn't convince the Senate to go along." During my questioning, Congressman Hanley told me that $100,000 probably would be a good figure so the banks and the FDIC would not have to bear the expense of changing their window stickers if the rate were raised again in the near future.

> **"Commercial real estate is in a shambles because of thrift-induced overbuilding in the 1980s."**

So, clearly, $100,000 was in the background early in the game. The savings and loan lobby worked tirelessly for this figure and these were the lobbyists who were most generous with their political contributions. However, the confrees battled mostly over Reg Q. Insurance was only a side issue. House confrees first offered $40,000, then $60,000, then $75,000.

Attracting Deposits

Why do I focus so much on $100,000? Why was this so important? Because it was crucial if the thrifts were to achieve what they wanted. At that time interest rates were tightly controlled under $100,000, but there was no limit at $100,000 and above. An institution could pay only 5% interest on smaller deposits, but any amount at the $100,000 level. So upping the figure to, say, $99,000, would not suffice. It had to be $100,000 if the thrifts were to attract hundreds of billions in above-market, federally-insured deposits.

(A footnote. We regulators had lifted the interest rate controls at $100,000 in 170 at the insistence of Fed Chairman Arthur Burns during the Penn Central crisis, so the money center banks could attract funds. Previously, Reg Q treated all deposits alike.)

Now we come to the much maligned House-Senate conference that nailed down the $100,000 insurance even though it was not included in either bill. Kathleen Day told the story well in the *Washington Post* on June 24, 1990: "Democrats, GOP Trading Accusations in S&L Crisis." She mentioned a submeeting and quoted "several of the men in the room" to the effect that the participants were Senators Proxmire, Garn and Cranston and Congressman St Germain. "They telephoned banking regulators to inform them of the decision," she added.

Telephone they did. I recall the call vividly. I protested the decision but was told by Proxmire, "That's not the question. The question is, 'can you live with $100,000.'"

My final response was that I would have to live with whatever the confrees did, right or wrong. Paul Nelson, House banking committee staff director, later told me I should have protested even more. I know that Bank Board Chairman Jay Janis must have responded with enthusiastic support.

> **"Congressman Hanley told me that $100,000 probably would be a good figure so the banks and the FDIC would not have to bear the expense of changing their window stickers."**

(Actually there were two telephone calls. Earlier, Bernie Moss of the FDIC called to tell me a motion had been made for $100,000 insurance. He remembers me saying, "I don't object." I recall saying that our position had been consistently against such a figure. Perhaps we just were not communicating.)

No Written Record

The difficulty of reconstructing events on which there is no written record are enormous. Last year a researcher from *Fortune* magazine called to ask my help. She said she had tried talking to the principals "but they can't remember how we got $100,000 insurance."

There was no public focus on the increased insurance as the legislation progressed. In the March 3, 180 issue of *American Banker* there was a long article titled: "Tentative Compromise Reached on Reg Q Bill."

You had to jump to page 20 and there it was, 123 lines into the story, a passing reference on the tentative draft agreement used by the confrees. The article said, in a long list of items:

"• Increase the Federal Deposit insurance ceiling to $75,000 from $40,000."

So that was the public expectation as the confrees went into their final hours of debate.

Insurance Issue Glossed Over

I could find little discussion of insurance in papers of general circulation. In addition to the *American Banker* report there was a mention in the March 10 *Washington Financial Reports*, buried deep in a four-page story.

It said: "The bitterly divided confrees worked for over two hours March 4 and then 7½ hours March 5 before agreeing on major reforms which often had only partial resemblance to the original proposals in either House or Senate." The story

See **COMMENT** *next page*

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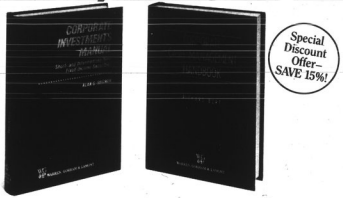

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COMMENT
History Retold For S&L Crisis

Continued from page 19

quoted the U.S. League of Savings Associations in praise of the bill, citing the $100,000 insurance as being "particularly helpful."

So there is the record. Make with it what you will. Certainly the Congress raised the insurance. But just as certainly they did not think through the consequences and most members were idle bystanders, simply ratifying the backdoor deal cut by the conferees.

Deregulation Opens New Doors

The same legislation that gave us $100,000 insurance also allowed thrifts to invest up to 20% of their assets in consumer loans and in commercial and corporate debt securities. It was only a tiny crack in the door but it was a dramatic departure in practice and it whetted the appetite for more.

Two years later, in the Garn-St Germain Act, thrifts were allowed to invest up to 10% of assets in commercial loans, 30% in consumer loans, and 40% in commercial real estate. In short, they could embark on uncharted waters with 80% of their assets.

At the same time state legislatures roared ahead — particularly Texas, Maryland, Ohio, Florida, and California. When they were through, the thrifts were authorized to roll the dice with depositor money on just about anything. And they did.

Bank Board Chairman Ed Gray's pleas for more examiners were answered by the Administration with cutbacks throughout the 1980s, an irresponsible action as the cracks begin to appear in the facade that all was well.

"Thrifts were authorized to roll the dice with depositor money on just about anything. And they did."

At a time that cried out for more supervision, the administration policy was to stand aside.

Now the Congress blameless. The Garn-St Germain Bill lowered safety and soundness standards and allowed what I call fraudulent accounting practices like trading pieces of paper and calling it capital. Then the Banking Act of 1987 expanded the problem by permitting borrowings with government guarantees and other provisions to keep insolvent thrifts operating and to permit sales with enormous taxpayer subsidies.

The notorious Danny Wall disposal sales to beat an end-of-the-year deadline in 1988 were a product of this legislation. The Congress is pretty upset about some of these deals but just can't figure how to get their arms around them.

Hiding the Cost

Although it did not know the magnitude of the problem, the Administration did know there was one by the mid-1980s. Kathleen Day of the *Washington Post* quotes Treasury officials as knowing of an estimated $50 billion cost in 1987 but said they argued it "would be irresponsible to frighten the public" with the figures. The admission that there was a problem came the week following the 1988 election when presumably frightening the public was no longer a concern.

The first acknowledgment that the taxpayers would be hit came from Treasury Secretary Brady on June 14 when he said the Resolution Trust Corp. was going to run out of money and there was nowhere else to go.

What did the President know? Remember, it was Bush who chaired a massive study of financial institutions during the Reagan years. He must have known something.

The final Administration action that deserves to be questioned was its try to hide the costs by keeping them off-budget. In a scuffle with Congress, the Administration won the right to hide half the costs off-budget, but the other half was effectively hidden by not being charged against the Gramm-Rudman ceilings.

Meanwhile, the FDIC and the RTC continue to mop up the wreckage. Chairman Bill Seidman met and passed his goal of selling a big block of institutions before June 30. The remarkable thing is that, in the process, he was able to dispose of about 50% of the assets — and asset disposition is the problem that will be with us for decades. □

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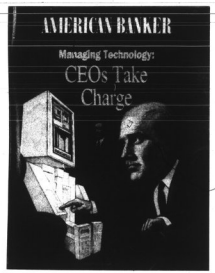

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NY Pension Fund To Buy Securities

NEW YORK — The largest pension fund for employees of New York City said it will buy up to $100 million of mortgage-backed securities issued by the Federal National Mortgage Association, or Fannie Mae.

The securities will be backed by special loans designed for moderate- and middle-income families. Two local lenders – Norstar Mortgage Co. and Manhattan Savings Bank – will originate the loans.

"We hope this program will serve as a model for similar initiatives with pension funds throughout the nation," said Martin D. Levine, a Fannie Mae vice president.

The New York fund, called the New York City Employee Retirement System, said the program should make homeownership affordable for as many as 1,000 families. Eligible borrowers will be offered loans with down payments as small as 5%, compared with the 20% normally required.

The two lenders are to buy mortgage insurance from the New York City Rehabilitation Mortgage Insurance Corp., exchange the loans for Fannie Mae securities, and then sell the securities to the fund. □

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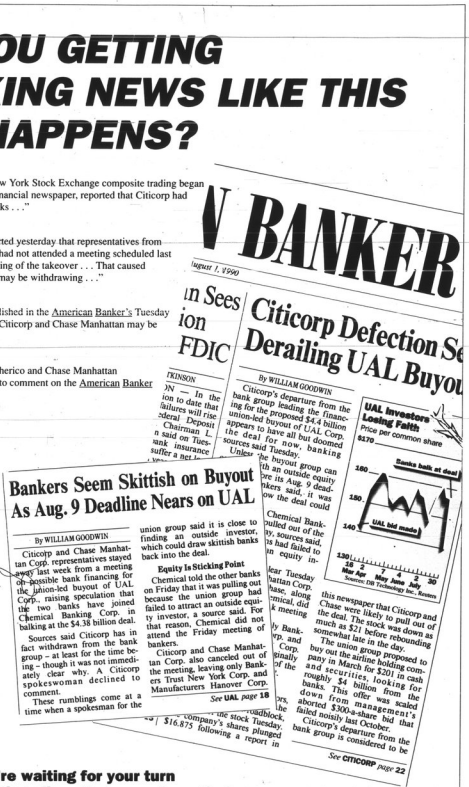

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Changing Industry Will Have Fewer Banks, Experts Agree

By DONNA SMITH
Reuters

WASHINGTON — Banking industry analysts and observers, from the Federal Reserve Board on down, are convinced that the number of U.S. banks will shrink dramatically in coming years.

Less certainty exists about the extent of this expected consolidation and on how many institutions – particularly small ones – will be left in the end.

Fed Governor John LaWare said he sees the current total of 12,500 individually chartered commercial banks shrinking to 7,000 as earnings pressures persist and geographical-legal barriers are dismantled.

'Dramatic' Consolidation

But industry watcher R. Dan Brumbaugh, currently under fire for his outspokenly critical assessment of the Federal Deposit Insurance Corp.'s health, is less exact.

"I don't think anybody can predict what the consolidation is going to be, except that it is going to be dramatic," said Mr. Brumbaugh, senior research scholar at the Center for Economic Policy Research of Stanford University.

Mr. LaWare, who was chairman of Shawmut National Corp. before joining the Fed in 1988, said he does not agree with some banking analysts who suggest that a handful of large banks with nationwide branch networks – similar to the systems in Europe and Canada – would be sufficient.

Fed Governor John LaWare said he sees the current total of 12,500 individually chartered commercial banks shrinking to 7,000 as earnings pressures persist.

"There is always going to be a very strong and lucrative market for independent banks."
John LaWare
Federal Reserve Board

Independent Banks' Survival

"I think that's a mistake," Mr. LaWare said in an interview. "There is always going to be a very strong and lucrative market for independent banks who provide a unique kind of personalized service to a community.

"They are tough competition for the branch of a big bank from somewhere else."

The current U.S. banking structure evolved in response to thousands of bank failures of the 1930s. Federal and state laws tended to protect small banks from outside competition. Even so, the number of banks in the United States has declined by about 2,000 in the last five years.

Although most states are in regional compacts that allow banks to expand across state lines within their own regions, fully nationwide banking does not exist in the United States.

Legislation has been introduced that would grant full interstate branching rights, and the issue may be reviewed next year as Congress considers modernizing U.S. banking and reforming the federal deposit insurance system.

Lawmakers are under pressure to reform the insurance system after widespread failures in the savings and loan industry depleted the thrift insurance fund, forcing a taxpayer-financed bailout. Savings and loans operate under a regulatory structure separate from that for commercial banks.

Meanwhile, with banks facing greater competition from investment houses and other nonbank companies, the Bush administration is expected to propose a series of reforms, including new investment powers for banks, as a way to help U.S. banks compete in global markets.

Deposit Insurance Reform

The proposals are expected to be part of a study of the deposit insurance system that is to be completed by February. Small bankers are worried that limiting insurance coverage, currently at $100,000 per account, would draw deposits away from them and toward big banks, which the government historically has been reluctant to let fail for fear it would jeopardize the entire system.

On top of these possible changes, federal banking regulators are likely to push for banks to hold bigger capital cushions against potential losses. The drive for more capital will encourage mergers.

Seidman Sees Pressure

Federal Deposit Insurance Corp. Chairman L.) William Seidman said he agrees that the commercial banking system is under pressure but does not see a looming repeat of the savings and loan crisis.

"I would hope that we go to full interstate banking," Mr. Seidman said in a recent interview, however. "We need it for stability of the system. I don't think that's the end of small banks, but it is the end of small banks that can't compete." □

Opinions and Insights
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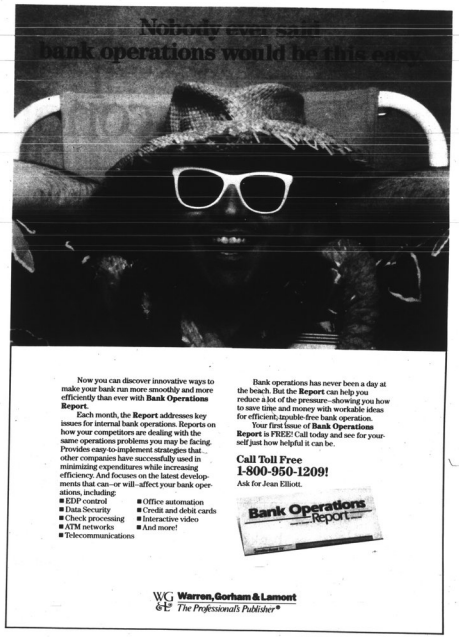

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West's Banks Review Ties to Those in Gulf

Continued from page 2

of the big Japanese banks have cut lending and foreign exchange lines to the Gulf, but the decision to do so depends on individual banks' judgment.

Some Japanese houses are eager to extend business with the Middle East and see the crisis as an opportunity to build relationships, others say the area is too dangerous, he added.

The U.S., U.K., and continental European banks have a longer relationship with Arab institutions than Japanese houses, said Patrick Moon, economic adviser on the middle east at Lloyds Bank.

Some Charging Risk Premium

Joachim Helenius, head of foreign exchange sales at Merrill Lynch International Bank Ltd, said banks which charge a high risk premium for trading with Gulf banks probably do so because they lack a relationship or do not expect to be repaid.

The rush to change into U.S. dollars is now over.

"It all depends on how you view the future," he said.

"Our view is the Middle East is an important region and will continue be so in the future." Once the crisis is over, banks which showed loyalty would be appreciated.

Angry Bankers in Bahrain

Meanwhile, bankers in the Gulf said bankers in Bahrain are angry at having been included, even under temporary review or as exempted institutions, in the Aug. 5 U.S. Freeze list.

"Just being on the list cast a shadow on the banks," a banking source in the Gulf said.

Meanwhile, bankers say the initial move to withdraw Gulf bank deposits and the rush to change into U.S. dollars is now over. □

Boatmen's Approves A Takeover Defense

ST. LOUIS, Mo. — Boatmen's Bancshares Inc. said its board adopted a shareholder rights plan, or poison pill, giving stockholders as of Aug. 31 a dividend distribution of one right for each share held.

Each right entitles shareholders to buy one one-hundredth of a share of a new junior participating preferred stock, Series C, at an exercise price of $110. The rights can be exercised 10 days after a person or group acquires 20% or more of Boatmen's outstanding shares.

The $14 billion-asset Boatmen's said the plan was not in response to any takeover threat but to protect the company from coercive tactics. — **Reuters**

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Gulf Turmoil Threatens $2.7 Billion Sale of Junk Bonds

Continued from page 2

a recession.

The insolvent Columbia Savings entered the agreement with Gordon on July 25, in a deal that called for Gordon America LP to pay $300 million in cash and execute a $2.7 billion note carrying interest at an annual rate of 10.5%.

Federal Requirement

Columbia must sell its junk bonds to meet federal requirements that all savings and loans dispose of such securities by 1994.

The company had been trying to find one buyer for the portfolio. Thrift analysts have said that Columbia's weakened financial position makes it a prime candidate for takeover by the Resolution Trust Corp.

However, analysts believe that regulators would prefer to see the portfolio sold before they

Gordon Investment shareholders include the Kuwait Investment Office, whose assets were among those the U.S. froze after the invasion.

move in, to avoid doubling their already large holdings of junk bonds.

According to the 10-Q, the parties have until Sept. 20 to gain the necessary regulatory approvals.

Because of the complexity of the deal, which includes Columbia's providing the $2.7 billion note involved in the financing of the deal, regulatory waivers and forebearances are also required, the filing said.

If they are not obtained, it said, Gordon has the option, but not the obligation to withdraw.

That option also could be triggered by a decrease of more than 7.5% in the Merrill Lynch high-yield bond index.

Columbia reported a net loss of $136.5 million, or $6.78 a share, for the quarter that ended June 30. In the comparable 1990 period it earned $6.4 million, or 16 cents a share.

Kuwait Is a Partner

Gordon is a private partnership that counts among its shareholders Canadian Imperial Bank of Commerce; General Electric Capital Corp., a unit of General Electric Co., and the Kuwait Investment Office.

The Kuwait Investment Office's assets are among the Kuwaiti assets that were frozen by the United States after the invasion, along with those of Iraq. □

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Ex-Broker Gets 15 Years in Loan Fraud, Must Pay $71 Million

LOS ANGELES (UPI) — Lamenting that the billions of dollars being paid to bail out failed savings and loans could have alleviated poverty and homelessness, a federal judge has sentenced a former securities broker to 15 years in prison and ordered him to repay nearly half of $144 million in losses from a mortgage loan scheme.

U.S. District Court Judge Dickran Tevrizian imposed the sentence Aug. 20 and ordered $70.7 million in restitution from David Feldman, 50, a Vietnam War veteran and top graduate of the U.S. Military Academy. The penalty is believed to be the largest ever ordered of an individual in a thrift-related fraud case.

The restitution will be paid to Bank of America, which was trustee for most of the mortgage loans in the scheme, and absorbed the most losses, special assistant U.S. Attorney Sharon McCaslin said.

"It's time to pay the piper," Judge Tevrizian said, adding that the Feldman scheme was typical of the frauds that triggered the nation's multibillion-dollar savings and loan crisis. "The loss has permeated the country," the judge said, and the funds could have been better spent on alleviating "poverty and homelessness."

Sold Defaulted Mortgage Loans

Mr. Feldman, a resident of Palos Verdes Estates, Calif., was convicted June 8 on three counts of mail fraud and acquitted of two other mail fraud counts. Prosecutors said he masterminded an elaborate plan in which some $144 million in mostly defaulted mortgage loans were sold to 20 unsuspecting banks and thrifts in nine states between 1982 and 1984.

"This is not a situation where an investment went sour. This is a situation that was a scam from the beginning."
Judge Dickran Tevrizian, U.S. District Court

Mr. Feldman, through his brokerage firm, National Mortgage Equity Corp., and several business associates, pooled the mortgages and persuaded the lending institutions to invest in the pools with promises of high interest rates and guarantees they would be protected against borrower default. In actuality, 90% of the properties already were in default, and Glacier General Assurance, which was guaranteeing most of the loans, could not cover the losses.

"This is not a situation where an investment went sour," the judge said. "This is a situation that was a scam from the beginning."

Legal Costs Added to Losses

Prosecutors had sought $43.8 million restitution to cover losses suffered by Bank of America, but the judge ordered on $26.9 million in legal and other costs.

Prosecutors argued that Mr. Feldman, who graduated near the top of his class at West Point, habitually violated the oath he took there that "a cadet will not lie, cheat or steal."

Ms. McCaslin said, "David Feldman never stops [committing fraud], nor will he stop until he is behind bars, and even then the bureau of prisons has to be told to watch out for him."

The last remark was a reference to evidence that Mr. Feldman carried out part of the scheme while imprisoned in Boron, Calif., while serving time for a similar fraud he committed as a stockbroker for Merrill Lynch in Chicago in 1982.

"It doesn't matter how sophisticated the investors were. If you cheat 'em, you cheat 'em."
Judge Tevrizian

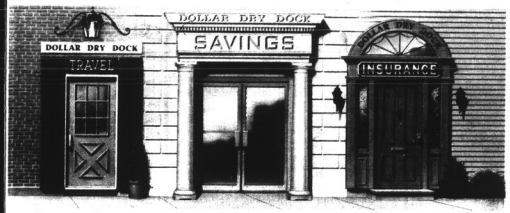
"He could have been a millionaire," Ms. McCaslin said. "He had the opportunity as one of the fair-haired boys at Merrill Lynch."

Codefendants Kent Rogers, 51, of Huntington Beach, Calif., and George Ash Jr., 45, of Alta Loma, Calif., pleaded guilty to five charges each and agreed to cooperate with prosecutors.

Defense lawyer Rodney Perlman claimed that National Mortgage Equity was not Mr. Feldman's brainchild, but was run by a cousin who never was charged. Mr. Perlman unsuccessfully argued against imprisonment or a restitution order, saying the lending institutions should have been more responsible with their investments.

"I don't believe that our system of justice is designed to throw away, to disregard a human life that has value, simply as a symbolic gesture," Mr. Perlman said. But the judge retorted that, "it doesn't matter how sophisticated these investors were. If you cheat 'em, you cheat 'em." □

Dry Dock divide



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Joel Pope auct'r Llc #794209 sells on 9/6/90 9 AM at 1015 Manida St, Qns NY '83 Caddy #1G6AL5788DE630199 Re: Chan Young Joon, GMAC; 10 AM at 5-10 Richmond Terr, Stn Isl NY '83 Chevy #1R07G321446430 Re: G. Stallings; 11 AM at 2453 Westchester Ave Bxs, NY '79 Jeep #3W93E1H330094 Re: F. Butler; 12 PM at 11-50 44th Rd LIC NY '83 Mazda #3M1FB3314DO762974 Re: F. Robel; 1 PM at 185 Monmouth Ave Bklyn, NY '87 Plymouth #3P3BP31D3HT734850 Re: F. Flynn, New York Times Emp FCU, '87 Chrysler Lebaron #1C3BC5635H7 Re: Chrysler Financial Corp., '82 Audi #WAUGB0843DD051104 Re: D. Williams, Barclays Bank of NY, '84 Ford #1FABP0757EW189666 Re: T. Croft. Published 8/22/90 & 8/29/90.

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Hal Zakow auct'rs sells on 9/5/90 at 5 PM at 899 East 134th St Bxs NY '88 Honda #1HGCA5642A152232 Re: Wilbert Allen & Municipal Credit Union. Published 8/22/90 & 8/29/90.

Three Banks Sue Housing Agency in Texas over Junk Bonds

By JOHN RACINE
The Bond Buyer

DALLAS — Three banks have filed a class action against the Southeast Texas Housing Finance Corp., saying investors have suffered losses because the proceeds of a $300 million taxable issue were invested in junk bonds.

The Aug. 7 suit alleges fraud by the issuer, its underwriters, and an insurance company, saying they never intended to build homes for the poor.

Instead, the plaintiffs allege, the plan was to invest proceeds in a guaranteed investment contract sold by Executive Life Insurance Co., which made the money in high-yield portfolios that have fallen sharply in value.

Drexel Involved in Deals

The suit is the latest challenge to 1986 taxable bond deals that were lead underwritten by Drexel Burnham Lambert Inc. and invested in GICs sold by Executive Life of Texas, Nebraska, Tennessee, Louisiana, and Colorado. They total $1.85 billion.

The three banks suing say the housing agency purchased $1.22 million of the 1986 series securitized multifamily housing revenue bonds, which have recently traded for as little as 40% of par.

"As the defendants well know, however, none of the proceeds would ever go to develop any low- or moderate-income housing," the suit says. "In fact, all of the money would be deposited with an insurance company, which would invest most of it in high-risk junk bonds."

Others Named in Suit

The suit, filed in Hidalgo County district court, names the agency, which is based in Pasadena, Tex.; Executive Life and its president, Fred Carr; the underwriting team of the now bankrupt Drexel; Rotan Mosle Inc. of Houston; Howard, Weil, LaBouisse, Friedrichs Inc. of New Orleans, and Michael Milken, head of Drexel's junk bond department.

Bill Eiland, executive director of Southeast Texas Housing Finance, said he had not seen the lawsuit, but "the official statement plainly says it was going to be invested until we made loans."

No loans were ever made, a fact Mr. Eiland blames on a soft real estate market and economic conditions in Texas in the mid-1980s.

Investment Called Temporary

The plaintiff's lawyer, Eric Kobrick of the Houston firm of Susman Godfrey, said the investment with Executive Life was only supposed to be interim, "not for good."

"Right now, the allegation is that they [the housing corporation] are participants," Mr. Friar said. "It may be that they were duped."

Other defendants could not be reached for comment.

The three banks now listed as plaintiffs are, Texas State Bank of McAllen and Harlinger State Bank, which both bought $500,000 of the bonds, and First National Bank of Weatherford, which bought $250,000.

The suit is the latest challenge to 1986 taxable bond deals that were lead-underwritten by Drexel Burnham Lambert Inc.

Five other banks that bought the bonds reportedly may join the suit. Mr. Friar said his firm also has launched class actions over the deals in Nebraska and El Paso, Tex.

Wide-Ranging Scheme Alleged

The latest suit alleges that the housing agency bonds were part of a wide-ranging scheme.

"Drexel and Milken and the other defendants were able to engage in a vast 'shell game,' in which high-risk, low-rated junk bonds were marketed under the guise of low-risk, high-rated (usually AAA -- the highest rating) municipal bonds," the suit says. "None of the offering materials ever disclosed to investors that their money would end up in junk bonds."

The lawsuit seeks unspecified damages to compensate investors who claim their bonds have been trading for between 40% and 60% of par because of the high-risk investments.

But the trading price of those bonds was pushed as high as 65% of par value earlier this month after the Southeast Texas Housing Finance Corp. issued a letter saying it was targeting two ways bondholders might hold losses down.

Word of the tentative offer, which was not related to the lawsuit, pushed the value of the bonds up six to 10 points, to a reported high of 66.

Mr. Eiland said he was awaiting a response from bondholders and stressed that Executive Life had not approved the letter's proposals. "We're trying to take a more active role in resolving this," he said of the letter.

Proposal to Withdraw Funds

The proposal is to withdraw funds from the GIC at a discount and use the money to purchase bonds from investors who want to liquidate their position.

"This approach could provide funds to purchase up to $220 million face amount of bonds at a price of approximately 88% of par," the letter says. "No provision would be made for early payment of the remaining $80 million of the bonds."

A second option suggests approaching Executive Life about purchasing any and all bonds for sale. This proposal still would bring the par-price much but be above current market value, the letter says.

"Any program would be voluntary, and any bondholder could elect to simply hold its bonds to maturity," the proposal adds.

The Bond Buyer *is a sister* ***publication of the American Banker.***

INB Financial And Mid-Illinois Amend Merger

INDIANAPOLIS — INB Financial Corp. and People's Mid-Illinois Corp. said they amended their previously announced merger agreement. Under the amended plan, each Mid-Illinois share would be worth $40.88 and the whole merger $51.8 million.

The number of INB shares to be exchanged for each Mid-Illinois share would vary between 1.3857 and 1.3626, depending on INB's average stock price for a 20-day trading period ending five days before the merger is consummated, the companies said.

If INB shares are trading at an average above $30, the exchange ratio would be 1.3626, while if the shares' average value falls below $29, the exchange rate would be 1.3857, the companies said. Also if INB stock's average value falls below $28 during the trading period, the companies may renegotiate or terminate the agreement, INB and Mid-Illinois said.

Under the old agreement, the whole transaction was valued at $50.3 million and each of Mid-Illinois' 1,267,177 shares were valued at $39.83, the companies said.

The amended agreement, which is set to be terminated if the merger is not completed by Dec. 31, 1991, is subject to approval by INB directors, the companies said. — Reuters

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Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX THE GREENPOINT SAVINGS BANK Plaintiff against AIDA MARTI-NEZ et al Defendants Pursuant to a judgment of foreclosure and sale entered herein and dated July 6, 1990, I, the undersigned Referee will sell at public auction in Room 118, Mezzanine, 851 Grand Concourse, Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises beginning at a point on the south side of Watson Avenue, 244.91 feet easterly from the corner formed by the intersection of the southerly side of Watson Avenue and the easterly side of Virginia Avenue, being a plot 103.06 feet by 25 feet and known as 1946, Watson Avenue, Bronx New York. Approximate amount of lien $214,705.81 plus interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 15198/89. Dated August 14, 1990. Ira Greenberg, Referee. Cullen & Dykman Attorney(s) for Plaintiff. 233 Seventh Street, Garden City, NY 11530.

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VA Plans $293 Million Issue of Securities

Reuters

NEW YORK — The U.S. Department of Veterans Affairs said it has planned an innovative $293 million offering of mortgage-backed securities via First Boston Corp.

American Housing Trust VII will be the issuer. The securities will be backed by vendee loans, which the agency uses to finance purchases of VA-foreclosed property.

The issue is unusual in that it will comprise $97.6 million of pass-through certificates and $195.4 million of multiclass securities. Such issues are usually made separately. Actual proportions of the two parts will be decided only when the offering is priced Thursday.

Structure Aids Flexibility

The so-called proportional coupon allocation structure was designed to provide flexibility in marketing the offering, said Frederick Terrell, director of the investment banking group at First Boston.

As investor demand fluctuates for the pass-through or multiclass portion, the par amount will be shifted between the two parts.

"As investor demand increases or decreases for the pass-through or multiclass portion, we will shift the par amount between the two parts, he said.

Mr. Terrell said he expects the pass-throughs to trade at a tight spread to Government National Mortgage Association securities investment banking group at the full faith and credit of the U.S. government.

This is the second VA issue with full government backing.

Yields to Top Ginnie Maes'

The pass-throughs will have a coupon of 9.5% and a 12.7-year average life. They will have higher yields than Ginnie Maes only because they are less liquid, Mr. Terrell said.

The remainder of the offering will consist of four tranches with maturities of three, seven, 10, and 20 years. Their average lives will be 3.4, 7.6, 11, and 20.5 years, respectively. All the classes have a 9.125% coupon.

The vendee loans underlying the offering have coupons of 9%, 9.5%, and 10%, Mr. Terrell said. These will be combined to produce a synthetic coupon of 9.25%. □

Lamar Savings Officers Indicted

AUSTIN — A federal grand jury has indicted four former executives of now-defunct Lamar Savings Association for alleged misapplication of $121.1 million in thrift funds, a federal prosecutor said.

The 14-count indictment charged that the executives, including former Lamar Savings owner Stanley Adams, tried to conceal the bank's financial problems by arranging "sham" loans to buy repossessed real state properties from the institution's portfolio, U.S. Attorney Ronald Ederer said.

"Lamar is one of the most notorious failures in the Southwest and among the top 100 S&L fraud cases that the Justice Department is now aggressively investigating," said Timothy Ryan, director of the Office of Thrift Supervision.

Lamar Savings had $2 billion in assets when it collapsed in 1983. It grew rapidly before the fall by offering some of the highest rates of deposit in the country.

It failed under the weight of bad real estate loans when a decline in oil prices in the Southwest board continues to be unresponsive to stockholder interests and has failed to take steps to maximize stockholder values.

Mr. Malloy said he holds 300,000 shares, or 9.28%, of the outstanding stock. The company owns Home Federal Savings Bank, Ridgewood, N.Y. — Reuters

NY Bancorp Investor Seeks a Proxy Contest

WASHINGTON — Patrick Malloy, an investment director of New York Bancorp Inc., said he is considering the possibility of a proxy contest to elect his own candidates to the board at the company's annual meeting of shareholders.

In a filing with the Securities and Exchange Commission, Mr. Malloy said he believes the

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COMMENT / MERGERS

Midwestern Banks Are Continuing to Outpace Others in Consolidations

By REID NAGLE
President
SNL Securities

Despite a slowdown in the pace of private sector bank consolidations in most areas of the country, bank and thrift mergers in the Midwest continue at a level unmatched in other regions.

Nationally, the aggregate assets exchanged in private sector bank mergers and acquisitions declined from $48.43 billion in the third quarter of 1989 to $18.65 billion in the second quarter of 1990. Since the beginning of 1989, however, transactions involving midwestern acquisitions have represented a disproportionate share of bank consolidation activity.

While midwestern banks account for 22.46% of all banking assets nationwide, midwestern bank acquisitions have accounted for 32.3% of all private deals since the beginning of 1989. During that period, the number

A significant number of deals involve merger-conversions.

of deals in the Midwest outpaced consolidation activity in every other region.

Two Typical Deals

Two deals in the past month typify the midwestern banking activity. On July 26, Norwest announced plans to acquire United Banks of Colorado. Less than two weeks later, Firstar replaced First Bank System as the acquirer of Banks of Iowa. Both deals involve values in excess of $200 million.

The concentration of deals in the Midwest reflects the favorable characteristics of banking in that region as well as the traumas afflicting other areas. Asset quality problems in the Northeast and, to a lesser extent the Southeast, have discouraged potential suitors from venturing forth there.

Institutions in California and the Pacific Northwest, while exempt from real estate woes until just recently have traded at premiums that limited buyer interest.

The Midwest combines the unusual blend of a relatively low level of delinquencies in its banking system with a pool of high-quality buyers. Institutions like Banc One, Fifth Third, First of America, National City, NBD Bancorp, Norwest, and Society Corp. each have the management skill, asset quality, and capital resources to expand internally and through acquisition. No other region, with the exception of the Southeast, has as many qualified buyers.

Most in Good Shape

Similarly, with a few notable exceptions like First Bank System, First Chicago, and the former Trustcorp, banks in the Midwest are in remarkably good shape. As of June 30, nonperforming assets at midwestern institutions stood at 1.26% of assets, the lowest of any region and well below the national average of 2.33%. In a marketplace of wary buyers, a clean balance sheet has become as important as price in determining the salability of a bank.

Of 91 private acquisitions recorded in the Midwest since the beginning of 1989, 61 have involved sellers headquartered in Illinois, Indiana, and Ohio. Based on volume of assets acquired, Illinois and Ohio are first and second respectively, followed by Minnesota, Iowa, Wisconsin, and Indiana.

A Popular Route

More than any other region of the country, a significant number of deals involve merger-conversions, in which a healthy bank acquires a mutual thrift by offering its shares to depositors of the mutual institution. Sixteen of the 91 transactions involved merger-conversions.

While clean balance sheets and attractive pricing make acquisitions feasible, there are three dominant strategies that compel buyers in the Midwest. The first is the advent of interstate banking, which enables growth-minded banks to serve economically defined markets instead of locations defined simply by political boundaries.

A second common rationale for acquisition is the ability for successful banks that have outgrown their market areas to export their capital and skill to new ones. Finally, in the case of merger-conversions, buyers have discovered the ability to acquire attractive franchises and equity at no cost, an antidilution combination that seems almost too good to be true.

The Most-Active List

Among the most active acquirers in the Midwest are five institutions from four states that have accounted for 22 of the 91 deals announced since the beginning of 1989 and for a third of the assets involved. While these companies represent a diversity of business strategies, each has the capital and management expertise necessary to conduct an aggressive expansion program.

Three of the five most active buyers – Merchants National of Indiana, First Financial Bancorp, of Ohio and First of America of Michigan – compete with each other for marketplace penetration in Indiana. Of the other two institutions, Norwest is a national player, recently announcing acquisitions in five different states. Fifth Third, with a reputation as a selective buyer, has not announced an acquisition since the third quarter of 1989.

In general, the prices these companies have paid to actively expand their franchises have exceeded the average price paid for midwestern institutions. Price to book value for all Midwest acquisitions announced in the past 20 months has averaged 133%, compared with 163% for the five most active institutions.

Price-to-earnings and premium-to-tangible book as a percent of core deposits show a similar willingness on the part of active acquirers to pay up to achieve their objectives.

One of the interesting developments has been the intense competition generated in the Indiana market. Merchants National and INB Financial are the state's two largest independent banking companies. Of the two, Merchants National has been the most aggressive in expanding its franchise through acquisition during the past two years.

"The Midwest combines the unusual blend of a relatively low level of delinquencies and a pool of high-quality buyers."

Merchants National began its program in 1985, initially focusing its interest on the central belt of Indiana. At that market filled, Merchants expanded into the northern and southern tiers of the state, effectively becoming a statewide institution in the process.

In the past 20 months, Merchants has announced five acquisitions, all of them banks and all less than $200 million in assets. Most recently, it announced its first out-of-state acquisition, $185 million-asset Palmer Bancorp of Danville, Ill.

Filling In Existing Markets

According to company spokesman Kenneth Carr, the primary strategic motivation for Merchants' acquisitions is to fill in markets within their 17 bank network, while the primary financial objective is to implement efficiencies that will make an acquisition antidilutive within a relatively short time. Merchants "allows banks to maintain [their] name and market autonomy" while consolidating back-office operations.

At the same time that Merchants is expanding its Indiana franchise, two out-of-state institutions have been aggressively moving into the state to extend their Michigan and Ohio operations. First Financial Bancorp, a $1.2 billion-asset bank holding company based in western Ohio, seeks to "affiliate with institutions with the same company orientation" according to Richard Weinman, chief financial officer.

While First Financial's original goal was to build share in the western Ohio markets, the advent of interstate banking enabled the company to expand into more natural geographic markets in eastern Indiana.

Big Plans for Two Thrifts

In order to penetrate the Indiana markets, First Financial has announced plans to acquire two thrifts, Fidelity Federal of Marion and Fayette Federal of Connersville. First Financial plans to leave the acquired thrifts with savings institution charters, but hopes to significantly enhance their profitability by luring new and more profitable customers and by introducing a broader array of services.

Somewhat like Union Planters to the south, First Financial gave acquired managements a high degree of autonomy, relying on performance objectives to bring their return up to First Financial's consistent return on assets of 1.3%. Mr. Weinman attributes First Financial's success in attracting affiliates to the appeal of autonomy, common operating philosophies, and a fair price to shareholders. "Autonomy and philosophies get us in the door, but in the end price gets the deal done," he said.

The third active participant in the Indiana merger market in the past two years has been First of America, a $12.7 billion-asset bank holding company based in Kalamazoo, Mich. With a risk-based capital ratio of 11.5%, a negligible level of nonperforming assets, and profits that consistently exceed 1% of assets, First of America has the financial characteristics necessary to support its aggressive acquisition program.

Selling 'Community Banking'

According to First of America vice chairman Richard Klein, the company outgrew its Michigan opportunities and sought to export its "community banking focus as [First of America] moved out of Michigan into Indiana and Illinois."

All of the company's acquisitions are "culturally attuned to First of America's operating philosophies and are located in conservative communities with midwestern values." The holding company's 38 subsidiaries tend to be located in smaller communities of Michigan, Illinois, and Indiana and specialize in middle-market commercial banking and consumer banking. Since moving beyond Michigan in 1986, First of America has become the dominant player in downstate Illinois.

Much like First Financial in Ohio, First of America has identified thrift targets as an avenue of expansion into desirable markets. Its acquisition of Primebank gained entry into the attractive Grand Rapids market and the expected acquisition of Shelby Federal will move it into Indianapolis.

First of America's Mr. Klein believes that the current problems of the thrift industry will work to buyers' advantage in increasing the supply of saleable franchises and lowering buyers' price expectations. As for the future, First of America plans to continue its practice of buying community banks and thrifts that suit their customer profile.

That might include acquisitions of varying sizes within Michigan, Illinois, and Indiana. Given the right opportunity to enter Wisconsin or Ohio, the company might consider a larger acquisition in those two states.□

SNL Securities, Charlottesville, Va., is a publishing and data base company specializing in banks and thrifts.

Private Acquisition Deals
(Dollar Amount in Millions)

August 14-21

Status	Seller	City/State	Assets	Value	Buyer	Assets
C	Park Avenue Bank	New York	7	NA	End Abbey	NA
T	Homestead Holding	Middletown, Pa	259	18	CCNB Corp., Pa	1,153
T	Carolina Savings	High Point, N.C.	316	27	BB&T Financial Corp., N.C.	4,709
T	Northeast Bancorp	New Haven, Conn	NA	552	Bank of New York	49,573
N	Metropolitan Bank	Washington, D.C.	49	NA	Franklin National-DC, D.C.	43

Status: C= Completions; P= Announcements; T= Terminations; N= Non Binding Intent

Government-Assisted Acquisitions

August 14-21

Received Institution	City/State	RTC/ FDIC	Deposits (in millions)	Acquiror	Premium * (in Dollars)
Security Federal S&L Assn.	Peoria, Ill	RTC	$188	First Fin'l Corp.	2,640
Provident Savings Assn., FA	Casper, Wy	RTC	173	KeyCorp	3,687
Miami Savings Bank	Miami, Fla	RTC	136	Rebank Netherlands Antilles, N.V.	1,266
First Federal Savings Assn.	Warner Robbins, Ga	RTC	129	CB&T Fin'l Corp.	301
Dunean S&LA	Duncan, Okla	RTC	122	Colfax Enterprises	536
Cherry Creek National Bank	Denver, Colo	FDIC	104	Bank of Cherry Creek, N.A.	4,800
Great Plains Savings Assn.	Weatherford, Okla	RTC	60	Colfax Enterprises	255
City National Bank	Houston, Tex	FDIC	46	Charter Bancshares	238
Illinois Savings Bank, FA	Peoria, Ill	RTC	45	First federal S&LA of Bureau County	400
First Federal S&LA	Baton Rouge, La	RTC	38	Life Bancshares, Inc.	38
Capital Bank & Trust	Oklahoma City, Okla	FDIC	32	First Fidelity Bank, N.A.	NA
Salmeanca Federal Savings Assn.	Salmeanca, Ky	RTC	28	Cattaraugus County Bank	601

*Premium is price paid by acquiring institution for rights to assume insured deposits

Source: SNL Securities

DEALS

Banks Welcome Court Ruling on Liability for Environmental Cleanups

By STEPHEN KLEEGE

A new ruling from an appeals court in Portland, Ore., implicitly rejects a controversial ruling made earlier this year in Atlanta that alarmed bankers by lowering the standard for lender liability in environmental cleanup, according to liability lawyers.

Lenders could breathe a small sigh of relief, lawyers said.

"If I were a lender, I'd feel a whole lot better after this decision," said liability lawyer Edward F. Mannino of Edward F. Mannino & Associates, Philadelphia.

Consistent with Lower Court

Although the U.S. Court of Appeals for the 9th Circuit in Portland sidestepped making its own ruling on the issue raised by the U.S. Court of Appeals for the 11th Circuit in the important Fleet Factors Case, its reasoning appeared consistent with lower court rulings that required active participation in management by the lender as a precondition to liability, lawyers said.

The 11th Circuit astonished many observers by asserting the unit of Fleet/Norstar Financial Group, Providence, R.I., could be held liable merely because it was in a position to influence the management of a plant it had financed in Georgia.

"This court has looked at the reality of banking practices and said 'this is the way lenders do business, and there's no reason they should be held liable,'" Lawrence Schnapf, of Lord Day & Lord, Barrett Smith, said of the latest case. "I hope its going to serve as a model for future decisions."

In rejecting a claim of liability against the Port of St. Helens, which issued bonds to finance a now defunct metal recycling plant, the 9th Circuit noted the earlier 11th Circuit decision, but said, "We leave for another day the establishment of a Ninth Circuit Rule on this issue."

Management Role Crucial

More significantly, the court added, "It is clear from the statute that, whatever the precise parameters of 'participation' there must be some actual management of the facility before a secured lender will fall outside the exception."

The court also rejected the argument that the the Port's input in the planning of the facility constituted participation in management. "Creditors do not give their money blindly," the court said.

At issue in the court cases is the interpretation of the Comprehensive Environmental Response, Compensation and Liability Act, known as the Superfund law. The law provides that a property owner is liable for environmental cleanup, but exempts lenders who hold indicia of ownership to protect a security interest.

Outcry Prompts Change

The outcry over the Fleet Factors decision eventually prompted the Environmental Protection Agency to say it would amend its rules to clarify lender liability. At the same time, bankers stepped up their lobbying for new legislation to limit their exposure to the claims.

They argue that the uncertainties surrounding lender liability has discouraged lending on certain kinds of businesses.

Fleet has said it would petition the U.S. Supreme Court to hear its appeal of the 11th Circuit ruling.

Mr. Mannino said the new decision in the 9th Circuit, while significant, will not improve Fleet's chances of being heard by the highest court, because the the 9th Circuit stopped shy of issuing a ruling that contradicted the other circuit court. □

Bank Call Notice

Reserve District 09
CONSOLIDATED REPORT OF CONDITION OF

Bankers Trust Company

of New York, New York
And Foreign and Domestic Subsidiaries,

a member of the Federal Reserve System, at the close of business on June 30, 1990, published in accordance with a call made by the Federal Reserve Bank of this District pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 2,092,000
Interest-bearing balances	6,707,000
Held-to-maturity securities	5,244,000
Available-for-sale securities	
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs	4,748,000
Securities purchased under agreements to resell	282,000
Loans and lease financing receivables:	
Loans and leases, net of unearned income $18,640,000	
LESS: Allowance for loan and lease losses 2,307,000	
Loans and leases, net of unearned income and allowance	16,333,000
Assets held in trading accounts	1,553,000
Premises and fixed assets (including capitalized leases)	657,000
Other real estate owned	1,000
Investments in unconsolidated subsidiaries and associated companies	57,000
Customers' liability to this bank on acceptances outstanding	714,000
Intangible assets	1,358,000
Other assets	5,358,000
TOTAL ASSETS	$45,959,000
LIABILITIES	
Deposits:	
In domestic offices	9,919,000
Noninterest-bearing $ 2,678,000	
Interest-bearing 6,240,000	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	20,464,000
Noninterest-bearing $ 600,000	
Interest-bearing 19,864,000	
Federal funds purchased and securities sold under agreements to repurchase:	
In domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs	6,777,000
Securities sold under agreements to repurchase	461,000
Demand notes issued to the U.S. Treasury	309,000
Trading liabilities	3,758
Mortgage indebtedness and obligations under capitalized leases	1,000
Bank's liability on acceptances executed and outstanding	714,000
Subordinated notes and debentures	1,113,000
Other liabilities	1,353,000
TOTAL LIABILITIES	39,924,000
EQUITY CAPITAL	$ 140,987
Perpetual preferred stock and related surplus	250,000
Common stock	1,000,000
Surplus	496,000
Undivided profits and capital reserves	3,288
Cumulative foreign currency translation adjustments	(63,000)
TOTAL EQUITY CAPITAL	1,936,000
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$60,860,000

I, Richard J. Carbone Senior Vice President and Controller of the above-named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

RICHARD J. CARBONE

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

HUMBERTO M. CARVALHO
EDWARD A. LESSER
J. STISER Directors

Bank Call Notice

REPORT OF CONDITION OF

Delta National Bank & Trust Company of New York

Consolidating domestic and foreign operations of the Delta National Bank and Trust Company of New York of New York City, in the state of New York, at the close of business on June 30, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter Number 08887 Comptroller of the Currency Northeastern District

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 4,172
Interest-bearing balances	19,888
Held-to-maturity securities	35,114
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its consolidated subsidiaries:	54,948
Loans and lease financing receivables:	
Loans and leases, net of unearned income 34,385	
Less: Allowance for loan and lease losses 10	
Loans and leases, net of unearned income and allowance	34,375
Premises and fixed assets	2,613
Other assets	3,522
TOTAL ASSETS	$ 152,972
LIABILITIES	
Deposits:	
In domestic offices	$ 131,048
Noninterest-bearing 12,183	
Interest-bearing 118,865	
Other liabilities	5,758
Federal funds purchased	250
Obligations under capitalized leases	
Total liabilities, limited-life preferred stock and subordinated notes and debentures	1,113,000
EQUITY CAPITAL	1,353,000
Other liabilities	3,522
TOTAL LIABILITIES	$ 140,987
EQUITY CAPITAL	
Common stock	1,750
Surplus	5,750
Undivided profits	3,288
TOTAL EQUITY CAPITAL	9,788
TOTAL LIABILITIES AND EQUITY CAPITAL	$ 152,972

I, Fred J. Troke, Vice President and Controller, of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

FRED J. TROKE
July 26, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

Directors

New Jersey Approves Trump's $65 Million Bank Loan

ATLANTIC CITY — The New Jersey Casino Control Commission said Tuesday that it has approved Donald Trump's $65 million loan agreement with his bankers.

The commission supported the agreement unanimously but made its approval subject to 13 conditions agreed to by Mr. Trump and the New Jersey Division of Gaming Enforcement.

Valerie Armstrong, acting commission chairwoman, said the restructuring was "not a total solution" to Mr. Trump's financial problems.

No Inquiry on Casinos

Ms. Armstrong said the commission was approving the Trump loan agreement without inquiring into the financial stability of his three Atlantic City casinos. "It is surely our obligation to conduct that inquiry as quickly as possible," she said.

The commission will schedule a combined hearing on all the licenses in October, Ms. Armstrong said. Mr. Trump's Taj Mahal casino license expires in April 1991.

The state gaming enforcement agency said Friday that, without the loan agreement, the Trump organization's financial outlook was uncertain and that problems would remain even if the agreement were approved.

Ms. Armstrong said she supported the bank loan restructuring because, without the agreement, the equity in Mr. Trump's casinos could be reached by creditors with claims against his non-casino assets. It was also unlikely, she said, that rejection of the loan deal would lead to a better restructuring that did not include a pledge on the casino equities.

The gaming enforcement agency has said it does not believe Mr. Trump can make a $47 million bond payment due Nov. 1 under current conditions. One condition of commission approval of the loan deal was that Mr. Trump submit within three weeks a plan for making the bond payment.

Casino commission approval of the loan deal was needed because Mr. Trump had, as part of it, pledged his equity in the casinos as collateral.

After the meeting, Trump Organization executive vice president Harvey Freeman told reporters that he expected Mr. Trump to get the $65 million bank loan Tuesday or today. □

Morison Resigns from Bank of Boston

Continued from *page 1*

Mr. Morison said in a telephone interview, "It's been an exciting, magic about leaving now. It seems to be as good a time as any."

Mr. Morison, who is known as Lin, said he is pursuing personal opportunities, including positions in academia. His father was president of Williams College in Waltham, Mass., and Mr. Morison said he would not mind following a similar career path.

Described as a Mentor

In a memorandum circulated to employees last Friday, Bank of Boston's chairman and chief executive Ira Stepanian described Mr. Morison as a "mentor to many of our current lending officers." He said Mr. Morison would be temporarily replaced by Slater Smith, senior credit officer for the national banking group. The bank is reviewing candidates for a permanent replacement, he said.

As executive vice president responsible for national banking, Mr. Morison was responsible for the bank's HLT portfolio.

Profits Plummet

Bank of Boston, the nation's 16th-largest holding company, with $37 billion in assets, earned a $4 million profit in the second quarter, 96% below its year-earlier level.

Last October, Bank of Boston signed a memorandum of understanding with the Federal Reserve Bank and the Office of the Comptroller of the Currency promising to upgrade its systems, procedures, and credit controls.

Although Bank of Boston has been criticized in the past year over the souring of leveraged loans to local companies such as Cuisinarts and Prime Computers, Mr. Morison has repeatedly denied reports that the bank is withdrawing from the leveraged market.

Bulging HLT Portfolio

At the end of the second quarter, Bank of Boston's HLT portfolio stood at 200% of equity, one of the highest ratios among the nation. In the quarter, the company charged off $68 million of its highly leveraged loans and $89 million of its real estate loans.

Mr. Morison conceded that the business has trailed off substantially. "There really has not been much going on," he said. "But from a business point of view, we will continue to pursue transactions, whether HLTs or not, in a manner that's consistent with our historical guidelines."

Mr. Morison joined Bank of Boston in 1965 as a trainee after working for two years as an auditor at Peat, Marwick, Mitchell & Co. Aside from 10 months in which he went to work for a bank customer in the early 1970s, Mr. Morison has spent the rest of his career as a corporate banker.

He was named vice president in the credit and loan department in 1973, senior vice president in 1980, and head of the corporate lending division in 1986. In his latest job as group executive, he was responsible for lending to major corporations throughout the nation, for serving dle-market companies outside of New England, and for most of the company's investment banking operations.

A Loyal Following

At Bank of Boston, Mr. Morison is seen as a loyal following among younger loan officers in his role as head of training within the credit and loan department.

"We will miss him dreadfully because he's so smart and was so great at rallying the troops with a coherent message," said one longtime lender. She would not speculate on his reasons for leaving, though she added that pressures from top management and from regulators undoubtedly played a role.

"I know how I'd be feeling if I were in his shoes," she said. □

Highlights for Tuesday, August 21

TOP 10 GAINERS %

Baltimore Bancorp	12.5
Grenada Sunburst System Corp.	5.7
Iowa National Bankshares Corp	4.4
F & M National Corporation	4.1
1st Source Corporation	4.1
Banco Popular de Puerto Rico	3.0
Valley National Corporation	2.9
Shawmut National Corporation	2.9
BB&T Financial Corporation	2.8
Premier Bancorp, Inc.	2.6

TOP 10 LOSERS %

Multibank Financial Corp.	-13.2
Northeast Bancorp, Inc.	-8.5
Key Centurion Bancshares, Inc.	-8.5
Provident Bancorp, Inc.	-6.5
CFX Inc.	-6.5
Bank of Granite Corporation	-6.0
CullenFrost Bankers, Inc.	-5.6
Commercial Corporation	-5.3
Bank of New England Corp.	-5.3
Premier Bancorp, Inc.	-5.0

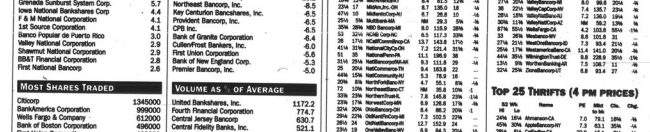
MOST SHARES TRADED

Citicorp	1345000
BankAmerica Corporation	998000
Wells Fargo & Company	612000
Bank of Boston Corporation	496000
First Union Corporation	521.1

VOLUME AS % OF AVERAGE

United Bankshares, Inc.	1172.2
Fourth Financial Corporation	774.7
Central Jersey Bancorp	630.7
Century Bancorp, Inc.	521.4
National Bancorp of Alaska	452.6

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts 1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.98	-5.23	-10.35	-1.72	-6.02	-13.45	-2.98	-6.50	-17.45

TOP 225 BANKS (4 PM PRICES)

52 Wk. High	52 Wk. Low	Name	PE	Mkt Cap.	Chg.	Chg.
25¾	19¼	FirstInterCorp-TN	NM	57.5	9¾	--
24¼	21¼	FirstBancorp-SC	7.5	89.2	23¼	--
20¾	12½	FirstBankSystem-MN	NM	96.5	12½	-½
24¾	17¾	FirstBkCorp-FL	7.5	87.3	23¾	--
29½	22½	FirstCitizens-NC	7.5	87.3	23	--
24¾	17¾	FirstCitizens-SC	7.5	87.3	23¾	--
21¾	17¾	FirstCommerce-LA	9.0	114.2	11¾	-¼
21¾	17¾	FirstCommerce-MS	8.5	88.7	20½	--
21¾	17¾	FirstCommerce-TN	8.5	88.7	20½	--
21¾	17¾	FirstCommerce-VA	9.0	114.2	11¾	-¼
21¾	17¾	FirstCommunity-SC	10.9	111.9	11¾	-¼
21¾	17¾	FirstCommunity-VA	9.0	84.2	14¾	--
72	54¼	FirstEmpire-NY	7.3	98.5	67¾	--
24¾	18¾	FirstFed-MI	7.3	98.5	67¾	--
31	26½	FirstFibres-OH	11.3	162.2	30	-1¼
24¾	19¾	FirstFinancial-IL	8.0	84.2	20¾	--
26¾	19¾	FirstHawaii-HI	8.4	174.9	19¾	-¼
11	7¾	FirstHorizon-TN	8.1	140.9	9¾	--
30	21¾	FirstIndBancorp-CA	8.1	134.9	19¾	-¼
30	21¾	FirstIndCorp-IN	8.4	174.9	19¾	-¼
18¼	14	FirstMichBkCorp-MI	7.6	108.1	14	--
18¼	14	FirstMichBkSys-MI	7.6	108.1	14	--
60¾	28¾	FirstMiss-MS	8.1	149.9	49¾	--
28¾	19¾	FirstNetBancorp-GA	8.1	134.9	19¾	-¼
28¾	19¾	FirstNetBancorp-NC	8.1	134.9	19¾	-¼
19¼	12½	FirstSecurity-KY	10.5	96.9	12¾	--
19¼	12½	FirstSecurity-TN	12.5	165.5	14	--
31	23¾	FirstSecurityUT	7.1	73.8	24¼	--
31	23¾	FirstSecurityUT	7.4	88.1	24¼	--
25¾	14¾	FirstUnionCorp-NC	8.1	73.0	14¾	--
25¾	14¾	FirstUnionCorp-SC	8.1	73.0	14¾	--
45¾	37¼	FirstWachovia-NC	9.5	143.2	37¾	--
45¾	37¼	FirstWachovia-SC	9.5	104.2	37¾	--
20¼	17¼	FirstWashFL-IL	8.1	101.2	17¼	--
20¼	17¼	FirstWashington-IL	7.6	92.0	17¼	--
11¾	7¾	FirstWorthing-TX	11.7	81.9	15¾	--
19¾	14¾	FirstYorkBank-PA	8.4	84.2	18¾	--
28	20¾	FourthFinCorp-OK	13.7	134.6	20¾	--
14¾	12¾	FultonFinCorp-PA	7.5	112.8	15	--
14¾	10¾	GBC Bancorp-CA	7.5	182.9	19¾	--
20¾	15¾	GeneseeCorp-NY	17.6	68.1	19¾	--
9¼	6¼	HamiltonBancorp-FL	3.5	94.7	6¾	--
21¼	14¾	HarrisBkCorp-IL	8.7	115.7	19¾	--
14¾	12¾	HiberniaCorp-LA	18.9	104.7	14¾	--
14¾	12¾	HibernaCorp-TX	8.6	95.0	12¾	--
32¾	18¾	HiBkFnCorp-IN	7.1	82.5	18¾	--
13¾	10¾	HomeBancorp-GA	7.8	104.2	13¾	--
28	18	IndependenceBk-PA	8.8	91.4	18¾	--
13¾	10¾	IndianaFB-IN	13.1	85.7	13	--
48	34¾	IowaNatBkshares-IA	8.8	115.6	36	-1¼
18	11¾	KeyBancShares-NY	8.6	85.4	12	--
24¾	17¾	JeffersonBkshs-VA	7.5	88.0	17¾	--
44¾	27¾	KeyCorp-NY	7.4	88.8	27¾	--
29¼	21¾	KeyCorp-NY	6.4	91.1	21¾	--
7¾	6¼	LaSalleNatCorp-IL	5.8	84.1	6¾	--
35¾	26	KeystoneNtlCorp-PA	8.9	135.8	26	--
12¾	8¾	LaSalleNatCorp-CA	12.8	104.2	8¾	--
20¾	20¾	LakeShore-IL	15.1	185.0	21¾	--
19¾	15¾	LandmarkBcshs-MO	8.9	54.8	19¾	--
20¾	12¾	LibertyNatBcshs-KY	7.5	95.9	22	--
20¾	12¾	LincolnFinCorp-IN	8.1	101.2	17¼	--
39¾	8¾	MBC Financial-MD	8.6	54.3	8¾	--
18	11¾	MagnaGroup-IL	8.6	85.4	12	--
60	38¾	ManufacturersNat-MI	5.8	88.8	39¾	--
44¾	27¾	ManufacturersNat-MI	NM	88.8	27¾	--
21	18¾	MarineCorp-IL	12.3	133.2	20¾	--
21¾	17¾	MarquetteBcshs-MN	8.1	101.2	17¼	--
37¾	27¾	MarshallMcNey-IN	7.9	103.2	27¾	--
37¾	27¾	MarshallMcNey-IN	7.9	103.2	27¾	--
28¾	21	MercantileBncsh-MD	7.6	115.8	18¾	-½
30¾	44	MercantileBncsh-MO	11.2	183.2	44¼	-½
32	19¾	MercantileNat-IN	9.4	78.0	19¾	-½
29¾	23¾	MetroBancorp-PA	5.9	70.4	23¾	-½
56¼	24¾	MichiganNatCorp-MI	2.1	49.3	24¾	-½
12¾	12¾	MidAmericaNY	8.4	81.5	12¾	-½
23¾	17	MidlinLinc.-OH	8.7	136.0	18	-¼
47¾	19	MidlanticCorp-NJ	6.7	96.8	19	-¼
25¼	5¾	MultiBank-MI	NM	29.3	5¾	-¼
39¾	39¾	NBD Bancorp-MI	8.0	118.8	39¾	-½
53	32¼	NCNB Corp-NC	8.5	117.3	33¾	-¼
27¾	17¾	NCorpEnvironBcp-CA	13.7	143.8	17¾	-¼
41¾	31¾	NationalCity-OH	7.2	121.4	31¾	-¼
51	35	NationalFed-IA	11.1	196.9	38	-¼
31¼	25¼	NatBancorpMD-AK	9.3	111.8	29	-¼
30¾	24	NatBancorpMD-AK	9.4	103.8	29	-¼
44¾	15¾	NatCommunity-NJ	5.3	78.9	16	--
20¾	8¾	NorthFinCorp-WI	4.7	56.1	8¾	-¼
72	10¾	NorthwestBanc-CT	NM	35.6	10¾	-¼
23¾	18¾	NorthernTrust-IL	7.8	145.8	23¾	-¼
23¾	17¾	NorwestCorp-MN	8.9	136.8	17¾	-¼
20¾	20¾	OhioBancorp-OH	8.4	86.2	20¾	-¼
29¾	22¾	OldKentFinCp-MI	7.3	102.5	22¾	--
24¾	17¾	OldKentBancorp-KY	12.7	152.9	24	--
23¾	19	OneValleyBanc-WV	6.9	84.3	20¾	-¼
28¾	24	PNC FinCorp-PA	7.4	82.8	24	--
28¾	24	PacificBanCo-CA	10.3	146.8	24¾	--
20¾	15¾	PacificMercBcp-CA	8.5	118.1	19¾	-¼
18¾	14	PeoplesBancorp-NC	8.1	110.2	14	--
20¾	16	PeoplesNat-CO	9.8	124.2	17	--
19¾	9¾	PiedmontCorp-GA	7.7	143.9	10	-¼
7¾	5¾	PioneerBancorp-IA	19.8	66.8	5¾	-¼
27	21¾	ProvidentBancorp-MI	9.4	125.8	21¾	-1¼
30¾	24¾	ProvidentBancorp-PA	NM	85.9	24¾	--
37¾	27¾	PugetSoundBancs-WA	9.7	94.4	27¾	-¼
52¼	43¾	RepublicNYCorp-NY	13.6	1147.2	44¾	-¼
32¾	25	RiggsNatCorp-DC	7.7	96.6	14	-¼
32¾	25	RiggsNatCorp-DC	12.7	96.6	29¼	-¼
23¾	16	SBTBancorp-PA	9.6	178.5	21	-¼
23¾	16	SCBancorp-SC	7.1	120.0	18	-¼
29¾	24¾	SanPaoloBcp-CA	8.2	72.4	27	-1
29¾	24¾	SawnetCapCorp-NJ	8.2	72.4	27	-1
24¾	18¾	SignetBanking-VA	4.6	61.8	19¾	-¼
38¾	28	SocietyCorp-OH	8.7	95.9	28	--
38¾	28	SocietyCorp-OH	8.7	95.9	28	--
15¾	11¾	SouthCarolinaFG-SC	8.6	86.3	13¾	--
15¾	11¾	SouthwestBcCorp-FL	NM	37.1	11¾	--
15¾	11¾	SouthwestBcCorp-FL	12.1	126.6	11¾	--
25¼	19¾	SouthTrustCorp-AL	6.8	87.9	17	-¼
43¾	28	SovereignCorp-PA	6.3	87.4	41¾	-¼
26¾	17¾	Star Banc Corp-OH	8.0	103.9	17¾	--
26¾	17¾	StarBancCorp-OH	8.0	103.9	17¾	--
9¾	4¾	StatewideBanc-NJ	NM	99.1	4¾	--
28¾	21¾	SuburbanBancorp-IL	13.1	190.0	17¾	--
24¾	21	SumitomoBank-CA	4.6	72.5	21¼	-½
24¾	21	SumitomoBank-CA	4.6	72.5	21¼	-½
21¾	19¾	SummitBancorp-NJ	5.6	82.0	21¼	-¼
24¾	18¾	SunTrustBanks-GA	7.6	116.1	18¾	-¼
24¾	18¾	SunwestFinSvs-NM	77.4	76.1	18¾	-¼
25¾	20¾	SusquehannaBcshs-PA	7.1	83.0	17	-¼
19	14¾	SymonyFinCorp-IN	15.0	235.1	15	--
21¾	17¾	TheFleetCorp-RI	8.5	115.2	17¾	-¼
33	27¾	TrustCoBankCorp-NY	8.4	146.5	27¾	-¼
21¾	17¾	TrustmarkCorp-MS	6.4	123.6	17¾	-¼
23¾	17¾	TrustmarkCorp-MS	6.1	71.4	17¾	-¼
24¾	18¾	U.S.TrustCorp-NY	11.3	172.2	19¾	-¼
24¾	18¾	U.S.TrustCorp-NY	11.3	172.2	19¾	-¼
18¾	14¾	UBB Corp-MS	5.8	79.4	14¾	--
18	9¾	UST Corp-MA	5.8	79.5	10	--
32	24	UnionBanCal-CA	7.8	87.1	24	--
15¾	9¾	UnionPlanters-TN	NM	52.9	6¾	-¼

Bank Stock Table Explanation: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the dollar value of their stock traded and shares outstanding. As of June 30, 1990, the market value cutoff for banks was $96.7 million, and for thrifts it was $47.8 million. The 52 week high and low prices do not include the latest trading day. PE the price-earnings ratio. It is the current stock price divided by the company's annual earnings per share, using the latest announced earnings. Mkt Cap is the market value of the company's outstanding stock, expressed in millions of dollars. Chg. The price at which the stock last traded, if no trades, the bid price. Chg. The change in price and Thrift Indices: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value. Explanation: highlights show largest percent gainers/losers in price; and two volume leaders are listed, ranked by dollar volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA. 804-977-1600; and Interactive Data Financial News Network, Vienna, VA. Provides SNL with the daily prices.

Thrift Indices:

52 Wk. High	52 Wk. Low	Name	PE	Mkt Cap.	Chg.	Chg.
23¾	16¾	UnitedBankCorp-CO	NM	95.1	16¾	--
12¾	8¾	UnitedBkshs-WV	7.5	87.9	11	--
17¾	12¾	UnitedCarolinaBc-NC	7.8	87.3	12¾	--
14¾	11¾	UnitedCounties-NJ	7.4	99.8	12	--
52¼	24¾	UnitedJerseyBks-NJ	8.6	101.2	28¾	-¼
27¾	20¼	UnitedMissouri-MO	8.0	99.8	20¾	-¼
36	22¼	ValleyCapCorp-MI	8.0	99.8	22¼	--
36	22¼	ValleyCapCorp-MI	7.2	130.0	22¼	--
30¾	11¾	ValleyNatCorp-AZ	7.2	130.0	19¾	-¼
30¾	11¾	ValleyNatCorp-AZ	7.2	130.0	19¾	-¼
33	26¾	WashingtonMut-WA	8.6	101.2	26¾	--
33	26¾	WashingtonMut-WA	8.6	101.2	26¾	--
24¾	15¾	WellsFargoCorp-CA	8.6	101.2	15¾	--
24	13	WesternBancorp-CA	21.3	91.4	13¾	--
24¾	13	WestFirstFedSvgs-CO	8.5	109.0	13¾	--
21¾	12	FedFidBkCorp-MI	6.2	92.8	13¾	-¼
27¾	21¾	FirstFed-CA	2.7	24.5	25¾	--
34¾	22¾	GoldenWestFin-CA	8.5	134.4	24¾	--
24¾	13¾	GreatWesternFin-CA	12.3	83.8	13¾	--
13¾	6¾	GtAmericanBank-CA	NM	8.5	6¾	--
47¾	31¾	HomeFedCorp-CA	NM	13.8	31¾	--
21¾	13¾	HomeSaveBan-WI	15.3	84.6	17	--
16½	10	HRB Bancorp-MI	8.5	95.8	10	--
25¾	16	People's Bank-CT	29.6	38.9	19¾	-¼
28¾	17	PeoplesHeritage-ME	8.6	38.9	19¾	-¼
18¾	9¾	RochesterCmtyBkNY	6.3	39.9	9¾	-¼
18¾	9¾	RochesterCmtyBkNY	6.3	39.9	9¾	-¼
14¾	9¾	SIPSBancorp-IL	NM	56.0	9¾	-¼
14¾	9¾	SIPSBancorp-IL	NM	56.0	9¾	-¼
20¼	12¾	WashMutualSB-WA	8.3	48.8	12¾	-¼
20¼	12¾	WashingtonMut-WA	11.3	240	20¼	--
11¼	8¾	Westcorp-CA	9.9	83.8	7	--

TOP 25 THRIFTS (4 PM PRICES)

52 Wk. High	52 Wk. Low	Name	PE	Mkt Cap.	Chg.	Chg.
24¾	18¼	Amanson-CA	7.0	79.1	18¾	-¼
30¾	30¾	AmeriFirst-FL	7.0	83.1	30¾	-¼
28¼	8¼	CalFed-CA	22.9	15.1	8¼	-¼
15¾	11¼	CharterMacorp-CA	8.9	95.8	11¾	--
20¾	3	CoastSavingsFin-CA	NM	31.8	4	--
15¼	5¼	DowneyBanFin-CA	3.2	15.2	5¼	-¼
24	13	DowneySavings-CA	21.3	91.4	13¾	--
21¾	18¾	FirstFedFinCorp-CA	8.5	109.0	19¾	-¼
21¾	12	FedFidBkCorp-MI	6.2	92.8	13¾	-¼
27¾	21¾	FirstFed-CA	2.7	24.5	25¾	--
34¾	22¾	GoldenWestFin-CA	8.5	134.4	24¾	--
24¾	13¾	GreatWesternFin-CA	12.3	83.8	13¾	--
13¾	6¾	GtAmericanBank-CA	NM	8.5	6¾	--
47¾	31¾	HomeFedCorp-CA	NM	13.8	31¾	--
21¾	13¾	HomeSaveBan-WI	15.3	84.6	17	--
16½	10	HRB Bancorp-MI	8.5	95.8

STOCKS
Selloff Crimps Once-Favored Bank Shares

By GORDON MATTHEWS

NEW YORK — Major banks' stocks sold off sharply Tuesday, and many reached new lows as the market plummeted on investor fears that the Middle East crisis will lead to both inflation and a shrinking economy.

Well-regarded institutions led the way down, including those in California; that continued a trend that began four trading sessions ago.



Chicago's Northern Trust Corp. and New York's J.P. Morgan & Co. were among institutions whose share prices reached new 52-week lows. Northern was off $1.25 a share, to $23.75; Morgan, 50 cents, to $32.75.

"It looks like a lot of profit-taking again," said Virginia A. Adair, a banking analyst at the capital markets subsidiary of Merrill Lynch & Co. "I keep hoping a bottom will appear for the banks, but I can't see it happening right now."

West Coast Slowdown Feared

The big California banks posted major declines on fears that the West Coast economy, only recently seen as vibrant, is now beginning to slow down.

Security Pacific Corp., Los Angeles, was off $1 a share, to $27, in midafternoon trading. Its stock price has fallen 27% since June 30.

Meanwhile, Wells Fargo & Co., San Francisco, was off $1.875 a share, to $55.25, a decline of nearly 30% in the same period. It also reached a new yearly low.

The California banks were among the last in the industry to be hit as part of a general slide in bank equities, "so they have been down the most recently," said Carole Berger, a banking analyst for C.J. Lawrence, Morgan Grenfell Inc.

Higher Prices, Rates Seen

"Right now, the whole market is afraid of higher energy prices and higher interest rates," Ms. Berger said. "And for banks, the market fears that if the U.S. economy is just now entering a recession then the weakening credit cycle is not limited to this year."

Ms. Berger said she could not predict a bottom for bank stocks. "The problem is still one of valuation and especially if we are moving into a recession," she said.

The overall mood in the stock markets was bearish, too. The Dow Jones Industrial Average was off about 50 points in late afternoon after dropping more than 70 points earlier in the day.

Reacting to Mideast News

"The market is just so skittish that news coming out of the Middle East dictates direction in 10-point and 20-point blocks," Thomas Walsh, head of the trading desk at Nikko Securities told Reuters. "There are no moves on sound fundamentals."

Among other well-regarded banks suffering sharp declines were First Wachovia Corp., Winston-Salem, N.C., off $1 a share, to $37.625; Banc One Corp., Columbus, Ohio, off $1.375, to $24.50; and Republic New York Corp., off $1, to $43.625.

First Union Corp., Charlotte, N.C., also touched a new low Tuesday. Its shares were off 75 cents, at $14.875.

An exception to the general decline for well-regarded banks was posted by CoreStates Financial Corp., Philadelphia. It gained 12.5 cents a share, to $32.50, after announcing a stock repurchase program.

The company said it would buy up to 1.1 million of its 55 million common shares outstanding. It noted that these purchases would be in addition to shares acquired for stock options and other award plans and in exchange for outstanding convertible securities.

CoreStates said the purchases will be made on the open market from time to time based on market conditions. □

CAPITAL
Pullback from Dividend Investment Plans

Continued from page 1

tan Corp. and Chemical Banking Corp. learned about arbitragers' interest in discount dividend reinvestment programs earlier this year, when their stocks' prices dropped sharply during pricing periods.

Accordingly, banks are reexamining the dividend reinvestment programs they offer.

For example, Chase and Chemical both revamped the programs they have, and Chemical actually ended the discount feature for nonemployees.

And now First Interstate has followed suit. "It was the price of our stock and the very agitated market we are in," said Thomas Marrie, executive vice president and chief financial officer. "We were concerned that the arbitragers who participate in the program would drive the stock price down even further."

Mr. Marrie added that the capital raised under the program is not needed now. "Even after we've suspended this plan, we still are very confident we will meet our capital target by the end of the year," he said, referring to the 6% ratio of tangible common equity to assets.

Stock Price Depression

The extreme depression of bank stock prices suggests that banks should reexamine dividend reinvestment programs, said Jo Charles Peabody, a vice president at Kidder, Peabody & Co.

Because most banks already meet the minimum capital requirements, there is no reason they should be issuing stock at prices below book value, he said. "I think banks are going to be forced to look for more creative ways to raise capital."

But not all banks with discount dividend reinvestment programs will follow suit.

Fleet/Norstar Financial Group, for instance, has had a discount dividend reinvestment program in place since its merger with Norstar Bancorp. in 1988, said Richard R. Pannone, treasurer.


Richard R. Pannone
Fleet/Norstar

The program lets shareholders buy stock at a 5% discount to the market price, defined as the average price over a 10-day period. To supply program participants, Fleet can issue shares or use shares it repurchases in the secondary market.

Maintaining Flexibility

Fleet's program has not served to raise capital in the past year, Mr. Pannone said, because the capital-rich bank has often provided investors with repurchased shares rather than new shares.

But the bank, based in Providence, R.I., has no plans to change the program, he said. "You have to have a program in place for the flexibility of being able to raise new capital if you need to."

A treasury official at another regional bank concurred. If the costs associated with a public stock offering – the underwriting fee, the market's negative reaction to news of a stock offering, and the management time spent engineering the issue – are taken into account, a dividend reinvestment program begins to look more attractive, he said.

Capital Requirements

And because higher capital requirements may on the horizon, other banks may also want to keep the programs open as a means to raise capital, said Merrill's Mr. Kraushaar. "Most managements are looking over their shoulders at the possibility of higher capital requirements being imposed after 1992," he said.

And even First Interstate is not ruling out an eventual reinstatement of its program. Mr. Marrie pointed out that his bank has suspended the discount and cash option portions of the program only for the quarter.

"We are keeping our options open," he said. "If market conditions change, we could change." □

* * *

MARKET MONITOR

Continental Bank, a subsidiary of Continental Bank Corp., is premarketing $100 million in 10-year subordinated debt. Price talk on the offering, which will be lead managed by Goldman, Sachs & Co., is for a yield 235 to 240 basis points over comparable Treasuries.

The offering is Continental's first trip to the long-term bond markets since it was rescued by the Federal Deposit Insurance Corp.

Continental's offering is also noteworthy in that it is bank-level funding. Banks typically issue debt at the holding company level so they can channel the proceeds where they are most needed. But bank-level financings can often prove less costly – an important consideration in today's bear market for bank bonds. □

FINANCIAL TECHNOLOGY UPDATE

The Electronic Forms Workstation is an effective tool for financial institutions. Laser printing technology, form design/processing software, and NCR's Client/Server Architecture combine cost-effectively and eliminate the need for the storage and warehousing of the preprinted forms.

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NEW YORK CITY
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MONDAY, SEPTEMBER 10, 1990 — FRIDAY, SEPTEMBER 14, 1990

LOS ANGELES, CA
CENTURY PLAZA HOTEL
MONDAY, SEPTEMBER 17, 1990 — FRIDAY, SEPTEMBER 21, 1990

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SEMINAR 1

INNOVATIVE CUSTOMER SERVICE AND SALES TECHNIQUES FOR THE NINETIES

July 16, 1990 • The Vista Hotel • New York City
September 10, 1990 • The Vista Hotel • New York City
September 17, 1990 • Century Plaza Hotel • Los Angeles

As the banking environment becomes more competetive, industry leaders view improved customer service as a sollution to retaining market share. But how can your bank achieve such improved service? And as importantly, can quality service be translated into sales? The seminar will address the pressing need for improved customer service and how to implement a service program in your bank. It will also focus on the next step... profiting from quality service through innovative sales techniques, state-of-the-art technology and sales incentives. The industry leaders will address the issue of the nineties...achieving competitive advantage by making your company customer and sales-oriented.

9:00 KEYNOTE SPEECH: EFFECTIVE CUSTOMER SERVICE...THE KEY TO PROFITIBILITY IN THE 90'S
- Profiting from customer service in an age of transition
- A banker's perspective on past successes and failures... and innovations for the future
- A case study in improving service and sales

Thomas Jacob, *Senior Vice President*, Chemical Bank (NY)
Thomas Jacob, *Senior Vice President*, Chemical Bank (NY)
Joan Miszak, *Senior Vice President*, California Federal Bank (LA)

9:45 TURNING SERVICE INTO SALES...ACHIEVING BOTTOM LINE RESULTS FROM QUALITY SERVICE AND SALES TECHNIQUES
- Creating a competitive advantage through customer service
- Improving service...and controlling costs

John A. Goodman, *President*, Techn. Assistance Research Program (NY)
John A. Goodman, *President*, TARP (NY)
Marty Wikoff, *President*, Management Performance Systems (LA)
- The need for effective salesmanship
- Sales techniques for the 90's

Dr. Nancy O'brien, *Marketing Consultant*, Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Dr. Nancy O'brien, *Marketing Consultant*, Sales Development Assoc. and Dr. Bankers Industry Group, ASTD (NY)
Shirly Ward, *Vice President*, Bank of America (LA)

10:45 CREATING A SALES CULTURE...A STEP BY STEP APPROACH
- How to implement your new strategy through out the corporation
- How to build a corporate culture based on customer service
- Defining and targeting your customer

Dr. A. Lorri Manasse, *President*, The Cortland Group (NY)
Dr. A. Lorri Manasse, *President*, The Cortland Group (NY)
Dr. A. Lorri Manasse, *President*, The Cortland Group (LA)

11:30 COFFEE BREAK

11:45 ACHIEVING A TECHNOLOGICAL ADVANTAGE...THE ROLE OF TECHNOLOGY IN IMPROVING CUSTOMER SERVICE AND SALES
- Using innovative technology to cross-sell
- How to implement state-of-the art systems to improve service and increase sales

Dr. Michael Harden, *Sales Manager*, Citicorp Information Resources (NY)
Frank Martire, *Chairman*, Citicorp Information Resources (NY)
Charles J. Buchta, *Executive Vice President*, First Interstate Bank (LA)

12:30 HOW TO REMOVE MIDDLE-MEN FROM THE BANKING TRANSACTION...FROM THE BOARDROOM TO THE MAILROOM
- Skills to implement to reduce costs while improving quality of service
- Removing obstacles to the sale

Nicholas Papanikolaw, *Vice President*, Manufacturers Hanover (NY, NY, LA)
John J. Campi, *Managing Director*, Chatham Consulting Group (NY, NY, LA)

1:00 LUNCH WORKSHOP OPPORTUNITIES FOR THE 90'S IN RETAIL AND WHOLESALE BANKING...HOW TO IMPROVE PROFITIBILITY THROUGH SALES AND SERVICE
- Innovative techniques and training methods... a roundtable discussion

Chairperson:
Charlotte Pollard, *Vice President*, Chase Manhattan Bank (NY)
Charlotte Pollard, *Vice President*, Chase Manhattan Bank (NY)
Pamela O'Shea, *Vice President*, City National Bank (LA)

2:45 THE AMERICAN EXPRESS EXAMPLE...A CUSTOMER SERVICE SUCCESS
- A case study in implementing quality service
- Lessons for banks and thrifts

Laura Gross, *Director*, American Express (NY)
Bruce Grieve, *Vice President*, American Express (NY)
Thomas Stevens, *Vice President*, American Express (LA)

3:30 A CASE STUDY IN IMPROVING SALES...THE CHASE TRAINING PROGRAM
- Teaching selling skills
- How to implement a training program

Claire Schopler, *Vice President Training*, Chemical Bank (NY)
Claire Schopler, *Vice President Training*, Chemical Bank (NY)
Claire Schopler, *Vice President Training*, Chemical Bank (LA)

4:15 THE KEY TO IMPROVING SALES...MEASURING YOUR CUSTOMER SERVICE
- Judging the quality of service at your bank
- Learning from the leaders...what techniques do the leading bank use to measure service
- How to determine your bank's effectiveness

Jeffrey Kutler, *Assistant Managing Editor*, American Banker (NY)
Jeffrey Kutler, *Assistant Managing Editor*, American Banker (NY)
Douglas Smith, *Managing Director*, BEI Golembe (LA)

5:00 THE ROLE OF SALES INCENTIVES...WHAT WORKS AND WHAT DOESN'T
- How to use worker compensation to increase sales
- Improving service without increasing costs

William Casey, *Principal*, Paris, Casey Inc. (NY)
William Casey, *Principal*, Paris, Casey Inc. (NY)
Matt Walgon, *Senior Consultant*, Sibson and Co. (LA)

6:00 END OF SEMINAR

SEMINAR 2

THE NUTS & BOLTS OF COMMERCIAL LENDING & LOAN PRICING

July 17, 1990 • The Vista Hotel • New York City
September 11, 1990 • The Vista Hotel • New York City
September 18, 1990 • Century Plaza Hotel • Los Angeles

The battle for commercial loan profitability promises trying times for large corporate and middle market lenders. Over the past two decades, the risk in banks lending portfolios has steadily increased. This is not a function of uncontrolled risk-taking, but rather of the banks' necessary response to the need to find assets which will provide acceptable levels of risk-adjusted return. The events of the past few years have shown that many banks, however, have been unable to effectively control the level of risk that they have taken. Unacceptably high levels of loss have taken place in many banks due to a combination of poor pricing, excessive concentration and the failure to understand the level of risk in a specific loan. Furthermore, new competitors are entering the marketplace scrambling for territory and sparking intense new battles for turf. This seminar reviews how leading-edge banks are beginning to develop new sets of techniques that will geve them a competitive edge in the marketplace for controlling their level of loss, and achieving low-risk diversified portfolios.

8:45 CHAIRMAN'S OPENING REMARKS
William T. Gregor, *Partner*, The MAC Group (NY,LA)

RE-ENGINEERING FROM A CUSTOMER POINT OF VIEW

9:00 KEYNOTE ADDRESS: WHAT RECIPE SHOULD YOU USE TO TURN AROUND YOUR COMMERCIAL LENDING BUSINESS?...A CONSULTANT'S & A BANKER'S VIEWPOINT
William T. Gregor, *Partner*, The MAC Group (NY,LA)
Peter Offermann, *Managing Director*, Bankers Trust (NY)

9:45 CUSTOMER PROFITABILITY & OPPORTUNITIES FOR REFOCUSING ON THE PROFITABLE BUSINESS...NATIONAL WESTMINISTER'S & SECURITY PACIFIC'S MIDDLE MARKET STRATEGY
Vipy C. Popat, *Principle*, Booz Allen & Hamilton (NY,LA)
Edward A. McNally, *Senior V.P.*, National Westminister, USA (NY,LA)
Frank Abraham, *Chief Credit Officer*, Security Pacific National Bank (LA)

11:00 COFFEE BREAK

11:15 PRESTO CHANGO...CONVERTING UNPROFITABLE CUSTOMERS INTO PROFITBLE ONES...USING THE EMERGING SECONDARY MARKET TO YOUR ADVANTAGE
- Where Will The Secondary Market Work & For What Kind Of Loans?
- How Will The Secondary Market Affect Your Ability To Price?
- Secondary Markets & Loan Sales...What Are The Elements Necessary For Success?

David E. Fisher, *Vice President*, Loan Pricing Corp. (NY,LA)

12:15 LUNCH BREAK

RE-ENGINEERING THE PRICING PROCESS

1:30 ARE YOU GETTING THE BANG FOR YOUR BUCK?...DEVELOPING A TARGETED PRICING STRATEGY TO ADEQUATELY PRICE FOR RISK
- What Are The Key Components Of Pricing?
- What Prices Are Banks Actually Getting On Commercial Loans?
- How To Set Strategic Pricing Goals For Your Portfolio
- Do Banks Price Adequately For Risk?

Christopher L. Snyder, *President*, Loan Pricing Corp. (NY,LA)

2:15 A CREDIT BASED APPROACH TO ALIGNING RISK & RETURN IN A C&I LOAN PORTFOLIO
- How To Analyze The Relationship Between Credit Risk & Pricing
- Testing The Adequacy Of The Existing Credit Risk Assesment System
- Refining The Existing Credit Risk System To Serve As A Basis For Commercial Loan Pricing Scenarios

Constance Kenneally, *Partner*, Zeta Services Inc. (NY,LA)

3:00 COFFEE BREAK

RE-ENGINEERING THE CREDIT PROCESS

3:15 EMERGING NEW TECHNIQUES FOR CONTROLING LOSSES & MANAGING THE PORTOLIO
- Buttoned-up Credit Procedures...Ensuring Repayment After The Loan Is Made
- Pricing To Recapture Expected Losses
- Diversification As A Tool In Portfolio Management
- Giving Your Problem Loans A Workout...Security Pacific's Workout & Recovery Strategy

Jonathan P. Moynihan, *Managing VP*, First Manhattan Consulting Group (NY,LA)
Gary J. Coelho, *First VP*, Security Pacific National Bank (LA)

4:00 ARE BANKS LENDING TO LBO's TO CHEAPLY?...THE FUTURE OF HIGHLY LEVERAGED TRANSACTIONS
Mark G. Solow, *Managing Director*, Manufacturers Hanover Trust (NY)
Hugh V. Kemper, *Managing Director*, Morgan Guaranty (NY)
Leland S. Prussia, *Vice Chairman*, Capitalcorp., Inc. (LA)

4:45 COMMERCIAL LOAN SECURITIZATION...A STEP BY STEP APPROACH TO SECURITIZING PERFORMING LOANS
Marshall V. Davidson, *Managing Director*, Kidder Peabody (NY,LA)
Robert M. Okabe, *Vice President*, Kidder Peabody (NY,LA)
Clifford Grieg, *Managing Director*, Standard & Poors (NY,LA)

5:30 END OF SEMINAR

SEMINAR 3

EFFECTIVE COST MANAGEMENT

July 18, 1990 • The Vista Hotel • New York City
September 12, 1990 • The Vista Hotel • New York City
September 19, 1990 • Century Plaza Hotel • Los Angeles

9:00 **CHAIRMAN'S OPENING REMARKS**
Patrick J. Leemputte, *Partner,* Price Waterhouse (NY, LA)

9:15 **ACHIEVING COMPETITIVE ADVANTAGE THROUGH COST LEADERSHIP**
The 1980's showed that cost leadership is a critical success element in all restructured industries. As the pace of restructuring in banking accelerates, winners will emerge based on competitive cost position and related strategic focus. Global finance will come to be dominated by firms obsessed with the twin pursuits of profitability and productivity.
This session concentrates on managing the key noninterest cost drivers of bank performance: 1) business scope and geographic reach, 2) size of workforce and compensation practices, 3) technology spending and investment, and 4) corporate real estate portfolio management.
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Charles H. Nobs, *Senior VP,* Bankers Trust Company (NY)
Eleni Iatsenko, *Senior VP,* Bankers Trust Company (LA)

10:00 **KEYS TO WINNING THE PRODUCTIVITY RACE**
If superior expense control is essential to surviving the merger decade, then how is it accomplished?
This session addresses three key issues for banks concerned about expense control: 1) How good is the bank now and where is the potential for greater frustration? Analysis based on business mix can identify bloated budgets and problem areas; 2) What kind of programs work to bring expense under control? Experience shows what are the do's and dont's of crafting a program to reduce staff areas, lines of business, branches, operations and systems; 3) What does it take to stay on top? A coherent organization and quantitative performance measures can be keys to sustaining a cost effective culture.
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (NY)
James M. McCormick, *President*
First Manhattan Consulting Group (LA)

11:00 **STORIES FROM THE FRONT: HOW MELLON BANK'S COST CONTROLS HAVE LED TO NEW BUSINESS OPPORTUNITIES AND LOWER EXPENSES**
Mellon Bank has experienced a great deal of cost cutting in the past decade. Mellon's expertise in this area has shown that you can actually turn a cost center into a profit with the appropriate resources and strategy.
In this session, you will learn how Mellon effectively downsized into a better performing bank. This dedication to cost leadership has helped Mellon develop it's technologies and data processing to the point where these strengths have led to new business opportunities.
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (NY)
Janet Hartung, *Senior Vice President,* Mellon Bank (LA)

12:00 **LUNCH BREAK**

1:15 **HOW TECHNOLOGY CAN HELP YOUR BANK CUT COSTS WHILE IMPROVING PERFORMANCE**
Commercial banks and financial institutions are wholeheartedly embracing information technology (IT) as a way to achieve competitive advantage. But, while bank IT costs have skyrocketed, banks are cautious to crow about their success. Instead, they suffer from exponential growth in computer spending with almost no impact on their bottom line or market share.
In this session, you will learn how to begin to think about, structure and approach the IT problem in your organization. Learn what technology can do to help control costs and what it cannot do. Analyze how to cut the rising costs of your own IT infrastructure. Most important, begin to understand how you can approach IT complexity without being overwhelmed.
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (NY)
Charles F. Kalmbach, Jr., *Senior Manager*
Price Waterhouse (LA)

2:15 **ELIMINATING EXPENSE THROUGH ACQUISITIONS**
If banks merge to achieve economies of scale then why do most mergers fail to meet their expectations? As bank mergers continue to increase, minimizing costs during the integration process has become essential.
While banks of different sizes and market niches will have different merger goals, there is a proper rationale to mergers that will minimize the consolidation process. This session will look at past mergers to critique successful mergers as well as failures. In particular, where can the economies be achieved?... in back office operations/overhead, retail or wholesale operations, data processing and technology or duplication of staff responsibilities. This session provides a framework to minimize the costs of the merger.
Harry H. Tetonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
Harry H. Tetonis, *Principal,* Booz, Allen & Hamilton Inc. (NY)
James Bemowski, *Principal,* McKinsey & Co. (LA)

3:15 **MONITORING THE DOWNSIZING EFFORT THROUGH EFFECTIVE HUMAN RESOURCES MANAGEMENT**
• How to retain top performers and employee commitment
• What to cut?...What to keep?...How to do it?
Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (NY)
Peter J. Doris, *Senior VP,* Right Associates (LA)

4:15 **MEASURING THE IMPACT OF COST ON PROFIT PERFORMANCE AND SHAREHOLDER VALUE...THE ANALYST'S PERSPECTIVE**
How does a bank's cost performance effect stock price? In this session, learn how analysts objectively view cost cutting practices and how profit performance is related to effective expense practices and how it effects stock price. What banks have made the right moves and what strategies were responsible for improved profit performance.
Gary Gordon, *Vice President,* PaineWebber (NY)
Gary Gordon, *Vice President,* PaineWebber (NY)
Michael Conover, *President,* Ryan Beck & Co. Pacific (LA)

5:00 **END OF SEMINAR**

SEMINAR 4

BANK AND CROSS-INDUSTRY ACQUISITIONS OF THRIFT INSTITUTIONS & SHOULD THRIFTS BE CONVERTING TO BANKS?

July 19, 1990 • The Vista Hotel • New York City
September 13, 1990 • The Vista Hotel • New York City
September 20, 1990 • The Century Plaza Hotel • Los Angeles
September 25, 1990 • The Ritz Carlton • Atlanta
October 9, 1990 • The Ritz Carlton • Chicago

FIRREA has opened the doors to bank acquisitions of thrift institutions and thrift institution conversions to banks. However, it is not altogether clear what this new regulatory flexibility means and whether banks and thrifts should take advantage of these new options. This one day intensive program for bank, thrift, and other business executives, attorneys and consultants focuses on the mechanics and regulatory procedures involved in bank and non-bank acquisitions of thrifts, as well as how and whether thrifts should convert to banks.

9:15 **CHAIRMAN'S OPENING REMARKS**
Eric Luse, *Partner,* Brownstein Zeidman and Schomer

9:30 **SHOULD A THRIFT CONVERT TO A BANK?**
• What Are The Advantages And Disadvantages
• A Review Of The Bank And Thrift Charters
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Trent Feldman, *Partner,* Kaplan Smith & Associates (AT,LA)
Edward T. Lotz, *Principal,* Lyons Zomback & Ostrowski (NY,CH)

10:00 **REGULATORY HURDLES AND CONSIDERATIONS INVOLVED IN CONVERTING A THRIFT TO A BANK...HOW CAN IT BE DONE & WHAT IS PERMISSIBLE?**
V. Gerard Comizio, *Director, Corporate and Securities Division,* Office of Thrift Supervision (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Vernon E. Fasbender, *Director for Analysis,* Comptroller of the Currency (Southeastern District) (AT)
Roy Stovall, *Director for Analysis,* Comptroller of the Currency (Northeastern District) (NY)
Donelle Ward, *Director for Analysis,* Comptroller of the Currency (Central District) (CH)
Daniel Pearson, *Director for Bank Supervision & Analysis,* Comptroller of the Currency (Western District) (LA)

10:45 **COFFEE BREAK**

11:00 **CONVERTING A SAVINGS ASSOCIATION TO A BANK... A CASE STUDY**
Samuel J. Malizia, *Partner,* Brownstein Zeidman & Schomer (NY,CH)
James S. Fleischer, *Partner,* Silver Freedman & Taff (LA)
Robert Friedman, *Partner,* Silver Freedman & Taff (AT)

11:30 **WHY SHOULD A BANK OR NON-BANK ACQUIRE A THRIFT... A STEP BY STEP REVIEW**
• What Are The Economic Advantages And Disadvantages?
• Market/Geographic Expansion And Pricing Considerations
Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil & Partners (LA,CH)
T. Stephen Johnson, *President,* T. Stephen Johnson & Associates (AT)
John Mingo, *Principal,* BEI Golembe Inc. (NY,CH)
Richard Reilman, *Managing Director,* Dean Witter Reynolds, Inc. (NY,LA)

12:00 **EVALUATING A THRIFT ACQUISITION...AN ACQUIRER'S PERSPECTIVE**
• Regulatory, Operational & Financial Differences With Banks
Christopher Quakenbush, *Principal,* Sandler O'Neil & Partners (NY,AT)
Fred D. Price, *Principal,* Sandler O'Neil Partners (LA,CH)
Addison Levi, *Senior Vice President,* Dean Witter Reynolds, Inc. (LA,CH)
Kenneth Reilander, *Managing Director,* PaineWebber, Inc. (NY,AT)

12:30 **LUNCH BREAK**

2:00 **A REVIEW OF THE REGULATORY PARAMETERS & ROADBLOCKS TO BANK ACQUISITIONS OF THRIFTS**
• Interstate/Interstate Banking Issues
• Obstacles Of State Branching Laws & How To Circumvent Them
• Healthy Thrift vs. Failing Thrift Acquisitions
V. Gerard Comizio, *Director Corporate & Securities Division,* OTS (NY,AT,LA,CH)
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
John Shockey, *Partner,* Milbank Tweed Hadley & McCoy (NY,AT)
John Buchman, *Assistant Deputy Director,* OTS (NY,AT,LA,CH)

3:00 **COFFEE BREAK**

3:15 **WHAT ARE THE STRUCTURAL OPTIONS AND CONSIDERATIONS WHEN ACQUIRING A THRIFT?**
• How Should The Resulting Or Target Institution Be Chartered And Insured?
• Holding Company vs. Direct Acquisitions
Eric Luse, *Partner,* Brownstein Zeidman and Schomer (NY,AT,LA,CH)
Peter Barnes, *Partner,* Arnold & Porter (AT,LA)
William J. Sweet, *Partner,* Skadden Arps Slate Meagher & Flom (NY,CH)

4:15 **A BANK ACQUISITION OF A THRIFT...A CASE STUDY**
Donald Kaplan, *Managing Director,* Kaplan Smith & Associates (NY,LA,CH)
William Moore, *President,* Trident Financial Corporation (NY,AT)

4:45 **TAX AND ACCOUNTING CONSIDERATIONS**
• Recapture Of Bad Debt Reserve
• Pooling vs. Purchase
• Use Of Net Operating Loss Carryovers
Roger Teurfs, *Partner,* KPMG Peat Marwick (NY)
James L. Spreng, *Partner,* KPMG Peat Marwick (NY)
Douglas McEachern, *Partner,* Deloitte & Touche (LA)
Vincent Lanuza, *Partner,* KPMG Peat Marwick (CH)
Gerald F. Hunter, *Partner,* KPMG Peat Marwick (AT)

5:30 **END OF SEMINAR**

SEMINAR 5

ASSET/LIABILITY MANAGEMENT

July 20, 1990 • The Vista Hotel • New York City
September 14, 1990 • The Vista Hotel • New York City
September 21, 1990 • Century Plaza Hotel • Los Angeles

9:00 CHAIRMAN'S OPENING REMARKS
Sanford Rose, *Editor, Journal of Retail Banking*
Senior Columnist, American Banker

9:15 INTEREST RATE RISK MANAGEMENT
The management of interest rate risk is fundamental to sound banking practice. Banks can experience earnings, liquidity, and capital adequacy problems, if management is poorly run.
This session will deal with a number of fundamental rules in managing interest rate risk as well as develop an integrated risk management project. You will understand how risk is measured, as well as, what tools are used to measure risk. Learn how to incorporate these tools to increase bank profitability.
Ronald D. Reading, *Vice President,* First Manhattan Consulting Group

10:30 COFFEE BREAK FOR SPEAKERS AND GUESTS

10:45 LIQUIDITY
This session learn to understand what liquidity is. Where you can get it. How much it costs, and how much it is worth. Finally, learn to understand how to measure and manage liquidity.
Peter G. Mantilla, *Vice President,* Bank of New York (NY)
Richard Lademan, *Vice President,* Bank of America (LA)

11:45 THE USES OF DURATION IN ASSET LIABILITY MANAGEMENT
Technological and analytical developments in the 1990's will significantly enhance the ability to deal with risk. The methodology, tools, and implementation approach provide a more rigorous assessment of market risk.
The specific focus will be to contrast the duration approach with a new approach called risk measurement unit approach. The risk measurement unit approach captures both volatility and non-parallel shifts in the yield curve.
Sanford Rose, *Editor,* Journal of Retail Banking
Senior Columnist, American Banker
Robert M. Mark, *Managing Director,* Manufacturers Hanover Trust

12:30 LUNCH BREAK FOR SPEAKERS AND GUESTS

1:30 OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE NEW EXAMINATION GUIDELINES
"The OCC has alerted all bankers that they must prudently manage, measure and limit risk, and that enough capital be available to support exposure to such risk."
This session will discuss the OCC's policy on interest rate risk and how active the Office of Thrift Supervision is. The different topics which will be discussed include: risk matrix, gap reports, simulation, and duration.
Jennifer Johnson, *Developer and Administrator,* OCC

2:30 SECURITIZATION...WHEN AND HOW TO USE IT.
- Being able to securitize your own product
- Opening a secondary market
- The 144 Rule with regards to Private Placement

To Be Announced

3:30 LOWER COST OF MARKET AND THE INVESTMENT PORTFOLIO
1990 will be a year when your accounting department must be able to deal effectively with the new AICPA requirements on accounting for debt securities held as assets. A new standard expected to be issued by the AICPA with the support of the SEC and the FASB will require market value determination. The new standard will require allocating security investments among investment portfolio, held for sale, and trading account.
This session will help you understand the new requirements and the techniques required to successfully implement them.
Raymond Perry, *Partner,* Deloitte & Touche

4:30 ASSET LIABILITY MANAGEMENT INTO THE 1990'S.
This session will outline recent advances in the 1) measuring of embedded option risks, 2) measuring volatility risk exposure, 3) measuring index and credit spread risks, 4) integrating value decisions into the management process, 5) integrating risk-based capital guidelines into the risk management process.
Alden Toevs, *Principal,* Morgan Stanley & Co.

5:30 END OF SEMINAR

BANK PROFITABILITY REGISTRATION FORM

Please indicate which seminar(s) you would like to attend — (Please mail back entire form)

	SUMMER SESSION New York City The Vista Hotel Monday, July 16, 1990 — Friday, July 20, 1990	FALL SESSION I New York City The Vista Hotel Monday, Sept. 10, 1990 — Friday, Sept. 14, 1990	FALL SESSION II Los Angeles The Century Plaza Hotel Monday, Sept. 17, 1990 — Friday, Sept. 21, 1990
Day 1 **Innovative Customer Service and Sales Techniques for the Nineties**	☐ Monday, July 16	☐ Monday, Sept. 10	☐ Monday, Sept. 17
Day 2 **The Nuts and Bolts of Commercial Lending and Loan Pricing**	☐ Tuesday, July 17	☐ Tuesday, Sept. 11	☐ Tuesday, Sept. 18
Day 3 **Effective Strategies for Cost Management and Expense Control**	☐ Wednesday, July 18	☐ Wednesday, Sept. 12	☐ Wednesday, Sept. 19
Day 4 **Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks ***	☐ Thursday, July 19	☐ Thursday, Sept. 13	☐ Thursday, Sept. 20
Day 5 **Asset/Liability Management**	☐ Friday, July 20	☐ Friday, Sept. 14	☐ Friday, Sept. 21

* The day 4 conference "Bank and Cross-Industry Acquisitions of Thrift Institutions & Should Thrifts Be Converting to Banks," will also be offered in:

☐ **Atlanta,** The Ritz Carlton, Tuesday, Sept. 25
☐ **Chicago,** The Ritz Carlton, Tuesday, Oct. 9

GENERAL INFORMATION

TO REGISTER: Simply phone the registrar at (212) 943-2221 or complete the registration form and mail it with the fee to:
Director of Conferences, American Banker • Bond Buyer, One State Street Plaza, 31st Floor, New York, NY 10004

EARLY REGISTRATION IS RECOMMENDED: Please make checks payable to American Banker Conferences. Visa, Mastercard and American Express are acceptable.

TWO LOCATIONS:
NEW YORK, NY: ***Summer Session*** — Monday, July 16, 1990 - Friday, July 20, 1990 & ***Fall Session*** — Monday, September 10,1990 - Friday, September 14, 1990, Vista International Hotel, 3 World Trade Center, New York, NY 10048. Telephone (212) 839-9100.

LOS ANGELES, CA: ***Fall Session*** — Monday, September 17, 1990 - Friday, September 21, 1990, The Century Plaza Hotel, 2025 Avenue of the Stars, Century City, Los Angeles, CA 90067. Telephone: (213) 277-2000.

HOTEL ACCOMMODATIONS: Attendees are responsible for their own hotel arrangements, but we have discounted blocks of rooms put aside at all hotels for these attendees requiring sleeping accomodations. Please call the hotel and identify yourself as an American Banker Conference Attendee.

CANCELLATIONS POLICY: You may send a replacement at any time at no additional charge. Cancellations must be in writing. We regret that no cancellations will be accepted two weeks prior to the seminar.

DISCLAIMER: Speakers are subject to change and replacement without notice. There are no airline refunds if seminar is cancelled.

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BANK PROFITABILITY

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OUR DISTINGUISHED PANEL OF SPEAKERS

Day One:

Innovative Customer Service And Sales Techniques for the Nineties

Charles Buchta
Executive Vice President
First Interstate Bank

John Campi
Managing Director
Chatam Consulting Group

Michael Harden
Sales Manager
Citicorp Information Systems

John Goodman
President
TARP

Bruce Grieve
Vice President
American Express

Laura Gross
Director
American Express

Thomas Jacob
Senior Vice President
Chemical Bank

Dr. A. Lorri Manasse
President
The Cortland Group

Frank Martire
Chairman
Citicorp Information Res.

Joan Miazak
Senior Vice President
California Federal Bank

Dr. Nancy O'Brien
Marketing Consultant
Sales Devel.Assoc.

Pamela O'Shea
Vice President
City National Bank

Nicholas Papanikolaw
Vice President
Manufacturers Hanover

Charlotte Pollard
Vice President
Chase Manhattan Bank

Claire Schopler
Vice President
Chemical Bank

Dennis Stevens
Vice President
American Express

Day Two:

The Nuts and Bolts of Commercial Lending & Loan Pricing

Frank Abraham
Chief Credit Officer
Security Pacific National Bank

Gary Coelho
First Vice President
Security Pacific National Bank

Marshall Davidson
Managing Director
Kidder Peabody

David Fisher
Vice President
Loan Pricing Corp.

William Gregor
Partner
The MAC Group

Clifford Griep
Managing Director
Standard and Poor's

Hugh T. Kemprer
Managing Director
Morgan Guaranty

Constance Kennealy
Partner
Zeta Services Inc.

Edward McNally
Senior V.P.
National Westminster USA

Jonathan Moynihan
Managing Vice President
First Manhattan Consulting Group

Peter Offermann
Managing Director
Bankers Trust

Robert Okabe
Vice President
Kidder Peabody

Vjay C. Popot
Principal
Booz, Allen, & Hamilton, Inc.

Leland Prussia
Vice Chairman
Capitalcorp

Christopher Snyder
President
Loan Pricing Corp

Mark Solow
Senior Managing Director
Manufactureres Hanover Trust

Day Three:

Effective Strategies For Cost Management and Expense Control

James Bemowski
Principal
McKinsey & Co.

Michael Conover
President
Ryan Beck & Co. Pacific

Peter J. Doris
Senior Vice Pres.
Right Associates

Gary Gordon
Vice President
Paine Webber

Jane Hartung
Senior Vice President
Mellon Bank

Eleni Istavridis
Senior Vice President
Bankers Trust Company

Charles F. Kalmbach, Jr.
Senior Manager
Price Waterhouse

Patrick J. Loemputte
Partner
Price Waterhouse

James M. McCormick
President
First Manhattan Consulting Group

Charles H. Nobs
Senior Vice President
Bankers Trust Company

Harry H. Tatonis
Princial
Booz, Allen, & Hamilton, Inc.

Day Four:

Bank and Cross-Industry Acquisitions of Thrift Institutions
& Should Thrifts Be Converted to Banks

Peter Barnett
Partner
Arnold & Porter

John Buchman
Assistant Deputy Director
OTS

V. Gerard Comizio
Director Corporate & Securities Division
OTS

Vernon E. Fasbender
Director for Analysis
Comptroller of the Currency

Donald Kaplan
Managing Director
Kaplan Smith & Associates

Eric Luse
Partner
Brownstein Zeidman and Schomer

Edward T. Lutz
Principal
Lyons Zomback & Ostrowski

Samuel J. Malizia
Partner
Brownstein Zeidman & Schomer

John Mingo
Principal
BEI Golembe Inc.

Daniel Pearson
Director for Bank Supervision & Analysis
Comptroller of the Currency

Richard Reibman
Managing Director
Dean Witter Reynolds, Inc.

Kenneth Reilander
Managing Director
PaineWebber, Inc.

John Shockey
Partner
Milbank Tweed Hadley & McCoy

Roy Stoval
Director for Analysis
Comptroller of the Currency

William DJ. Sweet
Partner
Skadden Arps Slate Meagher & Flom

Donelle Ward
Director of Analysis
Comptroller of the Currency

Day Five:

Asset/Liability Management

Jennifer Johnson
Developer & Administrator
O.C.C.

Richard Laiderman
Vice President
Corporate Treasury
Bank of America

Peter G. Mantilla
Vice President
Bank of New York

Robert M. Mark
Managing Director
Manufacturers Hanover Trust Co.

Raymond Perry
Partner
Deloitte & Touche

Ronald D. Reading
Vice President
First Manhattan Consulting Group

Sanford Rose
Editor, Journal of Retail Banking
Senior Columnist, American Banker • Bond Buyer

Alden Toevs
Principal
Morgan Stanley & Co.

AMERICAN BANKER

VOL. CLV NO. 165 Thursday, August 24, 1990 155th year

New Rules May Erase Dividends Of Some Banks

By LINDA CORMAN

Bank analysts say some banks probably could not pay dividends if proposed federal rules limiting payouts to shareholders were enforced. But many of the analysts are split on whether regulators will truly enforce dividend cuts.

Some say regulators are more likely to skirt the letter of the new rules, which could take effect next January, by allowing some banks to pay dividends in the short run beyond what their earnings dictate. Other analysts argue that the new rules may ultimately have only a minor impact on banks already hard pressed to maintain dividend levels.

ANALYSIS: *Follow-up on the news*

At least one bank, Chase Manhattan, conceded last week that the rules under consideration by the Office of the Comptroller of the Currency and Federal Reserve Board would make it impossible to pay dividends. But Chase said dividends paid to its holding company by other banks would offset the shortfall of the lead New York subsidiary.

"The rules are only a problem for banks that are not earning their dividends," said Raphael Soifer, a bank analyst for Brown Brothers Harriman & Co., who said these account for a "fair number" of institutions.

Although Mr. Soifer said he did not know of specific banks in this category, other analysts said the larger banks that would need to cut dividends under the new rules include Shawmut Bank, Maryland National Bank, Midlantic National Bank, and Bank of Boston.

Accounting Changes

In essence, the proposed regulations are accounting changes that alter the calculation of capital and recent earnings, which are used to determine the capacity to pay dividends. Most banks may now pay dividends only if their losses do not exceed undivided profits and if dividends are paid out of recent earnings.

The new rules propose three basic changes: First, the net of provisions for loan-loss reserves and actual chargeoffs could not be included in recent earnings, as they now are. Also, undivided profits may no longer include the net of allowances for loan and lease losses and bad debt. And only earned portions of a bank's surplus capital funds could be counted as part of undivided profits.

In one harsh assessment of the regulators, J. Richard Freder-

See **RULES** *page* **18**

INSIDE NEWS

FINANCE

FIRST UNION Corp.'s stock price hit new yearly lows this week, prompting some analysts to declare a buying opportunity despite their lingering concerns about the impact of its last acquisition. *Page 24*

LONG-TERM bond yields have been rising steadily while short-term rates have remained relatively stable, but don't expect banks to jump to take advantage of the shift. *Page 24*

COMMUNITY BANKS

BANKERS' BANKS, like Pennsylvania Independent, are serving as dependable sources of support services for smaller institutions. *Page 2*

INTERNATIONAL



EROL AKSOY made the largest private investment ever by a Turkish national in the United States when he acquired control of Park Avenue Bank for $8 million this week. *Page 14*

BANCO CARACAS has requested Federal Reserve Board approval to acquire Eagle National Bank of Miami from Banco de Colombia. *Page 14*

MANAGEMENT

CURTIS REIS went from a plush position at Crocker National to the hands-on job of turning around Alliance Bank in Culver City, Calif. *Page 10*

COMMENT

BANKS SHOULD BEGIN planning now to comply with the Americans with Disabilities Act, writes Anne Wallace. *Page 4*

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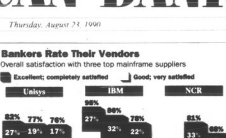
Bankers Rate Their Vendors

Overall satisfaction with three top mainframe suppliers



Bases: 239 mainframe-owning banks in 1990, 215 in 1988, 239 in 1987; percentages are rounded

Source: American Banker Technology Survey

Banks Making Greater Demands On the Top Computer Vendors

By TERI ROBINSON
Fourth of a Series

As bankers intensify their search for computing power and efficiency, they are becoming increasingly critical of the service and support provided by the major computer companies, recent *American Banker* technology surveys indicate.

Asked to rate the vendors on overall satisfaction and several service categories, a majority of computer owners gave the three dominant equipment companies good or excellent grades. But bankers have become less inclined to give the highest rating than they were when polled in 1987 and 1988.

According to industry observers, the results reflect a greater sophistication among bankers and a skepticism that vendors provide efficient and reliable performance at a reasonable price.

Big Blue Holds Lead

International Business Machines Corp., the company identified as primary mainframe supplier by two-thirds of the banks with at least $250 million in deposits, is also the most praised of the big three vendors. (The others are Unisys Corp. and NCR Corp.)

The percentage of bankers who said they are very or completely satisfied with IBM to-

See **VENDORS** *page* **3**

C&S Apologizes For Faulty Notice Of Loan Defaults

By KENNETH CLINE

ATLANTA — Ten thousand customers of Citizens and Southern Corp. received a rude shock late last week when the bank notified them they were in default on their home mortgages.

The customers, it turns out, were merely late with payments.

The Atlanta-based bank said the erroneous notices were mailed because of a computer mistake, which grabbed headlines in the local paper on Wednesday. Confronting a public relations disaster, the bank quickly owned up to the error.

Corrections Being Sent

The bank apologized on Wednesday to the not-so-delinquent customers, who will receive corrections in the mail. Customers who call the bank using a phone number listed on the default notice are also being told to disregard the damning letter.

"There was an error in not stopping those letters going

See **C&S** *page* **11**

London Firm Sees Healthy Outlook for U.S. Banks

By JAMES R. KRAUS

NEW YORK — The U.S. banking industry is in far better shape than most analysts believe, according to IBCA Ltd., a prominent London-based credit rating agency.

Assigning a far more positive outlook than Moody's Investors Service or Standard & Poor's Corp., the leading U.S. credit rating agencies, IBCA said the impact of current problems on U.S. banks has been overemphasized and favorable developments have been overlooked.

"Some banks will not survive the next recession, but we do not conclude that the whole U.S. banking industry is now teetering on the edge of a precipice," IBCA said in a report issued Wednesday.

Widening Gap in Ratings

The report acknowledged the growing discrepancy between the British rating agency's assessment of U.S. banks and the more negative position adopted by Moody's and, to a lesser degree, Standard & Poor's. As a result, it said, a greater than nor-

See **RATING** *page* **21**

Dueling Advertisements



In a play for merchant business, American Express has responded to Visa's ad (above) with one strikingly similar in format and tone (below). Both companies are staging their war for retailers' loyalty in public, running ads in major business publications.

See story on page 8



PEOPLE *in the news*

Hot Prospect for Fed Post Busy in White House Job

By LINDA CORMAN

John B. Taylor, a White House economic adviser who is widely mentioned as the likely successor to former Federal Reserve Board Vice Chairman Manuel H. Johnson, is neither confirming nor denying his interest in the job.

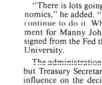
"The job I am doing now is very interesting, important and exciting," said Mr. Taylor, a member of the President's Council of Economic Advisers.

"There is lots going on in terms of the budget, international economics," he added. "I like this job. As far as I know, I am going to continue to do it. What's more important is to get a good replacement for Manny Johnson, who did a good job." Mr. Johnson resigned from the Fed this month to join the faculty of George Mason University.

The administration has been silent on who the nominee might be, but Treasury Secretary Nicholas F. Brady, who will have a major influence on the decision, said recently the appointment is likely early in the fall.

Influential in Areas Affecting Banking

If he were overlooked for the empty seat at the Fed, Mr. Taylor, 43, could hardly be said to be relegated to inactivity. During his first year with the Council of Economic Advisers, Mr. Taylor, who earned a PhD in economics at Stanford University and was a profes-



John B. Taylor

sor there and at a number of other universities, has been a major force in areas affecting banking.

Under the direction of Council Chairman Michael Boskin, Mr. Taylor has been active in financial and trade negotiations with Japan, the current round of negotiations sponsored by the General Agreement on Tariffs and Trade, and the administration's successful effort to move the European Community's second international bank directive away from the so-called reciprocity standard and toward a national treatment approach.

In one of the numerous interagency collaborations in which the council is involved, Mr. Taylor and his colleagues are also contributing to the Treasury Department study of deposit insurance and financial services reform. The council is writing an assessment of private alternatives to federal deposit insurance and of how capital should be defined for the purposes of setting capital standards.

Engrossed as he is in council activities, Mr. Taylor nevertheless has a bird's-eye view of what might be his new home. The Council of Economic Advisers keeps in close touch with the Fed through frequent meetings with the governors and staff.

Served on Greenspan's Staff

Even though the council has, with other members of the administration, repeatedly urged the Fed to cut interest rates, Mr. Taylor displays no discomfort over being a part of the chorus. He has extra cause for being sensitive; not only might he join the Fed but he worked closely with Chairman Alan Greenspan as a senior staff member for the council from 1978-1981 – when Mr. Greenspan was its chairman – and later as a member of his New York consulting firm, Townsend-Greenspan.

Mr. Taylor said the administration's calls for lower interest rates should not be viewed as a sign of friction between the agency and the executive branch. "We are supportive of the Fed's inflation goals. It is the surest way to sustain economic growth," he said. □

NEWS *briefs*

Setback for Crossland

NEW YORK — Crossland Savings suffered a setback as the Office of Thrift Supervision disapproved its capital plan and denied its application for an exemption from capital requirements of the thrift-reform law.

The Brooklyn-based thrift, the second-largest in New York City, had $12.8 billion in assets on June 30. It contended that it would have met the requirements had it been allowed to reclassify preferred stock as common stock.

Crossland, which recently terminated an agreement for a capital infusion from a company affiliated with the Chicago-based Pritzker family, said Wednesday that the OTS move would mean "greater restrictions" including a prohibition on asset growth and limits on new loans and investments.

Carolina Merger Deal

COLUMBIA, S.C. — South Carolina National Corp. has agreed to acquire for $105,000 the stock of Unity Bancorp Inc., a North Carolina holding company for Old Republic Savings Bank. Unity and Old Republic are both inactive companies, with no loans or deposits.

South Carolina National Corp. said it plans to hold Unity as a wholly owned subsidiary. Old Republic would operate as a thrift subsidiary of Unity. □

Pennsylvania Bankers' Bank Exemplifies a Vibrant Breed

By A. JOSEPH NEWMAN JR.
Special to the American Banker

CAMP HILL, Pa. — Correspondent banking, the institutional business that has fallen into decline at many money-center and regional banks, is very much alive among some independent banks that have banded together to ensure a dependable source of support services.

More than 2,800 of the small- or institutions are customers of their correspondent service pro-

Sizing Up the Bankers' Banks
Dollar amounts in millions

State	Banks	Capital	Assets
Texas	904	$11.7	$204.4
Georgia	269	6.0	95.7
Louisiana	148	6.7	92.0
Wisconsin	224	5.0	65.4
Pennsylvania	107	4.0	64.5
Florida	213	5.4	99.1
10 others	1,269	23.9	193.0
Totals	2,834	$62.7	$774.1

Source: Bankers' Bank of Wisconsin

viders, which are active in 16 states and are known as bankers' banks.

"We try to provide a growing number of basic correspondent banking services, at the lowest possible price and with no barriers to entry," said Frank Kaminski Jr., president and chief executive officer of Pennsylvania Independent Bank, which is typical of the bankers' banks that came of age in the 1980s.

Pennsylvania Independent, the sixth largest of the bankers' banks in terms of capital, with $4 million, will celebrate its seventh anniversary in November. Mr. Kaminski, 42, its chief executive from the start, has a full-time staff of 17 and knows the territory: He formerly headed First Pennsylvania Bank's regional correspondent banking division.

As a bankers' banker, Mr. Kaminski finds himself in competition with traditional big-city correspondent institutions. But he said that with many community bankers viewing large institutions as increasingly remote and less concerned with community banks' needs, a bankers' bank can gain a competitive edge.

Collectively, the 16 bankers' banks add up to a potent competitive force. At midyear 1990, their capital came to $62.7 million, supporting assets of $774.7 million, according to Helge Christensen, who tracks the group as president of the Bankers' Bank of Wisconsin, Madison. A total of 2,834 community banks use them.

In Pennsylvania, Mr. Kaminski competes for balances, loan participations, and such services as check clearing, safekeeping, portfolio and performance analysis, buying and selling federal funds, staff insurance, and charge card programs, either directly or as agent for third-party suppliers.

Depending on the mix of services, Mr. Kaminsky said, "on average, we save our banks up to 50% of the cost" in fees or balances of what he refers to as "regular correspondents."

Smaller-Scale Perks

In selling itself, the Pennsylvania bank relies on the traditional tools of the correspondent game – personal visits, football tickets, golf outings, and other entertainment – but "on a less grand scale," Mr. Kaminski said.

Pitching his bank and its stock – its customers are its owners – Mr. Kaminski also tells community bankers, "We want to be there for you in the future. We were created to provide a safe haven."

Community bankers often perceive that big-city bankers are slowly becoming part of the competition as they expand into

See BANKERS page 5



John Downey
Office of Thrift Supervision

Ryan Chooses John Downey for Key OTS Post

By DEBRA COPE

WASHINGTON — John Downey, a 23-year veteran of the banking regulatory system, has been tapped to oversee the Office of Thrift Supervision's regional examination and supervision force, the agency announced Wednesday.

As OTS's deputy director for regional operations, Mr. Downey, 53, will preside over a massive overhaul that will streamline the agency's 12 districts into five regions.

As deputy director, he rounds out OTS Director T. Timothy Ryan Jr.'s triumvirate of key policy advisers, which includes Harris Weinstein, chief counsel, and Jonathan Fiechter, principal deputy director for Washington operations.

Four People Tried Out

"He is a real professional, he has done an excellent job, and I have confidence in him," Mr. Ryan said of Mr. Downey in a telephone interview. Mr. Ryan

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TECHNOLOGY/OPERATIONS NEWS

Banks Want More from Top Computer Vendors

Continued from page 1

taled 78%, compared with 76% for Unisys and 68% for NCR.

Top grades for IBM have fallen from 27% in 1987 to 22% this year. For Unisys the decline was from 27% to 17%.

NCR's top ratings, which jumped from 13% in 1987 to 33% in 1988, dropped back to 18%. But that still leaves NCR the only vendor that looks better now than it did three years ago. With only 22 NCR users in the *American Banker* survey sample, these results have a high degree of statistical variability and are not as reliable as the IBM or Unisys data.

According to the telephone survey of 333 senior operations officers, IBM held on to the No. 1 position that it has enjoyed since the 1950s and that showed up in the initial *American Banker* technology surveys in 1987 and 1988. The survey sample this year included 239 banks that own mainframe computers. The survey was conducted by Trans Data Corp., Wayne, Pa., a research affiliate of the *American Banker*.

IBM's market share among all the banks in the survey, with a minimum of $75 million in deposits, was 44%, followed by Unisys at 15% and NCR at 7%.

Large Banks Tell Tale

More indicative of IBM's dominance were the responses of larger banks, with at least $250 million in deposits: 67% called Big Blue their primary mainframe vendor, compared with 20% for Unisys. NCR was identified by 7%, but its strength is in the smaller-bank market; 17 of the 22 NCR customers in the survey sample have less than $250 million in deposits.

Amdahl Corp. garnered 3% of the banks with more than $250 million in deposits, and other vendors, including Digital Equipment Corp. and Hitachi Ltd., shared 7%.

Jack Steeg, assistant vice president in NCR's financial division, admitted that the company has lost ground in the group with over $250 million in deposits. "Those markets are typically markets being merged and bought up," he said. "We've definitely lost some share."

NCR Disputes Figures

The survey showed NCR holding on to 100% of the banks with $75 million to $250 million in deposits, which Mr. Steeg said is below par for the company. "Typically, that's a very good market for us; we would expect a larger percentage than that."

O.G. Greene, a Unisys official, also took issue with the market share figures. "Today, nationwide, we hold 38% of the market in thrifts alone" for host-based systems. Thrifts were not included in the group surveyed.

"Overall, we're closer to the 20% to 30% range," he said.

The survey results also indicated that there is still a large, seemingly untapped market for vendors to exploit. It is surprising, in an industry considered to

Users seemed to be content with hardware maintenance.

be on the leading edge of technology and with the costs of data processing coming down, that 27% of the institutions do not have a host computer.

Among institutions with deposits of $75 million to $100 million, 42% do not have host computers. Only 15% of those bigger than $2 billion in deposits lack a mainframe, and many of those are presumably part of larger holding companies that supply data processing from a central site.

The figure may indicate that a number of banks are using increasingly powerful minicomputers and personal computers where mainframes once were required, but Mr. Steeg of NCR has a different theory: The institutions are relying more and more on independent service bureaus.

"NCR has a real good market in that," Mr. Steeg said, claiming that of the 12,000 or so banks with annual deposits up to $750 million, about a third have data centers.

Mark Mauriello, manager of financial services industry operations for IBM, agreed that a large number of the financial institutions that do not have host systems are heavily serviced.

Servicing Advantages

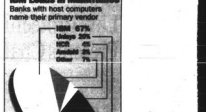
While he sees many banks bringing their computer services in-house, Mr. Greene of Unisys said many still see advantages to being serviced by another bank or service bureau.

"They don't have to deal with staffs; they don't have the capital investment," he said, noting that the trade-offs are flexibility and control. Mr. Greene sees cost saving as the prime reason for financial institutions to turn to off-site servicing.

But Mr. Steeg of NCR believes the choice boils down to a difference in philosophy among banks. "You have to give up some control. In the past, there has been a slight variance in cost," but that is not generally the guiding factor in deciding whether to keep information systems in-house or to opt for a data center solution.

NCR is probably one of the leading data services providers – one of the top three in country," he claimed.

In the satisfaction ratings, users seemed to be content with



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Most Banks Buck 'Trend' away from Mainframes

Although much has been said about "downward migration" – the switch from large mainframe computing to networks dominated by minicomputers – not all bank operations experts are eager to make the move.

The 1990 *American Banker* technology survey found that 89% of senior operations officers said their institutions were not moving mainframe applications to smaller systems.

Only 7% had plans to move to personal computers or minicomputers by the end of 1991.

Larger Banks More Likely to Switch

A greater percentage of banks with deposits of more than $2 billion were planning such switches, however, with 17% in that group saying they would move some applications from a mainframe to a smaller system before 1992.

For those with downsizing plans, the personal computer seems to be the favored alternative, slightly edging out the minicomputer. Of the respondents who are either planning to shift computing strategies or now making the move away from a mainframe, 52% said they would take operations down to the PC level, and 48% had chosen minicomputers.

Meanwhile, one banker in four is taking the opposite tack and migrating from small computers to the more powerful mainframes.

The results do not reflect what is widely considered a trend among computer users. Computer vendors and users alike, however, are contending with the downward shift from mainframes to small systems – and from centralized to distributed computing.

At a Boston consulting firm, more than 70% of clients were recently trying to downsize to local-area networks – which connect personal computers – in certain business units. The results of a Sierra Group study showed LAN servers to be the fastest-growing segment of the computer industry. It predicted the number of those servers would increase 147% in 1990.

Because of huge transaction volumes, financial institutions may find it difficult to abandon host computers for PCs or minicomputers.

Shift Trickier at High Volumes

Peter Crowell, president of Chase Manhattan Corp.'s access services unit, said he expects more users to switch from host-based systems. He called the concept a good one but warned that the idea breaks down as size increases.

Mark Mauriello, manager of financial services industry operations at International Business Machines Corp., said, "There is no question that personal systems are growing in importance, but we don't see that as a detriment to the mainframe." — Teri Robinson

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COMPUTER ASSOCIATES

COMMENT / *By Anne Wallace*

Law Protecting the Disabled Presents Challenge to Banks

Now that President Bush has signed the Americans with Disabilities Act, the financial industry faces the task of complying with a major new civil rights law.

The ADA has not received a great deal of attention in the banking industry, possibly because the act's prohibition of discrimination in employment will not require major changes for banks and thrifts. For more than 15 years, they have been prohibited from discriminating against the disabled in employment.

However, Title III of the ADA, which outlaws discrimination against individuals with disabilities by public accommodation imposes significant new responsibilities on the financial industry.

Significant Penalties

The penalties for violating Title III are significant. A court may issue an injunction against a financial institution found to

"It is clear that compliance with the ADA will be costly and cause major changes in the way all financial service providers do business."

have discriminated against a disabled individual, ordering it to eliminate barriers to access.

For convenience, I sometimes refer to a bank when discussing the impact of Title III, but the law also applies to thrifts, credit unions, finance companies, and all other financial service providers.

Although it is impossible to predict the impact of Title III on any one institution, it is clear that compliance with the ADA will be costly and will cause major changes in the way all financial service providers do business.

The ADA does not take effect for 17 months, but there are two reasons why early attention to this new law is important. First, the financial industry should take an active role in writing the regulations to implement Title III. The ADA directs the Justice Department, an agency that is not as familiar with the financial industry as, for example, the Federal Reserve Board, to write implementing regulations within 12 months.

Part of Long-Range Planning

The second reason for concern now is that 17 months is barely enough time to factor into an institution's strategic plans the changes that the ADA will require in services, forms, and physical facilities. Compliance with the ADA should be part of an institution's long-range planning.

The purpose of the ADA is to provide a comprehensive federal prohibition of discrimination against individuals with disabilities and to bring these individuals into the economic and social mainstream of American life.

Hearings on the ADA indicated that the 43 million disabled Americans experience staggering levels of unemployment and poverty; they lead isolated lives and do not frequent places of public accommodation. In addition, the transportation and telecommunications that are so essential to daily American life are largely out of their reach.

The ADA was not aimed solely at the financial industry. In fact, banks, thrifts, credit unions, and finance companies make up only a small corner of the vast category of "public accommodations" to which Title III applies.

Between Dry Cleaners, Barbers

Indeed, banks find themselves in strange company, sandwiched between dry cleaners and barber shops in the definition of "public accommodation" in section 301 of the Act. Yet the definition of public accommodation is a good place to start when trying to understand the scope and impact of the ADA.

Financial institutions are in the same category as every other service provider on Main Street. Like gas stations, beauty shops, and laundromats, financial institutions must enable people with disabilities to fully enjoy the services that they offer.

To many people, the word "disabled" means a wheelchair, but the ADA's definition of disability is much broader. Section 3 of the Act defines disability as a physical or mental impairment that substantially limits one or more of an individual's major life activities, such as walking, seeing, hearing, speaking, or learning.

Minor Injuries Don't Count

A minor, temporary injury, such as a broken arm, would not qualify as a disability because a broken arm would not substantially limit major life activities. However, orthopedic, visual, speech, and hearing impairments that are serious enough to substantially interfere with walking, seeing, or hearing would satisfy the ADA's definition of disability.

To understand the scope of Title III, one has to identify all the services a particular institution offers to the public. Deposit accounts of all kinds, such as checking, savings, and CDs, as well as all types of loans, from credit card, mortgage, and auto loans to commercial loans are covered by Title III.

Safe deposit and wire transfer services, discount brokerage, telephone banking, and automated teller machines must also be accessible to people with disabilities.

While the principal compliance focus will be on the retail side, banks cannot ignore their commercial operations. The law does not apply just to services for personal, family, or household purposes. Commercial loans and services like cash management are subject to the ADA as well.

Thou-Shalt-Note

The substantive provisions of Title III begin with a general prohibition of discrimination. Section 302(a) provides that "no individual shall be discriminated against on the basis of disability in the full and equal enjoyment of the goods, services, [or] facilities . . . of any place of public accommodation."

Section 302(b) sets forth five rules that identify specific discriminatory conduct. The first provides that a place of public accommodation, such as a bank, may not impose eligibility criteria that screen out or tend to screen out individuals with disabilities from fully and equally enjoying the bank's services or facilities.

Examples Hit Home

The Senate report on the ADA provides an example that strikes close to home: a drugstore that accepts a check in payment only if the customer presents a driver's license for identification would violate section 302(b). The rationale is that many individuals with visual and motor disabilities do not have a driver's license. Therefore, requiring a driver's license tends to exclude these persons from using the facilities.

Obviously, financial institutions will have to consider carefully their reliance on a driver's license as a form of identification and review other lending and security qualifications that might unintentionally screen out people with disabilities.

Section 302(b)(2)(ii) is likely to have the most direct cost impact on financial institutions and to cause the most confusion. This paragraph provides that discrimination includes a failure to provide the auxiliary aids and services necessary to enable individuals with disabilities to take advantage of the financial institution's services, unless the institution can demonstrate that providing the aids and services would fundamentally alter the service or would result in an "undue burden."

Aids that Must Be Provided

The definition of "aids and services" includes, but is not limited to, documents in braille for blind people, sign language interpreters, and taped texts and telecommunication devices for the deaf (TTDDs). Financial institutions will clearly have to make their services accessible to individuals with disabilities by providing application forms and agreements in braille, by offering the services of interpreters, and by making ATMs accessible to people with disabilities.

But what are the limits on these responsibilities and what does "undue burden" mean?

The legislative history states that a restaurant would not have to provide its menu in braille if a waiter was available to read the menu to a blind person. This suggests that a bank would not have to prepare a brailled version of every document used in its branches if documents could be read to blind applicants.

Making ATMs accessible to people with disabilities is sure to test the "undue burden" standard. If an institution owns 20 ATMs, does the purchase (at a substantially higher price than a standard ATM) of 20 new ATMs that can be lowered hydraulically to wheelchair height impose an undue burden? Some would say yes, and argue that only "key" ATMs must be moved to wheelchair height or replaced.

Interpreting 'Undue Burden'

It is important to note that there is no universal definition of "undue burden." It means significant difficulty or expense, but this standard is applied on a case-by-case basis, taking into account the size of the institution, the service in question, and the nature and cost of the aid or device.

"Disabled Americans experience staggering levels of unemployment and poverty."

In addition, the fact that providing a particular aid or device imposes an undue burden does not relieve a financial institution of the duty to provide an alternative auxiliary aid that would not impose an undue burden.

Another significant provision is section 302, which requires public accommodations to remove architectural barriers and communication barriers that are structural in nature from existing facilities if the removal is "readily achievable."

"Readily achievable" is a lower standard than "undue burden." It is defined in section 301(9) as "easily accomplishable without much difficulty or expense." Here, too, the ADA constructs a sliding scale, because in deciding whether a particular action is readily achievable, the size of the institution and the nature and cost of the action are considered. In other words, more will be expected of larger and more prosperous institutions.

New Construction

The last substantive provision of Title III that applies to financial institutions is section 303 dealing with new construction. It provides that any building available for first occupancy 30 months after the effective date of the ADA must be "readily accessible to and usable by individuals with disabilities" unless doing so is structurally impracticable.

This section of the act is in-

See **COMMENT** *next page*

Ms. Wallace is of counsel, Arnold & Porter, Washington.

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Bankers' Bank Taps Community Markets in Pennsylvania

Continued from *page 2*

smaller communities.

Passage of statewide banking legislation in Pennsylvania in 1982 gave a major impetus to the formation of the bankers' bank. It was originally sponsored by the Independent Bankers Association of Pennsylvania, which fought the branching bill.

Mr. Kaminski and the bank's other calling officer, Robert Straghan, formerly of Meridian Bancorp., Reading, have another selling point.

Most Users Own Stock

Most of their 107 "respondents," or user banks, are stockholders. A few of the 121 current shareholders, up from 62 initially, are not users now. They tend to be larger banks that retained shares inherited in acquisitions.

"We never try to talk a bank into terminating a relationship" with a big-city correspondent, said Mr. Kaminski, acknowledging that many of his customers are loyal to banks in Philadelphia, Pittsburgh, or even New York. "We do try to show how [community banks] can save money."

When Pennsylvania Independent Bank succeeds with an account, the user tends to continue its big-city relationships but reduces the number and balances.

The fact that only banks can do business with a bankers' bank, Mr. Kaminski said, is "our strength and our weakness."

Pennsylvania Independent has been profitable in every year of operation and has declared a dividend in the past two years.

His customers are easier to talk to because they understand his problems. "But they are also sophisticated enough not to keep idle balances."

Profit Measures Modest

High costs of funds, competitive prices, and narrow margins explain modest earnings ratios of bankers' banks like the one in Pennsylvania – which had a return on assets of 0.46% in 1989 and 0.52% in 1988.

Nonetheless, Pennsylvania Independent has been profitable in every year of operation and has declared a dividend in the past two years.

Pennsylvania Independent Bank's expansion plans call for continued efforts to reach beyond the state line. One New Jersey bank already owns stock, and one in New York is a respondent that holds no shares.

Last year, it acquired Investment Management Services, Bath, Pa., which provides securities brokerage services, including transaction processing, safekeeping, and analysis. The division now accounts for 25% to 35% of pretax earnings.

The bank has just launched a service to confirm that securities offered as loan collateral are not stolen. It is exploring users' interest in joining an automated teller machine network or obtaining ATM processing services under a "group contract" from EDS Corp. Some ideas have been rejected, including a money market mutual fund and an auto-leasing service. □

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COMMENT

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with disabilities to get to, enter, and use a facility. While this does not necessarily require that every part of a facility be accessible, section 303 contemplates a high degree of convenient access to parking, entrances, and the public areas where services are offered to the public.

As noted at the outset, the ADA is a civil rights law, and the enforcement provisions parallel those provided by the Civil Rights Act of 1964. Individuals with disabilities who believe they have been discriminated against can sue a financial insti-

"Enforcement provisions parallel those provided by the Civil Rights Act of 1964."

tution for injunctive relief or for an order requiring the financial institution to provide an auxiliary aid or service.

Section 308(b) of the ADA authorizes the attorney general to sue institutions that are engaged in a pattern or practice of discrimination against individuals with disabilities. The act also authorizes the court to issue an injunction requiring a financial institution, for example, to modify its ATMs to make them accessible by wheelchair.

At the attorney general's request, the court may impose civil penalties not to exceed a first violation and $100,000 for any subsequent violation. The ADA prohibits, however, the award of punitive damages for violations of Title III.

Financial institutions must start taking the ADA into account today in their construction, purchasing, and planning decisions or risk costly litigation 17 months from now. □

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TRIGGER *dates*

A Look at Laws Granting Interstate Powers to Thrifts

In response to numerous requests from readers, this list of interstate thrift laws is gradually being expanded to include reference numbers identifying the laws. If you can supply copies of any of these laws, or if there is other information you would like to see included in future listings, please write to Robert Paul Molay at the American Banker, 1 State Street Plaza, New York, N.Y. 10004.

ALABAMA: The Alabama Regional Reciprocal Savings Institutions Act (87-152), effective July 1, 1987, allows FSLIC-insured thrifts and thrift holding companies from within the defined Southern Region (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia) to acquire Alabama thrift institutions on a reciprocal basis.

ALASKA: In 1982, the state passed nationwide interstate powers for thrifts along with legislation permitting interstate banking for commercial banks. Reciprocity is not required.

ARIZONA: Since Oct. 1, 1986, thrifts from any state have been eligible to acquire Arizona thrifts. No reciprocity is required. The legislation allows out-of-state thrifts to set up de novo operations in Arizona after **June 30, 1992.** Also, any thrift in the state formed after May 31, 1984, has protection from hostile out-of-state bidders until it is five years old.

ARKANSAS: Legislation signed in February 1987 allows thrifts in Alabama, Florida, Georgia, Louisiana, Maryland, Missouri, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia to acquire Arkansas thrifts on a reciprocal basis.

CALIFORNIA: Since July 1, 1987 – under California Financial Code Section 10010 – thrifts from Alaska, Arizona, Colorado, Hawaii, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington have been allowed to buy California thrifts on a reciprocal basis. Full nationwide reciprocal banking is permitted by code Section 10000 after **Jan. 1, 1991.**

COLORADO: SB121 provides that from July 1, 1988, until Jan. 1, 1991, a Colorado thrift may be acquired by a thrift from any contiguous state that has generally reciprocal laws. Full, unrestricted interstate mergers or acquisitions of Colorado thrifts are allowed after **Jan. 1, 1991.** Even after this date, no acquisition or merger will be allowed if it creates an entity that would control more than 25% of the aggregate federally insured deposits of banks, thrifts, and other financial institutions in Colorado.

CONNECTICUT: Legislation passed in 1983 allows thrifts from Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont to buy Connecticut thrifts on a reciprocal basis.

DELAWARE: Since Jan. 1, 1988, savings and loans from Maryland, New Jersey, Ohio, and Pennsylvania have been allowed to acquire Delaware thrifts on a reciprocal basis only. Thrifts from Virginia and the District of Columbia may enter the state when their legislatures incorporate thrifts in their respective regional compacts. After **June 30, 1990,** Delaware will allow thrifts from any state in the union to enter the state on a reciprocal basis. An opt-out provision permits stockholders of any in-state institution to exempt itself from interstate acquisition before or after the effective date of the legislation.

DISTRICT OF COLUMBIA: Effective Oct. 12, 1988, D.C. Law 7-175 permits a regional thrift or thrift holding company to acquire a District of Columbia thrift or thrift holding company that has been in operation two years or more, if permitted by the home state of the acquirer. Approval of the D.C. superintendent is required, subject to override by the District Council. Protection against hostile takeovers is provided. Branching is also permitted, provided that a proposal is filed for meeting deposit and credit needs of the community. Such branches must cash government checks for nonaccount holders within target development areas. This law does not apply to federal associations.

FLORIDA: Since Jan. 1, 1987, thrifts from any state in the union have been permitted to acquire Florida thrifts on a reciprocal basis. The law was passed in 1986.

GEORGIA: The state passed regional, reciprocal interstate legislation for thrifts in early 1987. The law allows thrift holding companies in Alabama, Florida, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia to acquire Georgia thrift holding companies.

HAWAII: State laws make no provision for interstate acquisitions.

IDAHO: Banks and thrifts from any state are permitted to buy Idaho banks and thrifts, under a law that took effect Jan. 1, 1989. The March 1987 law does not hinge on reciprocity.

ILLINOIS: Illinois Public Act 85-313 (Senate Bill 213), effective Sept. 10, 1987, allows an out-of-state savings and loan holding company to control or own more than 5% of an Illinois thrift holding company if the acquiring company's home state provides reciprocal privileges.

INDIANA: Legislation effective Sept. 1, 1987, (IC 28-4-8-1) permits savings and loans in the contiguous states of Illinois, Kentucky, Michigan, and Ohio to acquire Indiana thrifts on a reciprocal basis. No out-of-state association may acquire more than 15% of thrift deposits in the state.

IOWA: Since May 1987, savings and loans from any state have been permitted to acquire thrift institutions in Iowa on a reciprocal basis. The legislation reinterprets the meaning of the term "association" to include "foreign" associations.

KANSAS: A law effective April 23, 1987, allows any state-chartered savings and loan association with a home office in Kan-

See **TRIGGER** *next page*

TRIGGER *dates*

Continued from *page* **6**

sas to operate branch offices in any other state. The law also provides reciprocal privileges for state-chartered savings and loans based outside Kansas.

KENTUCKY: House Bill 497, signed into law by the governor March 31 and effective July 15, 1988, allows any holding company in or out of state to acquire three Kentucky thrifts per year until **July 15, 1993,** when unrestricted reciprocal interstate thrift acquisitions will be permitted. No company will be allowed to control more than 15% of savings and loan deposits in Kentucky.

LOUISIANA: Full reciprocal interstate powers for thrifts went into effect Jan. 1, 1989.

MAINE: Nationwide reciprocal interstate powers for thrifts have been in effect in Maine since 1975, as provided by Title 9-B of the Maine Revised Statutes Annotated, Section 1013. In 1984, the law was amended to drop the reciprocity requirement.

MARYLAND: The state's interstate law, effective July 1, 1987, allows savings and loans from Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia to acquire Maryland thrifts on a reciprocal basis.

MASSACHUSETTS: Since 1982, thrifts in Maine, Connecticut, Rhode Island, Vermont, and New Hampshire have been permitted to acquire Massachusetts thrifts on a reciprocal basis.

MICHIGAN: Thrifts from any state may acquire or merge with Michigan savings and loans on a reciprocal basis under a bill that took effect July 7, 1987.

MINNESOTA: Since July 1, 1986, savings and loans from Iowa, North Dakota, South Dakota, and Wisconsin have been permitted to acquire Minnesota savings and loans or set up branches in the state on a reciprocal basis. MSA 51.058, effective in 1988, added Idaho, Illinois, Kansas, Missouri, Montana, Nebraska, Washington, and Wyoming to the list.

MISSISSIPPI: Section 81-12-187 of the Mississippi Code of 1972 is being interpreted by the state's five-member board to mean that thrifts from any state are allowed to acquire Mississippi savings and loans on a reciprocal basis, subject to board approval.

MISSOURI: Thrifts from Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee may acquire Missouri savings institutions on a reciprocal basis. The law was passed in 1986.

NEBRASKA: Revised Statutes of Nebraska 8-901, passed in 1988, authorize reciprocal interstate thrift acquisitions for a 10-state group effective Jan. 1, 1990: Wisconsin, Minnesota, North Dakota, Montana, South Dakota, Wyoming, Colorado, Kansas, Iowa, and Missouri. To date, only South Dakota, Wyoming, Colorado, and Missouri meet Nebraska's reciprocal test. Full nationwide reciprocal acquisitions will be permitted after **Jan. 1, 1991.**

NEVADA: Nonreciprocal nationwide powers for thrifts went into effect Jan. 1, 1989. After **July 1, 1990,** out-of-state thrifts are permitted to operate de novo institutions in the state.

NEW HAMPSHIRE: Since Sept. 1, 1987, thrifts in Connecticut, Maine, Massachusetts, Rhode Island, and Vermont have been permitted to acquire New Hampshire savings and loans. The legislation, passed in May 1987, also has a provision that would allow New Hampshire thrifts to avoid out-of-state acquisitions by "opting out" of the interstate law every two years.

NEW JERSEY: On July 30, 1987, the state passed a two-phase process for the introduction of reciprocal thrift interstate banking. The initial regional phase, effective June 15, 1988, opened New Jersey to thrifts and thrift holding companies from Ohio, Pennsylvania, and West Virginia on a reciprocal basis. The second phase became effective Nov. 15, 1988, triggered by reciprocal laws in Arizona, Idaho, Kentucky, Maine, Michigan, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Utah, West Virginia, and Wyoming. The banking commissioner has determined that these states now meet New Jersey's requirements for reciprocity and that 4 of those 13 are among the 10 largest thrift deposit states. New Mexico and Louisiana have been deemed reciprocal states effective Jan. 1, 1989.

NEW MEXICO: Effective Jan. 1, 1989, an out-of-state thrift or thrift holding company may acquire any New Mexico thrift or thrift holding company that has been continuously operated for at least five years. (38th Legislature, 2d session, laws of 1988, chapter 5, Senate bill 70, as amended.) There are no reciprocity requirements or regional restrictions. De novo entry is allowed **July 1, 1992.**

NEW YORK: A 1982 law permitted out-of-state commercial bank holding companies from anywhere in the United States to enter New York on a reciprocal basis, for a five-year experimental period. In 1987 this law was made permanent and extended to cover thrifts.

NORTH CAROLINA: Under a 1984 law, thrifts from Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia may enter this state on a reciprocal basis.

NORTH DAKOTA: Has no state-chartered savings institutions.

OHIO: Nationwide reciprocal thrift powers went into effect Oct. 17, 1988.

OKLAHOMA: A June 1986 law states that any out-of-state savings institution may acquire and operate an unlimited number of Oklahoma savings institutions. The in-state thrifts, however, must be at least five years old before they can be acquired.

OREGON: Legislation passed in 1985 allows thrifts from any state to acquire Oregon savings and loans. No reciprocity is required. However, federally chartered institutions wishing to operate de novo institutions in Oregon must have headquarters in states with reciprocal legislation.

PENNSYLVANIA: Since December 1986, thrifts from Delaware, Indiana, Kentucky, Maryland, New Jersey, Ohio,

See **TRIGGER** *page* **9**

How they spend it is their business.



Last year, American businesses spent over $100 billion for hotels, meals and airline travel.

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The best way to tap into this enormous market is with the Visa® Business Card program.

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With this proven selling power, the business card program will be both easy to sell and lucrative to offer.

The best program for you is also the best one for your customers. They get the advantage of over 284,000 Visa member branches and 44,000 ATMs in 38 countries. Which gives them unequaled access to money all over the world.

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Your customers also have the advantage of a superior MIS reporting system. Designed to help control and manage both their travel and business expenses.

They get detailed, timely reports broken down in expense report form – monthly, quarterly or annually. And the ability to customize reports according to their specific business needs.

Our program also integrates with your billing system and that of travel agents. Which will keep both your corporate and travel agent clients happy.

They'll be even happier when they hear about the new benefits we've added to the business card package. We'll soon be launching a national consumer campaign that will explain these benefits in detail.

To get the details on how you can sign up, just give us a call at the phone number nearest you. In San Mateo, California, call us at (415) 570-2120 or in McLean, Virginia, call us at (703) 827-8404.

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MARKETING/ADVERTISING

First Union Aims to Attract College Student Accounts

By KENNETH CLINE

Waiting in line is an occupational hazard for freshmen arriving at college, but First Union Corp. is offering students an alternative to queuing up for bank services.

Before they leave home, students throughout the Carolinas and Georgia can mail in applications to join a checking account and credit card program being introduced this fall by the Charlotte, N.C.-based banking company. Students can also open the accounts at the nearest First Union branch when they arrive on campus.

Pilot Program Expanded

The program, called Collegiate Banking Express, is an expansion of a pilot project last year at the University of North Carolina at Chapel Hill, according to Roberta Schroeder, assistant vice president and manager of middle mass marketing.

"We take care of their financial needs now, so they'll be customers later."

Roberta Schroeder *First Union Corp.*

"It's been a fun program, and the students have responded well to it," Ms. Schroeder said. "More kids work and have their own incomes and are a little more independent. So from that standpoint, they're a fairly decent customer group.

"The key to it is they're future customers," she added. "We take care of their financial needs now, so they'll be customers later."

Marketing of the Collegiate Banking Express program is done at the branch level. "It's basically up to the branches. We give them everything they need to conduct college solicitation," Ms. Schroeder said.

Free ATM Use, Visa Card

The Collegiate Banking Express package includes free use of First Union's automated teller machines; a choice of two checking accounts; free first-order checks; a Visa credit card with no annual fee for the first year and an $800 credit limit; $800 in overdraft protection; and free $1,000 accidental death insurance.

If the parent authorizes it, the student account can also get free automatic transfers from a parent's First Union account.

As an additional marketing attraction, First Union is making available, for $19.95, a video entitled "How to Pay for College," which discusses financial aid, scholarships, government loans, and investment strategies.

NCNB Asseses Loan Promotion

No matter how clever a promotion, the ultimate test is its effect on the bottom line. But sometimes, results are difficult to measure. NCNB Corp. concedes that is the case with a recently completed promotion that used scratch-off game cards to give loan discounts.

"There's no way you can directly link the amount of money spent on a promotion like this and the results you get," said NCNB vice president David S. Carter, director of marketing services for the Charlotte, N.C., banking company.

Increased Branch Traffic

Based on the number of prizes awarded, the number of game cards reordered, and the regional loan volume, the banking company did conclude that the "Win What You Want" contest increased branch traffic.

"A promotion of this type is designed to get customers and noncustomers in the door," Mr. Carter said. "It does build short-term traffic, which in turn would translate into sales."

A Million Entries for $100,000 Prize

During the promotion, which ran from early April through June, NCNB invited customers into its Southeast branches to pick up the game cards. Others were distributed through account statements and newspaper advertising.

Each of the 10 million cards included at least a 10% discount on a loan, and some contained cash prizes.

By completing the back of the card and placing it in boxes at branches, customers entered a grand prize drawing for $100,000. This phase of the promotion attracted 1 million entries.

NCNB used a scratch-off game in Texas last year, but awarded gifts instead of cash prizes.

Mr. Carter did offer one caveat for these attention-grabbing promotions. "I think you have to use it in a very strategic manner and be mindful of your image as well," he said.

"You don't want to be out there every year with a sweepstakes or a game." □

Look for *"Sound Off"* every Monday on page 2 in the *American Banker*.

Amex Launches a Counterattack

Visa Ads Disputed in Battle for Merchants' Loyalty

By YVETTE D. KANTROW

NEW YORK — American Express has issued a stinging retort to Visa's latest marketing maneuver, touching off another battle in the credit card wars.

In the current bout, the card giants are employing their usual weapons – carefully crafted advertisements, biting sarcasm, and statistics galore. But the spoils will be different for the winner of this fight.

It is the loyalty of the merchant – not the consumer – that American Express and Visa each hope to claim. Though the card companies have aggressively fought for the merchant business before, they have never done so in such a public forum.

This week American Express Co. ran a two-page ad in *The Wall Street Journal* that is similar in design to an ad run by Visa just weeks before. The American Express ad states, "When you consider the profits the American Express card delivers to your business, you realize that Visa is just spinning their wheels."

Earlier this month, Visa U.S.A. began distributing cardboard wheels to merchants that they can use to compare what they spend on American Express transactions with what they spend on Visa transactions. Dubbed "profit improvement calculators," the wheels are part of a larger mass-market ad campaign attacking the rates that merchants pay for what Visa calls the "privilege" of accepting American Express cards.

'Frustration Marketing'

American Express officials initially dismissed the Visa campaign as an example of "frustration marketing." It said the company would rather spend money to improve merchant services than to put together a similar advertising effort.

But on Wednesday an American Express spokeswoman said the company had no choice but to respond because Visa's ad was filled with gross misconceptions.

"We developed the ad for one major reason," she said. "That was to set the record straight." The American Express ad will most likely appear again.

Whether American Express or Visa can actually persuade merchants to choose one card over the other remains to be seen. "A merchant would be imprudent not to take both cards," said Allen R. DeCotiis, president of Payment Systems Inc., a research firm in Tampa, Fla. But the card companies are proceeding full speed ahead.

Visa considers the American Express ad proof that its efforts have been successful in debunking what it calls the American Express prestige myth. "American Express is frustrated here; not Visa," said a spokesman for San Mateo, Calif.-based Visa.

The Visa ad – which is appearing in *The Wall Street Journal, Business Week, Time, Forbes,* and other business and trade publications – includes data claiming that Visa reaches more affluent households than American Express. According to the Visa ad, American Express reaches half as many cardholders with household incomes over $50,000 as Visa does.

But the American Express ad says its customers spend 140% more per year with their card than Visa's customers do. It also states that the average charge on the American Express card is at least 35% higher than the average Visa charge.

In addition to battling over cardholder spending habits and demographics, the Visa and American Express ads fuel the war over discounts – the fees merchants typically pay their banks or other service providers to accept credit cards. The Visa ads attack the typically higher discount fees merchants pay for American Express transactions.

American Express points out that Visa recently announced plans to increase some of its interchange fees – the charges that banks pay each other to settle credit card transactions – by nearly 25%. □

FDIC Chooses Sandler O'Neill to Probe ARM Errors

By RICHARD CHANG
Reuters

NEW YORK — The Federal Deposit Insurance Corp. said it will begin an investigation Sept. 10 on errors in adjustable-rate loans that some contend have cost consumers billions of dollars in overcharges.

David Steadman, managing liquidator of the FDIC's Chicago office, said the agency has hired Sandler O'Neill Mortgage Finance to conduct a three-month review of 2,900 loans totaling $100 million.

Sandler O'Neill will customize a existing software for the review, said Charles Smith, Sandler O'Neill vice president. The firm will reamortize the loans, but the FDIC will decide whether to reclassify overpayments as principal or send out refunds, Mr. Smith said.

Mr. Steadman said the agency plans to examine only loans that are still outstanding.

The loans in question are concentrated in the Midwest and were assumed from the Federal Savings and Loan Insurance Corp. after that thrift insurer was phased out under the thrift-bailout law.

"The main purpose of the review is so that [prospective] purchasers of the loans will get the correct loan information and abide by the Truth-in-Lending Act," Mr. Steadman said.

Computer consultant John Geddes, whose reports of widespread errors in adjustable-rate loans sparked the investigation, said the FDIC policy is unfair to consumers.

"It appears the FDIC is doing the same thing" as the FSLIC, Mr. Geddes said. □

AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index — *Auto, personal and credit card rates*

Market	CREDIT CARD 6/11/90	CREDIT CARD 6/18/90	PERSONAL 6/11/90	PERSONAL 6/18/90	AUTO 6/11/90	AUTO 6/18/90
New York	19.29	19.29	19.46	18.71	13.82	13.79
Los Angeles	19.16	19.16	20.12	20.12	13.25	13.25
Chicago	18.85	18.70	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	20.12	20.12	12.87	12.87
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Detroit	18.00	18.00	15.92	15.92	11.93	11.91
Boston	17.40	17.40	17.66	17.66	12.79	12.79
Houston	18.12	18.12	14.62	14.62	11.49	11.49
Dallas	19.17	19.17	16.87	16.87	11.37	11.37
Washington D.C.	18.81	18.81	16.79	16.79	11.55	11.55
BRB Index	18.68	18.64	17.34	17.26	12.27	12.26

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $10,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $5,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All Inquiries (407) 627-7393

LOWEST PERSONAL LOAN RATES	
First Pennsylvania, Philadelphia	12.49%
Philadelphia Nat'l Bank, Philadelphia	12.49
Continental Bank, Chicago	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank Of America, San Francisco	21.25
First Interstate Bank, Los Angeles	21.00
LOWEST CREDIT CARD RATES	
Texas Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.50
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Svgs., Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Svgs., Houston	15.90
HIGHEST CREDIT CARD RATES	
World Sav., Oakland	20.80%
Homestead Savings, San Francisco	20.80
Riggs Nat'l Bank, Washington	19.80

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TRIGGER *dates*

Continued from page 7

Virginia, West Virginia, and the District of Columbia have been permitted to acquire Pennsylvania thrifts on a reciprocal basis. (Savings Association Code of 1967, as amended, 7 P.S. §6020-14.)

RHODE ISLAND: Under [RIGL (1956) 19-30], full nationwide reciprocal powers took effect Jan 1, 1988.

SOUTH CAROLINA: Savings and loans in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia are permitted to buy South Carolina thrifts under a June 1985 law. The legislation is reciprocal. Unlike the states that the average charge on the American Express card is at least 35% higher than the average Visa charge.

In addition to battling over cardholder spending habits and demographics, the Visa and American Express ads fuel the war over discounts – the fees merchants typically pay their banks or other service providers to accept credit cards. The Visa ads attack the typically higher discount fees merchants pay for American Express transactions.

American Express points out that Visa recently announced plans to increase some of its interchange fees – the charges that banks pay each other to settle credit card transactions – by nearly 25%. □

First Financial Buys Deposits of a Thrift

STEVENS POINT, Wis. — First Financial Corp. said its First Financial Bank, a thrift subsidiary, acquired all of the deposits and part of the assets of Security Federal Savings and Loan Association, a $180 million-deposit Peoria, Ill., institution with six offices.

The deposits were acquired for a premium of about $2.6 million from Resolution Trust Corp., the federal agency that had been operating Security Federal.

First Financial said it agreed to buy some of Security Federal's assets and has an option to purchase certain other assets related to the six offices.

— Reuters

Ex-1st Fidelity Official Heads Howard Savings

LIVINGSTON, N.J. — Howard Savings Bank said William P. Tuggle has assumed the position of chairman and chief executive officer of the bank.

Mr. Tuggle's appointment has been approved by the Federal Deposit Insurance Corp. The thrift is the second-largest in New Jersey.

Mr. Tuggle was previously a director, president, and chief executive officer of First Fidelity Bank, Newark, and senior executive vice president of its parent, First Fidelity Bancorp.

— Reuters

TENNESSEE: Since July 1985, thrifts from Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Virginia, and West Virginia have been permitted to acquire Tennessee thrifts on a reciprocal basis.

TEXAS: Under a 1986 law, Texas savings and loans may acquire thrifts and operate branches in any state that includes Texas in its regional or national banking compact. Current state banking law, according to the Texas Savings and Loan League, allows any financial or nonfinancial institution to buy a Texas thrift.

UTAH: Since Dec. 31, 1987, thrifts from anywhere in the nation may acquire Utah savings and loans on a reciprocal basis.

VERMONT: Under a law that took effect Jan. 1, 1988, out-of-state thrifts within the New England region may acquire or merge with Vermont savings and loans on a reciprocal basis. Passed in May 1987, this state's legislation also allowed for nationwide reciprocal activity starting Feb. 1, 1990.

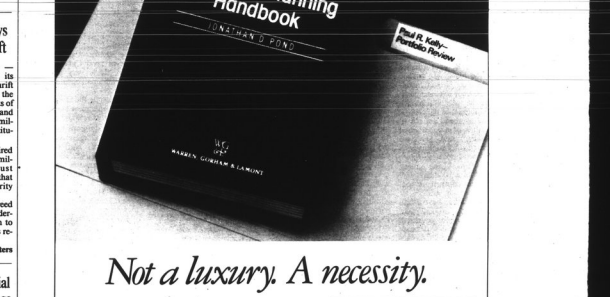
VIRGINIA: Since July 1, 1985, out-of-state savings associations based in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia have been permitted to acquire Virginia savings and loans on a reciprocal basis. The charter of the in-state savings and loan being acquired must be at least two years old. The law also states that at least 80% of the deposits of the acquiring institution must come from the region defined.

WASHINGTON: A law passed in 1981 permits state-chartered savings banks and federally insured savings and loans from any other state to merge with or acquire Washington savings and loans, with the approval of the appropriate state regulators. In 1982, a comprehensive rewrite of the code determined that thrift interstate activity hinges on reciprocity.

WEST VIRGINIA: Effective Jan. 1, 1988, savings and loans from any state in the union may acquire West Virginia thrifts on a reciprocal basis. The in-state institution must be at least three years old.

WISCONSIN: Since Jan. 1, 1987, savings and loans from Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, and Ohio have been permitted to acquire Wisconsin savings and loans. The legislation hinges on reciprocity.

WYOMING: Since May 22, 1987, savings and loans from any other state have been permitted to acquire Wyoming thrifts. Passed early in 1987, the law was designed as interstate legislation for banks, but thrifts are under the same rules. It does not require reciprocity. It stipulates, however, that the charter of the in-state institution being acquired must be at least three years old. □



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Reis Makes Alliance the Little Bank that Could

By TERESA CARSON

CULVER CITY, Calif. — When Curtis S. Reis was a senior vice president of Crocker National Bank, he used to entertain customers in Crocker's plush 54th floor dining rooms with spectacular views of Los Angeles. Now, as president and chief executive of tiny Alliance Bank, he is likely to treat a borrower to a pastrami sandwich at a Culver City deli.

Mr. Reis no longer has large, well-staffed support departments or a top-flight chef to help him do his job. But the 56-year-old veteran of Crocker and Bankers Trust New York Corp. does not view this as a comedown. "Now I'm the senior marketing guy, the senior lending officer, I can get involved in every aspect of the business," he said.

He also has the satisfaction of engineering a major turnaround at Alliance. He came to the bank in 1986 when Crocker was sold to Wells Fargo & Co. "All of us with C's on our chest were history," he said. When he arrived as CEO, the one-office business bank was awash in red ink. But Mr. Reis launched a massive assault on expenses and problem loans, and now Alliance is earning money again.

Back in the Black

With creative cost-cutting, and by eliminating much support staff, Mr. Reis got Alliance back in the black. He pushed many jobs done by staff members out the door to consultants. He finds he gets crackerjack work at a fraction of the cost.

"Letting overhead get out of control is the nail in the coffin of small banks," said Salvatore Serrantino, California Research Corp., a Santa Monica, Calif., consulting firm. Using outside consultants is a way for small banks "to get competence that they can afford," he said.

"I can't afford to have a full-time marketing officer," Mr. Reis said. "It would cost me at least $50,000 a year with benefits." So he has retained an outside marketing expert. "I meet with him once a week, and we get our marketing for about $15,000 per year plus some costs to cover brochures and the annual report."

Atypical Experience

A graduate of Cornell University, the soft-spoken Mr. Reis has experience that the president of a small bank usually does not. At Bankers Trust, for example, he traveled the Midwest as an account officer and ran various departments such as credit and training.

"Every time I send a client or customer over there they are always impressed with Curtis Reis," said Alliance founding director Michael L. Abrams, a partner at the Los Angeles law firm of Abrams & Goldstein.

At one time at Crocker, Mr. Reis had to manage several thousand employees. When he came to Alliance, the $45.9 million-asset bank had a staff of 42. But Mr. Reis thought that number too large and trimmed it to 25. That helped shave expenses to $2.1 million in 1989 from $3 million in 1985. Now Alliance has $1.08 million in assets per employee, a ratio that compares well with the the nation's most profitable community banks.

Move to Temporary Workers

Alliance keeps the ranks of tellers slim by using temporaries when a regular teller is out. Mr. Reis also has no staff auditor or lawyer.

To keep up with rapidly changing regulations and laws covering banking, Mr. Reis has turned to Bankers Compliance Group, Irvine, Calif. For a monthly fee that averages about $600, the bankers who belong to the group get seminars, a newsletter, manuals, and three phone calls per month for specific legal questions.

Technology has also helped. A laser printer allowed Alliance to eliminate one job in the note department. "We don't need all the forms sitting around regularly becoming obsolete and someone typing them up. When the laws change, the forms can be instantly changed!"



Curtis S. Reis
Alliance Bank

Unlike their larger banks where he worked, "we don't have a lot of meetings," Mr. Reis said. "We also don't have a corporate travel department."

He also noted: "I set the interest rates every week."

The cost-cutting has paid off. After losing $4.2 million from 1983 to 1988, Alliance last year turned a profit for the first time in five years, earning $135,000. Profits for the second quarter of 1990 rose to $67,510, up 84% from $36,566 the year earlier.

"He has done a fine, fine job," said director Robert H. Thompson, president of Hal Thompson Co.

To turn Alliance around, Mr. Reis also had to work off problem loans. In the past eight years, Alliance has written off $7 million in problem loans, including the legal fees. At year-end, Alliance still had $907,000 in loans not earning interest; collecting these is a priority for Mr. Reis.

Focus on Raising Capital

But his main goals now are selling and bolstering Alliance's capital. Mr. Reis has some academic experience in the area, having completed a thesis for the Stonier Graduate School of banking on using senior securities in place of common stock as bank capital.

Mr. Reis plans to raise capital with a new issue of mandatory subordinated convertible debentures. He will be seeking regulatory approval for the issue and expects it to be done as a private placement.

Mr. Reis feels he can be more responsive to customers at Alliance than are bigger banks. "We just finished an $800,000 credit for a group that was buying a property with a car wash and restaurant," Mr. Reis said.

But the emphasis on customer service often translates into a demanding schedule. "I try and see one to two major customers every day," Mr. Reis said. "I make about 40 business development calls per month."

Alliance aims to serve small businesses, executives and professionals. Toward that end, Mr. Reis often finds himself playing salesman. "Everyone knew Bankers Trust, you don't have to explain that. Nobody has ever heard of Alliance," he said.

Nonetheless, Mr. Reis does not have to go far to find new customers. The 10-year-old bank's Culver City base is a thriving community in the Los Angeles area. The town boasts 2,500 businesses and a $2 billion economy, according to estimates of the Culver City Chamber of Commerce.

Favorable Market

"The market in Culver City is a delight," said George R. Newhouse, chairman and chief executive of rival Culver National Bank. "It is very diversified. There are small businesses street after street."

But despite the favorable conditions, Alliance is a "very aggressive," Mr. Newhouse said.

Besides the need to maintain momentum, there is another reason for the bank's energetic posture. When Mr. Reis took the helm at Alliance, he and his family bought about 17% of the bank's stock; at Crocker or Bankers Trust, the purchase of such a sizable stake would have been impossible.

But the ownership stake is strong incentive for Mr. Reis to keep costs down and profits up. □

On Choosing And Using Consultants

By BETH PISKORA

Consultants often can help a bank cut costs, maximize revenues, and rearrange strategic priorities.

But how can a bank choose the best of the bunch and work with them successfully?

Here are a few tips:

Shop Around. **"Don't take the recommendations of the first consultant you talk to," said Geoffrey Day, director of business development for Cambridge, Mass.-based Consulting Exchange. "Recognize that there's a vast supply of consultants with varied areas of expertise."**

For example, a bank with computer woes might be tempted to call in a technology specialist who "may not have any experience in banking and may not understand the repercussions of his or her advice." And if cost cutting is a priority, pick someone with turnaround skills.

Be sure to get advice from more than one consultant.

Geoffrey Day
Consulting Exchange

Check References. **Most consultants are very good at selling themselves, but some do not have the skills to deliver what they promise.**

Get a list of the consultant's current or previous clients and ask them about ability to stay within a budget, work under deadlines, and successfully convey suggestions to management.

Define Your Priorities. **Before calling in outside help, define your goals. Next, ask any prospective consultant to suggest a concrete strategy to achieve those goals.**

Keep an Open Mind. **Begin any process of change with a plan, but remain flexible. A good consultant may see opportunities that you do not.**

Ask Questions. **Make consultants explain their recommendations. Ask them to evaluate both the short- and long-term repercussions.**

For example, a change in lending policies may affect marketing representatives; a shake-up in the operations department may affect the entire bank. Cost-cutting moves, in particular, often can have a ripple effect.

Get a Second Opinion. **"Don't ever follow the advice of one consultant," Mr. Day said. Although this approach may initially prove more costly, in the long run it's more cost-effective.**

Once the bullet leaves the gun, it's too late. □

COST CONTROL
Mellon Bank Consolidates Three of Its Far-Flung Offices

By JEFFREY MARSHALL

As some banks expand – both geographically and strategically – their far-flung kingdoms often come to include a costly hodgepodge of offices.

Mellon Bank is taking aim at this problem with a program to consolidate into a new complex three offices in eastern Pennsylvania.

Cross-Selling Opportunities

Pittsburgh-based Mellon is hoping that bringing the three offices together will generate internal cost efficiencies; communications costs will be reduced and it will be easier to share ideas, officials said. They are also hoping that the combination will create opportunities for cross-selling.

The new center, under construction at a site in Plymouth Meeting, Pa., three miles west of Philadelphia, will house the suburban operations of Mellon's trust, middle-market lending, consumer lending, custom banking, and leasing departments, as well as Mellon Financial Services, a consumer finance subsidiary.

"Since custom banking and trust often share customers," said Becky Brinks, a Mellon spokeswoman in Philadelphia, "this represents one place where customers can go and be introduced to a number of relationship officers and products."

Little Change in Rent

Mellon recently signed a 5 ½-year, $2.9 million lease for 23,000 square feet at the Plymouth Meeting Executive Campus. Although the new rent will not be significantly lower than before, the move will bring 80 Mellon employees into one office.

The new office is near the Pennsylvania Turnpike and is easily accessible by mass transit. That translates into a benefit for both employees and customers, officials said.

Mellon also is hoping that the new setup will be cost-efficient.

"The real benefit to Mellon is that people will be locating to the same site," said Ms. Brinks. "There will be a sharing of ideas and information" That's not much more difficult and costly when the offices were far away.

"We are always evaluating our needs when leases are coming up; we're always assessing the viability of the cost," she said. The Mellon staffers are expected to move when the new complex is completed in September.

Ms. Brinks said the consolidation wouldn't result in the loss of any jobs. □

Ryan Chooses John Downey for Key OTS Post

Continued from page 1

Continued from page 2

settled on his choice after rotating four OTS district directors through Washington to try out for the regional chief's job.

Mr. Downey "is a morale builder," an OTS regional official said. His ability to rally the troops will be critically important as the OTS begins the restructuring of its field staff. Next week, the OTS is expected to make final a plan to elevate district offices in Atlanta, Jersey City, Chicago, Dallas, and San Francisco to regional offices that manage the other seven districts.

"We're very happy about it," said Brian Smith, director of the U.S. League of Savings Institutions' Chicago operation. Mr. Downey has a reputation for being "firm when he has to be, flexible when it's reasonable to be so."

Center of Reorganization

"He'll be at the storm center for the next three or four months as Tim Ryan's reorganization takes place," Mr. Smith said. He added that Mr. Ryan "has to recognize the districts "will require tact, diplomacy, and toughness. This is going to be hard to do the No. 1 objective of reducing costs while improving supervisory policy."

Interim OTS director Salvatore Martoche brought Mr. Downey to Washington last March.

Mr. Downey joined the Federal Home Loan Bank System, predecessor of the OTS, in 1986. That move followed a 19-year career with the Office of the Comptroller of the Currency that culminated in his serving as chief national bank examiner.

He became director of agency functions of the Federal Home Loan Bank of Indianapolis, and succeeded in August 1989 to the post of district director for the then new OTS in Indianapolis.

An Early Choice

Interim OTS director Salvatore Martoche brought Mr. Downey to Washington last March as senior deputy director of supervision policy. Within weeks, he was shifted to the supervision operations post. Then he was placed on special assignment for four months while the new OTS director, Mr. Ryan, looked over candidates for the regional operations job.

In related news, the OTS announced it has adopted a sliding scale of assessments and fees to fund its operations. Troubled institutions will be assessed at a rate 50% higher than healthy ones "to cover the higher costs of supervising them." Thrifts will no longer pay directly for examinations. □

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C&S Acts to Defuse Bad Publicity over Faulty Notices

Mr. Scredon said the bank discovered its mistake Saturday, "probably after we started getting calls from customers."

10,00 Received Notices

Mr. Scredon said the notices went out Friday to 10,000 bank customers, most of them in Georgia, Florida, and South Carolina, informing them that they were in default on their August mortgage payments. What the homeowners should have received was a late notice, which the bank routinely sends out when payment is not received by the 15th of the month.

Mr. Scredon said the bank discovered its mistake on Saturday, "probably after we started getting calls from customers."

Upset customers who call the C&S number are being informed that the bank has "experienced some difficulty regarding default notices. If you received a notice and have made your July and August payments prior to Aug. 17, 1990, please disregard the notice you received."

Mr. Scredon said the bank believes in dealing with such problems forthrightly. "It's a matter of finding out the situation and responding quickly," Mr. Scredon said. "We have a lot of customers out there, and we want to deal with it appropriately."

He said that to his knowledge this was the first time such an error had occurred at C&S, the largest commercial bank in Georgia, with $23.3 billion in assets. The company is expected to complete a merger at the end of the month with Sovran Financial Corp., Norfolk, Va. □

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EXECUTIVE *changes*

Fleet/Norstar Elects Three Vice Chairmen

Charles W. Carey, John W. Flynn, and **Robert L. Mushkin** have been elected vice chairmen of **Fleet/Norstar Financial Group** Inc., Providence, R.I. All three previously served as executive vice presidents of the diversified national financial services company.


Charles W. Carey

Mr. Carey has responsibilities for the corporation's commercial banking and real estate activities, investment banking subsidiary, and asset-based lending line of business.

Mr. Flynn is chief financial officer, chairman of the assets and liabilities committee, and has responsibility for the corporation's public policy, legal, controller, corporate communications, and treasury functions.


John W. Flynn

Mr. Mushkin is responsible for the nine banks that comprise the New England and New York State Banking Groups.


Robert L. Mushkin

Executive vice presidents given broader responsibilities are **Robert J. Higgins, John B. Robinson, II, Jay Sarles,** and **Michael R. Zucchini.**

Mr. Higgins, who has become chairman of Fleet Bank, Providence, in addition to his position as the bank's chief executive officer, has been given responsibility for two other Fleet/Norstar banks: Fleet Bank of Connecticut, Hartford, and Fleet Bank of Boston.

Mr. Robinson, who heads the four-bank New York State Banking group, has been given additional responsibility for Fleet Bank of Maine, Portland, and Fleet Bank-NH, Nashua.

Mr. Sarles, who has been responsible for managing Fleet/Norstar's mortgage banking, consumer finance, and discount brokerage lines of business, was given additional responsibility for Fleet/Norstar's consumer banking activities and the corporate development function.

Mr. Zucchini, chief information officer, was given new responsibility for AFSA Data Corp., the corporation's California-based student loan processing subsidiary.

Also, **Eugene T. Mann** has retired as executive vice president of the corporation. He was responsible for consumer banking activities of Fleet/Norstar's banks.

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Harper Takes Morgan Post

Owen H. Harper, former Crocker National Bank executive, has been appointed managing director of Morgan Guaranty Trust Co., New York, principal banking subsidiary of **J.P. Morgan & Co.**


Owen H. Harper

Mr. Harper will be responsible for developing client relationships for J.P. Morgan's California private banking group. He will provide banking, corporate finance and investment management services to clients throughout the state, dividing his time between Morgan's Los Angeles and San Francisco banking offices.

Mr. Harper was an executive vice president with Crocker National Bank and a member of its management committee from 1974 until that bank was acquired in 1986. He had a number of assignments at Crocker during that period, including corporate banking division head in San Francisco and senior officer in Southern California.

He began his career with Citicorp in New York in 1960.

Also, **John J. Horan,** former chairman and chief executive officer of Merck & Co., has retired as a director of J.P. Morgan & Co. and Morgan Guaranty Trust Co., New York.

CEO of Thrift Resigns Position

Norman J. Harrison, chairman of the board of **American Federal Savings Bank,** Jacksonville, Fla., has relinquished the position of chief executive officer of the thrift.

J. Malcolm Jones Jr., vice chairman of the board, will assume the CEO post.

Mr. Harrison will continue to serve as chairman, and Roger L. Sutton will continue as president and chief operating officer.

Mr. Harrison stated that "the election of Mr. Jones to this position gives an added dimension to the executive capabilities of management. This will provide continued progress of the bank in the development of new opportunities."

Mr. Jones is a native of Jacksonville. He graduated from Bolles School in 1971 and graduated from Wofford College with a degree in economics in 1975.

— **Franklin Smith**

MIDWEST

Norwest Bank Minnesota, Minneapolis, has combined the marketing functions for corporate banking and named **J. Scott Slater** to the new post of vice president and director of corporate bank marketing. He was director of marketing for the bank's capital management and trust group.

In his new post, Mr. Slater has

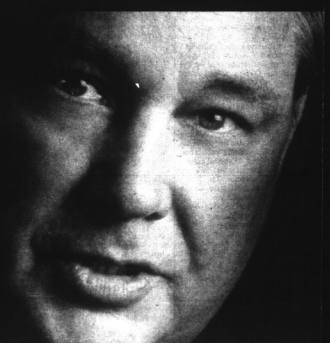
See **EXECUTIVE** *page* **13**

The time has come for the top management of the bank, the CEO, to get involved in automation. Top management must face this fact and cannot wish that responsibility onto others.

Automation is no longer the intrigue and complexity that it has been for 30 years, and top management must realize that fact. The automation directions, strategies, and decisions

must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.



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EXECUTIVE *changes*

Continued from *page* **12**

marketing responsibility for the bank's relationship management, international, cash management, commercial insurance and capital management, and trust business. He will also coordinate research, sales programs, and sales and product training for corporate banking.

Fireman's Fund Mortgage Corp., Farmington Hills, Mich., has named **John A. Courson** as president of Central Pacific Mortgage, a subsidiary based in Fair Oaks, Calif.

Mr. Courson had been president and chief executive officer of **Fundamental Mortgage Corp.,** Dallas, Tex.

Old Kent Bank, Elmhurst, Ill., an affiliate of **Old Kent Financial Corp.,** Grand Rapids, has appointed **Dr. Ivan E. Frick,** president of Elmhurst College, to its board of directors.

Star Banc Corp., Cincinnati, said **Mark T. Johnson** has retired as president of the bank holding company.

Oliver W. Waddell, chairman and chief executive officer, has assumed the additional post of president.

MIDDLE ATLANTIC

American Savings Bank, White Plains, N.Y., has appointed two executives to new positions as part of its "back-to-basics" strategy.

Edmond P. Hannigan has been appointed senior vice president, loan review, while **Mark L. Weinberger** has been appointed assistant vice president, real estate.

Mr. Hannigan heads a newly established loan review department that will provide an independent appraisal of the bank's loan portfolio. Mr. Weinberger is responsible for managing American's own real estate portfolio of cooperative apartments.

Hudson Valley National Bank, Yonkers, N.Y., has appointed **John J. Corrado Sr.** as vice president and branch manager of its main office in Yonkers.

Swiss Bank Corp, has named **Bernhard Aeschbacher** to first vice president in its New York branch.

He is head of the commercial banking sector at the branch, with responsibility for the bank's relationship with U.S. subsidiaries of Swiss and other foreign companies.

Community National Bank, Staten Island, N.Y., said **Anthony T. Battista** has joined the bank as vice president of branch management. In this capacity, he will be working closely with Staten Island's various community groups, as well as coordinating the internal, day-to-day activities of CNB's branch network.

He previously served as vice president of branch administration for First Nationwide Bank.

Chase Securities Inc., New York, the securities subsidiary of the **Chase Manhattan Corp.,** has appointed **Craig Sanger** to managing director and head of the syndicate desk.

Mr. Sanger was formerly with Bear Stearns, where he was a vice president in debt syndicates for the past five years.

Dauphin Deposit Corp., Harrisburg, Pa., has appointed **William H. Alexander** a director of the corporation and its principal subsidiary, Dauphin Deposit Bank and Trust Co.

He is chairman of H. B. Alexander & Son Inc. and H.B. Alexander Enterprises Inc.

Societe Generale, New York, said **Bruno Mejean** has joined the banking group as vice president responsible for trade finance activities of the group in the United States.

He will head the bank's effort to focus and expand activities in this area.

Mr. Mejean was previously with the Bank of New York, where he was vice president and team leader in trade and multinational banking division.

Moroze Sherman Gordon & Gordon, New York, said **Peter S. Smedresman** has joined the law firm as a partner specializing in bank financing, regulation of financial services, and the legal aspects of international financial.

Mr. Smedresman was formerly counsel-U.S.A. to the Royal Bank of Canada, the largest financial institution in Canada and the fifth-largest bank in North America, for almost four years.

Skylands Community Bank, Hackettstown, N.J., has named **Bruce L. Schott** as a vice president and senior loan officer for the new bank. He previously served as a commercial loan officer serving Northwest New Jersey for First Fidelity Bank North Jersey and United Jersey Bank Northwest.

Mellon Bank Corp., Pittsburgh, has named **Mary E. McFadden** a vice president in the trust and investment department.

Named assistant vice presidents were **Michael A. Cipriani** in the information management and res.arch department, **David A. Brand** in the finance department, and **Randi J. Weaver** in the technology products department.

Norstar Bank, Melville, N.Y., a subsidiary of **Fleet/Norstar Financial Group,** said **Stephen M. Lang,** vice president, has joined the community banking division-Long Island credit group as credit unit west leader.

Tokai Bank Ltd., New York, has named **Joseph P. Geraghty** as senior vice president, corporate finance at its New York branch.

Mr. Geraghty will lead the bank's active pursuit of more direct business with U.S. corporate clients within selected products and industry lines. As part of this emphasis, he will expand the corporate finance staff.

He previously was with Swiss Bank Corp. where he was a first vice president in charge of its syndication division, which he helped establish in 1987. □

GLOBAL *dispatches...*

Leading Japanese Banks Seen Liquidating Assets

By JOHN EVANS

Japan's major commercial banks are selling assets to raise capital depleted by the plunge in the Tokyo stock market, according to *International Financing Review*.

In a report from Tokyo, the London-based magazine, an *American Banker* affiliate, quoted several senior officials of Japan's commercial banks as saying that they have started to liquidate assets at home and abroad to sharply curtail balance-sheet growth.

The cuts will start with sales of domestic commercial paper in Tokyo, because such securities carry 100% weighting under rules of the Bank for International Settlements, the magazine said.

'Results Could Be Spectacular'

Since the banks' holdings account for $13 billion out of the $100 billion market for yen commercial paper, "the results could be spectacular," the magazine commented.

The Tokyo market has now lost a third of its value since Jan. 1. The plunge has prevented Japanese banks from offering new equity to help meet BIS standards on capital adequacy.

The accelerating stock selloff in Tokyo has an even bigger effect on banks, drastically devaluing their huge holdings of equities, analysts say. In the past, realizing these so-called hidden assets has been an important way for the banks to raise cash to add to capital in Tier One, the top BIS category. Dai-Ichi Kangyo Bank Ltd. reported that in the fiscal year that ended March 31 nearly 40% of its earnings came from selling stock.

Interbank Funding to Be Reduced

Japanese bankers also say they plan to trim back interbank funding with banks overseas as well as holdings of foreign bonds, although they declined to be specific. Japan's investment institutions and banks are major holders of U.S. Treasury notes and bonds.

Foreign loan guarantees will also be cut, though the last overseas assets to come under the knife will be foreign loans, Tokyo bankers said. At home, short-term loans as well as commercial paper to corporations will be the first to be cut; loan guarantees will follow.

"The banks are also planning to sell some of their domestic stock holdings," IFR reported through its Vigil news service. "However, these sales would be done very carefully on a company-by-company basis, depending on the depth of those corporations' relationships with the bank concerned."

... *by country*

JAPAN

The Finance Ministry is not aware of any plans now to raise the discount rate, and the Bank of Japan remains calm, a top ministry official was quoted as saying Wednesday.

A Finance Ministry spokesman also quoted the official as telling Japanese reporters he sees no need now to take measures to keep local stock prices from falling further.

Commenting on reports that European Commission President Jacques Delors had called for an early meeting of the Group of Seven nations, the official was quoted as saying he was unaware of any such plans.

BAHRAIN

The Bahrain Monetary Agency said it was taking over management of the local branch of Iraq's government-owned **Rafidain Bank.**

The BMA said it took the step in response to a request from the bank's managers in Bahrain.

Banking officials said the commercial branch had been hit by liquidity and solvency problems after its overseas assets were frozen following Iraq's Aug. 2 invasion of Kuwait.

"People are continually trying to withdraw funds – we have enough money, but our bank accounts are blocked," a spokesman for Rafidain Bank said.

Bank of America said it is to close down in Bahrain but stressed that the Gulf crisis had not been a major factor in the decision.

"We are winding down our Bahrain operations as a result of a continuing review of the bank's international strategy for business," Zakir Mahmoud, the bank's vice president for the Gulf, told Reuters.

He said the bank was not leaving a representative office behind. Bank of America employs 20 staff in Bahrain, including 14 Bahrainis.

WEST GERMANY

The Bundesbank council met Wednesday and was expected to meet again today, but it does not plan to hold a news conference, a Bundesbank spokesman said in answer to enquiries.

Economists said they believed the meeting was being held on a Wednesday as well as on a Thursday because of the wide range of issues under discussion. Dealers and economists expect key interest rates to remain unchanged.

Economists said talks were expected to center on composition of the Bundesbank council after German unification. Plans for European monetary integration would also be high on the agenda.

The by country **briefs were supplied by Reuters.**

Venezuelan Acquirer Eyes Florida

Banco Caracas Asks Fed to Allow Miami Bank Deal

By JAMES R. KRAUS

NEW YORK — In a move that could expand the presence of Venezuelan banks in southern Florida, Banco Caracas has requested Federal Reserve Board approval to acquire Eagle National Bank of Miami from Banco de Colombia.

The acquisition would make Banco Caracas the third Venezuelan financial institution to acquire southern Florida bank.

In 1982, a holding company affiliated with Venezuela's Bancor acquired People's National Bank of Hialeah. In 1978, Banco Consolidado acquired Consolidated Bank in Miami.

Other Venezuelan Banks

Three Venezuelan banks, Banco de Venezuela, Banco Latino and Banco Union, have Edge Act subsidiaries in Miami, and others, Banco Industrial de Venezuela and Banco Exterior de los Andes have Miami agencies. Edge Act subsidiaries do only international business.

Banco de Colombia, Colombia's largest bank, owns 97% of Eagle National, a retail bank with $199 million in assets.

In an application to the Fed, Banco Caracas, a small, privately owned Venezuelan bank with $37 million in assets, asked for approval to set up a holding company, Consorcio Inversionista BanCaracas Cibanca C.A. in order to acquire Eagle.

The other members of the holding company would be Seguros Avila C.A., a Venezuelan insurance company, and Banco Caracas N.V., an offshore banking unit in Curacao.

Banks Following Investors

Michael Gokel, director of marketing at Eagle National, declined to comment on the acquisition plan. Banco Caracas officials could not be reached.

Florida banking sources said the Venezuelan interest in acquiring banks in southern Florida reflects growing investment in the state by Venezuelans.

"Venezuelans have longstanding commercial and real estate investments in Florida," said Manuel Lasaga, vice president and senior economist at the bank subsidiary of Southeast Banking Corp., Miami.

Venezuela a Big Importer

Mr. Lasaga said Venezuela imported $1.4 billion worth of goods from Florida in 1989 and $2.2 billion worth in 1989, making that country the state's single biggest export customer.

"It's a natural for them," said Jose Valdes-Fauli, president and chief executive of the $140 million-asset Eastern National Bank in Coral Gables, referring to the Banco Caracas plan.

Mr. Valdes-Fauli added that Venezuelan financial institutions view owning a bank in Florida as a means to expand business and keep financial transactions such as letters of credit and correspondent banking services in-house. □

Turkish Banker on the Move Tries NYC

By JAMES R. KRAUS

NEW YORK — Erol Aksoy, the Turkish banker, has a record of firsts.

In 1977, he became the youngest general manager of a Turkish bank when he was named at age 30 to head Guarantee Bank of Turkey in Istanbul.

In 1984, he led Turkey's first management buyout when he acquired 97% control of Iktisat Bank and set up Turkey's first leasing company.

Park Avenue Bank Deal

This week, he made the single largest private investment ever by a Turkish national in the United States when he acquired control of Park Avenue Bank for $8 million.

"The price is close to book value," Mr. Aksoy said in a recent interview. "Buying a bank is far less time-consuming than acquiring a banking license, and we can add on business in trade finance without increasing overhead costs."

After earning a master's degree in business from Harvard Business School, Mr. Aksoy



Erol Aksoy
Turkish banker-investor

spent three years as an analyst at Smith Barney, Harris Upham & Co. in New York and Paris. He then returned to Istanbul to launch a career in banking.

Turnaround at Iktisat

Mr. Aksoy, 43, turned around Iktisat from a bank with net negative value of $4 million into Turkey's ninth-largest with nearly $1 billion in assets and $40 million in equity.

In 1986, he made his first investment outside Turkey by acquiring a 75% stake in the Paris-based Banque Internationale de Commerce from Princess Isabelle de Bourbon de Parme. Banque Internationale has since established a London subsidiary, and Iktisat has opened representative offices in New York, London, and Moscow.

Mr. Aksoy's success can be attributed to three factors:

He targeted institutions that had run into problems but could be quickly turned around with good management; he placed a major emphasis on building up a banking business in trade finance as Turkey rapidly expanded its foreign trade; and he plowed most of the dividends he earned into new acquisitions.

Dividends Finance Deals

The acquisition of a 66% stake in Park Avenue, for example, was entirely financed from dividends Iktisat paid in the first half of the year.

Mr. Aksoy hopes to apply a similar strategy to Park Avenue, a $50 million-asset bank doing mainly private banking. It was owned by German, U.S., and Lebanese investors and lost $600,000 last year. □

Key International Rates*

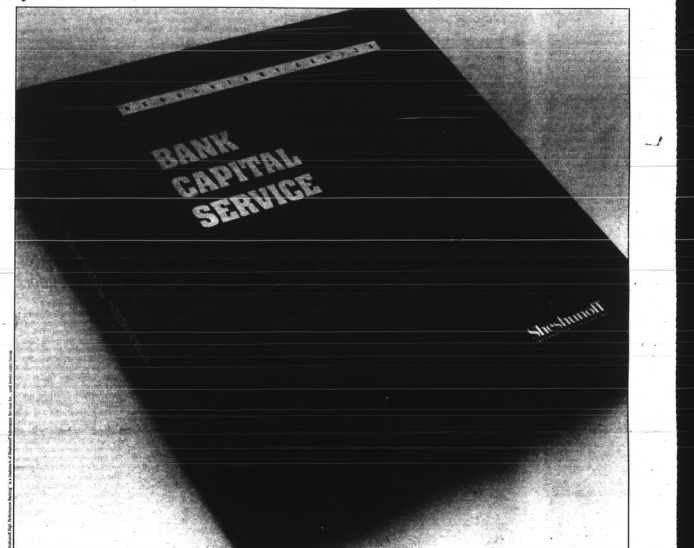
	Day-to-day money		Seven months		Over a year		Discount rate		Prime equivalent	
	Bid	Ask	Bid	Ask	Bid	Ask	8/23	8/16	8/23	8/16
United States	8.00	8.12	8.12	8.25	8.18	8.00	6.00	6.25	9.25	9.50
Japan	7.43	7.43	7.43	8.12	8.06	7.87	6.25	6.25	8.00	8.00
Canada	13.00	13.00	11.50	13.12	13.12	13.00	12.62	12.50	12.62	12.50
U.K.	15.00	15.00	15.00	15.00	15.06	15.06	14.00	15.00	14.00	14.94
West Germany	8.00	8.00	8.12	8.50	8.50	8.50	8.81	8.81	8.75	8.75
Switzerland	8.62	8.62	8.31	8.87	8.93	9.12	8.87	9.00	9.19	9.00
France	10.00	10.00	10.00	10.37	10.37	9.62	10.68	10.56	10.00	9.93
Italy	11.12	10.50	11.25	11.25	11.62	11.69	12.00	12.00	11.50	12.00

*Middays quoted in the New York market

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.19	14.46	8.63	9.78	8.29
6 to 12 months	8.44	13.55	9.07	9.46	8.56
12 to 24 months	8.68	12.32	9.25	NA	8.15

Source: Klocner, Ashley & Pearce Inc., New York.



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Wary Fed Probably Deferred Rate Cut Again, Experts Say

By DONNA SMITH
Reuters

WASHINGTON — At this week's meeting of the Federal Open Market Committee, the makers of monetary policy probably put off lowering interest rates until inflation fears subside, economists say.

The consensus, they say, was probably that recession is a lesser evil than steep rates.

'They Are Really Caught'

"There is no right decision," said David Wyss, an economist with Data Resources Inc. "They are really caught."

U.S. economic growth was slow even before Iraq's invasion of Kuwait pushed oil prices dramatically higher and made a recession more likely.

But if central bank policymakers move too fast to energize the economy by lowering short-term interest rates, they risk fueling inflation fears in financial markets. Such fears would bring higher long-term rates.

Decisions made at Tuesday's meeting will be kept secret until after the panel's next meeting, scheduled for Oct. 2. Minutes from the July 2-3 meeting will be made public Friday.

"The Fed can only fight inflation or recession. It cannot fight both at the same time," said David Berson, chief economist at the Federal National Mortgage Association. "The Fed is going to have to choose between them or steer a middle course."

> **They have no more idea of what's happening to the economy than anybody else.**
>
> **David Berson**
> *Fannie Mae*

The Fed has been keeping a steady grip on credit. It eased slightly last month to offset what Chairman Alan Greenspan said was overly tight lending by U.S. banks; the bellwether federal funds rate fell from 8.25% to 8%.

Key Report Due Sept.7

Some economists believe the August employment report, scheduled to be released Sept. 7, could provide the first chance for a decisive Fed move. The unemployment rate climbed in July to 5.5%, from 5.2% in June, and job growth slowed sharply.

Martin Regalia, chief economist for the National Council of Savings Institutions, said that if the next unemployment report shows more weakness than expected, the Fed will act.

"There is no question they are going to ease, but they are going to wait a little bit longer," Mr. Regalia said.

After 7½ of uninterrupted growth, the economy is teetering on the edge of a recession, while inflation shows no sign of slowing from its 4.5% rate.

Furthermore, Congress and the White House have made little progress on reducing the federal budget deficit.

Also, the crisis in the Middle East and its effect on oil prices adds to the uncertainty for Fed policymakers.

"They have no more idea of what's happening to the economy than anybody else does in this uncertain time," Mr. Berson said. □

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Banks Demand More Services From Vendors

Continued from *page 3*

the hardware maintenance provided by the top three vendors.

Executives from 37% of the institutions surveyed said the level of hardware maintenance provided by their primary vendor was excellent. Another 44% rated hardware maintenance very good, and 12% said they were neither satisfied nor dissatisfied.

The vendors did not fare as well when it came to software support. Observers have pointed out that computer users are becoming more concerned with finding software solutions and applications that enable them to operate more efficiently. Consequently, their demands are changing and they wield greater clout. Vendors are scrambling to adjust their own strategies to heed these demands.

Of the senior operations officers surveyed, only 17% rated their primary vendor excellent in software support, with another 33% saying they were very satisfied. But 25% were neither satisfied nor dissatisfied, and 14% were displeased.

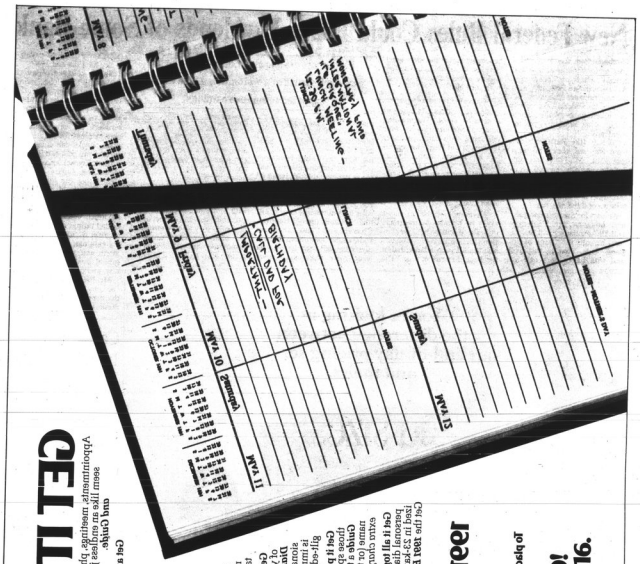
Peter Crowell, president of Chase Access, a computer services unit of Chase Manhattan Bank in New York City, said that dealing with software is new ball game for the top three hardware vendors.

Focus Shifts

Mr. Crowell pointed out that as hardware reliability has increased, both users and vendors have turned their attention to software. "Hardware price/performance keeps getting better, and customers therefore get a better deal. But how do vendors make money? They focus on software."

Mr. Greene said much existing software in banks is old and has been installed for a long time, making it too inflexible for the adjustments and changes that banking customers demand. "It takes a longer period of time to solve problems," he said. "You have a lot of rewriting, which is time-consuming and expensive."

Ms. Robinson is a business writer based in New York.



New Federal Rules Could Erase Dividends of Some Banks

Continued from *page 1*

icks, senior banking analyst and general partner of Montgomery Securities in San Francisco, said the new rules are "meaningless" because the Federal Reserve will not adhere to them when determining what banks may pay for dividends.

"If they [the Fed] don't like what they see, they'll do what they want," Mr. Fredericks said.

But eventually, he said, regulators will insist that banks pay dividends only out of recent earnings, a requirement that goes beyond the new rules.

At least for the next few quarters, however, Mr. Fredericks said the regulators will invoke what he calls the "Bank of England" rule. That is, they will deal with banks on a case-by-case basis and allow them grace periods to restructure so they will be able to cover dividends with earnings.

Chase Is Prime Example

Mr. Fredericks said Chase was a case in point. The holding company cannot currently cover dividends with earnings under the new or old rules. But regulators are allowing it to continue payouts because of a restructuring plan that is expected to improve earnings.

"They have Chase on a short leash," he said.

"Dividends will be cut, but it won't be because of the [new] formula. It will be because they won't be earning the money," said Mark Lynch, a bank analyst for Bear, Stearns & Co. "The chairman [of the Federal Reserve Board] won't go to the chief financial officer of a bank and ask, 'How are we doing on the formula?' " But regulators will be stricter in ensuring that banks can pay dividends out of current earnings, he said.

Regulators are allowing Chase to continue payouts because of a restructuring plan that is expected to improve earnings.

According to Mr. Soifer, the Fed is most likely to fudge the rules for a number of large banks like Manufacturers Hanover, Citicorp, and Chase. These are some of the institutions that analysts say will soon have to set aside more reserves to cover losses on loans to lesser-developed countries.

Although regulators may force dividend cuts over real estate and other loan losses, they are not likely to do so over LDC losses, he said.

Grandfather Clauses

John L. Walker, a partner with Simpson Thacher & Bartlett, noted that the impact of the new rules may also be mitigated for many banks because of grandfather clauses allowing the current rules to be used in calculating their dividend-paying capacity for 1988 and 1989.

Those clauses mean that banks with LDC loans, many of which took large writeoffs in 1989, would not be hurt by the changes that do not allow reserves to be counted as part of earnings. (In determining current earnings for dividend purposes, banks can draw on the current and past two years.)

Brent Erensel, an analyst with Donaldson, Lufkin & Jenrette, argued that the impact of the new rules would be limited by other considerations of regulators. He said they will be paying as much attention to banks' Camel ratings as to their ability to cover dividends with operating earnings. (Camel ratings refer to assessments of a bank's capital, assets, management, equity, and liquidity.)

Mr. Erensel said he could not "see any company headed for a dividend reduction because of these rules." □

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California Banks In Pact to Merge

PLEASANTON, Calif. — Mission-Valley Bancorp and Northern California Community Bancorp Inc. said they have executed a letter of intent to merge. The resulting $773 million-asset banking company would be named California Banchares Inc.

The companies said the proposed merger will combine them on an equal basis with the exchange ratio equalizing the book value per share of Mission-Valley and Northern California.

Some Shareholders to Gain

At the current book values of the two companies, each share of Mission-Valley common would get one new share of California Banchares stock, the two companies said.

Northern California shareholders would get about 1.23 new shares for each share of existing common stock.

The merger, which depends upon execution of a definitive merger agreement, shareholder approval from both companies and regulatory approval are expected to be completed during the first half of 1991.

— Reuters

Synovus Signs Pact With Citizens Federal

COLUMBUS, Ga. — Synovus Financial Corp. said it has signed a definitive agreement to acquire the $130 million-asset Citizens Federal Savings and Loan Association, Rome, Ga.

The companies signed a letter of intent on July 3, calling for Citizens to convert its mutual ownership to stock form and for Synovus to acquire all of the issued shares. They expect to complete the deal in the fourth quarter pending approvals from state and federal regulators and Citizens depositors. □

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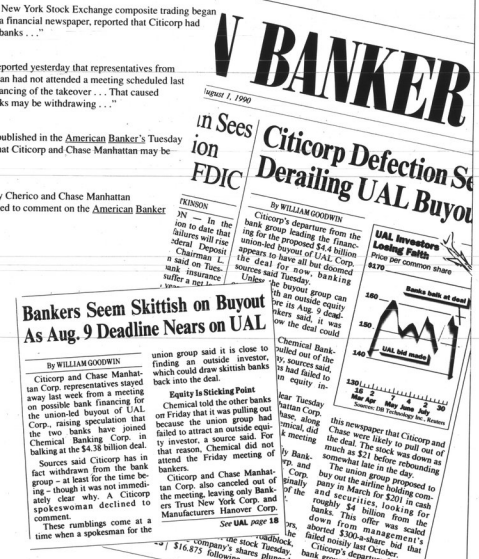
"Citicorp spokeswoman Holly Cherico and Chase Manhattan spokesman Ken Mills declined to comment on the American Banker report."
—*AP*



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File No. 3002-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT: To The distributees of Conrad H. Waldstein, if living and if they or any of them died leaving then their respective personal representatives, distributees and successors in interest, all of whose names, places of residence and post office addresses are unknown and cannot after diligent inquiry be ascertained. Public Administrator, County of New York Attorney General, State of New York A petition having been duly filed by Henry H. Graves, Jr. who is domiciled at 23 East 39th Street, New York, New York 10016 YOU ARE HEREBY CITED TO SHOE CAUSE before the Surrogate's Court, New York County, at Room 509, 31 Chambers Street, New York, on September 18, 1990, at 9:30 a.m., why a decree should not be made in the estate of Conrad H. Waldstein, late domiciled at 23 East 39th Street, New York, New York 10016 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 14th, 1987 (a copy of which is attached), and granting unto Letters of Testamentary issue to Henry H. Graves, Jr. (State any further relief required) Dated, Attested and Sealed, July 31, 1990. (L.S.) HON. MARIE M. LAMBERT Surrogate, County of New York Robert M. Reaves, Clerk of the Surrogate's Court Name of Attorney: Steven E. Mayer Telephone Number (212) 206-1666 Address of Attorney: 186 Fifth Avenue, New York, New York 10010. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

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File No. 3445-1987 CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD, FREE AND INDEPENDENT To Attorney General of the State of New York; "Bobby" Howard (true first name unknown), if living, and if dead, her successors, administrators, successors and assigns, whose names and post office addresses are unknown and cannot after diligent inquiry be ascertained by the petitioner herein; William Grimaldi, Justice Supreme New York Telephone; William V. Layman; Krimpapa Sangaramo; Nassau Hospital; Nassau Hospitals Corporation; Joseph T. Arenson; And to the distributees of WILLIAM HOWARD, also known as AMERICUS GRIMALDI, deceased, whose names and post office addresses are unknown and cannot after diligent inquiry be ascertained by the petitioner herein, being the persons interested as creditors, legatees, devisees, beneficiaries, next of kin or assignees of the estate of WILLIAM HOWARD, also known as AMERICUS GRIMALDI, deceased, who at the time of his death was a resident of 12 West 72nd Street, New York, N.Y. Send Greeting: Upon the petition of the Public Administrator of the County of New York, having for his official residence in the Surrogate's Court Building, 31 Chambers Street, New York, N.Y., You and each of you are hereby cited to show cause before the Surrogate's Court of New York County, 31 Chambers Street, in the County of New York, on September 28, 1990, at 9:30 a.m., why the account of proceedings of the Public Administrator of the County of New York, as administrator of the goods, chattels and credits of said deceased, should not be judicially settled. Dated, Attested and Sealed, Aug. 03, 1990. (L.S.) HON. MARIE M. LAMBERT, A.S. Surrogate, New York County Robert M. Reaves Clerk. Attorney: Robert Bekerman, P.C. Tel. No. (212) 732-9400 Address: 291 Broadway, New York, N.Y. 10007.

File No. 3002-90 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT: To The distributees of Conrad H. Waldstein, if living and if they or any of them died leaving then their respective personal representatives, distributees and successors in interest, all of whose names, places of residence and post office addresses are unknown and cannot after diligent inquiry be ascertained. Public Administrator, County of New York Attorney General, State of New York A petition having been duly filed by Henry H. Graves, Jr. who is domiciled at 23 East 39th Street, New York, New York 10016 YOU ARE HEREBY CITED TO SHOE CAUSE before the Surrogate's Court, New York County, at Room 509, 31 Chambers Street, New York, on September 18, 1990, at 9:30 a.m., why a decree should not be made in the estate of Conrad H. Waldstein, late domiciled at 23 East 39th Street, New York, New York 10016 in the County of New York, admitting to probate as a will of real and personal property a paper dated November 14th, 1987 (a copy of which is attached), and granting unto Letters of Testamentary issue to Henry H. Graves, Jr. (State any further relief required) Dated, Attested and Sealed, July 31, 1990. (L.S.) HON. MARIE M. LAMBERT Surrogate, County of New York Robert M. Reaves, Clerk of the Surrogate's Court Name of Attorney: Steven E. Mayer Telephone Number (212) 206-1666 Address of Attorney: 186 Fifth Avenue, New York, New York 10010. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

Auction Notice

DEFAULT In Security Agreement Made By C.B.L. Dry Cleaners, Inc. to Medallion Funding Corp. I Will Sell On 8/24/90 At 2:30 PM At 215-05 Northern Blvd., Bayside, NY, All Right, Title & Interest In & to Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right to Bid. Frank E. Seipp, Esq. Attorney for Secured Party. F.E.S. AUCTIONS INC, As Agents

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Rating Firm in London Says It Likes U.S. Banks

Continued from *page 1*

mail range has opened up in the debt ratings assigned to banks by the three agencies.

Between December 1988 and August 1990, IBCA said, for example, Moody's downgraded the average rating for 32 of the largest U.S. banks to between A-minus and BBB-plus, from A. S&P downgraded the same banks to between A and A-minus, from A and A-plus, IBCA said, but the London firm downgraded those banks to a low A from between A and A-plus.

In some instances, IBCA has maintained its ratings on a bank despite downgradings imposed by the other ratings agencies.

For example, IBCA has maintained its A-minus rating on Citicorp since December 1988, whereas Moody's downgraded the banking company this year to A-minus from A-plus.

The Cost to Citicorp

Attacking the "excessive power" of the rating agencies, IBCA said the Moody's downgrading "reduced the pool of potential investors in Citicorp securities, cost Citicorp an estimated $5 million to $10 million a year, just for its commercial paper program, and tarnished" the bank's image.

The reason for the divergence in views between IBCA and Moody's, it has not think that Citicorp has the management and the ability to deal with the problems," said Mark Gross, an IBCA analyst in New York.

Telling Investors in Advance

The Moody's policy, he added, is to alert investors to unhealthy credit concentrations that could pose problems, such as in real estate, rather than just to recognize losses that have occurred.

"We're not suggesting that these banks aren't going to make it. The vast majority of banks we rate are in good shape," Mr. Mahoney said. "But you could be quite profitable today while subject to asset concentrations that could cause problems very quickly."

Robert Swanton, assistant vice president at S&P, also denied that his agency has moved too fast to downgrade banks.

"There has been, without question, a deterioration in the real estate market that warrants close scrutiny of banks' assets. The deterioration is asset quality. is not a figment of anybody's imagination," Mr. Swanton said.

He also rejected implications that too rapid downgradings of debt ratings increase problems for banks. "If we change a rating and that exacerbates the situation, it may mean that people are retroactively recognizing something that maybe they should have recognized beforehand," he said.

IBCA acknowledged in its report that industry overcapacity; mounting highly leveraged transactions, real estate lending problems, and economic recession are serious problems for U.S. banks.

Nonetheless, equity ratios of major U.S. banks ended the 1980s at 5.32%, close to the 5.26% level in 1982, the agency said. And noninterest income of U.S. banks increased to 1.85% of average assets at yearend 1989, from 1.08% in 1982, it said.

Statistics Tell a Tale

Nonperforming-asset ratios, excluding Third World loans, also declined to 2.39% from 2.67% in 1982, IBCA added, and net medium- and long-term problem Third World loans were less than 25% of equity at yearend 1989, compared to 125% in 1982.

Though the report cited figures for yearend 1989, Mr. Gross said the agency's conclusions take account of developments affecting banks in the first half of this year.

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>
> **Christopher Mahoney**
> *Moody's Investors Service*

Farm Loan Market Seen as Steady

CHICAGO — Farm real estate lending will continue to expand in the third quarter of 1990 after a healthy second quarter for rural credit markets, the Federal Reserve Bank of Chicago said.

In a survey of agricultural banks in its district, the Federal Reserve Bank said that farm loan demand was strong and that banks had ample funds available for lending to farmers.

The survey covers banks in northern Illinois, northern Indiana, Iowa, southern Wisconsin, and southern Michigan.

Loan Demand Shows Strength

Farm loan demand at the banks, although down slightly, continues to show strength, according to the report.

About 60% of the banks reported an increase in farm loan demand during the spring months, while 40% said farm loan demand had not changed from year-ago figures.

Farm loan demand showed strength in Iowa and Indiana, while Wisconsin banks were near the district average. Illinois and Michigan banks reported lower-than-average farm loan demand during the second quarter.

Ample Funds Available

Loan availability rose sharply in late 1989 and has remained at a high level, with 30% of the banks reporting that funds available for lending to farmers were up from figures of a year ago.

Interest rates charged on loans to farmers were lower than last year's figures, but were unchanged after dropping during the last four quarterly surveys, the Federal Reserve said.

— Reuters

NY Chamber of Commerce Names Labrecque Director

NEW YORK — Thomas G. Labrecque, president and chief operating officer of Chase Manhattan Corp., and the Chase Manhattan Bank, has been elected a director of the New York Chamber of Commerce and Industry and of its sister organiza-

tion, the New York City Partnership.

Mr. Labrecque will become Chase Manhattan's chairman and chief executive officer on Oct. 31.

LEGAL ADVERTISING

Foundation Notice

NOTICE

The annual report of the MEHDI MAHBOUBIAN FOUNDATION for the fiscal year ended February 28, 1990 is available at its principal office located at 321 5th Avenue, New York, NY 10016, (212) 684-3440 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Mehdi Mahboubian.

Green Light for Huntington

COLUMBUS, Ohio — Huntington Bancshares Inc. said it has received all necessary approvals from shareholders and regulators for its acquisition of First Home Federal Savings and Loan Association, Sebring, Fla.

Among the approvals, the Office of Thrift Supervision allowed Huntington to open a branch in Naples, Fla., to offer private-banking services. First Home has eight other offices and $208 million in assets.

Bank Call Notice

REPORT OF CONDITION
Consolidating domestic subsidiaries of the

REPUBLIC NATIONAL BANK OF NEW YORK

of New York City

in the State of New York, at the close of business on June 30 1990, published in response to call made by the Comptroller of the Currency, under title 12, United States Code, Section 161. Charter Number 19349 Comptroller of the Currency Northern District

Statement of Resources and Liabilities

(Thousands of dollars)

ASSETS	
Cash and balances due from depository institutions:	
Noninterest-bearing balances currency and coin	$ 261,460
Interest-bearing balances	6,422,294
Securities:	3,711,819
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds sold	707,000
Securities purchased under agreements to resell	24,009
Loans and lease financing receivables:	
Loans and leases, net of unearned income	44,882,712
LESS: Allowance for loan and lease losses	201,114
Loans and leases, net of unearned income and allowance	4,681,598
Assets held in trading accounts	53,661
Premises and fixed assets (including capitalized leases)	326,462
Other real estate owned	43
Investments in unconsolidated subsidiaries and associated companies	486,863
Customers' liability to this bank on acceptances outstanding	2,610,612
Intangible assets	2,152
Other assets	1,180,315
TOTAL ASSETS	$21,898,173
LIABILITIES	
Deposits:	
In domestic offices	$ 5,313,610
Noninterest-bearing $ 884,264	
Interest-bearing 4,429,346	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	8,884,450
Noninterest-bearing 70,431	
Interest-bearing 8,813,979	
Federal funds purchased and securities sold under agreements to repurchase:	
Federal funds purchased in domestic offices of the bank and of its Edge and Agreement subsidiaries	952,650
Securities sold under agreements to repurchase	42,996
Demand notes issued to the U.S. Treasury	2,380,660
Mortgage indebtedness and obligations under capitalized leases	2,209
Bank's liability on acceptances executed and outstanding	2,617,762
Notes and debentures subordinated to depositors	2,000
Other liabilities	982,431
TOTAL LIABILITIES	20,381,369
EQUITY CAPITAL	
Perpetual preferred stock	100,000
Common stock	160,000
Surplus	903,000
Undivided profits and capital reserves	353,483
Net unrealized holding gains (losses) on available-for-sale securities	0
Cumulative foreign currency translation adjustments	0
TOTAL EQUITY CAPITAL	1,516,804
TOTAL LIABILITIES AND EQUITY CAPITAL	$21,898,173

I, John D. Kalerie, Jr. Executive Vice President and Comptroller of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

JOHN D. KALERIE, JR.
August 17, 1990

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

JOSEPH DIN
JOSEPHINE GOMEZ
CARLOS ALBERTO VIERA
Directors

Dov D Goldman
Richard Parsons
Ernest Grunberg
Directors

FINANCE

DEALS: Troubled Health-Tex Reports Talks with Potential Buyers

By WILLIAM GOODWIN

Operating under yet another extension from its lenders, Health-tex Inc. is holding talks with a number of potential buyers of the troubled maker of children's apparel.

"We are discussing the possibility of the sale" of the company, said Eric Margolin, Health-tex's general counsel. He refused to characterize the status of the talks, or identify the potential buyers.

No Payments in Two Years

The company hasn't made interest or principal payments on its roughly $200 million in bank loans for more than two years.

Health-tex was spun off from Chesebrough-Pond's Inc. in a $235 million leveraged buyout in 1985. The LBO was financed by a group of 10 banks led by Bank of New York.

Under a March 1988 standstill agreement that has been extended numerous times, the banks have agreed not to force a liquidation of the company. The standstill agreement is currently set to expire Sept. 30.

"There has been a lot of forbearance on the part of the banks," said a spokeswoman for Ameritrust Corp. of Cleveland, a member of the bank group.

Union Lobbies Banks

At the same time, though, the banks have been the target of a high-profile campaign by the Amalgamated Clothing and Textile Workers Union, which represents the company's workers.

Unless a buyer emerges soon, the banks may run out of patience.

In an effort to pressure the banks into giving the company more time to turn itself around or find a buyer, the union has staged demonstrations at the banks' offices.

While the banks extended the standstill agreement to Sept. 30, the unions may be back, seeking further extensions.

"We're saying, these banks promoted a very imprudent LBO," said William Patterson, a union spokesman. "What makes sense now is a patient strategy" by the banks, he added.

At one point, a union-led buyout of the company was considered. "That is not a prominent option" right now, Mr. Patterson said.

Outside Buyer Sought

Instead, the union is apparently focusing on finding an outside buyer that would be committed to sustaining the company's domestic operations.

Mr. Patterson suggested the union might be a partner in such a buyout through a collective bargaining contract, or some other arrangement. He declined to be more specific.

However, unless a buyer emerges soon, the banks may run out of patience.

Hurt in part by increased foreign competition, Health-tex continues to lose money, one banking source noted.

Meanwhile, Health-tex announced last month that its board named Alan Cohen its new chief executive. Mr. Cohen, chairman of Alco Group, a financial services firm in New York, is a liquidation expert. □

Integrated Halts Investment Fund Sale to Krupp

By STEPHEN KLEGE

Bankrupt Integrated Resources has broken off an agreement to sell four mortgage investment funds for $45 million to Krupp Companies, Boston, dismissing creditors' hopes of a maximum return on the assets.

While the effort to sell control of the funds, consisting of $642 million of insured mortgage investments, has stalled, CRI Insured Mortgage Association, Bethesda, Md., is negotiating with an exchange offer to the limited partners. The creditors, led by Manufacturers Hanover Corp. and Chemical Bank, have estimated a successful offer by CRI would cut their return in half, compared to the deal with Krupp.

Hanover and Chemical are Integrated's largest creditors at $55.8 million and $51.57 million, respectively.

Stephen D. Weinroth, chairman and chief executive of Integrated, denied CRI's charge that an amendment to the partnership agreements illegally reduced the limited partners' control over the funds. It merely set up "a mechanism for independent fee setting" for management of the funds.

Mr. Weinroth said Integrated remains free to negotiate with parties who have expressed an interest in control of the funds "including CRI, if they want to pay for it."

Since filing for reorganization under Chapter 11 of the bankruptcy code in February, he said, Integrated has closed on the sale of 17 assets, with a "substantial part" of the $368 million of proceeds to be distributed among the creditors.

Krupp made its offer following a U.S. Bankruptcy Court auction. But Judge Howard C. Buschman 3d ordered the parties to work out a new deal, eliminating a provision that the deal was contingent on CRI being out of the picture.

"Krupp said in a release that a "litigation contingency required by Krupp's lender was unacceptable to Integrated Resources." □



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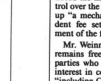


THE PREMIER ATM NETWORK

BANK AND THRIFT STOCKS

Highlights for Wednesday, August 22

TOP 10 GAINERS ½

Susquehanna Bancshares,Inc.	4.4
Multibank Financial Corp.	4.4
Equimark Corporation	3.9
Northeast Bancorp, Inc.	3.5
Southern Banking Corporation	3.4
Valley Capital Corporation	3.2
TrustCo Bank Corp NY	3.1
First Commercial Corporation	2.9
Firstbank of Illinois Co.	2.9
Lincoln Financial Corporation	2.7

TOP 10 LOSERS ½

Keystone Heritage Group, Inc.	-23.1
CulleenFrost Bankers, Inc.	-8.9
Northern Calif. Community Bncp	-8.6
Sunwest Financial Services	-7.7
First Security Corporation	-5.9
Wells Fargo & Company	-5.8
Lake Shore Bancorp, Inc.	-5.8
NCNB Corporation	-5.6
Mellon Bank Corporation	-5.5
Wesbanco, Inc.	-4.8

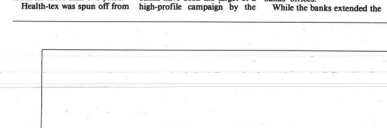
MOST SHARES TRADED

Citicorp	1434800
BankAmerica Corporation	1020200
Wells Fargo & Company	554400
Chase Manhattan Corporation	471000
Midlantic Corporation	465200

VOLUME AS % OF AVERAGE

Commerce Bancshares, Inc.	2579.2
Northern Calif. Community Bncp	758.4
Keystone Heritage Group, Inc.	749.5
First Security Corporation	632.5
Merchants National Corporation	600.8

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts 1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
1.68	-6.85	12.40	-0.88	-6.95	13.83	-1.47	-8.05	17.81

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	18¼	1stSourceCorp IN	6.3	87.4	19¾	…
14½	10¼	AffiliatedBancshs CO	15.3	62.4	11	…
28⅜	18⅜	AmSouthBancorp FL	7.9	82.3	20	-¼
19¼	13¾	AmconnFnl IL	8.0	82.0	13⅜	-¼
29	14	AmerNationalCom OK	23.7	79.0	14	…
22¼	18¼	AssociatedBanc WI	8.4	115.0	18¾	-¼
14½	11¾	B&T FinCorp IN	7.9	96.7	12½	…
15¾	7¾	BallstonBanc MD	6.6	47.0	9	…
48⅜	35	BancFirst OK	10.5	133.9	41¼	-1
33½	24½	BancOneCorp OH	9.2	142.8	34½	-⅜
25	16¾	BancPopularPR	5.6	86.8	17¼	-¼
56⅜	39¼	BancorpHawaii HI	7.5	126.6	39½	-¼
27¼	18	BancorpSouthMS	7.0	88.9	18⅜	-¼
30¼	20¾	BankAmericaCorpCA	4.3	80.8	20⅜	-⅜
24	17¾	BankBostonCorp MA	12.3	216.9	23	…
23⅜	7¼	BankNorthGroup MI	NM	44.9	7¼	-¼
23¾	14¾	BankSouthCorp GA	NM	61.2	14¾	-¼
67¼	38⅞	BankersTrustNY	NM	114.6	38	-¼
21½	10¼	BarnettBanksFl	5.0	54.4	10¾	-¼
29⅜	16¾	BayBanksInc MA	NM	96.3	16¾	…
53¾	23¾	BeaconFnl NY	NM	66.1	23¾	…
57¼	38	BeneficialNewsCorp	NM	45.8	41	…
82	61	BerkshireBcsh A	10.4	100.8	64	2
39⅜	24¼	BerkshireHathaway FL	7.7	90.4	34⅜	-⅜
40¼	11¼	BkyBanksMA	NM	34.0	11¼	-¼
29¾	19¾	BoatmensBancshs MO	7.1	82.4	19¾	-¼
25¼	15¼	BoulevardBancs IL	221.4	100.9	15¼	…
13⅜	8¾	BrenhamBcsh	7.4	101.1	14¼	…
43⅜	30¼	CCB FinCorp NC	7.8	104.3	30¼	-¼
29¾	15¼	CNB BancsharesIN	10.1	121.4	21	…
22⅜	18¾	CNB BancsharesIn	10.1	121.4	21	…
27	19¾	CNB Inc IA	9.3	133.7	19¾	-¼
28	12¾	CVB FinCorp CA	8.7	199.8	12¾	…
33¾	17	CalFedBancCA	7.4	138.0	18	…
18¾	12¾	CentralBcshrsKs	6.9	93.9	14¼	…
13⅞	10¼	CentralFidelity VA	7.1	100.4	20¾	…
27	10½	CentralJerseyNJ	6.3	74.8	10¾	-¼
25¾	17¾	ChaseManhattanNY	NM	49.7	17¾	-¼
41¾	20¾	ChemicalBankingNY	NM	65.1	22¾	-¼
36	26	CherokeeFnl GA	8.7	95.0	30	…
35¼	17¾	CitizensNY	NM	69.9	17¾	-¼
25¾	15¾	CitizensBancorpMD	7.3	89.5	15¾	-¼
29¼	20¾	CitizensBanking MI	7.4	70.3	21¼	…
15¼	7¾	CitizensFnl KI	NM	111.3	8¾	…
34⅜	19¼	CitizensSouthrn GA	5.7	86.0	19¾	-¼
29¼	14¾	CitizensUtilities A	10.6	100.0	14¾	-¼
22¾	12¾	ColoradoNatlBcsh CO	33.4	75.1	13¾	…
58¾	37¼	CommerceBank PA	8.7	88.7	37¼	-¼
29¾	21¼	CommercialBcshs MO	7.0	94.4	22	…
20¾	15¾	CommercialFnl TX	7.0	96.4	15¾	-¼
37¼	19¼	ConstellationNJ	7.0	39.4	11¼	…
28¾	8¾	CoreStatesFnl PA	7.1	42.8	8¾	-¼
49¾	32¾	CoreStatesFinCp PA	6.9	123.3	33	…
34	17¾	CrestarFinancial GA	6.3	75.6	17¾	…
18¼	7¾	CulleenFrost TX	33.3	43.3	9	-⅜
37¾	20¾	DauphinDeposit PA	8.0	118.0	20	…
32	21¼	DepositGuaranty MS	7.4	65.6	21¼	…
25¼	11¾	DimeBancorp NY	7.8	74.4	11¾	…
14⅜	3¾	EquimarkCorp PA	NM	25.3	3¾	-¼
21¼	11¼	EvergreenBcsh MI	6.7	85.0	11¼	…
15⅜	12¼	F & M NatlCorp VA	10.0	153.5	12¾	-¼
14¼	11¼	FNB CorpPA	8.0	94.0	13¼	…
26	21¼	FNB BancorpIL	10.2	168.6	22	…
29	27¼	FarmersCapitalKY	13.3	118.6	27¼	…
36⅜	28¼	FifthThirdBancpOH	9.7	149.4	28¼	-¼
38⅜	31	FinancialTrustIN	8.9	134.1	33¾	…
51½	33	FirstTierNebC	8.1	86.2	33	…
19¼	15¼	FirstBancorpNC	7.9	105.1	15¾	…

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
25¾	19¾	FirstAmerCorpTN	NM	57.5	19¾	-¼
34½	21¾	FirstBancorp OH	7.5	89.0	22½	…
24¼	12¾	FirstBankSystem MN	9.5	74.7	13¾	…
49¾	22	FirstChicagoIL	6.7	62.7	22¾	…
29½	22½	FirstCitizensNC	8.7	107.2	22½	…
39½	17	FirstCityBcsp TX	2.6	49.8	17¾	-¼
18¾	11¾	FirstCommIL	18%	11.4	11%	…
23¾	17½	FirstCommCorp LA	8.1	91.3	17¾	-¼
20	21¼	FirstCommFinc AZ	8.8	88.7	20¼	…
21¾	17¾	FirstCommerce AL	8.8	108.2	17¾	…
21¾	17¾	FirstCommerce GA	8.8	108.2	17¾	…
16¾	13¾	FirstCommunity IL	10.9	113.2	15¾	…
23¾	15¾	FirstCommwlth PA	7.0	83.3	15¾	…
73	52	FirstEmpire NY	7.0	92.1	52	…
33⅜	13¾	FirstFidelity NJ	NM	69.9	14¾	…
50	36	FirstFidelityCorp	11.4	140.4	36¼	…
34¼	18¼	FirstFlorida FL	9.0	69.1	18¾	-¼
36¾	19	FirstHawaiianInd	8.8	149.0	19¾	…
11	6¾	FirstIllinois IL	8.8	149.9	6¾	…
39¾	26¼	FirstInterstateCA	7	5%	FirstInterstate IA	…
13¾	13¾	FirstInterstateCpNE	8.3	99.3	13¾	…
24⅜	16½	FirstKidderbrd IL	9.1	128.9	16½	-¼
20½	19	FirstMarblehead MA	7.5	121.6	19¾	…
44	19¼	FirstPeoples NJ	4.6	72.7	19¼	-¼
19¾	12	FirstSecurity KY	10.2	82.2	12	…
18	13¾	FirstSecurity NC	12.5	165.5	14	…
33¾	24¼	FirstSecurityUT	7.0	72.9	24¼	…
25¾	15¾	FirstTennessee TN	7.4	89.1	21¾	…
25¾	14¾	FirstUnionCorpNC	8.0	72.3	14¾	…
35¾	21¼	FirstVirginia VA	6.7	94.8	21¼	-¼
20¼	37¼	FirstWachoviaVA	9.5	142.7	37¼	…
35	26¼	FirstarCorp WI	6.7	105.2	26¼	-¼
20¼	17¼	FirstbankIL&IL	10.4	174.4	17¾	…
55¾	41¼	FirstofAmerica MI	7.0	88.8	41¼	-1¼
29¾	15	FleetNorstar RI	11.5	80.6	15	…
25	19	FortWorthNatlCp IN	8.2	99.6	19	-¼
28	20¾	FourthFinCorpKS	13.2	144.9	20¾	…
21¾	14½	FultonFinCorp PA	7.0	108.8	14¾	-¼
26	14¼	GBC BancorpCA	7.5	184.3	18¾	…
15¾	8¾	GeorgiaSouthern MS	17.8	68.1	9¼	…
9¾	6¾	GeorgiaBancorp IA	3.5	57.8	6¾	…
21¼	14¾	HarleysvilleSvs IL	8.7	115.7	15¾	…
26	14¼	HiberniaCorp LA	10.6	103.9	14¼	…
20¼	12¾	HuntingtonBcshs OH	6.4	83.1	12¾	…
32¾	18¾	HUBFinCorp FL	7.3	83.0	18¾	…
27¾	13¾	ImperialBancorp CA	5.8	84.1	13¾	…
38¾	18	IndependentBcshs IA	7.6	91.4	18¾	…
30¾	19	IntegraFnlCp PA	13.1	85.7	19	…
18¾	12¾	InvestmentBancorp IN	8.1	110.8	12¾	-¼
48	32¾	J.P. MorganNY	NM	136.2	32¾	…
26¼	17¾	JeffersonBancshs VA	7.5	98.7	17¾	-¼
15¾	11¼	KeyCorporation NY	9.2	96.3	11¼	…
25¾	17¾	KeyCorp NY	9.2	96.3	17¾	…
26	20¼	KeystoneFnl PA	7.8	111.7	20¼	…
35¾	20	KeystoneHeritage PA	3.6	20	20	-6
14⅜	8¾	LaSalleNational IL	13.0	184.0	10⅜	-¼
20¼	14¼	LakeShoreBancs OH	14.3	174.3	20¼	-1¼
18	9¼	LandmarkBancshs MO	6.7	53.2	9¼	…
35¾	23¾	LibertyBancShares OK	7.6	98.1	23¾	…
27	17½	LincolnFinCorp IN	6.7	82.2	18¼	-¼
28¾	19¾	MBC FinancialMD	11.5	92.7	19¾	…
13	11¾	MagnaGroup IL	8.5	86.4	12	…
60	38¼	ManufacturersNatl MI	5.8	87.7	38¼	-¼
44¾	28¾	ManufacturersNY	NM	84.1	28¾	-1
21	16¾	MarineCorp IL	12.3	139.2	20¼	…
20½	13¾	MarshFirstBcshrs MO	7.8	98.0	14¾	…
37¾	27¾	MarshallBcshs WI	7.6	98.1	27¾	…
35¾	19¾	MattoonBcshsCorp IL	3.9	63.1	19¾	-¼
39¼	21	MercantileBcsh MD	7.6	115.8	18¼	…
90¾	44	MercantileBank NY	11.1	181.7	44	-½
27	19¾	MerchantsNat IN	9.3	77.0	19¾	-¼
25⅜	12¾	MerrillandBancorp PA	5.9	71.1	12¾	-¼
56	34¼	MichiganNatCorp MI	2.1	49.5	34¼	…
18¾	12¾	MidAmericaKY	8.6	83.1	13	-¼
23¼	17	MidlinInc OH	8.6	133.2	17¾	…
47½	5%	MidlantdCorp NJ	6.5	26.5	5%	-¼
25⅛	1¾	MultibankFl	NM	30.0	4	…
35¾	27¾	NBD BancorpMI	7.8	113.8	27¾	-¼
53	33¾	NCNB CorpNC	6.2	115.8	33¾	-⅜
26	16	NCalCommBncpCA	12.5	131.5	16	1¼
41¾	31¾	NationalCityCp OH	7.3	123.3	32¾	-¼
51	35	NationalPenn PA	10.8	191.7	37	1
31⅝	25⅛	NatlBancorpMR AR	9.3	111.8	29	…
25	20¼	NatlCommerce TN	9.4	163.8	22	…
44¾	15¾	NatlCommunity NJ	5.3	78.3	15¾	-¼
20¾	8½	NorthFoodBanc WI	4.5	52.8	8¾	-¼
72	10¾	NorthwestBancCP	NM	37.5	11¼	-¼
33¾	23¾	NorthernTrust IL	7.9	148.1	24¾	-¼
23¾	17¾	NorwestCorp MN	6.9	126.6	17¾	…
32¼	20¾	OhioBancpOH	8.4	86.2	20¾	…
29¾	22¼	OldKentFinCp MI	7.4	103.6	22¼	-¼
26¼	24	OldNatlBancpIN	12.7	152.9	24	…
25¾	19	OneNorthBancs WI	9.9	84.3	20¼	…
48¼	24	PNC FinCorp PA	7.4	82.6	24	-¼
16¾	10¼	PacificBancorp CA	10.3	146.6	14¾	…
18¾	6¾	PacificNorthwest CA	6.6	120.9	6¾	…
13⅜	8¾	PeoplesBancorpNC	8.8	113.2	9¾	…
27	18¾	PeoplesNatlNY	8.3	115.0	21	…
15⅜	9¾	PeoplesCommerce CA	7.7	143.9	10	…
19¾	9¾	PremierBancorp LA	19.4	57.8	9¾	-¼
27	21¼	ProvidentBanc OH	9.7	124.4	22	-¼
14	5¾	ProvidentBcshs MD	NM	35.9	6¼	…
27¼	17¾	PugetSoundBancWA	9.9	96.4	18	…
52¾	42¾	RepublicNYCorp NY	13.8	115.3	43¼	-¼
26¼	12	RiggsNatlCorp DC	7.7	56.1	13¾	-¼
29¾	25	RiverFinnclL	12.4	275.5	27¾	…
42¾	18¾	SantaAnnaBancsCA	9.7	180.6	21¼	-¼
23¾	16	SecurityBancorpKY	7.1	120.9	16	…
51¾	28¾	SecurityPacific CA	4.3	72.4	27	-¼
28¾	8¾	SeversvilleTrstCorpMA	NM	47.4	9	…
42¾	14½	SignetBanking VA	4.5	53.6	15¼	-½
38¾	27¾	SouthCarCorp SC	8.6	95.0	27¾	-¼
27¾	16¾	SouthCarolinaCp SC	6.5	84.4	16¾	-¼
17¾	12¾	SouthwestBcCorp FL	NM	35.9	7¾	-¼
15¾	11¼	SouthernNatCp NC	9.2	126.8	11¼	-¼
25¾	16¾	SouthtrustCorp AL	6.5	86.6	16¾	…
43¾	23¾	SovereignCorp PA	6.2	86.9	23¾	…
24¾	18¾	Star Banc Corp. OH	7.8	100.8	18¾	-¼
42¾	32¾	StateStBcsCorp MA	11.2	184.7	32¾	-¼
20¼	4¾	SuperiorBancorp	NM	101.6	5	…
25¾	16	SuburbanBancorp IL	13.3	86.0	17¾	…
20¾	20¼	SunBanksInc FL	4.3	69.1	20¼	-¼
25¾	19¾	SunwestCorp AZ	7.1	88.3	19¾	…
21¾	15¾	SunwestBancorp NJ	5.4	78.4	11	-¼
26¾	19¾	SunTrustBanksGA	7.5	115.9	20	-¼
24¾	14¾	SunwestFnlSvcs NM	7.1	79.2	15¼	-¼
23¾	16¾	SusquehannaBcsh PA	7.4	97.1	17¾	-¼
19	14¾	SyracuseNewsCo	15.7	231.2	14¾	…
16¼	13	TheFlaAtlancCorp FL	8.4	114.6	13¾	-¼
21¾	14¾	TheMidlandCompany	8.7	151.1	20¾	…
21¾	15	TrustcompanyNJ	7.4	123.4	15	…
27¾	17¾	TrustmarkCorp MS	8.1	71.4	17¾	…
27¼	20	U.S. BancorpOR	7.1	106.5	20	…
17¾	11¾	UJB FinancialNJ	11.1	170.7	12¾	…
28¾	10¾	UJB FinancialNJ	5.8	58.8	11	…
14	9¼	USF Corp AM	5.9	81.5	10¾	…
32	17¼	UnionBank CA	4.2	67.3	17¾	…
15¾	6¾	UnionPlanters TN	NM	53.8	6¾	…

TOP 25 THRIFTS (4 PM PRICES)

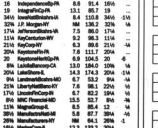
52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	18¼	AmericanCo	6.9	77.9	19¾	-¼
45⅜	30¾	AppleBancorp NY	6.4	55.6	31½	-1¼
20¼	15¾	CalFed Inc CA	22.6	94.9	19¾	…
55⅝	40¾	CitizensNgCp CA	8.7	64.2	40¾	-1
19¾	14¾	CoastSavingsCA	NM	29.8	15¾	…
16¾	5¾	DimeSvgsBk NY	NM	19.9	5¾	-¼
21	11	EmpireFederalCp	21.1	139.5	19¾	…
27	18¾	FirstFederalCA	6.3	105.4	19¾	-¼
18¾	10¾	FirstNiagaraCp	8.1	71.2	10¾	…
19¾	9¾	GLENFED	6.4	57.8	9¾	…
34¾	22¾	GoldenWestFn CA	8.4	133.0	34	…
14¾	12¾	GreaterNorthFedIL	12.5	113	13¾	…
13¾	1	GtAmericanBcsh CA	NM	9.0	1	…
47¼	31¾	HomeFedCpCA	NM	15.2	33¾	-¼
21¾	13¾	HomeSvgsBancWI	15.3	84.6	17	…
10¾	5¾	HMN BancpMN	9.9	44.1	9¾	-¼
10¼	5¾	People's Bank CT	29.6	38.9	5¾	…
25¾	9¾	PeoplesHeritageFn	6.8	54.2	10¼	…
18¾	9¼	RochesterCmtyS&H	6.1	38.9	9¼	-¼
22¼	6¾	SanDiegoFedSvgsCl	6.1	43.6	6¾	…
13¾	9¼	SFNetBancorp IL	NM	55.3	9¼	-¼
12¾	5¾	StandardFedBk MI	5.3	45.5	6¾	…
26¼	12	WahWumanSB MA	8.3	49.3	12¼	-¼
31¾	22¾	WashingtonFedSL MI	7.8	107.3	22¾	-2
11¼	6¾	WestcorpCA	9.7	82.3	6¾	-¼

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding (As of June 30, 1990, the market value cutoff for banks was $56.71 mil. and for thrifts $12.99 mil.) Also listed is the 52-week high and low prices for the stock, PE, the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. MB, to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Chg.: The price at which the stock last traded. If no trades for the day, the latest bid. AB Bank Index: a weighted average of the top 225 banks by market value and the top 50 thrifts in market value, respectively. Highlights show largest percent gainers in price, and two volume indicators most shares traded and today's volume as a percentage of average shares traded for the last 65 days.

Data sources: SNL SECURITIES, Charlottesville, VA 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides the info with the daily prices.

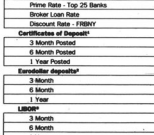
Libor Swap Yield Curve

August 15



Wednesday, August 22, 1990

August 22



Data source: Manufacturers Hanover Trust Co., New York

Description of tables: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used by active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates

	(August 22, 1990)		
	8/22	8/21	8/15
Federal Funds-domestic range:	7⅞–8	7¹⁵/₁₆–8	8¼–8⅜
Prime Rate – Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.70	7.65	7.40
6 Month Posted	7.75	7.75	7.40
1 Year Posted	7.85	7.80	7.45
Eurodollar deposits*			
3 Month	8⅛	8¹/₁₆	7⅞
6 Month	8⅛	8⅛	7⅞
1 Year	8¹/₁₆	8⅛	8.00
LIBOR*			
3 Month	8¼	8³/₁₆	8.00
6 Month	8³/₁₆	8¼	8.00
1 Year	8⁷/₁₆	8⅜	8¼

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (**)— Late London bid (***)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS
First Union's Price Plunge Sparks Interest

By GORDON MATTHEWS

NEW YORK — First Union Corp.'s stock price has hit new 1990 lows this week, prompting some analysts to declare a buying opportunity despite their lingering concerns about the impact of its last acquisition.

The southeastern superregional bank traded at $14.50 at noon Wednesday, down 25 cents on the day and off 27.5% since mid June. By comparison, the *American Banker* index of the nation's 225 largest banks has fallen 20%.

"The recent price decline in the stock provides an excellent buying opportunity that should be seized," said James. M. Rosenberg, a banking industry analyst for Shearson Lehman Brothers.



Mr. Rosenberg previously avoided a short-term buy rating for the stock while awaiting "proof that the projected cost savings from Florida would materialize."

First Union gets high marks from analysts for credit quality, but the Charlotte, N.C. banking firm has been criticized generally for its expense levels and specifically for paying too high a price last year for Florida National Banks of Florida.

Still, many market professionals believe it has built one of the strongest retail banking franchises in the country.

After several heady years in mid 1980's as a sweetheart of the new superregional class of banks, First Union fell out of favor from mid 1986 onward as investors worried increasingly about expensive acquisitions that diluted earnings per share.

$22 Billion in Acquisitions

The company acquired seven major banks and 15 smaller ones in four major southeastern states between November 1985 and last January. Total banking assets acquired totaled over $22 billion.

Now some market professionals think the pendulum is about to swing again.

"First Union is poised to return to favor during the next several years, whether or not other banks stage a rally," Francis X. Suozzo, banking analyst for S.G. Warburg & Co. Inc., said in a recent report.

He believes this is so because, among other things, the company is begin to "leverage its branch network, emphasizing strong consumer relationships as well as smaller and middle market commercial relationships."

Moreover, costs appear to be coming under control. Analysts at Goldman, Sachs & Co. noted recently that the company expects to gain more than $40 million in savings this year from the Florida National acquisition, plans to reduce non-interest expenses by 7% from last year and hold expense growth to less than 3% in 1991.

* * *

WEDNESDAY'S MARKET

Given the pounding bank stocks have taken in recent weeks, one bank has done something different about the slide in bank stock prices. Michigan National Corp., Farmington Hills, Mich., on Wednesday publicized a "letter to colleagues concerning stock performance," listing nine different reasons why it believes "the market (particularly the institutional investor) has overreacted to Michigan National's perceived problems."

Among other things, it noted that the bank's historic charge-off ratio, at 0.32% of loan, is "excellent compared to its peer banks."

The letter did not immediately bolster the bank's stock price, which was off 12.5 cents in late afternoon trading to $24.50.

Major bank and thrift stocks were mostly mixed in dull late summer trading on Wednesday as the stock market overall continued to slip lower.

The largest loser was NCNB Corp., down $1.625 to $32.125 while the biggest afternoon gainer was Society Corp, Cleveland, up $7.5 cents to $28.375. □

CAPITAL
Rising Long-Term Rates Tempt Few Banks

By KELLEY HOLLAND

With the Middle East oil crisis sparking fears of inflation, yields on long-term bonds have been rising steadily while short-term rates have remained relatively stable, steepening the Treasury yield curve.

But don't expect banks to jump to take advantage of the shift. Traditionally, a steeper yield curve could tempt banks to extend the average duration of their investment portfolios to take advantage of the sharply higher yields available in longer maturities.

Many banks, though, are worried that inflation is more than a short-term concern, and are sitting tight with their investment portfolios rather than trying to lock in higher yields by extending their holdings.

Cautious Strategies

"Most of the banks in the country are going to adopt very cautionary strategies because of the uncertainty," said Howard I. Atkins, treasurer of Chase Manhattan Corp. "I wouldn't imagine you're going to get a lot of significant additions to or sales out of investment portfolios right now. It's just too uncertain."

A few banks are even shopping for shorter-term securities because of their worries about the economy and about possible new regulatory restrictions on marking to market long-term investments.

"You have too much uncertainty in terms of the market, the economy and the mark to market thing for banks to be looking to extend," said one bank treasurer.

Since the crisis erupted in the Middle East Aug. 3, worries that higher oil prices would lead to a new round of inflation have dramatically steepened the yield curve. The yield on two-year Treasuries was 20 basis points less than that on five-year Treasuries on Aug. 1, and it was nearly 40 basis points less on Wednesday. The steeper yield curve means there is more of a potential reward for investors willing to buy longer-term securities.



That difference is accentuated for buyers of collateralized mortgage obligations, because two-year CMOs have been trading about 55 basis points over comparable Treasuries and five-year CMOs have been trading about 80 basis points over.

But concerns about the domestic economy are keeping many banks away from long-term investments.

"You're tempted to extend, but you're concerned about stagflation," said J. Howard Ragsdale, a senior vice president in the portfolio strategies division of First American Corp.

The failure of government leaders to come to an agreement on reducing the federal budget deficit has made bankers worried that interest rates could trend upward, and remain a problem for some time to come.

Also, bank portfolio managers worry that high yields in foreign markets will force the Federal Reserve to keep interest rates high to retain investor interest in U.S. government securities. Yields on Japanese government bonds are expected to rise, and yields on British government securities are already well above those on U.S. Treasuries.

"Given the degree of uncertainty we have right now, I don't think the 50 or 60 basis points is enough of an incentive," said Randall King, a vice president and senior portfolio manager at Pittsburgh National Bank, a subsidiary of PNC Financial Corp.

Regulatory Restrictions

Uncertainty about possible regulatory restrictions on how banks report the value of their investment securities is also keeping banks away from long-term assets. The Financial Accounting Standards Board is currently considering a rule that would require banks to mark to market certain investment assets at the end of every reporting period, and to report at the lower of cost or market certain other investment assets.

Since long-term investments generally have more price volatility, the prospect of the new rule is making short-term investments more attractive.

"Long-term rates are more susceptible to bad news," said Mr. King. He said his bank has been active in the market for collateralized mortgage obligations with maturities up to three years, but very quiet in the long end of the market. □

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SECTION IV: Cutting Costs During the Merger Process

OUR DISTINGUISHED SPEAKER PANEL INCLUDES:

J. Carter Bacot, *Chairman*, Bank of New York Co.
Michael Zucchini, *EVP & COO*, Fleet Norstar Financial Group, Inc.
William L. Chenevich, *President & COO*, Security Pacific Automation Co.
James D. Dixon, *Vice Chairman, COO & CFO*, Citizens & Southern Corp.
Richard L. Huber, *Vice Chairman*, Continental Bank
Walter E. Leonard, Jr., *Executive Vice President*, First Wachovia Corp.
Douglas E. Ebert, *President & COO*, Southeast Bank
H. Edward Nyce, *Executive Vice President*, Manufacturers Hanover Trust Co.
James M. McCormick, *President*, First Manhattan Consulting Group
William T. Gregor, *Senior Vice President*, The MAC Group
Patrick J. Leempputte, *Partner*, Price Waterhouse
Harry H. Totonis, *Principal*, Booz, Allen & Hamilton
Charles H. Nobs, *Senior Vice President of Corporate Operating Services*, Bankers Trust Company
Keith P. Russell, *President & COO*, Glendfed & Glendale Federal Bank
Janet S. Hartung, *Senior Vice President*, Mellon Bank
Robert M. Butcher, *Senior Executive Finance & CFO*, Marine Midland Bank

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(Advertisement)

October 15 & 16, 1990
The Vista Hotel
New York, NY

DAY ONE:

8:45 CHAIRMAN'S OPENING REMARKS:
Sanford Rose, *Senior Columnist, American Banker* (NY)
John S. Poelker, *President,* Poelker & Associates (LA)
Clayton G. Deutsch, *Principal,* McKinsey & Co. (BOCA)

SECTION I
EXAMINING SUPERIOR COST PERFORMERS

9:00 WINNING THE PRODUCTIVITY RACE THROUGH STRATEGIC COST MANAGEMENT (NY, LA, BOCA)
- Which banks are the superior cost performers and how did they raise productivity through cost management?
- How good is a bank and where are the areas of potential improvement?
- What kind of programs can bring expenses under control"

James M. McCormick, *President*
First Manhattan Consulting Group (NY, LA, BOCA)
Rodgers L. Harper, *Managing Vice President*
First Manhattan Consulting Group (NY, LA, BOCA)

9:45 BANK OF NEW YORK - A CASE STUDY (NY, LA, BOCA)
- As selected from First Manhattan Consulting Group's Expense Productivity Analysis

J. Carter Bacot, *Chairman,* Bank of New York (NY)
Speaker to be announced, Bank of New York (LA, BOCA)

10:30 CONTINENTAL BANK - A CASE STUDY (NY)
Richard L. Huber, *Vice Chairman*
Continental Bank (NY)

AMSOUTH - A CASE STUDY (BOCA)
- As selected from First Manhattan Consulting Group's Expense Productivity Analysis

John W. Woods, *CEO, or* **C. Stanley Bailey,** *Senior Executive Vice President & CFO*
Amsouth Bancorporation (BOCA)

COST CUTTING IN COMMERCIAL LENDING (LA)
Nicholas L. Hayes, *Senior Vice President & Manager*
Bank of California (LA)

11:15 COFFEE/TEA

11:30 THE ANALYST'S REPORT CARD (NY, LA, BOCA)
- How analysts measure a bank's cost effectiveness and how it affects stock prices.
- Why cost efficiency will become an increasingly important driver of bank profitability

James J. McDermott, Jr., *EVP & Director of Research*
Keefe, Bruyette & Woods, Inc. (NY)
Richard A. Mueller, *Financial Group Head*
Duff & Phelps (LA)
Anthony R. Davis, *Senior Vice President*
Wheat First Securities (BOCA)

12:15 LUNCHEON FOR ATTENDEES AND SPEAKERS:

COST RE-ENGINEERING IS NOT A ROCKET SCIENCE! . . . AN OVERVIEW (NY, LA, BOCA)
Robert M. Butcher, *Sector Executive-Finance & Chief Financial Officer,* Marine Midland Bank (NY)
James Benowski, *Principal,* McKinsey & Co. (LA)
Douglas E. Ebert, *President & COO*
Southeast Bank (BOCA)

SECTION II
ALTERNATIVE STRATEGIES FOR SUCCESSFUL COST MANAGEMENT

1:45 ALTERNATIVE STRATEGIES FOR SUCCESSFUL COST MANAGEMENT (NY, LA, BOCA)
- An outline of four different approaches that work
  - — Process Analysis
  - — Economies of Scale
  - — Resource Allocation
  - — Budget Discipline

William T. Gregor, *Senior Vice President*
The MAC Group (NY, LA, BOCA)
Robert B. Hedges, Jr., *Vice President*
The MAC Group (NY, LA, BOCA)

2:30 COST RESTRUCTURING THROUGH PROCESS ANALYSIS (NY, LA, BOCA)
- Increasing efficiency by eliminating archaic processes and functions
- Achieving real, lasting unit-cost reductions; looking beyond belt-tightening
- Dealing with staff and customers during cost restructuring
- Analyzing each individual business on its own and in your bank's matrix

Janet S. Hartung, *Senior Vice President*
Mellon Bank (NY, LA, BOCA)

3:10 THE BENEFITS OF ECONOMIES OF SCALE (NY)
- Why using economies of scale to drive down unit costs will grow increasingly important
- Which businesses are most appropriate for this strategy

Robert L. Nellson, *Director Strategic Planning & Development,* Fleet/Norstar Financial Group, Inc. (NY)

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STRATEGIC BANK COST MANAGEME[illegible]1

New Approaches to Reducing Costs In An Era Of Uncertainty

November 8 & 9, 1990
The L.A. Hilton & Towers
Los Angeles, CA

December 5 & 6, 1990
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YOU CAN'T BE ALL THINGS TO ALL PEOPLE... A NEW LOOK AT MARKET SEGMENTATION (LA, BOCA)

- Why reorganizing your business mix to segment profitable businesses is essential in today's market
  - To reduce the costs of cross selling
  - To know your client base better
  - To allow directed growth in desirable niches
- Three ways of looking at market segmentation:
  - By product
  - By customer
  - By organization

Peter Lowe, *CFO,* Mitsui Manufacturers Bank (LA)
R. Todd Bowers, *CFO,* Sun Bank (BOCA)

3:55 COFFEE/TEA

4:10 CITIZENS AND SOUTHERN CORP — THE RESOURCE ALLOCATION APPROACH (NY, BOCA)

- The challenges of a multistate, multibank structure
- Setting growth priorities
- Assessing the proper priority on a program-by-program basis
- Phasing out poor performers

James D. Dixon, *Vice Chairman, CFO & CAO*
Citizens and Southern Corp. (NY, BOCA)

THE BUDGET DISCIPLINE APPROACH (LA)

- Focusing on primary geographic markets
- Leveraging existing customer relationships
- Exploiting successful lines of business
- Examining a long-term approach to cost cutting

Lucy Reid, *Senior Vice President*
1st Nationwide Bank (LA)

4:45 SOLVING THE THRIFT CRISIS THROUGH COST REDUCTION (NY, LA, BOCA)

- Comparative costs - Banks vs. Thrifts
- Low Cost Producers vs. Niche Players
- Bank Thrift mergers - Can cost savings justify the price?

Sanford Rose, *Senior Columnist,* American Banker (NY)
Keith P. Russell, *President & COO,* GlenFed & Glendale Federal Bank (LA)
Michael A. Murphy, *Managing Director*
Trident Financial Corp. (BOCA)

5:30 END OF DAY ONE

DAY TWO:

8:30 CHAIRMAN'S REMARKS
Sanford Rose, *Senior Columnist*
American Banker (NY)

John S. Poelker, *President,* Poelker & Associates (LA)
Clayton G. Deutsch, *Principal,* McKinsey & Co. (BOCA)

8:45 1990'S COST MANAGEMENT: THE SECOND WAVE (NY, LA, BOCA)

- Achieving 1990s cost leadership beyond traditional cost cutting through refined business scope, workforce optimization, technology rationalization and corporate real estate control
- Deriving competitive measures for noninterest cost drivers

Charles H. Nobs, *Senior Vice President - Corporate Operating Services,* Bankers Trust Co. (NY, LA, BOCA)

SECTION III

ORGANIZING AND USING TECHNOLOGY TO IMPROVE BANK COST PERFORMANCE

9:30 INTRODUCTION: A PERSPECTIVE ON THE ORGANIZATION AND COST OF TECHNOLOGY (NY, LA, BOCA)

- Organizing Information Technology (IT) to achieve an appropriate and effective strategic cost structure
- Managing the operating cost of IT
- Employing technologies to constrain banks costs... both IT and non-IT

Patrick J. Leemputte, *Partner*
Price Waterhouse (NY, LA, BOCA)
Charles F. Kalmbach, *Senior Manager*
Price Waterhouse (NY, LA, BOCA)

10:15 HOW CAN TECHNOLOGY HELP YOUR BANK CONTAIN COSTS?...THE BANKER'S PERSPECTIVE (NY, LA, BOCA)

- Examining opportunities in emerging technologies
- How technology can be used to restructure banks to make them more profitable and cost effective
- Making sure that technology spending is in line with corporate strategy

H. Edward Nyce, *Executive Vice President*
Manufacturers Hanover Trust Co. (NY)
William L. Chenevich, *President & COO*
Security Pacific Automation Co. (LA)
Walter E. Leonard, Jr., *Executive Vice President*
First Wachovia Corp. (BOCA)

10:55 COFFEE/TEA

11:10 CONSOLIDATING DATA CENTERS AND BANK OPERATIONS AFTER THE MERGER (NY, LA, BOCA)

- Multibank common systems...Myth or Reality?
- Consolidating bank operations after the merger

Michael Zucchini, *EVP & CIO*
Fleet/Norstar Financial Group Inc. (NY)
James Kridel, *Executive Vice President*
Glendale Federal Bank (LA)
Stephen F. Callaghan, *Executive Vice President*
Citizens and Southern Corp. (BOCA)

11:40 USING IMAGING APPLICATIONS PROFITABLY (NY, LA, BOCA)

- Cost savings and productivity gains broaden acceptance across a range of banking applications
- Technology opens new opportunities for image-enhanced customer service

David C. Liddell, *Image Solutions Manager*
IBM (NY, LA, BOCA)
Speaker to be announced, Mellon Bank (NY)
Peter R. Hill, *Senior Vice President*
Bank of America (LA)
Speaker to be announced, Royal Bank of Canada (BOCA)

12:40 LUNCHEON FOR ATTENDEES AND SPEAKERS:

COST CUTTING IN RETAIL BANKING (NY, LA, BOCA)

- Why banks lose money on 30-50% of their retail consumers
- The difference between efficient and effective marketing
- The need to alter pricing structures

Peter Carroll, *Partner*
Oliver, Wyman & Co. (NY, LA, BOCA)

2:10 STRATEGIC ADVANTAGES OF OUTSOURCING - A CASE STUDY (NY, LA, BOCA)

- How outsourcing can provide strategic advantage
- Factors leading to outsourcing at First Fidelity
- How First Fidelity evaluated the outsourcing option and its experience to date

Ladd Willis, *Managing Vice President*
First Manhattan Consulting Group (NY, LA, BOCA)
Don Parcells, *Senior Vice President*
First Fidelity Bancorp (NY, LA, BOCA)

SECTION IV

EFFECTIVE COST MANAGEMENT IN THE MERGER PROCESS

3:10 COST RATIONALIZATION IN INTERSTATE MERGERS (NY, LA, BOCA)

- What benefits should be anticipated from consolidation
- The difference between intrastate and interstate
- The difference between small and large institutions
- What are the implications to the industry...are mergers inevitable?

Harry H. Totonis, *Principal*
Booz-Allen & Hamilton (NY, LA, BOCA)

3:55 ECONOMIES IN MERGERS AND MULTIBANK SYSTEMS: THE EXPERIENCE AND THE POTENTIAL (NY, BOCA)

- What merger economies should banks seek and when?
- What common mistakes are made and how can they be avoided?
- How should a bank holding company balance the advantages of a multibank system and the potential economies from merging banks?
- How can a multibank system survive the trend toward mergers?

Peter Merrill, *President,* BEI Golembe (NY, BOCA)

THE INTEGRATION PROCESS: HOW TO MANAGE THIS COSTLY PROCESS EFFECTIVELY (LA)

- Sizing the integration effort
- Selecting the appropriate integration approach
- Organizing and managing the process to facilitate centralized planning and decentralized decision making

Carole Kay Lynn, *Partner*
Edgar, Dunn & Conover, Inc. (LA)

4:40 END OF CONFERENCE

AMERICAN BANKER IS NOW ACCEPTING APPLICATIONS FROM VENDORS FOR THE FOLLOWING OPPORTUNITIES:

(1) BOOTH SPACE (2) SPECIAL SUPPLEMENT AND (3) CONFERENCE WORKBOOK

Conference Display: Through a booth demonstration, attendees will have the opportunity to familiarize themselves with various systems to improve productivity and reduce bank costs.

Special Supplement: There will be a special supplement in **American Banker** on Monday, December 17th. This supplement will include articles and advertisements dedicated to cost management.

Conference Workbook: This publication will contain excerpts of the speeches from the conference, in addition to reference information, advertisements and articles.

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Sun Bank

Robert M. Butcher
Sector Executive - Finance & CFO
Marine Midland Bank

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Michael Zucchini
EVP & CIO
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TOP 100 HOLDERS OF CMOs
See table on page 7

AMERICAN BANKER

VOL. CLV NO. 166 | Friday, August 24, 1990 | 155th year

NY Blackout Prompts Review Of Disaster Plans

By JEANNE IIDA and KAREN GULLO

When Citicorp's computer problems kept the nation's domestic payment system open till midnight last week, many others felt the repercussions.

Banks paid overtime to employees working almost round the clock, backup generators were strained at the Federal Reserve Bank, and corporate customers reported lag times in receipt of transactions.

An executive of Merrill Lynch & Co., a Citicorp customer, said the brokerage firm could not quantify the impact of the late settlement on Wednesday. But the week-long problems at Citicorp and other major banks because of a power failure cost Merrill "tens of thousands" of dollars in unnecessary overdrafts because it could not accurately assess its positions, he said.

ANALYSIS: *Follow-up on the news*

Industry experts said Citicorp was caught with its guard down. If it had been using a relatively new form of disaster recovery that copies transactions to a remote site as they occur, it probably would have fared much better. Its funds business would have been disrupted for only a few hours instead of almost a day, they contend.

Remote Vaulting

Manufacturers Hanover Trust Co. and Chemical Bank have had this capability, called remote vaulting, for several months. Neither of those banks' funds transfer operations were affected by the recent blackout, so that ability was not tested.

Ironically, Citicorp was in the process of designing such a system when the power outage occurred, sources close to the bank said.

Industry insiders said that not only was Citicorp lacking in state-of-the-art technology, but it may have handled its operating problems poorly. Citicorp "waited far too long to implement its internal plan, and then it failed," said one disaster recovery expert.

"We're sufficiently concerned [about our disaster recovery plan] that we will do a detailed postmortem and then we'll take action," said Colin Crook, Citicorp's information chief.

"This was a loss of power on a big scale. People tend to focus on defined disaster scenarios. They need to be more flexible."

Sources noted that Citicorp was the only money-center bank

See **CITICORP** *page 14*

INSIDE NEWS

FINANCE

IN AN ATTEMPT to extend their funding without paying the high costs of subordinated debt issuance, a growing number of banks are turning to the market for medium-term notes. *Page 16*

AMBASE CORP., parent of Carteret Bancorp, said that an investor group has proposed to buy 50.1% of its common stock. *Page 14*

CONSUMER

SMALL-BUSINESS owners do not believe they are victims of a credit crunch, but they do worry about economic trends, a survey shows. *Page 8*

INTERNATIONAL

NATIONAL BANK of Kuwait, the Arab oil state's biggest commercial bank, has shifted much of its top management and activity to London. *Page 9*

MORTGAGES



GEORGE BENDER, formerly of CenTrust, is about to go to bat for Lewis S. Ranieri as his top mortgage banking man. *Page 6*

MERIDIAN'S mortgage unit has dropped a plan to acquire 16 mortgage-origination offices from a subsidiary of Travelers Corp. *Page 2*

TECHNOLOGY

COMPUTERS will remain a top budget priority for bankers, according to an *American Banker* survey. *Page 3*

COMMENT

THE NEXT RECESSION may be worse than the last, given the weakened resilience of the U.S. financial system, writes James Grant. *Page 4*

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Company Index	2
Classified Advertising	10
Bank and Thrift Stocks	15

Banks Take Big Bite of Agency CMO Market

Market share



Top five in holdings

Pittsburgh National Bank	$2 billion
Manufacturers Hanover Trust	$1.2 billion
Morgan Guaranty Trust Co.	$1.1 billion
Chemical Bank	$869 million
First American National Bank	$863 million

Freddie Mac and Fannie Mae CMOs, including real estate mortgage investment conduits, as of 3/31/90.

Source: FDIC, Fannie Mae, Freddie Mac

Filings Reveal Banks Hold 30% Of Collateralized Mortgage Bonds

By PHIL ROOSEVELT

As commercial banks stormed into home-mortgage finance over the past year, they appeared to take a special interest in collateralized mortgage obligations, or CMOs. Now, for the first time, regulatory data have specified the extent of that interest.

Led by 100 especially active institutions, the banking industry held about $36 billion of the most common types of CMOs at the end of March, the data show. (Table appears on page 7.) That position, built almost from scratch at the end of 1988, represented nearly 30% of all such CMOs, and about 6% of all securities held by banks.

Steady Appetite

Bankers and dealers say banks' appetites for instruments has diminished somewhat in recent months because of declining yields relative to Treasury securities and some regulatory uncertainty.

But the industry's appetite has hardly disappeared. With loan demand declining, banks are closely eyeing securities purchases, and CMOs still yield more than some corporate bonds, experts note.

"We're still seeing a large amount of interest by banks across the board," says Craig Overlander, a senior managing director at Bear Stearns & Co., New York.

Holdings Disclosure

The Federal Deposit Insurance Corp. required banks to disclose their CMO holdings for the first time in call reports for

See **DATA** *page 6*

Judge Backs Government In Seizure Of Lincoln

By DEBRA COPE

WASHINGTON — U.S. District Court Judge Stanley Sporkin upheld on Thursday the government's 1989 seizure of Lincoln Savings & Loan Association, accusing Charles H. Keating Jr. and other officials of "looting" it.

The ruling was viewed as a big victory for federal thrift regulators and an endorsement of their procedures for assessing and closing troubled institutions.

Heavy Blow to Keating

It also dealt a major blow to Mr. Keating's campaign to regain control of the Irvine, Calif., savings and loan, which had become symbolic of the costly thrift crisis and bailout.

Judge Sporkin's ruling came after eight months of testimony in which Mr. Keating sought to prove that regulators acted "arbitrarily and capriciously" when they placed Lincoln in receivership in April 1989 and in conservatorship four months later.

Mr. Keating contended that the thrift was actually solvent and regulators carried out a personal vendetta against him.

The judge said Lincoln and its parent, Phoenix-based American Continental Corp., improp-

See **OTS** *next page*

Customers Claim NBW Misused Insured Deposits

By BILL ATKINSON

WASHINGTON — Customers of the failed National Bank of Washington have filed more than a dozen lawsuits alleging that the bank illegally used insured deposits and funds intended for low-risk investments to bolster the commercial paper program of its parent company.

The flurry of lawsuits comes just weeks after the holding company, Washington Bancorp., filed for reorganization under Chapter 11 of the federal Bankruptcy Code. Hours after that Aug. 1 filing, federal regulators seized the $1.6 billion-asset National Bank of Washington and subsequently sold its deposits to Riggs National Corp., Washington.

Unsecured Creditors Unpaid

About 50 unsecured creditors in the banking company were

See **CUSTOMERS** *page 8*

Wells Fargo Shares Fall Sharply On Fears of California Real Estate

By GORDON MATTHEWS

NEW YORK — Shares of Wells Fargo & Co., a favorite trading vehicle of many bank stock investors, have tumbled dramatically in value this summer as worries have grown about the U.S. economy and in particular about the real estate market in California.

The stock of the well-regarded San Francisco superregional bank closed at $80.125 on July 17 as it reported strong second quarter profits. That same day the Dow Jones industrial average peaked at 3,024.26, before closing just below the 3,000 mark.

Both have since been in a steep southbound spiral, and bank analysts are mixed about Wells' outlook.

Peaked in Mid-July

Wells' shares fell below book value this week and briefly dipped below the $50 mark on Thursday, a slump of 38% from the mid-July peak. In the meantime, the Dow fell another 40 points to 2,560.15, an 18% decline over the same period in the closely watched blue chip index.

"Wells is a major real estate bank and that is what this is all about," said one analyst, who

See **WELLS** *back page*

A Decade Ends for Wells Fargo Shares

Percentage change



SNL Securities, Inc. and Technology Inc.

PEOPLE *in the news*

U.S. League's Heir Apparent Looks Beyond Better Image

By DEBRA COPE

Don't talk about image to Donald B. Shackelford. The Ohio thrift executive who has been drafted to become chairman of the U.S. League of Savings Institutions will straighten you right out.

"I'm not concerned about projecting an image," he said in an interview. "What I'm concerned about is capital strength and capital discipline."

Welcome to the new, improved U.S. League. Seeking to redefine itself as the voice of strong, healthy thrifts, the battered trade group has pinned its hopes on Mr. Shackelford's sterling reputation, political savvy, and Harvard Business School smarts.

Mr. Shackelford, 33, is chairman and chief executive of State Savings Bank, Columbus, Ohio, a capital-rich, profitable thrift in a state with a robust savings and loan industry. State Savings has $1.5 billion in capital and $105 million in net worth.

He has little to say about the 11th-hour maneuvering earlier this month that leapfrogged him past league vice chairman Robert B. O'Brien Jr. to lead the thrift trade group in 1991.

"It is unusual," was about all Mr. Shackelford would outside in a telephone interview while he was vacationing in Nantucket, Mass. Mr. O'Brien, chairman and chief executive officer of Carteret Savings Bank, Morristown, N.J., will remain as the league's vice chairman next year while Carteret's parent company, Ambase Corp., completes a restructuring.



Donald Shackelford

When Mr. Shackelford officially becomes U.S. League chairman in November, he won't face such distractions. That will free him to be a high-profile spokesman next year when Congress is expected to take another crack at revamping the thrift industry and the federal deposit insurance system.

A witty, articulate man who has testified often before Congress, Mr. Shackelford is also a constituent of Rep. Chalmers Wylie, the ranking Republican on the House Banking Committee.

Mr. Shackelford joined State Savings Bank, a family business, in 1964 as a part-time consultant and member of the executive committee, and rose to the chairmanship in 1972. From 1972 to 1977, he was also chairman of Bank One of Cambridge, Ohio. Before joining State Savings, he spent five years as a manager of McKinsey & Co. in Chicago. Since 1965, has also been a director of McLagan Partners, a Chicago management consulting firm.

Classmate of Senator Lugar's

As an undergraduate at Denison University in Ohio he was active in student government and boosted the candidacy of his friend Richard Lugar for student-body president.

Mr. Lugar, a Republican, grew up to be Indiana's senior Senator. "I was his first campaign manager," Mr. Shackelford joked.

Mr. Shackelford earned a BA in economics from Denison in 1954 and an MBA from Harvard Business School in 1959. He joined the Federal Reserve Board's thrift institutions advisory council in 1988 and is now its president. He was chairman of the Ohio Savings and Loan League in 1988-89 and was a director of the Federal Home Loan Bank of Cincinnati. □

Gonzalez: S&L Sales Won't Stick

By BARBARA A. REHM

WASHINGTON — House Banking Committee Chairman Henry B. Gonzalez, D-Tex., predicted Thursday that public outrage will force the administration to cancel or renegotiate many of the government-assisted thrift sales by the Federal Home Loan Bank Board in 1988.

Mr. Gonzalez is planning a Sept. 14 hearing to examine the 1988 deals and look for ways the contracts can be broken or restructured to save Uncle Sam money.

The bank board sold 199 savings and loans with $110 billion in assets to investors before it was dissolved by the thrift bailout law in August 1989. Because the agency had no money to finance the deals, it gave investors government notes, tax breaks, and guaranteed returns.

Many of the deals were consummated in the last few days of 1988 and generated criticism from members of Congress and other observers.

Mr. Gonzalez said in a statement Thursday that the committee's investigation has revealed that for every dollar of capital private investors put into these thrifts, they received $78 in assets and government guarantees.

"Many of these resolutions went beyond sweetheart deals and amounted to virtual giveaways," he said. Mr. Gonzalez added that he thinks the bank board held the deals to the end of the year to avoid an impact on the fall elections.

The administration feared "that a mass of fire sales would immediately give the public a big clue" that the S&L industry was in dire straits, he said. □

OTS Wins Keating Suit on Lincoln

Continued from *page 1*

erly used insured deposits in real estate and other transactions structured "with a great deal of sophistication . . . to have an aura of legality."

Abuse of Office Found

Mr. Keating and other officials of American Continental "abused their positions with respect to Lincoln," Judge Sporkin said in a 49-page opinion. "Bluntly speaking, their actions amounted to a looting of Lincoln."

Mr. Keating sued the Office of Thrift Supervision and its predecessor, the Federal Home Loan Bank Board, as a formal challenge to the receivership action of April 1989. He has a right to appeal, but "this should be a final disposition of the case," said a former senior attorney for the bank board and the OTS.

American Continental issued a statement Thursday saying it "is reviewing all of its options and has no comment at this time."

Judge Sporkin's ruling came on the heels of a district court ruling Wednesday that instructed Mr. Keating to comply with a regulatory order to deliver an audited accounting of his assets to OTS within five days.

OTS Lawyer Hails Ruling

Harris Weinstein, chief OTS counsel, hailed Judge Sporkin's decision as a "Rosetta stone" that will guide the government in its efforts to take over troubled thrifts. He said the ruling underscores the responsibility of accountants and attorneys who represent troubled institutions to "hold their clients vigorously to the highest standards of law and financial reporting."

"Judge Sporkin has described what some very sophisticated people have done in a number of cases," said Mr. Weinstein. "As these cases unfold in detail, the public and legislature will join in asking, 'Where were the outside accountants and attorneys?' I would reword that and say, 'Would this have happened if the professionals were doing their job?' "

An important aspect of Judge Sporkin's opinion is that it sets out the general principles of administrative law governing financial regulators' authority to place an institution into conservatorship or receivership, Mr. Weinstein continued.

"Fundamentally, he is saying that the standard of review for a court is a narrow one," the OTS official said. "The court is not empowered to substitute its judgment for that of the agency."

Elsewhere in his ruling, Judge Sporkin rapped the FHLBB for backing down under pressure from Lincoln. He termed "inexplicable and clearly inappropriate" the agency's decisions in 1987 and 1988 to block appointment of a conservator and transfer supervisory jurisdiction over Lincoln from the Federal Home Loan Bank of San Francisco to Washington.

The decision will have little effect on other cases involving Mr. Keating and the government, said a former senior attorney for the OTS and the bank board. □

Disagreement Kills Deal to Triple Size of Meridian's Mortgage Unit

By PHIL ROSEVELT

NEW YORK — A deal that would have vaulted Meridian Bancorp Inc. into the top ranks of the home-mortgage business has suddenly fallen apart.

The Reading, Pa., banking company's mortgage unit revealed Thursday that it has dropped a plan to acquire 16 mortgage-origination offices from a unit of Travelers Corp.

Dispute on 'Key Terms'

"We've been unable to reach an agreement on key terms that were critical to our ability to complete the transaction," Anthony W. Schweiger, president of Meridian Mortgage Corp., said in a prepared statement.

He declined to elaborate, and Joseph Bryant, president of Travelers Mortgage Services, could not be reached for comment.

Travelers and Meridian had announced a preliminary agreement June 28.

Threefold Growth Planned

The deal would have increased Meridian Mortgage's retail originations to about $3 billion a year, from the current $820 million.

That prospect had made the well-regarded company one of the industry's most prominent growth stories. SMR Research, Budd Lake, N.J., had estimated that the deal would easily put Meridian among the nation's top 25 originators.

Mr. Schweiger indicated that Meridian would look for other opportunities to expand into new markets and boost originations and loan servicing.

Travelers Leaving Field

The 16 branches, scattered over seven eastern states, represented the bulk of the origination network of Travelers Mortgage Services, a Cherry Hill, N.J., company that has been dismembering itself and leaving the field.

A unit of General Electric Capital Corp. has agreed to acquire the company's $12 billion servicing portfolio. And Margaretten & Co., the mortgage unit of Primerica Corp., has bought four Travelers branches in New England. □

Correction

An article Tuesday ("MasterCard to Raise Interchange Fee," page 6), incorrectly calculated Visa's interchange fees taking effect April 1. On a $65 sale, Visa transactions handled electronically will cost from 81 cents to 98 cents. The standard interchange fee for a $65 Visa sale will be approximately $1.35.

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TECHNOLOGY/OPERATIONS NEWS

Computers to Remain Top Budget Priority, Survey Finds

By JASON FORSYTHE
Fifth of a Series

NEW YORK — Despite having made sizable purchases of computer hardware during the 1980s, bankers are not expecting a decade of rest.

It might be logical to expect the industry to consolidate its computer investments by emphasizing software enhancements. But according to the 1990 *American Banker* technology survey, computers will remain a top budget priority, particularly personal computers.

Fifty-five percent of senior executives identified personal computers as an area where they will concentrate investments in the next five years.

Applications software was the only other area garnering as much as a 51% response; personnel and training needs ranked third, at 44%. Both those relatively sizable responses reflect concern about the quality of computer software and the people needed to run back-office operations, now increasingly critical and demanding.

Thirty-one percent to 37% said their priorities include electronic funds transfers systems, mainframe hardware, automated tellers and self-service banking, data communications, and item processing.

These are among the findings of the fourth annual *American Banker* technology survey.

Trans Data Corp., the newspaper's research affiliate in Wayne, Pa., interviewed operations and technology executives from 333 commercial banks with at least $75 million in deposits. About half the respondents represented banks with more than $250 million in deposits, and 10% came from institutions with more than $2 billion in deposits.

Mr. Forsythe is a business writer based in New York.

Banks of all sizes are interested in personal computers.

Likeliest to name PCs as a priority were banks with $250 million to $750 million in deposits; 66% did so. Forty-two percent cited mainframe hardware as an area of concentration, and 34% cited mini and departmental computers.

Small banks proved to be nearly as PC-happy as bigger ones. Some 58% of surveyed banks with deposits under $100 million planned to invest in PCs in the next five years.

And the systems are making their way into the executive suite for use by senior managers with more traditional, commercial banking backgrounds.

"Like most CEOs, I came up through lending and corporate services," said Samuel McCullough, chairman of the $12 billion-asset Meridian Bancorp, Reading, Pa. "I've always taken an interest in data processing. The first time I am installing a PC in my office, which will enable me to analyze and manipulate data from the mainframe, do profit reports, break out performance geographically or by product line."

The biggest banks proved likeliest to plan spending for applications software in the next five years. Seventy-seven percent of those with deposits of over $2 billion said they plan such spending, but only 35% of those with deposits under $100 million.

Hardware and Software

The $210 million Stillwater National Bank & Trust Co. in Oklahoma plans to divide spending equally between personal computer hardware and PC-based applications software. Though Stillwater already has a substantial investment in PCs, it will need more of them once the systems are integrated with networking software, said Kerby Crowell, Stillwater's executive vice president and chief financial officer.

So far, 30% of the bank's employees use stand-alone PCs for routine clerical tasks and number crunching.

Mr. Crowell plans to spend on platform automation to improve sales and customer service.

PCs at their fingertips can help people who deal with customers sell certificates of deposit, take loan applications, and answer questions.

"The only key they should have to hit to issue a CD is how many dollars are being invested," Mr. Crowell said. "Any information already in the system should not have to be rekeyed."

Local Area Networks

At the much bigger Barnett Banks in Jacksonville, Fla., PCs and local-area networks to tie them together dominate the computer spending plan. Most of the money will go to linking the bank's service, sales, and telemarketing centers with compatible applications systems. The link will be made with PCs, new and old.

Barnett, with $30 billion in deposits, is looking to improve customer service by installing PCs at branch teller windows. Like Stillwater National, Barnett is automating platforms — and giving a sales orientation to the conventional transaction-processing functions.

Using What You Have

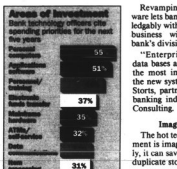
Applications software spending, though less glamorous than new technologies such as expert systems and image processing, is an attempt to get better use of the technology already on board.

"We have to be better delivering the technology that is out there right now, as opposed to what we don't need," said Darwin Smith, president of NCNB Support Services Inc., a Dallas-based unit of NCNB Corp. The company is spending heavily to build a computing utility for all NCNB operations across the country, as well as to improve image-processing and electronic data interchange systems.

Mr. Smith said dollars will be best spent on the low-tech areas of information management and technical training.

Pressure from Nonbanks

The tendency to sidestep exotic hardware and instead link software systems doesn't surprise industry consultants. As competition heats up, technologically sophisticated nonbank competitors are forcing banks to improve customer service.



Revamping application software lets banks deal more knowledgably with customers who do business with many of the bank's divisions.

"Enterprise-wide customer data bases are becoming one of the most important aspects of the new systems," said William Storts, partner in charge of the banking industry for Andersen Consulting.

Image Processing

The hot technology of the moment is image processing. Ideally, it can save money by making duplicate storage of data unnecessary.

Images stored in a central data base can be retrieved on remote terminals. Monthly statements with images of signed transactions reduce customer inquiries and increase customer satisfaction; American Express already sends such statements to cardholders.

Image processing is now the province of banks with the transaction volume. The cost of entry is one reason, and that is expected to fall in the next few years.

But even today the savings can be great, said NCNB's Mr. Smith, in part because the advantages can be extended to credit and risk-control analysis.

Mr. Storts said every superregional or money-center bank plans to use image processing on checks or other documents. The *American Banker* survey found that 27% of those with deposits of over $2 billion plan to install image technology by the end of 1991 – and mostly for transaction processing.

Smaller banks remain far more cautious about taking the plunge. Thirty-one percent of the survey respondents – but only 17% of those below $250 million in deposits – said they would spend major amounts on item-processing hardware in the coming half decade. □

IMAGING. THE END OF THE PAPER CHASE.



COMMENT/ *By James Grant*

Banks Now Pay for Years Of Sapping Their Finances

Whatever else it might be, the dust-up in the Middle East is an Exogenous Event – an unexpected disturbance from outside. In boom times, investment bankers assumed that nothing could, or would, intrude on prosperity – every surprise would be a tender offer.

Now that something has gone wrong, the universal finger of blame is pointed at the scene of the disturbance, not at the frail financial structure that was so easily upset by it.

The United States may or may not be more vulnerable to a disruption of its oil imports than it was 17 years ago. It is certainly, we think, more vulnerable to an interruption of its prosperity. Interest rates are higher, financial leverage is greater, and the banking system is more fragile than it was at the time of the first oil jolt.

Citicorp as Exemplar

There are many ways to illustrate the point, but the decline of Citicorp (then as now the largest U.S. banking company) is one of the most vivid and telling.

In 1973, Citicorp was riding high. By the not very exacting standards of today, the bank was profitable, liquid, conservatively capitalized, resilient, and expansion-minded.

Its stock changed hands at a premium to book value; its debt was unrated (there wasn't much debt to rate, in fact) but was destined to be Aaa when Moody's first investigated it, in 1977.

In every particular, 1990 is different — and different, in course, not only for Citicorp but also for big U.S. banks in general. Although it has not been earning its dividend for three years, Citicorp recently raised it.

"Will the next recession resemble that of 1973-75? Insofar as the resilience of the U.S. financial system bears on the question, we are led to believe that it may well be worse."

Its return on average assets last year was a paltry 23 basis points; it earned 63 basis points in 1973.

In 1989, its ratio of loans to deposits was 112%; it was 80% in 1973. In 1989, Citicorp earned 4.3% on equity; in 1973, it earned 15%. As for its senior debt rating, it is no longer Aaa. Moody's judges it to be A3.

In the early 1970s, Citicorp was hot, like inflation. In 1973, when the editors of *Dun's Review* selected it as one of America's five best-managed corporations, its assets grew by 28%. In 1974, a wall-to-wall recession year, assets grew by 32%.

It is fun to reread the bear-baiting letters that Citicorp chairman Walter Wriston wrote to his shareholders in those days. "It was a good year to remind ourselves that the recuperative powers of the world are enormous and the ability of its three and three-quarter billion people to develop in new ways to handle new situations has always exceeded the imagination of the doomsday prophet," he wrote of 1973.

Brave words! What Mr. Wriston did not commit to paper was that though the inflation subverts what his predecessors called sound banking – that it undermines asset quality in the long run even as it stimulates asset growth in the short run.

And if that thought did not occur to Mr. Wriston, neither did it seem to worry his successors. Pick up any study of questionable bank lending (real estate, highly leveraged transactions, loans to lesser-developed countries), and Citicorp is sure to be mentioned early and often.

A Cycle of Wasting

The issue, however, is not a particular class of loan but a process of atrophy. It is a cycle that has involved much of the U.S. banking industry.

The process works like this (thank you, James Robinson): A rise in bad assets is met with a grudging rise in reserves. As reserves increase, earnings decrease. By degree, the decline in creditworthiness forces a rise in the cost of funding. The prices of jumbo certificates of deposit and interbank loans go up.

As the cost of liabilities rises, interest margins shrink; profits fall again. With every addition to the reserve for bad debts, the problem is exacerbated. Maddeningly, it costs more to attract deposits for loans that aren't accruing interest income than for loans that are.

The Unfriendly Markets

At length, some loans are written down to zero. Still, everyone sees, the reserve is inadequate to cover the questionable debts that haven't been written down all the way.

Walter Wriston was fond of rebutting the calamity-howlers of his day with a line about the market's creative powers. In our day, banks in general, and his alma mater in particular, are making heavy weather of it in a number of markets.

"American Telephone & Telegraph Co. said its new credit card ranks eighth in the country, with revenue of $750 million after 140 days in operation," the *Wall Street Journal* reported last week in an article that must have rattled the windows in Citicorp headquarters.

No doubt, the marketplace is evolving a new, deflation-resistant credit structure even now. But for the time being, the deflation of asset values – the very values against which Citicorp and other banks lent so blithely in the boom – proceeds apace.

In 1973, bankers were optimistic, and bank credit was expanding. In 1990, bankers are worried, and bank credit is stagnant – even, in certain regions and markets, contracting. It is a perilous time in which to impose a new tax on oil.

Will the next recession resemble that of 1973-75? Insofar as the resilience of the U.S. financial system bears on the question, we are led to believe that it may well be worse. □

Mr. Grant is editor of Grant's Interest Rate Observer, a biweekly newsletter. This article appeared in the Aug. 17 issue.

COMMENT/ *By Masaharu Usuki*

From Tokyo, Strong Support For Japanese Deregulation

The following appeared in slightly different form in a June newsletter published by the Long-Term Credit Bank of Japan, Tokyo.

The second meeting of the Japan-U.S. working group on financial markets took place in Tokyo in late May. A statement issued by U.S. Treasury Undersecretary David Mulford after the meeting said the United States appreciated the liberalization of overseas bank account openings by individuals and other Japanese financial deregulation measures but was still dissatisfied with current conditions regarding deregulation of bank deposit rates and foreign firms' access to the Japanese money market.

The U.S. Congress also remains greatly concerned over Japan's financial markets and is even tougher than the Treasury Department in demanding Japan's financial deregulation.

The Congressional concerns have taken the form of the proposed Fair Trade in Financial Services Act, which passed the Senate Banking Committee. It would enable the Federal Reserve Board and other regulators to disapprove expansion of U.S. operations by foreign financial institutions if the Treasury secretary judges that their countries fail to give U.S. institutions opportunities to fairly compete in their domestic markets.

The primary purpose of the legislation is to pressure Japan into quickening financial deregulation.

Market Share Increasing

Behind the tough U.S. request is the fact that Japanese banks' offices of U.S. and other overseas markets have been persistently increasing. Eight of the 10 largest banks in the world in assets are Japanese.

In 1980, the largest Japanese bank was ranked 10th in the world. But Japanese banks started rapid growth around 1984.

The agreement on new capital adequacy regulations at the Bank for International Settlements in 1988 was designed primarily to hold down the fast expansion of Japanese banks. But the fiscal 1988 asset growth of Japan's city, trust, and long-term credit banks was 16%, exceeding an annual average of 12% for the fiscal 1983-87 period.

In the United States especially, Japanese banks' lending has increased steadily. They accounted for 16% of commercial and industrial loans in the United States at the end of 1988, being the top foreign lender in that country. Moreover, Japanese banks' outstanding loans there expanded as much as 50% from the end of 1983. In contrast, foreign banks' shares of bank loans in Japan is limited to 2% and has been declining.

Competition from EC

Another matter of concern to the United States has emerged in relation to U.S. banks' international competitiveness, namely the European Community's financial market integration scheduled for 1992. Upon integration, an institution given a banking license in any EC country will be able to do business in any other EC nation.

But the EC's second directive on banking allows the EC Commission to decide whether to give a new business license to a foreign bank in view of reciprocity. The decision will depend on whether the home country of the foreign bank guarantees EC banks effective access to its domestic market.

The EC financial market integration has caused two moves in the United States. One seeks to make the U.S. market as liberal as the EC market, by allowing the mutual encroachment of commercial banks and securities companies onto each others' turf and by permitting interstate banking. Another move introduces the weapon of reciprocity requirement to counter the EC action, and directs it against Japan.

Hastening Deregulation

Some foreign leaders, including Federal Reserve Chairman Alan Greenspan, appreciate Japan's financial deregulation to date. The recent declines in Japanese stocks and the yen are expected to decelerate the expansion of Japanese banks' assets. In this context, efforts to persuade foreigners to understand Japan's realities might ease foreign pressures for Japanese deregulation.

But Japan cannot expect such efforts to have a lasting effect. The world is moving toward prompt deregulation, and this can also improve Japan's economic welfare. Deregulation would serve to intensify competition between financial institutions, helping to improve services and lower costs for fund-raising and investment activities of industrial companies and consumers alike.

Needless to say, Japan should make efforts to speed up financial deregulation as much as possible. □

Mr. Usuki is with the economics division of Long-Term Credit Bank of Japan, Tokyo.

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Bank Holdings in Collateralized Mortgage Bonds Disclosed

Continued from page 1

the quarter ended March 31.

CMOs, which flourished after tax-law changes in 1986, are multiclass securities that can provide investors with more payment certainty than basic mortgage-backed securities. Typically backed by basic mortgage securities, CMOs offer short-, intermediate and long-term estimated maturities.

Risks, Returns Vary

CMO classes vary widely in riskiness and potential returns, Michael Grupe, head of mortgage research at Kidder, Peabody & Co., says banks have

"We're still seeing a large amount of interest by banks across the board."

Craig Overlander
Bear Stearns & Co.

tended to concentrate on relatively stable CMO classes with two- or three-year estimated lives, finding them good hedges against deposits and other liabilities.

Three-year classes of traditional CMOs now sport yields about 90 basis points higher than those of comparable Treasury securities, according to Merrill Lynch Mortgage Capital. The push into CMOs comes as commercial banks also have been making major inroads into mortgage originations, mortgage servicing, and investments in basic mortgage-backed securities.

Risk-based capital rules have provided fresh incentives for banks to take on mortgage assets, and the problems in the thrift industry have created some big opportunities for banks.

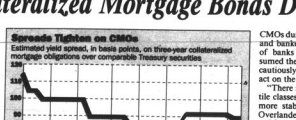
Move Away from Treasuries

National City Bank, Cleveland, says it increased its CMO position sharply last year as concerns about earnings by insolvent and capital-short thrifts drove up the relative yields on most types of mortgage securities.

"We felt mortgage spreads were wide and wouldn't stay that wide for long, so we moved out of Treasuries and into CMOs," said Jeffrey B. Kelly, senior vice president of National City.

The FDIC data show that the top 100 banks held about $25 billion of the most common types of CMOs as of March 31, representing about 18% of all securities held by the banks and 3% of their assets.

The FDIC data deal with



CMOs issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp., the dominant form of CMO.

The two secondary-market agencies say they had a total of $125 billion of such securities outstanding as of March 31. Most of the securities are CMOs issued through real estate mortgage investment conduits.

While the FDIC had not collected CMO data before the first quarter, the Department of Housing and Urban Development has estimated that banks held only $2.1 billion of Fannie Mae and Freddie Mac Remics as of December 1988. Such securities were nonexistent until August 1987, when Fannie Mae issued its first Remic.

Many of the top 100 banks in the market also have substantial positions in basic mortgage-backed securities, known as pass-throughs. No. 1 ranked Pittsburgh National Bank, for example, holds about $2 billion in CMOs and $3.7 billion in pass-throughs as of March 31.

But some banks clearly prefer CMOs to to the pass-throughs. No. 5-ranked First American National Bank, Nashville, Tenn., held $883 million of CMOs as of March 31 but only $174 million of pass-throughs, preferring the shorter maturities available in the CMO market.

The average estimated life of the bank's CMOs is about three years, said Howard Ragsdale, a senior vice president. "Pass-throughs would have 10- or 11-year average lives," he said. "We don't feel that banks should play in that market — it's just too much interest-rate risk."

To be sure, the average lives of short-term CMOs can increase significantly if interest rates rise. The degree of risk varies from CMO to CMO and can be extremely high with so-called companion bonds.

But Mr. Ragsdale reckons that First American's CMOs would increase in average life to increase to only 3.2 years from the current 2.8 years if market rates rose by 300 basis points.

That is well within the limits with which regulators apparently are comfortable. The Office of the Comptroller of the Currency, in a proposed rule that was floated earlier this, suggested that if a 300 basis-point rate rise causes the securities' lives to lengthen by seven years or more, the securities are unsuitable for national banks.

Uncertainty caused by that proposal contributed to a decline in banks' appetites for CMOs during the spring, dealers and bankers say. But a number of banks apparently have resumed their buying, albeit more cautiously. The OCC has yet to act on the proposal.

"There's less interest in volatile classes and more interest in stable classes," said Mr. Overlander of Bear Stearns.

Of course, not all banks have been drawn to CMOs. For example, Signet Bank/Virginia, Richmond — a big player in the pass-through market — has generally steered clear of the CMO market.

The bank likes the higher yields found on pass-throughs and can absorb long-term assets, said Mike Flynn, a Signet vice president. He added that as the CMO market has become increasingly sophisticated, the securities have become "too esoteric to monitor" effectively.

For CMO fans, the most immediate concern is the decline in yields relative to Treasuries. Yields on traditional three-year classes have declined to 90 basis points over Treasuries from 150 basis points at the start of the year, according to Merrill.

The phenomenon stems in part from the weak housing markets, which has restrained the new supply of mortgages and basic mortgage-backed securities, analysts say.

Pittsburgh National, which built most of its industry-leading position in the CMO market of last year, has slowed its buying markedly this year, said Walter L. West, an executive vice president. He cited both a reduced need for assets and the tightening spreads.

"There isn't the opportunity to buy [CMOs] and match-fund them at spreads anywhere near as attractive as last year's," he said.

First Union Corp. also has pulled back in recent months, after increasing its position to about $2 billion during the second quarter. The Charlotte, N.C., company, did not rank in the top 100 on March 31, with holdings of less than $60 million.

"We continually monitor the market and don't feel very good about it right now," said Ross Bumaldo, a senior vice president at First Union. "We feel it might be a bit rich." □

NEWSMAKERS

George Bender Joins Ranieri's Battalion

By PHIL ROOSEVELT

George Bender knows what it's like to be Eisenhower's field general, George Patton's — or Casey Stengel's slugger, Mickey Mantle.

He has just become Lewis S. Ranieri's mortgage-banking man.

United Savings Association of Texas, a Houston thrift led by Mr. Ranieri, last week named Mr. Bender executive vice president in charge of its burgeoning mortgage banking operations.

Mr. Bender — formerly head of CenTrust Bank's mortgage banking unit and a 28-year veteran of the industry — says he was eager to work with Mr. Ranieri, a former Salomon Brothers vice chairman who is considered the father of the mortgage-backed securities market.

'Good Combination'

"I bring specific mortgage banking knowledge, and he brings capital markets knowledge second to none — and that's a very good combination," Mr. Bender, 51, said in a phone interview from Houston.

United, which Mr. Ranieri purchased in a government-assisted deal in 1988, recently acquired a 15-state network of mortgage offices from Commonwealth Mortgage of America, Houston.

That gives United the capability to originate an estimated $3 billion of mortgages a year. It currently services about $6 billion of loans for itself and for investors.

"I bring specific mortgage banking knowledge."

George Bender
United Savings Association

"George is a consummate production executive and a seasoned mortgage banking chief executive," said Walter C. Klein, chief executive of Sears Mortgage Co., Riverwoods, Ill. "I think he will be a formidable competitor for national originators, including Sears."

Mr. Bender said United plans to add further to its branch system, especially in the Midwest, and to find a chief correspondent network to get additional volume.

He expects the network to eventually include about 500 small and middle-size mortgage brokers and mortgage bankers. With United underwriting the loans and closing most of them in its own name.

Mr. Bender had been with CenTrust Mortgage, Deerfield Beach, Fla., for five years, helping the company expand from 11 to 54 offices and to markedly boosting profitability, according to United. But the parent, CenTrust Bank, was seized by the government earlier this year.

At CenTrust, Mr. Bender developed a correspondent network that "won kudos around the country," said Thomas La Motta, president and chief of Backed Capital Corp., Cleveland.

Mr. Bender earned his mortgage banking stripes at Advance Mortgage Co., Southfield, Mich., joining the company in 1962 and rising through the ranks during 15 years.

He went on to become senior vice president of United First Mortgage Corp., San Diego; chief executive of Unity Mortgage Corp., Chicago; and chief executive of Vern America Mortgage Co., Denver. □

TOP BANK HOLDERS OF CMOS

Top 100 Banks in Collateralized Mortgage Obligation Holdings

Holdings of CMO's, including REMICS, issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation

(All data are as of March 31, 1990, and dollar amounts are in thousands)

Rank 3/90	Rank 12/89	Institution	Collateralized Mortgage Obligations	Mortgage Pass-Throughs	CMO's plus Pass-Throughs	Total Assets	Total Securities	CMO's as a % of Securities	CMO's as a % of Assets	Mtge. Backs as a % of Assets	CMOs & Mtg Backs as a % of Assets
1		Pittsburgh National Bank	2,015,770	3,709,209	5,724,979	6,762,202	17,356,333	29.81	11.61	21.37	32.98
2		Manufacturers Hanover Trust Co., New York	1,073,000	1,238,000	2,411,000	6,888,000	53,743,000	12.02	2.18	2.30	4.49
3		Morgan Guaranty Trust Co., New York	1,104,439	3,060,726	4,165,165	6,788,438	70,725,390	6.59	1.56	4.36	6.14
4		Chemical Bank, New York	869,000	3,890,000	4,759,000	7,534,000	48,859,000	11.53	1.78	7.96	9.74
5		First American Bank & Trust, Nashville, Tenn.	863,211	174,286	1,037,497	1,663,963	7,043,706	21.98	12.26	14.73	26.99
6		First Fidelity Bank NA, Newark, N.J.	832,482	926,773	1,759,255	2,974,642	12,040,071	27.99	6.91	7.70	14.61
7		National City Bank, Cleveland	678,504	26,406	706,010	1,829,062	7,273,862	37.10	9.33	0.36	9.69
8		Provident National Bank, Philadelphia	647,476	375,759	1,023,235	1,605,700	8,449,980	40.32	7.66	4.45	12.11
9		Fidelity Bank NA, Philadelphia	534,527	359,606	894,133	1,873,278	3,320,040	31.71	6.38	10.84	17.24
10		Michigan National Bank, Farmington Hills	569,769	706,875	1,276,644	2,424,439	10,024,140	23.50	5.68	7.05	12.74
11		Bank One Trust Co., Columbus	520,529	1,385,000	1,905,529	2,896,180	13,916,154	19.33	4.02	6.13	10.15
12		Sovran Bank NA, Richmond	523,728	1,036,990	1,560,708	2,744,159	13,983,244	19.09	3.75	7.42	11.16
13		Citizens & Southern Nat'l Bank, Ft. Lauderdale, Fla.	511,540	553,561	1,065,101	1,550,535	4,356,331	32.99	9.13	8.79	16.92
14		Maryland National Bank, Baltimore	500,323	686,256	1,186,579	1,528,599	10,827,063	32.73	4.62	6.34	10.96
15		Citizens & Southern National Bank, Atlanta	486,482	833,010	1,319,492	2,444,919	12,960,523	19.90	3.75	6.43	10.18
16		Huntington National Bank, Columbus, Ohio	408,163	866,423	1,304,586	2,218,498	9,767,805	18.40	4.66	10.22	14.88
17		Society National Bank, Cleveland	399,946	289,634	689,580	1,417,542	7,832,380	28.21	5.11	3.70	8.80
18		SouthTrust Bank of Alabama NA, Birmingham	386,783	172,851	559,634	870,559	3,449,284	44.43	11.21	5.01	16.22
19		Mesa Schuetzen Co., Inc., Boston	366,061	125,345	490,406	594,389	1,443,439	61.42	25.29	8.68	33.97
20		First Interstate Bank, Los Angeles	334,527	15,900	350,427	1,296,494	5,063,616	25.43	6.54	0.30	6.84
21		BancOhio National Bank, Columbus	320,346	290,318	610,664	1,034,273	5,541,298	30.97	5.78	5.24	11.02
22		Citizens Fidelity Bank & Trust Co., Louisville, Ky.	313,053	1,074,095	1,387,148	1,819,751	5,912,703	17.20	5.29	18.17	23.46
23		UJB/Hackensack, N.J.	295,414	138,955	434,369	1,025,245	5,177,004	28.81	5.71	2.68	8.39
24		First American Bank of Virginia, McLean	285,865	266,426	552,291	925,728	3,868,193	30.89	7.39	6.89	14.28
25		Crestar Bank, Richmond	266,354	690,513	956,867	1,472,270	10,093,139	18.09	2.64	6.84	9.48
26		Associated Bank, New York	264,019	0	264,019	1,179,738	1,573,679	22.38	16.78	0.00	16.78
27		Bankers Trust Co., New York	262,000	1,122,000	1,384,000	6,646,000	55,107,000	3.94	0.48	2.04	2.51
28		Branch Banking & Trust Co., Wilson, N.C.	259,665	38,034	297,699	1,042,060	4,338,915	24.92	5.98	0.65	6.63
29		Sovran Bank/Maryland, Bethesda, Md.	258,689	317,402	576,091	1,201,492	6,141,375	21.53	4.21	2.66	10.91
30		First Fidelity Bank NA/North Jersey, Totowa, N.J.	250,761	554,519	581,380	850,648	2,603,503	28.73	9.86	12.85	22.71
31		Old Kent Bank & Trust Co., Grand Rapids, Mich.	252,992	196,836	449,828	659,644	3,201,537	39.43	7.90	6.15	14.05
32		Valley National Bank of Arizona NA, Phoenix	234,529	43,895	278,224	1,062,112	6,727,918	22.08	3.49	0.65	4.14
33		United States National Bank, Portland, Ore.	232,146	301,324	533,470	1,482,328	5,503,400	15.66	2.21	4.77	6.98
34		Bank One Cleveland NA	232,007	25,588	257,595	398,080	1,779,934	58.28	13.03	1.44	14.47
35		Bank One Columbus NA	229,868	163,527	393,395	690,022	4,068,461	33.13	5.65	4.02	9.67
36		Bank One Columbus NA, Ohio	225,600	19,936	245,536	583,238	4,188,639	38.68	5.39	0.48	5.86
37		Bank One Cleveland, Ohio	224,140	44,144	268,284	435,827	2,389,573	11.43	9.38	1.86	11.24
38		Mellon Bank NA, Pittsburgh	210,610	520,607	731,217	2,400,343	22,471,588	8.77	0.94	2.32	3.25
39		First Interstate Bank of Washington Twp., N.J.	209,494	113,417	322,911	539,584	2,241,671	37.44	9.35	5.06	14.39
40		First Interstate Bank of California, Los Angeles	177,665	0	177,665	1,002,896	21,109,924	17.72	0.84	0.00	0.84
41		NBI National Bank, Denver	177,111	83,798	260,909	727,595	4,805,104	30.66	3.69	1.74	5.43
42		Ameritrust Co. NA, Cleveland	173,437	223,403	396,840	787,775	8,347,034	22.02	2.08	2.68	4.75
43		Charleston National Bank, Charleston, S.C.	158,665	38,034	196,699	1,042,060	4,338,915	24.92	3.66	0.88	4.53
44		Sovran Bank/Central South, Nashville, Tenn.	170,995	89,266	260,261	525,881	4,035,053	42.38	4.24	2.21	6.45
45		Wilmington Trust Co., Del.	165,481	39,884	194,365	777,505	3,561,912	21.28	4.65	0.81	5.46
46		Exchange National Bank, Chicago	157,290	299,362	456,652	1,042,901	3,081,472	14.82	5.08	9.70	14.78
47		Bank One Akron NA, Ohio	157,151	42,264	199,415	345,896	1,374,680	45.43	11.43	3.07	14.51
48		Equitable Bank, Baltimore	152,532	240,340	392,872	889,230	4,344,342	17.16	3.51	5.53	9.04
49		Bank One Youngstown NA, Ohio	152,316	68,872	221,188	383,506	1,144,670	39.72	13.31	6.02	19.32
50		United Jersey Bank Central NA, Princeton, N.J.	152,256	30,000	182,256	457,889	2,030,788	33.25	7.50	1.48	8.98
51		Bank of New England, Boston	148,283	636,403	784,686	1,617,867	15,242,326	9.17	0.97	4.18	5.15
52		Sun Bank, Orlando, Fla.	139,978	92,362	232,340	619,993	4,278,236	32.42	3.25	2.16	5.41
53		Northeastern Bank of Pennsylvania, Wilkes-Barre	133,278	164,315	297,593	544,466	2,615,955	24.48	5.09	6.28	11.38
54		Commercial Bank - Texas, Dallas	132,779	141,179	273,958	313,251	783,527	42.88	16.94	18.02	34.96
55		Boatmen's National Bank, St. Louis	129,045	247,499	376,544	1,721,992	7,864,552	7.49	1.64	3.15	4.79
56		South Carolina National Bank, Columbia	122,705	144,945	267,650	1,006,348	6,154,661	17.19	1.99	2.36	4.35
57		American Security Bank NA, Washington, D.C.	122,020	297,491	419,511	935,595	6,005,637	13.04	2.03	4.95	6.99
58		First Interstate Bank of Denver NA	120,694	26,144	122,748	323,556	1,696,125	37.30	7.12	0.18	7.30
59		Team Bank, Dallas	120,529	447,222	567,751	1,396,413	4,700,701	8.63	2.56	9.51	12.06
60		Central Trust Co., NA, Cincinnati	119,240	315,369	434,609	759,136	3,607,596	15.71	3.11	8.22	11.33
61		Valley Fidelity Bank & Trust Co., Knoxville, Tenn.	116,717	0	116,717	665,226	926,206	70.06	12.60	0.00	25.10
62		Marine Bank, Warren, Pa.	115,858	416,054	531,912	933,811	1,843,106	12.41	6.29	22.57	28.86
63		Society Bank, Michigan, Detroit	111,826	22,586	134,412	489,695	2,717,814	22.84	4.11	0.83	4.95
64		Merchants Bank NA, Allentown, Pa.	110,526	195,558	306,084	609,467	1,970,758	18.13	5.61	9.92	15.53
65		First American Bank of Washington, D.C.	99,660	131,736	231,396	499,059	1,919,942	20.38	5.19	6.86	12.05
66		Merchants Bank, Kansas City, Mo.	98,907	21,228	120,035	210,651	1,798,173	46.91	5.49	1.18	6.68
67		Meridian Bank, Reading, Pa.	98,293	23,000	121,293	1,548,039	9,940,621	6.35	0.95	0.23	1.22
68		First Interstate Bank of Nevada NA, Reno	95,729	316,946	412,675	1,034,957	3,905,360	9.25	2.45	8.12	10.57
69		Deposit Guaranty National Bank, Jackson, Miss.	94,956	141,785	236,741	940,335	2,446,295	10.10	3.88	5.80	9.68
70		First Interstate Bank of Utah, NA, Salt Lake City	90,527	61,518	152,045	334,068	975,174	28.00	9.28	6.31	15.60
71		Bank of Boston, Boston	90,051	39,951	112,360	447,220	2,134,295	26.58	4.31	0.95	5.26
72		Union Planters National Bank, Memphis, Tenn.	91,818	62,583	154,401	539,778	2,434,470	n.a.*	3.77	2.57	6.34
73		Bank of Baltimore, Baltimore	89,215	46,998	136,213	639,992	2,399,668	13.94	3.72	1.96	5.68
74		Bank of Ballston, Ballston Spa, N.Y.	84,164	568,163	652,327	1,941,761	3,325,741	10.35	2.53	17.08	19.76
75		Trust Company Bank, Atlanta	86,159	41,825	127,984	471,230	5,797,229	18.28	1.49	0.72	2.21
76		First American Bank of Maryland, Silver Spring	85,720	52,000	137,720	393,157	1,565,051	21.80	5.47	3.32	11.47
77		Bank One Milwaukee NA	85,075	7,398	92,473	419,631	2,522,029	20.27	3.37	0.29	3.67
78		Bank of America NT&SA, San Francisco	80,000	4,159,000	4,239,000	98,306,000	98,306,000	1.33	0.10	4.71	4.81
79		Colonial National Bank USA, Wilmington, Del.	84,913	0	84,913	131,595	1,136,237	64.53	7.47	0.00	7.47
80		United Jersey Bank/Hackensack, Hackensack, N.J.	81,490	0	81,490	283,187	1,002,446	27.79	8.13	0.00	8.13
81		Sun Bank/Miami NA	78,727	53,738	132,465	382,414	2,122,861	20.59	3.71	2.53	6.24
82		Connecticut National Bank & Trust Co. NA, Hartford	78,044	328,337	406,381	1,660,384	7,729,662	5.27	1.01	4.25	5.26
83		Society Bank Indiana, South Bend	75,256	7,496	82,752	114,264	580,478	65.86	12.96	1.29	14.26
84		Third National Bank, Nashville, Tenn.	74,405	227,961	302,366	343,967	2,549,324	21.64	2.92	1.06	3.98
85		Crestar Bank NA, Washington D.C.	73,999	39,081	113,080	345,096	906,888	30.19	8.16	4.31	12.44
86		Sun Bank/South Florida NA, Fort Lauderdale	72,174	69,435	141,609	556,941	2,180,903	12.91	3.31	3.18	6.49
87		First National Bank, Memphis, Tenn.	67,852	10,694	78,546	566,584	4,044,193	11.94	1.67	0.26	1.93
88		Merchants Bank (North), Wilkes-Barre, Pa.	67,561	75,168	142,729	296,927	786,412	22.75	8.82	9.81	18.62
89		Bank of Boston, Boston	67,000	186,000	253,883	1,577,000	7,877,000	16.03	2.67	2.76	5.03
90		Gainer Bank NA, Gary, Ind.	66,832	63,336	130,168	534,668	1,365,507	12.50	4.89	4.64	9.53
91		State Street Bank & Trust Co., Boston	66,791	128,615	195,416	2,793,122	10,480,109	2.39	0.64	1.23	1.86
92		Premier Bank NA, Baton Rouge, La.	65,870	680,367	746,237	1,173,406	4,123,271	5.61	1.60	16.50	18.10
93		Northern Trust Co., Chicago	65,526	0	65,526	2,194,351	5,384,442	2.99	0.00	0.00	0.70
94		Hamilton Bank, Lancaster, Pa.	64,610	7,005	71,615	207,047	2,745,911	31.21	2.35	0.26	2.61
95		Bank of the Orient, San Francisco	64,000	62,779	126,779	1,500,884	8,251,295	7.69	0.77	0.76	1.53
96		Trustmark National Bank, Jackson, Miss.	62,543	128,411	190,954	737,572	3,112,952	8.48	2.01	4.13	6.13
97		U.S. Bank of Washington, Seattle	61,450	183,234	244,684	695,376	5,060,662	12.40	1.21	3.23	4.44
98		City Bank, Honolulu	60,147	26,390	86,427	152,590	560,363	38.42	10.68	4.78	15.71
99		First Interstate Bank Washington, NA, Seattle	59,000	116,007	175,047	372,529	3,634,923	16.10	1.65	3.28	4.93
100		Sun Bank of Tampa Bay, Fla.	58,787	35,820	85,707	291,564	1,440,029	20.51	4.15	1.80	5.95
		Totals for the Top 100 Banks	**25,008,758**	**38,830,236**	**63,840,994**	**141,896,226**	**807,801,042**	**17.62**	**3.10**	**4.81**	**7.91**
		Totals for All Banks	**35,936,000**	**126,659,000**	**166,597,000**	**585,890,000**	**3,310,824,000**	**6.13**	**1.09**	**3.82**	**4.90**

Key Interest Rates

	Week ended 8/17/90	Week earlier 8/10/90	Year earlier 8/18/89
30-year fixed-rate mortgage	10.14	10.17	10.20
1-year adjustable-rate mortgage	8.17	8.21	8.65

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 8/22	Week's change	Yield	Week's change	Treasury spread	Treasury Week's change
Ginnie Mae 9½%	97-27	-1-16	10.03	+0.28	+107	-3
Fannie Mae 9½%	97-20	-1-17	9.99	+0.32	+103	+1
Freddie Mac 9½%	99-24	0-26	10.00	+0.32	+104	+1

Yield: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. F= Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

Data Sources: The federal regulatory "Report of Condition" filed by all federally-insured commercial banks. American Banker extracted these data from **BankSource**, a data base provided by **W.D. Ferguson & Co.**, Irving, Tex. Aggregate data totals for all banks are from the **Federal Deposit Insurance Corp.**, Washington, D.C. **Collateralized Mortgage Obligations** (CMOs) are bonds issued by a trust or other entity and collateralized by FNMA and FHLMC, where an underlying pool of mortgages held by the issuer serve as collateral for the debt obligation. The principal and interest payments from the pool of mortgages are used to retire the CMOs. **REMICS**, or real estate mortgage investment conduits, also are included. A REMIC is a mortgage securities vehicle authorized by the Tax Reform Act of 1986. The REMIC rules authorize a new entity (a REMIC) to hold commercial or residential mortgages and issue securities representing interests in those mortgages. The REMIC itself is exempt from federal income tax. The income from the mortgages held by a REMIC is taxed by the holders of the REMIC regular and residual interests. **Mortgage-backed Securities** are the book value of holdings of certificates of participation in pools of residential mortgages that are U.S. government-issued or guaranteed. Included are certificates of participation in pools of residential mortgages issued or guaranteed by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corp. (FHLMC). **Total Securities** are the book value of securities of all types held as assets by the bank. **Total assets** are total assets of the bank, including domestic and foreign offices.

Compiled by American Banker, Washington, D.C.

SMALL BUSINESS

Economic Optimism Sags To Lowest Ebb Since 1982

By LAURYN FRANZONI
Special to the American Banker

Despite reports to the contrary, the nation's small-business owners do not believe they are victims of a credit crunch, according to survey results just released by the National Federation of Independent Business, Washington.

The same small-business owners, however, are not optimistic about economic trends. Even before Iraq's invasion of Kuwait, these bustiness owners reported they were putting on the brakes, said federation president John Sloan in presenting the group's findings.

"Small-business owners don't like what they see on the horizon," he said. "And now, with the Iraqi invasion, there will be even less hope for an upturn this fall."

Each quarter the group compiles a small-business optimism index based on expected business and credit conditions, sales volume, and the climate for expansion, among other factors. In 1978, the index stood at 100. In the second-quarter report, based on a July survey of 2,100 firms, the index fell to 98.2, which surveyors said is the lowest level since 1982.

Only 17% Foresee Improvement

Only 17% of those surveyed expect the economy to improve, compared with 22% in the first-quarter report. More than a fifth of the business owners foresee worse times ahead – representing an increase of eight percentage points over the previous month.

"No one should really expect small-business owners to be happy," Mr. Sloan said. "Congress is piling on more laws, more paperwork, and is looking around for ways to create new taxes. Add all that to the Mideast crisis and it could be a long winter for small business everywhere."

The federation calls borrowing conditions a "bright spot." Small business owners appear comfortable not only with the availability of loans; but also with their rates. About 45% of those surveyed said their loans were tied to the prime rate, and only 8% said they expected rates to go higher. The average interest rate paid by small firms dipped slightly during the second quarter to 11.9%, down from 12% in the previous period, according to the survey.

William C. Dunkelberg, the federation's chief economist, said the optimism may be short-lived. The percentage of businesses that expect more trouble getting funds rose to 12% in the latest survey, from 3% at the end of the first quarter. "The real concern is that higher interest rates will result from administered inflation by Congress," Mr. Dunkelberg said.

Fewer New Jobs

The small-business sector has been heralded in past years as the fountain of new jobs for the nation. The federation said its survey shows that fountain is drying up. While it cannot be sure of predicting a sharp increase in unemployment, the group expects mild increases in the unemployment rate and weak hiring statistics.

Overall, plans to increase employment have fallen. Only 16% of the small-business owners said they plan to add workers this year, down from 23% in the previous report. About 10% of the businesses polled expect layoffs.

The demand for credit could be slackening among small businesses, as fewer plan new capital expenditures. The portion planning such expenditures slipped to 29% in the second-quarter report, down three points from earlier this year and seven points from the expansion high of 36% set in early 1989.

"Although the numbers seem small, they characterize the expenditures of more than four million small businesses," Mr. Dunkelberg said. A change of one percentage point, representing median spending of $15,000, could have a big impact on capital spending, he said.

Business Services Merger at Merrill

Merrill Lynch & Co., New York, has merged two divisions that had served portions of the corporate market. As a result of the combination, the brokerage house will offer the services to a broad audience that previously had been targeted primarily at large firms.

The group financial service unit, which provides group employee services including 401(k) retirement plans to larger businesses, has been combined with the business financial services unit, which provides financing and investment services to small and midsize companies.

The merged unit will offer a working capital management account, equipment financing, loans, retirement plan administration, investment and portfolio management, business valuation, and sales services.

The combined unit, known as business financial services, has annual revenue of nearly $550 million. Its new director, J. Arthur Urciuoli, a Merrill Lynch senior vice president, has been the company chief strategist developing services for the small-business market.

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Customers Sue Failed DC Bank

Continued from *page 1*

left unpaid, according to a Washington lawyer representing one of the bank's disgruntled customers.

At least 15 creditors holding commercial paper are now trying to recover millions of dollars, she said. Most, if not all, of the creditors claim funds were invested in commercial paper without their authorization. It could not immediately be determined what portion of the suits the commercial paper the bank misused insured deposits.

In one suit, Alicia Fernandez de Goldenberg, a resident of Venezuela, and her daughter Isabel Ana G. Kuperschmit of McLean, Va., claim that the bank breached its fiduciary duty by selling $12,000 from Mrs. Goldenberg's certificate of deposit and investing it in the commercial paper program, according to court documents filed in U.S. District Court for the District of Columbia. The suit was filed on Aug. 6 against top officers of NBW.

CD Renewal Requested

According to Mrs. Goldenberg, Mrs. Goldenberg authorized the bank to renew her CD for six months on Jan. 2, but two months later, a bank employee called her with news that she was a holder of the bank's commercial paper, the suit alleges.

NBW, Washington Bancorp. announced that it could not make payments on $25.8 million of commercial paper insured up to $100,000, lawyers note.

"It is like a nightmare," said Annette Fields, Mrs. Goldenberg's attorney and partner in the Washington law firm of Fields & Director. "We have gone to the FDIC, we have gone to the [Office of the Comptroller of the Currency], we went to the National Bank of Washington before it went under. We wrote letters and said this has got to be some kind of tragic mistake."

The bank taped some of those conversations, according to Ms. Fields. "The FDIC has seized those tapes," she said.

Attorneys in the law firm of Akin Gump Strauss Hauer & Feld, outside counsel for the FDIC, referred calls about the suits to the agency itself. An attorney at the FDIC said she was familiar with the case but could not comment at this point.

At least 15 creditors holding commercial paper are now trying to recover millions of dollars.

Industry followers expressed surprise that such investments would be made without approval from the depositor or investor.

"It would be an extraordinary situation to do that to a customer's deposit without their consent," said Allen Raiken, partner at Morgan, Lewis & Bockius. "As far as I'm concerned, it is a breach of the customer relationship." ☐

Installment Credit Up $27 Billion

NEW YORK – Consumer installment credit grew $27 billion during the 12 months ended June 30, bringing outstandings to a seasonally adjusted total of $723 billion, according to the American Financial Services Association.

Commercial banks hold $336 billion of the consumer credit outstanding, representing 46% of the industry total, the finance industry trade group said. Finance companies claim $139 billion, or 19% of total consumer credit outstanding.

Credit unions hold $90 billion, for 13% of the industry total, while thrifts have $53 billion, or 7%. Retailers account for $37 billion and gas companies for $4 billion.

An additional $64 billion in consumer loans outstanding have been securitized after their origination and are now found in publicly held pools of securitized assets. The securitized portion represents 9% of the total.

According to the trade group, finance companies hold $471 billion in total credit, and more than half that amount is devoted to business credit.

Consumers account for 30% of all credit held by finance companies, the automobile loans comprise 56% of the consumer credit at finance companies. ☐

AMERICAN BANKER */Bank Rate Monitor's™*

Consumer Money Index

Highest Retail Yields and Jumbo Rates

These are the highest jumbo CD rates and retail CD yields offered on August 22 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns 0 (lowest) to 3 (highest) stars. The information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

Site-month		
Heritage Svgs Bank, Richmond, Va.		8.77%
Columbia Sbl., Irvine, Calif.		8.76
Mem Hancock Bk., Jacksonville, Fla.	*	8.75
Maine Savings Bank, Portland		8.75
Imperial Fed Svgs, San Diego, Calif.		8.67
One-year		
Columbia Sbl., Irvine, Calif.		8.67%
Heritage Svgs Bank, Richmond, Va.		8.63
Maine Savings Bank, Portland		8.78
Imperial Fed Svgs, San Diego, Calif.		8.79
John Hancock Svgs, Bethesville, Md.	*	8.75
Five-year		
NVR Svgs Bank, Mclean, Va.	*	8.80%
Washington Svgs Bank, Waldorf, Md.	***	8.75
Safra Nat'l Bank, New York	***	8.75
Eastern Svgs Bank, Hunt Valley, Md.	**	8.75
The Bank Mart, Trumbull, Conn.		8.73

Jumbo Rates

Six-month		
Columbia Sbl., Irvine, Calif.		8.56%
Heritage Svgs Bank, Richmond, Va.		8.50
Bank Hapoalim Fed Svgs Bk., Longmont, Colo.	*	8.50
Dartmouth Bank, Hooksett, N.H.		8.45
Columbia First Bank, Arlington, Va.	**	8.40
One-year		
Calif. TrstWst.Loan, Santa Barbara, Calif.	***	8.65%
Dartmouth Bank, Hooksett, N.H.		8.59
Heritage Svgs Bank, Richmond, Va.		8.55
Columbia Sbl., Irvine, Calif.		8.55
Imperial Fed Svgs, San Diego, Calif.		8.50
Five-year		
Metropolitan Bank for Svgs, Arlington, Va.	***	9.00%
Bank Hapoalim Fed Svgs Bk., Longmont, Colo.		8.60
Am General Fin. Clo. Thrift, San Francisco	***	8.60
Chase Manhattan Bank, New York	*	8.60
Columbia First Bank, Arlington, Va.	**	8.60

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7300

GLOBAL *dispatches...*

World Bank Resumes Effort To Curb Population Growth

By ALVER CARLSON
Reuters

After a decade of treading softly on the issue, the World Bank is renewing its public criticism of population growth, terming it a cause of poverty and environmental destruction.

Bank President Barber Conable has been making the case both publicly and privately that curbing population growth is a basic ingredient of economic development and a major goal of the bank.

"The policy is coming from the top," said one bank official.

The new emphasis is also being backed by increased lending.

The World Bank expects the world's population to reach 6.3 billion by the end of this century, up from 5.3 billion now.

Increasing population gives the bank new problems, undercutting its efforts to reduce poverty and improve economic growth.

In the past, many bank officials have been wary of advocating population control. The United States, the bank's biggest member, took the position during the Reagan administration that family planning should not get government or multinational aid.

President Bush, while in agreement, has been less strident on the issue as it applies to the World Bank. Bank officials say Mr. Conable has decided to fill this de facto leadership vacuum.

"The United States used to be the leader in this area, but under Reagan it went in the opposite direction," says Fred Sai, a former senior population adviser at the bank.

World Bank loans for population, health, and nutrition have soared from $544 million or 0.3% of total lending in the 1987 fiscal year to $304 million, or 1.6%, in 1988; $623 million, or 2.9%, in 1989, and $933.4 million for the fiscal year that ended June 30.

The bank estimates that one-fourth of these amounts are earmarked strictly for population issues, and officials believe loan growth in the sector will continue.

... by country

CUBA

Cuba's economy will grow a slim 1% in 1990, according to an economic forecast presented recently to Western creditors by the Communist government.

The document gave only passing mention to what is usually described as "current economic difficulties," an apparent reference to growing shortfalls in oil supplies from the Soviet Union and other East European trading partners.

The 1990 economic forecasts had been presented by Cuba's Western creditors grouped in the Paris Club as a basic requirement for a rescheduling of Cuba's debt to the Paris Club, which is due to expire this December.

Rescheduling the talks has been stalled because Cuba is demanding guarantees of new financing before it will consider restarting principal and interest payments suspended in 1986.
— Reuters

PAPUA NEW GUINEA

Westpac Bank-PNG-Ltd, the Papua New Guinea banking unit of Australia's **Westpac Banking Corp.**, has contracted with **Citicorp** Investment Resources to update its automated retail banking operations.

No price for the contract has been disclosed. The system runs on IBM AS400 computers using Citicorp's Comprehensive Banking System software. Hardware is being supplied separately through a local marketing company in Papua New Guinea. The system replaces an NCR Corp. mainframe.

A Citicorp spokeswoman said that installation at Westpac's 15 branches and 10 sub-branches in Papua New Guinea is scheduled to be complete early in mid-1991.

Citicorp Information Resources, a unit of Citicorp, supplies financial data processing software and servicing.
— James R. Kraus

SRI LANKA

Citicorp Investment Bank Ltd., a Sri Lankan affiliate of Citicorp, will underwrite tea sales from Sri Lanka to the Soviet Union, Industries Minister Ranil Wickremasinghe said Thursday.

Mr. Wickremasinghe said Colombo will give a year's credit to the Soviet Union to import tea. The credit line will be guaranteed by the Citicorp unit.

He told journalists this step was taken because Iraqi buying was in jeopardy and because of the Soviet Union's need for the Colombo tea auction. The Soviets withdrew from the auction in May due to a shortage of foreign exchange.
— Reuters

SWITZERLAND

Daiwa Securities and **Nikko Securities** have applied to Swiss authorities for banking permits, which are expected to be granted by fall. The permits would mean that Japan's four largest banks have Swiss banking powers.

Tokai Bank, Mitsubishi Trust and Banking Corp., and **Sumitomo Trust and Banking Co.** are also expected to file applications for Swiss banking permits.

The moves are interpreted as an opening of the Swiss system in response to Japanese domestic market liberalizations.
— TFW

TFW, the Tokyo Financial Wire, is a Tokyo-based news service of Comline International Corp., Cupertino, Calif.

Kuwaiti Bank Shifts Operations

Top Management Now in London; Assets Are Shed

By JOHN EVANS

LONDON — In an effort to keep operating around the world, National Bank of Kuwait, the Arab oil state's biggest commercial bank, has shifted much of its top management and activities to London.

The move will "bank-in-exile" measure became clear Thursday when NBK released a detailed picture of its efforts to overcome the impact of the Aug. 2 Iraqi invasion of Kuwait. This includes assistance, to help maintain its liquidity, from a Kuwaiti government agency as well as a program to asset sales to re-produce working capital.

The Kuwaiti state is similarly establishing a government-in-exile in the West, operating with an estimated $50 billion in oil revenues it has invested abroad. Such investments are part of an estimated $100 billion in Kuwaiti monetary assets.

Accounts Not Blocked

NBK has assets of $13.25 billion, making it the third largest bank outside Kuwait. Because NBK is privately owned, it is the only Kuwaiti bank whose assets abroad are not blocked by regulatory agencies around the world. However, NBK's assets within Kuwait are blocked because of Iraq's invasion of the country.

Virtually all NBK's senior management is now based in London, including chief executive Ibrahim S. Dabdoub. An NBK spokesman said that British and U.S. officials have recognized the authority of the board and management in London.

The bank has branches in New York, Singapore, and Bahrain and wholly owned subsidiaries in Paris and Geneva. It is now discussing with regulatory authorities in Britain and overseas the legal framework for continuing to operate these branches and units.

Shrinking Its Portfolio

NBK's aim for the time being is to shrink its international portfolio to ensure that its obligations, including interbank funding, are met on time.

In addition, NBK has started receiving deposits from the Kuwait Investment Office, the London-based agency that holds most of Kuwait's investments in the West.

This is in line with a declaration by the Kuwait finance minister in London this week that he will not allow any Kuwaiti bank overseas to suffer a liquidity shortfall.

Loan Sales at Par

Capital Intelligence, a rating agency specializing in Mideast banks, commented that NBK is "free to dispose of its assets within these assets, which we have been reinvesting, apart from those needed for the limited overexpenses of the government."

Reuters contributed to this article.

Leading Norway Bank, Mortgager Plan to Merge

By JOHN EVANS

Christiania Bank og Kreditkasse, Norway's second biggest commercial bank, has proposed a merger with Realkredit, the country's biggest mortgage institution, to form a financial-services group.

With assets of about $55 billion, it would be Europe's 37th-largest financial company.

The merger is being sought through a holding-company structure scheduled to later include an insurance business, Christiania Bank announced.

The companies announced the proposed merger Wednesday. In reaction, Moody's Investors Service Inc. on Thursday placed Christiania's Aa1 ratings on long-term debt under review for possible downgrading.

The result would be Europe's 37th-largest financial company.

Nordbanken Sees Credit Losses

Separately, Sweden's Nordbanken group, one of Scandinavia's biggest banking groups as a result of a merger this year, announced probable credit losses of up to $115 million.

The bank was established after PKBanken, in which Sweden has a 70% stake, bought Nordbanken for nearly $1 billion.

Nordbanken said an internal survey discovered the potential losses at a few branches of the old Nordbanken. The bank also said it is setting aside $35 million to cover possible losses in a legal case involving leasing operations. Total credit loss reserves for 1990 are estimated at $295 million, the bank said. ☐

Key International Rates*

	Day-to-day money		3-mo. interbank		6-mo. interbank		Discount rate				Prime equivalent			
	8/20	8/21	8/20	8/21	8/20	8/21	8/20	8/21	8/22	8/23	8/20	8/21	8/22	8/23
United States	8.12	8.00	8.12	8.31	8.25	8.00	8.37	8.25	8.00	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.50	7.40	7.43	8.18	8.12	7.87	8.37	8.25	8.00	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.00	13.50	11.50	13.12	13.12	13.06	12.62	12.62	12.62	13.34	13.34	13.34	14.75	14.75	14.75
U.K.	15.00	15.00	15.06	15.06	15.00	15.06	14.93	14.93	14.93	14.34	14.34	14.34	15.00	15.00	15.00
West Germany	7.87	8.00	8.12	8.56	8.50	8.50	8.87	8.81	8.75	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.62	8.62	8.31	8.87	8.87	9.12	9.00	8.87	9.18	6.00	6.00	6.00	10.88	10.88	10.88
France	10.00	10.00	10.00	10.50	10.37	9.62	10.68	10.68	10.00	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.12	11.12	11.25	11.87	11.25	11.68	12.25	12.00	11.93	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars		Sterling		West German marks		Swiss francs		Yen	
3 to 6 months	8.23		14.40		8.88		8.77		8.35	
6 to 12 months	8.50		13.45		9.00		9.10		8.48	
12 to 24 months	9.17		12.90		9.30		9.70		8.24	

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

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If interested, please submit your resume to our fax number 213-253-2621. All applications will have the personal attention of our President and will be treated in strict confidence.

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We can offer a competitive compensation and benefits package including relocation. Forward your resume in strict confidence to:

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c/o American Banker
1 State Street Plaza
New York, New York 10004
EOE M/F/V/H

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New, joint venture bank in Warsaw, Poland, American Bank in Poland, is seeking a Manager of Retail Banking. The position will include responsibility for all back office systems for retail banking activity, staff training, and the development of deposits and introduction of new services to the bank's clients.

Candidate must be fluent in Polish, and be familiar with all aspects of retail banking. Experience with a bank in the U.S. or Canada.

Position offers attractive compensation package and career opportunity. Please send resume with salary history in confidence to:

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Star States Corporation, a $1.6 billion Delaware based financial and real estate services multi-bank holding company (WSHS is the lead bank), is seeking a CEO.

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Please direct resumes and salary requirements to: BOX #445, c/o American Banker, 1 State Street Plaza, New York, New York 10004.

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Flagship Financial to Close Retail Units in New Jersey

JENKINTOWN, Pa. — Flagship Financial Corp. said it will discontinue the New Jersey retail operations of its First American Savings subsidiary, write off $10 million in goodwill, and accelerate its accumulation of general loan-loss reserves.

As a result, Flagship expects to take an estimated $13 million noncash charge to third-quarter earnings, which is expected to be partially offset by future improvements in core earnings, a seasoned financial professional, with an extensive background in operations, commercial lending, REO, budgeting, strategic and financial planning. A bachelors degree in business, finance or economics and 10 years of experience or a Masters Degree with 5 years experience is required.

Flagship said that its financial condition will not be jeopardized and that its Pennsylvania-based thrift subsidiaries – $698 million-asset First American Savings and $220 million-asset Brandywine Savings Bank – will continue to exceed the fully phased-in capital requirements.

The company said that by accelerating the recognition of noncash items, the balance sheet will be stronger and loan-loss reserves will be about 0.98% of total loans. Results of operations will improve, and cash tax liabilities will be reduced now and in the future.

Flagship will focus on suburban Pennsylvania.

Profit Targets Elusive

It was concluded that First American could not meet profit targets in a reasonable time, and Flagship will focus on suburban markets in Pennsylvania rather than the New Jersey suburbs of Philadelphia.

First American exit will free New Jersey by closing or selling its five retail facilities.

First American's board is investigating whether the $46.7 million of deposits in those offices will be sold. The remainder of First American's board wrote down about $10 million of goodwill, mainly associated with the June 1982 purchase of York Road Federal, and to a lesser extent, with its exit from New Jersey.

The York writedown resulted from a decision to retroactively adopt Financial Accounting Standard No. 72, which requires a partial writedown of goodwill for acquisitions before October 1982.

—Reuters

Opinions and Insights
Management
In Thursday's AMERICAN BANKER

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LEGAL ADVERTISING

Partnership Notices

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of HINDLE & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of HINDLE & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 51st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Mastyl Pertaining to the Negotiation and/or Litigation of Disputed Bank Practices or Violations. Clients and References in Georgia, Florida, Alabama, Tennessee and California. BOX #445, c/o American Banker, 1 State Street Plaza, New York, New York 10004.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

SS.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CUMMINGS & CO. for the conduct of business at 53 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CUMMINGS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Zarmer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of MADDER & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of MADDER & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 51st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Mastyl, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Scioscia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

SS.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of C.A. ENGLAND & CO. for the conduct of business at 53 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of C.A. ENGLAND & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Zarmer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CRONSKEY & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CRONSKEY & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 51st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Mastyl, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Scioscia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

SS.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of H. A. WITTEN & CO. for the conduct of business at 53 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of H. A. WITTEN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Zarmer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of WINTA & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of WINTA & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 51st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Mastyl, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Raysor, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Scioscia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

SS.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ALM & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts:

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ALM & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Zarmer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK

COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of NICO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of NICO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Zarmer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

Recession Worries Prompt Warnings on Debt Burdens

By ROGER PILLION
Reuters

WASHINGTON — The huge mountain of debt racked up by U.S. corporations during the takeover frenzy of the past decade will make them vulnerable if a recession hits, as they struggle to pay off their loans with less available cash.

The high debt load could even worsen the next recession as companies cut expenses to find the cash to repay creditors. Some economists say that recession has already struck since Iraq invaded Kuwait and oil prices have surged to their highest levels in nearly five years.

In a business downturn, the vulnerability of corporations could spill over into the general economy in the form of lower investment spending, which would translate into job losses.

Investments Would Be Cut

A recession could be made to be cut back more quickly due to the heavy interest payments," said David Hyman, chief economist at Data Resources Inc.

DRI estimates that if oil prices remain in the range of $25 to $30 a barrel, investment – a key source of economic growth – would fall 4% mid-1991.

The surge in oil prices since Iraq's invasion in August has raised the specter of a downturn after more than 7½ years of expansion. A downturn is generally defined as two consecutive quarters of a fall in the gross national product.

Recession Could be Mild

Economists at this point believe any recession probably would be mild, and not as severe as the recessions in 1973-75 and 1981-82, when growth fell 4.3% and 3.4%, respectively. But they caution that the uncertainty over oil prices and events in the Gulf make it impossible to rule out a more severe downturn.

"If there is a sharp downturn in earnings, many companies will be unable to meet their obligations," said Benjamin Friedman, a Harvard economics professor. "The corporate sector has become heavily leveraged in the sense that it is heavily dependent on the continued strong growth of earnings."

During the 1950s and 1960s, Mr. Friedman said, it took 16 cents of every dollar of earnings to pay corporations' interest bills.

That average grew to 33 cents in the 1970s, and since 1980 has been 56 cents. It now is 59 to 60 cents, after such multibillion-dollar buyouts as that of RJR Nabisco Inc. and Philip Morris Cos. Inc.'s purchase of Kraft Inc.

Economists said the Fed – while it appears willing to keep interest rates high to check inflation – would move quickly to lower rates at the first signs of a downturn, partly out of fear of

See **WARNINGS** *next page*

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AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of MERRICK & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of MERRICK & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of SECNAT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of SECNAT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of FINMAN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of FINMAN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ROBIN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ROBIN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of LISTER & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of LISTER & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of WYO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk; New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of WYO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of UTEPET & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of UTEPET & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of J. C. CORK & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985; under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of J. C. CORK & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CORBETT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CORBETT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

Warnings Sounded on Debt Burden

Continued from *page 12*

the debt overhang.

Mr. Friedman said the potential fallout could spur the Fed to err on the side of preventing a downturn. "The policy choice will be tipped more toward keeping the economy going than against resisting inflation."

Repercussions of a Downturn

Ben Bernanke, professor at Princeton University, recently did a study showing that only the 1,200 corporations he sampled would become insolvent in a recession as severe as that of the mid-1970s.

The insolvency would be based on a company's asset value falling below debt obligations. The surveyed corporations, which included almost all of the nation's largest publicly traded companies, had total sales of $2.3 trillion and book debt outstanding of $675 billion in 1988.

An Analyst Downplays Risk

But Stephen Roach, senior economist at Morgan Stanley & Co., downplayed the risks of the debt overhang. "The debt has been heavily concentrated in sectors of the economy which thus far have had relatively good cash flows," he said.

Mr. Roach singled out nondurables manufacturers, such as food and tobacco companies, as well as public utilities and the service industry.

Between 1982 and 1989, debt growth in those areas accounted for 75% of the cumulative growth in nonfinancial debt, he said. "In recessions, people eat," Mr. Roach said.

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AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of COBB & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of COBB & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of LOCO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of LOCO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of FIONKEN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of FIONKEN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of HILLERS & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of HILLERS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of RAPCO for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of RAPCO and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

BB&T Finishes Acquisition in NC

WILSON, N.C. — BB&T Financial Corp. said it has completed its acquisition of the $301 million-asset Carolina Bancorp Inc., the High Point-based parent company of First Federal of the Carolinas.

The four former offices of First Federal opened this week as BB&T Federal Savings Bank of High Point, a subsidiary of the $5.1 billion-asset BB&T Financial. With offices in High Point, Greensboro, Jamestown, and Thomasville, it is one of BB&T's network of 180 offices in North Carolina and 15 in South Carolina.

BB&T Financial's lead subsidiary is Branch Banking and Trust Co., the fourth-largest bank in North Carolina.

The Wilson-based corporation has announced agreements to acquire four other healthy thrift organizations: Albemarle Savings & Loan Association, Elizabeth City, N.C.; First Federal Savings Bank of Pitt County, Greenville, N.C.; Gate City Federal Savings and Loan Association, Greensboro, N.C.; and Home Savings and Loan Association, Durham, N.C.

The acquisition of First Federal Savings Bank of Pitt County is expected to be completed in early September. □

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Citation Notice

File No. 2266-1990 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT, TO [illegible] AND THE PEOPLE OF THE STATE OF NEW YORK, 120 Broadway, New York, NY THE PUBLIC ADMINISTRATOR OF NEW YORK COUNTY, 31 Chambers St., New York, NY and the unknown heirs at law, distributees and next of kin of ELIAS KIS, deceased, and if any of them be living, to their heirs, next of kin, husbands or wives or successors in interest. A petition having been duly filed by YISRAEL H. EIDELMAN, who is domiciled at 470 East 2nd Street, Brooklyn, New York 11218. YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 509, 31 Chambers Street, New York on September 25, 1990, at 9:30 a.m., why a decree should not be made in the estate of ELIAS KIS, late of Brooklyn, and to Wister Street, New York, New York 10002 in the County of New York, admitting to probate a will of real and personal property a paper dated June 28, 1989, and relating that Letters of Administration may to YISRAEL H. EIDELMAN August 17, 1990 L.S. Hon. Marie A. Lambert, Surrogate, County of New York Robert M. Reeves Clerk of the Surrogate's Court Name of Attorney: SOLOMON RUBIN Telephone Number 212-233-6570 Address of Attorney: 148 East Broadway, New York, N.Y. 10002. This citation is served upon you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

Foundation Notice

NOTICE

The annual report of the MELVIN & SYLVIA KAPKA FOUNDATION, INC. for the calendar year ended December 31, 1989 is available at its principal office located at 200 East 66 Street, New York, NY 10022, (212) 719-1970 for inspection during regular business hours by any citizen who requests it within 180 days hereof. The Principal Manager of the Foundation is Melvin T. Kafka.

Notice of Sale

BY VIRTUE OF A Default In The Payment Of Obligations Due Jack Greenbaum, A Secured Party, Of Delaware, Pennsylvania Car Wash, Inc. And Its Officer, Patrick Cook, The Undersigned Will Offer For Sale At Public Auction All Of The Machinery, Equipment Fixtures, Inventory Of Merchandise And Accounts Property And Property Rights Of The Debtors, Located At 1859 Utica Avenue, Brooklyn, New York, On September 19, 1990 At 11 A.M. At The Offices Of Marshall Kaplan, Esq., 189 Montague Street, Brooklyn, New York 11201. The Secured Party Reserves The Right To Bid. Marshall Kaplan, Esq., Attorney For Secured Party, 189 Montague Street, Brooklyn, New York 11201, Stanley Siebert, Simon Rosenbach, Licensed Auctioneers & Appraisers #0794-0448-0452, 152 Noble Street, Brooklyn, New York 11222.

Liquor License

Notice is hereby given that S.L.A. License Number EB 142311 141 has been issued to the undersigned to sell beer, at 224 La-fayette Street, New York, NY 10012 for on premises consumption. Gesia Deli & Coffee Shop Inc., 224 Lafayette Street New York, NY 10012.

Auction Notices

R. A. Felder Lic Auctr #793917 sells on 9/10/90 10 AM at Rte 22, Dover Plains, 93 Ford #1FAHP90U7EG148538 Rec. C. Martin; 11:30 AM at 1195 Union Ave, Hackensack, Owens #WMWMF33413TG-85 Gilcullen; 12 PM at Rt 647 Rte 52, Glenham, '75 Chevy #1X13D7S141950 Rec. J. Pell 4 PM at Rte 9W, Cold Spring, Woodside; '81 Merc #6R89F836533 Rec. C. Kuhlmann; 12:30 PM at 106-10 Atlantic Ave, Richmond Hill, '70 Chevy #CX11H8F144846 Rec. H. Monteiro; on 9/11/90 10 AM at 12-14 Spring Ave, Lyn-brook, NY #1GJT6032BW Rec A. Francioni. Published 8/24 & 8/31/90.

DEFAULT In Security Agreement Made By Felipe Plasencia & Alba Lee) Will Sell On 8/27/90 At 11:30 AM At 688 5th Blvd., NY All Right, Title & Interest In & to Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. Frank E. Seipp, Asstn's Lic #732234 of F.E.S. AUCTIONEERS, As Agent

DEFAULT IN A Security Agreement Made By Jose Hernandez To Prendia Corp. Sale Aug. 24, 1990 At 11 A.M. At 1163 Hoe Ave Bronx, NY 37-07 P/T In & To Chattels & Fixtures As Per Schedule Subject To Prior Liens & S/V. Secured Party Reserves The Right To Bid. LEO FRANK INC., Asstr. As Agent. DCA #664147.

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DEALS: A $68 Million Offer for Control of AmBase, Carteret's Parent

By WILLIAM GOODWIN

AmBase Corp., parent of Carteret Bancorp, said Thursday that an investor group has proposed to buy 50.1% of its common stock for $4 a share in cash, or a total of about $68 million.

AmBase shares were trading at $1.875 late Thursday, up 12.5 cents from Wednesday's close. The company's board is to meet today.

The investor group – Sequoia Associates, Hermitage Capital Corp., and Whitman Heffernon Rhein and Co. – is mainly interested in the Home Insurance Co. subsidiary of AmBase.

Carteret Sale Unlikely

However, it's unlikely the group would seek to sell Carteret, at least for the time being.

"A weak thrift franchise in the Northeast is virtually unsalable in this market," said Reid Nagle, president of SNL Securities, a thrift and banking research concern in Charlottesville, Va. "My guess is, they would retain it, possibly recapitalize it, and run it until the market for thrifts in the Northeast improves."

"We're talking a window of at least two or three years," Mr. Nagle added.

Biggest NJ Thrift

Carteret is New Jersey's biggest thrift, not counting City Savings Bank, which is run by the Resolution Trust Corp.

In its second-quarter earnings report, AmBase said Carteret broke even, compared with a profit of $10 million in the first quarter and a pretax gain of $16 million in the second quarter of 1989.

Robert O'Brien, Carteret's chairman, is considered likely to be retained by the investor group if its proposal to buy control of AmBase is accepted.

"He's a capable and well-regarded person," Mr. Nagle said of the Carteret chairman. Mr. O'Brien didn't return phone calls seeking comment on the investor group's proposal.

William Walsh, a Sequoia general partner, called it "premature" to say whether the group would keep Carteret but added that its general practice is to "retain, not break things up."

For its part, AmBase had been planning to sell all three of its insurance subsidiaries and field itself into Carteret.

Deal to Sell Home Insurance

This month, AmBase said it had agreed to sell Home Insurance to Vik Brothers International. Proceeds from the sale were to be used to retire all AmBase debt, including about $400 million in loans held by a group of banks led by Chase Manhattan Corp.

The debt repayment was required by an amendment to AmBase's agreement with the Chase-led group. When AmBase reported a second-quarter loss of $106 million, it was in noncompliance with the loan pact.

Westpac Refinancing Set

Under the proposal from the investor group, the existing bank debt would be refinanced by a new group of lenders led by Westpac Banking Corp. Details of the facility were not disclosed by the investor group, and Westpac refused to comment.

As part of its proposal to acquire control of AmBase, the investor group plans a rights offering to company shareholders of zero-coupon notes with attached warrants to buy 34 million AmBase common shares at $2 each. The investor group would buy any notes not purchased by shareholders, resulting in a total cash infusion of $68 million. □

Carteret is New Jersey's biggest thrift, not counting City Savings Bank, which is run by the Resolution Trust Corp.

Citicorp, Other Banks Reassess Disaster Recovery Plans

Continued from page 1

with a major data processing site handling both retail and correspondent banking that was affected by the blackout. Many other banks might have been in the same or worse shape if their main data centers went down, they said.

"There's a strong feeling of it can't happen to me, despite the Hinsdale fire, the California earthquake, Hurricane Hugo, and now the Wall Street Fire," said John Nevola, manager of International Business Machine Corp.'s business recovery center.

Disaster Plans Reassessed

Many banks are now reassessing their business recovery plans in overall disaster plans. "We had not considered [on-line backup of funds transfer] to be something we are now looking at," said Walter Brenner, head of disaster recovery planning at Credit Lyonnais. "We've learned a few lessons from this exercise."

Credit Lyonnais moved most operations to contingency sites last week, but kept its funds transfer business operating under generator power at its blacked-out headquarters. As long as backup appeared sufficient, it was considered less risky than shifting sites. "A lot of things could go wrong when you move," Mr. Brenner said. The French bank's staff practiced no problems, and its generators held up all week.

Rehearsals Needed

Disaster recovery experts say it is not enough to have a plan on paper. The execution of disaster simulations must be planned and rehearsed. Many banks say they test their systems once a year, which experts say is not enough.

"The companies that do test rarely test their abilities to do anything more than restore an operating system and do basic connectivity tests," said Jeffrey Marinstein, executive vice president at Contingency Planning Research Inc., Jericho, N.Y. "Less than 10% do any more comprehensive testing than that."

Banks need established plans of action and must factor in the cost of transferring operations to a hot site – a computer-ready alternative location that is owned by an outside vendor or the bank itself.

Some Moved to Hot Sites

During the most recent crisis, a handful of banks – including National Westminster Bank, Manufacturers Hanover, and Credit Lyonnais – quickly moved some processing operations to alternative sites. Others, including Citicorp, completed continue processing in Lower Manhattan, with backup generators holding system in their most critical areas.

Even banks that emerged unscathed from the outage are reevaluating their recovery plans.

At the time, it was hard to know which was the right decision. Consolidated Edison Company of New York, the afflicted utility company, complicated the issue by initially underestimating the time it would take to restore power.

Generators Failed

As the outage dragged on, generators at some of these banks began failing, disrupting trading systems, funds transfers, and other operations. Citicorp, the Federal Reserve Bank, and J.P. Morgan & Co. were among those including funds transfer problems. Some experts said generators failed, not because they had been overloaded, but because fuel suppliers could not get through the chaotic streets.

Failure of a generator at Citicorp's 111 Wall Street data center forced it to shut down certain operations – including funds transfer and retail banking. Some of those operations were later moved to nearby temporary sites for the duration of the power failure.

Even banks that emerged from the outage with their operations unscathed are reevaluating their recovery plans.

'A Dynamic Process'

"Every time you have a real disaster, you reevaluate your plan," said Barry Himel, first vice president of corporate security at Security Pacific Bank in San Francisco. "It's a very dynamic process."

The total cost of the power failure in New York's financial district may never be known.

Merrill lost power for only six hours on Monday. But when Lehman Brothers moved down the cer, Merrill did not know what its account looked like at Citicorp, said G.M. Sieter, Merrill's director of cash management who manages accounts with all the money-center banks.

"When you're scrambling in an information-scarce environment, you want to make sure you cover your banks – so you over-cover," he said. □

Highlights for Thursday, August 23

TOP 10 GAINERS %

Keystone Heritage Group, Inc.	10.0
Northeast Bancorp, Inc.	6.7
First Security Corporation	4.2
F & M National Corporation	3.7
Equimark Corporation	3.7
Banks of Iowa, Inc.	3.5
Associated Banc Corp.	2.1
National Bancorp of Alaska	1.7
Fulton Financial Corporation	1.7
Security Bancorp, Inc.	1.6

TOP 10 LOSERS %

Northern Calif. Community Bncp	-15.6
Sunwest Financial Services	-13.3
Affiliated Bankshares of Co.	-11.4
Bank of New England Corp.	-11.1
Continental Bank Corporation	-10.1
Bankvest Cap. Corp., Inc.	-9.5
Financial Trust Corp	-9.2
Lincoln Financial Corporation	-9.1
Lake Shore Bancorp, Inc.	-8.6
Manufacturers Hanover Corp.	-8.6

MOST SHARES TRADED

Citicorp	1567300
Manufacturers National Corp.	1455000
BankAmerica Corporation	1314000
Continental Bank Corporation	1254200
Bank of Boston Corporation	759100

VOLUME AS % OF AVERAGE

Manufacturers National Corp.	2572.1
Provident Bancorp, Inc.	1469.1
Northern Calif. Community Bncp	1397.7
Boulevard Bancorp, Inc.	1253.6
Continental Bank Corporation	958.6

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-3.00	-7.38	-15.27	-2.79	-7.52	-16.65	-2.97	-9.23	-20.41

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
25¾	19¾	FirstAmerCorp TN	NM	57.5	9¼	-⅛
26¼	21¼	FirstBancorp PR	21%	87.0	22	+¼
26¼	12¼	FirstBankSystem MN	NM	94.6	12¼	-¾
16¾	12¼	FirstChicago IL	11%	60.0	14¾	-⅛
25¾	20¾	FirstCitizens NC	7%	87.3	23	
18¾	16¾	FirstCommerce LA	7%	49.1	18¾	
18¾	11	FirstColonial IL	8%	106.9	11	-¼
16¾	15¾	FirstCommerce NC	8%	83.2	15¾	
25¾	21¾	FirstCommerce NE	8%	88.7	25¼	
21¾	17¾	FirstCommerce OK	8%	108.2	18	-¼
19¾	18¾	FirstCommercial AR	7.7	111.4	18¾	-¼
16¾	12¾	FirstCommercial IN	9.2	130.7	16	-¼
35¼	31¾	FirstEastern PA	6.7	81.9	33¾	-¼
18¾	15¾	FirstEmpire NY	8%	81.9	16¾	
33¾	13¾	FirstFidelity NJ	NM	69.3	14¼	
30	26	FirstFinCorp IN	11%	163.4	26¾	
34¾	17¾	FirstFlorida FL	8.8	67.2	17¾	-⅛
17¾	13¾	FirstFinancial IL	7.7	157.1	17¾	
11	6¾	FirstIllinois IL	8.5	144.2	6¾	
69¾	57¾	FirstInterstate CA	NM	72.4	27¾	
7¼	5¼	FirstInterstate AR	6.9	90.4	5¼	
17¾	13¾	FirstInterstate AZ	7.9	132.4	13¾	
24¾	16¾	FirstMidwest IL	9.3	130.9	16¾	
14¾	12¾	FirstMichigan MI	7.1	120.0	13¾	
44	18¾	FirstPennsylv PA	4.3	68.1	18¼	-¼
18¾	15¾	FirstSecurity KY	10.3	95.0	15¾	
18	13¾	FirstSecurity NC	12.1	159.6	13¾	+¼
8¾	7¼	FirstSouthern GA	7.1	73.6	24¼	
28¼	21	FirstTennessee TN	7.2	86.0	21	-¾
9¾	5¾	FirstTrust OK	5.9	55.1	5¾	
20¾	20¼	FirstVirginia VA	6.4	90.4	20¼	
16¾	12¾	FirstWisconsin WI	9.2	136.5	16¾	-¼
26	22	FirstCrest NC	6.6	103.2	26	+¼
20¾	17	FirstHartford IL	8.0	99.7	17¾	
55¾	40¾	FirstofAmerica MI	6.9	86.6	40¾	-¾
24¼	14¾	FirstRepublic TX	10.9	79.7	14¾	
19	13	FortWayneNatCp IN	8.3	100.9	19¼	
13¾	11¾	FortWorthNatl TX	7.1	134.6	13¾	
14¾	11¾	FultonFinCorp PA	7.1	110.7	14¾	
19¾	15¾	GBC Bancorp CA	7.1	108.6	19¾	
15¾	8¾	GreatSouthBancorp MS	16.8	66.3	8¾	
14¾	11¾	GreenPoint NY	7.1	111.2	14¾	
14¾	8¾	HeritageFedBncs IL	8.7	114.8	15¼	
15¾	13¾	HibernaCorp LA	15.4	134.6	13¾	
24¼	12¾	HuntingtonBancsOH	6.4	93.1	12¾	
18¾	18¼	HUBFinancial IN	6.4	100.0	18¼	
13	8	ImperialBancorp CA	5.6	81.0	13	
14¾	11¾	IndianaFedCorp IN	7.2	83.2	14¾	
18¾	16¾	IntegraFinCorp PA	12.8	83.5	18¼	
34¼	31¾	InterFirstCorp TX	10.8	83.8	34¼	
48	31¾	J P Morgan NY	NM	135.6	31¾	
17¾	14¾	JeffersonBncshs NC	5.7	86.6	16¾	-¼
15¾	10¾	KeyCentonaw WV	8.5	88.9	10¾	-¼
14¾	11¾	KeyCorp NY	11.5	125.0	13¾	
26	19¾	KeystoneFin PA	7.3	106.9	19¾	-¾
14¾	11¾	LaSalleNatCorp IL	7.1	143.2	11¾	
8¾	8	LaSalleExchange CA	12.7	178.5	10¾	+¼
14¾	11¾	LandmarkBancshs MO	8.5	104.2	11¾	
8¾	6¾	LandmarkBancshs MO	6.5	51.8	9	+¼
15¾	13¾	LibertyBancCorp OK	7.3	143.2	13¾	-¾
17¾	11¾	LincolnFinCorp IN	6.1	74.7	17¾	-⅛
18¾	16	MBC Financial	6.1	108.3	16¾	
18	11	MagnetBncshs IL	7.8	78.3	11	
14¾	12¾	ManufacturersNat MI	5.7	86.6	13¾	-¾
14¾	10¾	ManufacturersNY	NM	58.3	24	-2¼
24¼	24¼	MarineCorp IL	11.5	125.0	19	-¼
24¼	20¾	MarshMcLennan MO	7.7	96.3	14¾	
37¼	32¾	MellonBankCorp PA	7.3	96.3	32¾	
38¾	28¾	MellonBankCorp DE	9.7	81.1	28¾	-¾
28¼	21	MellonFinCorp PA	9.4	81.0	21	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	19¾	MercantileBnksh MD	7.5	114.3	18¾	-¼
90¾	44	MerchantsBank VT	11.1	161.7	44	
32	17¾	MerchantsNat IN	8.6	71.0	17¾	-¼
25¾	12¾	MeridianBancorp IN	6.0	71.8	13	
24¾	24¼	MichiganNatCorp MI	2.1	49.0	24¼	-¼
18¾	12¾	MidAmericaNY	8.4	81.5	12¾	
18¾	17	MidlinNtl OH	8.6	133.2	17¾	
41¾	9¾	MidlanticCorp NJ	6.5	26.1	9¾	-¼
25¾	20¾	MidlandBk MI	NM	28.0	20¾	
35¾	27¾	NBD Bancorp MI	7.7	111.7	27¾	-¾
51	21¾	NCNB Corp NC	6.0	108.3	21¾	
26	13¾	NCalifCommBncp CA	10.6	110.9	13¾	-¾
8¾	6¾	NCalifCommBncp CA	7.1	120.9	8¾	-¼
51	34¼	NationalPenn PA	10.0	178.8	34¼	-¼
25¾	24¼	NationsBank NC	8.4	113.8	24¼	-¼
25	20¾	NatlCommerce TN	9.1	158.2	21¼	-¾
24¾	20¾	NatlCommerce FL	5.2	76.5	20¾	
20¾	8¼	NorthAmBanc MI	4.3	50.5	8¼	
12¾	10¾	NorthSideBncp TX	NM	40.0	12	
33¾	23¾	NorthernTrust IL	7.8	145.0	23¾	-¼
17¾	17¼	NorwestCorp MN	8.6	121.5	17¾	-¼
32¾	20¾	OhioBancorp OH	8.5	87.3	21	-¼
32¾	27¼	OldNatlFinCorp IN	7.3	101.3	32¼	-¼
29½	14	OldNatlBancorp MI	12.7	152.9	24	
23½	21¼	OldSecurityCorp MD	NM	81.2	21¾	-¼
29¾	26¼	PNC FinCorp PA	7.0	77.4	22¼	-¼
28¾	23¾	PacificBancorp CA	9.8	140.6	23¾	-¼
16¾	13¾	PeoplesBancorp KC	6.5	119.1	8¾	-¼
24	8	PeoplesBancorp IN	8.0	106.2	13¾	-¼
15¾	9¾	PeoplesCommerce CA	9.8	124.9	27	
21¼	3	PeoplesFinancial MS	27.6	145.7	10¾	-¼
27	21½	ProvidentBancshs MD	10.4	57.8	3¾	
28¾	17¾	ProvidentBancorp PA	8.6	87.3	24¼	
27¼	17¾	PugetSoundBanc WA	9.8	95.1	17¾	-¼
52¾	42¾	RepublicNYCorp NY	129.6	113.3	42¾	-¾
26¼	12	RiggsNatlCorp DC	7.5	54.6	12¼	
14¾	12¾	RomBancorp	12.1	207.6	12¾	
43¾	18¾	SantaBarbaraBncs CA	9.8	179.5	21	
37¾	27¾	SeattleBancorp WA	7.2	121.9	27¾	
51¾	26	SecurityPacific CA	4.2	69.7	26	-½
9¾	8¾	ShawmutNatlCorp MA	NM	45.5	8¾	-¼
42¾	14¾	SignetBanking VA	4.5	54.1	15¾	-¾
14¾	12¾	SouthTrustCorp AL	9.5	93.3	12¾	-¼
37¼	16¾	SouthCarolinaSp SC	6.2	80.7	16¾	-¼
17¾	15¾	SouthernNatlCorp NC	NM	34.7	15¾	-¼
15¼	11	SouthernNatlCorp KC	8.9	124.0	11	-¼
15¼	11¾	SouthwestCorp IL	6.4	85.3	14¾	
43¾	22¾	SovereignCorp PA	5.9	82.4	22¾	-¼
24¾	19¾	Star Banc Corp OH	8.6	89.3	19¾	-¼
42¾	31¼	StateStBosCorp MA	10.7	176.3	31¼	-¼
17¾	14¾	SterlingBancshs TX	NM	101.6	14¾	
25¾	16	SuburbanBancorp IL	12.9	83.5	16¾	-¼
14¾	12¾	SummitBancorp NJ	6.5	119.8	13¾	
12¾	15¾	SummitBancorp PA	7.0	87.5	15¾	-¼
20¾	13¾	SunBanksBancorp FL	5.3	76.6	13¾	-¼
26¾	19¾	SunTrustBanks GA	7.2	112.3	19¾	-¼
13¾	11	SunwestFinSvcs AZ	61.9	60.9	13	-¾
12¾	10¾	SusquehannaBncPA	7.1	93.0	17	-¼
18¾	14¾	SwissBankCorp NY	6.4	81.5	14¾	-¼
18½	13	TheNantenCorp RC	8.5	115.6	13¾	-¼
27¾	21¾	TrustCoBancorp GA	8.1	122.4	21¾	-¼
21¾	15	TrustcompanyNJ	7.4	123.4	16	
17¾	13¾	TrustmarkCorp MS	6.1	114.7	13¾	-¼
27¼	19¾	U.S. BancorpOR	7.1	105.2	19¾	-¼
10¾	6¾	U.S.TrustCorp NY	10.6	62.4	6¾	-¼
28¾	10¾	UJB Financial NJ	5.6	57.4	10¾	-¾
18¾	15¾	UST Corp MA	9.8	81.5	15¾	-¼
32	17¼	UnionBank CA	4.2	67.3	17¼	
19¾	16¾	UnionPlanters TN	NM	72.9	16¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	19¾	UnitedBancCorp OH	NM	58.8	19	-¼
14	10¾	UnitedBshrs WV	7.3	85.9	10¾	
17¾	12¾	UnitedCarolina NC	8.6	113.0	12¾	
62	52	UnitedCounties NJ	7.4	98.8	52	
30¾	24¾	UnitedJerseyBks NJ	8.2	102.1	24¾	
27¼	20¼	ValleyNatlCorp NJ	8.2	102.1	20¼	
36	22¼	ValleyCapCorp VA	8.3	101.2	22¼	
28¼	18¼	ValleyNatlBncs NJ	6.9	130.7	18¼	-¼
28¼	18¼	ValleyNatlBncs NJ	6.9	130.7	18¼	-¼
87¾	52¾	WaMuMacSA	6.3	93.6	70¾	-¾
31¾	24¾	WachoviaCorp GA	8.2	96.2	24¾	
27¼	19¾	WestOneBancorp ID	6.7	84.7	19¼	-¼
28¼	17¾	WestSideBancorp IL	6.2	106.2	17¾	-¼
44¼	34	WestmarkBancorp FL	9.3	219.2	34	-2
24¾	19¾	WestBancorporation IA	7.7	117.3	19¾	
32¼	25	ZionsBancorp UT	6.3	86.5	25	-⅛

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
25¾	19¾	Amerancen CA	6.8	74.9	19¾	-¾
24¾	20¾	AppletonsvpnNY	5.4	47.0	20¾	-¾
20¼	15¾	CalFedInc CA	6.8	74.9	15¾	-¼
55¾	39¼	CitadelHldgCp CA	7.8	57.5	39¼	-¼
20¾	15¾	CoastSavingsCp CA	5.8	63.6	15¾	
18¾	5¼	DimeBkNY NY	NM	19.6	5¾	
24	20¾	EquitableBk MD	20.5	68.1	20¾	
27	18¾	FirstFedFncpCo CA	6.1	102.0	18¾	-¾
21¼	12	FirstFedSvLn CA	5.8	30.0	12¼	
24¾	9¾	GLENFED CA	2.5	22.8	9¾	-¾
24¾	13¾	GoldenWestFn CA	8.1	47.2	24¾	
13¾	13¾	GreatNthernFn CA	12.2	83.1	13¾	-¾
11¾	8¾	GtNwstnSvgBk CA	9.5	80.0	8¾	
41¾	6¾	HomeFedCpCA	NM	14.9	6¾	-¼
14¾	10¾	HomeFedCpCA	14.5	63.4	10¾	-¼
18¾	9¾	NBB BancpMA	9.5	40.5	9¾	-¼
27¼	20¾	PeoplesHeritgs ME	6.6	33.3	20¾	-¼
25¾	9¾	PeoplesHeritgs MT	6.6	33.3	10¾	-¼
25¾	19¾	ShawmutNatlCorp MA	NM	45.5	8¾	-¼
42¾	14¾	SignetBanking VA	4.5	54.1	15¾	-¾
14¾	12¾	SouthTrustCorp AL	9.5	93.3	12¾	-¼
37¼	16¾	SouthCarolinaSp SC	6.2	80.7	16¾	-¼
17¾	15¾	SouthernNatlCorp NC	NM	34.7	15¾	-¼
15¼	11	SouthernNatlCorp KC	8.9	124.0	11	-¼
15¼	11¾	SouthwestCorp IL	6.4	85.3	14¾	
43¾	22¾	SovereignCorp PA	5.9	82.4	22¾	-¼
24¾	19¾	Star Banc Corp OH	8.6	89.3	19¾	-¼
42¾	31¼	StateStBosCorp MA	10.7	176.3	31¼	-¼
17¾	14¾	SterlingBancshs TX	NM	101.6	14¾	
25¾	16	SuburbanBancorp IL	12.9	83.5	16¾	-¼
14¾	12¾	SummitBancorp NJ	6.5	119.8	13¾	
12¾	15¾	SummitBancorp PA	7.0	87.5	15¾	-¼
20¾	13¾	SunBanksBancorp FL	5.3	76.6	13¾	-¼
26¾	19¾	SunTrustBanks GA	7.2	112.3	19¾	-¼
13¾	11	SunwestFinSvcs AZ	61.9	60.9	13	-¾
12¾	10¾	SusquehannaBncPA	7.1	93.0	17	-¼
18¾	14¾	SwissBankCorp NY	6.4	81.5	14¾	-¼
18½	13	TheNantenCorp RC	8.5	115.6	13¾	-¼
27¾	21¾	TrustCoBancorp GA	8.1	122.4	21¾	-¼
21¾	15	TrustcompanyNJ	7.4	123.4	16	
17¾	13¾	TrustmarkCorp MS	6.1	114.7	13¾	-¼
27¼	19¾	U.S. BancorpOR	7.1	105.2	19¾	-¼
10¾	6¾	U.S.TrustCorp NY	10.6	62.4	6¾	-¼
28¾	10¾	UJB Financial NJ	5.6	57.4	10¾	-¾
18¾	15¾	UST Corp MA	9.8	81.5	15¾	-¼
32	17¼	UnionBank CA	4.2	67.3	17¼	
19¾	16¾	UnionPlanters TN	NM	72.9	16¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt to bk	Cls.	Chg.
23¾	19¾	UnitedBancCorp OH	NM	58.8	19	-¼
14	10¾	UnitedBshrs WV	7.3	85.9	10¾	
17¾	12¾	UnitedCarolina NC	8.6	113.0	12¾	
62	52	UnitedCounties NJ	7.4	98.8	52	
30¾	24¾	UnitedJerseyBks NJ	8.2	102.1	24¾	
27¼	20¼	ValleyNatlCorp NJ	8.2	102.1	20¼	
36	22¼	ValleyCapCorp VA	8.3	101.2	22¼	
28¼	18¼	ValleyNatlBncs NJ	6.9	130.7	18¼	-¼
28¼	18¼	ValleyNatlBncs NJ	6.9	130.7	18¼	-¼
87¾	52¾	WaMuMacSA	6.3	93.6	70¾	-¾
31¾	24¾	WachoviaCorp GA	8.2	96.2	24¾	
27¼	19¾	WestOneBancorp ID	6.7	84.7	19¼	-¼
28¼	17¾	WestSideBancorp IL	6.2	106.2	17¾	-¼
44¼	34	WestmarkBancorp FL	9.3	219.2	34	-2
24¾	19¾	WestBancorporation IA	7.7	117.3	19¾	
32¼	25	ZionsBancorp UT	6.3	86.5	25	-⅛

Bank Stock Table Explained: The table lists in alphabetical order the closing stock prices for the 225 largest publicly traded commercial banks and the 25 largest publicly traded thrifts, ranked by market capitalization. Market capitalization is the number of common shares outstanding (as of June 30, 1990), the market price of the stock as of the close of trading on August 23, 1990, and the 52-week high and low for the year. The 52-week high and low closing prices for the stock do not include earnings data. It is the reported stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. NM, likely to boost the stock's book value, is the ratio of the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Bk. The price at which the stock last traded. If no trades for the day, the latest bid. Chg. The change in the closing price from the previous day. The banks in market value and the top 50 thrifts in market value, representing the nation's largest and most actively traded banks and thrifts, are ranked by market capitalization. Stock prices are reported in fractions and two volume indicators most shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of August 23, 1990, ($ billion)

Monetary Aggregates*	8/13/90	8/06/90	Change	7/09/90	7/25/90	7/16/90
M1- weekly average	$ 814.4	$ 812.9	+$1.5	$ 809.2	$ 809.2	$ 809.2
M2- weekly average	3,299.8	3,292.1	+7.7	3,278.1	3,270.1	3,273.9
M3- weekly average	4,085.6	4,080.1	+2.5	4,068.6	4,056.6	4,052.0
M1- annual change:						
Latest 13 weeks			+2.7%			
Latest 26 weeks			+3.7%			
Latest 52 weeks			+4.2%			
Other data	**8/15/90**	**8/08/90**	**Change**	**8/01/90**	**7/25/90**	**7/18/90**
Business Loans*						
8 New York City banks	$ 59.9	$ 58.2	+$1.7	$ 58.4	$ 57.2	$ 57.6
All large banks	NA	318.4	+0.0	319.0	318.0	317.8
Demand Deposits						
8 New York City banks	$ 59.3	$ 54.8	+14.5	$ 55.1	$ 45.4	$ 49.5
All large banks	NA	215.7	+0.0	243.9	215.0	222.6
Commercial Paper-						
All issuers	539.6	545.2	-5.6	542.9	545.5	542.6
Finance companies	393.6	397.9	-4.3	400.5	400.5	396.8
Non-finance companies	146.0	147.2	-1.2	145.8	144.9	146.8

(*)= Seasonally adjusted. (**)— Excludes bankers' acceptances and commercial paper.

Key Rates

(August 23, 1990)

	8/23	8/22	8/16
Federal Funds-domestic range:	8¼-8⅜	7⅞-8	8¼-8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*:			
3 Month Posted	7.75	7.70	7.40
6 Month Posted	7.85	7.75	7.40
1 Year Posted	8.00	7.87	7.53
Eurodollar deposits*:			
3 Month	8⅛	8⅛	7¹⁵/₁₆
6 Month	8⅛	8⅛	7¹⁵/₁₆
LIBOR*			
3 Month	8⅛	8⅛	8.00
6 Month	8⅛	8⅛	8⅛
1 Year	8¼	8¼	8⅛

*Mid-afternoon quotes, New York market. (**)— Largest offering rates at selected NYC banks. (***)— Late London bid (***)— Annualized money market basis - source: Manufacturers Hanover Tr.

Boston Five Bancorp Posts 3d Quarter Loss

BOSTON — Boston Five Bancorp, parent of Boston Five Cents Savings Bank, reported a net loss of $606,000, or 9 cents a share, for its third fiscal quarter, which ended July 31.

It earned $1.9 million, or 27 cents a share, in the 1989 period.

For the nine months, $2.1 billion-asset Boston Five lost $1.7 million, down from $7.3 million in the 1989 period.

STOCKS

Wells Fargo Shares Tumble Dramatically

Continued from *page 1*

believes the stock is oversold.

While BankAmerica Corp. and Security Pacific Corp. are larger than Wells in market capitalizations, they have gotten less attention even while declining nearly as much as Wells in percentage terms.

Wells' Stock a Vehicle

In late trading on Thursday, Wells was off $1.125 to $51.25 while Security Pacific had declined 50 cents to $26.50 and BankAmerica was off 37.5 cents



George M. Salem Peggy Turbett
Prudential-Bache

to $19.625. Wells' stock is considered a trading vehicle for investors in bank stocks because of its large market capitalization and the liquidity it offers.

Wells is still attracting strong and opposing opinions about the direction of both its share price and the economic winds blowing across the nation's most populous state.

"I'm still a seller, because the real estate market dominates their balance sheet" said George M. Salem of Prudential-Bache Securities Inc., who has long held the most bearish views of any analyst of the banking industry.

With the sharp decline in the Tokyo equity markets, Mr. Salem explained on Thursday, "it puts extra heavy pressure on California real estate, not only from the point of view of possible sales by Japanese interests who were previously viewed as strong long-term holders, but from the whole psychology of real estate values."

Real Estate Assets

Wells Fargo is linked through lending to more California real estate per dollar of assets than any other California bank, Mr. Salem pointed out.

Offering another point of view, J. Richard Fredericks of Montgomery Securities in San Francisco noted that "we've had a buy on the stock of Wells Fargo since it was $7 in 1974."

"The earnings are still there and the price-earnings multiple is unbelievably low," he said. "but you lose a lot of earnings and the dividend would still be covered."

"While I think nonperforming assets are going to go up this quarter, I think the earnings are going to be showing us about a 1.20% return of assets and a 25% return on equity," he said.

That will be down a little from the second quarter, he said, because Wells will have expenses but little income from the acquisition of San Diego's Great American Bank.

The acquisition is viewed as strongly enhancing Wells Fargo's franchise in the area of California.

As for the California economy, Mr. Fredericks said the major slashes in defense expenditures that were expected to hurt California may now be put on hold in view of the tense situation in the Middle East.

Moreover, he said, if the rise in oil prices stemming from Iraq's conquest of Kuwait causes inflation to rise, the trend in declining real estate prices that has worried investors could be stemmed or even reversed.

* * *

THURSDAY'S MARKET

Nearly all major bank and thrift stocks fell along with the rest of the stock market on Thursday as investors worry about rising crude oil prices and turmoil in the Middle East. The Dow Jones Industrial Average plunged late in the day, and was down nearly 80 points to 2480.

In late afternoon trading, J.P. Morgan & Co., the nation's premier money center bank, was off $7.5 cents to $51.875 to another new 52-week low. The largest decline among money centers was posted by Manufacturers Hanover Corp., down $1.50 to $24.75.

Profit-taking was again in evidence among the banking stocks that had not declined as much as others in the industry until recent weeks.

Highly regarded First Wachovia Corp., Winston-Salem, N.C., was off $1 to $36.625 before the close of trading. Similarly, CoreStates Financial Corp., Philadelphia, was off $1 to $32.125. □

CAPITAL

Medium-Term Notes Are Luring Banks

By KELLEY HOLLAND

In an attempt to extend their funding without paying the high costs of subordinated debt issuance, a growing number of banks are turning to the medium-term note market to meet their funding needs.

Banks would like to reduce their reliance on short-term sources of funds such as commercial paper. But rather than pay the high rates prevailing in today's difficult market for bank bonds, they are choosing to borrow in small increments using medium-term notes. Because medium-term notes are senior securities, they do not count as regulatory capital.

Raising Funds Cheaply

"Given the woes in the debt market right now, issuers can raise money much more cheaply in the medium-term note market," said one capital markets expert. "If they brought a $100 million to $150 million [subordinated bond] deal, they'd scare the hell out of the market."

First Bank System has issued more than $100 million in floating-rate medium-term notes since the beginning of the summer, according to David R. Edstam, treasurer. Concerned about the outlook for the capital markets for the rest of 1990, Mr. Edstam likes the option afforded by medium-term notes to issue quickly when opportunities present themselves.

"The view that we have here is that the markets are going to be jumpy for the rest of the year, so we have been funding when the market's there," he said. "You have to be ready when the investors want to invest."

First Bank is currently reducing its dependence on commercial paper, he said. That's partly because First Bank received a credit injection earlier this year when it privately placed $175 million in equity. Also, Mr. Edstam prefers to avoid short-term markets when they are unsettled. "My bias is toward very low or no dependence on commercial paper," he said.

Major Programs in the Works

Banks that have tapped or are looking to tap the medium-term note market

Bank	Size of program
Citicorp	$3 billion
First Bank System Inc.*	$800 million
First Chicago Corp.	$800 million
Chemical Banking Corp.	$750 million
Fleet/Norstar Financial Group	$700 million
Comerica Inc.	$500 million

*Registration could also be used for other debt offerings.
Source: American Banker

Issuance Down in '90

Banks had been one of the mainstays of the medium-term note market in recent years. Issuance declined in the first half of 1990, though, as banks' funding needs shrunk and spreads on bank notes rose.

Even in the medium-term note market, spreads relative to Treasuries widened 100 basis points for some issuers. But banks have seen their alternative funding costs rise sharply, particularly in the commercial paper market.

"With the turmoil in the commercial paper market that occurred earlier this year, combined with the downgrades that have occurred, prudent management is looking to lessen reliance on commercial paper," said William R. King, a first vice president at Merrill Lynch Capital Markets.

"There are times when these things can be sold at lower yields than we can sell other liabilities," said one banker whose bank has an medium-term note program in place.

First Chicago Plan

First Chicago Wednesday became the latest bank to launch a medium-term note program, announcing a plan to issue up to $800 million in securities with maturities ranging from nine months to 15 years.

But First Chicago is not alone. Citicorp, Chemical Banking Corp., First Bank System, and Fleet/Norstar Financial Group have each issued between $100 million and $250 million in the past two months, banking sources said. PNC Financial Corp. has reportedly been in the market as well, and Comerica Inc. recently set up a $700 million program during the second quarter, though it has yet to issue any securities as a result.

Citicorp filed a $1 billion medium term note shelf registration close to a year ago, and began issuing notes under the program in June. It issued about $200 million in the first several days of offerings.

And Chemical has been issuing two- and three-year medium-term notes at floating interest rates.

* * *

MARKET MONITOR

A planned 10-year subordinated debt offering by Continental Bank, a subsidiary of Continental Bank Corp., has so far been coolly received in the premarketing to potential investors. Price talk earlier in the week was for a spread 235 to 240 basis points over comparable Treasuries, but on Thursday talk was for a spread of 275 to 290 basis points over Treasuries. □



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AMERICAN BANKER

VOL. CLV NO. 167 — Monday, August 27, 1990 — 155th year

Uphill Climb For Home Loan Bank System

By DEBRA COPE

The Federal Home Loan Bank System, once the crown jewel of the thrift industry, is struggling to revive its luster.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 plundered the coffers of the 12 district home loan banks, dealt a death sentence to up to 40% of the thrifts that formed their customer base, and imposed costly, long-term financial obligations on the formerly robust district banks.

Unless Congress and the administration spell out an updated mission for the system, the brightest prospect is that the dis-

ANALYSIS: *Follow-up on the news*

trict banks will evolve into fewer, smaller, leaner liquidity facilities serving traditional mortgage lenders, including a growing corps of community banks, observers said.

But if strains on the system intensify, its fate grows cloudier.

System Demise Possible

The banks, handicapped by a leadership void and confronted with a potentially crippling wave of withdrawals by members, could see their earnings spiral further downward, weakening their capital and impairing their ability to contribute to industry bailout costs. Federal policymakers have not ruled out the possibility that the system could meet a quiet demise.

Already the bank system's strong fabric is showing signs of wear. Earnings for the first half of 1990 fell 25%, albeit from record levels in the comparable period last year. And the system's capital base eroded, both in raw dollars and as a share of assets, according to the Federal Housing Finance Board, which oversees the home loan banks.

Inertia Blocks Recovery

Sources note that inertia is the bank system's greatest enemy as it seeks to recover its balance and return to its fundamental mission of promoting housing. Bickering between Congress and the administration, plus a measure of indifference, has stalled the installation of four members of the Federal Housing Finance Board. Housing and Urban Development Secretary Jack Kemp serves as interim chairman.

"This is a $160 billion government-sponsored enterprise, and no public policy direction has been established," said Dennis Jacobe, director of research and economics for the U.S. League of Savings Institutions. "You have 12 banks trying to figure

See **LOAN** *page* **17**

INSIDE NEWS

WASHINGTON

THE OTS, emboldened by a court ruling that excoriated accountants and lawyers for failing to stop abuses at the failed Lincoln Savings, is preparing to crack down on those professions. *Page 20*

THE THREAT of prosecution seems to have inspired more financial institutions to report large-dollar transactions to the federal government. In the first half of 1990, bank filings to the IRS rose 10% from a year earlier. *Page 8*

COMMENT

AMERICA NEEDS to reform deposit insurance as quickly as possible. Unfortunately, federal deposit insurance cannot be fixed because it is hopelessly and fatally flawed, writes consultant Bert Ely. *Page 4*

DEMOGRAPHIC TRENDS indicate that banks must change their policies on hiring and keeping employees and on finding new markets, says Paul S. Nadler. *Page 4*

FINANCE

STOCK PRICE weakness has raised dividend yields for a third of the nation's 50 largest banks above that of the 30-year Treasury bond, signaling to analysts that the bottom may be in sight. *Page 20*

CONSUMER

BANKS THAT ENJOYED the so-called small-town exemption during the 1980s may find themselves ineligible for insurance licenses after the new Census figures come out. *Page 6*

TECHNOLOGY

IMAGE PROCESSING systems are being installed by the big banks, but smaller institutions find themselves precluded from experimenting with the costly technology, an *American Banker* survey finds. *Page 3*

INTERNATIONAL

VENEZUELA'S creditor committee has agreed to exchange 90% of $20 billion in medium-term and long-term loans for bonds and Venezuelan treasury notes. *Page 10*

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Bidding Deadline Nears On Big S&L Held by RTC...

Largest thrifts to be sold by Sept. 30

	Assets*
City Savings Bank Bedminster, N.J.	$8.5
Empire of America Buffalo	$8.2
Meritbank Phoenix	$6.4
Benjamin Franklin Bethesda, Md.	$5.0
Homeowners Savings Boston	$3.6

* In billions of dollars, at time of seizure

Lurq Is a Large Presence In Northwest

Benjamin Franklin Savings and Loan



Source: RTC

Battle of Calif. Giants Seen Bringing A Top Premium for Benj. Franklin

By SAM ZUCKERMAN

SAN FRANCISCO — Aggressive bidding by BankAmerica Corp. and Security Pacific Corp. for Benj. Franklin Savings and Loan Association in Oregon may allow the Resolution Trust Corp. to get one of the highest premiums ever paid for a large failed thrift.

Though other offers are expected, bidding for Oregon's largest thrift is shaping up as yet another showdown between BankAmerica and Security Pacific. Both California giants have publicly stated they want to acquire Portland-based Benj. Franklin and see it as a vital part of their Northwest expansion. The thrift is expected to fetch more than $100 million, representing a premium of at least 4% of its core deposits.

The two banks last May fought a bitter contest for Arizona's Western Savings and Loan

See **RTC** *page* **9**

Chemical Seen Losing Loan Deal

By WILLIAM GOODWIN

In what would be a blow to Chemical Bank, Consolidated Freightways Inc. is close to an agreement with Bank of America on a new credit facility of about $400 million, sources familiar with the situation said.

The new pact would replace a much larger credit agreement that Consolidated had reached with the subsidiary of Chemical Banking Corp. in June.

Officials at Chemical declined to comment on what appears to be a major loss of business for the bank.

As reported, Chemical committed itself to provide $500 million of a new senior secured credit facility and agreed to raise up to $360 million more from other banks on a best-efforts basis.

Since then, the trucking company has concluded that it could get by with a smaller facility, and it began negotiating with other banks.

The five-year loan package was to be used in part to replace a $300 million revolver from a group led by Security Pacific Corp. The revolver was terminated in July.

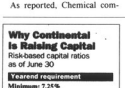
The deal with Chemical was

See **DEALS** *page* **18**

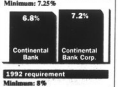
Why Continental Is Raising Capital

Risk-based capital ratios as of June 30

Yearend requirement
Minimum: 7.25%



1992 requirement
Minimum: 8%



Source: Continental Bank Corp.

Weak Market Drives Continental To Scrap $100 Million Debt Issue

By KELLEY HOLLAND

In a dramatic example of how the market for bank bonds has dried up, Continental Bank Corp. withdrew a $100 million subordinated debt offering Friday.

Without the offering, the Chicago-based company remains shy of capital requirements that take effect Dec. 31. To meet the requirements, the bank must sell assets, retain earnings, or brave the capital markets again within a few months of having been spurned by investors.

Continental's move under-

scored how difficult it has become for banks to find themselves in today's tumultuous markets. Investors were finicky before the Middle East crisis; now, they have backed away almost completely.

'Impossible' Market

"Very few people have a real good reading on just how little depth there is to the market," said Thomas P. Quigley, senior vice president at Donaldson, Lufkin & Jenrette Inc. "The market conditions are such that it's impossible to move anything

See **CONTINENTAL** *back page*

Limited Gain Seen for U.S. In Reopening Thrift Deals

RTC's Consultants Put Figure at $3 Billion

By BARBARA A. REHM

WASHINGTON — Contradicting expectations that the government could gain more than $10 billion by renegotiating the controversial thrift-assistance deals of 1988, accountants hired by the Resolution Trust Corp. have concluded that the government stands to save $3 billion or less.

That estimate is the result of studies by five contractors – Price Waterhouse, Coopers & Lybrand, Kenneth Leventhal & Co., McGladrey & Pullen, and the Mid America Institute for Public Policy – hired this year by the RTC to determine where the government could save money through renegotiation.

The RTC will forward recommendations, based on the accountants' reviews, to its Oversight Board this week.

Gonzalez Prediction Dashed

Rep. Henry B. Gonzalez, chairman of the House Banking Committee, had predicted in a recent interview that "not less than $10 billion" would be saved by restructuring the deals.

"And I think I'm being conservative."

But Rep. Gonzalez and other lawmakers anticipating significant returns from renegotiating the so-called '88 deals are bound to be disappointed, say the experts hired by the RTC to scour the deals for cost-saving opportunities.

The 1989 thrift-bailout law required the RTC to investigate shaving the expense of the 1988

See **LIMITED** *next page*

"Sound Off"

A significant slowdown in California's economy – marked most recently by a falling real estate market – has the financial community in a state of flux. Cutbacks by Pentagon suppliers, overpriced housing, and an overbuilt commercial real estate market caused bank stocks to plummet. *American Banker* staff reporter Fred Vogelstein asked the following question:

How serious is the outlook for the California economy and real estate market? What effect will it have on banks there?

■ John R. Miller
Operating partner
Lincoln Property Co. NC Inc.
Los Angeles



We've definitely hit some softness in the real estate market in California, but it's not as severe as what's gone on in New England or the Southwest. We have some overbuilt markets in office space – there is a two-year supply that needs to be burned off – but we have a broad-based economy that doesn't rely on any one industry. We've already seen the impact on banks. They've taken a more conservative approach in lending. Banks aren't making speculative building loans without a significant amount of equity or a significant amount of prelleasing. However, their conservatism is probably justified. A lot of overbuilding has been driven by an excess supply of capital.

■ Jerry L. Jordan
Chief economist
First Interstate Bancorp
Los Angeles



The California situation is one of those half-full-half-empty water glass stories. It depends on the twist you put on it.

If one wants to be pessimistic, you say California is in the midst of a 50% slowdown in terms of job and population growth.

If you want to perk people up you say we're still growing 50% faster than the national average. The numbers are the same.

But people who try to use the New England analogy have their facts wrong. The New England population is dropping, which means the only way to get tenants to fill your buildings is to steal someone else's tenants. The overall vacancy rate keeps rising.

In the West we're looking for California to come down from three boom years, but since the population growth is positive, things won't be as bad.

Things have slowed but the impact on banks will be minimal relative to Arizona, Texas, or New England.

■ Robert F. Adelizzi
Chairman
HomeFed Corp.
San Diego



We expect the California population to increase on the order of 500,000 to 600,000 and would expect job growth, which has been at 300,000 a year for the last five years, to exceed that in 1990 and 1991. The much heralded cuts in aerospace and defense are overstated. They represent less than 5% of the state's gross product. Looking at the demographics, all the economic indicators are strong and healthy. There are going to be some cutbacks in construction but that will probably be offset by fairly major increases in highway construction and other improvements in the state infrastructure.

There has been a significant decline in bank lending given the negative publicity about the economy and the actual slowing, but it's overstated. Our view is that pure economics will overshadow perception in 12 to 18 months and will force a lending shortage.

■ Tanya Azarchs
Vice president/ratings
Standard & Poor's Corp.
New York



The economy in the state of California is slowing, admittedly, basically due to impacts by both defense cuts and the slowdown in the real estate industry.

Where the state enjoyed substantially above-average GNP growth, it will now tend to be average. In other words, there will be a slowdown, but we're not hitting a wall here.

The risk for banks is that credit quality will deteriorate. So far, it doesn't look like that impact will be unmanageable. □

Limited Gains from Reopening Thrift Deals

Continued from *page 1*

sales by the defunct Federal Savings and Loan Insurance Corp. (FSLIC).

"What you are not going to see is $20 billion in savings or $15 billion savings," said one of the accountants involved in the reviews, which cost the RTC about $5 million, "just don't know if it will be $1 billion or $3 billion."

"We probably all found something to justify our fees many times over," said another accountant who, like his peers at each of the other firms, demanded anonymity before discussing the project. "Clearly it wasn't a waste of money or effort, but the savings [on the deals he reviewed] will be around $1 billion."

Hearing Set for Sept. 14

The House Banking Committee is doing its own analysis of a number of the deals. Rep. Gonzalez plans to hold a hearing Sept. 14 on the deals and the accountants' review.

Though there is talk that the RTC will take back some assets from the 1988 deals, the accountants saw this is as unlikely – because the RTC is burdened enough with assets from seized thrifts. Besides, the acquirers already have 18 months of experience with the assets, but RTC would have to start all over.

Some renegotiation is probable, but the government is considered an unpredictable business partner.

Some of the institutions involved in the '88 deals later bought other thrifts, which regulators are forcing them to operate separately – at least until the reviews are done and the threat of unraveling the 1988 transactions is over.

"In this political environment, it's impossible to predict what will happen," said Frank W. Anderson, an analyst with Stephens Inc., Little Rock. "You know, I think politics is really the basis for the problem in the first place."

To renegotiate the deals, Congress must come up with some cash. The main options available to the government are buying back high-cost notes used to entice acquirers and marking down high-cost assets retained by the acquirers.

Sources in and out of government said in interviews that lawmakers are unlikely to provide any more money to spend on the S&L problem – even if, through renegotiation, the government could come out ahead.

The RTC chairman, L. William Seidman, testified recently that the agency is running low on funds and will need $100 billion next year.

In 96 deals, many of them bunched at the end of 1988, the FSLIC moved 199 faltering thrifts with $110 billion in assets into investors' hands. To facilitate the deals, the strapped insurance agency offered investors $36 billion in government notes and guaranteed asset returns, among other enticements.

Cost Estimates Rising

This summer, the RTC raised its estimate of the cost of the 1988 deals to $53 billion after discovering that losses at these institutions were worse than had been thought. Deteriorating economic conditions also figured in the reassessment.

The review has been criticized as an attempt by Congress to deflect outrage over how much the government is spending to clean up the thrift industry. Some estimates say the total will reach $500 billion.

"I think it is more of a witch hunt than an attempt to save money," said J. Randolph German, a partner in the San Antonio office of the accounting firm Grant Thorton.

The most celebrated of the '88 deals were made in December of that year and involved such well-known investors as Revlon Inc. chairman Ronald O. Perelman and Texas billionaire Robert M. Bass.

Mr. Perelman put up $315 million to acquire five Texas thrifts with a total of $12.2 billion in assets, including Gibraltar Savings Association and First Texas Savings Association. The government estimated at the time that its cost would be $5.1 billion.

Mr. Bass bought American Savings and Loan Association, a $30 billion-asset thrift in Stockton, Calif., that was once the largest U.S. thrift.

He pledged to put in $500 million; the government contributed $1.5 billion.

A Reason to Cooperate

Though the acquirers could assert that a deal is a deal and refuse to cooperate with the reviews, both the RTC and the acquirers are eager to come to terms in order to avoid a stronger backlash from Congress.

"We're working closely with the field team [of hired accountants] and will remain open to any reasonable suggestions they may have," said Owen Blick-

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Reviewers of the 1988 S&L Deals

Auditor	No. of deals studied	Examples
Price Waterhouse	40	First Gibraltar, Southwest Savings, Bluebonnet
McGladrey & Pullen	25	Guaranty Federal
Kenneth Leventhal	17	Olney Savings
Coopers & Lybrand	13	Sunbelt Savings
Mid America Institure for Public Policy	1	American Savings

Source: Resolution Trust Corp.

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Virginia Bankers 6
Visa 3
Washington Federal 1
Western Savings and Loan 1
Wyatt Co. 6

It's Mostly Big Banks that Can Afford Imaging

By JEANNE IIDA
Sixth of a Series

NEW YORK — Big banks have aggressive plans to install image processing systems, but most smaller banks find themselves precluded from experimenting with the costly new technology, the *American Banker*'s annual technology survey found.

Twenty-seven percent of banks with more than $2 billion in deposits plan to have image systems in place by the end of next year – three times the number that say they already have such systems installed.

Indicating that image processing is, at least for now, a big-bank luxury, only two of the 240 banks in the survey with less than $750 million in deposits had installed the technology. Twenty-six percent, or 11%, said they planned to install such systems by the end of 1991.

The data come from contacts with senior technology managers at 333 banks with at least $75 million in deposits. Trans Data Corp., an *American Banker* research affiliate in Wayne, Pa., did the survey by telephone in March and April. A magazine containing summaries and analyses of the findings has been sent to subscribers.

Overoptimism a Danger

Even the biggest and most sophisticated banks may be overoptimistic about how quickly they can install these systems, knowledgeable bankers said.

Those expecting to install image systems by the end of 1991 are "very optimistic," said Gilbert Arbuckle, senior vice president in the information management and research department at the lead subsidiary of Mellon Bank Corp., Pittsburgh. Mellon is installing image processing systems for wholesale lending and check processing.

"There is a long lead time to get the bank staff up with document design, training, and rethinking procedures," said Mr. Arbuckle, head of check processing at Mellon. He said he expects no more than 50 banks to install high-speed image systems by the end of 1991.

Of the banks that plan to install imaging systems, 43% said they would install the more expensive, high-speed transaction processing systems, which are used for such high-volume procedures as check processing.

32% Plan Electronic Files

A smaller group – 32% – said they would install stand-alone systems suitable for storage and retrieval of documents, often called electronic file folder systems.

Big banks were particularly likely to opt for check processing systems.

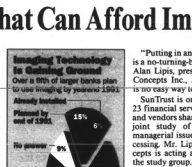
Of banks with $2 billion or more in deposits that installed or plan to install imaging technology, 83% said they would use the higher-cost, high-speed transaction systems; 42% said they would install the more limited document systems. Smaller banks were more inclined to choose inexpensive systems.

The survey reflects the high cost and complexity of high-speed transaction processing systems, which are too pricey for most banks. Check processing systems, for example, start at a couple of million dollars.

Cost Based on Volume

"The cost of some of these technologies is based on the volume of items or data, and smaller institutions don't have the volume to drive the profitability," said Roger Elsom, vice president and manager of operations support at Huntington Service Co. The company is the operations subsidiary of Huntington Bancshares Inc., Columbus, Ohio.

Small banks lack the volume to justify imaging.



Huntington plans to have a check processing system installed by yearend that will process a million checks daily.

Eventually, larger institutions are likely to market these services to smaller ones, which would bring down the cost to the smaller banks. But right now, "bigger institutions have their hands full just figuring out their own applications," Mr. Elsom said.

The caution with which many banks approach image processing is understandable.

Estimate by SunTrust

SunTrust Service Corp., the data processing unit of SunTrust Banks Inc., Atlanta, estimated that image processing could cost as much as 1% of assets, or about $30 million, according to Thomas G. Ash, president and chief executive of the data processing subsidiary.

It is also hard for banks to contain the effects of a high-speed transaction processing system.

"Putting in an imaging system is a no-turning-back thing," said Alan Lipis, president of Global Concepts Inc., Atlanta. "There is no easy way to back off of it."

SunTrust is one of a group of 23 financial services companies and vendors sharing the cost of a joint study of technical and managerial issues in image processing. Mr. Lipis' Global Concepts is acting as consultant to the study group.

Haste Can Make Waste

Other participants in the group are American Telephone & Telegraph Co., Chase Manhattan Corp., First Wachovia Corp., Huntington Banchares, MasterCard International, MCI Communications Corp., and Visa U.S.A.

Banks have run into problems from not adequately planning how to manage images once they were in the system and choosing vendors who were overextended, Mr. Lipis said. "There are banks that have thrown vendors out," he said.

"There's a more realistic approach these days, with phased implementations," Mr. Lipis said.

Both International Business Machines Corp. and Unisys Corp. have introduced their check processing systems in stages with the first phase dealing only with check capture, not with back-office procedures. "It may take three to four years to get a fully integrated check processing system" from vendors, Mr. Lipis said.

Waiting on Investment Return

Banks must be patient for returns on investment, Mr. Lipis said. One bank "experienced only minimal payback on the first phase of its student loan processing system, but it had enormous payback in the second stage," he said.

Mr. Lipis said banks can expect to take a year to develop a system and "maybe another year to put it in." □

Software System Tracks Collateral In Asset Lending

By KAREN GULLO

NEW YORK — Several banks are using a new software system from Automated Financial Systems Inc. that monitors and tracks collateral in asset-based lending.

Bankers say the software, an addition to Automated Financial's commercial lending system, lowers the cost of complex lending arrangements where customers use accounts receivable or inventory as collateral.

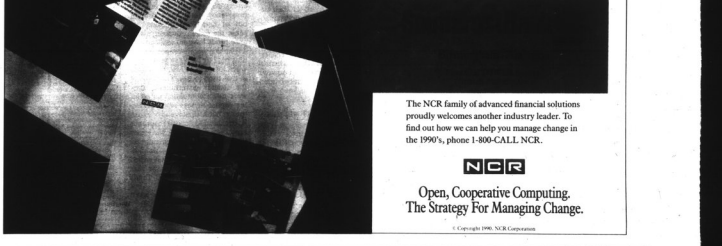
Such loans, which have become a big part of commercial banking, can carry high operating costs. They require meticulous attention to paperwork such as invoices and receipts and daily accounting of collateral availability for borrowing base.

Connecticut National Bank, Hartford; Bank of New England, Boston; Comerica Bank, Detroit; Manufacturers National Corp., Detroit, and a few other banks have recently installed the system on a pilot basis.

Kenneth Boin, vice president at Connecticut National, said the system has reduced operational costs.

The software, which costs $125,000 as an add-on to an existing system or between $250,000 to $400,000 for the complete system, is among the first for asset-based lending to be integrated with a total commercial loan processing system, according to Exton, Penn.-based AFS.

The system runs on mainframe computers and has online capabilities for handling accounts receivable, ineligibles, and inventory. Data from invoices is entered into the system, which automatically calculates collateral aging and availability, audits accounts, generates reports, processes confirmation of collateral and does financial analysis. □



COMMENT/*By Paul S. Nadler*

Changes in the Work Force Require New Bank Policies



Any banker who listens to a demographer should come away with the feeling that changes must be made in bank policies on hiring and keeping employees and on finding new markets.

Look at the following developments:

• Two-thirds of the net new jobs are being taken by women.

• The number of people 15 to 24 years old – potential entry-level employees – has declined 20%.

• New workers frequently lack the skills needed; we have smarter jobs and dumber people.

• Immigrants – with Latins predominating nationwide and Orientals on the West Coast – are rapidly increasing their presence in the work force.

• As a result, white males supply just 12% of growth in the work force.

• Many women with master's degrees in business who have worked for 15 years or more are anxious to control their destiny more and have become less willing to take the "fast-track" assignments required by American business.

"Moving jobs to the suburbs when the work force lives downtown has been a mistake for some companies."

What might all this mean to bankers?

The Significance for Hiring

Certainly, it will be more difficult to find the type of people banks used to hire. Banks must employ more immigrants; net immigration now matches the excess of births over deaths nationwide.

This – and the poor schooling of many native Americans – means that banks must continue to break jobs down into component tasks and spend heavily on education. Already, the private sector spends twice as much on education and training as do public and private educational institutions.

Patterns of immigration also will force banks and other employers to go where the workers are, instead of counting on workers to come to them. Moving jobs to the suburbs when the work force lives downtown has been a mistake for some companies.

And some banks that have studied how long it would take their present employees to commute to a new location have dropped their plans when it turned out that the extra commuting time might well cost them a substantial portion of their trained workers.

The decline in the availability of new workers also helps explain why more companies, like McDonalds, are recruiting retired people.

These demographic factors also help explain why technology like automated teller machines that lessens the need for labor are so valuable to the banking industry. There should be no public outcry that banks are denying people jobs, as was heard when check processing was automated.

Changes in Marketing

The demographic changes that experts forecast will alter employment policies and prospects markedly, and they will also change marketing opportunities and challenges.

As immigrants and less-well-educated native Americans enter the work force and are trained by business, they will also become an important market. Also, more older people are keeping their wealth instead of passing it on to their children while they are alive, making the elderly a more important market.

But while wealth is being retained by the elderly and after home prices have risen dramatically, we have become a nation in which young adults, for the first time ever, appear to have lesser expectation of economic success than their parents did.

Fall in Living Standards

In other words, after 200 years of fulfilling the American dream of progress, our economy is unlikely to give the rising generation even the standard of life their parents had. As evidence, many young families can't afford a home unless both adults work.

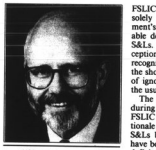
To bankers, this decline in expectations should be as much of a challenge as is the decline in productivity and work quality that we have also seen. □

Mr. Nadler is a contributing editor of the *American Banker* and professor of finance at the Rutgers University Graduate School of Management.

COMMENT/*By Bert Ely*

Federal Deposit Insurance Is Beyond Any Fix or Reform

First of Two Parts



America needs to reform deposit insurance as quickly as possible. Unfortunately, federal deposit insurance cannot be fixed because it is hopelessly and fatally flawed.

Franklin Roosevelt, among many others in the 1930s, clearly recognized the shortcomings of federal deposit insurance. At his first presidential news conference on March 8, 1933, the third day of the national bank holiday, he issued this prophetic warning:

As to "guaranteeing bank deposits . . . the general underlying thought behind the use of the word 'guarantee' with respect to bank deposits is that you guarantee bad banks as well as good banks. The minute the Government starts to do that the government runs into a probable loss. . . . We do not wish to make the United States Government liable for the mistakes and errors of individual banks, and put a premium on unsound banking in the future."

Principles of Insurance

Federal deposit insurance has failed because no government insurance scheme can ever function as a sound insurance mechanism. In fact, insurance of any type is a highly inappropriate government function because the basic principles of insurance conflict with the tenets of democratic government.

Sound insurance programs can survive only if they discriminate between good risks and bad. This discrimination must be based on objective economic measures; nonetheless, insurers must discriminate.

Democratic government works on another principle, namely that all persons are equal before the law, and the law, and its accompanying regulations, must apply equally to all. Also, attempts by government to discriminate are quickly opposed by those who believe they will suffer.

This is not to say that government cannot discriminate in sound grounds, but it is much harder for a monopolistic government to discriminate fairly than it is for insurers operating in a competitive marketplace.

Flat Rate Insurance Premium

A few specific flaws in federal deposit insurance make it hopelessly unsound.

To begin with, there's the flat-rate deposit insurance premium. All banks pay the same deposit insurance premium rate no matter how prudently or how recklessly they operate. In effect, the drunk drivers of the banking world pay no more for their deposit insurance than do their sober siblings.

"No government insurance scheme can ever function as a sound insurance mechanism."

The political process simply will not permit a government agency to charge the riskiest bankers what they should pay. These bankers will squawk loudly and seek political intervention in order to keep from paying what they should.

Closing Insolvent Institutions

Another major problem is the delayed closure of insolvent financial institutions. Closing banks and S&Ls as they approach insolvency or just after they become insolvent should make deposit insurance a nearly costless proposition for a deposit insurer.

In one sense, then, the enormous cost of cleaning up the FSLIC mess was caused almost solely by the federal government's incredible and inexcusable delay in closing insolvent S&Ls. But almost without exception, governments delay in recognizing problems because the short-term political benefits of ignoring problems outweigh the usually higher cost of delay.

The rapidly escalating cost during the 1980s of bailing out FSLIC became an acceptable rationale for not closing insolvent S&Ls because to do so would have boosted the federal budget deficit. This rationale conveniently suited executives of failing S&Ls who increasingly sought salvation in the political process because they had failed in the financial marketplace.

Capital Reserves

And, finally, there's the lack of real capital. Any reserves that a federal insurance fund claims to have simply do not exist. When an insured bank or S&L fails, its insolvency losses come straight out of taxpayers' pockets because the federal deposit insurance funds have no real capital.

The deposit insurance premiums paid by banks in years past, when losses were low, were used at that time to pay other bills of the federal government; they were not accumulated as genuine capital or loss reserves. Because bank insolvency losses have exceeded deposit insurance premiums since 1984, the losses in excess of premium income actually have been paid with higher federal borrowings that added to the budget deficit in the year in which the borrowed funds were spent.

Numerous proposals have

See **COMMENT** *page* **12**

Mr. Ely is president of Ely & Company Inc., a financial institutions consulting firm in Alexandria, Va.

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COMMUNITY RELATIONS

Chicago Lenders Join Acorn In Land Trust Program

By NANINE ALEXANDER

Two Chicago financial institutions have found an ally in Acorn, the community organization more often viewed as an adversary of banks.

Citibank Federal Savings Bank and First Chicago Corp. are providing most of the funding for a community land trust set up by Acorn Housing Corp., a three-year-old offshoot of the Association of Community Organizations for Reform Now.

The land trust acquires and rehabilitates property obtained from the Resolution Trust Corp., the Department of Housing and Urban Development, and the Department of Veteran Affairs, among others. It then sells the houses to low- and moderate-income people at below-market rates.

"We're charting completely new ground here," Brenda Gaines, senior vice president for residential lending at Citibank, said of the Acorn program. "What they want is a larger number of affordable houses for their clients. It makes sense to work together."

Twenty-three Houses Slated for Renovation

The Citicorp unit, which started working on Acorn's latest project this spring, will provide $565,000 toward a program to acquire and fix up 23 residences by mid-1991. The Illinois State Housing Trust Fund will provide the remaining $486,000 for that project.

Separately, First Chicago has awarded $131,000 to the Acorn Housing Corp. That funding was used to acquire and fix up three houses. The company began working with Acorn about a year ago, said Terrance A. Young, vice president of First Chicago's neighborhood lending program, which has $225 million to spend over a 10-year period.

> **"The homes were in a location where we haven't had much success making loans."**
>
> **Terrance A. Young**
> *First Chicago*

Acorn Housing Corp., which was formed to develop affordable housing, began the land trust, Acorn Community Land Association, about three years ago as an experiment. Through city housing funds and private fund-raising efforts, Acorn initially rehabilitated three houses in the Chicago area, acquired in 1988 through the now defunct Federal Savings and Loan Insurance Corp.

To broaden the program, the group looked for other sources of funding, first lining up First Chicago and now Citibank.

Acorn has had similar programs since 1985 in New York, Philadelphia, Little Rock, Ark., and Phoenix.

Speculative Activity Is Prohibited

Along with helping to satisfy requirements of the Community Reinvestment Act, the Acorn project had other selling points, said Mr. Young of First Chicago. One is that homebuyers cannot speculate on real estate and turn a large profit on the land a few years down the road.

Under the land trust program, homebuyers sign a lease-to-own agreement for three years with Acorn, which sells them the home, but not the land, at the end of this period. The land is held in trust and leased to the homeowner for 99 years.

If the owner decides to sell, Acorn Housing has first option to buy the house at a price equal to the amount of money the homeowner has put into it. "All the houses will stay in the market for low- and moderate-income families," said Chris Brown, executive director of Acorn Housing.

Other attractions for First Chicago included the ability to establish a link with the active community group and the opportunity to reach into new neighborhoods. "The homes were in a location where we haven't had much success making loans," Mr. Young said. The houses were in the Englewood section of the South Side of Chicago.

Down Payments are Small and Rates Low

Homebuyers in the program will make down payments as small as $1,000 and will receive mortgages at below-market rates. To qualify, household incomes must be $12,000 to $30,000. The first renovated houses in the project funded by Citibank should be on the market by the fall, according to the group.

The Federal Home Loan Bank of Chicago brought together Acorn and Citibank after Acorn approached it, said Scott A. Stewart, community investment consultant at the Home Loan bank.

Thrift Law Mandates Contributions

Under the thrift-bailout law, each Home Loan bank is required to contribute a percentage of its annual net income to the Affordable Housing Program. That portion is 5% this year and climbs to 10% or $100 million, whichever is greater, in 1995. The Chicago Home Loan bank has earmarked $2.44 million for affordable housing this year.

Citibank borrowed part of the funding for the Acorn project from the Home Loan bank. □

Look for *Grapevine* every Wednesday on page 2 in the *American Banker*.

Banks Face Deadline in December

Right to Sell Insurance Dependent on Census Data

By YVETTE D. KANTROW

NEW YORK — Time may be running out for some banks that want to take advantage of one of this year's obscure but significant decisions expanding bank insurance powers.

In May, a federal court upheld a ruling by the Office of the Comptroller of the Currency allowing banks to sell insurance nationwide from offices in towns with fewer than 5,000 residents. Under the ruling, a town's population is determined by the U.S. Census, which is completed every 10 years.

Exempt Status up in Air

On Dec. 30, the 1990 Census will be released, with updated data that may show many small towns have surpassed the 5,000-resident cutoff. Banks that have been eligible for the "small-town exemption" during the 1980s may then find themselves ineligible for insurance licenses.

Michael P. Bucci, a consultant at the Wyatt Co., Washington, said it is unlikely that any licenses granted before the new Census figures are released will be revoked.

As a result, consultants and other banking executives pushing for expanded powers are urging small-town banks to obtain insurance licenses now to ensure that they have this business authority. Even institutions with no immediate plans to sell insurance should apply for licenses during the next four months, they say.

"It's kind of like having some people in the bull pen," said Leton Harding, a vice president at the Virginia Bankers Association. "You may never call on them to pitch, but it's good to know you can if you need them."

Source of Income

According to Mr. Bucci, a relatively small number of banks eligible for insurance licenses under the small-town exemption have applied for them. "With all the financial woes you hear about with banks, here's something they could be doing to produce income that they are not," he said.

While the Comptroller's ruling technically applies only to national banks, it affects thousands of state-chartered banks as well. Approximately 35 states have enacted "wild-card statutes" that essentially give their banks the same rights as national banks. And many of these states are now willing to grant

> **Small-town banks are being urged to obtain insurance licenses now to ensure that they have this business authority.**

insurance licenses to banks in towns with populations under 5,000.

Virginia is one of the states with a wild-card statute. According to Mr. Harding, 55 banks with Virginia charters are eligible for insurance licenses under the Comptroller's ruling and are now applying for them. Mr. Harding said he expected many of those banks would be ineligible for insurance licenses when the new Census data become available, because Virginia has experienced major population growth.

"As the population moves from rural to more metropolitan areas, you can find many examples of states that will exceed the 5,000-population rule," he said.

Under the Comptroller's ruling, national banks need not have a headquarters in a small-town to qualify for an insurance license – a branch will suffice. But that provision is less clear among the 35 state statutes.

In Virginia, for example, the statute regarding small-town banks and insurance does not specify whether a bank must be headquartered in the small town or have an office there. "It's really up to the interpretation of the insurance commissioner," Mr. Harding said. "They have not issued a clear statement on that." □

FDIC Studying Risk Factors

NEW YORK — In a recently filed comment, the Federal Deposit Insurance Corp. did not raise any objections to Delaware's new, wide-ranging insurance regulations.

But the agency is continuing to study whether insurance powers are too risky for the deposit insurance system, according to Robert Mailovich, assistant director in the FDIC's division of bank supervision.

"We're continuing on our current project and hope to have something out this year," Mr. Mailovich said.

"I'm another couple of months we want to be able to go to the [FDIC] board with something," he said.

In July, the Delaware banking commissioner proposed regulations for the the state's banking and insurance law. Enacted in May, the law empowers Delaware banks to underwrite and sell insurance nationwide.

Has Commented

The FDIC commented this month on Delaware's proposals, but its remarks were not adverse, Mr. Mailovich said.

FDIC Chairman L. William Seidman asked his staff to review the Delaware law and its impact on the safety of the deposit insurance system in June. The law is seen as significant because it effectively allows major banks like Citicorp and Chase Manhattan Corp. – which have charters in the state – to enter the insurance business.

— Yvette D. Kantrow

AMERICAN BANKER /Bank Rate Monitor's℠

Consumer Money index



Retail Yields

	6-month	1-year	5-year
New York	7.71%	7.94%	8.15%
Los Angeles	7.82	8.00	7.92
Chicago	7.80	7.94	8.04
San Francisco	7.81	7.95	8.08
Philadelphia	7.70	7.76	7.92
Detroit	7.36	7.88	7.94
Boston	7.96	8.15	8.26
Houston	7.58	7.68	7.83
Dallas	7.58	7.86	7.91
Washington	8.12	8.37	8.32
BRM NATIONAL AVERAGE	7.71	7.86	8.04

Jumbo Rates

	6-month	1-year	5-year
New York	7.57%	7.70%	8.02%
Los Angeles	7.70	7.85	7.75
Chicago	7.64	7.89	8.10
San Francisco	7.78	7.85	8.00
Philadelphia	7.77	7.77	7.95
Detroit	7.72	7.72	7.83
Boston	7.90	7.93	8.03
Houston	7.62	7.74	7.94
Dallas	7.65	7.75	8.00
Washington	7.80	7.95	8.35
BRM NATIONAL AVERAGE	7.73	7.85	8.02

Retail and Jumbo CDs

Here are the market-by-market averages being paid on jumbo and retail certificates of deposit by the 10 largest banks and thrifts in each of the nation's 10 largest markets on August 22. The eight-week rate trend is the average being paid on one-year maturities by the same 100 institutions on the dates indicated.

Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330

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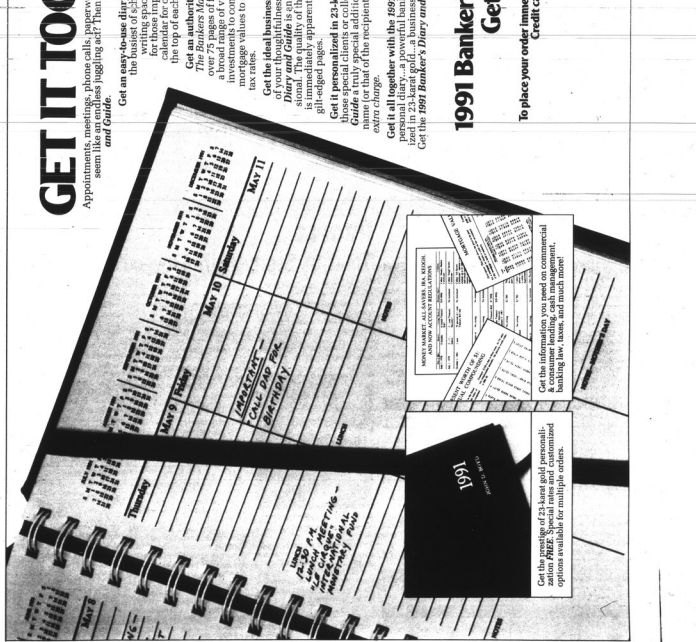


WASHINGTON *Monday*
A weekly feature
AMERICAN BANKER
Monday, August 27, 1990

Reports of Large Cash Transactions to IRS Surges Sharply

By LOUIS GERHARDSTEIN

WASHINGTON — The threat of government prosecution seems to have sparked a sharp uptick this year in the reporting of large-dollar transactions to the federal government, observers say, with filings to the Internal Revenue Service by businesses soaring 40% and by banks 10% in the first six months of 1990 over the comparable period the year before.

The surge in reporting by businesses of cash transactions of $10,000 or more means companies have begun to take seriously government threats of prosecution for noncompliance, said Charles Intriago, a former Florida prosecutor who now monitors laundering issues as publisher of the *Money Laundering Alert* newsletter. The penalty for noncompliance or fraudulent filing is a felony.

Buying expensive luxury cars or yachts through dealers who accept cash payments has been a popular way to launder drug money. Reporting these transactions via IRS form 8300 helps the government track drug transactions by creating a paper trail to the initial purchaser.

Reporting Surge in 1985

The surge in reporting by business mirrors a similar reaction by financial institutions in 1985 when the Bank of Boston plead guilty to violations of the Bank Secrecy Act, said Charles Morley who, as chief investigator for the Senate's permanent subcommittee on investigations, headed a congressional probe into the issue.

Following the Bank of Boston investigation, filings increased from a few hundred thousand per year to just over 6 million in 1989, said Mr. Morley, who now consults with banks on money laundering compliance. Singling out the Bank of Boston served to "hit everybody upside the head with a 2-by-4 and say, 'Hey, we have a regulation that we expect you to follow,' " he said.

The volume of currency transaction reports, known to the IRS as form 4789, has grown significantly in recent years. In 1986, 3.7 million reports were filed. That figure grew to 5 million in 1987, 5.8 million in 1988 and 6.3 million in 1989. Through the first six months of 1990, 4.2 million reports have been filed, according to the IRS.

On a lesser scale, businesses increasingly are reporting large-dollar transactions on form 8300. From 12,084 forms filed in 1986, the volume has increased steadily to 21,323 in 1989. Through the first six months of 1990, 16,845 forms were filed, according to the IRS.

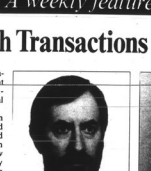
Treasury Cracks Down

In tandem with the report of sharp increases in filings, tougher Treasury Department regulations became effective.

As of Aug. 13, financial institutions now must keep available for IRS inspection a log of all $3,000 in bank checks, cashier's checks, traveler's checks or money orders that includes the identity of the purchaser.

Banks do not have to automatically report these transactions, but the Treasury Department can request the information from an institution at any time.

cash transactions of more than



"It's certainly going to make it more difficult for the bad guys to structure transactions."

Charles Morley
Consultant



"What you're doing to money launderers is making the job more labor-intensive."

Boris F. Melnikoff
Head of ABA's laundering task force

The move is another effort to attack "smurfing," a practice whereby individuals hired by drug dealers purchase financial instruments in amounts of less than $10,000 to avoid reporting requirements.

"It's certainly going to make it more difficult for the bad guys to structure transactions," said Mr. Morley, adding that the lower recording level of $3,000 may bring some banks that never handled a $10,000 transactions "face-to-face" with the Bank Secrecy Act for the first time.

"What you're doing to money launderers is making the job more labor-intensive," said Boris F. Melnikoff, head of the American Banker Association's money laundering task force. But, added Mr. Melnikoff, senior vice president at First Atlanta Corp., "As we tighten up (reporting rules), someone is going to stay up the extra hour to figure out how to beat you."

Valuable Paper Trail

Bankers and money-laundering experts agree that the Treasury Department won't react immediately to the new regulation. Its value, they say, will be the paper trail it creates that will assist money laundering investigations in the future.

But while the tighter restriction may make front-line laundering operations more difficult, it does not address the more serious problem of drug money sent around the world by electronic wire transfers.

Salvatore Martoche, former director of the Treasury Department's office of financial enforcement and now partner with the Buffalo law firm of Hiscock and Barclay, said wire transfers are the likely next target of Treasury to hamper money laundering operations.

Mr. Gerhardstein writes for the Medill News Service.

THE WEEK *ahead*

MONDAY, AUGUST 27

The Federal Reserve Board holds a closed meeting to consider applications by Harris Trust and Savings Bank, Chicago, to acquire Bank of Montreal Global, a Delaware corporation, and for Bank of Montreal Global to invest in Bank of Montreal Trust Co. Ltd., of the Channel Islands.

Also on the agenda is consideration of an application by C&S/Sovran Corp. to acquire companies engaged in permissible insurance agency activities. 202-452-3000.

Presidents of the Federal Home Loan Bank Systems convene for two days in their private monthly meeting.

The House and Senate are in recess. The House returns Sept. 5 and immediately begins extensive hearings on thrift and bank matters. The Senate reconvenes Sept. 10.

TUESDAY, AUGUST 28

The Federal Deposit Insurance Corp., at a closed board meeting, could rule on a petition by Wauwatosa Savings and Loan of Wisconsin to keep its deposit insurance if it leaves the Federal Home Loan Bank of Chicago.

The FDIC is under pressure to decide by the end of August. A ruling was postponed from last week's closed meeting. 202-393-8400.

Balance of payments merchandise trade figures for the second quarter of this year, which include the value of all goods and services plus financial transactions, are announced by the Commerce Department.

WEDNESDAY, AUGUST 29

Leading economic indicators for July are released by the Commerce Department.

Single-family home sales figures for July are announced by the Commerce Department.

THURSDAY, AUGUST 30

Factory orders and shipments figures for July are released by the Commerce Department.

FRIDAY, AUGUST 31

No significant events scheduled.

PEOPLE

Treasury Study Team Dogged by Hard Luck

Neither elections, nor illness, nor Iraqi invasions will hold up the Treasury Department's megastudy of deposit insurance and reform of the financial system, the department says. But those factors probably will bar completion before the yearend target date, says **Robert R. Glauber,**



Robert R. Glauber
Treasury Department

Treasury under secrary for finance, who is in charge of the multi-agency undertaking.

The sidelining of two key team members will prevent a speedup, Mr. Glauber said in a recent interview.

The two are **Jerome H. Powell,** newly appointed as assistant secretary for domestic finance, who has not been confirmed in that post, and **John C. Dugan,** deputy assistant secretary for financial policy.

Mr. Powell, who has been prevented from taking part in policymaking since coming to the Treasury as a consultant in May, was scheduled for an Aug. 3 confirmation hearing. But Iraq chose the day before to invade Kuwait. The hearing was canceled.

Mr. Dugan, 35, has been out of action because of an illness that sent him to the hospital twice in the past few months. Last Friday the Treasury Department said he was expected back at work Sept. 10.

* * *

Mary Short is returning to Arizona after a 16-month stint as deputy director for supervisory programs of the Office of Thrift Supervision.

Ms. Short, who joined OTS after three years as Arizona banking superintendent, will leave the agency Sept. 14. She has no firm plans – apart from marriage, on Sept. 22, to **George Leonard,** chief executive of Ambanc Holdings, a Colorado-based bank holding company.

In a telephone interview, Ms. Short said she is weighing whether to continue with the federal government – the Resolution Trust Corp. has a Phoenix office – or seek a state or private job. In her last days at OTS, she put finishing touches on the agency's appraisal rule.

* * *

Want a challenge? The Resolution Trust Corp. is looking for a lobbyist.

The deadline for applications is Friday. The man currently in the job is **Loren T. Hooper,** a five-year veteran of the legislative affairs office in the Federal Deposit Insurance Corp. He took the RTC post on an acting basis last October.

Why is the RTC posting his job? "That's an interesting question," Mr. Hooper said in an interview last week. Will he apply? "I haven't decided yet, . . . I'm keeping my options open."

Of two colleagues contacted, one said Mr. Hooper is a shoo-in; the other said Mr. Hooper does not even want the job.

Mr. Hooper, 47, worked for Sen. Robert W. Kasten Jr., R-Wis., before joining the FDIC in the mid-1980s. He was a tax lawyer for the Internal Revenue Service before working on Capitol Hill. He took his law degree at the University of San Diego.

— Linda Corman, Barbara A. Rehm, and Debra Cope

RTC Expected to Get Very High Premium for Ore. Thrift

Continued from *page 1*

Association. San Francisco-based BankAmerica won with an $81 million bid reportedly only $700,000 above that of its Los Angeles rival.

"I would be shocked if anybody besides B of A or SecPac gets the Benj.," said Jay Tejera, an analyst with Dain Bosworth Inc., Seattle.

Benj. Franklin is one of the biggest of the 77 failed thrifts the RTC hopes to sell or liquidate before Sept 30. Other major institutions on the block include City Savings Bank, Bedminster, N.J.; Empire Federal Savings Bank, Buffalo; and Merabank, Phoenix.

The deadline for submitting bids for Benj. Franklin is tomorrow according to sources familiar with the bidding. The sources said a deal may be announced in about three weeks.

Alan Blodgett, Benj. Franklin's federally appointed managing agent, said there is "serious interest" in Benj. Franklin, but declined further comment.

With about $2.6 billion in core deposits, and 66 of its 88 branches in Oregon, including more than 30 in metropolitan

"The winning bid will be one of the highest prices paid on an RTC deal."

An Oregon banker

Portland, Benj. Franklin represents virtually the only remaining opportunity to buy significant shares in the state's highly concentrated banking market. U.S. Bank of Oregon and First Interstate Bank of Oregon, a unit of Los Angeles-based First Interstate Bancorp, together hold more than 70% of Oregon's commercial bank deposits.

Benj. Franklin also has nine branches in Idaho, 12 in Washington and one in Utah.

Seized for Negative Capital

Although Benj. Franklin was marginally profitable, federal regulators seized the thrift in February because it had negative capital of more than $100 million. The capital hole was the result of more than $280 million in good will remaining from a 1983 acquisition.

Since April, Benj. Franklin has sold about $1.3 billion in mortgage-backed securities and pooled loans, reducing assets from about $4.6 billion to $3.3 billion. The thrift hopes to sell another $400 million in assets before a sale is concluded, Mr. Blodgett said.

May Top 4.6% of Deposits

Banking experts predict the premium paid to acquire Benj. Franklin could equal or top the 4.6% of core deposits Bank of America paid for Western, resulting in a purchase price of about $120 million.

The winning bid for Benj. Franklin "will be one of the highest prices paid on an RTC deal," forecasts an Oregon banker who asked not to be identified.

In the 207 sales of federally controlled thrifts that took place from August 1989, when the RTC began operations, through June 1990, the average premium was about 2% of core deposits, said Henry S. Peltz, an analyst with Keefe, Bruyette & Woods, Inc., a handful of larger thrifts, including Gibraltar Savings in California and Centrust Savings Bank in Florida have sold for premiums over 4% of deposits.

Strong Incentives

For Security Pacific and BankAmerica, the stakes in the Benj. Franklin bidding are high. Security Pacific already owns a $1.5 billion asset unit in Oregon, but its back office facilities in the state are designed for an operation of at least $2 billion in assets, Mr. Tejera estimates.

"We are extremely interested in Benj. Franklin and intend to put in a strong bid," said a senior Security Pacific official who asked not to be identified. "We see an investment like this as a strategic move."

BankAmerica also has a major incentive to acquire Benj. Franklin. Seafirst Bank Oregon, the company's subsidiary in the state, currently has just one retail branch and $112 million in assets, a result of BankAmerica's purchase last year of tiny Woodburn State Bank.

No Fallback

BankAmerica officials say that Benj. Franklin represents their only shoe-in chance to establish a meaningful presence in Oregon. "If we don't get it, there isn't a fallback," said Luke S. Helms, president of Seafirst Corp., BankAmerica's Seattle-based holding company.

Though Security Pacific and Bank of America are widely considered the leading bidders, another potential acquirer might enter the fray.

Competition from Seattle

Two Seattle-based thrifts, $7.3 billion-asset Washington Mutual Savings Bank and $2.6-billion asset Washington Federal Savings and Loan Association are weighing a joint bid, according to sources familiar with the bidding.

The two thrifts last month approached Merrill Lynch Capital Markets and Lehman Brothers to seek an investment bank that might want some of Benj. Franklin's assets. Both firms declined to participate, sources said.

Washington Fed and Washington Mutual have teamed up because neither has the financial muscle to put together a competitive bid on its own, sources said. While they would divide branches and deposits, an investment banking partner would take most of Benj. Franklin's assets for resale.

Officials of the two thrifts declined to comment.

RT Holdings Inc., the U.S. subsidiary of Canada's Royal Trustco Ltd. and the owner of Pacific First Savings Bank, Seattle, reviewed Benj. Franklin's books and may also submit a bid, sources said. □

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GLOBAL *dispatches...*

Philippines Must Abandon 'Begging' Abroad, Aide Says

By JEREMY CLIFT
Reuters

CEBU, Philippines — Finance Secretary Jesus Estanislao says that the country needs a major economic restructuring to help it boost exports – and that Manila must stop holding out the begging bowl to international creditors.

"Instead of begging from other countries, what we need to do is be respectable and become a business partner of other countries," he said in a speech to business, military, and religious leaders in the central Philippine city of Cebu late last week.

Mr. Estanislao said a government program of tax reforms and tariff changes is designed to put the economy on a new footing and remove protection for "infant industries that refuse to grow up." The aim is for the country to start earning its living through a dramatic growth in exports, he said.

Tariff changes that will take effect Sept. 1 have been opposed by many businessmen whose industries had been protected for the past 30 years.

"Few, if any, want to bite the bullet. Few, if any, are willing to take the-bitter medicine in order to cure our endemic disease," Mr. Estanislao said.

He repeated his opposition to a moratorium proposed by the the Philippine Congress on payments of the country's $26 billion debt.

The influential Roman Catholic archbishop of Manila, Cardinal Jaime Sin, on Friday backed calls to limit Philippine foreign debt payments, saying it is morally wrong to put debt servicing before basic human needs.

Trade Deficit up 62%

In the first six months of 1990, the Philippine trade deficit soared to $1.87 billion, 62% more than in the comparable 1989 period. Imports jumped 17.5%; exports rose only 3.7%.

A major earthquake last month and the economic impact of the Persian Gulf crisis are expected to fuel inflation, curb economic growth, and push the balance of trade further out of line.

Persistent rumors of a possible coup attempt are deterring foreign investment.

"It is about time that we introduce a sense of urgency to all we do, because time is limited," Mr. Estanislao said. "We do not have the luxury of resources, nor of international sympathy.

"The Philippines is no longer the darling of the world, because 1986 is too far gone," he said, referring to the 1986 revolt that installed President Corazon Aquino.

"The only reasonable and respectable way to earn dollars is that we Filipinos go out and begin fighting in export markets," Mr. Estanislao said.

"But that message is not coming through at all. All we do is quarrel and debate."

... *by country*

ECUADOR

Ecuador has approved a $12.6 million refinancing agreement with Japan's Overseas Economic Cooperation Fund on public sector debt.

A presidential decree published in the *Official Register* authorizes Finance Minister Jorge Gallardo to sign the accord, which has a 10-year payment term, a six-year grace period, and a 5.25% fixed interest rate.

This month President Rodrigo Borja approved another refinancing accord, for a $12 million loan from Japan's Export-Import Bank. Both loans were for the state power company, **Instituto Ecuatoriano de Electrificacion.**

West Germany announced Thursday that it had signed a refinancing accord with Ecuador on a $26 million loan. President Borja last month authorized refinancing accords for a total of about $75 million with Switzerland, West Germany, and the United States on public sector debts.

Meanwhile, according to a Central Bank report, Ecuador's international reserves dropped to $159 million at the end of July, from $193 million in June a year earlier, reserves showed a $56 million deficit.

The report said assets stood at more than $627 million and debits totaled $468 million.

Declining prices for oil, the principal export, led to the drop in foreign exchange earnings in the first half of the year, the report said. The country also was hurt by depressed prices for its coffee and shrimp exports.

WEST GERMANY

Westdeutsche Landesbank Girozentrale said it has a mandate to arrange a $130 million transferable term loan for **Norcen Energy Resources** Ltd. of Canada.

Interest on the syndicated eight-year loan will be set at 27.5 basis points above the London interbank offered rate in the first four years and at 30 points over Libor in the last four.

The commitment fee is 8.5 basis points, and repayment will be made in six semiannual installments, the first coming due 5½ years after the signing.

The by country briefs were supplied by Reuters.

Caracas Expects Huge Debt Swap

Says Banks Agree to Trade In 90% of $20 Billion in Loans

By JAMES R. KRAUS

NEW YORK — Venezuela's creditor banks have agreed to exchange 90% of $20 billion in medium-term and long-term loans for bonds and Venezuelan treasury notes, Carlos Hernandez Delfino, commissioner for debt negotiations, said in an interview.

"Participation has been overwhelming," Mr. Hernandez said. "Banks have shown a significant interest."

He said Venezuela hopes to sign a debt reduction accord by the end of November.

A spokesman for Chase Manhattan Corp., which chairs the Venezuelan bank advisory committee, declined to comment on Mr. Hernandez's remarks. But sources said banks have overwhelmingly chosen to exchange their loans for 30-year Venezuelan bonds carrying a 6.75% rate.

Venezuela owes U.S. banks $5.9 billion, Japanese $4.1 billion, British $2.3 billion, German $1.6 billion, French $1.5 billion, and Canadian $1.3 billion. Among U.S. banks, Manufacturers Hanover Corp. was owed $937 million as of June 30, Chase Manhattan Corp. $879 million, Chemical Banking Corp. $634 million, Citicorp $600 million, and J.P. Morgan & Co. $320 million.

Fifth Brady Accord

The debt pact would be the fifth under an initiative launched by U.S. Treasury Secretary Nicholas F. Brady in March of 1989. Debt reduction agreements have been concluded with Mexico, the Philippines, Costa Rica, and Morocco.

Venezuela's planning minister, Miguel Rodriguez, said in Caracas last week that the country's debt reduction accord will reduce its $20.5 billion commercial bank debt 20% and Venezuela's annual $3.1 billion interest payments by more than half.

Mr. Hernandez said the actual debt reduction is to be implemented in two stages.

Bankers said Venezuela would need to buy $2.24 billion in U.S government securities to back the accord.

In the first stage, on Oct. 18 banks could swap several billion dollars in loans at a discount for three-month Venezuelan treasury notes bearing market interest rates and collateralized by U.S. treasuries. Venezuela is proposing that banks exchange $1 worth of loans for 45 cents in Venezuelan treasury notes.

In the second stage, on Nov. 18 banks would have four additional options:

• Exchange their debt for an equal amount in 30-year Venezuelan government bonds bearing a 6.75% interest rate. The principal and 14 months of interest would be collateralized by zero-coupon U.S. Treasuries.

• Exchange their debt at a 30% discount for 30-year Venezuelan government bonds paying market interest rates. The principal and 14 months' interest would be collateralized by zero-coupon U.S. Treasuries.

• Exchange their debt for bonds bearing a reduced interest of 5% for five years and a market rate thereafter. The interest would be backed by zero-coupon U.S. Treasuries.

• Exchange their debt for uncollateralized bearer bonds carrying market interest rates and listed on the Luxembourg stock exchange. However, banks would have to advance Venezuela $1 in new loans for every $5 that is exchanged.

International Backing

Bankers in New York calculated that Venezuela would need to purchase $2.24 billion in U.S government securities to back the accord. The International Bank for Reconstruction and Development, the International Monetary Fund, and Japan's Export-Import Bank have agreed to lend Venezuela $2.7 billion to buy U.S. government securities that will be used to back principal and interest payments on the bonds Venezuela will issue.

"They got it covered up the wazoo," said one banker. He noted that Venezuela will not even have to touch its estimated $7 billion in reserves, including some $5 billion in gold reserves.

Mr. Hernandez declined to discuss how much Venezuela will buy in zero-coupon Treasuries to back the bonds it will issue, or what price it will pay.□

Bundesbank Rejects 'Speculation' on Reorganization

Reuters

FRANKFURT — German unification will have consequences for the structure of the Bundesbank, but it is not possible to say anything about the shape of the central council's policymaking council after unity, a Bundesbank spokesman said.

Responding to a West German newspaper report, the spokesman said, "All assumptions currently circulating in public are speculation."

The *Hamburger Abendblatt* reported Friday that the Bundesbank wanted the influence of regional representatives on its policymaking council to stay unchanged despite the creation of five new East German states.

The newspaper said the reorganization of the Bundesbank council had been discussed at last week's council meeting, which started on Wednesday and continued on Thursday.

The Bundesbank spokesman said a draft of the treaty on German unification provided for decisions on restructuring the Bundesbank to be taken within one year of unification.

Unification is due to take place Oct. 3.

Economists said any changes to the composition of the Bundesbank council would involve changes to the Bundesbank act that would have to be agreed by the government of a unified Germany. □

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	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	8/24	8/23	8/22	8/24	8/23	8/22	8/24	8/23	8/22	8/24	8/23	8/22	8/24	8/23	8/22
United States	8.06	8.12	8.12	8.31	8.31	8.00	8.43	8.37	8.00	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.62	7.50	7.43	8.31	8.18	7.87	8.46	8.37	8.00	5.25	5.25	7.13	7.13	7.13	7.13
Canada	13.00	13.00	11.50	13.12	13.12	13.06	12.62	12.62	12.62	13.01	13.34	13.34	14.25	14.75	14.75
U.K.	15.06	15.00	15.06	15.06	15.06	15.06	14.93	14.93	14.93	14.25	14.34	14.34	15.00	15.00	15.00
West Germany	8.06	7.87	8.12	8.56	8.56	8.50	8.81	8.75	8.75	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	8.00	8.62	8.31	8.75	8.87	9.12	8.87	9.00	9.18	6.00	6.00	6.00	10.88	10.88	10.88
France	10.00	10.00	10.00	10.37	10.50	9.62	10.62	10.68	10.00	9.50	9.50	9.50	10.50	10.50	10.50
Italy	10.50	11.12	11.25	11.75	11.87	11.68	12.12	12.25	11.93	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	NA	14.37	8.84	8.70	8.35
6 to 12 months	NA	13.41	9.07	8.40	8.44
12 to 24 months	12.80	9.28	NA	8.23	NA

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York

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COMMENT

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been offered in recent years to fix federal deposit insurance. All are attempts to fix the unfixable. None will work. These proposals fall into two broad categories: More depositor discipline or stronger capital and regulation.

Various proposals to enhance depositor discipline have been proffered. All will be ineffective or will backfire if implemented.

Reducing Deposit Insurance

Reduce deposit insurance from the $100,000 level. Lowering the deposit insurance limit to, say, the range of $40,000 to $60,000 will not bring more depositor discipline to bear on banks because a lower explicit insurance limit will not effect that many deposits.

Approximately 6% of all domestic bank and S&L deposits are in the $50,000 to $100,000 band. That percentage equals about $200 billion of the $3.4 trillion on deposit in the domestic offices of banks and S&Ls insured by the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) at the end of 1989.

In effect, lowering the deposit insurance limit from $100,000 to $50,000 would shift about $200 billion of deposits from the status of being explicitly insured to being explicitly uninsured.

How Effective is a Lower Limit?

The ineffectiveness of lowering the deposit insurance limit can be seen by examining its impact on three types of depositors.

To begin with there are the very large depositors. A substantial portion of the deposits in the $50,000 to $100,000 group are in accounts of $5 million, $10 million, or more. These deposits are placed in banks, usually larger ones, based on widespread depositor belief in the "too big to fail" policy and sometimes on a depositor's evaluation of a bank's soundness.

"Given the ineffectiveness of lowering the deposit insurance ceiling, Congress will not spill political blood to pursue this hollow act."

Because these depositors disregard the deposit insurance limit in determining where to place their funds, this first group of depositors will not be influenced at all by any lowering of the deposit insurance limit.

Lower Limit an Inconvenience

There are depositors who do worry about the $100,000 limit. Often these are individuals who have a substantial amount of their net worth, modest though it may be, on deposit in a bank or S&L, usually in certificates of deposit. Lowering the insurance limit will merely be an inconvenience for most of these folks, for they will respond to a lower limit by spreading their savings over a larger number of institutions.

Finally there are the depositors who include small businesses, professional people, and nonprofit organizations with fluctuating bank balances. At some time during the year, the bank balance of hundreds of thousands of depositors of this type exceeds the $100,000 limit; the number exceeding a lower insurance limit will be even higher. Depositors in this group that worry about the deposit insurance limit will shift their funds to a larger bank that they believe is unlikely to be liquidated if it fails or they may spread their balances over several banks.

Given the ineffectiveness of lowering the deposit insurance ceiling, Congress will not spill political blood to pursue this hollow act. Doing so will unnecessarily raise the ire of hundreds of thousands of voters while having no substantive effect.

About Rumors

Coinsurance would require that depositors absorb a predetermined share of a bank's insolvency loss, say 10%, above a low amount, say $10,000 or $25,000. A coinsurance requirement, if enforced for all failed banks, would greatly increase instability in the banking system, for suddenly millions of Americans would have some reason to fear losing some money if their bank or S&L failed.

Rumors of troubles would create runs to currency and to foreign-domiciled banks that would make the weeks preceding the 1933 bank holiday look like a Sunday school picnic.

"A coinsurance requirement, if enforced for all failed banks, would greatly increase instability in the banking system."

Such disruptions also would be very damaging to even healthy banks and to the smooth functioning of the American economy, which is vitally dependent on an uninterrupted flow of funds through the nation's payments system. Deposit insurance is supposed to bring stability to a financial system, not instability.

Limiting Insurance Usage

Lifetime limits or comparable restrictions would cap the amount of benefit a person or a family could derive from federal deposit insurance. Thus, a naive 21-year old construction worker, saving to buy his first home, might have $10,000 in a bank that fails. The government would reimburse him for the $10,000 loss but would then cover no future loss of his due to a bank failure.

For years to come, and perhaps for life, that person, and perhaps his family (however that would be defined), would be doomed never to benefit again from the full amount of federal deposit insurance. Needless to say, that person or family would quickly and easily find ways to evade the federal record keepers, thus defeating the intent of this administratively impractical proposal.

A Sound Public Policy

The "too big to fail" policy eviscerates the entire concept of depositor discipline. The federal

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COMMENT

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government's obvious policy in all large, and in many small banks that fail is to protect all deposit balances. As a practical matter, all other industrialized countries have the same policy.

Although heavily criticized, protecting all deposits in failed banks is very sound economic and public policy because that policy enhances financial stability. Consequently, deposit insurance limits and all other attempts to impose losses are futile as long as policymakers properly and fully protect all deposits in most bank failures.

"Too big to fail," however, is a misnomer. This policy really is "too big to liquidate". Continental Illinois failed even though it was not liquidated. Instead, its top managers lost their jobs, its directors were disgraced, and its stockholders effectively were wiped out. The same holds true for FirstRepublic, MBank, and other large, failed banking organizations. Despite these clear failures, many believe that these institutions should have been liquidated so as to impose losses on their large depositors.

Impose Losses on Depositors?

Abandoning the "too big to fail" policy by attempting to impose losses on uninsured depositors is bad public policy for a number of reasons.

"Attempting to impose losses on uninsured depositors is bad public policy for a number of reasons."

To begin with, an announced policy of liquidating a large bank or, alternatively, transferring only insured deposits into a "bridge bank," if taken seriously by the financial world, will set off a race for the door every time rumors circulated that a bank with deposits above the insurance limit was in trouble.

This will be the case because those depositors who make it out the door before the bank is closed will be fully protected while those who don't will suffer a loss. The race will be won by those who are fastest rather than those who are the most deliberate. Prudence will dictatea policy of, when in doubt, run.

Destabilizing Effect

Such sprints by depositors will be destabalizing to the financial system while destroying intangible yet valuable going concern value in the affected banks. This destruction of going concern value is economically wasteful and about as sensible as the medical practice of bloodletting.

Another consideration is that liquidating failed banks is more expensive for the deposit insurer than merging the failed bank into another institution, even though mergers do not impose losses on large depositors and other creditors. Liquidations are more expensive than mergers subsidized by a deposit insurer because liquidation destroys going concern value.

Effects of Liquidating

Liquidating a bank drives away longtime customers and destroys relationships where the bank customer is both a depositor and a borrower. In effect, liquidation destroys a market presence built over many years. This destruction of going-concern value is why in the world of commerce, actual liquidations are a last resort for disposing of a bankrupt business.

"Liquidating a bank drives away longtime customers and destroys relationships where the bank customer is both a depositor and a borrower."

The rapid shrinkage of Continental Illinois in 1984 probably added at least $100 million to the FDIC's loss in that situation. Had Continental Illinois been liquidated that year, as some have suggested, the FDIC would have suffered hundreds of millions of dollars of additional losses. Liquidation is bad economic policy; therefore, liquidation is bad public policy.

A final word on the subject is that as a practical matter America will not abandon the "too big to fail" policy because other industrialized nations are unwilling to impose bank insolvency losses on depositors. This is the why the "too big to fail" policy is here to stay.

Banking regulators in other countries have been extremely reluctant to impose losses on depositors and creditors in larger banks, especially since the failure of the Herstatt bank in Germany in 1974.

Foreign regulators apparently are too scared, and wisely so, of the financial instability that can occur when attempting to impose losses on depositors. These regulators apparently believe that it is far more preferable for surviving banks and other taxpayers to absorb the insolvency loss of a failed bank, rather than attempting to impose those losses on depositors and other creditors.

A Competitive Disadvantage

If America abandoned its "too big to fail" policy, and other nations did not, many larger American banks would clearly be at a competitive disadvantage both domestically and internationally since explicitly uninsured depositors would have less reason to fear keeping deposits in a foreign bank than they would in an American bank. Regulators understand this competitive issue, which is why they resist ending the "too big to fail" policy.

Thus, America will not abandon the "too big to fail" policy unless Congress mandates an end to this policy and can enforce this policy against the extremely strong desire of regulators to do otherwise.

More Capital and Regulation

The other major type of reform proposal revolvers around stronger capital and more effective regulation of banks. Specific proposals fall into several broad

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COMMENT

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categories.

Specific proposals for stronger capital are of two–types. One would require even higher levels of equity capital for banks than will be required by the risk-based capital standards now beinf implemented. The other proposal calls for mandate substantial amounts of subordinated debt as a component of bank capital structures.

Uniform Capital Requirements

Proposals for even higher capital levels reflect the refulators' longtime refrain that more capital will solve all that ails deposit insurance. However, these proposals ignore the fact that not all banks require the same level of capital. Thus, attempting to impose higher, uniform capital requirements on banks will increase the risk for many banks as they chase higher yielding yet riskier assets to earn, in the short-term, the higher returns demanded by the higher capital requirements.

Subordinated debt is seen by some as a more palatable alternative to more equity capital because debt is cheaper than equity due to the tax-deductibility of interest. There also is the belief that debt holders and financial markets will be more effective discipliners of a weakening bank than are equity holders, particularly if debt holders can take control of a failing bank from its stockholders.

However, proponents of mandatory subordinated debt do not offer convincing arguments that debt holders will do what equity holders seem unable to do. Further, the recent experience with larger failing banks and S&Ls, in which subordinated debt often comprised a portion of these institutions' capital structure, does not give credence to the subordinated debt proposals.

"Attempting to impose higher, uniform capital requirements on banks will increase the risk for many banks."

Action Before Insolvency

Promptly disposing of a failing bank or S&L through a sale or merger is a laudatory policy objective, and one that always has been available to the regulators. If an institution can be taken over and sold before it actually becomes insolvent, its failure should not cost its deposit insurer any money. However, for two reasons, it will be impossible for Congress to legislate a rule that will consistently force the closure of institutions approachinf insolvency.

First, it will be extremely difficult to legislate a rule that can be applied fairly to all types and sizes of banking institutions in an increasingly diverse banking world. Second, banking regulators will vigorously oppose any attempts to limit their freedom of action in dealing with a failing bank or S&L.

Opposition to a Quick Closing

Weak banks and S&Ls also will oppose any legislative policy that dictates closure before insolvency. The owners and managers of these institutions will want every opportunity to attempt to avert failure should their institution ever get into trouble.

Past acts of forbearance for weak institutions, such as farm and energy banks received in the 1980s, are ample evidence that Congress will grant forbearances in the future for what will seem at the time to be very legitimate reasons. Thus, with two strong sources of political opposition, regulators and weak institutions, prompt closure policies will not work for any government deposit insurance profram.

Proposals for mandated early closure rules also fail for the same reason that more equity capital or subordinated debt will not work. Namely, they depend on prompt enforcement by government regulators. Yet, as we have seen time after time, and will see again and again, the taxpayer cannot count on government regulators to protect his or her interests.

Narrow Banking Concept

The narrow banking concept represents the most extreme attempt to fix federal deposit insurance. Narrow banking would practically eliminate deposit insurance losses by making it almost impossible for a federally insured bank to fail. This would be accomplished by mandating the shift of riskier activities, and the volatile or "hazardous" liabilities that fund these activities, from banks to uninsured firms or to the uninsured affiliates of a bank holding company.

"The taxpayer cannot count on government regulators to protect his interests."

Narrow banking essentially would turn the clock back several centuries to the time when banks had lots more capital liquidity and far fewer powers. This concept, though, would impede banking synergies increasingly feasible due to technology. Worse, narrow banking would increase risks to that segment of the federal or taxpayer's safety net now managed by the Federal Reserve. Thus, the cure might be worse than the disease.

The failings of federal deposit insurance are costly and must be reformed. But federal deposit insurance is irreparable; therefore, the risk and rewards of insuring deposits must be shifted to a private sector mechanism that can genuinely overcome the inherent and uncorrectable shortcomings of federal deposit insurance. The 100% cross-guarantee concept, which will be described in the second part of this article, is that mechanism. □



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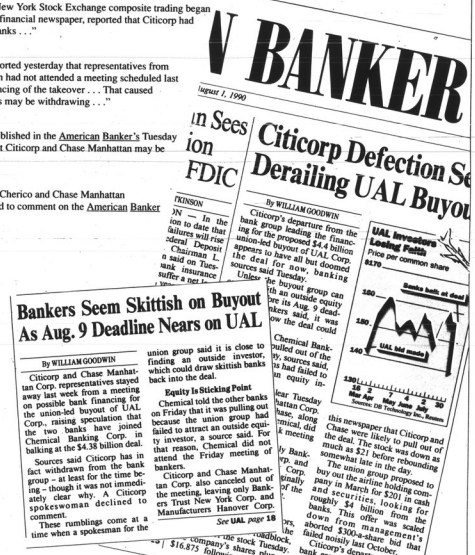

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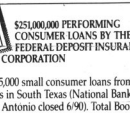

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Federal Home Loan Bank System Struggles to Revive Luster

Continued from *page 1*

out what their long-term strategic plan is when you don't have a central plan," he said.

Because the Home Loan Bank system still has not untangled its fate from that of the thrift industry that dominates its rosters, its long-term viability remains in doubt. "It is possible, given the structure of the system, the way advances are supported by stock, that the system could become a very efficient self-liquidating entity," a senior Treasury official told the *American Banker* earlier this summer.

More Authority for Districts

Should policymakers rethink the Home Loan Bank system, they may start by broadening the district banks' investment authority, perhaps permitting them to purchase whole loans or expanding their now-limited authority to buy mortgage- backed securities.

New investments would help the banks maintain their income stream amid slackening demand for advances, which now generate 80% to 85% of income, district bank officials said. But it would also introduce risk to their portfolios and subject them to direct competition with some of their largest members, who might "gut" the Home Loan Banks' profitability decline than to possibly impact their own institution," said one Home Loan Bank chairman.

Other options include dissolving the ties between borrowing and stock purchases; opening the advances program to mortgage bankers; encouraging the banks to expand their correspondent services; easing the district banks' contributions to S&L cleanups and low-income housing; permitting Federal Home Loan Bank stock to be traded; or even selling the banks to private investors.

But the district banks face an uphill battle.

"It will be very hard for the banks to carve out new powers for themselves," partly because of their historical association with "abominably bad thrift regulation," said Eric Hemel, a thrift analyst at First Boston Corp.

12 Thrifts Seek Exit

The district banks are also dealing with requests from 12 state-chartered thrifts to leave the system. They want to cash in their Home Loan Bank stock but retain deposit insurance.

The exit petitions, pending before the Federal Deposit Insurance Corp., spurred Treasury officials to warn that a wide-spread exodus could impair the bank system's ability to contribute to the thrift bailout.

The 1989 thrift-reform bill relieved the Home Loan Banks of regulatory responsibility for the thrift industry and freed them to recruit new members from a broadened base that includes commercial banks and credit unions. Since the spring, 16 commercial banks have joined the district banks, attracted by long-term loans at favorable rates, letters of credit and other correspondent services, and the ability to participate in an affordable housing program.

But high costs of entering the system, additional stock-purchase requirements for borrowing, and an uncertain dividend stream make it unlikely that the Home Loan Banks will be able to offset the shrinkage of their traditional thrift membership.

"It would be very, very optimistic to think that additional members at the same pace we lose them through case resolution," said Leo J. Blaher, president of the Federal Home Loan Bank of Chicago.

Future in Commercial Banks

Even if the system's powers will be limited, more commercial banks will be drawn to the Home Loan Bank system "because the thrifts of the future," said Jonathan Gray, a banking analyst for Sanford C. Bernstein & Co., New York. As banks compensate for their slipping role in residential and industrial lending by shifting their emphasis to mortgages, "the question isn't whether there's going to be a thrift industry, but whether there's going to be a banking industry," he said.

Others agreed that the Federal Home Loan Bank System possesses many strengths. Alone among government-sponsored enterprises -- corporations such as the National Mortgage Association and Student Loan Marketing Association -- the district banks enjoy top investment ratings for their consolidated debt obligations. No Federal Home Loan Bank has ever lost a dollar on a loan, largely because conservative lending policies and overcollateralization of advances have ensured a virtually risk-free portfolio.

But weaknesses are starting to become evident. System profits in the first half fell to $743 million in 1990 from $949 million in 1989. Significantly, prepayment penalties on advances provided $57 million, or 8%, of profits for the first six months of 1990, compared to $28.5 million; or 3%, in 1989's first half. Most of these penalties were paid by the Resolution Trust Corp., which typically repays the borrowings of failed thrifts to free the high-quality mortgage loans that collateralize the advances.

Concerns Persist

A persistent worry is that the district banks could be tapped to contribute to rising costs of the S&L cleanup, having already surrendered $3.1 billion in retained earnings plus $300 million annually to fund the effort.

A related concern is whether accountants will one day force thrifts to write down the value of their paid-in Federal Home Loan Bank capital stock. It totaled $11.3 billion in July, roughly one quarter of the thrift industry's tangible capital. Although the Federal Home Loan Bank system believes that impairment of capital is not a threat, and its accounting firm has stated the stock is unimpaired.

Yet doubts linger. "If the value of the system itself starts to erode, there is a theoretical potential for accountants to come in and say the stock is not worth the value," said Martin Regalia, chief economist of the National Council of Savings Institutions.

"If there's another hit against the Federal Home Loan Banks' capital, the question is going to be raised whether the asset has value or is permanently impaired," said Joseph Mauriello, a partner with Peat Marwick in New York, and chairman of the American Institute of Certified Public Accountants' savings and loan committee. "We have that on our short list of things that every so often we have to take a look at, but it's not a today issue." □

"This is a $160 billion government-sponsored enterprise, and no public policy direction has been established."

Dennis Jacobe
U.S. League of Savings Institutions

Sallie Mae Director Named

WASHINGTON - Robert A. Estrada, an attorney and chairman of Estrada Securities Inc., Dallas, has been appointed by President Bush to serve as a director of the Student Loan Marketing Association.

Estrada replaces Irby C. Simpkins Jr. of Nashville, Tenn., who served on the Sallie Mae board for nine years. □

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Ronald Zaza Auct'r Lic #840731 sells 9/11/90 9 AM at 86-11A 101st Ave Ozone Park, '84 Buick #3N1FJ5S3EW609850 Re: Metro & Prop, '83 Pontiac #1G2AN69H2DD206850 Re: 678. Published 8/27 & 9/04/90.

Citation Notice

CITATION THE PEOPLE OF THE STATE OF NEW YORK By the Grace Of the Supreme Court Of The Public Administrator of New York County Attorney General of the State of New York To the heirs at law, next of kin and distributees of ELIZABETH B. CONWAY, deceased, if living and if any of them be dead, to their heirs at law, next of kin, distributees legatees, executors administrators, assignees and successors in interest whose names are unknown and cannot be ascertained after due diligence and being the persons interested as creditors, legatees, devisees, beneficiaries, distributees or otherwise in the estate of said ELIZABETH B. CONWAY, deceased, who at the time of her death was a resident of 116 Pinehurst Ave., New York, NY 10033 Send Greeting: Upon the petition of SUE FUKUDA residing at 116 Pinehurst Avenue, New York, NY 10033 You and each of you are hereby cited to show cause before the Surrogate's Court of New York County, held at the Courthouse in the County of New York on the 2nd day of October, 1990, at nine-thirty o'clock in the forenoon of that day, why the instrument dated October 22, 1984, should not be accepted as The Last Will and Testament of Elizabeth B. Conway, deceased naming Sue Fukuda, as executrix thereof should not be judicially decreed. Dated Attested and Sealed, July 16, 1990. (L.S.) HON. Renee Roth, Surrogate New York County Robert Reaves, Chief Clerk. Attorney for Petitioner(s)/ Gregory A. Sioris Sioris and Mohamby Address 23 West 43rd Street, #1517, NYC 10036 Tel. No. (212) 840-3644. This citation is served upon you as required by law. You are not obliged to appear in person. If you fail to appear it will be assumed that you consent to the proceedings, unless you file written objections thereto. You have a right to have an attorney-at-law appear for you.

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DEALS: Chemical May Lose $860 Million Credit Deal with Citibank

Continued from page 1

negotiated at a time of major uncertainty about how quickly Consolidated would be able to stabilize its money-losing Emery Air Freight operation. "It was a tough agreement," according to a Consolidated observer, who asked not to be named.

Recently, though, signs have emerged that Emery may have begun to turn the corner. Its second-quarter operating loss narrowed to about $31 million, from $70 million in the first quarter, and the improved performance appears to be continuing.

A sustained improvement in Emery's operating performance means the parent company needs less borrowing capacity.

Consolidated's board in July installed a new top management team, which revisited a number of issues, including the need for the $860 million credit agreement with Chemical.

Since then, Consolidated has talked with several other banks, including units of BankAmerica Corp. and Citicorp, about obtaining a smaller, cheaper credit facility.

The company is now nearing completion of a credit pact with Bank of America as lead bank, sources said. It was unclear whether Citibank would be part of the new bank group, but Chemical was said to be out of the picture.

However, Chemical still has a relationship with Consolidated through a $75 million revolver provided in June.

> **"It was a tough agreement," an observer said of the Chemical loan.**

Meanwhile, Chemical officials refused to say whether the bank got a fee for its $500 million commitment.

It remains unclear whether Chemical made any serious effort to renegotiate the Consolidated credit pact. Consolidated's credit pact. Consolidated's board chairman, James J. Meenaghan, chief of the Home Insurance unit, will be elected president and CEO.

AmBase said it will continue talks to sell its insurance subsidiaries, including the previously announced sale of Home Insurance to Vik Brothers International.

— Reuters

Investor Group Gets Letter Backing AmBase Takeover

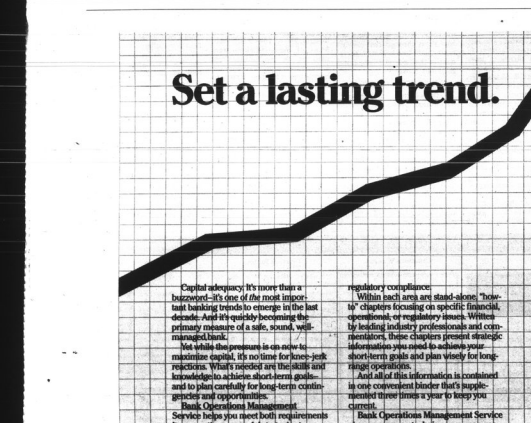
AmBase Corp. said it has signed a letter of intent to sell 50.1% of its common stock at $4 per share to an investor group.

The investor group's proposal to acquire controlling interest in AmBase includes all its units, including Carteret Bancorp. The transaction depends upon signing of a definitive agreement by Sept. 28, stockholder and regulatory approvals, and financing.

AmBase said Friday that, on completion of the transaction, G.T. Scharffenberger will retire as chairman, president, and chief executive officer. Donald MacNaughton is expected to be elected chairman, and James J. Meenaghan, chief of the Home Insurance unit, will be elected president and CEO.

AmBase said it will continue talks to sell its insurance subsidiaries, including the previously announced sale of Home Insurance to Vik Brothers International.

— Reuters



Limited Gains From Reopening '88 Thrift Deals

Continued from page 2

silver, a spokesman for American Savings.

The reviewing accountants agreed: "By and large, I think they [acquirers] are willing to sit down and work out something that is mutually advantageous," one said.

Another said, "There are ways that you can renegotiate that are a win-win for the acquirers and the government."

Some Deals Bar Prepayment

On Wednesday, the panel began to buy back the high-cost notes used to entice acquirers, once accountants involved in the review said: "The government would simply be changing the financial structure of these deals."

Treasury's current long-term borrowing rate is 8.8%. The interest costs on the 1988 deals range up to 14%. Most of the FSLIC notes are 2% above the Texas cost of funds, or about 10.5%.

But some of the contacts, including the Bass deal, forbid prepayment of the notes.

In another incentive to investors, the FSLIC guaranteed minimum returns on assets taken over by acquirers. Now that the asset values are better understood, the RTC could force a writedown to market value, pay the acquirer the difference, and in the process shrink the assets on which the government has to guarantee a return.

An example might be a loan turned over to the acquirer with a value of $200 million and a guaranteed return two percentage points more than the average cost of funds. If the asset were worth $100 million, the acquirer would be paid $100 million and the return would be cut in half.

Because an acquirer would have to reinvest the $100 million, probably at a lower return than under the FSLIC deal, the acquirer would need an incentive to write down the assets.

Sources reviewing these deals said some acquirers are so sick of working with the government that getting Uncle Sam out of their business is reason enough to go along with the restructuring.

Highlights for Friday, August 24

TOP 10 GAINERS %

First Illinois Corporation	9.8
Banks of Mid-America, Inc.	9.4
CullenFrost Bankers, Inc.	8.0
Manufacturers Hanover	7.7
First Security Financial Corp.	7.4
Lake Shore Bancorp, Inc.	6.9
BanPonce Corporation	5.6
Northern Calif. Community Bncrp	5.6
First Union Corporation	5.3
Northeast Bancorp, Inc.	5.2

TOP 10 LOSERS %

First Citizens Bancshares Inc.	-8.7
Grenada Sunburst System Corp.	-8.7
Pacific Bank	-8.0
Bank of New England Corp.	-5.9
Heritage Financial Services	-5.7
Hibernia Corporation	-5.7
Chase Manhattan Corp.	-5.3
Amcore Financial, Inc.	-4.5

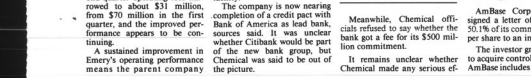
MOST SHARES TRADED

BayBanks, Inc.	1682700
Citicorp	1549000
Manufacturers Hanover Corp.	811500
Chase Manhattan Corporation	660600
BankAmerica Corporation	619500

VOLUME AS % OF AVERAGE

BayBanks, Inc.	1001.8
Sunwest Financial Services	953.3
Northern Bancshares Inc.	874.7
Northern Calif. Community Bncp	506.9
CPB Inc.	467.0

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts 1/3/89=100

Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
1.99	-4.23	-13.28	0.68	-5.14	-15.75	1.54	-4.73	-19.32

Top 225 Banks (4 PM Prices)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Sto.	Clo.	Chg.
23¾	18¼	1stSourceCorp(h)	6.3	98.3	19	¼
14¼	9¾	ATBancorp(O)	7.1	56.0	9¾	¼
38⅜	19	AmSouthBancorp(A)	7.6	79.4	19¼	¼
23¾	17¾	AmeriTrust(O)	7.7	78.3	19¾	¼
29	13¾	AmeritrustCorp(O)	22.5	74.8	13¾	¼
22¼	16¼	AssociatedBanc(M)	8.5	116.6	16¾	¼
24½	17½	BB&T FinCorp(C)	7.7	96.0	18	¼
15¼	7¾	BalimoreBncp(M)	9.1	118.2	15¼	¼
48⅜	39	BanPonce(PR)	12.9	138.0	42½	2¼
19¾	14¾	BancOneCorp(O)	9.3	144.2	24¾	¼
25	18½	BancoPopular(PR)	5.7	85.6	17	½
56¾	36¼	BancorpHawaii(O)	7.1	110.0	37¼	¼
23¾	18	BancorpNtlAs(MS)	6.8	86.5	18¾	
36¼	19¾	BankAmericorp(CA)	4.3	80.6	35⅜	¼
24	17¾	BankGranite Corp(C)	12.3	216.9	20	
23¾	2	BankNewEngland(MA)	0.4	19.8	2¼	¼
14¾	7¾	BankSouthCorp(GA	8.4	79.2	7¾	¼
37¾	34¾	BankTrustCo(MT	8.3	144.2	24¾	¼
21½	9¼	BanknorthGroup(VT	4.4	47.9	9¼	¼
29⅝	19¾	BarnettBanks(FL	8.4	93.9	19¾	¼
53½	22¾	BarnhillsNY	NM	64.7	22¾	¼
12	8	BeverlyHillsBnk(CA	NM	50.1	8¼	¼
82	61	BankoftheWest	10.3	100.0	63½	-2½
30¾	24¼	BostonBancorp(MA	7.6	88.6	24¾	
40½	11¾	BayBanks(MA	NM	34.7	11¾	¼
39¼	25¾	BeneficialCorp(NJ	7.0	82.0	26¾	¼
25½	19¼	BoulevardBancs	223.2	101.7	19¾	
16¾	12¼	BoatmensBancs(IL	7.3	100.2	14¼	
63¾	30¼	CCB FinCorp(NC	7.8	104.3	30¼	¼
29¾	15¾	CCNB Corp(PA	6.1	65.7	15¾	¼
22⅜	18¼	CNB Bancshares(IN	10.0	120.7	20¾	¼
27	17¼	CPB Inc.(IL	6.3	118.2	17¼	-1¼
28	11⅝	CVB FinCorp(CA	8.4	191.5	13¾	
33⅜	17	CalFed(CA	4.6	138.0	19	
18¼	13¾	CentralBancs(IL	6.7	92.3	14	¼
34½	23¾	CentralFinancial(IN	6.6	88.4	24¾	
27	16½	CentralLeroy(NJ	6.3	74.8	16½	
44¾	16¾	CentralSoya(IN	7.7	68.7	16¾	¼
41⅛	20¾	ChemicalBanking(NY	NM	62.2	21¼	¼
35	26	ChemicalCorp(MI	8.8	88.7	28	
35¼	17½	Citizen(s)(NY	NM	69.0	17¾	¼
25¾	18¾	CitizensBancorp(MD	7.8	98.1	18¾	¼
29¾	20¾	CitizensBanking(MI	7.3	89.4	21	¼
19½	7¾	CitizensBanks(VA	NM	102.7	7¾	-⅛
34⅜	18¾	CitizensSouthrn(GA	5.8	83.8	19	¼
23¾	17¾	CityNat'l(CA	8.3	146.1	18¾	
22½	12¾	ColoradoNatBnkrs(CO	32.2	72.3	12¾	¼
30¾	23¾	CommerceBncsh(MO	8.7	89.8	23¾	
29¾	21½	CommercialBncs(MO	6.8	92.3	21½	
29¾	14¾	CommercialBncshs(KY	6.8	74.8	14¾	
37½	19½	Constellation(A)	7.0	39.4	11¼	¼
29⅜	18¾	Continental(IL	NM	40.1	19¼	¼
49⅜	31⅜	CoreStates(PA	31.9	121.5	32½	¼
14⅛	10¼	CrestarFin'l(VA	6.2	76.1	14⅞	
18¾	7¾	CullenFrost(TX	34.7	45.1	9¾	¼
17¾	12¾	DauphinDeposit(PA	7.8	112.6	16¼	
22	21	DepositGuaranty(MS	7.3	64.8	21	
25½	11¾	DominionBkshrs(VA	8.4	72.1	11¾	
14⅜	3¼	EquimarkCorp(IN	NM	26.3	3¼	
21¼	11¾	EvergreenBncs(IN	5.7	65.0	11½	
15⅜	12¼	F & M NatCorp(VA	10.0	153.9	12¾	¼
14½	11¼	FNB Corp(PA	7.8	92.0	11¼	
26	21¼	FNW Bancorp(IL	10.0	165.7	21¾	¼
25¾	20¾	FarmersNatl(KY	13.2	108.1	20¾	
39⅜	27	FifthThirdBncp(OH	8.3	143.5	27	-⅛
38⅜	29	FirstAmerBncsh(TN	8.3	98.2	29	¼
51½	33	FirstTenn(TN	8.3	88.2	33	
18¾	14⅜	FirstVaBancs-A	7.5	127.7	15	-¼
25¾	9¼	FirstAmerCorp(TN	NM	56.0	9¼	-¼
23¼	21½	FirstBancorp(CO	8.9	74.0	21½	¼
25¾	12¾	FirstBancorp(PR	6.0	71.8	13	¼
26⅝	24⅛	FirstBanks(CO	2.1	49.5	24¾	¼
18¾	12¾	FirstAmerica(KY	8.4	81.5	12¾	
21¼	16¼	FirstAm.Inc.(IN	6.9	126.9	18¼	½
47½	9¾	FirstCmrcCorp(AZ	7.1	28.1	10¼	¼
25½	5½	FirstMaine-MA	NM	28.0	5¾	¼
35⅜	26¾	NBD Bancorp-MI	7.5	108.6	26¾	¼
31¼	22¼	NCNB Corp-NC	7.6	109.3	31¼	¼
26	13½	NCallCommBncp-CA	11.1	117.1	14¼	¼
24½	20½	NationalOhCo-OH	7.2	121.9	21¾	¼
51	34½	NationalPenn-PA	10.5	186.5	36	1½
15¾	10¼	NatlBancorpMd-AK	9.4	113.8	10¾	
24¾	20¾	NatlCommerce-TN	9.0	156.4	21	
44¾	15½	NatlCommunity-NJ	5.4	80.2	16¼	¼
20⅜	8¼	NorthFortBancs-NY	4.3	51.2	8¼	¼
21¼	10¾	NorthamBancs-CA	NM	42.0	12¾	
33⅜	23¾	NorthernTrust-IL	7.8	145.0	23¾	
37¾	27¼	NorwestCorp-MN	6.6	122.3	27¼	¼
22¾	20¾	OneBancorp-OH	8.7	89.4	21½	¼
24¾	20¾	OneBancorp-ME	8.7	89.4	21½	¼
30¾	22¾	PNC Financial-PA	7.3	101.3	23¾	¼
23½	18	PeoplesBancorp-MI	12.7	152.9	—	
23½	19	OnetaBancorp-WV	6.1	81.2	19¾	¼
24¾	18	PacCrest-PA	7.2	75.2	19¼	¼
28¼	22¼	PacificBank-CA	9.3	133.2	22¼	-1¼
13⅞	8¼	PacificNorwest-CA	6.7	122.7	8¼	¼
18⅝	13¾	PeoplesBancorp-NC	8.2	111.1	14¾	¼
27	20	PiedmontAir-NY	9.8	124.9	27	
15⅝	9¾	PiocaCommerce-CA	7.8	145.7	10¼	
6¼	3	PremierBancorp-LA	20.1	59.8	3¾	
27	21½	ProvidentBancs-OH	9.7	134.4	22	
14	9¾	ProvidentBancs-MD	NM	35.2	9¾	¼
27¼	17½	PugetSoundBanc-WA	9.7	93.7	17½	¼
52¼	42⅜	RepublicNY(NY)	139.4	112.3	42⅜	¼
26½	12	RiggsNatCorp-DC	7.6	55.6	13¾	
32¼	20	RiverviewLc	12.3	272.6	27½	¼
43⅜	18¾	SanMarcosBanc-CA	9.5	177.4	20¾	¼
23¾	15¾	SanPedroBancp-CA	7.0	118.2	15¾	¼
51⅝	25¾	SecurityPacific-CA	4.1	69.1	25¾	¼
28¾	8¾	ShawmutCorp(MA	NM	46.8	8¾	¼
42⅜	14½	SignetBanking-VA	4.5	53.6	19¼	
38⅜	27¼	SouthCarolFin-SC	8.5	93.3	27¼	
27¼	18	SouthCarolinaBc-SC	6.2	80.0	18	¼
31¾	21⅜	SoutheastBkCorp-FL	NM	32.9	6¾	¼
15½	11	SouthernNatCp-NC	8.9	124.0	11	
25¼	20¼	SouthtrustCorp-AL	6.5	86.6	18¼	
43¾	22½	SovranFinCorp-VA	6.0	83.8	23	¼
24⅝	19⅝	Star Banc Corp-OH	7.9	102.4	17	
42¾	31½	StateStBosCorp-MA	10.9	179.8	31¾	¼
23¾	17¾	StatewideBanc-NJ	NM	101.6	5	
25¾	16	SuburbanBancorp-IL	12.9	83.5	16¾	
34½	21	SummitBancp-GA	4.8	72.5	21½	¼
22½	15¼	Summcorp-IN	6.8	84.7	15¼	¼
21¾	10½	SummitBancorp-NJ	5.5	80.2	11¼	¼
26⅞	19¼	SunTrustBanks-GA	7.3	113.7	19¾	¼
21¾	13¾	SunwestFinSvcs-NM	56.0	55.0	13¾	¼
22⅝	16⅜	SusquehannaBcsh-PA	7.1	93.0	17	
14¾	10¼	SynovusFinCorp-GA	15.3	225.3	14¾	¼
18½	13	TheFlorenceCorp-KY	8.8	120.8	14½	¼
24¾	19	TrustCoBanCorp-NY	8.8	112.4	20	
21⅜	15	Trustcompany-NJ	7.4	123.4	15	
23¾	15¾	TrustmarkCorp(MS	6.0	70.4	17¼	¼
27¼	19¼	U.S. BancorpOR	7.1	105.2	19¾	
21¼	11¾	U.S.TrstCorp-NY	11.0	167.6	20¾	¼
28⅜	10¾	UJB Financial-NJ	5.7	58.1	10¾	¼
24¾	17¾	UMB Financial-MO	5.8	79.5	20	¼
32	17½	UnionBancCa-CA	4.2	67.3	17½	
—	—	UnionPlanters-TN	NM	51.9	6¾	¼
25¾	9¼	UnitedBancCorp-OH	NM	92.0	18¾	¼
14	10¼	UnitedBkshrs-WV	7.0	81.9	10¾	¼
17½	12¼	UnitedCarolinaBc-NC	7.1	93.9	12¼	
62	49	UnitedCounties-NJ	6.9	93.1	49	
32¼	26¼	UnitedMissouri-MO	8.5	101.3	26¾	
27¼	20¼	ValleyBancorp-WI	8.1	100.8	20½	¼
36	22½	ValleyCapCorp-VA	7.4	137.2	22½	
28¼	17¾	ValleyNatBancs-AZ	6.7	125.4	17¾	
31¾	30¾	VermontNatBncp-VT	8.4	95.9	30¾	
87⅜	50¼	WellsFargo-CA	4.0	97.5	52¾	2¼
26	20¼	WestAmerBncp-CA	8.1	95.1	20	
27¼	19¾	WestOneBancp-ID	7.0	89.0	20½	
31¾	23¾	WestcornerbankingCp-FL	8.1	131.4	23¾	
44¼	34	WilmingtonTrust-DE	9.3	219.2	34	
19¾	14¾	WintrustFinancial-IL	7.9	113.8	15¼	
32¼	25	ZionsBancorp-UT	6.5	89.9	26	1

Top 25 THRIFTS (4 PM PRICES)

52 Wk Hi	52 Wk Lo	Name	PE	Mkt Sto.	Clo.	Chg.
24¾	15¾	AhmansonCA	6.8	76.7	16¼	¼
45⅜	29¼	AppleBancorp(NY	5.5	47.8	37	
8¾	7¾	CalFed(ex-C)	2.6	138.0	8¼	¼
50¾	36½	CitadelHldgCp-CA	7.8	57.7	36¾	¼
18¾	13¾	CommFedBancp-NE	8.4	89.5	14	
18¾	13¾	CrestaBancp-CA	NM	20.3	13¾	
24	13	DowneyStandingCo-CA	20.9	89.4	13¾	¼
27	20	EquitableBancp-MD	7.2	104.1	20¾	¼
21⅛	12	FirFedMichCp(MI	5.8	30.6	12¾	¼
34¾	19¾	GLENFED-CA	3.4	59.4	19¾	¼
34¾	22⅜	GoldenWestFn-CA	8.9	139.2	25¼	1
14¾	13¾	HawkeyeBancs-MD	NM	8.2	13¾	¼
13¾	1	GAmericanBank-CA	NM	9.0	1	
47¼	16	HomeFedCp-CA-S	4.4	16.6	7½	¼
21⅝	13¼	HomeSvgBanc-NY	14.4	79.6	16	
12¼	9¼	NBB Bancorp-MA	9.5	40.5	9¾	
10¼	4¾	People's Bank-CT	24.3	32.0	4¾	
25¾	15¾	PeoplesHeritageFn-ME	6.9	34.9	15¾	
18⅜	8¾	RochesterCmty-GA-W	5.9	37.8	9	¼
22¼	6¾	SoundviewFds-CT	3.0	30.5	6¾	
19¾	9¼	StPaulBancp-CL	NM	53.8	9¼	¼
12¼	6¼	StandardFed-MI	4.9	61.4	6¼	
26¼	11⅞	WashMutual-WA	8.4	49.8	12¾	½
31⅜	21¼	WashingtonMut-MA	7.8	152.1	21¾	¼
11¼	6¾	Westcorp-CA	9.5	80.8	6¾	

Bank Stock Table Explained: The table lists alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding (As of June 30, 1990, the market value cutoff for banks was $58.71 mil. and for thrifts $107.8 mil.) 52 Wk Hi & Lo are the highest 52-week high and low closing prices for the stock. PE: the price earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. Sto. book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Clo.: the price at which the stock last traded. If no trades for the day, the latest bid. **All Bank or Thrift Indices:** A weighted average of the top 225 banks in market value and the top 50 thrifts in market value, respectively, highlighting those largest percent gainers in price and low volume indicators most shares traded and today's volume as a percentage of average shares traded day over the past year.

Data sources: **SNL SECURITIES,** Charlottesville, VA. 804-977-1600; published data. Financial News Network, Inc., Data Services SNL with the daily prices.

New Bank and Thrift Securities

Most recent offerings

Issuer / Manager	Offer Amount	Amount ($ Mil.)	Offer Price	Offer Yield (Current)	Offer Yield (Matrix)
Security Pacific	8/16/90	$100.0	SC	99.96	8.87	8.15/83
Merrill Lynch Capital Market						
Banc One	8/16/90	$200.0	SN	97.87	10.25	8/12/10
Salomon Brothers						
Affiliated Bankshares of Colo	8/14/90	$15.0	SC	100.0	10.50	9/01/97
Boettcher						
Security Pacific	8/03/90	$100.0	FRN	Market	Floats	8/12/92
Merrill Lynch Capital Market						

Most recent SEC Filings

Issuer	Filing Date	Amount ($ Mil.)	Sec. Type	Book Manager
Pioneer Federal Bancorp	5/04/90	22.0	COM	Sheareson Lehman Hutton
Evergreen Bancorp	4/03/90	10.0	SD	Ryan · Beck
Financial Center Bancorp	3/21/90	8.0	COM	Keefe, Bruyette & Woods
FED Financial	3/08/90	14.0	COM	Advest

Sec. Type: Type of security issued. **Current:** Current Prices or Yields are shown in parentheses. Current yield is provided by the manager. **CAS**—Class A Shares; **CBD**—Convertible Subordinated Debt; and **COM**—Common Shares; **DP**—Depositary Pfd; **PS**—Preferred Shares; **PL**—Perls; **SN**- subordinates Notes; **SDB**—Subordinated Debt; **FRN**—Floating Rate Note; **SD**—Senior Notes.

Data Source: Securities Data Company, Newark, N.J. (201) 622-3100

Key Rates

(August 24, 1990)

	8/24	8/23	8/17
Federal Funds-domestic range	8-8⅛	8⅛-8⅜	8⅛-8⅜
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.75	7.75	7.45
6 Month Posted	7.85	7.85	7.45
1 Year Posted	8.00	8.00	7.45
Eurodollar deposits²			
3 Month	8⅛-⅛	8⅛-⅛	8⅛-⅛
6 Month	8⅛-⅛	8⅛-⅛	8⅛-⅛
1 Year	8¼	8¼	8¼
LIBOR³			
3 Month	8⅛-¼	8⅛-¼	8⅛-¼
6 Month	8⅛-¼	8⅛	8⅛-¼
1 Year	8⅜	8⅜	8⅜

Mid-afternoon quotes, New York market. (¹)— Largest offering rates as collected by NYC banks. (²)— Late London bid (³)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS
Catapulting into the Double Digits

By GORDON MATTHEWS

Stock dividend yields for a third of the nation's 50 largest banks have moved higher than the 30-year Treasury bond yield, signaling that the elusive bottom could be near for some of the beleaguered equities.

Banking industry analysts generally agree that high yields relative to the bond market mean the stocks will receive some support. But the experts also caution that this assumes investor confidence that bank dividends can be maintained.

"In the past these historical high yields have been turning points for bank stock performance," said Mark Alpert, an analyst at Bear, Stearns & Co. "But you also have a lot of investors right now who fear the banking industry is no better than the savings and loan industry and that dividends aren't safe."

Big Yields
Bank stocks with returns of 10% or more

Banking company	Dividend yield
Midlantic	19.0%
Chase Manhattan	14.4
MNC Financial	13.6
Bank of Boston	13.2
Manufacturers Hanover	12.5
Chemical Banking	12.2
Shawmut National	11.3
First Interstate Bancorp	10.7
UJB Financial	10.4
Signet Banking	10.2
Continental Banking	10.1
First City Bancorp Texas	10.0

*As of Thursday's closing prices
Source: Montgomery Securities

Yields Exceed 10%

The stocks of a dozen banks, predominantly money-center and northeastern superregional institutions, are yielding 10% or more, and six others sported yields of 9% or above. By comparison, the benchmark government "long bond" yielded 9.17% on Friday afternoon.

Relative to the rest of the stock market, the banks are in "uncharted waters" these days, said J. Richard Fredericks, the banking analyst for Montgomery Securities, San Francisco.

The median dividend yield of the top 50 banks is currently 7.5%, more than double the 3.7% yield for the Standard & Poor's 500 stock index, the most often used measure of the overall equity market. The yield, which moves inversely to prices, is calculated by dividing the stock price by the annual dividend.

Among the top 50 banks, the highest return available from a dividend by far is at Midlantic Corp., Edison, N.J., whose stock last week dipped below $10 in price.

Midlantic currently yields a stratospheric 19%. New York's Chase Manhattan Corp. is second at 14.4%, followed by MNC Financial Inc., Baltimore, at 13.6%.

By contrast, the three lowest yielding banks in the top 50 are Republic New York Corp. at 3%, Chicago's Northern Trust Corp. at 3.2% and Atlanta's SunTrust Banks Inc. at 4.2%.

Short Sellers Stick Out Necks

Short sellers of bank stocks – investors who believe prices will fall even further – appear to be making a potentially costly wager that dividends will not be held at some banks. They have sharply increased their positions in shares of Chase, Chemical New York Corp. and First Interstate Bancorp., Los Angeles, among several other.

"Shoring high-yielding stocks is a relative expensive pursuit because the individual or corporation instituting the sale must make good the dividend to the buyer. Thus, in some cases the stocks drop more than 10% in order for the seller to cover the carry costs," said Richard X. Bove, an analyst for Dean Witter Reynolds Inc.

Covering Short Positions

This suggests that if money-center institutions in particular maintain their dividends, as Mr. Bove expects, "substantial pressure" will build on short sellers to cover their positions before the next dividends are announced for these stocks. This would lead to the acquiring of stock, thus giving prices a lift. □

Looking for a new position?
Call Penny Papakostas at (212) 943-5739

CAPITAL
Continental Drops $100 Million Debt Issue

Continued from *page 1*
of size right now."

Continental's officials cited market conditions as the key to withdrawing the deal. "The events in the Middle East have caused the financial markets to deteriorate, so we thought the prudent thing was to pull back and wait until the markets stabilize," a spokesman said.

But capital markets sources said that, while general market conditions were a factor, a more immediate concern for investors was that the indicated pricing, or "price talk," on Continental's offering had increased sharply during the week.

Indicated Yield Zooms

Monday, price talk indicated a yield of about 235 basis points more than for comparable Treasury securities. By Thursday, however, price talk was for a yield of nearly 290 basis points more than Treasuries, an unusually large change.

"They were dead wrong," a capital market specialist said, referring to lead manager Goldman, Sachs & Co. "I don't know what they were doing."

An investment banker predicted that Continental will difficulty would spook any bank of less than sterling quality that had been contemplating a debt issue. A spokesman for Goldman declined to comment.

Pulling the deal leaves Continental with a total risk-based capital ratio, calculated by the 1992 requirement and the transitional standard, which takes effect at yearend and allows banks to count a greater portion of loan-loss reserves as capital.

Capital Problem

The holding company finished the second quarter with a risk-based capital ratio of 7.2% under transitional rules, which require a 7.25% minimum. Its capital ratio under 1992 rules was just 6.99%, compared to a required minimum of 8%.

To bring its capital ratios up to standards, the company must reenter the capital markets this year, generate substantial retained earnings, or sell assets.

Continental's officials said they remained optimistic about the bank's ability to tap the capital markets. "We have a hope and expectation to be back in the market before the end of the year," said an officer who did not want to be named.

Continental's debt ratings do not appear to be impaired by its capital ratios. Rosemarie Cinforte, an assistant vice president at Moody's Investors Service, said, "Continental's capital ratios are a consideration, but they are not a major factor in the rating at this point."

Even so, if the crisis in the Persian Gulf continues, Continental could face the same or even higher funding costs later this year, particularly after initially pulling the offering.

Continental is not the first bank to withdraw a debt offering within the last 12 months.

MNC Had to Go Elsewhere

MNC Financial Inc. also withdrew a debt offering after investors failed to sign up to buy the subordinated debt it was trying to issue last December. Ultimately, the Baltimore-based banking company privately placed $74 million in subordinated debt with Japanese investors – but not until after repeated attempts to issue subordinated bonds domestically.

The wide spread over Treasury yields discussed for the Continental deal late last week was being talked about despite the offering's being made at the bank level rather than the holding company level.

The rating on Continental's subordinated holding company debt is Baa3 from Moody's and BBB-minus from Standard & Poor's Corp., a notch lower than the ratings it likely would have gotten for bank-level subordinated debt. That means the indicated yield on a holding company offering would probably have been even higher.

* * *

"We have a hope and expectation to be back in the market before the end of the year."
A Continental executive

MARKET MONITOR

As the federal funds rate hit a record 60% near the end of the two-week settlement period last Wednesday, borrowings at the discount window of the Federal Reserve Bank of New York rocketed upward as well.

More than half the major New York banks used the discount window, borrowing $2.24 billion, compared to no borrowings in the previous two weeks.

The settlement period that ended Wednesday was one of the the most tumultuous on record, including at a time of major power outage in lower Manhattan on Aug. 13.

The outage disrupted the fed funds market because banks had trouble clearing trades through the Fed's wire system, Fedwire. Citicorp. The Fed Wire did not open until late in the morning Aug. 16. As a result, many banks found themselves either with huge deposits at the Fed, far in excess of their reserve needs, or seriously overdrawn. □

OTS Gearing Up to Pursue Accountants and Lawyers

The 2,855 S&Ls suffered net over-the-counter withdrawals of $4.4 billion in March, the agency said.

By DEBRA COPE

WASHINGTON — The Office of Thrift Supervision, emboldened by a court ruling last Thursday that excoriated accountants and lawyers for failing to stop abuses at now-defunct Lincoln Savings and Loan Association, is preparing to crack down on those professions.

The U.S. District Court ruling, which upheld the government's April 1989 takeover of Lincoln, "sustains our view that lawyers, accountants, and other professionals have important duties" to depositors and investors in financial institutions, Harris Weinstein, chief counsel at the OTS, said Friday.

Keating Called 'Looter'

Federal District Judge Stanley Sporkin found that Irvine, Calif.-based Lincoln was the victim of "looting" by its chairman, Charles H. Keating Jr., and other officials.

"We expect to move against individuals [responsible for wrongdoing] in a very strong way," Mr. Weinstein told reporters. Through civil suits and enforcement actions, the OTS could disbar professionals from practicing before the OTS or prohibit them from representing any financial institution, he said.

The thrift regulator can also seek civil money penalties against "institution-related parties" for wrongdoing committed since Aug. 9, 1989, when President Bush signed the Financial Institutions Reform, Recovery, and Enforcement Act.

Officers, Directors Targeted

To date, the OTS has filed no professional liability suits. About 500 have been brought by the Federal Deposit Insurance Corp. and the Resolution Trust Corp., but most of those are against officers and directors.

In other OTS news:

- Mr. Weinstein said Mr. Keating could face contempt charges if he fails to produce a full, audited accounting of his finances. Mr. Keating was due today to comply with an OTS disclosure order, "unless he persuades us to give him a few more days," Mr. Weinstein said.
- The OTS said the 2,855 thrifts experienced net over-the-counter withdrawals of $4.4 billion in March. But quarterly crediting of interest helped pump up deposits by $8 billion, yielding an overall increase in the deposit base of $3.7 billion to $929.9 billion.
- The agency issued its rules defining when thrifts must obtain real estate appraisals from state-licensed or state-certified professionals. Thrifts may use licensed appraisers for most real estate transactions, including home mortgages, of $50,000 to $250,000. But they must hire certified appraisers, who must pass more rigorous tests, for nonroutine transactions of $250,000 or more, except one-to four-family home mortgage loans.

The requirements are similar to those adopted by the FDIC and the Office of the Comptroller of the Currency, but will have to be reconciled with the Federal Reserve Board's $100,000 minimum for licensed or certified appraisals.

- The OTS withdrew a December 1989 rule governing release of customer financial records, and said it will propose revisions within 60 days. □

AMERICAN BANKER
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Markets Force More Banks to Private Equity

By FRED VOGELSTEIN

With capital ratios under pressure and rock-bottom stock prices making the markets unreceptive to public offerings, a number of large to midsized banks are mulling the prospect of raising equity privately.

It is an alternative most consider unpleasant and one they wouldn't have considered a year ago.

The move to sell private equity has "certainly accelerated since the beginning of the year," said H. Rodgin Cohen, a partner at Sullivan & Cromwell and a leading banking attorney. "As access to the capital markets for banks has declined and their need for capital has accelerated, it creates the pressure for this to be done."

Most remember how lack of market interest this year forced First Interstate Bancorp to sell most of its public offering to Kohlberg Kravis Roberts & Co.

Hoping to avoid a similar fate, banks that can't afford to wait until stock prices rebound have been forced to consider private deals. They don't like the idea of having one shareholder control a large block of stock; however, most believe that is preferable to offering shares publicly and finding no buyers.

Four Just Under Way

Mr. Cohen said he is working on four private placement deals for banks. The deals are "in various stages, from very preliminary talks to some that are much more serious," he said, and one deal is far enough along that the investor is performing due diligence.

The impetus for private equity deals, however, is not just coming from desperate bankers. A dearth of industrial deals and the demise of the junk bond market have left investors flush with cash.

"If these situations turn around, the returns can be fairly spectacular," said Donald Moore, managing director of the worldwide financial institutions group at Morgan Stanley & Co. He said he knows of six investors who are looking for private equity deals with banks.

$5 Billion in Assets

Although which banks and investors are considering private deals has been difficult to determine, Mr. Moore and others involved in the discussions said they involve banks with at least $5 billion in assets that are

See **MORE** *back page*

INSIDE NEWS

FINANCE

If the economy is headed for recession, consumer lending may be the next banking industry problem, and some analysts believe that shares of the country's largest banking company, New York's Citicorp, may be a good yardstick of how the trend is developing.
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RTC

A proposal is circulating in the House and Senate tax-writing committees to provide $1 billion in tax credits to investors who buy distressed real estate from the Resolution Trust Corp.
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TECHNOLOGY

The Federal Reserve System is designing a nationwide communications network to make electronic transactions more efficient and to accommodate new technologies, such as image processing.
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CONSUMER

Attempting to deal with mounting losses from the government's student loan program, Education Secretary Lauro Cavazos is urging lenders to redouble efforts to keep guaranteed loans from going into default.
Page 6

REAL ESTATE

Once considered a boom town, Manhattan's glory days are behind it. The real estate frenzy that catapulted developers to the top of *Forbes* magazine list of wealthiest Americans has taken a drastic turn.
Page 8

INTERNATIONAL

As Venezuela's $20 billion debt-reduction deal with banks gets closer to being finalized, the most surprising outcome has been the willingness of several large money-center banks to provide Venezuela with new money.
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L. William Seidman
FDIC chairman

Seidman Wants Extra Latitude To Raise Rates

By BILL ATKINSON

WASHINGTON — Less than two weeks after the Federal Deposit Insurance Corp. voted to raise bank insurance premiums by the maximum amount allowed, chairman L. William Seidman said he would welcome the authority to boost premiums further.

In an interview, Mr. Seidman said the FDIC has no immediate plan to raise premiums again, if Congress permitted it. But with the Bank Insurance Fund under stress, he said, the agency would be more comfortable with the latitude to raise premiums when it feels the need.

Flexibility's a 'Good Idea'

"I think probably additional flexibility would be a good idea," Mr. Seidman said. "If they [Congress] want to give it to us, I think we certainly would want to see that premium-increase flexibility."

The FDIC has proposed increasing premiums by 63%, to 19.5 cents per $100 dollars of in-

See **SEIDMAN** *page 18*

Fed Survey Confirms Banks Have Tightened Loan Terms

By ROBERT TRIGAUX

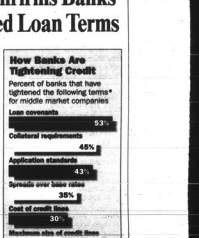
WASHINGTON — Fears of recession and declines in credit quality led bankers to tighten their standards for general business loans and commercial real estate loans over the past three months, according to a Federal Reserve Board study released Monday.

Reinforcing earlier indications of a contraction in bank credit, the Fed's August survey showed the business-loan cutbacks have gone beyond those related to corporate mergers, which declined sharply earlier in the year.

Restrictions on All Types

Bank-imposed measures such as higher loan costs or more restrictive covenants affected all

See **DEALS** *page 22*



Bankers Ready to Answer the Call With Financial Help for Soldiers

By YVETTE D. KANTROW

NEW YORK – Some bankers are inviting out programs to show their patriotism as U.S. military forces are called to action.

Bankers across the country now say they stand ready to comply with the Soldiers and Sailors Civil Relief Act, an obscure 1940 law that requires lenders to slash interest rates on loans to people who are called to active duty.

Special Efforts

A few bankers are also going above and beyond the call of duty, publicizing special efforts to ease the financial burdens borne by members of the armed forces, including the National Guard.

After a rash of media reports about the law – which limits interest rates on loans to 6% for servicemen – Carl E. Reichardt, chairman of Wells Fargo Bank, acted Friday to defer principal and interest payments on all consumer loans for reservists while they are on active military duty.

'It Is the Least We Can Do'

"He just really felt it was the right thing to do," a spokeswoman for the San Francisco-based bank said. "When you look at

See **BANKS** *page 6*

Texan Toughing It Out at Family Bank

By STEVE KLINKERMAN

SAN ANTONIO — His great-grandfather survived a stint as a Confederate rifleman and founded Frost National Bank of San Antonio in 1899.

His great-uncle guided the bank through the years of financial panic that followed the stock market crash of 1929.

Now, the mantle of leadership has fallen on the shoulders of T.C. "Tom" Frost. His job is to prevent Cullen/Frost Bankers Inc., the Lone Star state's last major independent banking company, from becoming another casualty of the Texas oil and real estate recession.

Of the three men, some say, the youngest Frost has the toughest challenge.

By many banking measures, San Antonio-based Cullen/Frost barely has a pulse. Almost 10% of its gross loans are in some stage of default, and it has not paid a dividend since 1986.

Its stock is trading at almost a 50% discount to book value, and its return on assets is a paltry 0.08%, one-twelfth the return expected of a healthy bank.

"The heat is on," said Frank Anderson, a senior analyst at Stephens Inc., Little Rock. "Cullen/Frost could not withstand another dip in the econ-


Steve Klinkerman

TRADITION: Family banking rules guide C. Frost as the CEO of Cullen/Frost Bankers.

See **CULLEN** *page 18*

PEOPLE *in the news*

To Hanover's Joyce Healy, Marketers Deserve Limelight

By LAURYN FRANZONI
Special to the American Banker

Until Labor Day, Bank Marketing Association president Joyce A. Healy is vacationing in the New Hampshire woods, away from telephones, fax machines, computers, and an overbooked calendar.

The pace will quicken when she returns to New York. On Sept. 16, the Manufacturers Hanover Trust Co. senior vice president will become the first woman to preside over a BMA national conference – a milestone that coincides with the association's 75th anniversary.

The 42-year-old has taken an unusual path to the limelight. With degrees in sociology and urban planning, Ms. Healy made a sharp turn into the banking industry, joining Manufacturers Hanover in 1971. Since then, she has climbed from a marketing research analyst to senior line manager in charge of corporate cash management services in Hanover's GeoServe division.

In a recent phone interview, she said her career path is indicative of the changes in bank marketing.

"Marketing," she said, "has moved out of a functional specialty done by advertising people to a function of many line managers."


Joyce A. Healy

Ms. Healy, who has been in the association's chain of command for four years, tries to help other marketers break out of pure advertising functions. "I'd like to see more marketers sitting at the head table doing the planning, rather than in the back room doing the ads," she said.

Today's bank marketer is somewhere in the middle of the curve between functionary and strategist, she contends. The transition, she said, began with industry deregulation in 1982.

In response to changes in the industry, the Bank Marketing Association has had to broaden its focus and appeal, Ms. Healy said. But she would like to see still more involvement by line managers and community bank CEOs in the group's activities. To that end, she's trying to take better advantage of the group's merger with the American Bankers Association, integrating the mailing lists of both organizations and "practicing what we preach."

"The organization needs to find new audiences for a good product," she says. "A bank president doesn't want to attend a school for bank marketing, but he may want to attend a CEO Institute."

Before joining Hanover, Ms. Healy worked for the Boston Model Cities Federation as an urban planner. Before that, she helped the Catholic Archdiocese in Pittsburgh, her hometown, select locations.

Though her job as association president has been a demanding one, Ms. Healy sees a payoff for both herself and her employer. "What you get back in terms of peer group support and perspective is worth it," she said.

The job, she added, is similar to that of bank marketers everywhere. "If you're going to do it well, you'll need a lot of general business knowledge and a lot of functional knowledge in areas like research and data base management."

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Recovering Thrift Picks New Chief

By PHIL ROOSEVELT

Richard Dalrymple, formerly an executive with Bank of Boston, has become president and chief operating officer of Anchor Savings Bank, a large, Hewlett, N.Y., thrift in the midst of a turnaround.

He fills a post that had been vacant since last November, when William Schneider resigned.


Richard Dalrymple

Mr. Dalrymple most recently was head of Bank of Boston's worldwide banking services operation, responsible for corporate trust services, shareholder services, and cash management. He joined the bank in 1985 as president of the Massachusetts Bank Group, with responsibility for 125 statewide branches.

He also has served as president of Bank of Boston's southern New England region. Previously, he was an executive vice president at European-American Bank, Uniondale, N.Y.

At the $9.2 billion-asset Anchor, he will be working under James M. Large Jr., chairman and chief executive, who joined the thrift in April 1989 from First Interstate Bancorp, Los Angles.

The thrift has suffered some serious losses during the past two years and fails to meet the capital requirements mandated by the thrift-bailout law. But a plan by Mr. Large to revive the institution was approved by regulators earlier this year. □

Tax Break for Realty Buyers Sought

Plan to Speed RTC Disposals Discussed in Congress

By BARBARA A. REHM

WASHINGTON — A proposal is circulating in the House and Senate tax-writing committees to provide $1 billion in tax credits to investors who buy distressed real estate from the Resolution Trust Corp.

Currently under discussion among staff members of the Senate Finance Committee and House Ways and Means committee, the proposed tax breaks would be granted in a two-year pilot program to help speed sales from the RTC's $17.3 billion portfolio of real estate assets.

But while such tax concessions could be a useful incentive to potential buyers, many observers are skeptical that Congress would enact another tax break tied to the politically charged savings and loan scandal.

Price Cuts Held Easier

One critic, the thrift-industry consultant Bert Ely, said a simpler solution for the RTC would be to "just turn around and cut the prices" of the assets it inherited from failed S&Ls.

The proposal would allow an investor to take tax credits – direct reductions in income taxes owed – totaling 80% of the purchase price's face value minus whatever financing the investor could secure from a commercial lender. The credits would be disbursed in equal amounts over five years.

One of the plan's architects, tax lobbyist David H. Miller, says that for every $1 the government forgoes through tax credits, it will save $2 in reduced RTC borrowing costs and carrying costs on the assets sold.

Reason for Support

He believes that members of Congress would be drawn to his plan because they could portray their support as part of the solution to the thrift crisis.

"We've got a lot of very good response on the Senate side," he said. "I think the key here is going to be the administration. If they get behind it, then I think it is very doable in the context of the budget deficit package."

> **"We've got a lot of very good response on the Senate side. I think the key here is going to be the administration."**
>
> **David H. Miller**
> *Tax lobbyist*

Sen. David L. Boren, D-Okla., and Sen. William A. Armstrong, R-Colo., both Finance Committee members, are particularly interested in the plan.

Mr. Miller said he was planning to meet with administration officials in September.

Moving the Assets

"The whole thing is based on the government getting its money now and getting assets out of the government's hands," said Mr. Miller, a former lobbyist for Chase Manhattan Corp. who is now a partner with Federal Legislative Associates, Washington.

"Unless you entice buyers, these assets are just going to sit."

Mr. Miller drew up the plan with John P. Manning, president of Boston Capital-Partners Inc., a Boston-based investment banking company specializing in raising tax-credit equity.

One prominent tax lobbyist, who asked that his name not be used, said the plan was unlikely to fly.

"I don't think Congress will buy it," he said. "They are extremely reluctant to give out tax breaks, particularly tax breaks related to the savings and loan mess."

"It's just a way to say you sold it for more than it's worth," said Marvin Markus, managing director of the asset finance department at Kidder, Peabody & Co. in New York. "It's a zero-sum game where the government's the loser."

Bert Ely, head of Ely & Co., Alexandria, Va., agreed. "This is just a way to hide the cost of the loss," he said. "The assets will sell for more, but Treasury will collect less in tax revenues."

As the tax credit proposal is envisioned, if a group of investors wants to buy a $1 million piece of property from the RTC and a bank is willing to lend $400,000, the government would offer the investors $480,000 in tax credits – equal to 80% of the $600,000 balance the investors would need to raise to buy the property.

Cost Would Be Masked

The tax credits, in a sense, help mask the true cost of the S&L bailout because the RTC can report that it sold a property for $1 million, even though the $480,000 tax credits mean the government's net revenue is $520,000.

To avoid the embarrassment of any investor paying no taxes, individuals would be limited to claiming credits of $50,000 or 50% of their total tax liability in a year, whichever is less.

In the case of corporations, the existing tax-credit limit applies – $25,000 plus 70% of remaining tax liability.

In practice, the RTC would get its asking price of $1 million and the investors get to subtract about $96,000 from their tax bills each year for five years. Meanwhile, the asset is out of government hands, eliminating RTC carrying costs such as maintenance, taxes, and insurance.

Improvements Called Likely

Proponents of the plans say, ideally, the new private-sector owners would improve the asset so that in five years it could be sold for more than its purchase price. □

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TECHNOLOGY/OPERATIONS NEWS

Fed Is Designing a Network With Image-Sending Ability

By JEANNE IIDA

NEW YORK — The Federal Reserve System is designing a nationwide communications network to make electronic transactions more efficient and to accommodate new technologies, such as image processing.

The network, called the Fednet Communications System, will link the Fed's 12 district banks, 25 branches, the Board of Governors, the Treasury, and three contingency processing centers.

The new network will enable the Fed to move Automated Clearing House transactions and Fed Wire payments the fastest and most economical way possible. "For the first time, we'll be able to send traffic across district lines," said Jerry D. Shreeves, senior vice president of the Federal Reserve Bank of Kansas City.

Bankers welcome the streamlining, which will not be completed for several years, but note that it may make the Fed a stronger competitor in certain areas.

"If the Fed begins to consolidate [its network], that would give them the ability to reduce their costs and then a permanent price in competition to those of us in the correspondent banking business," said Robert J. Dukas, executive vice president and cashier of American National Bank and Trust Co., Chicago.

At the same time, the single network could give banks "a standard set of processes at standard costs," no matter the Fed district, Mr. Buskas said.

With Fednet, banks with branches in many states will need only a single type of software to link to multiple Fed district banks.

The Fed plans to begin awarding contracts for the network this fall. It plans to begin installing equipment next spring and expects the project to be completed in 1994.

Fednet will replace a backbone network and 12 regional networks, which use many different types of equipment. Financial institutions will connect to the new network as they do to the old, using communications devices called modems.

Though the Fed said it could not yet estimate the cost of the project, it expects to keep spending within the $40 million a year budgeted for communications.

Imaging Considered

"We're trying to design this network to accommodate greater volumes and the possibility for doing some kind of imaging," Mr. Shreeves said.

With the higher-capacity network, Fed banks could exchange images of checks.

Banks could also put in two connections to their regional Federal Reserve Bank and maintain a permanent connection to one of the Fed's contingency sites.

The Fed head offices will be linked by high-speed communications lines, called T-1s. Regional branches may be linked by lower-speed communications lines.

But as it beefs up its network, the Fed is simultaneously encouraging banks to link electronically to the local Fed.

"We want to make sure our network is not a hurdle to be crossed when we're pushing for [financial institutions to make] electronic connections," said Mr. Shreeves. About 8,700 of the 14,000 U.S.-based financial institutions are linked electronically to the Fed's network. □

Focus On
A Changing Industry
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MasterCard to Upgrade Imaging

Seeks Broader Participation in Its Year-Old System

By KAREN GULLO

NEW YORK — MasterCard International is planning changes in its image system for transmitting sales drafts, in hopes of encouraging member banks to join the one-year-old program.

The system, called MasterCom, is intended to speed processing by transmitting images of sales drafts instead of the actual documents – a practice that can save banks both time and money.

To use the system, called MasterCom, members must lease a workstation that includes a personal computer, printer, and scanner. Beginning Oct. 1, MasterCard will cut the cost of leasing the equipment to $800 a month, from $1,100.

Holding Costs Down

To attract smaller banks that may have balked at equipment costs, the association plans to add an image transmission service that would allow them to use the system without having to lease their own equipment.

The price cut for equipment will coincide with the introduction of fees for transactions, system installation, and system training. MasterCard will charge a 60-cent fee for each transaction after Oct. 1. A $7,500 fee for installation and training, which has been waived since the imaging system was made available, will also be added at that time.

Eventually, New York-based MasterCard plans to allow members to use MasterCom for both MasterCard and Visa transactions. The system is able to process both types of transactions, and bankers generally favor the idea, saying it would eliminate the cost of two electronic systems for charge-back retrieval.

But Visa U.S.A., San Mateo, Calif., and MasterCard have yet to reach an agreement on such a proposal.

MasterCard says it nevertheless plans to move forward with a pilot to test transmission of Visa transactions. MasterCard said four banks, which it declined to identify, have agreed to participate.

Users Were Skeptical

Association officials say MasterCom got off to a slow start because users were skeptical and certain licensing issues had to be resolved. Banks and their third-party processors also needed some time to iron out operational difficulties and to install compatible software.

> **"We just exceeded 12,000 transmissions a week, which is about one-third of all retrieval requests."**
>
> **David Africk**
> *MasterCard International*

In January, MasterCard told its largest member banks that they must adopt MasterCom by yearend. Sixty-five of its largest card-issuing banks, including Citicorp, NCNB Corp., Barnett Banks Inc. and First Wachovia Corp., have installed the system.

"We are hoping to have 90 banks signed up by the end of the year," said David Africk, senior vice president. "We just exceeded 12,000 transmissions a week, which is about one-third of all retrieval requests. Our goal is to be doing 20,000 transmissions a week by year's end, for 80% of all charge-back retrievals."

Mr. Africk said members were notified several months ago about changes in the system's costs.

A formal announcement of service additions will be made in September, he said. One enhancement will be the expansion of MasterCom next month to include transmission of other types of card document images.

MasterCom can speed the processing of a charge-back, which arises when a customer requests a copy of a draft, so banks save money. With MasterCom, paper slips of sales drafts are converted to electronic images, which are then transmitted instead of the actual documents.

MasterCard estimated that electronic imaging cuts the cost of retrieving documents by $5,000 a month for the average member bank. The time needed to fulfill requests for drafts, which sometimes can be as long as a month, can be reduced by 75%, according to MasterCard.

Some bankers said they recently joined the program to beat the higher cost of implementation later.

"It's my understanding the cost of the installation of the system will go up dramatically," said Mary C. Cobia, vice president at NationsBank of Tennessee, N.A. NCNB. The bank installed the MasterCom work station last month.

NCNB initially plans to use MasterCom for MasterCard transmissions only but would eventually look at using it for Visa, too. "It would be in all of the users interest to consolidate to one system," said Ms. Cobia.

Visa officials said they have held talks with MasterCard on sharing the technology but said problems with MasterCom have stalled any agreement.

A Question of Size

"MasterCom is too expensive for the smaller members and too cumbersome for large ones," said Richard M. Lonergan, senior vice president for VisaNet new business development. □

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COMMENT/*By Bert Ely*

Industry Self-Insurance: The Alternative to FDIC

Second of Two Parts

Federal deposit insurance must be replaced. The 100% cross-guarantee concept represents a comprehensive proposal for effectively replacing federal deposit insurance while retaining the FDIC as a backup insurer only for deposits under $100,000.

Briefly, the 100% cross-guarantee concept is an industry self-insurance mechanism that would use the earning power and the capital resources of the entire banking system, if necessary, to protect all deposits in every bank. (The term "banking" and "bank" encompass commercial banks, savings banks, and S&Ls, but not credit unions and money market mutual funds.)

Under the 100% cross-guarantee concept, every bank would enter a cross-guarantee contract. This contract would protect all of the bank's deposits, including balances of more than $100,000, from any loss of principal, interest, or liquidity in any circumstance. Other liabilities of the guaranteed institution also could be protected under the 100% cross-guarantee contract.

Contracts Would be Syndicated

Each cross-guarantee contract would be issued by an ad hoc syndicate of banks called "first-tier guarantors." Each guarantor bank itself would be guaranteed by a separate syndicate of guarantors. Syndicates would be organized by specialized firms called syndicate agents. Cross-guarantee contracts would be syndicated in a manner comparable to the syndication of insurance risks at Lloyd's of London.

The 100% cross-guarantee concept will be described in much more detail in "Making Deposit Insurance Safe Through 100% Cross-Guarantees," a monograph that will be published this fall by the National Chamber Foundation, an affiliate of the U.S. Chamber of Commerce.

Guarantors would regularly collect a risk-sensitive deposit insurance premium from each of the banks that they help to guarantee. Although risk-sensitive premiums would discourage unsound banking practices, a few guaranteed banks still would slide hopelessly toward insolvency.

Protection Against Loss

Thus, each cross-guarantee contract would permit the guaranteed bank's guarantors to take over the bank *before* it becomes insolvent. The syndicate should then be able to fully protect all deposits and other guaranteed liabilities without any loss. If the guarantors do not take over the failing bank quickly enough, they would have to write checks to protect depositors and other guaranteed liabilities against any loss.

In the rare event of a large loss or a concentration of losses, a "stop-loss" provision in each cross-guarantee contract would permit a portion of that loss to be passed through the guarantor banks to their own guarantors. If necessary, the stop-loss provision (which effectively is a reinsurance mechanism) would spread the loss across the entire banking system.

In effect, the stop-loss feature would use the earning power and the equity capital of all guaranteed banks to construct a "solvency safety net" under the entire banking system. This safety net would permit the banking system to survive losses even greater than those suffered by depositors during the Great Depression.

Unlike the federal safety net, the solvency safety net would not consume taxpayer dollars to protect depositors. However, deposits up to $100,000 could be protected further by retaining the FDIC as a backup guarantor in the highly, highly unlikely event that cross-guarantees fail to perform.

A chart illustrates the 100% cross-guarantee concept. The chart contrasts 100% cross-guarantees with the flow of bank insolvency losses under federal deposit insurance.

The 100% cross-guarantees would protect depositors and taxpayers much better than federal deposit insurance because cross-guarantees would be much more responsive to marketplace forces than would seek to minimize bank insolvency losses.

Premium Based on Risk

Premium rate formulas may charge the riskiest banks as much as 20 times the rate charged the safest banks. Intoxicated bankers truly would pay for the carnage they can cause while prudent bankers may pay as little as 4 basis points (.04%) annually, one-fifth of the premium rate they are scheduled to pay next year.

Where a high premiums does not curb risky banking, "equity market intervention" usually would occur: Stockholders would use proxy contests to force management changes or new investors would take over and recapitalize weakening banks. These investors would then profit when cross-guarantee premium rates drop as capital is pumped into the bank.

Another chart illustrates the likely interaction between cross-guarantee premium rates and capital levels. The management of the top bank (Bank 1) responded to a rising premium rate by reversing the course of the bank and slowly rebuilding its capital level.

The middle bank (Bank 2) was recapitalized, which quickly brought down its premium rate as the bank moved toward renewed financial strength and a lower probability of failure.

A Crucial Point

The bottom bank (Bank 3) kept on sliding toward insolvency until its guarantors took it over before it became insolvent. This timely takeover kept the guarantors' losses at zero. It is crucial to the 100% cross-guarantee concept that the takeover point specified in a cross-guarantee contract be negotiated solely by the guaranteed bank and its syndicate of guarantors.

Prompt closure of failing banks by their guarantors, coupled with the solvency safety net created through the stop-loss mechanism, would easily contain bank insolvency losses within the private sector.

The 100% cross-guarantee concept is strengthened further by a minimum equity capital requirement for the banking system (but not for individual banks) and by risk diversification requirements imposed on both guarantors and for individual cross-guarantee contracts. These safety features are among the seven safeguards built into the 100% cross-guarantee concept.

Benefits to the System

The 100% cross-guarantee concept offers more than a score of benefits to the banking system, to the economy, to the American taxpayer, and to the political process. The order in which these benefits are presented does not diminish the importance of those benefits not listed first.

The 100% cross-guarantees are the only way to completely integrate deposit insurance reform and the restructuring of financial services because 100% cross-guarantees would shift completely to the private sector restructuring decisions and the associated insolvency risks.

Implementation of 100% cross-guarantees can occur much more quickly and completely than any other deposit insurance reform proposal. Many banks and S&Ls would be ready to switch to 100% cross-guarantees as early as the first anniversary of the legislation authorizing cross-guarantees.

Represents Major Reform

The 100% cross-guarantee concept represents the only comprehensive reform of deposit insurance that has been offered. All other reform proposals only tinker or fiddle with federal deposit insurance.

The solvency safety net constructed by the stop-loss feature in all cross-guarantee contracts would effectively privatize the federal safety net. Privatization

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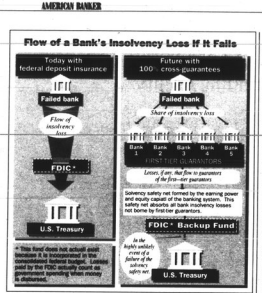

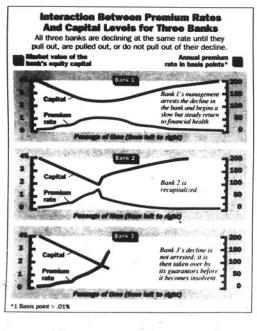

Mr. Ely is president of Ely & Company Inc., a financial institutions consulting firm in Alexandria, Va.

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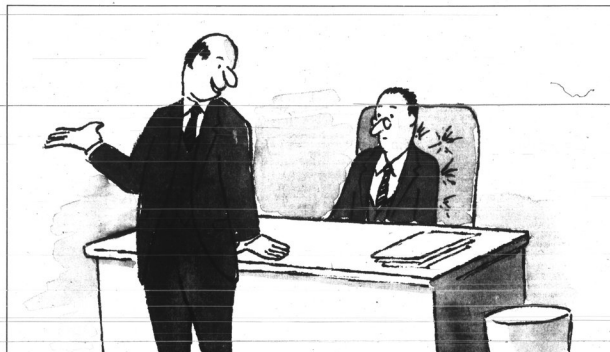

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CREDIT UNIONS

Taxation Plan in the Works, But Passage Seems Unlikely

By BARBARA A. REHM

Working to close the U.S. budget gap, the Joint Tax Committee has included the credit union industry on its list of likely tax targets.

The committee, whose members come from the Senate Finance and the House Ways and Means panels, is doing much of the numbers-crunching in preparation for the budget summit, which is to resume Sept. 10.

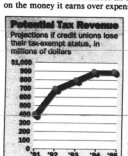
Estimates of Revenues

According to the group's estimates, obtained from another source by the *American Banker*, Uncle Sam could pocket $3.7 billion over five years if it taxes the nation's 15,000 credit unions.

The potential tax revenue is estimated at $400 million in 1991, $700 million in 1992, $800 million in 1993, and $900 million in each of the following two years. No one from the Joint Tax Committee was available to explain how it arrived at its figures.

Double Taxation an Issue

Credit union representatives argue that such a plan would result in double taxation because an institution would be paying taxes on the money it earns over expenses – money that is is paid out to members. Those members pay income taxes on the credit union payouts.



The committee divided its credit union plan into two options: taxing all credit unions or only those with more than $10 million in assets.

Interestingly, the committee reports that the same revenue, $3.7 billion, would be reaped over five years no matter which option was chosen. The apparent reason is that only a negligible amount of revenue would be raised by taxing smaller institutions.

Only 3,500 of the nation's 15,000-plus credit unions have more than $10 million in assets. And more than half of the country's credit unions have less than $2.5 million in assets, according to Robert Loftus, director of public and congressional affairs at the National Credit Union Administration.

60 Million Members Pack Political Punch

The summiteers may consider it more politically palatable to tax only the larger credit unions. Previous proposals from other groups would have allowed credit unions with $5 million or less to remain tax exempt.

Even though the tax committees and the Treasury Department appear eager to tax credit unions, the idea has little support elsewhere in Congress. Part of the reason may be that credit unions boast 60 million members spread across almost every congressional district.

The Iraqi Wild Card

"I think there is not enough revenue there to risk the political damage or fallout," Mr. Loftus said.

The summerlong vigil to reduce the federal budget deficit has been dealt a wild card by the Iraqi invasion of Kuwait and the resulting turmoil. With more and more U.S. forces going to the region, the prospect of a significant decline in the deficit has virtually vanished.

Is It Wise to Raise Taxes?

The nation has begun to believe that the economy had slipped into a recession, according to some pundits. In the midst of an economic downturn, is it wise to raise taxes? Can the administration manage a conflict in the Mideast and still have time and personnel left to negotiate a budget package? The answer to both questions is probably no.

For all these reasons, credit unions are likely to escape taxation for at least another budget cycle.

No Signs of Alarm

Some observers say the deficit will burgeon even more when the savings and loan tab is tacked on and the bills for the Iraqi adventure start arriving. And the more money the government needs, the more places it is likely to look for funding.

Credit union representatives, however, do not seem overly alarmed.

Legislative Steamroller Is Possible

"We're concerned if people are out there advocating that it should be done," said John Zimmerman, a lobbyist with the National Association of Federal Credit Unions in Washington. "Our concerns are increased proportionately to what they need to raise."

If a budget deal does come together, it may sweep through Congress, making it hard for individual lawmakers to object to various elements, said Linda Rearick, a tax specialist at the American Bankers Association. □

Banks Ready to Help Soldiers

Continued from *page 1*

the [crisis in the Persian Gulf], this is the least we can do."

First Interstate Bank of California has launched a similar effort. And Society Bank of Cleveland has established a toll-free telephone number to provide information and answer questions about the law.

"We're trying to eliminate as much confusion in [the service-men's] minds as possible," said a spokesman for Society Bank.

Warning from Pentagon

Some initial reports on the soldiers and sailors law suggested it could be troublesome for banks because it does not require the federal government to reimburse them for money lost when they lower interest rates. The Defense Department's general counsel – reportedly upset about a contention by some banks that borrowers must prove that they have been financially burdened by leaving private-sector jobs – is said to have warned some lenders not to resist efforts by eligible servicemen to arrange rate cuts to 6%.

The Defense Department could not be reached for comment.

"If you are excessively boastful about it and try to use it as a competitive advantage, it won't go well."

Edward Furash
Furash & Co.

But consultant Edward Furash contends the cost to the banking industry to comply with the law should be minimal. With President Bush planning to activate up to 50,000 members of the National Guard and other reserves, only a small percentage of most institutions' customer bases are expected to be affected, he said. Wells Fargo, for instance, anticipates that about 400 of its customers will be called to active duty and will take advantage of its payment deferral plan.

"Given the public's attitude toward the industry in terms of great concerns over safety and soundness, and a sense of resentment at problems stemming from the thrift bailout, most banks see this as an opportunity to be good corporate citizens," said Mr. Furash, founder of Furash & Co., a bank consulting firm in Washington.

Modesty Is Urged

But, Mr. Furash warned, financial institutions should not try to turn their compliance with the law into a public relations coup.

"If you are excessively boastful about it and try to use it as a competitive advantage, it won't go well," he said. Instead, banks should take a low-key approach, informing the public in what he termed "a matter-of-fact way" that they will slash interest rates on servicemen loans.

Wells Fargo Bank ran advertisements in 15 California newspapers on Monday explaining its payment deferral plan. First Interstate and Society Bank are both relying on media reports to inform the public of their efforts. □

Lenders Urged to Monitor Student Loans

By ROBERT M. GARSON

WASHINGTON — Attempting to deal with mounting losses from the government's student loan program, Education Secretary Lauro Cavazos is urging lenders to redouble efforts to keep guaranteed loans from going into default.

In a handbook issued Monday and sent to all participants in the guaranteed loan program, Mr. Cavazos said lenders should research loan risks carefully before extending credit, stay in touch with borrowers while the loan remains outstanding, and monitor loan servicers carefully. Once a loan goes into default, Mr. Cavazos said, lenders should use effective collection techniques.

Although the 81-page handbook contains no new guidelines or program requirements, it includes case histories of a number of industry success stories, which are intended to serve as models for program participants.

Default Rate Responsibility

He declined to say which component of the student loan process – the government, institutions of higher learning, accreditation agencies, or lenders themselves – is most responsible for the high default rate.

Craig Ulrich, general counsel to the Consumer Bankers Association, said most lenders are already doing what the Education Department is suggesting.

"What he may be alluding to is the stuff between the lines – knowing the institution [of higher education] and double-clutching if you see an institution with a large default rate, like a beauty school with 50% defaults," Mr. Ulrich said.

But Mr. Ulrich said the student loan program is one that, by its nature, will generate loan defaults.

"You're giving money to people who haven't completed their education yet, who have no credit history or work experience," he said. "To suggest that there won't be loan defaults is to look at the program through rose-tinted glasses.

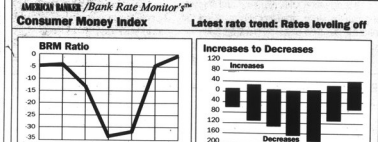
"The question is whether the default rate is so egregious as to be out of hand," he added. "I don't think that it is."

Still, taxpayers may be on the hook for more than $2 billion this year to pay for defaulted student loans, according to the Department of Education. The department estimates that $12 billion will be lent to some 5 million students this year.

The Education Department handbook also urges schools to counsel students on their responsibilities as borrowers. □

AMERICAN BANKER /*Bank Rate Monitor's*™

Consumer Money Index — **Latest rate trend: Rates leveling off**



Bank Rate Monitor's ratio indicates the probable direction of retail interest rates over the next several weeks. The ratio is computed by dividing the total number of rate decreases into the number of increases or vice-versa on six types of accounts offered by the 10 largest banks and thrifts in each of the nation's 10 largest markets. Example: 100 rate increases and 25 decreases would make a 4-to-1 "Plus" ratio. Or, 100 decreases and 25 increases would make a 4-to-1 "Minus" ratio. Over time, the longer and farther the ratio moves on the Plus or Minus side, the more sustained the current rate cycle is likely to be. When the ratio suddenly moves strongly in an opposite direction, it usually signals the beginning of the end of a cycle. The graph shows how the ratio has moved over the past 8 weeks, and the bar chart shows the actual number of rate increases to decreases used to calculate the ratio. The greater the number of ups and downs, the longer the cycle probably will last.
Source: ©Bank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7330



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Commercial REAL ESTATE
AMERICAN BANKER
A weekly feature
Tuesday, August 28, 1990

Surplus Manhattan Office Space Means Trouble for Banks

By ANDREW REINBACH

Once considered a boom town, Manhattan's glory days are behind it. The real estate frenzy that catapulted developers to the top of *Forbes* magazine list of wealthiest Americans has taken a drastic turn, epitomized by Donald Trump's inability to pay interest on billions of dollars in debt.

An enormous supply of space has created strong downward pressure on office rents, especially in new, vacant buildings. That pressure is creating major cash flow problems for the owners, raising specters of major problems for their lenders, which include not only the large New York banks but major foreign banks as well.

Cash Flow Called Inadequate

"There's no question that some buildings will not generate enough cash flow to cover the debt, or that there will be foreclosures," said a prominent broker who requested anonymity.

A plunge in the fortunes of the financial services industry that accompanied the stock market crash of October 1987 caused much of the problem for Manhattan's commercial real estate market. Wall Street and commercial banks have been laying off employees ever since.

High Growth Doubted

"There is no way that Wall Street will sustain the sort of employment growth that it had in the mid-1980s," said Charles H. Wurtzebach, senior vice president of the Prudential Realty Group Inc., Newark. "There's serious softness in the trends of employment growth in New York, and the prospects for at least the next 36 months are not attractive."

In fact, there is more office space vacant or under construction in Manhattan today than was built during the 1980s – 63.3 million square feet against 54 million square feet, according to Cushman & Wakefield Inc. And that number does not include another four million square feet that will be rising on Times Square beginning in 1991.

Break-even rents for empty office buildings in the Times Square area are generally about $45 a square foot.

Market Rate Noted

But the market is much lower – $26 to $31 per square foot, according to Warren Schad, chief financial officer of the Solomon Organization, which owns a vacant office building at Times Square, 750 Seventh Ave.

And in addition to accepting uneconomic rents, owners are offering prospective tenants free rent and large allowances for work letters, or interior tenant work – six months of rent and $50 per square foot, respectively, at 750 Seventh Ave., according to documents furnished by Cushman & Wakefield.

This further lowers the amount of cash available to service debt and increases the prospect for bank lenders of workouts, surrendered deeds, or foreclosures.

Most real estate professionals in New York do not think that buildings such as 750 Seventh Ave. or 1540 Broadway, another vacant office building nearby, can turn a profit.

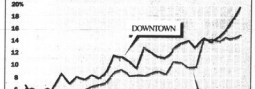
Avoiding Default

According to public documents, 750 Seventh Ave., a 570,000-square-foot building, had $212.5 million lent to it by Citicorp and the Bank of Nova Scotia – a cost of $372.80 per square foot. Mr. Schad said that his building can make a profit at rents near $30 per square foot and will avoid default.

The cost of building office space in Times Square in the late 1980s was generally $300 per square foot, or $300 million for a one-million square foot tower. This could be financed with a construction loan at about 12%, requiring $36 million in cash equity – $36 per square foot. Operating the building is likely to to cost $9 per square foot.

Who'll Take Manhattan?

Office vacancy rates, by quarter



Source: Edward S. Gordon Co.

Some of the workouts that local real estate professionals expect are already under way. At 1540 Broadway, for instance, a finished and vacant mixed-use building with 870,000 square feet of office space, developer Bruce Eichner is currently negotiating his fate with his construction lender, Citicorp.

Japanese Are Involved

Citicorp lent Mr. Eichner $280 million as lead lender of a syndicate that includes the Industrial Bank of Japan, Hokkaido Takushoku Bank, Kyowa Bank, Nippon Credit Bank, Nissho Iwai American Corp., and Orient Leasing Corp. The building is accepting base rents of $27 per square foot, plus four months of free rent and a $50 work letter, according to Cushman & Wakefield.

Among the issues: The mortgage documents say it would be a default if the principals of Chicago-based VMS Realty Corp. – Robert Van Kampen, Peter Morris and Joel Stone – cease being general partners.

But the complicated structure of the deal may have resulted in a workout agreement with VMS Strategic Land Trust, a former VMS real estate investment trust that is suing Mr. Van Kampen, Mr. Morris and Mr. Stone on behalf of its shareholders. Spokesmen for all parties declined comment.

Lender Opted for Equity

Last year, another vacant office building in the downtown area, 17 State Street, was also the subject of negotiations between the developer, Melvin Kaufman, and the New York-based lender, Teacher's Insurance and Annuity/College Equity Retirement Fund. That negotiation resulted in Mr. Kaufman's elimination from the project.

"You could say that it was a concealed deed surrendered in lieu of foreclosure, but there was real consideration [paid to Mr. Kaufman] over and above the amount of the mortgage," said John Somers, a TIAA/CREF senior vice president. "He would have loved a restructured debt, but the debt structure in place was three years old, and it didn't make sense to us. We felt we could do better as owners."

Such workouts are likely to become more and more common in the future, because the amount of space that already stands vacant is vastly greater than the measurable net growth of workers entering the market in the 1990s.

The continuing economic pressure on building owners created by owning millions of square feet of vacant space will eventually force banks to act, said the former head of a money center bank's real estate department.

"The leases being put out now can't cover the debt, and the interest reserves are running out," he said. "Banks are being pushed by the OCC to be stricter, so they're pushing developers by doing reappraisals and then making demands for new cash infusions from the owners, but that changes the developer's risks.

"This would have worked in the Seventies, but today you've got a different sort of developer –they're a much higher grade of people, and they'd rather surrender the deed than endure three to five years of grief from banks."

A likely outcome for many outstanding construction loans on vacant buildings, he said, is that loan documents will be rewritten so that almost all the cash flow from the building goes to servicing the debt, with a sale scheduled in perhaps 10 years. The remaining debt payments, plus interest, would come out of the sale proceeds, and the remaining profit, if any, would go to the developer, who would essentially become a building manager.

Not everybody in the Manhattan market thinks things are quite so grim. Veronica Hackett, executive vice president of Park Tower Realty Inc., which will be starting the 4.1 million square foot Times Square Center, for instance, thinks much of the gloom and doom is overdone.

"The overall market may have an oversupply, but our indications are that the market for new space is firming," she said. "The bank's exposure isn't on 63 million square feet – it's on a couple of million square feet of high quality space that will be absorbed in the next two years." □

Prudent Hedge Against Market Softness Now Haunts Builders, Lenders

By ANDREW REINBACH

The road to hell is paved with good intentions – and banks and real estate developers traveled it together, said John A. Koskinen, president of Washington-based Palmieri Co.

"It started because it takes more time to get buildings approved, so developers began planning office buildings when vacancy rates were high," he said. "Then to be on the safe side, they assumed vacancy rates would be high for some time, so some of the money lent was a two- to three-year interest reserve, and costs rose."

How Interest Reserve Works

Mr. Koskinen explained that a $20 million construction loan at 12.5%, with a two-year interest reserve, requires $25 million in funding since the $20 million loan accrues $2.5 million in interest per year.

"Right away, everything was more expensive than it had to be," Mr. Koskinen said. "If you asked two years ago, 'How did markets support 15% vacancy rates?', the answer was, 'Interest reserves.'"

At the time, he said, such provisions seemed prudent in an environment where local real estate markets were softening even as further development was justified by an economy that continued to expand.

The problem arose out of the very awareness by lenders and developers that their local markets were softening. Mr. Koskinen said. More and more market research was commissioned to make sure that projects – and construction loans – were economically justified.

Everyone Read Same Page

"The problem was, every lender and developer read the same market statistics," Mr. Koskinen continued. "If a market needed one building, you had five guys building it. And everybody had interest reserves."

These precautions against tough markets in the form of interest reserves are beginning to run out now, said Mr. Koskinen, and will continue running out for two or three years.

But while this is likely to bring bad news for developers and bank lenders, it's good news for Mr. Koskinen and his company. Palmieri specializes in working out problem loans and restructuring problem companies.

The restructuring of Florida-based General Development Corp., a publicly held real estate developer, is typical of his company's assignments. In this case, said Mr. Koskinen, Palmieri will plan a reorganization of the company as an adviser to management, while the company runs its day-to-day affairs.

Managing Creditors, Too

Alternatively, Palmieri takes over day-to-day management responsibilities. But in any case, Mr. Koskinen said, the main task is to reorganize the company while managing the strife among its various classes of debt and equity holders.

"Classically," he said, "the battle is between the secured creditors on one hand – who get their money no matter what – and the unsecured creditors and the shareholders on the other – who feel the company is worth more alive than dead." □

> **"The problem was, every lender and developer read the same market statistics."**
>
> **John A. Koskinen**
> *Palmieri Co.*

COMMENT
Self-Insurance For U.S. Banks

Continued from page 4

would eliminate the risk of taxpayer loss now associated with the federal safety net. Shifting the safety net function to 100% cross-guarantees would then permit the Federal Reserve to concentrate solely on its monetary management duties.

The 100% cross-guarantees would not take away any existing protections for depositors and the financial system; cross-guarantees would only add to existing protections. Retaining federal deposit insurance, up to $100,000, to backstop 100% cross-guarantees, would give small depositors confidence that their deposits are just as safe as they now are.

Healthier Banks

The 100% cross-guarantees would dramatically reverse the declining creditworthiness of American banks. This reversal in turn would raise public and marketplace confidence in American banks, thus allowing them to raise funds more cheaply. Cheaper funds in turn would bring lower interest rates to borrowers.

> **"Privatization would eliminate the risk of taxpayer loss now associated with the federal safety net."**

The 100% cross-guarantees would enhance the overall competitiveness of American banks. Not only would banks enjoy a lower cost of funds, but appropriately capitalized banks would pay substantially less for deposit insurance than they now pay. In addition, banks would be free of many regulatory burdens that now add greatly to their operating expenses and limit their operational flexibility.

The 100% cross-guarantee concept builds on the existing strengths of the banking system, most notably the equity capital already invested in it. This capital and its earning power are more than enough to enable the banking system to withstand another Great Depression, once 100% cross-guarantees become a reality.

Increased Financial Stability

The 100% cross-guarantee concept would greatly increase financial stability within the banking system by fully and explicitly protecting all domestic and foreign deposits in American banks. This explicit protection would end uncertainty about the strength of the banking system that arises whenever a bank invests substantial uninsured deposits gets into financial difficulty.

Today, this uncertainty is competitively damaging to American banks because banks in other industrialized nations are not afflicted by uncertainties about their strength.

By protecting all deposits, 100% cross-guarantees would eliminate the daylight overdraft risk. Because 100% cross-guarantees could easily be extended to cover all liabilities of the payments system, guarantors effectively would bear the daylight overdraft risk as part of assuming the overall solvency risk of a guaranteed bank.

Timely takeovers of failing banks, before they become insolvent, would improve the overall efficiency of the economy by ridding the banking system of inefficient competitors. One of the hidden costs of the FSLIC debacle has been that it has burdened the banking system with overcapacity in the form of inefficient and insolvent S&Ls whose losses have been subsidized by the taxpayer.

Burden off Depositors

The 100% cross-guarantees would eliminate any need for depositor discipline. Because guarantors would protect all deposit balances, including balances of more than $100,000, there would be no need to rely on depositors to discipline the risk-taking proclivities of bankers.

Thus, 100% cross-guarantees would impose all risk assessment responsibilities on equity capital, which is best suited to assess and price financial risks. This would free a highly risk-adverse set of creditors (bank depositors) from a task that they neither like nor do very well.

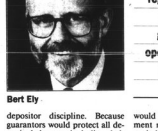
The 100% cross-guarantee concept effectively eliminates the too-big-to-fail issue. Because guarantors would protect all deposits, it would not be necessary for the guarantors to liquidate a bank just to punish depositors. But banks can still fail under the cross-guarantee concept because their stockholders would get wiped out if the guaranteed bank becomes insolvent.

No Risk to Taxpayers

Because 100% cross-guarantees would eliminate practically all risk to taxpayers, federal deposit insurance would no longer represent a $2.8 trillion contingent liability of the federal government.

The risk-deterring effect of risk-sensitive premiums would encourage banks to lend and invest more wisely than many banks now do. Wiser lending would lead to a more productive

See COMMENT page 11



Bert Ely

> **"Banks would be free of many regulatory burdens that now add greatly to their operating expenses and limit their flexibility."**



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INTERNATIONAL NEWS

LDC *debt news*

Secondary market prices for bank loans to lesser-developed countries in cents per dollar of face value, as quoted by Merrill Lynch Capital Markets

	8/22 Bid	8/22 Offer	8/16 Bid	8/16 Offer
Algeria	80.00	82.00	80.00	82.00
Argentina	13.50	14.00	13.50	14.00
Bolivia	9.00	11.00	9.00	11.00
Brazil	17.50	18.00	17.00	17.50
Chile	70.25	71.00	70.00	70.50
Colombia	63.00	65.00	63.00	65.00
Costa Rica series A	33.00	35.00	33.00	35.00
Costa Rica series B	29.00	31.00	29.00	31.00
Dominican Republic	17.00	18.00	17.00	18.00
Ecuador	16.00	17.00	16.50	17.00
Honduras	18.00	20.00	18.00	20.00
Ivory Coast	6.00	8.00	6.00	8.00
Jamaica	40.00	42.00	40.00	42.00
Mexico (par)	41.00	41.75	43.38	44.13
Mexico (discount)	60.50	61.50	64.75	65.25
Morocco	44.00	44.50	44.00	44.50
Nicaragua	3.00	4.50	3.00	4.50
Nigeria	27.50	28.00	27.50	28.00
Panama	12.50	13.50	12.50	13.50
Peru	4.00	5.00	4.00	5.00
Philippines	48.50	49.50	49.00	50.00
Poland	16.25	17.00	16.25	17.00
Senegal	36.00	38.00	36.00	38.00
South Africa	70.00	70.50	70.00	70.50
Sudan	4.00	6.00	4.00	6.00
Uruguay	47.00	48.00	47.00	48.00
Venezuela	45.25	46.00	45.75	46.25
Yugoslavia	61.00	61.50	61.25	61.50
Zaire	19.00	21.00	19.00	21.00

Source: *LDC Debt Report*

No Gain at Banks' Brazil Meeting

By PAUL KELASH
LDC Debt Report

Results of last week's meeting of Brazil's bank advisory committee, headed by Citicorp, and reports from economy minister Zelia Cardoso de Mello, marked another week of sound and fury regarding Brazil's commercial debt.

In what seems a regular phenomenon these days, nothing significant appears to have surfaced.

Labeled an "informational meeting," banks met in New York and rehashed old themes: Brazil should make some attempt to clear its arrears with banks before any serious negotiations begin, banking sources said.

Meanwhile, Mr. Cardoso is holding the line on Brazil's debt priorities: namely, dealing with the International Monetary Fund, followed by the Paris Club group of bilateral creditors, and then the banks. "In principle, negotiations will be in that order," Mr. Cardoso said.

But banks noted at the meeting that Brazil should be talking with banks as the IMF process is being worked out.

Despite its rhetoric with the banks, Brazil understands that as a condition for new loans from the IMF and World Bank, it may have to make some effort to clear arrears to commercial banks, as Citicorp chairman John S. Reed has argued in recent weeks.

David C. Mulford, U.S. treasury under secretary and architect of the Brady plan, visited Brazil last week and reportedly pressed hard for the need to resume payments to banks.

But reports out of Brasilia say that Mr. Mulford told Brazil the U.S. would accept a 20% reduction on U.S. Export-Import Bank loans and a 60% reduction on U.S. concessional food loans made to Brazil in the 1970s.

This bit of bilateralism ahead of IMF and Paris Club agreements could be bad news for banks because it could encourage the Collor administration to press banks for stiffer reductions.

LDC Debt Report is an *American Banker* newsletter.

Banks Lending to Venezuela Again

Money-Centers Are Willing to Provide New Funds

By JAMES R. KRAUS

As Venezuela's $20 billion debt-reduction deal with banks gets closer to being finalized, the most surprising outcome has been the willingness of several large money-center banks to provide Venezuela with new money.

Loans to Third World countries have been a major millstone around banks' necks and has contributed heavily to depressing their share prices.

Venezuela's debt is now trading at 47 cents on the dollar on secondary markets, so providing the country with additional financing could amount to throwing good money after bad.

And when Mexico concluded a similar debt reduction agreement with banks last year, only Citicorp was willing to advance Mexico a significant amount of new money.

Banks Ready to Lend

Yet this time around, Chase Manhattan Corp., Manufacturers Hanover10 Corp., and Citicorp have decided to grant Venezuela new money equal to 20% of their outstanding medium-term and long-term loans.

Manufacturers Hanover, for example, will provide Venezuela with $177 million in new money. Chase Manhattan with $156 million, and Citicorp with $120 million.

Other banks such as J.P. Morgan & Co.and Chemical Banking Corp. have opted to exchange part of their loans for bonds with a reduced interest rate and provide some new money as well.

Yet bankers and analysts said the decision was not at all surprising.

Banks are keen to avoid further writedowns they would have to make if they exchanged the loans on their books for Venezuelan bonds at a discount.

Never in Arrears

Venezuela is in far better shape than Mexico financially, has never gone into arrears on its debt, and has some $7 billion in reserves, including $5 billion in gold.

Most important, Venezuela stands to profit handsomely from the recent sharp increase in oil prices.

"Fact of the matter is, Venezuela is likely to produce more oil at higher prices. If I had the option of giving them (Venezuela) a discount or lending more money, I'd lend more money," said Richard X. Bove, first vice president at Dean Witter Reynolds Inc. in New York.

"It's hard to say that it's a bad option for the banks to pick," said Mark Gross, an analyst in New York with IBCA Inc.

Analysts added that most banks are now heavily reserved against losses on their Third World loans and that the stock market is unlikely to drive down banks share prices because of new loans to Venezuela.

"Everybody's felt all along that Venezuela is good money and that it is able to service its debt obligations. With oil heading north, they've become a pretty good credit," said one banker in New York.

"Venezuela has always been kind of on the fringes of the debt crisis and has been keen to maintain good relations with its banks," said another banker.

Unlike the Mexicans, who pushed mainly for debt reduction during the negotiations and offered banks a limited range of options, Venezuela showed greater flexibility during negotiations. □

Kuwait Offers Support to Its Banks Abroad

By PIERRE TRAN
Reuters

LONDON — Kuwait's finance minister, Sheikh Ali al-Khalifa al-Sabah, said he met heads of Kuwaiti banks in London and pledged the support of the government, the Kuwait Investment Office, and other organizations.

"I have told them that we, the government, the KIO and all our other organizations stand behind them," said the minister at a news conference.

"If any one of them is in liquidity difficulties, we will be more than glad and willing to tide them over."

Funds Still Controlled

Despite the occupation of Kuwait by Iraq, the government still controls extensive assets outside Kuwait.

Most Kuwaiti banks are lenders rather than borrowers. It is still unclear whether any are net debtors.

Sheikh Ali encouraged the chairmen of Kuwaiti banks to form a committee and to coordinate their activities globally.

"Our concern is their relationship with other international banks and on that regard, we are reconstructing the balance sheet of each and every one." The chairmen of each of the Kuwaiti banks are writing to the banks they work with, asking them for help in reconstructing their balances sheets, he added.

Information Not Available

Kuwaiti banks are unable to get access to assets and balance sheets at home and most only have London representative offices.

Representative offices are not licensed for bank activities such as deposit taking. They serve as eyes and ears of the home bank.

However, the minister said some of the Kuwaiti banks are British-based and these will provide offices to some of the other banks. Some banks are based in Paris and Geneva and these will work together, the minister said.

Sheikh Ali also said he had met investment managers at the Kuwait Investment Office, which holds major shareholdings in British companies, including some 10% in Midland Bank and a big stake in British Petroleum.

The office "has made a lot of money by taking a contrarian view of the market and thinks it may be the right time to buy," said Sheikh Ali, formerly Kuwait's oil minister.

The finance minister said on Wednesday in Bonn that Kuwait would be selectively increasing its holdings in German companies. □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime rate/base		
	8/27	8/24	8/20	8/27	8/24	8/20	8/27	8/24	8/20	8/27	8/24	8/20	8/27	8/24	8/20
United States	8.00	8.00	8.12	8.25	8.31	8.18	8.32	8.43	8.19	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.50	7.62	7.43	8.25	8.31	8.00	8.00	8.06	8.12	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.25	13.00	13.50	12.88	13.12	12.75	12.88	12.62	12.50	10.01	10.01	10.26	14.25	14.25	14.75
U.K.	15.00	15.00	15.00	15.00	15.00	15.00	14.94	14.88	15.00	14.25	14.25	14.34	15.00	15.00	15.00
West Germany	8.00	8.06	8.06	8.69	8.56	8.50	8.75	8.81	8.75	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	7.00	8.00	8.50	8.63	8.75	8.63	8.75	8.87	9.00	6.00	6.00	6.00	10.50	10.50	10.50
France	9.75	10.00	9.88	9.88	10.37	10.31	10.25	10.62	10.50	9.50	9.50	9.50	10.50	10.50	10.50
Italy	11.25	11.50	8.50	11.75	11.75	11.56	12.25	12.12	11.88	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.18	14.31	8.81	8.63	8.30
9 to 12 months	8.35	13.38	9.04	8.37	8.42
12 to 24 months	8.05	12.75	9.25	8.19	8.35

*Monday quotes in the New York market

Source: Hoenes, Astley & Pearce Inc., New York.

COMMENT
Self-Insurance For U.S. Banks

Continued from *page 9*

use of credit within the economy, which in turn would enhance GNP growth.

In effect, risk-sensitive premiums would eliminate the "moral hazard" in deposit insurance that has caused so much wasteful lending and investing in recent years.

An End to Cross-Subsidy

Risk-sensitive premiums would largely, if not completely, eliminate the cross-subsidy in flat-rate deposit insurance premiums, a subsidy that now flows from good banks to the bad. In 1991, that cross-subsidy would cost America's better banks $3-$4 billion.

Risk-sensitive premiums would cause the nation's riskier banks, taken as a group, to pay for most, if not all, of the insolvency losses the failed banks in this group incur.

The 100% cross-guarantees would permit banks to escape the one-size-must-fit-all mentality of bank regulation and capital requirements. Cross-guarantees would effectively shift regulation to the cross-guarantee contract and to the risk-balancing incentives of risk-sensitive premiums.

This shift would give individual banks the flexibility to negotiate contractual terms that would permit them to innovate at their own pace and to tailor their capital structure to the lending and investing strategy best suited for that bank.

"Risk-sensitive premiums would largely, if not completely, eliminate the cross-subsidy in flat-rate deposit insurance premiums."

The 100% cross-guarantees would greatly improve opportunities for community-banks by freeing them of the negative consequences of the current small-enough-to-liquidate policy. No longer would community banks experience difficulty in gathering deposits over $100,000.

Cross-guarantees also would have the especially beneficial effect of lowering the cost of funds for community banks while permitting them to operate more efficiently.

The 100%-cross-guarantee concept can easily be extended to protect the liabilities of all providers of financial services, including securities firms, money market mutual funds, insurance companies, and even government-sponsored enterprises such as Fannie Mae and Freddie Mac.

Broader Capital Base

The 100% cross-guarantee concept can be structured to permit nonbank firms to participate as guarantors. Broadening the capital base available to guarantee bank deposits and other bank liabilities in this manner would further strengthen the financial backing of America's banks.

Perhaps the greatest benefit of 100% cross-guarantees would be to substantially depoliticize the banking business because banks no longer would have an incentive to seek political salvation for their banking troubles. Thus, 100% cross-guarantees would free the political process of the inherent flaws of federal deposit insurance.

The 100% cross-guarantee concept offers the only comprehensive solution to the irreparable problems of federal deposit insurance. Cross-guarantees also would bring many benefits to the American economy and to the American people while preserving the promise of federal deposit insurance. The way is clear. The time to act is now. □

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1st Security Buys Thrift's Deposits

SALT LAKE CITY — First Security Corp. said it has acquired from the Resolution Trust Corp. $11.2 million in deposits of the Sweetwater Savings & Loan Association, Rock Springs, Wyo., for a $36,000 cash premium.

The deposits were transferred to First Security Bank of Rock Springs on Aug. 22. The former Sweetwater office opened the next day as part of the $6 billion-asset First Security system. Its 1,600 accounts were to be consolidated in First Security's Rock Springs office effective Aug. 27.

"We have completed three acquisitions in less than a year to strengthen our coverage of growing markets in Utah and Idaho and to enter profitable new markets in Oregon," said Spencer F. Eccles, chairman and chief executive officer of First Security Corp. "Two other acquisitions are pending, awaiting required approvals."

First Security operates 183 banking offices in Wyoming, Idaho, Oregon, and Utah, as well as a leasing company, two insurance companies, an investment management firm, and a discount broker. □

Thrift Acquiring $69 Million in Deposits

SALT LAKE CITY — First Federal Savings Bank said it has received approval from the Office of Thrift Supervision to purchase the retail deposits of the five branches of the Utah affiliate of Crossland Savings, Brooklyn, N.Y.

Gerald R. Christensen, chairman of First Federal, said it would acquire $69 million in deposits effective Sept. 28. On Oct. 1, three Crossland branches will reopen as First Federal locations, and two others will be consolidated in nearby First Federal offices.

All the Crossland branches are in the Salt Lake Valley. The $292 million-asset First Federal currently has four branches in Salt Lake and one in Price. □



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AUG 28 1990

REQUIRED READING

Apocalypse for U.S. Banks? Not Now, Says Credit Rater

This report, published here in an edited version, was issued Aug. 22 by IBCA Ltd., a London-based credit rating agency.

In Eastern Europe and the U.S.S.R., Marxism is crumbling, to be replaced by capitalism at last triumphant; the "evil empire" has been destroyed, and market forces will solve all problems.

Overnight, primitive Skodas, Ladas, and Trabants will be converted into state-fo-the-art BMWs and Porsches, and every inhabitant of Eastern and Central Europe, Central Asia, and the People's Republic of China will be introduced to the culinary skills of Ronald McDonald.

"Outside the United States, Moody's has lowered ratings for several Japanese banks on the basis of its concern about real estate exposure."

Meanwhile, in the U.S., reputed home of modern capitalism, these same market forces, assisted by political chicanery that would have put the pre-perestroika Soviet Union to shame, seem to be on the verge of tearing asunder banks that are household names. No matter what they do, these banks seem doomed.

Media Hysteria

This, at least, is the message to be gained from the more hysterical outpourings of the media, particularly in the United States. In fact, the press has awakened public awareness to the point where we [members of the IBCA staff] now find our casual conversations with friends and family turning to discussions of the impending collapse of banks. This is in sharp contrast to the situation just a year ago, when mere mention of what we do was a certain way to put a quick end to any social conversation.

Faced by this onslaught, we have attempted in this report to answer the question: How bad is the current condition of the U.S. banking industry?

The report discusses the reasons U.S. banks have run into difficulties, reviews the performance of major banks during the 1980s, states our opinions on prospects for the industry, and comments on the actions, reactions, and possibly excessive power of rating agencies.

We believe that some banks will not survive the next recession, but we do not conclude that the whole U.S. banking industry is now teetering on the edge of a precipice. Our analysis shows that, in spite of all the bad news, there have been considerable positive developments among major banks in the past decade.

Our conclusion, under the circumstances, is cautiously optimistic: In brief, apocalypse for the U.S. banking industry at least has been postponed; maybe it has even been canceled.

The Rating Agencies' View

A special report we published in May 1989 . . . [compared] our ratings of banks throughout the world with those of the two other major agencies.

While noting that conclusions are difficult to draw because of the different number of banks rated in each country, we pointed out that U.S. banks were ranked at the bottom by all three agencies.

We also noted that ratings by Moody's Investors Service of banks outside the United States tended to be higher than those of both IBCA Ltd. and Standard & Poor's Corp. We demonstrated that the opposite was true in the United States, where Moody's was by far the "toughest" agency.

Since then, outside the United States, Moody's has lowered ratings for several Japanese banks on the basis of its concern about real estate exposure. All three agencies have lowered Australian banks' ratings, with Moody's leading the field and going further than the other two, and S&P and IBCA have dropped the ratings of the major Finnish banks and selected U.K. banks. IBCA has also raised the ratings of several continental European banks.

In the United States, the situation is clear: All three agencies are in agreement that the risks for U.S. banks are increasing. However, the extent of the reactions has varied, with Moody's going further than the other two and S&P recently taking actions to catch up. Only a select few banking companies have retained the ratings they held 18 months ago. According to Moody's, only three of the top 50 U.S. holding companies merit a rating of AA- or higher. In effect, the industry has been downgraded.

For the 52 largest banks, there have been only a very limited number of upgrades in the past 18 months. All three agencies have raised BankAmerica Corp. several notches, and both IBCA and S&P have raised the ratings for Manufacturers Hanover. S&P has raised five other ratings, IBCA three, and Moody's one. In contrast, IBCA has lowered its ratings of 19 companies, S&P 21, and Moody's 32.

As a result, the divergences we noted in our report last summer have widened. At the beginning of 1989, the average rating by both IBCA and SP was 5.3 (between A and A-plus), while Moody's was 6.0 (equivalent to an A). By early August 1990, the average IBCA rating had dropped by 0.9, to 6.2; the average rating by S&P by 1.2, to 6.5, and the average Moody's rating by 1.4, to 7.4 (between A-minus and BBB-plus).

Brisk competition is a basic

See **REQUIRED** *next page*

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REQUIRED READING

No Apocalypse Seen for Banks

Continued from *page* **12**

tenet for the success of a capitalist system, but there are problems when this is applied to a regulated industry in which weaker competitors are protected from failure. The U.S. Congress is responsible, because in the 1930s it established an inefficient regulatory system and a framework which handcuffed banks, preventing expansion of their geographic and product lines. Then, in the 1980s, Congress deregulated portions of the industry without reforming the deposit insurance scheme.

In recent years, Congress has not confronted the problems of the banks (and has been ineffective in addressing the problems of the savings and loan associations). Regulators are to blame for implementing laws in a draconian manner and adopting the doctrine of "too big to fail". Bankers are responsible for their slow adaptation to changing circumstances and their apparently immutable herd instinct.

The capacity problem is further exacerbated by nonbanking companies that are formidable competitors, such as insurance companies, auto companies, American Express Co., Sears, Roebuck and Co., and now American Telephone and Telegraph Co., with its credit card. There is no doubt this excess capacity has reduced the profitability of all participants and contributed to excessive risk taking by banks.

"For the 52 largest banks, there have been only a limited number of upgrades in the past 18 months. In contrast, IBCA has lowered its ratings of 19 banks, S&P 21, and Moody's 32."

Economic theory indicates that if individual companies do not have sufficient opportunities to earn adequate returns on their capital, then the capital should be returned to shareholders for investment in other vehicles. Additionally, banking is based on confidence, and steps to cut (or not raise) dividends are generally perceived by markets to be signs of weakness.

U.S. banks steadily increased dividends throughout the 1980s despite pressures on earnings. However, that appears to have been counterproductive, as banks stocks have not performed well anyway, which has made it difficult to raise equity.

Several factors will lead to an acceleration of the consolidation process – excess capital in the industry; capital insufficiency at many institutions, caused by excessive fragmentation in the industry; demands by regulators for more capital, and a difficult environment for banks to raise capital. Some consolidation may be relatively easy, but much of the process will be painful. Nonetheless, the result will be positive for survivors.

How Have Banks Really Fared?

The general consensus is that U.S. banks ended the 1980s in significantly worse shape than they were in at the beginning of the decade. This is particularly troubling since, after seven years of a relatively healthy economy, banks should be in a strong position.

Performance data for the last eight years of the 1980s on the 52 holding companies currently rated by IBCA demonstrate that in fact there have been a number of positive trends:

• Except for 1987 and 1989, which included large provisions for loans to lesser-developed countries, average return on assets have generally been between 70 and 80 basis points, and peaked in 1988 at 0.91%. Except in the past three years, average returns on equity were consistently close to the 13% mark.

"Brisk competition is a basic tenet for a capitalist system, but there are problems when this is applied to a regulated industry."

• Margins in the first five years hovered close to 4.4%, but in the past three years they have been closer to 4.0%. The latter years reflect not only the nonaccrual status of LDC loans, but also mounting competition for deposits.

• Offsetting the margin pressure in part, noninterest income has steadily increased relative to average assets, from 1.08% in 1982 to 1.85% in 1989.

• Relative to average assets, noninterest expenses rose sharply between 1982 and 1987 as banks expanded into new areas. But that trend has reversed in the past two years as banks have been under increased pressure to control costs.

• In the past three years , the banks have taken huge losses related to LDCs but for the most part are now immunized against remaining exposure. U.S. banks recognized LDC exposure as a problem later than continental European banks, but for the U.S. banks it was a much greater problem. Hence the procrastination.

However, in belatedly dealing with the problem, this group as a whole has demonstrated considerable resilience. In the past three years, LDC chargeoffs totaled more than $14 billion. At yearend 1989, these holding companies had reserves equal to almost one-half of remaining medium-term and long-term LDC exposure of $42 billion; four years earlier, reserves were less than 5% of medium- and long-term exposure of more than $66 billion. Net medium- and long-term exposure was below 25% of equity at yearend 1989, compared with more than

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8/20 The New Jersey Gaming Commission is expected to approve a $65 million bridge loan for Donald Trump, despite its doubts that the Trump real estate empire can support the restructured debt load. *Page 14*

8/21 As the agent banks on a $2.25 billion credit for RJR Nabisco Inc. wrap up an unsuccessful effort to sell down $1.4 billion of the loan in the secondary market, the lead banks on a $1.75 billion facility for Lin Broadcasting Corp. are gearing up for what some bankers are saying will be a similarly unsuccessful effort. *Page*

8/21 A Salomon Brothers Inc. report that drove down the price of bank stocks provides a gloomy outlook for the nation's largest institutions, including a projected 19% drop in core earnings this year. *Page 1*

8/21 Suburban Atlanta entrepreneurs, in a contrary move, are proposing to start their own bank. *Page 20*

8/22 When First Interstate Bancorp announced that it would suspend its discount dividend reinvestment program, it became the latest in a series of banks to show themselves unwilling to endure the shareholder dilution created by such offerings. *Page 1*

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8/24 Customers of the failed National Bank of Washington have filed more than a dozen lawsuits alleging that the bank illegally used insured deposits and funds intended for low-risk investments to bolster the commercial paper program of its parent company. *Page 1*

8/24 Shares of Wells Fargo & Co., a favorite trading vehicle of many bank stock investors, have tumbled dramatically in value this summer as worries have grown about the U.S. economy and in particular about the real estate market in California. *Page 1*

8/24 In an attempt to extend their funding without paying the high costs of subordinated debt issuance, a growing number of banks are turning to the market for medium-term notes. *Page 16*

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8/21 The dollar's decline against the mark and the yen since the Gulf crisis began signals that the U.S. currency may no longer be viewed as a safe haven. *Page 12*

8/22 Western banks are reviewing their relationships with Arab banks in the Gulf, but most are keeping credit lines open, bankers said. *Page 2*

8/22 Credit Suisse's move to expand operations abroad and strengthen its business base at home is winning praise from analysts. *Page 10*

8/23 The U.S. banking industry is in far better shape than most analysts believe, according to IBCA Ltd., a prominent London-based credit rating agency. *Page 1*

8/23 Erol Aksoy made the largest private investment ever by a Turkish national in the United States when he acquired control of Park Avenue Bank for $8 million this week. *Page 14*

8/23 Banco Caracas has requested Federal Reserve Board approval to acquire Eagle National Bank of Miami from Banco de Colombia. *Page 14*

8/24 National Bank of Kuwait, the Arab oil state's biggest commercial bank, has shifted much of its top management and activity to London. *Page 9*

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8/24 U.S. District Judge Stanley Sporkin upheld the government's 1989 seizure of Lincoln Savings & Loan Association, accusing Charles H. Keating Jr. and other officials of "looting" it. *Page 1*

Appeals Court Dismisses Claim By Shareholders

By STEPHEN KLEEGE

A recent decision by the U.S. Court of Appeals for the 7th Circuit in Chicago is giving bankers ammunition in fighting shareholder claims.

The opinion, written by appeals Judge Frank Easterbrook, affirmed a lower court ruling against shareholders of Continental Bank Corp. The shareholders, Rocco and Louise DiLeo, had sued the accounting firm of Ernst & Young in connection with losses at Continental Bank.

They contended that Continental understated its bad loans by $4 billion and should have been quicker to set aside loan-loss reserves.

Judge Easterbrook, who is also an economist, said the shareholders failed to offer any examples of fraud in actions by the bank and its auditor.

"Four billion dollars is a big number," Judge Easterbrook said. "But even a large column of big numbers need not add up to fraud.

"The story in this complaint is familiar in securities litigation," the Judge added. "At some time the firm bathes itself in a favorable light. Later the firm discloses that things are worse. The plaintiff contends that the difference must be attributable to fraud."

Borrowing a phrase from another court decision, the judge said there is no "fraud by hindsight, and hindsight is all the DiLeos offer."

Michael D. Gottsch, an attorney in the Haverford, Pa., firm of Greenfield & Chimicles, which specializes in shareholder litigation against banks, said the ruling does not apply outside the 7th Circuit.

But, he added, "in most of our bank cases, we voluntarily agree to dismiss" that cite the ruling.

He argued that the opinion sets an unreasonably high standard, since it seems to require shareholders to cite specific examples of loans – information banks don't make public. □

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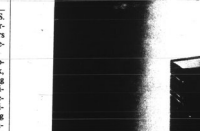

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REQUIRED READING

No Apocalypse Seen for U.S. Banks

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125% at the outset of the LDC crisis, in 1982.

• Excluding LDC data, ratios of nonperforming assets generally trended downward during the decade and at yearend 1989 were below the levels at yearend 1981 (2.30% compared with 2.67%). This ratio has fluctuated considerably in the past three years: from 2.16% in 1987 to 1.68% in 1988 to 2.30% in 1989. The drop in 1988 may be attributed to the restructurings of First City, Mellon, and BankAmerica, as well as to improving trends at a number of individual banks. The spike back up in 1989 can be attributed to real estate problems at banks operating in weak markets.

• Excluding LDC data, there have been significant increases in both reserves relative to total loans (from 1.17% in 1982 to 1.77% in 1989) and reserves relative to nonperforming loans (from 68% to 125%).

• Chargeoffs have escalated: from 0.52% of average loans in 1982 to 1.19% in 1989. However, excluding LDC chargeoffs, the ratio in the past three years has been in the neighborhood of 70 basis points. That is somewhat above the levels in the earlier part of that decade, loan portfolios towards consumer lending.

• Over the eight-year period, the banks paid out over 56% of their earnings of $54 billion in dividends. Net income for the past three years aggregated $14.7 billion, yet the banks paid more than $15 billion in dividends.

• Despite the high payout ratios and the buildup of LDC reserves, equity ratios ended the 1980s remarkably close to their 1982 levels.

• On average, common equity was 5.26% of assets in 1982 and 5.32% in 1989. Total equity averaged 9.81% of loans in 1982, 9.61% in 1989.

In short, the statistics do not depict an industry on the edge of bankruptcy. However, they reflect history.

Multiple Threats

What threats loom in the future for the banks?

Real Estate. This is now viewed as the most significant problem and with reason. Texas banks initially suffered from energy loans, but it was real estate lending that put stakes through their corporate hearts.

Many banks have had significant growth in their real estate portfolios in recent years, and the rate of increase of nonperforming real estate loans has accelerated. At yearend 1989, the subject U.S. bank holding companies had $181 billion of real estate loans (excluding residential mortgages), 14.8% of total loans; more than $11.5 billion (6.4%) of those [real estate loans] were classified as nonperforming. Just two years earlier, the comparable figures were $153 billion (14.2% of total loans) and $5.5 billion (3.6% of real estate loans).

Real estate values in Arizona and New England have declined sharply, and all banks in those regions have been affected. Clearly there has been overbuilding in many areas throughout the country, and there are widespread signs of market deterioration. Moreover, actions taken by the Resolution Trust Corp. in its efforts to unload the massive amount of real state assets which it is acquiring in the S&L bailout are likely to exert a negative influence. This does not augur well; some of the more aggressive, poorly managed banks will certainly suffer significant problems.

HLTs. Throughout 1989 bankers were contending that they did not expect highly leveraged transactions (HLTs) to develop into a major problem area. The bankers noted that loans for HLTs receive considerable attention at senior levels of management and that individual banks were making only a small proportion of the deals they reviewed.

However, in the aggregate, a large number of deals did get done – and by definition, these loans are more risky than average. Through 1989, the performance of these loans was for the most part fairly good. But the environment has changed this year. No doubt more companies will experience difficulties, and those difficulties will be exacerbated by a recession or a period of higher interest rates.

Recession. The U.S. economy has been growing for seven years, but during that time some serious imbalances have been created, in particular the budget and trade deficits. The economy appears to be in a fragile condition and yet continues to limp along.

Considerable lip service has been paid to reducing the budget deficit (even President Bush is now willing to talk about new taxes), but the track record of Congress does not provide much cause for optimism. Moreover, recession concerns have been heightened by Iraq's recent invasion of Kuwait.

With all this negative news, the stock market's performance has been somewhat lackluster; moreover, within this market, bank stocks have not performed well. The low multiples at which U.S. banks are trading makes it extremely expensive for them to raise capital and places them at a competitive disadvantage vis-a-vis many non-U.S. banks.

The Case for Optimism

The problems above constitute an impressive catalogue of imminent doom. Is there a counterargument? It is not entirely facetious to claim that when all the experts agree something will happen, it then becomes quite certain that it will not. There are, nevertheless, other, more substantial reasons for optimism:

LDC Debt. Perhaps it is surprising to see this as a "good news" item. However, with only very limited exceptions, the growth in U.S. banks' capital and reserves since the onset of the LDC crisis in 1982 has brought them to the point where the LDC risk on their balance sheets is no longer sufficient to threaten the survival of individual banks.

We consider that LDC lending for the most part is no longer a bank problem.

Regulators. We have already examined the negatives posed by real estate; the positives are less obvious. Experience shows that over time, realized losses on nonperforming real estate loans ultimately tend to be less than on other types of lending.

For example, the REIT crisis in the mid-1970s led to very high levels of nonperforming real estate loans (in many cases more than 50% of such loans were nonperforming) and large chargeoffs late in the decade. But that was followed by significant recoveries in the early 1980s.

Real estate has always been a cyclical business. Exceptionally, as events in Texas demonstrated, a prolonged downtown can lead to sharp drops in values which wipe out the lending banks.

"In recent years, Congress has not confronted the problems of the banks (and has been ineffective in addressing the problems of the savings and loan associations). Regulators are to blame for implementing laws in a draconian manner and adopting the doctrine of 'too big to fail.' "

Various geographic areas in the U.S. are currently in the throes of a sharp downturn resulting from a lack of liquidity in the market, and we are not particularly sanguine about their short-term prospects.

However, we do not believe this is a rerun of the Texas phenomenon. The Texas real estate boom and bust had unique characteristics: for example, almost total dependence on energy, unbridled almost naive enthusiasm, and lack of land-use controls.

The recent actions of regulators, although apparently harsh, have generally been designed to nip the crisis in the bud. In its reviews of real estate portfolios, the Office of the Comptroller of the Currency has been applying new standards for about eight months, and we suspect the worst in over.

The office tried first to review those banks it identified as having the highest probability of difficulties. The likelihood is that it chose well, and thus that banks that have yet to be examined under the new standards are indeed in better shape. Those banks also had time to prepare themselves for review.

In addition, we do not expect any major surprises at the large banks which have on-site regulators on a full-time basis.

HLTs. As noted above, HLTs are a potential threat, and some banks will have difficulties with their portfolios. But we expect that these problems will be on a much smaller scale than the LDC situation – much more contained and more selective (that is, affecting those banks which have been less rigorous in their credit standards).

HLT loans are generally diversified by industry, and bankers have a much greater capacity to exercise control over these loans than they do over loans to sovereign governments. Also, banks generally hold a senior-creditor preference in HLT transactions.

Total HLT outstandings of the 52 largest companies were $75 billion at yearend 1989, and less than 3% of these loans were nonperforming. We anticipate total HLT exposure will decline and the nonperforming level will increase, but we expect the losses will be manageable.

"Bankers are responsible for their slow adaptation to changing circumstances and their apparently immutable herd instinct."

Core Funding. The essential although not always immediately apparent cause of bank failures is deterioration in asset quality. Perhaps the best insurance against this is a strong core deposit base, one of the inherent strengths of traditional retail banks.

In part because of the deposit insurance scheme, such deposits generally do not leave banks when the banks encounter difficulties. The asset quality problems at BankAmerica were probably as severe as those at Continental Illinois; however, the latter required a rescue package when large depositors started fleeing. In contrast, BankAmerica's strong core deposit base provided it with sufficient time to recover using its own resources.

A major contributor to the problems of the Texas banks was their lack of strong customer deposit bases. It is a comfort in present circumstances that this is one of the accepted strengths of many regional banks.

Foreign Banks. Foreign banks might be regarded as posing yet another threat to the U.S. industry. In our opinion they do not.

For the most part, their expansion into U.S. markets has not been particularly successful. That is not surprising, since, with the exception of particular niches, it is difficult to see the competitive advantage that foreign banks would have over the natives. (This is not to praise U.S. banks, as they have in general been no more successful when they have entered non-U.S. markets.)

The one exception to date in the U.S. has been Japanese banks which, because of their access to relatively cheap capital, have been able to compete on price for many services. However, by U.S. standards the Japanese banks have not been particularly profitable in their U.S. endeavors.

We expect that Japanese banks will become significantly less aggressive as they become more constrained in terms of capital adequacy.

Also, in the near term, more of the capital that foreign banks can utilize outside their home countries should wind up being directed to European Community and Eastern European countries.

The S&L Industry. The RTC bailout of the S&Ls has both positive and negative ramifications for commercial banks, but on balance we believe it should come out positive.

First, some of the excess capacity (and generally the capacity that was acting most irrationally) is being taken out of the financial system.

Second, banks are being given opportunities to expand their networks at favorable prices with little risk.

The downside stems from the tremendous amount of real estate assets that the RTC will have to sell, potentially depressing the market further. We suspect that the RTC will not be particularly efficient in performing this function; however, we gain some solace from its inability to actually create new problem assets.

Economics, Demographics. The U.S. economy is still the largest in the world, and while it is presently going through difficult adjustments, we do not see its status changing yet.

There are some events currently taking place in the world, such as the developments in the Soviet Union, which should have a positive impact on the United States. The United States could also benefit from the opening of new markets in Eastern Europe. And there is hope that steps taken by the Latin American countries under the auspices of the Brady plan will help to improve their economies.

Finally, present demographic trends imply an increase in the country's wealth and a higher propensity to save on the part of aging baby boomers.

Reduction of Excess Capacity.

A considerable amount of capacity is being removed from the banking industry. In contrast with the prior four decades, there were a large number of failures of commercial banks in the 1980s.

The number of mergers has slowed in recent years, but we expect that capacity will be reduced further through the merger process.

So far this year, four institutions have relinquished their status as primary dealers. These data is difficult to find a major bank that has not undertaken a restructuring that includes a reduction of "nonstrategic" businesses or product lines. Competitive pressures will cause this process to continue.

There has also been a reduction of capacity outside the banking industry. Examples are the demise of the S&Ls, the retreat of foreign banks, the failure of Drexel, and cutbacks by investment banks.

This theory says that if there is

See **REQUIRED** *page* 21

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Cullen/Frost Struggles; Subsidized Banks Thrive

Continued from *page 1*

omy."

Inspired by family heritage, not to mention personal pride, Mr. Frost said he's determined to turn around the $3.3 billion-asset company before retiring as chairman and chief executive in late 1992.

"We are going to make it," the 62-year-old executive vowed.

While the more prosperous of the nation's bankers might not regard keeping Cullen/Frost alive as a major achievement, the perspective is quite different here in Texas. In a state where hundreds of banks and thrifts have failed, Cullen/Frost has not required a penny of federal assistance.

"To be standing when the rest of the industry is gone means a heck of a lot," said Peter Bartholow, chairman and chief executive of MCorp, which entered bankruptcy proceedings last year after 20 of its 25 member banks were seized by federal regulators.

A Secret at the Core

As real estate markets weaken nationwide, Mr. Frost's story speaks to possibly hundreds of bankers facing protracted market downturns that will test their mettle.

Mr. Frost's secret? Maximizing the profitability of core operations.

During the past 42 months, the bank has eliminated 275 of the 2,097 jobs on its roster, reducing quarterly payroll expenses by more than $1 million.

The bank increased service charges, raising quarterly fee income by roughly $1.4 million, or 33%. Meanwhile, the bank's trust unit racked up a 54% increase in assets under management, yielding a 54%, or $1.6 million, increase in quarterly trust revenue.

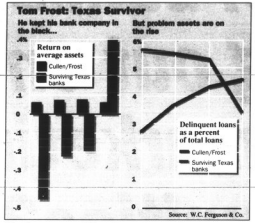
When it came down to deals proposed by familiar developers, however, the bank jumped right in, at times extending the same kind of credit previously denied strangers. Now, the chickens have come home to roost: At midyear 1990, real estate made up 78% of the bank's problem assets.

Low-Cost Deposits

By wooing customers with old-fashioned relationship banking, Cullen/Frost also attracted an almost 10% increase in low-cost consumer deposits. It reinvested the money in securities and posted a 5%, or $1.3 million, increase in quarterly net interest income during the 42 months when its problem assets were more than doubling.

"We stayed with the basic blocking and tackling, and that's what got us this far," said Mr. Frost, who is a director of the Federal Reserve Bank of Dallas.

That strategy helped Cullen/Frost report profits – albeit slim ones – for the last 15 consecutive quarters. During that time, all of the larger Texas bank holding companies either failed or sold themselves to new owners, who subsequently had to prop up their Texas acquisitions. Cullen/Frost last year earned $2.7 million, or 31 cents a share.



The bank's minuscule profits were achieved at a steep price, however: the sale of many prized assets.

Steady Operating Losses

Excluding special gains, the company suffered pretax losses of more than $19 million in the 42 months ended June 30. The special gains – including sales of securities, the bank's headquarters building, and data-processing servicing rights – transformed those results into $7.7 million of net income.

"They have muddled through by selling assets as needed," said Sandra Flannigan, a vice president at Alex. Brown & Sons Inc., Baltimore.

Though analysts are concerned about Cullen/Frost, they appear to hold Mr. Frost in high regard. "He is down-home, folksy, and has a reputation for honesty and integrity," said Mr. Anderson, the Stephens Inc. analyst. "There is more than luck involved in his bank's survival."

Still, Cullen/Frost is in trouble.

Delinquent Loans Climb

In the past 18 months, the company's total of delinquent loans and repossessed properties jumped 39%, to $136.7 million or 9.9% of gross loans. Experts called that level dangerous.

Reluctant to sell his prized trust unit – a profit center that analysts value at roughly $60 million – Mr. Frost can only hope that a recent slowing of loan delinquencies marks the beginning of the end of the bank's portfolio deterioration.

The trend of rising nonperforming assets "has got to change, or we are in trouble," he admitted.

At best, said Ms. Flannigan, Cullen/Frost can expect several more years of marginal results as it works to shed problem assets, a view held by several analysts who follow the company.

Family Traditions Helped

Meanwhile, Mr. Frost is thanking his lucky stars that the bank missed out on many lending opportunities during the Texas real estate industry's go years. One restraint then was Cullen/Frost's lingering troubles with energy loans.

Equally important, Mr. Frost maintained, was that he followed most of his family's traditional banking practices.

He fondly recalled how his great-uncle Joe – the J.H. Frost who was at the helm during the Great Depression – taught him to lend on the basis of customer relations and to avoid the temptation of plowing most depositor funds into loans.

By investing a huge chunk of depositor funds in securities, Mr. Frost avoided a bet-the-bank concentration on real estate loans and established a pool of investments that easily could be sold to meet liquidity needs.

One 'Violation' Hurt

Still, Mr. Frost got hurt when he violated one family banking rule: Never lend on raw land. At midyear 1990, almost half of the bank's $50 million worth of foreclosed real estate was land. "Uncle Joe wouldn't have approved of that," said Mr. Frost.

But as it turned out, J.H. Frost's traditional lending approach had its own weakness.

Relationship banking as practiced by Cullen/Frost during the boom years in Texas real estate meant that the bank shunned speculative loans on projects spearheaded by unfamiliar dealmakers. So far, so good.

When it came down to deals proposed by familiar developers, however, the bank jumped right in, at times extending the same kind of credit previously denied strangers. Now, the chickens have come home to roost: At midyear 1990, real estate made up 78% of the bank's problem assets.

Going Along with Customers

"We are taking it on the chin because we went along with some of our own customers," Mr. Frost said.

These mistakes did not kill the bank. But now, Mr. Frost and his management team must endure a veritable survivor's curse.

Because the bank is loaded with problem assets, it faces years of additional struggle just to get back on its feet. This spring, Mr. Frost canceled plans for partial retirement, retaining the chief executive post that was to have been taken by bank president Robert McClane.

Moreover, Cullen/Frost has little chance of being bought out soon by a larger and stronger institution that could provide capital needed to restore its competitive prowess.

Acquirers Not Attracted Now

At this fragile stage in the national economic cycle, potential buyers would not want to compound their own portfolio uncertainties by acquiring Cullen/Frost, said Ms. Flannigan.

An irony of Mr. Frost's predicament is that all the big failed banks he outlasted have been rebuilt with federal assistance – and now several are coming after his market.

In Cullen/Frost's own back yard, for example, San Antonio Savings Association was acquired by First Gibraltar Bank. And the failed banks of National Bancshares Corp. of Texas recently were acquired by NCNB Texas National Bank, the largest banking company in Texas.

Backed by substantial capital, and free of any exposure to problem assets, these federally subsidized Goliaths can attack the market with a vigor that Cullen/Frost won't be able to muster for years.

Portfolio War Still Rages

"We've still got our problems, and everyone else's are solved," conceded Mr. Frost. But as is typical of an executive whose bank is in trouble, he can barely find time to think about competition. He is more concerned about Cullen/Frost's portfolio.

Looking at the worry lines in his face, and hearing the anxiety in his voice, it is clear this executive has been walking at the edge of a high precipice and that he has no choice but to keep on.

That is the price survivors must sometimes pay. And for T.C. Frost, there is no other way: "The war is still on, and we have much to do before we can breathe any sighs of relief." □

Banking Coverage Where It Counts
WASHINGTON MONDAY
Every Week in AMERICAN BANKER

Seidman Wants Extra Latitude To Raise Rates

Continued from *page 1*

sured deposits, effective Jan. 1. The proposal, which was put out for public comment Aug. 14, is virtually certain to gain final approval.

The thrift bailout law had required that the 12-cent premium now paid by commercial banks rise to 15 cents Jan. 1. The FDIC, facing the prospect of a $2 billion net loss to the insurance fund this year, stemming from bank failures, voted to tack on an additional 4.5-cent increase.

Mr. Seidman said his agency "explored" whether it could raise premiums above the 19.5 cents allowed in the bailout law. But the FDIC's lawyers advised against it because "they didn't think we ought to assert that position, although that wasn't entirely clear," he said.

When asked what the agency would have done had it not faced a 19.5-cent ceiling, Mr. Seidman said it probably would not have gone higher. "Weighing the size and the percentage increase, the number we arrived at was a good sound business judgment as to what we ought to do," he said.

Under the bailout law, the FDIC has authority to raise premiums an additional 7.5 cents in 1992. But if new legislation were passed, a rise could come sooner.

"My sense is that there is less than a 50-50 chance of that happening this year, but, boy, I certainly wouldn't rule it out," said Bert Ely, president of Ely & Co., an Alexandria, Va.-based financial consulting firm. "I think there is enough concern about the size of the fund."

By yearend, the bank fund is expected to drop to 55 cents for each $100 of deposits insured, down from 70 cents last Dec. 31. That would mark the fifth straight year the fund's coverage has declined.

The health of the fund has caught the attention of several powerful members of Congress, and observers contend the FDIC may get power in new legislation to increase premiums at its discretion.

Already this month, House Banking Committee Chairman Henry B. Gonzalez, wrote Mr. Seidman asking whether he thinks the premium assessment should be raised to 23 cents. Such an increase would place bank premiums at parity with those for thrifts.

Rep. Gonzalez, D-Tex., noted that the latest increase will not bring the fund's coverage to $1.25 per $100 of insured deposits "for at least five years." The FDIC's target is to reach that level by 1995.

"I am considering a proposal to lift the current ceiling on annual premium increases, as well as the ceiling on designated insurance fund reserves," Mr. Gonzalez wrote.

Although Mr. Seidman said he is satisfied with the most recent increase, he thinks additional flexibility would be a good idea. □

"He is down-home, folksy, and has a reputation for honesty and integrity. There is more than luck involved in his bank's survival."
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No Apocalypse Seen for Banks

Continued from page 16

sufficient commentality of interest, the parties involved will ensure the appropriate result. A sound banking system is a prerequisite for a healthy economy, and we expect that actions will be taken to ensure its soundness. The stakes are too high for failure.

(This theory did not hold true for S&Ls, as they no longer serve a function that other financial intermediaries cannot perform.)

Congress and regulators have not had a great track record, but we believe the point has been reached where they must and will take necessary steps to reform the industry.

This report has identified factors that have weakened the credit quality of banks and have created concerns. We have also pointed out the significant variation in ratings among the three rating agencies.

Sadly for the purist analyst but happily for the banks, it is highly unlikely that we will ever find out which of the rating agencies was right. Unless there are wholesale bankruptcies, each agency will claim success.

IBCA will argue "I told you so."

Moody's will say that more banks would have failed but for their prescient actions, which heightened awareness of the problems and brought the U.S. banks back from the brink.

S&P will be in the happy position of being in the middle and claiming they were right whatever happens.

Perhaps the most important message from the market is that a rating agency can exercise excessive power. And that is the fault of investors, not of the rating agencies.

When Moody's lowered Citicorp's short-term rating, it reduced the pool of potential investors in Citicorp securities, cost Citicorp an estimated $5 million to $10 million a year just for its commercial-paper program, and tarnished the bank's image.

Moody's may be right or may be wrong, but it appears extreme that a decision made by a small group of all-too-human analysts can be given such a valuation.

Fed Seen on Steady Course in Rough Seas

By GARY SEIDMAN
Reuters

NEW YORK — Patience, the Federal Reserve appears to be counseling, is the most prudent method of dealing with the troublesome state of the U.S. economy.

Just days after its monetary policymakers gathered to commiserate over what may be the Fed's greatest dilemma since the 1987 stock market crash, the central bank seems to be signaling that a steady interest rate policy is the most appropriate, economists said.

"The Fed is just like the rest of us. There is a certain ambivalence about what is happening," one economist said.

Inflation, Weakness

Inflation and sluggish economic growth are the symptoms for which U.S. financial markets are seeking a remedy.

"The bond market is worried about inflation, and the stock market is worried about recession. The Fed is trying to figure out which of these two is the bigger menace," said Robert Declemente, an economist at Salomon Brothers Inc.

A soaring oil price is the most worrisome culprit. Since Iraq invaded Kuwait 21 days ago, putting the Middle East in a state of war readiness, oil has jumped more than $11 a barrel to its highest price since 1983. The Dow Jones industrial average, in turn, has fallen to its lowest level in a year.

The dollar is trading at record lows against the German mark, and yields on Treasury bonds are at four-month highs.

Dollars Diverted to Gas Pump

The concern is that the surge in oil prices will detour Americans' disposable income to the gas pump. It will increase the costs of manufacturing, cutting into profit margins and ultimately costing workers their jobs at companies that cannot compete. Economists point out that the implications are both inflationary and recessionary.

Add to that the unknowns of moving into recession with a budget deficit that amounts to 3% of gross national product, the cost of bailing out the savings and loan industry, liquidity problems at commercial banks, and a corporate sector so highly leveraged that even a mild recession could cause massive loan defaults.

A Waiting Game

"Until the Fed has a clear indication how the economy and the markets will react to a rate change, I can understand why they have to wait on an easing," one economist said.

On July 13, when the Fed last cut interest rates after holding policy steady for seven months, the adjustment did not deter a rise in long-term bond yields.

"They lost control over rates," the economist said. "When the yield curve flattens – and that could be a while going the oil implications – then they can ease again."

It was the consensus among Wall Street economists just 10 days ago, before July's consumer price report showing inflation on the rise even before the Iraqi conflict broke out, that another quick easing of interest rates would address the immediate recessionary concerns. □

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BY VIRTUE Of A Default In The Payment Of Promissory Note Due Jack Greenbaum, A Secured Party, Of Debtors, Pennsylvania Car Wash, Inc. And Its Officers, Patrick Cook, The Undersigned Will Offer For Sale At Public Auction All Of The Machinery, Equipment Fixtures, Inventory Of Merchandise And All Other Property And Property Rights Of The Debtors, Located At 1859 Utica Avenue, Brooklyn, New York, On September 4, 1990 At 11 A.M. At The Offices Of Machinery Auction Co., 189 Montague Street, Brooklyn, New York 11201 The Secured Party Reserves The Right To Bid. Marshall Kaplan, Esq., Attorney For Secured Party, 189 Montague Street, Brooklyn, New York 11201, Notice Is Hereby Given, Rosenbach, Licensed Auctioneers & Appraisers #0374498-493384, 152 Noble Street, Brooklyn, New York 11222.

Ronald Zaza Auct'r Lic #840731 sells 9/4/90 9 AM at 150-51 21st Ave, Whitestone. '77 Ford #7R3GF1G2963 Re: T. Haley; 10 AM at 169-05 Liberty Ave, Jam, '85 Chevy #1B4AH41JFG242173 Re: EDS. Published 8/21 & 8/28/90.

Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX THE GREEN POINT SAVINGS BANK, Plaintiff against AIDA MARTINEZ et al Defendant(s). Pursuant to a judgment of foreclosure and sale entered herein and dated July 6, 1990, I, the undersigned Referee will sell at public auction in Room 118, Mezzanine, 851 Grand Concourse., Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises beginning at a point on the south side of Watson Avenue 246.91 feet easterly from the corner formed by the intersection of the southerly side of Watson Avenue and the easterly side of Virginia Avenue, being a plot 103.06 feet by 25 feet and known as 1946, Watson Avenue, Bronx Block 4264, Lot 1 proximate amount of lien $214,705.81 plus interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 15198/89. Dated August 14, 1990. Irs Greenberg, Referee. Cullen & Dykman Attorneys for Plaintiff 100 Eisenhower Drive Garden City, NY 11530.

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Substance of Certificate of Limited Partnership filed in New York County Clerk's Office 8/21/90.NAFABRO DRIVE LIMITED PARTNERSHIP, principal office c/o Prentice-Hall Corporate Systems, Inc., 1 Gulf & Western Plaza, New York. Purpose: real estate. Term: until Dec. 31, 2029 or earlier per agreement. General partner (GP): MSC Corporation, c/o Philip J. Notopoulos-Sherborne, 6 Needham Lane, Basham, One Beacon St., Boston, MA. Limited Partners (LP) contribution and share of profits/losses: Mach IV Properties Limited Partnership, c/o Philip J. Notopoulos-Sherborne, 6 Needham Lane, One Beacon St., Boston, MA, $792,000 (agreed value of property at 80 Acro Drive, Cheektowaga, NY); 99% per Agrmt. No partner may withdraw or demand return of capital contribution. No LP may assign interest without written consent of GP. No right given to GP to admit additional LPs.

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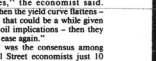

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DEALS: Fed Survey Confirms Banks Are Cutting Back on Their Loans

Continued from page 1

types of nonmerger-related business loans. Middle-market companies – with annual sales of $50 million to $250 million – faced the tightest squeeze.

The report also showed banks have slowed their sales of business loans and have become less willing to extend home equity lines of credit.

The Fed study was based on a survey of 60 domestic banks and 18 U.S. branches and agencies of foreign banks. It was conducted by the central bank's division of monetary affairs as part of a periodic assessment of senior loan officers' opinions.

According to the August survey, the most conspicuous aspect of the credit contraction was in loan covenants: 53% of domestic banks said they had tightened covenants for middle-market borrowers, while over a third had done so for their large borrowers.

Other Approaches

Tightening was also reported by banks reducing the maximum size of credit lines, raising spreads on loan rates over base rates, and increasing collateral requirements.

Of the surveyed banks surveyed, 43% said they had set more stringent standards for middle-market customers.

In the already depressed market for commercial real estate, about three-quarters of respondents said they had imposed tighter credit standards over the last three months for applications to finance commercial office buildings. This figure was similar to that reported in a Fed survey of lenders last May, and in both cases a large number of respondents reported tightening "considerably."

Outlook Is Key Factor

"By far the most important reason domestic respondents gave for tightening their credit standards in the last three months were a less favorable economic outlook and industry-specific problems," the Fed survey concluded. It also cited current pressures on banks' capital positions and capital precautions expected to result from a deterioration in loan quality.

Also, the Fed said, many banks cited regulatory pressures as a reason for tightening. Some members of Congress and other critics have pointed to regulatory treatment of problem loans as the cause of a purported "credit crunch" in New England.

The Fed's August survey also indicated that after years of continuous expansion, the growth in sales of commercial and industrial loans had cooled somewhat. Loan sales were up in the year ending June 30, 1990, by only $8 billion, to $20 billion, from $28 billion in the year before.

Fed officials suggested part of the slowdown in growth was a renewed interest by banks in improving loan portfolios and some decline in the quality of loans sold. The ratio of nonperforming loans rose to 3.5% as of June 30, up from 1% a year earlier.

Of the business loans sold, a greater share represented obligations of investment-grade borrowers – perhaps reflecting "purchasers' concern about credit quality," the Fed survey suggested. Loans from investment-grade borrowers rose to 44% of the market as of June 30, up from 35% the year before, the Fed said.

Merger-related loans remained an important source of loans sold – 37% as of June 30 – but had fallen from 45% a year earlier due to the declining volume of merger activity.

Branches and agencies of foreign banks continued to be the largest-percentage sellers, but the Fed noted, even though their holdings are down from last year, small and domestic banks "significantly" increased their holdings in the year ending in June.

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THE PREMIER ATM NETWORK

Security Pacific Asked to Renew Long-Term Loan

By STEPHEN KLEGGE

Everest & Jennings International, the world's largest wheelchair maker, is trying to persuade its main lender, Security Pacific Corp., Los Angeles, to renew long-term financing.

The manufacturer has laid off 55 workers in an effort to trim costs at its Camarillo, Calif., headquarters. Raymond V. Thomas, chief financial officer, dated the company's problems from its 1982 move into new facilities that were "far too large."

Although the company was able to finance its new facility from the sale of its former Los Angeles property, Mr. Thomas said, problems arose late last year when a $31 million loan from Security Pacific matured and an outside investor, Industrial Equity (Pacific) Ltd., gained control from the Jennings family.

Complex and thus far unsatisfactory negotiations among the investor, the company, and the bank ensued, Mr. Thomas said, and E&J borrowed $14.1 million for working capital using promissory notes to IEP.

The wheelchair company said it is operating on the basis of informal day-to-day waivers and extensions from the bank; the last formal waiver and extension agreement expired July 31.

Security Pacific declined to comment.

The promissory notes came due Aug. 15 and also are being extended on an informal, day-to-day basis, E&J said.

The Camarillo plant accounts for about 65% of the company's worldwide business. An operation headquartered in Germany and financed by a group of German banks accounts for the balance of the business.

Highlights for Monday, August 27

TOP 10 GAINERS %

Northern Calif. Community Bncp	17.5
Harleysville National Corp.	14.9
Meridian Bancorp, Inc.	11.5
Equimark Corporation	10.7
CPB Inc.	10.1
Manufacturers Hanover Corp.	9.1
First Hawaiian, Inc.	8.3
Bankworth Group, Inc.	8.1
Valley National Corporation	7.9
Jefferson Bankshares, Inc.	7.6

TOP 10 LOSERS %

Plaza Commerce Bancorp	-8.6
Mid Am, Inc.	-6.9
Constitution Bancorp	-6.5
Cal Rep Bancorp	-5.3
Summit Bancorporation	-4.4
First Security Corporation	-4.1
National Community Banks, Inc.	-3.9
Planters Corporation	-3.5
Banco Popular de Puerto Rico	-2.9
Zions Bancorporation	-2.9

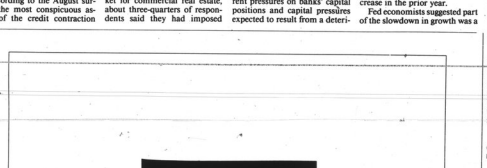
MOST SHARES TRADED

Citicorp	1320200
First Union Corporation	946500
Chemical Banking Corp.	490600
Chase Manhattan Corporation	488200
First Chicago Corporation	478300

VOLUME AS % OF AVERAGE

Cal Rep Bancorp	2268.9
Sunwest Financial Services	1182.7
Boulevard Bancorp, Inc.	718.7
National Community Banks, Inc.	659.8
First Union Corporation	544.2

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively.

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
3.11	-1.69	-9.90	3.10	-1.70	-12.26	4.54	-1.54	-14.12

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18¼	1stSourceCorp/In	6.3	86.3	1¼	
14¾	9¾	4FinancialCorp/GA	14.2	58.2	1¼	¼
28⅛	19	AmSouthBancorp/AL	7.8	78.9	1¾	⅛
19¾	13¾	AmeritrustCorp	7.7	76.3	1¾	
29	13¾	AmericanExpressCo	23.1	76.9	1¾	
22¼	17	AmericanMidwestBn	8.5	116.0	1¼	
24¼	17⅛	BB&T Fin'l/Gra-NC	7.4	85.0	1¼	
16¾	12¾	BancFlorida Saving/FL	6.2	46.0	1⅛	⅛
40	29	BancOne/Columbus-OH	9.3	141.7	1¾	
24¼	16¼	BancOne/Corp-OH	9.0	152.2	2¾	1⅛
34⅜	26¼	BancorpPennsylvania	5.5	83.0	1¾	¼
26⅜	20¾	BancorpHawaii-HI	7.6	128.3	40	2¾
23¼	18	BancorpSouth/Miss-MS	6.8	86.5	1¾	
36¼	19¾	BankAmerica/Corp-CA	4.5	84.7	2¼	1
31¾	24¾	BankBoston/Corp-MA	12.3	218.9	2¾	
23⅜	21¾	BankNewEngland-MA	NM	42.4	2¼	
14¾	11¾	BankSouthCorp/FL	NM	66.8	2¼	⅛
57¾	34⅜	BankersTrust-NY	NM	124.1	35⅜	1
31¾	24¾	BankingCorp/Jrsy-NJ	4.6	51.8	1¾	
29⅜	19¾	BanknOboston-MA	NM	35.3	3¼	⅜
29⅜	22¾	BarnettFin'l-NY	NM	66.8	2¾	⅛
12	8	BarnwellAsMemr-OK	NM	50.1	8¾	
62	61	BayBanks/Inc-MA	10.5	101.6	844	1
39¾	24¼	BarnettBanks/In-FL	7.7	90.4	3¼	⅛
31¾	24¾	BayBanks/In-MA	NM	35.5	1¾	
39¼	25⅜	Boatmen'sBcshrs-MO	7.1	83.2	2⅜	⅛
29¼	15¼	BostonBank/Inc-MA	226.6	103.1	15⅜	1¼
18⅜	12¾	BrentonBanks/In-VA	7.3	100.2	1¼	
43⅜	30¼	CBT Fin'l Corp/SC	7.8	105.2	2¾	⅛
22⅜	15	CCNB Corp/Pt-IN	6.3	89.3	1¾	⅛
22⅜	18¾	CNB Bancshares-IN	10.2	122.8	2¼	⅛
27	17¾	CPB Inc-MI	9.1	130.2	1⅜	1¾
38	31¾	CRB Fin'l Corp-GA	8.8	201.6	1¾	⅛
33¾	17	CalFed/Bancr-CA	7.2	130.7	1⅜	¼
18¼	12¾	CentralBcshrs-KS	6.6	90.6	1⅜	
34¼	23¾	CentralFidelity-VA	7.0	99.9	2¾	⅛
27	19¾	CommerceBancorp-NJ	6.3	75.7	1⅜	⅛
44¾	28¾	CharterMidAm/Inc-NY	NM	51.5	1⅞	⅜
44¾	31¾	ChemicalBanking-NY	NM	63.6	2¼	⅜
35	28	ChemicalFin/Corp-MI	8.2	90.3	2¾	1¼
35¼	17¾	Citicorp-NY	NM	72.4	1⅜	⅛
25¼	15¼	CitizensBancorp-MD	7.4	91.0	1⅛	
29¾	20¾	CitizensBancorp-VA	7.3	69.4	2¼	
15¾	7¾	CitizensFirst-NJ	NM	107.9	7¼	⅛
34⅜	18¾	CitizensUtilities-CO	5.7	80.0	1¾	⅛
27¼	14¾	CityNatlCorp-CA	8.4	151.6	1¾	¼
22¾	12¾	ColoradoBancorp-CO	33.8	75.8	1¾	
56¾	36¼	ComericaInc-MI	7.8	86.7	3¼	⅛
29¼	21¼	CommercialBcshrs-MO	9.8	150.8	1¾	
20¾	14¼	CommonwealthFin-PA	6.8	85.0	1¼	
37½	10¼	CoreStates/Fin-PA	6.6	36.9	1¾	
28⅜	8¾	CoreInterst-IL	NM	41.7	9¾	
31¾	23¾	CrestarFinancial/Corp-GA	12.8	125.2	3¾	⅛
34⅞	17¾	CrestarFin/Corp-VA	6.3	76.1	1¾	
18¼	7¾	DCB Financial-OH	37.0	41.0	1⅛	
37¼	26¾	DauphinDeposit-PA	7.7	114.7	2¾	
32	21	DepositGuaranty-MS	7.4	65.0	2¼	⅛
25¼	11¼	DominionBkshrs-VA	8.5	72.8	1¼	
14⅜	9¾	EquimarkCorp-PA	NM	29.1	1¾	
21¼	11¼	EvergreenBancr-NY	6.0	86.2	1¾	
15¾	12	F & M Nat'l Corp-VA	9.8	150.8	1¼	
14¾	11¼	FMB Corp-IN	7.8	92.0	1¼	
28	21¼	FNB Bancorp-IL	9.9	164.8	2¼	
29	25	FarmersCapital-KY	12.1	100.0	25	
39¾	27	FifthThirdBcorp-OH	9.8	147.5	2¾	⅛
38⅜	29	FinancialTrust-IN	6.4	125.9	3¾	1¼
51½	33	FirstTenNat'l-NC	8.4	86.8	3¾	
19¾	14¾	FirstAlabama-AL	8.0	100.9	1¾	⅛
23¾	18¾	1stSourceCorp/In	6.3	86.3	1¼	
14¾	9¾	4FinancialCorp/GA	14.2	58.2	1¼	¼
28⅛	19	AmSouthBancorp/AL	7.8	78.9	1¾	⅛
19¾	13¾	AmeritrustCorp	7.7	76.3	1¾	
29	13¾	AmericanExpressCo	23.1	76.9	1¾	
22¼	17	AmericanMidwestBn	8.5	116.0	1¼	
24¼	17⅛	BB&T Fin'l/Gra-NC	7.4	85.0	1¼	
16¾	12¾	BancFlorida Saving/FL	6.2	46.0	1⅛	⅛
40	29	BancOne/Columbus-OH	9.3	141.7	1¾	
24¼	16¼	BancOne/Corp-OH	9.0	152.2	2¾	1⅛
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26⅜	20¾	BancorpHawaii-HI	7.6	128.3	40	2¾
23¼	18	BancorpSouth/Miss-MS	6.8	86.5	1¾	
36¼	19¾	BankAmerica/Corp-CA	4.5	84.7	2¼	1
31¾	24¾	BankBoston/Corp-MA	12.3	218.9	2¾	
23⅜	21¾	BankNewEngland-MA	NM	42.4	2¼	
14¾	11¾	BankSouthCorp/FL	NM	66.8	2¼	⅛
57¾	34⅜	BankersTrust-NY	NM	124.1	35⅜	1
31¾	24¾	BankingCorp/Jrsy-NJ	4.6	51.8	1¾	
29⅜	19¾	BanknOboston-MA	NM	35.3	3¼	⅜
29⅜	22¾	BarnettFin'l-NY	NM	66.8	2¾	⅛
12	8	BarnwellAsMemr-OK	NM	50.1	8¾	
62	61	BayBanks/Inc-MA	10.5	101.6	844	1
39¾	24¼	BarnettBanks/In-FL	7.7	90.4	3¼	⅛
31¾	24¾	BayBanks/In-MA	NM	35.5	1¾	
39¼	25⅜	Boatmen'sBcshrs-MO	7.1	83.2	2⅜	⅛
29¼	15¼	BostonBank/Inc-MA	226.6	103.1	15⅜	1¼
18⅜	12¾	BrentonBanks/In-VA	7.3	100.2	1¼	
43⅜	30¼	CBT Fin'l Corp/SC	7.8	105.2	2¾	⅛
22¾	15	CCNB Corp/Pt-IN	6.3	89.3	1¾	⅛
22⅜	18¾	CNB Bancshares-IN	10.2	122.8	2¼	⅛
27	17¾	CPB Inc-MI	9.1	130.2	1⅜	1¾
38	31¾	CRB Fin'l Corp-GA	8.8	201.6	1¾	⅛
33¾	17	CalFed/Bancr-CA	7.2	130.7	1⅜	¼
18¼	12¾	CentralBcshrs-KS	6.6	90.6	1⅜	
34¼	23¾	CentralFidelity-VA	7.0	99.9	2¾	⅛
27	19¾	CommerceBancorp-NJ	6.3	75.7	1⅜	⅛
44¾	28¾	CharterMidAm/Inc-NY	NM	51.5	1⅞	⅜
44¾	31¾	ChemicalBanking-NY	NM	63.6	2¼	⅜
35	28	ChemicalFin/Corp-MI	8.2	90.3	2¾	1¼
35¼	17¾	Citicorp-NY	NM	72.4	1⅜	⅛
25¼	15¼	CitizensBancorp-MD	7.4	91.0	1⅛	
29¾	20¾	CitizensBancorp-VA	7.3	69.4	2¼	
15¾	7¾	CitizensFirst-NJ	NM	107.9	7¼	⅛
34⅜	18¾	CitizensUtilities-CO	5.7	80.0	1¾	⅛
27¼	14¾	CityNatlCorp-CA	8.4	151.6	1¾	¼
22¾	12¾	ColoradoBancorp-CO	33.8	75.8	1¾	
56¾	36¼	ComericaInc-MI	7.8	86.7	3¼	⅛
29¼	21¼	CommercialBcshrs-MO	9.8	150.8	1¾	
20¾	14¼	CommonwealthFin-PA	6.8	85.0	1¼	
37½	10¼	CoreStates/Fin-PA	6.6	36.9	1¾	
28⅜	8¾	CoreInterst-IL	NM	41.7	9¾	
31¾	23¾	CrestarFinancial/Corp-GA	12.8	125.2	3¾	⅛
34⅞	17¾	CrestarFin/Corp-VA	6.3	76.1	1¾	
18¼	7¾	DCB Financial-OH	37.0	41.0	1⅛	
37¼	26¾	DauphinDeposit-PA	7.7	114.7	2¾	
32	21	DepositGuaranty-MS	7.4	65.0	2¼	⅛
25¼	11¼	DominionBkshrs-VA	8.5	72.8	1¼	
14⅜	9¾	EquimarkCorp-PA	NM	29.1	1¾	
21¼	11¼	EvergreenBancr-NY	6.0	86.2	1¾	
15¾	12	F & M Nat'l Corp-VA	9.8	150.8	1¼	
14¾	11¼	FMB Corp-IN	7.8	92.0	1¼	
28	21¼	FNB Bancorp-IL	9.9	164.8	2¼	
29	25	FarmersCapital-KY	12.1	100.0	25	
39¾	27	FifthThirdBcorp-OH	9.8	147.5	2¾	⅛
38⅜	29	FinancialTrust-IN	6.4	125.9	3¾	1¼
51½	33	FirstTenNat'l-NC	8.4	86.8	3¾	
19¾	14¾	FirstAlabama-AL	8.0	100.9	1¾	⅛
27¼	18¼	MercantileBncsh-MD	7.8	117.4	1⅜	⅛
90¾	44	MercantileBank-NY	11.1	181.7	44	
32	17¾	MerchantsNat-IN	9.1	75.0	1⅜	⅛
23¾	12¾	MeridianBancorp-IN	6.7	80.1	1⅜	1⅛
56	24¼	MichiganNatCorp-MI	2.2	51.0	2⅝	⅛
20¾	12¾	MidAmerica/Inc-KY	8.8	84.7	1¾	
23¾	17	MidAm,Inc-OH	8.3	127.5	1¾	
47¾	29¾	MidlantdBancp-NJ	7.2	28.8	1¾	
25½	5½	MuttBank-NH	NM	29.9	1¾	
29¾	20¾	NBD Bancorp-MI	7.7	112.2	2¾	
53	31¼	NCNB Corp-NC	6.4	114.3	3¼	
21¾	13¾	NCorp/Cincinnati-OH	13.1	137.6	2¼	
41¾	31¼	NationalCity/Cp-OH	7.4	124.8	3¼	
51	34½	NationalPenn-PA	7.4	198.5	3¾	
31¾	25¾	NatlBancorp/AK-AK	9.3	113.9	2¾	
30¾	20¾	NatlCommerce-TN	8.3	107.1	2¾	
20¾	8¾	NorthFinl/Indianapolis	5.2	57.1	1¾	
20⅝	8¼	NorthFinl/Ewns-NY	4.8	54.4	3¾	⅛
71	50	NorthwestBancr-OH	NM	48.3	13	
33⅜	23¾	NorthernTrust-IL	8.1	150.4	2¾	⅛
17¾	11¾	NorwestCorp-MN	6.8	125.0	1¾	⅛
32¼	20¾	OhioBancorp-OH	8.7	89.4	2½	
24¾	20¾	OldKentFin/Corp-MI	7.4	103.6	2¾	⅛
26½	23¾	OldNatlBancp-IN	12.6	151.3	2¾	
29¼	19	OneNewHav/Bnk-NH	6.7	81.2	1¾	
48¼	22¾	PNC Fin'l Corp-PA	7.5	83.0	2¼	⅛
20¼	12¾	PacificBank-CA	9.6	97.6	2⅜	
13⅜	8¾	PacificWestern-CA	7.2	131.6	9¼	
18¾	13¾	PeoplesBancorp-NC	8.1	102.3	1¾	
27	26	PhiladelphiaMtg	9.6	122.6	26½	
15¾	9¾	PiedmontBancorp-SC	7.1	133.1	1¾	⅛
6¾	3	PremierBancorp-LA	20.1	59.8	3¾	
27	21¼	PremierBancorp-OH	9.7	124.4	2¾	
14	5¾	ProvidentBkshrs-MD	NM	37.3	6¾	
37¾	27¾	PugetSoundBncr-WA	8.7	93.7	2¾	
57¼	42¾	RepublicNY/Corp-NY	134.5	117.6	4¾	⅜
26¼	12	RiggsNatlCorp-DC	7.8	57.1	1¾	⅛
32¼	25	RiverFront-IL	12.3	272.6	2¾	
10¾	4¾	SantaMariaBcshrs-CA	9.6	178.5	21	
23¾	15¾	SecurityBancorp-MI	7.2	121.9	1⅝	¼
51¾	29	SecurityPac/Nat'l-CA	4.3	73.7	2¾	⅛
28¼	8¾	SeamstNatlCorp-MM	NM	46.8	8¾	
6¾	4¼	SignetBanking-VA	4.5	54.1	1⅝	
38⅜	27¼	SocietyCorp-OH	8.7	95.9	2⅜	
20¼	11¾	SouthCarNatlCp-SC	6.2	80.7	1⅝	⅛
28⅜	6¾	SoutheastBkCorp-FL	NM	34.1	7¾	
15¾	10¼	SouthernNatCp-MC	9.0	125.4	1⅝	
25¼	16¾	SouthtrustCorp-AL	6.5	86.6	1⅝	
42¾	22¾	SovranFin/Corp-VA	6.3	87.4	2¾	
28¼	16½	Star Banc Corp-OH	8.0	103.9	1¾	⅛
41¾	31¾	StateStBancorp-MA	11.7	183.2	34¼	
20¼	4¾	StatewideBanc-NJ	NM	101.6	5	
21¾	15¾	SuburbanBancorp-IL	12.7	82.3	16¾	⅛
34¼	21	SumitomoBank-CA	4.7	74.2	22	
29¼	23¼	SunburstBank-FL	6.9	86.1	1⅝	⅛
21⅜	10¾	SummitBancorp-NJ	5.3	70.8	10⅝	¼
26¾	19¾	SunTrustBanks-GA	7.4	115.2	1⅝	⅛
28	11⅝	SunwestFinSecs-NM	57.1	56.2	12	
22¾	18⅝	SusquehannaBcshrs-PA	7.2	94.3	1⅞	
19	14¾	SynovusFin/Corp-GA	15.4	227.3	1⅝	
13¾	11¾	TheFlaNetCorp-MC	8.5	141.7	1⅝	
23¾	17¾	TrustCoBanCorp-NY	8.7	257.1	2⅜	⅛
23¾	15	TrustcompanyNJ	7.4	122.4	1⅝	
23¾	17¼	TrustmarkCorp-MS	6.4	175.5	1⅝	⅛
41¾	27¾	U.S. Bancorp-OR	7.4	109.6	2⅝	⅛
41	31¼	U.S.TrustCorp-NY	11.1	194.5	32¼	
20¾	10⅝	UJB Financial-NJ	6.0	61.4	1⅛	
17¾	9¼	UST Corp-MA	5.9	81.5	1⅝	
21¾	17¾	UnionBancCal-CA	4.3	49.2	1⅝	
15¾	6¾	UnionPlanters-TN	NM	53.8	6¾	⅛
23¾	18¾	UnitedBanksCo-CO	NM	92.6	19	
14	10¼	UnitedBkshrs-WV	8.3	83.9	1⅝	¼
17½	12¼	UnitedCarolina-NC	7.1	93.9	12¼	
22¼	16¾	UnitedMissouri-MO	8.7	93.1	1⅝	
32¾	26¾	UnitedMissouri-MO	8.7	103.2	27¼	¼
27¼	20	UtahBancorp-MI	7.9	96.4	20	
36	22½	ValleyCap/Corp-WV	7.4	137.2	23¾	
28¼	17¾	ValleyNatBcshrs-AZ	6.7	127.1	1⅝	
30¾	11⅝	ValleyNatCorp-AZ	NM	60.3	13⅝	1
14¾	8¾	WMS Industries-IL	9.5	83.9	1⅝	
33	26⅜	WesbancoInc-WV	8.1	95.1	29	
28¾	20¾	WestAmericanCorp-CO	8.6	133.2	1⅝	
25¼	17¾	WestamericaBanCo-CA	10.8	133.2	18	¼
14¾	8¾	WilmingtonTrust-DE	9.3	83.9	1⅝	
13½	9¾	WorthenBanking-AR	8.1	118.1	1⅝	¼
14¾	10¾	WyomingBancorp-CT	7.3	81.5	1⅝	

Top 25 Thrifts (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Chg.	Chg.
23¾	18⅜	AmericanFin-CA	7.3	74.7	1⅜	¼
45¾	26¼	AppleSavings-NY	6.1	52.3	2⅜	2⅜
27¾	17¾	CalFed-CA	25.0	18.5	0	⅛
55¾	36¼	CitadelHldg/Cp-CA	7.8	57.5	36½	¼
30¾	20¾	CoastSavingsFin-CA	7.1	90.4	4	
18¼	5¼	DimeSvgBk-NY	NM	20.5	5¾	⅛
21¾	8¾	DowneyFinancial-CA	20.8	103.2	1⅝	⅛
27	18¾	FirstFedFin/Corp-CA	6.5	108.2	1⅝	⅛
21¼	12	FirstFedMich-MI	6.5	12.8	13¾	⅛
24¾	19¾	GLENFED-CA	2.8	25.0	10	
34¾	22¾	GoldenWestFin-CA	8.3	145.1	29¾	1¼
24¾	13¾	GreatWesternFin-CA	12.5	85.4	1⅜	⅛
18¾	12¾	GibraltarSavings-CA	NM	10.2	1⅝	⅛
47¼	6¾	HomeFedCorp-CA	NM	19.3	8¾	1⅛
15¾	8¾	HomeSaveBancNY-IN	11.4	85.3	1¾	1¼
16¾	9¾	NBB Bancorp-MA	9.5	40.5	9½	
10¾	4¾	People's Bank-CT	25.2	14.7	4¾	
25¾	9¾	PeoplesHeritage-NY	7.1	35.7	11	¼
24¾	16¾	PrestigeSavings-MI	6.1	37.8	9	
22¼	6¾	SanFranSvFdrlAss-CT	4.3	33.2	7¼	
14¾	8¾	StandardFed-MI	5.8	48.0	7¼	
12¾	6¾	StandardFedBk-MI	5.6	48.0	7¼	⅛
26¼	11¾	WashMutualBk-WA	8.5	83.4	13¾	
31¾	21¼	WashingtonFed-MA	8.1	162.6	23¾	2
11¼	8¾	WestcorpCA	5.5	43.8	7	

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding. (As of June 30, 1990). The market value cutoff for banks was $56.71 mil. and for thrifts $107.8 mil.) **52 Wk Hi** Las the moving 52-week high and low closing prices for the stock. **PE** is the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. **Mkt. to book:** the ratio of the current day's closing price to the stock's book value, expressed as a percentage. **Book value** is adjusted for announced earnings and dividends. **Chg.** The price at the close of trading on the previous day. **Chg.** The change in the **AB Bank and Thrift Index:** A weighted average of the top 200 banks in market value and the top 50 thrifts in market value, respectively. Highlights one largest percent gainers in banks and two volume indicators most shares traded and today's volume as a percentage of average shares traded over the past 90 days.

Data sources: SNL SECURITIES, Charlottesville, VA. 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Stock Standouts

Largest price and volume changes at banks and thrifts during the week ended August 25

LARGEST PRICE GAINERS*	% change	8/18/90	8/25/90
Banks Mid Amer Inc.	9.37%	$ 13.67	$ 14.95
Baltimore Bancorp	6.45	7.75	8.25
Nat'l Penn Bancshares	5.88	34.00	36.00
Northeast Bancorp Inc.	5.21	12.00	12.63
Midlantic Corp.	5.00	10.00	10.50
LARGEST PRICE LOSERS*	**% change**	**8/18/90**	**8/25/90**
Sunwest Fin'l Svcs Inc.	-30.30%	$ 16.50	$ 11.50
Apple Bancorp Inc.	-28.71	36.50	26.75
Peoples Bk Bridgeport	-21.28	5.64	4.63
Great American Bk FSB	-20.00	1.25	1.00
CPB Inc.	-18.92	21.25	17.25
LARGEST CHANGES IN VOLUME†	**Multiple**	**Average**	**Last week**
Merchants Bancshares Inc.	8.90	1,000	10,000
Commerce Bancshares Inc.	5.38	68,433	307,900
Manuf Nat'l Corp.	5.25	290,739	1,566,999
United Bankshs Inc.	4.25	16,305	68,000
Pacific Western Bancshs	4.18	58,960	246,300

Table described: From the bank and thrift stocks listed above, the five institutions with the largest price gain, the five with largest price decline, and the five with largest increase in their average volume for the previous week are identified. (†)– Percentage change calculated by dividing last week's close by the prior week's average volume. (*)– The multiple of last week's trading volume to the average weekly volume over the previous 10 months.

Data Source: *

STOCKS

Analysts Cite Bargain Hunting In Big Bank Rise

By GORDON MATTHEWS

NEW YORK — Bank stocks rallied Monday as the overall market soared absent bad news from the Middle East and amid hints that higher interest rates may not be a certainty after all.

But careful and selected bargain hunting seemed more the order of the day than a fundamental change in investor attitude or economic outlook, pointed out one banking industry analyst.

"For a day with a 90- to 100-point upward move in the stock market, it was a relatively quiet day on our trading floor," said Judah S. Kraushaar, first vice president of Merrill Lynch Capital Markets Inc.

Dow Average Jumps

The widely watched Dow Jones industrial average closed the day up 78.71 points, or 3.1%, after having been ahead more than 90 points during the day. The *American Banker* index of the 225 largest publicly traded bank stocks rose 3.14%, its largest single-day advance since May.

The biggest gainers among banks were money-center institutions that have boasted high dividend yields and top-quality regional and superregional banks. Analysts took this as strong evidence of bargain hunting.

In the market for Treasury debt, yields declined as prices rose, indicating at least a short-term easing in interest rates.

Money-Centers Climb

Among money-centers, Citicorp was up $1 to $18.50, while Manufacturers Hanover Corp. was up $2 to $25.375. Chase Manhattan Corp. was up $7.5 cents to $17.875, while Republic New York Corp. was up $2 to $544.375.

Among top superregionals, which have been hit hard by profit taking in recent weeks, the gains were also dramatic. Banc One Corp., Columbus, Ohio, was up $1.25 to $26; NCNB Corp., Charlotte, N.C., was up $1.50 to $33; and First Wachovia Corp., Winston-Salem, N.C., was up $1.625 to $36.625.

The major California banks, which have also been pummeled in recent weeks, posted large gains as well. Wells Fargo & Co. was up $2.125 to $54.25, Security Pacific Corp. was up $1.25 to $27.25, and BankAmerica Corp. was up $7.5 cents to $21.25. □

Citicorp Called Barometer of Consumer Loans

By GORDON MATTHEWS

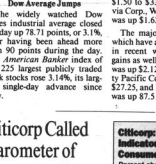
If the economy is headed for recession, consumer lending may be the next banking industry problem. And some analysts believe that shares of Citicorp, the nation's largest banking company, may be a good yardstick of such developments.

Consumer debt spiraled upward in the 1980s, hitting 16% of personal income at the end of 1989, according to government figures. Citicorp's major subsidiary, Citibank, has a huge consumer loan portfolio, partly because it is the leading card-issuing bank in the country.

On Monday, Citicorp's stock rose 87.5 cents to $18.375 as the stock market enjoyed a broad rally in the absence of any adverse developments in the Middle East. But its shares are down some 25% since the end of the first quarter, a bit more than other banks.

"As various regions of the nation enter recessionary environments, we believe bank earnings will be impinged by increasing consumer loan losses," according to Norman Jaffe and Raimundo C. Archibold Jr., bank analysts for Fox-Pitt Kelton Inc.

Because consumer lending — especially credit cards — is among their most profitable lines of business, many banks expanded rapidly in this area in the 1980s. Some banks became even more aggressive when other businesses, such as real estate lending, began to slow.



From 1982 through 1989, consumer loans held by commercial banks increased 12% annually, the Fox-Pitt analysts noted.

Keeping an eye on Citicorp is a good way to keep an eye on consumer loan developments, they said. Unlike most other banks, it discloses nonaccrual consumer loans. The figures show that past-due loans of this kind began rising sharply a year ago after several years of stability.

Consumer loans 90 days or more past due were 3.45% of outstandings at the end of the second quarter, up from 2.65% a year ago. So far, however, the higher delinquencies have not translated into high loan losses for the big New York bank. □

CAPITAL

More Banks Forced to Weigh Private Equity

Continued from *page 1*

thinking about issuing $100 million to $200 million in equity.

"With most of these investors, their tendency is not to want to deal with a situation that is small," said John Adams, a director of financial institutions at First Boston Corp. He said he is working with banks on initial phases of two or three deals.

Those outside the discussions mention Chemical Banking Corp., First Fidelity Bancorporation, Valley National Corp., and Southeast Banking Corp. as likely players.

Those four, said PaineWebber, Inc. analyst Thomas K. Brown, either need the capital to ensure survival — as does Southeast Banking — or find themselves in turnaround modes, eager to take advantage of opportunities but short of the capital required for regulatory approval.

"With confidence in the banks at very low levels, a public offering is not an option. Valley said it was not considering a secondary deal, and the other three declined to comment on whether they are investors.

"A lot of banks are seeing opportunities to acquire deposits in very attractive markets that are for sale in their franchise area. But you can only do so much if your capital base is strong," said Jonathan Kagan, a managing director of Corporate Partners, a Lazard Freres & Co.-sponsored fund that bought $145 million in new private equity from Minneapolis-based First Bank System in June.

The issue of privately placed equity is a thorny one for banks because of the risk of selling a block of equity to one holder.

"The biggest issue for banks and boards is having a block of stock in one person's hands," said Peter L. Gartman, chief financial officer at MNC Financial Corp. "Most boards are reluctant to do that. It's primarily a control issue."

And because such shareholders hold very large stakes, "they'll have an opinion [management] will have to listen to. A lot of bank managements might not want someone in that who would disagree with them," Mr. Gartman said. Still, he said, some banks are finding that, though they dislike giving one shareholder so much clout, they are running out of alternatives.

After a huge loss in the second quarter, MNC this month agreed to sell $180 million of cumulative convertible preferred stock to its largest shareholder, Alfred Lerner. Like the deals in the pipeline now, the MNC transaction was designed to boost the company's capital base at a time when it was desperately needed but had very few other ways to raise funds.

The agreement could raise Mr. Lerner's stake in the company to 23%, from 9%.

"If you need capital now, you're faced with three or four alternatives, none of which are very pleasing," Mr. Gartman said. "We thought this deal "was sort of a lesser evil."



H. RODGIN COHEN is working on four private placement deals for banks.

"A lot of banks that two to three—years—ago—would—have pounded their fist on the table and said we're in great shape . . . are now starting to face up to the realities . . . that they may not have excess capital or enough at all," said Mr. Adams of First Boston, "and that they will have to look at all sorts of different alternatives to get it to where they need to be."

How many deals will actually get done is not clear because of the many complications. In addition to management control issues, investors also bring a host of stipulations to the table.

For example, Mr. Cohen of Sullivan & Cromwell said that, when an investor owns more than 5% of a company, regulators look very closely at that person's motives should he or she want a seat on the board of directors.

"Although they are starting to make some accommodations, in the early 1980s, they imposed as many conditions on the deal that investors were saying, 'The hell with it,' " Mr. Cohen said.

The large returns – usually 25% to 35% – that investors look for in these deals also create a host of obstacles. Investors may require management to write down a chunk of the loan portfolio. Often, they demand that management step aside.

The point experts make is that a particular set of circumstances must come together to make these kinds of deal work.

"They're not just looking to buy the average bank," said Mr. Moore of Morgan Stanley. "They're looking for the turnaround situation."

Mr. Cohen said, "It's not coincidental that, in two out of the three deals like this that have been done so far, there has been new management in place." He was referring to E.M. Warburg, Pincus & Co.'s $175 million investment in Mellon Bank and Corporate Partners' investment in First Bank System.

In the third deal, with MNC, it is unclear what kind of confidence Mr. Lerner has in current management, although Mr. Cohen said it appeared chairman Alan P. Holtzcell Jr. would not be replaced.

PaineWebber's Mr. Brown said his top candidate for a private equity deal is Valley National, because it is turning things around after losses for most of 1989 and near flat earnings in the first two quarters of this year.

"The six largest S&Ls in their market area have been taken over by the RTC. They could enhance their franchise [by buying some or all of them from the RTC] if they had more capital," Mr. Brown said. However, with a tangible common equity to asset ratio of only 4.3%, he said, he doubted regulators would permit any RTC deals. □

Keating Resignation Confirmed By American Continental Corp.

WASHINGTON — Charles Keating Jr. has resigned as chairman of American Continental Corp., the parent of the failed Lincoln Savings and Loan Association, a lawyer for American Continental confirmed Monday.

The resignation of Mr. Keating and five other officials followed a federal court ruling last Thursday upholding the government's takeover of Irvine, Calif.-based Lincoln, whose failure is expected to cost taxpayers over $2 billion.

U.S. District Court Judge Stanley Sporkin dismissed a lawsuit by Keating to recover the thrift, saying Keating had "looted" Lincoln.

Judge Will Appoint Overseer

The resignations open the way for Federal Judge Richard Bilby to appoint a new person or agent to supervise American Continental, which is in Chapter 11 bankruptcy proceedings.

James Feder, a lawyer for American Continental, said he expected American Continental eventually would be liquidated. He said the liquidation value of the company was $20 million to $30 million, although creditors believe it is less.

Mr. Feder said the others who resigned were Judy Wischer, president, Robert Kielty and Robert Wurzelbacher Jr (Keating's son-in-law), both senior vice presidents, Andrew Ligget, chief financial officer, and Bradley Butland, company spokesman and Keating son-in-law.

— Reuters

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Is Wall Street Overaggressive In Bond Pricing?

By KELLEY HOLLAND

When Continental Bank Corp. withdrew its planned debt offering last week, the Chicago-based bank became the latest in a series of banks to feel the effects of seemingly aggressive bond pricing by Wall Street firms.

Debt offerings by commercial banks appear to be getting mispriced with greater frequency, and it is making it harder than ever for new issues to come to market, according to bankers and capital markets specialists.

They say overly aggressive pricing is adding to the barriers banks face when they consider tapping the capital markets, making it even harder for them to raise new capital.

ANALYSIS: *Follow-up on the news*

"You've got a negative market on the one hand, anxious banks on another, and investment banks who are anxious for business," said a treasury official at one regional bank. "There's a certain amount of pain that's going to be shared by everybody."

Bond offerings brought as recently as late July are now trading at yields as much as 20 basis points wider relative to Treasuries than the yield at offering. Bonds issued in June by Bankers Trust Corp. at a yield 115 basis points over Treasuries are now trading at a yield about 150 basis points over Treasuries.

And last week, the proposed yield spread relative to Treasuries for the Continental offering increased 50 basis points before the bank decided to defer the issue.

"Some are done with some market reality and some aren't," said one investment banker.

Overly Optimistic Pricing

Several factors are causing bonds to be mispriced, specialists say. First, investment bankers who work with banks are suffering from a near absence of new issue business this year, as banks who can afford to wait are staying away from the jittery capital markets.

As a result, when a bank does decide to come to market, competition is fierce for the underwriting fees that will ensue.

Investment bankers are bidding aggressively for what underwriting business there is today. And often, that aggressive bidding means telling clients that deals can get done at overly optimistic rates.

"When you get into any situa-

See **CAPITAL** *back page*

INSIDE NEWS

PEOPLE

AMERITRUST CORP. chairman and chief executive Jerry V. Jarrett resigned unexpectedly Tuesday, amid mounting loan problems and a massive restructuring. *Page 2*

WASHINGTON

STATES SEEKING to maintain control over bank branching rights suffered another setback Tuesday when an federal appeals court reversed an earlier ruling. *Page 2*

INTERNATIONAL

AS BILLIONS of dollars flee banks in troubled Persian Gulf states, banks worldwide are bracing for a new flow of funds. Meanwhile, banks in the Persian Gulf area are being virtually locked out of international money markets by foreign banks. *Page 16*

FINANCE

Summer Slippage For Northern's Shares

Percentage change



*Weighted average of 225 largest publicly traded commercial banks ranked by market capitalization
Figures for Wednesday as of 3 p.m.
Sources: DB Technology Inc., SNL Securities, Standard & Poor's Corp.

SHARES OF Chicago's Northern Trust Corp. have been hit hard in the most recent period of weakness in bank stock prices. *Page 24*

CONSUMER

IN ANOTHER big thrift restructuring, Coast Savings and Loan Association said it was putting 27 of its 120 branches on the block. *Page 8*

TECHNOLOGY

UJB FINANCIAL Corp. is adding information systems that will measure the profitability of its customers and products, and the productivity of its lenders. *Page 3*

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HLTs Soar at First Chicago As Top Lenders' Total Slides

By STEVEN LIPIN

First Chicago Corp.'s portfolio of loans financing highly leveraged transactions skyrocketed by $1 billion, or 38%, in the second quarter, mostly because of the reclassification of existing loans, according to regulatory filings.

Meanwhile, Wells Fargo & Co., Bank of Boston Corp., and Security Pacific Corp. reduced their HLT credits by hundreds of millions of dollars.

Average Is Down

The total HLT portfolio of the 25 banks with the largest exposure fell by a marginal 1.7% in the second quarter, according to data compiled by SNL Securities, a publishing and data base company based in Charlottesville, Va. HLTs as a percentage of assets also fell slightly.

Where HLT underwriting increased, most was attributed to the reclassification of existing loans, not from booking new ones, bank officials say. Banks continue to pore through their portfolios to determine whether a loan constitutes an HLT.

Despite the new standard definition, "there's a lot of interpretation," said a senior credit official at a major bank. "It's not as straightforward as one might think."

How HLT Portfolios Changed in 2d Quarter

Biggest changes in HLT portfolios
Dollars in millions



Secondary-Market Obstacle

While equity analysts have pressed banks to reduce outstanding loans to leveraged companies, bankers say the difficult environment for syndication has slowed loan sales to the secondary market. That has made it harder for banks to reach their goals of reducing HLT portfolios.

However, banks that sold HLT loans during the quarter booked new ones and received the up-front fees and higher interest rates, which helped the bottom line, bankers said. And the new loans were often of better quality than existing credits.

"What you're seeing is that banks are pursuing a strategy of maintaining a steady HLT portfolio," commented Christopher L. Snyder, president of Loan Pricing Corp. As some loans are sold off, others are added, he

See **HLT** *page* **21**

Gonzalez Wants Single Banking and Thrift Czar

By BARBARA A. REHM

WASHINGTON — Rep. Henry B. Gonzalez said he is planning to introduce legislation next year to merge the three deposit insurance funds and create a single regulator for banks, thrifts, and credit unions.

The House Banking Committee chairman wants to set the far-reaching regulatory reform in motion this fall with a series of hearings leading to introduction of two major bills when the 102d Congress convenes next year.

Time Pressure Seen

"I don't like to be governed by fear," the 74-year-old Texas Democrat said in a recent interview with *American Banker*. "What I fear is that time will not allow us to do the fundamental, drastic overhaul of the system required before you have a crisis."

One of the components of his drastic overhaul would be a bill revamping the deposit insurance system, which most Washington observers see as the next big financial priority on Capitol Hill. A second bill would address regulatory reform.

"There is an absolute need to completely overhaul the regula-

See **GONZALEZ** *page* **7**

3 Calif. Giants Lead Contenders For Merabank

By TERESA CARSON

LOS ANGELES — Eager to expand their Western presence, three big California banks have emerged as the top contenders to acquire the failed Merabank, the largest thrift in Arizona.

Bank America Corp., San Francisco, Security Pacific Corp., Los Angeles, and Wells Fargo & Co., San Francisco, are aggressively pursuing Merabank, which has 66 branches holding $4.7 billion in deposits. Though Merabank is an attractive franchise for building market share, sources said the Resolution Trust Corp. may not get a hefty premium because of Arizona's troubled economy.

Big Premium Unlikely

"The pricing will probably not be as rich as Western," said one source. Bank of America last

See **THREE** *page* **8**

Bottorff Ties the Knot that Binds Sovran to Citizens and Southern

By KENNETH CLINE

ATLANTA — When Sovran Financial Corp. and Citizens and Southern Corp. announced plans to merge last September, senior executives on both sides began describing their budding relationship with mantralike repetition.

"We're a merger of equals," they said over and over to reporters, analysts, and anyone else who would listen.

The delicate task of maintaining the equilibrium in this merger fell to Sovran's president, Dennis C. Bottorff.

Bottorff's People Skills

Mr. Bottorff, 46, has already proven his mastery as a behind-the-scenes player, particularly skilled in handling people and winning over others to his point of view. But these talents will be taxed to their limits in the



Kenneth Cline

Dennis C. Bottorff
C&S/Sovran
birthing of C&S/Sovran Corp.
The Norfolk, Va.-based

See **BOTTORFF** *page* **6**

GRAPEVINE/ *By Jed Horowitz*

the Float

American Airlines won't give its employees direct deposit, and some of the fliers are furious.

A pilot and a flight attendant at the Dallas-based airline have petitioned the National Automated Clearing House for help, clearing house officials said.

The fliers complain that American is deliberately taking advantage of the interest float between the time paychecks are issued and cashed.

The issue is magnified for airline employees, they say, because pilots, flight attendants, and other workers are often wandering the world without the opportunity to deposit their paychecks.

An American Airlines spokesman confirmed that the company does not offer direct deposit but said he could not comment because it could become a union contract issue.

An official of the South Western Automated Clearing House Association said he is devoting all his time to the issue.

American, he noted, has proposed charging its employees an annual fee for direct deposit, to compensate for loss of the float.

— Yvette Kantrow

* * *

From BNE to BONY?

BNE Associates, a Bank of New England investment banking subsidiary, may be sold to Bank of New York Co., according to well-placed sources.

The group and its 14 investment bankers specialize in private placements, merger and acquisition advice, and restructurings of troubled companies.

BNE Associates was set up in October 1986 by Donald Stacey, a veteran of PaineWebber Inc., who will continue running the group from the Boston area, sources said.

BNE Associates, which may rechristen itself BNY Associates, does not invest its own capital or that of its parent in the companies it advises.

A spokesman at Bank of New England said discussions with interested parties about a sale are ongoing, but no final decision has been reached. Bank of New York would not comment.

Sources speculated that the unit will be sold for only a nominal amount as Bank of New England rushes to shed noncore businesses.

* * *

Frozen Swaps

In its SEC filing for a subordinated note offering last week, Chicago's Continental Bank acknowledged that U.S. banks may suffer some direct consequences from the crisis in the Middle East.

The freeze imposed by the United States and other nations on Iraqi and Kuwaiti government assets "may affect certain of the bank's existing or pending transactions," Continental said in the "recent developments" section of its preliminary offering circular. (The $100 million offering was subsequently withdrawn.)

Activities that could be affected by the freeze include placing and acceptance of deposits with branches of Middle Eastern-based banks as well as swaps and foreign currency transactions with those banks, the bank said.

Management "is not yet in a position to assess precisely" any financial risks from the developments, the Continental document said, "but believes that they will not have a material adverse effect on the Bank's financial condition."

* * *

Chemical Card Sale?

Rumors have been circulating in the credit card market for several months that a multibillion-dollar portfolio is up for sale. Attention has faded in and out on Chemical Banking Corp., which has a $1.7 billion portfolio but is not the dominant issuer in its home market.

The bank as a matter of policy does not comment on market rumors about potential sales or acquisitions, said Charles Salmans, a Chemical spokesman.

However, he pointed to several signs of Chemical's commitment to the card business – its signing of a multiyear contract with First Data Resources in June for the processing of its consumer cards and the recent promotion of Anthony G. Nuzzo, head of the credit card business, to senior vice president.

Some rivals, however, read the processing contract differently. It could mistakenly think Chemical has a less proprietary interest in the card business than some of its competitors, like rival banker said. Chemical has not made a major card portfolio acquisition since the mid-1980s.

Whether or not Chemical is selling, the rumor about some large portfolio maintains steam because of banks' need to shed assets for capital purposes and to raise cash. Card portfolios are easy to sell and have been going for a healthy 20% over the value of receivables.

* * *

On a Diet

The U.S. League of Savings Institutions continues to shrink. The once powerful thrift trade association fired 16 employees this month. That leaves the league with 175 employees versus 250 one year ago.

One-fourth of the layoffs occurred in Washington; the rest at the league's headquarters office in Chicago. The trade group — which is considering changing its name in the wake of poor publicity for savings institutions — also fired 26 people last October. Another 33 employees have quit or not been replaced.

The most recent round of layoffs in Chicago felled employees and support staff working in convention planning, membership, publications, and technical services. In Washington, the office manager and three support staffers were fired.

The league has no plans to shut the Washington office, which employs about 40 people, said James H. Grohl, a spokesman. "We're not operating at a deficit," he said. He would not comment on how much the league will save through the cuts, and said that none of the survivors will endure pay cuts.

— Barbara A. Rehm

Arkansas Rebuffed on Branching

Court Upholds Sale of Multibranch Thrift to Bank

By BILL ATKINSON

WASHINGTON — States seeking to maintain control over bank branching suffered another setback Tuesday when a federal appeals court reversed a ruling preventing the Resolution Trust Corp. from overriding state law in its sale of a multibranch thrift to an Arkansas bank.

In a strongly worded 10-page opinion, Judge Gerald W. Heaney of the 8th U.S. Circuit Court of Appeals in Minneapolis took issue with "each and every substantive conclusion reached by the majority of the [lower] court," said Leonard Rubin of the Bracewell & Patterson law firm in Washington.

Sale of Thrift to Bank

The Arkansas case involved the RTC's sale of Independence Federal Savings Bank, Batesville, to Worthen Bank and Trust Co., Little Rock. State officials argued that the RTC, in permitting Worthen to retain Independence's 20 branches, was violating state restrictions on branching by commercial banks.

"We are disappointed at the decision of the circuit," said Doyle Bartlett, vice president for legislative services with the Conference of State Bank Supervisors, a trade group representing state regulators. "We still believe federal agencies should not have the ability to override state law without clear statutory mandate to do so."

State Regulators Involved

The state regulators' group filed an amicus brief on appeal, supporting the Arkansas ruling, and Mr. Bartlett said the organization is reviewing its options before acting further.

"Obviously, we feel [the 1989 reform law] had given us the authority to selectively override when it was important to do so," said Stephen Katsanos, an RTC spokesman. "The laws of supply and demand are at work here in selling these S&Ls, and we have a lot of franchises to sell."

Colorado Case Pending

In February, a Colorado judge issued a temporary restraining order barring the RTC from overriding state law in selling a statewide thrift to a bank. A hearing on the case is scheduled Sept. 7 to consider a permanent restraining order.

In May, the RTC formally adopted a rule permitting banks to acquire and operate the branches of failed thrifts even if it violated a state's law.

A similar case was argued in New Mexico courts after the RTC approved sale of a multibranch thrift to a New Mexico commercial bank. A New Mexico judge ruled in favor of the RTC. That decision is on appeal before the 10th U.S. Circuit Court of Appeals in Denver. □

Riegle Rejects Part-Time Members For New Housing Finance Board

By DEBRA COPE

WASHINGTON — Senate Banking Committee Chairman Donald Riegle told President Bush he would not accept a part-time Federal Housing Finance Board member, sources said.

Sources said Sen. Riegle's ultimatum to the President, in a letter delivered Monday, derailed administration plans to appoint a part-time board while Congress is in recess. The housing finance board was created last August to oversee the Federal Home Loan Bank System.

Only the Secretary of Housing and Urban Development, Jack Kemp, holds a permanent seat on the five-member board. Without an independent five-member board, the finance board may never emerge from the agency's shadow, sources said.

Sen. Riegle, D-Mich., has refused to schedule hearings on the four board nominations until the debate over the appointments is resolved.

The Justice Department, in an opinion letter made public July 12, determined that, based upon the legislative intent of the 1989 thrift-reform law, the finance board should serve part-time.

But Sen. Riegle has questioned whether part-time status is appropriate for an independent agency that has both rule-making and adjudicatory power.

President Bush has nominated Daniel F. Evans Jr. as finance board chairman and Lawrence O. Costiglio, William D. Perkins, and Marilyn R. Seymann as board members. □

Jarrett Resigns From Ameritrust Chairmanship

By NANINE ALEXANDER

CHICAGO — Ameritrust Corp. chairman and chief executive Jerry V. Jarrett resigned unexpectedly Tuesday, amid mounting loan problems and a massive restructuring.

"I have subscribed to the philosophy for many years that says that when one does not feel good about coming to work every morning, one should quit and move on to something else," said Mr. Jarrett, 58. "That time has come."

Smith Steps In

Cleveland-based Ameritrust said Craig R. Smith would assume most of Mr. Jarrett's du-

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TECHNOLOGY/OPERATIONS NEWS

New Swift System to Allow Sending of Large Data Files

By JEANNE IIDA

NEW YORK — The group that operates the Swift network is adding technology that will let banks transmit large volumes of information and paves the way for the international transfer of electronic trading documents.

The Society for Worldwide Interbank Financial Telecommunication said Tuesday it has signed a $2.3 million contract to install three fault-tolerant computers from Stratus Computers Inc. in its Brussels headquarters.

The computers, together with software from Marben, a Paris-

> **"Today, banks are exchanging this type of information by paper," Euan Sellar** *Swift*

based company, will be the basis for a bulk file-transfer service to be available in late 1991, Swift officials said.

Longer Messages Possible

The new service, to be called interbank file transfer, will allow banks to send much longer messages than on the current Swift network. Much of this information is now sent by facsimile, telex, or mail.

Eventually, the file-transfer service will be capable of carrying the standard electronic trading documents known as electronic data interchange.

The new service will run in parallel with Swift's traditional messaging service and will be available to all member institutions. Swift members will be briefed about the service in demonstrations at the group's annual conference Oct. 1-5 in Berlin.

Banks now transmit payment instructions and letters of credit over the Swift network using a standard message format.

"There's a limited amount of information you can put in these messages," said Euan Sellar, a spokesman for Swift in Brussels.

The new file-transfer service will enable international branches to scan and send accounting data, account information, and customer files to their head offices. Banks could also send electronic mail-like messages to their correspondent banks, Swift officials said.

"Today, banks are exchanging this type of information by paper," said Mr. Sellar. "They don't have the electronic capability."

Banks will send information via the new service in the same kind of envelopes – called X.400 – that will be used for international EDI messages, which vary in length. A single payment instruction may have 500 or 1,000 invoices attached.

"Swift is positioning the organization to be a carrier of [interbank] EDI payments information, when those standards are available," said Nicholas Oldfield, industry manager for banking at Stratus.

Writing Worldwide Standards

Efforts to write international EDI standards now exist. The international standards body, known as EDIFACT for Administration, Commerce, and Transportation, or Edifact, is hammering out standards for such bank documents as letters of credit and payments instructions.

Edifact formats will be slightly different from the EDI document formats commonly used in the United States. Swift is working with a group of 65 banks to develop message formats for Edifact. □

UJB Aims to Track Profits, Costs

PC-Based System Expected to Alter Planning Process

By RICHARD LAYNE

NEW YORK — In what may lead to a shakeup in its wholesale banking operations, UJB Financial Corp. is adding information systems that will measure the profitability of its customers and products, and the productivity of its lenders.

The $13 billion-asset banking company plans to install a personal computer on the desk of some 300 wholesale bankers as part of its multimillion-dollar automation effort.

Through the computers, the first of which will be installed in October, lenders will be plugged into an array of software, including profitability systems. Using those systems, managers will monitor portfolios, profitability, and individual deals.

Better Grasp of Costs

"We will now be able to determine the components of costs so we can see how we earn our dollars," said Robert J. Peters, senior executive vice president at United Jersey Bank, the lead bank of UJB Financial, Princeton, N.J.

Mr. Peters is responsible companywide for wholesale banking, which includes private banking, middle-market lending, asset-based and construction lending, and corporate finance.

Like the vast majority of banks, UJB cannot now determine accurately which customers are a source of profits and which product lines generate sufficient profit margins. UJB executives believe that once they can tell the money makers from the money losers, the company will drop some product lines and even bankers.

Some Products Will Be Dropped

"There will be products that you won't support, because they won't have the returns," said Mr. Peters. "We are all looking for niches that maximize profitability." Mr. Peters said it is too early to say which products are likely to be discontinued.

UJB claims to be the first banking company to add such systems as part of a comprehensive plan to improve the way it uses computers and communication systems.

Other banks, including CoreStates Corp. and Norwest Corp., have installed commercially available software to measure

> **"We will now be able to determine the components of costs so we can see how we earn our dollars."** **Robert J. Peters** *United Jersey Bank*

customer and lending officer performance. And many banks are adding some form of automation to their wholesale banking.

Software can range from programs to help inexperienced lenders analyze credits to image-processing systems that ease the storage and retrieval of lending documents.

Effect on Planning

For UJB, getting a handle on profitability was essential to determining which business lines will continue to receive capital in the future.

Wall Street analysts say that UJB is a strong wholesale bank, with geographic appeal – more than 60% of its commercial loans are for local businesses. Like other New Jersey banks, however, it has suffered from the region's real estate woes. The bank reported that at the end of June, 3% of its commercial loans were nonperforming.

In the first wave of the wholesale automation project, middle-market lenders at United Jersey Bank will get IBM PS/2 personal computers and access to a new release of CRISP (Customer Relationship Information System), a profitability software sold by Micro/Resources Inc., Corte Madera, Calif.

The new version of CRISP, which is installed at 200 banks, includes the ability to measure product profitability along with customer profitability. The lenders will also get software for word processing and electronic mail. Those personal computers will be linked by a network.

By January, 100 more wholesale bankers are scheduled to get the equipment. By 1992, some 300 wholesale bankers will be on the system, which will include financial analysis and a communication software. Stuart Krepea, vice president at UJB, estimated the project will cost $3 million.

Part of the project involves a change in the way UJB uses its computers to make the most efficient use of personal computers and the large-scale mainframes.

Access to Stored Data

The banking company plans to move to what some technologists call a client-server architecture, in which part of an application may run on a PC and part on a mainframe.

Splitting an application lets the bank take advantage of the enormous data storage and communications capability of a mainframe and the processing capability of a PC. Banc One Corp., Columbus, Ohio, is already moving in this direction. □

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COMMENT/ *By Joseph V. Rizzi*

Coping with High Leverage: A Framework for Lenders

Spurred by relatively attractive lending spreads, financing of highly leveraged transactions has grown in recent years. Despite a relatively favorable economic climate, the number of troubled HLTs, such as Federated, Interco, and Seaman Furniture has risen. Consequently regulators, rating agencies, and shareholders are becoming concerned with bank HLT exposure.

Some commentators believe that the next recession will trigger widespread HLT defaults. Thus, they conclude that HLTs will become the banking crisis of the 1990s.

The current concerns with the HLT market do not reflect any fundamental changes in risk. Rather, they merely reflect a growing awareness of risks that have existed for several years.

The problem for banks is not with HLT lending in general but with their underwriting and portfolio practices.

Little Margin for Error

High leverage levels leave little margin for error with debtor performance problems quickly triggering a financial crisis. Consequently, correct HLT underwriting decisions are critical and involve business and financial risk.

Business risk concerns the predictability of the debtor's operating cash flows. Companies with unpredictable or volatile operating cash flows are poor HLT candidates because of their uncertain debt servicing ability. Thus, the following situations should be avoided:

Technology. Changing technology disrupts product life cycles and usually requires heavy R&D and capital expenditures, which reduce debt servicing ability. The problems caused by fax technology for Western Union illustrate this problem.

Customer Concentrations. The loss or deterioration of a major customer can seriously impact operations, as occurred at Tracor when the Defense Department reduced its expenditures.

Turnarounds. Turnarounds, such as those planned in the minicomputer industry are highly uncertain and frequently take longer than planned. Consequently, operating cash flow is difficult to predict.

Commodity Products. Capacity and demand fluctuations can reduce prices below break-even, as is now taking place in both print and commodity chemicals.

Cyclical. Durable goods manufacturers, such as Fruehauf, are highly susceptible to unpredictable cyclical downturns.

Unsettled Management. An experienced and motivated senior management team must be in place. As Revco demonstrated, it takes too much time and money to build a new team.

The second underwriting consideration is financial risk. Financial risk considerations focus on the relationship of the debtor's expected cash flows to debt service requirements. Even companies with stable, predictable cash flows will fail if overburdened with debt. The areas of concern are as follows:

Purchase-Price Multiples. Preferred multiples are six to eight times trailing earnings before interest and taxes (EBIT). Overpriced transactions leaving the debtor in an unbalanced financial position, such as Federated at 20 times trailing EBIT, are especially suspect.

Capitalization. Transactions with multiples of funded debt to trailing EBIT exceeding six or seven times, such as Southland at more than 15 times, are difficult to justify. They simply cannot service their debt according to the terms without assuming operating improvements, asset sales, or refinancing. Additionally, equity capitalization should represent 20% to 30% of the capital structure to provide an adequate cushion for unexpected events.

Projected Debt Service Coverages. The credibility of projected debt service coverages is critical. Transactions based on large projected improvements in historical operating performance, such as that of Ohio Mattress, are questionable. A credibility test is to require trailing EBIT to cover first-year pro forma debt service by at least 1.5 times.

Reliance on Asset Sales. Transactions overly dependent on asset sales are suspect because of uncertainties over the price and timing of the sales. West Point-Pepperell and Interco demonstrate the risks involved when asset sales represent more than 15% of the total transaction size.

Interest Rate Risk. The high level of floating-rate debt in most HLTs exposes the debtor to interest rate risk. This is usually controlled by requiring at least 30% of the bank term debt to be fixed through swaps or caps for three to five years.

Liquidity Risk Exposure. Many recent HLTs contain bridge loans and bonds with increasing rate, reset, and payment-in-kind features. These features are designed to delay cash debt service until the debtor's operations improve or until the debtor can refinance the obligation. Some debtors are, however, facing less than projected performance results and rising debt service requirements from these features, and are unable to refinance.

Consequently, they are exposed to a serious liquidity squeeze, which has forced some firms, such as Jim Walter/Hillsborough into bankruptcy.

The profit potential in HLTs intensified bank interest in funding leveraged transactions. Some banks cut their underwriting standards to gain or maintain market share. Thus, they

> **"The problem is not with HLT lending in general but with underwriting and portfolio practices."**

funded many poorly conceived transactions, which are currently experiencing trouble as the class of 1988-89 transactions matures.

HLT lending represents not an industry concentration but a common transaction type involving higher-than-normal leverage levels. Unlike many other problem loan areas, such as energy, developing country, and real estate loans, HLT lending is diversified across a wide number of industries.

Prudent portfolio management requires consideration of the following:

Overall Portfolio Limit. An overall portfolio maximum tied to the level of bank assets should be established, usually in the range of 2% to 5% of earning assets. As is true for other higher-risk activities, undue exposures suggest concern regarding whether the institution can absorb the risks involved.

Individual Transaction Limits. The maximum hold level in any individual transaction should be limited to between $25 million and $35 million. Syndication risk for larger commitments to be sold into the secondary market should be separately managed.

Diversification. The maximum industry exposure should not exceed 10% to 15% of the portfolio. An additional concern is geographical diversity, especially for regional banks.

Investment Instrument. Senior secured corporate debt instruments have historical recov-

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Mr. Rizzi is vice president of the leveraged capital unit of ABN/Lakeside North America Inc. He is based in Chicago.

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COMMENT/ *By Roger G. Powell*

Are We Caught in an Oddity Known as a Liquidity Trap?

Some don't fear the onset of recession. They are convinced that the Federal Reserve will see it coming and respond with easier money.

But there is an oddity in monetary affairs called a "liquidity trap." If we have fallen into a liquidity trap, then monetary ease will not work and interest rates may behave in an unpredictable fashion.

High-Powered Money

Easy money comes when monetary authorities provide commercial banks with plenty of raw material with which to make loans. That raw material is measured in banking-system reserves – high-powered or concentrated money. It is then diluted and packaged by banks into individual loans.

The bankers' profit motive allows us to rely on full use of the central bank's raw-material delivery and be confident that it will be diluted to the maximum allowed by reserve and capital requirements.

An Excess of Liquidity

But what happens if the commercial banks don't use the raw material? Only when banks aren't willing to lend or borrowers aren't willing to borrow does high-powered money sit unused. The economy would then have an excess of liquidity. Hence the liquidity trap.

Unusual interest rate behavior could be a side effect if a liquidity trap is operating. It seems clear that short-term rates would fall dramatically, though the risk premium might expand for each change in rating.

A Perverse Impact

What would become of longer rates? With a bond market still sensitive to potential inflationary pressures, the immediate impact might be perverse. The inventory of high-powered money available to the banking system could be seen as inflationary new material, suggesting to investors that they should invest only at yields sufficient to offset losses of purchasing power that might arise from changes in currency values.

Effect on Yield Curve

If a liquidity trap is operating, then the near-term effect should be greater differences between short-term and long-term interest rates, at least in the short run. And greater monetary ease should raise inflation expectations, leading to higher, rather than lower, long-term rates.

Does the current combination of rising capital requirements, heightened regulatory discipline, asset-quality stress, and the expectation of a recession create a lineup that could lead us into such a trap?

Rising capital requirements reduce the volume of loans fabricated from high-powered money. Difficult examinations and asset-quality stress lead bankers to reduce lending. And the expectation of recession influences both lender and borrower to hold back.

If banks don't lend and borrowers don't borrow, then ease won't work. A liquidity trap is, fortunately, rare and, unfortunately, perverse. □

Mr. Powell is an analyst with Alex. Brown & Sons, Baltimore.

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Bottorff, the Tie that Binds Sovran to Citizens and Southern

Continued from *page 1*

Sovran and Atlanta-based Citizens and Southern are expected to seal their union this week.

"The challenge is really a challenge of merging the two cultures, which comes down to making decisions about people," said Jon Burke, banking analyst at Atlanta-based Robinson-Humphrey Co., referring to Mr. Bottorff. "And that is one of the things he does best."

In Line to Be CEO

Mr. Bottorff is chairman of C&S/Sovran's transition team and will become its chief operating officer. C&S chairman Bennett A. Brown will be the merged companies' first chief executive officer, but Mr. Bottorff has been designated to succeed him. Mr. Brown, 61, has never said publicly when he would retire, but most analysts expect him to step down within a year or two.

The C&S/Sovran assignment highlights Mr. Bottorff's meteoric ascent. Just three years ago, he was managing a $5 billion-asset bank in Nashville. He has been chief operating officer of Sovran, a $25.4 billion-asset company, for only 2½ years.

Short of stature and balding at the temples, he seems to fit the profile of the distracted college professor rather than of the hard-charging captain of industry. He is never without his briefcase full of books, mostly about banking, and delights in exploring the industry's theoretical underpinnings.

C&S chairman Bennett A. Brown will be the merged companies' first chief executive officer, but Mr. Bottorff will succeed him.

Not a Captivating Speaker

His speeches in front of large audiences tend to be low-key, in strong contrast to Mr. Brown's more spirited delivery. During a recent joint presentation to the Georgia Securities Association in Atlanta, Mr. Brown amused the audience with his folksy humor, while Mr. Bottorff's joke-telling showed a less sure touch.

But whatever charisma Mr. Bottorff may lack as a public speaker he reportedly makes up for with his insight into the human side of banking: "My basic belief is that most people want to do the right thing," he said. "The challenge is to establish the right environment for that."

To help his people do the right thing, Mr. Bottorff said, he adheres to a planning credo: The person who must carry out a plan should help develop it in order to feel a sense of ownership.

This credo helped smooth out some of the bumps associated with Sovran's 1987 acquisition of Commerce Union, Mr. Bottorff's Nashville bank. Toby S. Wilt, a Sovran director and Mr. Bottorff's college roommate, recalled that the two sides were unable to agree on how to merge some departments.

Instead of imposing a solution, Mr. Bottorff chose several officers from each bank and sent them off for a weekend at a state park to come up with a mutually acceptable plan. The officers did return with a plan – and had a vested interest in making it

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COMMENT

Coping with High Leverage

Continued from *page 4*

cy rates in the 60% to 90% range. Therefore, the risk of loss, even in a bankruptcy such as Federated's, is relatively low. Banks having more junior in-

"Even companies with stable, predictable cash flows will fail if overburdened with debt."

struments, such as unsecured senior notes, subordinated debt or equity interests in HLTs, have higher risk exposures.

Transaction Review. Higher-risk HLTs require close monitoring. This involves quarterly transaction reviews concerning operating results, covenant compliance, and collateral values. Decisions based on that information are needed on revised risk code ratings, possible provisions and loan sales.

Market Is Improving

The HLT market is not condemned forever to its current unsettled state. The market is regrouping with a smaller number of stronger transactions. Additionally, the competitive dynamics are improving as a number of less sophisticated banks have withdrawn from HLT lending because of to capital and underwriting problems.

Thus, the remaining professional participants can expect improving long term prospects.

Not all HLT are, however, created equal. Additionally, bank underwriting and portfolio approaches to HLT lending vary considerably. The HLT problems facing many banks are largely attributable to poor underwriting and portfolio decisions.

HLT lending is not suitable for every institution. The increased level of risk requires a disciplined credit screening approach as outlined above. □

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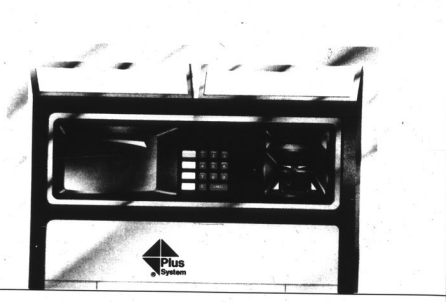

Gonzalez Wants a Czar for Banks, Thrifts, Credit Unions

Continued from *page 1*

tory system," said Rep. Gonzalez. "It's just atrocious." And while the congressman has not yet assembled all the details of his legislation, he is sure it will call for a brand new regulatory body.

"I think we are going to unitary regulation," he said, meaning that a single agency would oversee all types of depository institutions.

If Rep. Gonzalez gets his way, the Federal Reserve Board would not be that single regulator.

Sidestepping the Fed

"Why should the Fed be in regulation?" he asked. "It's our monetary policymaking body, and that's what it ought to be."

"Leave regulation to regulators," he said. The Fed "can't do both efficiently."

Nor do the other bank, thrift, or credit union agencies stand to gain much from Rep. Gonzalez's anti-Fed sentiments. He prefers to start fresh with a new agency.

"Here we are floundering with this discrepant, conflicting, and in some cases overlapping of regulatory functions, ill-defined or undefined, where the issue ultimately is the safety and soundness of the banking system," he said.

As for the 50 state regulators, Rep. Gonzalez avoided saying directly that his bill will attempt to stamp out the states' system. But after a few disparaging comments about the quality of the states' thrift supervision, Rep. Gonzalez said that if the federal government is on the hook for state bank losses, then those banks should be overseen by a federal regulator.

"We are nationalizing the responsibility of the Treasury," he explained.

Back to the '30s

Essentially, Rep. Gonzalez wants to take deposit insurance back to its 1930s roots. He argues that what is wrong today is that the insurance funds cover deposits rather than depositors. To blame for this warping of the original insurance mandate, he says, is the advent of pass-through insurance, which lets accounts of multimillion-dollar depositors be completely insured.

"It never was the intent to insure more than individual accounts," he said.

He wants this restriction to be included in the reforms that the Treasury Department endorses when its study on ways to update the deposit insurance system is completed early next year.

Rep. Gonzalez does not buy the argument that it is politically impossible to narrow insurance coverage to individuals rather than accounts.



Rep. Henry B. Gonzalez
Texas Democrat

Rep. Gonzalez is also ready to lower the $100,000 deposit insurance ceiling.

"One hundred thousand is not the holy-script number," he said. "We didn't have one minute's discussion when the fund was raised to $100,000 from $40,000. That's why debate is imperative."

Against 'Too Big to Fail'

Another accepted notion that irks the House Banking Committee chairman is that some banks are too big to fail. Rep. Gonzalez thinks this belief gives regulators too much discretion. He questions whether the "too big to fail" concept is "merely a postponement, and an unwillingness [by regulators] to face the plain facts."

He adds: "The thing that's drained the [FDIC insurance] fund is the big banks."

For September, Rep. Gonzalez already has four hearings scheduled to explore ways to revamp the regulatory system and reform deposit insurance. He says he expects to schedule at least six more hearings on the same subject before Congress adjourns in October.

Wide-Ranging Hearings

Witnesses are expected to explain their views on a wide range of topics, including merging the bank, thrift, and credit union insurance funds; insuring deposits privately; hiking banks' insurance premiums to 23 cents per $100 in deposits from the 19.5 cents proposed by the FDIC for next year, and limiting the investments a bank can make with insured deposits.

He also intends to solicit opinions on a plan he has to rank banks by assets and force banks in a particular size category to chip in to cover the failure costs of any bank in that category.

Rep. Gonzalez said he is anxious that reform does not get bogged down in politics.

Rep. Gonzalez has been a congressman and a member of the banking committee since 1962. That year the committee held two hearings. Since taking over as chairman in January 1989, the full committee has hosted 43 hearings.

Since taking over the banking committee in 1989, Rep. Gonzalez has become famous for extensive hearings. "To me it's not unorthodox. To me, it's just doing the job," he said.

Though Rep. Gonzalez is commonly labeled a populist, "I'm not one who is ideologically or psychologically against deregulation or against big banks per se" he said, "But there are problems." □

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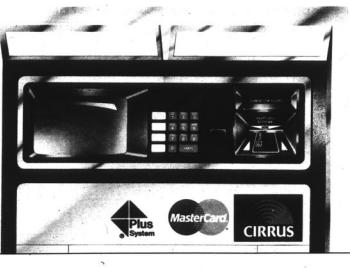


PRIVATE BANKING

When Clients Flee an Army, Identity Questions Arise

By MAUREEN NEVIN DUFFY
Special to the American Banker

Overseas private banks are scurrying to accommodate and authenticate requests from their Middle East clients.

The crisis in the region, provoked by Iraq's invasion of Kuwait, underscores the importance some clients place on privacy as well as some of the difficulties in adhering to such standards.

The legendary secrecy of private banks – especially the Swiss – has at times inspired accusations of criminality. But capital flight, which can carry the stigma of drug-money laundering and tax evasion, can also represent a defense against turmoil and even governmental collapse.

Lloyds Bank international private banking, in Geneva, and Union Bank of Switzerland and Credit Suisse, both in Zurich, are working to provide service to Kuwaiti and Iraqi private citizens who can properly identify themselves.

"Numbered accounts were created with the sole purpose of protecting clients from oppression and extortions of third parties," said Julio F. Rodriguez-Rolenson, director of marketing and communications for Lloyds Bank.

"In order to protect our clients, we have taken several measures," Mr. Rodriguez-Rolenson said. "We have closed all their previous accounts and opened new ones. We issued new credit cards and travelers checks. And we strictly follow client's wishes of not transferring funds or paying to third parties who are not known to us. Bizarre instructions must be brought to management's attention and verified."

> **"Numbered accounts were created with the sole purpose of protecting clients."**
>
> **J. F. Rodriguez-Rolenson**
> *Lloyds Bank*

Mr. Rodriguez-Rolenson said bankers have been warned about possible ruses. If fleeing Kuwaitis left behind documents and their homes were later pillaged, the conquering party could disguise himself and demand transfer of the funds.

"The client could call 10 days later asking for his money," he noted. "So even the central bank is warning us to exercise extreme caution. As always, rule No. 1 is know your client."

A spokesman for Credit Suisse, citing the importance of discretion in private banking, said only that the bank is coping with very complicated documentation to ensure the authenticity of clients making requests.

U.S. private banks in the region refused to comment even upon the nature of client requests from the Middle East.

But currency exchange desks are expected to remain busy with clients seeking to convert Kuwaiti or Iraqi currencies to Swiss francs and other monies. People fleeing Kuwait and Iraq also may be working to gain quick access to funds outside those countries.

Union Bank of Switzerland is reporting more deposits than usual from people in the area. "Funds from the Middle East as a whole are coming into Switzerland, as well as other stable countries, but this is usual in any crisis," said Gertrude Erismann, head of press information worldwide for Union Bank. "Nobody would take their money out of Swiss accounts now."

Mr. Rodriguez-Rolenson said Lloyds is also experiencing an influx of money, but he would not elaborate on the source of the deposits.

Most Private Banks in Bahrain

Most private banks with operations covering the Middle East are based on the 258-square-mile archipelago of Bahrain, an independent Arab emirate on the Persian Gulf.

In the emirate's capital of Manama, the Alubaf Arab International Bank, owned by a consortium of Arab banking and government institutions, reports that requests have been heavy for currency conversions. The bank, which acts as an agent for Royal Trust Bank's private bank products, also reports an outflow of funds.

Christopher Powell, assistant general manager for investment banking at the bank, said a great deal of money had already been transferred to large institutions in Switzerland, including Royal Trust. He declined to provide figures.

"My job is to convince [customers] that their capital could be looked after overseas," said Mr. Powell. "Royal Trust is triple-A rated."

Mr. Powell's bank, whose stock brokerage business has all but stopped, intends to stick out the crisis. But the local banks may find it difficult to stay in business, he said. "The longer this goes on, the less business is being done. A lot of expats are leaving, taking their cash flow with them."

Many U.S. banks have offshore operations, which are of primary importance to the private bank client, in the area. Some of Alubaf's peers on Bahrain are Manufacturers Hanover Corp., Citicorp, Bankers Trust New York Corp., Chase Manhattan Corp., and BankAmerica Corp.

Ms. Duffy is a freelance banking reporter based in New York.

Coast Savings to Sell 27 Branches

Analysts Say Deal Could Add $60 Million to Capital

By TERESA CARSON

LOS ANGELES — In another big thrift restructuring, Coast Savings and Loan Association said Tuesday it was putting 27 of its 120 branches on the block.

"This is a way for us to bolster our capital," said Ray Martin, chairman and chief executive officer of the Los Angeles-based thrift. "We don't have to do this; we are in compliance [with capital regulations]. But this could allow us to move forward faster."

Analysts expect a number of institutions to express interest in the branches, which they say could fetch a premium of about 5%. That would translate into a pretax gain of about $60 million. The shrinkage in the balance sheet plus the gain could increase Coast's tangible capital ratio from 1.62% to more than 2%.

> **"The logical buyers are other California banks that want a bigger piece of the San Diego market."**
>
> **Allen Bortel**
> *Sutro & Co.*

$1.2 Billion in Deposits

Sale of the 27 branches would lop off $1.2 billion of Coast's $10.9 billion in deposits. Nineteen of the branches, representing $940 million in deposits, are in the hot San Diego market. The remaining eight, with $280 million in deposits, are in California's Central Valley.

Coast, which has hired Goldman Sachs & Co. to assist with the sale, said the branches did not have to be sold in a single "The logical buyers are other California banks that want a bigger piece of the San Diego market," said Allen Bortel, an investment banker with Sutro & Co., San Francisco. Security Pacific Corp., Wells Fargo & Co., and BankAmerica Corp. are expected to look at the branches as well as larger thrifts such as Great Western Financial Corp.

If the branches do not bring a large-enough premium, the sale will be dropped, Mr. Martin said. But he declined to say what an acceptable premium would be or what other options Coast might consider.

Coast lost $28.7 million in the second quarter, compared with a profit of $5.8 million in the year-earlier period. The company set aside $48 million for loan losses.

Coast is now being examined by regulators, said Michael B. Abrahams of Bateman Eichler, Hill Richards Inc., Los Angeles. "It won't take a lot more of reserves or losses to push Coast below the capital requirements," he said. "It could be responding to regulatory pressure."

Analysts consider Coast in the middle group of thrifts – institutions that are not expected to fail but do not fit into the big powerful elite.

"These are the nonfailing but thinly capitalized thrifts," Mr. Bortel said. "They have enough flexibility to meet the capital requirements through these types of measures." □

Three Calif. Giants Vie to Buy Merabank

Continued from *page 1*

May acquired the failed Western Savings and Loan Association, Phoenix, for $81 million, representing a premium of 4.6% of core deposits. Western had $3.5 billion in core deposits and 61 branches.

The Resolution Trust Corp. held a bidding conference for Merabank Aug. 9 and bids are due in mid-September. Sources said 10 to 14 investors requested information on Merabank, and may also submit bids.

Merabank also has seven branches in Texas that are part of the bidding package. Another Texas unit, Merabank Texas, with three branches, is not included. The agency hopes to sell the thrift by Sept. 30.

Fits With Expansion Plans

Officials at Bank of America, Security Pacific, and Wells declined to comment. But the three banking companies have been on buying binges in recent months, and acquiring Merabank is consistent with their expansion plans.

For Bank of America, acquiring Merabank would give it a greater statewide presence and allow it to achieve economies of scale, analysts said. Most of the branches of its Arizona unit are located in the greater Phoenix area.

Merabank would also complement Security Pacific's Arizona unit, which has 93 branches and $3.7 billion in deposits. Security Pacific is reportedly still smarting after losing out to BankAmerica in a bidding war for Western.

"Security Pacific was crushed," that it did not win Western, said one Arizona banker.

Security and BankAmerica are also engaged in an aggressive bidding war for the failed $5 billion-asset Benj. Franklin Savings and Loan Association, Portland, Ore.

Wells does not yet have an operation in Arizona, but has publicly indicated it wants to expand in the Grand Canyon state.

Economic Outlook Cloudy

Arizona's short-term economic outlook is not rosy and the state's depressed real estate markets still show no signs of turning around.

"Foreclosures are still a growth industry," said Ralph Shattuck, publisher of the *Foreclosure Update Newsletter.* Total foreclosures were up 17% to $2.6 billion from $2.2 billion in the first six months in Phoenix's Maricopa County, he said.

Regulators seized Merabank in January 1990. The thrift reported $451 million loss in 1989 and had a tangible capital deficit of $534 million. □

AMERICAN BANKER */Bank Rate Monitor's™*

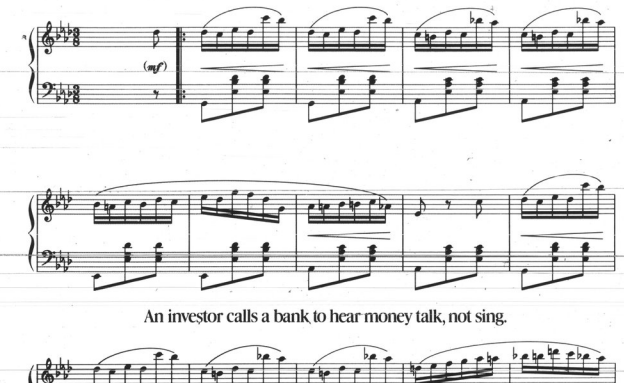
Consumer Money Index

Corporate Money Market Accounts

Here are the rates and account details that some of the nation's largest bank and thrifts were offering on August 28 for corporate money market accounts. The items in the fees and details column refer to all tiers offered by each institution unless otherwise noted.

Institution	Rate	Balance	Cmpd.	Changes	Fees/details
Bank of New York New York	4.90% 6.50	$100-2,499 25,000-up	Daily	Daily	$5 monthly if bal.<$2,500 $20 /item over MMA limits $.12 /deposited item over 15
First National Bank Boston	6.75%	$0-up	Monthly	Weekly	None
National Bank of Detroit Detroit	5.00% 5.25	$0-24,999 25,000-up	Monthly	Weekly	$35 monthly
Union Bank San Francisco	4.30% 5.90 6.30	$0-2,499 2,500-99,999 1,000,000	Simple	Daily	$10 monthly if bal.<$2,500 $3 /debit transfer over MMA limits
California Federal Bank Los Angeles	5.00% 5.15 5.20 5.25	$0-999 1,000-24,999 25,000-49,999 50,000-up	Daily	Chg w/Mkt	$15 Monthly $.09 /check $1.10 /deposit ticket $.12 /check paid

Data Source: Bank Rate Monitor, N. Palm Beach, 33408



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Despite Early Doubts, Banks Find Uses for Expert Systems

By RICHARD LAYNE
Last of a Series

NEW YORK — After a fitful start with an emerging technology called expert systems, many banks, mostly big ones, have realized that this much-hyped type of artificial intelligence can significantly improve performance in such areas as credit analysis and fraud control.

The annual *American Banker* technology survey found 8% of institutions had expert systems and 14% planned to install them by the end of 1991. But 21% of banks with $2 billion or more in deposits are using the systems, and 27% more are planning to install them by the end of next year.

Consistency Is Attractive

"Driving that growth is a recognition that AI might create more consistent quality, credit analysis, or service," said Robert E. Moll, a director at the consulting firm Arthur D. Little Inc., Cambridge, Mass., in an interview this year. "Among bankers, there is a strong desire for this consistency."

Expert systems, a branch of artificial intelligence sometimes called knowledge- or rule-based systems, are programmed to use the knowledge of an expert or group of experts to work through a problem by considering a long series of "if, then" propositions.

This kind of system, which costs from $1,000 to millions of dollars to develop, is one of the new technologies that banks will employ to create information from raw data, according to Charles W. McDonough of Andersen Consulting in Detroit.

Wide-Ranging Applications

The systems are often used in credit scoring and lending decisions that have well-defined analytical procedures. But the applications are wide-ranging, from sales programs for retail customers to fraud detection in credit cards or foreign exchange trading.

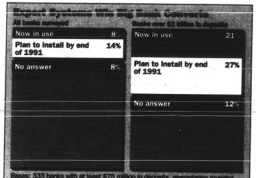
"If the application is chosen correctly, it can help the bank operate more efficiently or uncover new business opportunities," said Susan Garavaglia, vice president at Chase Manhattan Corp. and chairman of Smart FS, a New York-based group of financial service companies that exchange information on new and emerging technologies.

Chase has expert systems for trust and trade products. It also has an expert system that augments payroll processing.

Finding a Rationale

Banks have been tinkering with this technology since the mid-1980s.

The first such systems were built on expensive, specialized processors. Their software was incapable of sharing information with a data base on a run-of-the-mill computer, so the expert system had to do all the processing that an application needed, from storing and retrieving information to performing mathematical calculations.



Moreover, engineers, eager to explore this new processing capability, built systems that did not always address business problems.

"It was sort of, 'Expert systems are the answer,'" said Craig Atkinson, vice president in the strategic technology and research group at the banking unit of Manufacturers Hanover Corp. "But what was the question?"

Hanover Is a Leader

Hanover has emerged as a leader in creating systems that use rule-based programs. It is the only two-time winner of an award from the American Association for Artificial Intelligence. As part of its commitment to using this technology, Hanover built an expert system that finds whether a particular processing need is a candidate for an expert system, said Mr. Atkinson.

"AI can solve problems that are difficult to solve using conventional techniques," said Mr. Atkinson.

Hanover and other banks have adopted a new approach to creating expert systems, one that clothes existing data bases and processing capabilities in a veneer of artificial intelligence. "Expert systems are becoming integrated into traditional business processing," said Mr. McDonough of Andersen Consulting.

Exploiting Hybrid Systems

"The best leverage we get is to take existing technology and come up with a new application," said Elizabeth Byrnes, a doctor of psychology who joined Hanover four years ago to help design these new systems. "Systems that use AI are now hybrids."

One of Hanover's award-winning systems is Inspector, a foreign exchange auditing system. It sorts through information on foreign exchange deals gathered on existing data bases, mainframe computers, and a communications network. About 20% of inspector is an expert system — "the icing on the cake," said Ms. Byrnes.

Some bank companies have ambitious plans to use expert systems.

First Wachovia Corp. for example, is installing its first such system, which will help clerks handle student loan deferments. In two years, the bank will have a dozen expert systems, said Cecil O. Smith, senior vice president.

Part of what makes these systems popular is the decreasing cost of obtaining the software. Specialized computers have now been replaced by off-the-shelf personal computers, which can be used to develop expert systems to run on mainframes. The cost of the software to build an expert system, called a shell, has dropped to less than $1,000.

Because PCs have been substantially enhanced in the past few years, shells have become extremely powerful and flexible. Lower costs may take this technology out of the hands of big banks and make it available to smaller ones. □

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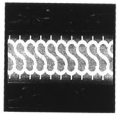

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ISSUES

New Software Helps Manage Risk In Trading Currencies for Clients

By JEANNE IIDA

A small start-up company is selling a software package to help banks analyze and manage risk in the currency trading services they offer to corporate customers.

Bankers Trust Co. is one of four companies testing the software, called IRC/Hedge, which will be offered commercially in several weeks by International Risk Control Inc., Redwood City, Calif. The other participants in the pilot are outside the banking industry and include Morgan Stanley & Co.

Most banks divide their cash flows into two risk categories, according to Joshua W. Sommer, IRC's president and chief executive officer.

Risk in Client Services

Speculative risk arises from traders' speculating on foreign currencies. Fundamental risk is incurred because of the types of business, such as over-the-counter options or forward contracts, that are provided to corporate customers.

The software product is designed to manage fundamental risk, Mr. Sommer said.

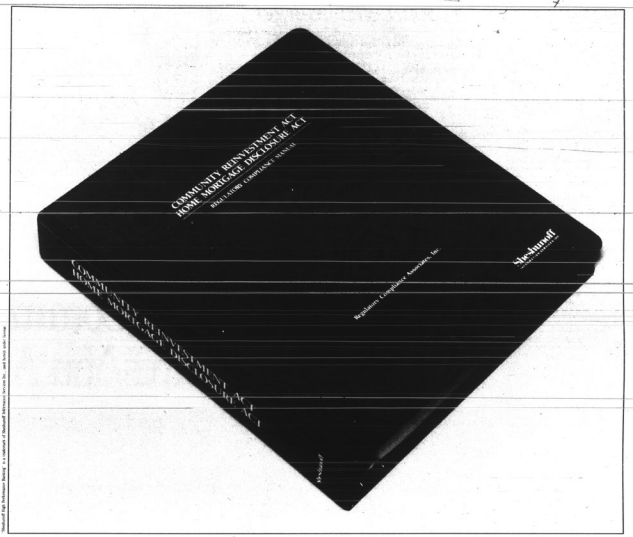
IRC/Hedge can analyze portfolios of 20 or more currencies. The software evaluates how risky each currency is and recommends the position the company should take in the futures or options markets. As part of its task, the software evaluates hedging instruments.

Mr. Sommer said most banks are probably not hedging for fundamental risk at all.

Banks that hedge against risk also may not realize that some of their positions are naturally hedged by the nature of the currencies they are holding. The software can help them eliminate unneccessary hedging, Mr. Sommer said.

"For us, risk management means you are able to get a 15% return on overseas assets" over and above the interest rates charged in that country, said Mr. Sommer.

Leases for the software start at $5,000 a month. The package runs on personal computers from International Business Machines Corp. and on workstations from Sun Microsystems Inc. □



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Mixing Glue for Southeast Merger

Continued from page 6

work, Mr. Wilt said.

Mr. Bottorff is reportedly following a similar path in handling the C&S/Sovran transition team. He has encouraged lower-level officers to come up with plans for merging their departments.

Four Top Policymakers

A four-man office of the chairman will set major policy for the combined organization. The office will comprise the two top officers from each bank: Mr. Bottorff and Sovran chief executive Albert B. "Buck" Gornto Jr., 60, and Mr. Brown and C&S president Hugh Chapman, 57.

Mr. Brown and Mr. Gornto both favored the C&S/Sovran merger, Sovran board member Albert B. McKinnon said, and each knew that only one could be the merged companies' first chief executive. They compromised, with Mr. Gornto agreeing to step aside for Mr. Brown and getting an understanding that Mr. Bottorff would succeed Mr. Brown.

"To ensure Sovran's continuing equality in the situation, they needed to have somebody, and Denny was there," said Mr. McKinnon, president and chief executive of Norfolk Southern Corp.

'A Fair Arbitrator'

Mr. Bottorff's candidacy was helped by the fact that he had been with Sovran only 2½ years. "Denny is viewed as a fair arbitrator because he doesn't have strong Virginia ties," said Robinson-Humphrey's Mr. Burke, "and he obviously doesn't have strong Georgia ties."

Wall Street is generally enthusiastic about C&S/Sovran's prospects with Mr. Bottorff at the helm. "When Denny takes over C&S/Sovran, he's going to be very good at it," predicted Lacy Shockley, vice president and banking analyst at Smith Barney, Harris Upham & Co. in New York.

This confidence is based on the turnaround Mr. Bottorff engineered at Commerce Union between 1982 and 1987, when return on assets soared from 0.5% to 1.22%. In his subsequent two years as Sovran's president and chief operating officer, he helped revise the company's fundamental business strategy.

Trained as an Engineer

The son of a contractor, Mr. Bottorff earned an engineering degree from Vanderbilt University in Nashville. Perhaps because of his engineering background, he is unflappably methodical in his approach to problem-solving. Associates say he organizes his notes point by point, bulleting each item.

After earning a master's degree in business at Northwestern University, Mr. Bottorff joined Commerce Union in 1968 as a banking officer trainee. In the 1970s, he rose rapidly, gaining experience in commercial accounts, credit administration, branch supervision, international banking, and corporate planning.

Though Mr. Bottorff has limited experience running a super-regional bank, his supporters insist that his diverse experience more than qualifies him to run the $47 billion-asset C&S/Sovran.

Knowing the Basics

"He knows the basics of what happens with different functions inside the company. You can add zeros to it, but the basics are still happening," said Sovran chief financial officer Dale W. Polley, who followed Mr. Bottorff to Norfolk from Commerce Union.

In 1982, when Mr. Bottorff was appointed president and chief operating officer, Commerce Union was one of the worst-performing large banks in the South. Overly ambitious expansion, particularly in the international field (for example, the bank had made development loans to Zaire), left the company with sagging earnings and a shaky loan portfolio.

"That bank tried to be all things to all people," recalled Glenn W. "Buck" Jones Jr., partner and senior securities analyst at J.C. Bradford & Co. in Nashville.

Pruning and Cultivating

Mr. Bottorff initiated comprehensive planning at Commerce Union to identify businesses the bank should keep and those it should jettison. As part of the turnaround, he also moved to improve the bank's credit quality.

During this period, Mr. Bottorff evolved a theory about customer segmentation: A financial institution should focus on its customers rather than on lines of business or products dictated by regulatory structures.

By 1987, when Sovran came calling, Mr. Bottorff had strengthened Commerce Union

See **BOTTORFF** *next page*



GETTING A WORKOUT: Dennis C. Bottorff, designated to be chief operating officer of C&S/Sovran Corp., has been chairman of the team preparing for the merger this week of its two constituents.

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Bottorff, the Tie that Binds Sovran to Citizens and Southern

Continued from page 12

ecough to command the attractive price of $654 million, or 2.42 times book value.

Some question, however, whether Mr. Bottorff achieved the highest premium possible. It is well known that Charlotte, N.C.-based First Union Corp. expressed an interest in Commerce Union at the same time but that Mr. Bottorff preferred to close the deal with Sovran rather than allow First Union to bid.

Sovran Friendly to Newcomers

Sovran was then a young company, formed by the 1983 merger of two Virginia banks, with a reputation for retaining and promoting managers of acquired institutions. First Union, on the other hand, has always been dominated by chairman and chief executive Edward E. Crutchfield Jr.

"It's not an auction process," Mr. Bottorff said, explaining that acquired companies have the right and obligation to consider the needs of employees and customers as well as shareholders. "The interests of employees are very much intertwined with maximizing shareholder value."

J.C. Bradford's Mr. Jones said Commerce Union got a "fair" price from Sovran.

"In the sometimes less-than-virginal environment of mergers and acquisitions, where personal considerations and nonprice or nonshareholder considerations come in, I suspect the deal with Sovran will stand as much scrutiny as any deal you want to look at," Mr. Jones said.

Whether Mr. Bottorff is allowed to carry out his ideas at C&S/Sovran depends on his success in merging the two companies.

Winning Over the Board

Mr. Bottorff has fared quite well at Sovran.

The deal allowed him to seat six Commerce Union directors on a 32-member Sovran board, and he was named vice chairman. By April 1988, when the Sovran board met to choose a new president and chief operating officer, Mr. Bottorff had won the allegiance of enough Sovran directors to capture the post.

"It certainly wasn't handed to him," said Mr. Gornto, who became Mr. Bottorff's boss. "Although Denny may have been from top to bottom, weeding out inefficiencies and consolidating strengths.

After a year of study, the board adopted a relationship-management strategy last October. Like Commerce Union's customer-segmentation strategy, it focused on customer categories and increasing the number of services used by existing customers.

The C&S/Sovran merger was originally scheduled to close in the first quarter but was delayed by community reinvestment challenges and the scrutiny of southeastern real estate loan portfolios by the Office of the Comptroller of the Currency. C&S/Sovran officials now expect to close the deal this week.

Whether Mr. Bottorff is allowed to carry out his ideas at C&S/Sovran depends on his success in merging the two companies, whose traditions and policies are distinctly different. Sovran is characterized by openness and flexibility, but C&S is dominated by a tightly knit board and management group.

This article originally appeared in *Southern Banker*.

Mr. McKinnon was one of the Sovran board members Mr. Bottorff had to win over. "The thing that impressed me, and obviously impressed other Sovran board members, was his willingness to face problems and try to deal with them directly and very incisively," Mr. McKinnon said.

Using Proven Planning

Mr. Bottorff moved quickly at Sovran to institute corporate planning modeled on the process he used at Commerce Union. He stressed the need to examine the organization from top to bottom, weeding out inefficiencies and consolidating strengths.

After a year of study, the board adopted a relationship-management strategy last October. Like Commerce Union's customer-segmentation strategy, it focused on customer categories and increasing the number of services used by existing customers.

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This article originally appeared in *Southern Banker*.

Jarrett Resigns From Ameritrust

Continued from page 2

ties on an interim basis. Mr. Smith, 65, has been a director of the bank since 1980. The company said he has been active in Ameritrust operations for several months as chairman of a special board committee focusing on credit quality concerns.

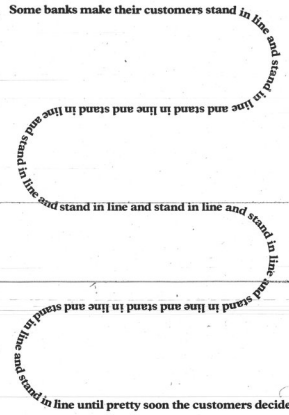
Mr. Smith previously was chairman and chief executive of Ransburg Corp., an Indianapolis-based industrial equipment company.

In late afternoon trading, Ameritrust stock was trading at $14.125 a share, up 50 cents from Monday's close.

Mr. Jarrett, who had been chief executive since 1982, joined Ameritrust in 1974 as a vice president in corporate banking.

This month, the $11 billion-asset bank holding company announced it would take as much as an $18 million charge against third-quarter earnings and cut its work force by 11.5%, or 780 employees.

Mr. Smith announced that, at his suggestion, Ameritrust had hired Thomas R. Williams, retired chairman of First Wachovia Corp., as a consultant. It also appointed James D. Rode, 42, as chief operating officer of the holding company and chairman and chief executive of its main banking subsidiary. □



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INTERNATIONAL NEWS

GLOBAL *dispatches...*

Japan Puts Money Policy On Hold over Arab Crisis

By KUNIO INOUE
Reuters

TOKYO — The Bank of Japan finds it inappropriate to alter its monetary policy significantly while the situation in the Middle East and its impact on the Japanese economy are still unclear, government and central bank officials sa...

"Our policy remains the same. That is, we are continuing to to check excessive rises in short-term interest rates, and nothing more than that," a senior Bank of Japan official said.

A senior government official also said, "Now is not the best time to consider a discount rate rise as we're still assessing the exact impact of the Mideast crisis on our economy."

Injection of Funds

The government official, who is familiar with the central bank's monetary policy, said an early discount rate rise also was undesirable because it could slow Japan's capital investment and reduce the U.S. Federal Reserve's leeway to adjust monetary policy.

"In fact, I haven't seen any clear evidence that the Bank of Japan is actually moving to raise the discount rate now," he said.

The senior monetary official also said the bank needed to get further information about the Mideast crisis before altering its present policy. He said the central bank would continue to inject sufficient funds into the banking system whenever necessary to counter speculative upward pressure on money market rates.

"We will keep providing funds because we don't want financial markets to have the false idea that we would tolerate higher rates and eventually move to raise the discount rate," he said.

Second Rise Was Expected

The central bank last raised the discount rate on March 20 to 5.25% from 4.25%. Speculation of another rate rise intensified, especially after oil prices shot up in the wake of the Aug. 2 Iraqi invasionf.

Another Bank of Japan official said although potential inflationary pressures are growing due to rising oil prices, the yen's recent strength should take some of that pressure away from domestic prices. "The rising yen is obviously a favorable factor when we talk about prices," he said.

... by country

UNITED KINGDOM

The Bank of England said it was banning any payments to Kuwait and Iraq on contract and performance bonds, in line with its emergency banking and finance freeze on those two Arab states.

Such bonds are usually extended by banks to Western companies needing them to comply with contracts overseas.

The British central bank explained that, in the present Gulf emergency, a "significant number" of British export contracts to Iraq and Kuwait have been halted. — **Reuters**

Continental Banking Corp. has terminated specialized trading activities at its Frankfurt and Paris branches and is instead concentrating these operations in London and New York, the company said in London.

Roy Degenhardt, Continental's senior vice president for Europe, said the bank made the decision in order to reduce its operating costs, but stressed the action did not reflect a withdrawal from European markets.

"In line with the bank's overall policy, we will continue to offer corporate finance, including raising equity and acquisition finance, as well as risk management services in Paris and Frankfurt, staying in those centers because there's where our customers are," he said.

"We're trying to anticipate the benefits of 1992 developments in Europe and operate a much more rational cost-base."

About 15 to 25 staffers in Paris and Frankfurt will lose their jobs. — **John Evans**

SINGAPORE

Kuwait's Gulf Bank expects to continue its only overseas operation, based in Singapore, and thinks countries that froze its assets will release them, a senior bank official said.

"The bank's assets have been frozen in a number of countries, but over a period of time we would expect them to be unfrozen," the Gulf Bank's acting chief general manager, Stuart Webster, said in an interview.

Singapore last week prohibited banks and financial institutions from transferring government and private Kuwaiti and Iraqi assets without the prior approval of the Monetary Authority of Singapore. — **Reuters**

VENEZUELA

The World Bank has approved a $300 million loan for Venezuela's Environment Ministry to improve waterways in Caracas and clean up polluted lakes and rivers, a ministry official said.

The ministry's planning director, Cilino Gonzalez, said the project to improve the water system – which left the entire city virtually without water for two weeks following a fire at a pumping station – is stipulated in the letter of intent signed with the World Bank last year. — **Reuters**

Money Flowing Out of Gulf's Banks . . .

Reuters

DUBAI — Banks in the Persian Gulf area are being virtually locked out of international money markets by foreign banks that are keeping their trading doors shut to the Gulf institutions.

Regional bankers and brokers said that though the large Saudi domestic money market was showing signs of life, Gulf banks' credit lines abroad had been severely curtailed. They said they saw no sign that overseas banks would relent soon.

Business in Bahrain's offshore banking center, the only such facility in the Gulf, has been devastated by the loss of confidence since Iraq's invasion, bankers said.

Others Also Troubled

Banks in the United Arab Emirates, Qatar, and Oman are also having varying degrees of difficulty.

"What is killing the market is that Japanese banks will not only not lend money into the Gulf, they will also not take money from the region," said one Gulf money broker.

The Japanese appear to have decided to avoid the Gulf, bankers said, and many European and U.S. banks have also kept their credit lines closed.

Gulf banks' credit lines abroad had been severely curtailed, and there was no sign that overseas banks would relent soon.

"Even some Gulf banks have cut lines to [other] Gulf banks," said one banker.

The situation has effectively removed Eurodollar dealings, all off-balance-sheet trading, and even dollar-sterling, and mark-yen trading for some Gulf banks, money brokers said.

Brokers estimated Bahrain money market business was at a fifth of its pre-invasion level.

Faced with panic withdrawals after the invasion, most Gulf banks pulled in their positions and tried to preserve their liquidity, not knowing what would happen next.

Arab banks on a U.S. Treasury list of banks under review because of their exposure problems and large Kuwaiti or Iraqi holdings have been particularly badly affected.

Although the U.S. Treasury subsequently removed some of them from the worst-affected category, which classified them as blocked entities, they still live under a shadow, bankers said.

Bankers said the line has so far been largely held by the Gulf's central banks, which have always been highly secretive institutions, shunning publicity even when some Gulf bankers would have preferred more public support from them.

With the exception of the Bahrain Monetary Authority (BMA), all the Gulf central banks have advised their banks to meet all cash demands and have supported them with liquidity. □

. . . but Few Deposits Coming to U.S.

By JAMES R. KRAUS

NEW YORK — As billions of dollars flee banks in troubled Persian Gulf states and oil producing countries' revenues rise sharply, banks worldwide are bracing for a new flow of funds.

But unlike the 1970s, when the rise in oil prices sent billions into U.S. financial institutions, only a handful of U.S. banks stand to profit, said bankers and analysts.

This time around, they said, the dollar's low value against other currencies, poor investment opportunities in the United States because of the economic slowdown, and U.S. banks' lack of the broad international networks needed to recycle funds are sending the money into big European and Japanese banks instead.

Little Appeal Seen

"U.S. banks are not attractive depositary institutions. The petrodollar recycling won't be replicated," said Paul M. Sacks, president of Multinational Strategies Inc., a New York-based international adviser.

Mr. Sacks added that most of the deposits are going to Europe and Japan because investment opportunities are better there and in Southeast Asia and because U.S. banks lack international investment relationships.

Data on the flow of money out of banks in the Gulf states are not available, but some estimates put the outflow at 10% to 40% of the deposits in places such as Saudi Arabia, Bahrain, and the United Arab Emirates.

Moves Could Be Temporary

"The view at the moment is that you get it out to places where it's safest, even if it may not be placed there permanently," said Stephen Timewell, editor of *Arab Banker* in London.

Mr. Timewell added that Switzerland has proved particularly attractive for tax reasons.

Bankers and analysts said that one of the clearest indications that money was not flowing into U.S. banks has been the steady fall in the dollar.

The corresponding rise in such currencies as the Swiss franc, German mark, and Japanese yen tells where the money is going, they added.

Spokesmen at large U.S. banks either declined to comment on how developments in the Middle East have affected their institutions or said that they have have not noticed any unusual increase in deposits.

But banking sources said that Citicorp, the only U.S. bank with a significant presence in the region, has been hit by the same withdrawals and slowdown in business that has affected other banks, and that large deposits have also been moved to Citibank accounts elsewhere.

Citicorp owns a 40% stake in the $6.8 billion Saudi American Bank and has a branch in Bahrain.

Other banks with offices or links to the region are J.P. Morgan & Co., Chase Manhattan Corp. Manufacturers Hanover Corp., Bank of New York, and UBAF Arab American Bank, a consortium bank in which Bankers Trust New York Corp., First Chicago Corp., Security Pacific Corp., and Texas Commerce Bancshares Inc. all hold small minority stakes. □

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	8/28	8/27	8/21	8/28	8/27	8/21	8/28	8/27	8/21	8/28	8/27	8/21	8/28	8/27	8/21
United States	8.06	8.00	8.12	8.18	8.25	8.18	8.25	8.32	8.25	7.00	7.00	7.00	10.00	10.00	10.00
Japan	8.43	7.50	7.43	8.28	8.25	8.06	8.40	8.50	8.25	5.25	5.25	5.25	7.13	7.13	7.13
Canada	13.75	13.25	13.00	12.75	12.88	13.12	12.43	12.62	12.50	13.01	13.01	13.34	14.25	14.25	14.75
U.K.	15.00	15.00	15.00	14.93	15.00	15.06	14.81	14.94	15.00	14.25	14.25	14.34	15.00	15.00	15.00
West Germany	7.50	8.00	8.06	8.40	8.50	8.50	8.75	8.75	8.81	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	7.00	7.00	8.62	8.62	8.63	8.93	8.75	8.75	9.00	6.00	6.00	6.00	10.88	10.88	10.88
France	9.93	9.75	10.00	10.31	9.95	10.37	10.50	10.25	10.56	9.50	9.50	9.50	10.50	10.50	10.50
Italy	10.25	11.25	10.50	11.50	11.75	11.62	12.00	12.25	12.00	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.13	14.20	8.76	8.72	8.32
6 to 12 months	8.31	13.24	9.04	8.43	8.40
12 to 24 months	8.39	12.62	9.22	8.66	8.20

*Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.



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COMMENT/MERGERS
Deals Collapse as Buyers Rethink Risk

By REID NAGLE
President
SNL Securities

Falling stock prices and recessionary fears have resulted in a rash of deal cancellations as wary buyers re-evaluate transactions negotiated in headier times. In just eight weeks since the start of the second quarter, seven bank and thrift mergers and acquisitions have been terminated, mostly at the behest of buyers concerned about either paying too much or taking on shaky assets.

At the beginning of the second quarter, there were 36 pending mergers or acquisitions involving publicly traded banks and thrifts as targets. The subsequent cancellation of 20% of these deals represents an unprecedented fallout rate, and one which stems from mounting fears of a recession coupled with plummeting bank stock prices.

Fed Blocks Bank of New York

The most notable of the deal terminations involved Bank of New York Co.'s proposed acquisition of Northeast Bancorp. Pursuant to an agreement signed in 1983 and subsequently revised, Bank of New York was slated to acquire Northeast Bancorp for 2.5 times book value, an indicated deal value of $545 million based upon June 30 financials.

Bank of New York, saddled with a weak capital position as a result of its protracted acquisition of Irving Bank Corp., rising levels of nonperforming assets, and a depressed stock price, indicated early in the year its desire to abandon a transaction negotiated at a time when the New England economy and bank stock prices were more robust. Northeast Bancorp, not surprisingly, wanted to consummate a transaction that would unquestionably deliver the highest possible value to its shareholders.

Enter the Federal Reserve. The regulatory agency, charted with approving mergers of bank holding companies, denied the acquisition on the grounds that "the tangible capital ratios for the combined organization would not be substantially above the Board's minimum capital levels and would be less than the current average levels of BONY's peer group of the nation's largest regional banking organizations."

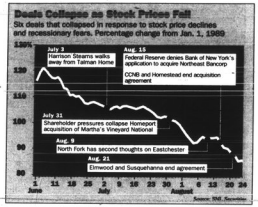
Northeast's president, George Kabureck, places the blame for the Fed's decision squarely on Bank of New York. BONY "basically failed the tangible net worth test as a result of its acquisition of Irving and the subsequent acquisition of several credit card portfolios." Mr. Kabureck claims that Bank of New York made acquisitions after its 1983 agreement with Northeast that prevented the deal from coming to fruition and further that, when confronted with the Fed's rejection of the acquisition agreement, failed to amend the agreement in a way that would have insured its approval. Specifically, Northeast believes that if the deal had been amended to provide for payment exclusively in common stock, the deal would have received Fed approval.

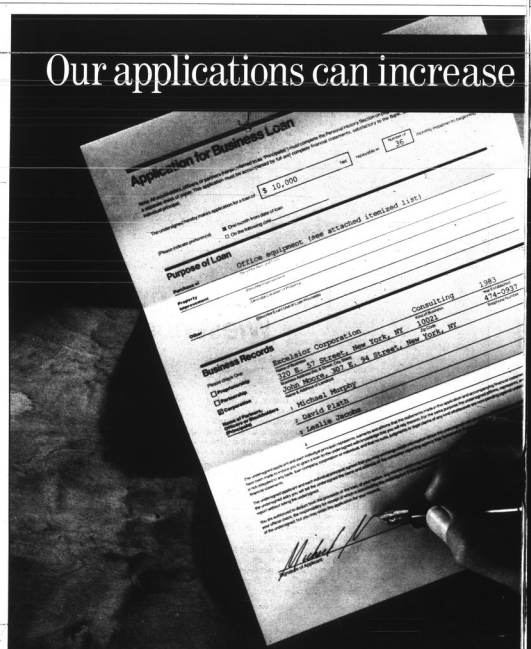
With Bank of New York unlikely to appeal the decision, the acquisition agreement now moves to court where Northeast is seeking damages for Bank of New York's alleged breach of contract. The stakes are high. Under the terms of the agreement, BONY would have paid Northeast shareholders $75 per share. Today, Northeast shares trade at $13.

Thrift Transactions Unglued

Of six other deals terminated since the beginning of the third quarter, all involve thrifts — five as the target and one as the acquirer. The largest of these transactions, a $400 million purchase and recapitalization of Talman Home Savings, was aborted by the lead investor, Harrison Stearns, during a due diligence review of the trans-

See **WARY** *next page*





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COMMENT/MERGERS
Wary Buyers Reevaluate Deals

Continued from *page* **18**

action.

In the one instance of a terminated acquisition that involved a savings bank as the acquirer, Home Port Bancorp canceled its plans to acquire Martha's Vineyard National Bank. The cancellation came despite Home Port's defeat of earlier proxy initiatives by dissident shareholders seeking termination of the transaction.

The remaining three transactions canceled since the beginning of July all involve proposed acquisitions of small Pennsylvania thrifts by Pennsylvania banks. In deals ranging in value from $10 million to $23 million, F.N.B. Corp. is in court attempting to vacate its acquisition of Dollar Savings; Susquehanna Bankshares and Elmwood Federal mutually terminated their proposed combination; and CCNB Corp. and Homestead Holdings jointly agreed to terminate their pending transaction.

While reasons given vary from deal to deal, most terminations result from the buyer's realization that the negotiated purchase price was too high and would cause shareholder dilution. In many instances initial buyer optimism reflects reliance on accounting measures of performance and value that don't adequately reflect economic and financial reality.

Chris Quackenbush, managing director of the investment banking boutique Sandler O'Neill, thinks buyers have learned an important lesson in the past year about assessing the value of depository franchises, and that sellers' expectations will soon begin to decline as well. "You have to live in this [depressed] market for a year or so before people begin to accept realistic pricing. [buyers] should virtually ignore book value and pay attention to the fundamentals" of the franchises for sale.

Private Acquisition Deals
(Dollar Amount in Millions)

August 18-25

Status	Seller	City/State	Assets	Value	Buyer	Assets
T	Union Bank	Kansas City, Mo	76	NA	Landmark Bancshares, Mo	1,966
T	Universal FSB	Media, Pa	237	23	Susquehanna Banks, Pa	1,548
C	La Jolla Bancorp	San Diego, Calif	511	103	Security Pacific, Calif	85,941
P	Homestate Bancorp	Salem, Ind	72	6	RNB Fin'l, Ind	5,988
N	Hillsdale Valley Bancp	Pleasanton, Calif	388	NA	N. Calif. Comm. Bancp.	387
N	Affil. Bank Burlington	Burlington, Ill	29	NA	Old Second Bancorp, Ill	427
N	TC & Twin City Bank	North Little Rock, Ariz	761	75	Worthen Banking Corp, Ariz	1,791
P	People Mid-district	Bloomington, Ill	299	52	RNB Fin'l, Ind	5,988
C	Mother Lode SB	Sacramento, Calif	170	NA	U.S. Bancorp, Ore	17,748

Status: C= Completions; P= Announcement; T= Terminations; N= Non Binding Intent

Deals in Peril

In addition to the seven transactions terminated in recent weeks, several other pending acquisitions appear to be on the ropes and unlikely to be consummated in their current form. The proposed acquisition of BankWorcester by Royal Bank of Scotland appears certain to be either terminated or substantially revised. The original agreement called for Royal Bank's Rhode Island subsidiary to pay $22.50 in cash for each BankWorcester share. The stock now trades at less than $13 a share, reflecting investors' belief that Royal Bank will exercise its option to abandon or renegotiate the transaction if nonperforming loans reach an unacceptable level.

Another transaction that appears questionable is BMR Financial Group Inc.'s proposed acquisition of First Chattanooga Financial Corp., an institution more than twice as large as its bank acquirer.

First Chattanooga spokesman Bert Hicks said he knows of no reason why the transaction would not be consummated, and expects regulatory approval of the transaction from the Office of Thrift Supervision. "It's a sweet deal for our shareholders," said Mr. Hicks. Nonetheless, the marketplace seems concerned that the deal may not go through as currently structured. First Chattanooga currently sells at a 59 discount to a deal value of approximately $24 per share.

On Tuesday, Spencer H. Wright, chairman and chief executive officer of First Chattanooga, and James. L. Greene, chairman and chief executive officer of BMR, announced jointly that an agreement in principle has been reached to terminate the agreement and plan of reorganization.

The two executives noted that current uncertainty and instability in financial markets have made prospects for the acquisition less promising.

Share Price Instrumental

Two other large transactions appear sound for the moment, but are subject to termination by one or both parties if the acquirer's share price falls outside a specified range. Currently, it appears that Home Savings Bank could vacate its acquisition by Ahmanson if the latter's price were to continue to decline. Except in dire circumstances that option seems un-

See **WARY** *page* **22**

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Auction Notices

C. LAUDISI & ASSOCS., INC. auct'rs sell September 6, 1990 at 10 AM at 219-02 Horace Harding Expressway, Qns 1983 Datsun #JN1FB1J54D1034389 Acct., C.J. Michaelis; 10:30 AM at 39-15 Prince St., Qns 1983 Pontiac #2G2AG19R6D1237436 Acct., R. Goodman; 11 AM at 112-12 Astoria Blvd., Qns 1989 Hyundai #KM8LF21P9KU485017 Acct., Pac Leasing Corp and/or D. S. Bradely; 1985 Buick #1G4NM27L2FM421513 Acct., M. Porter; 1985 Toyota #JT2MA63L8F0155414 Acct., M. Dumont; 12:30 PM at 96-14 Northern Blvd., Qns 1987 Mercury #1MEBM53U5HA644039 Acct., C. P. Castano; 1989 Mitsubishi #JA3CU46X4KU035405 Acct., Mercier Credit Corp. and/or T. Palmer; 1 PM at 108-53 Roosevelt Ave., Qns 1979 Honda #SNF1018906 Acct., M. L. Gil; 1:30 PM at 70-11 50th Ave., Qns 1982 Chevrolet #1G1AW19R0CG102249 Acct., J. Martinez; 1077 Chevrolet #1L3S37J315577 Acct., F. Hernandez; 3 PM at 29 Lincoln Ave., Bklyn 1984 Yugo #VX1BA12J1GCJ03362 Acct., J. Cruz; 4 PM at 216-20 Hempstead Ave., Qns 1974 Jeep #34A15CN85325 Acct., Joan or John Doe Etal. Published August 22 & 29, 1990.

R. A. Felder Lic Auctr #793917 sells on 9/13/90 10 AM at 356 Ann St, Newbrg 70 Chevy #1Z48T0N517891 Re: B. Baldwin; 10:30 AM at 137 Valley St, No. Tarrytwn, '84 BMW #WBADK7309E9201525 Re: J. Tucker; 11 AM at Lake Bluff Rd, Rt. 9D, Northrose, '72 Chevy #V37Y9697D0 Re: S. Vrooman & G. Mastrodonato; 11:30 AM at Rt 52 & Millbolland Dev, Fishkill, '88 VW #WBWGA0303JP076186 Re: J. A. Morley & A. M. Inconmi Jr. Published 8/29 & 9/5/90.

DEFAULT In Security Agreement Made By Brooklyn Soup Group, Inc. to Louis Oliveri & Michael Pecora I Will Sell On 8/30/90 At 10 AM At 1816 18th Ave., Bklyn, NY All Right, Title & Interest In & to Fixtures, Equipment & Inventory Subject To & All Prior Liens & Mortgages. Secured Party Reserves The Right to Bid, FRANK E. SEIPP, Auct'r Lic #7322334 of F.E.S. AUCTIONS INC, As Agents

Hal Zakow auct'r sells on 9/5/90 at 5 PM at 899 East 134th St Bnx NY '88 Honda #1HGCA56402A152232 Re: Widmer Alley & Municipal Credit Union. Published 8/22/90 & 8/29/90.

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FINANCE

DEALS

HLT Loans Soar At First Chicago, Slide Generally

Continued from page 1

said. "Banks are carefully managing their exposure."

At the end of the second quarter, the top 25 leveraged lenders had $68.948 billion in HLT loans outstanding, down from $70.174 billion in the first quarter. SNL did not provide data on the percentage of HLT loans that were nonperforming.

Citicorp Is No. 1

Citicorp held the largest HLT portfolio in the second quarter, $8.82 billion, although the size to assets was below the industry average.

Clearly, the growth of HLT portfolios slowed dramatically as the banks began to reclassify loans in February. Though federal regulators did not put limits on HLT lending, they made the range of definitions banks used persuaded regulators to define the term and number of loans to classify separately all leveraged loans.

But this vague had already been tightened by market forces, as the Campeau bankruptcy and the failed UAL buyout in October scared lenders and knocked the wind out of the market for subordinated high-yield debt.

Nevertheless, the reclassification has given bank analysts an occasion to scrutinize banks' assets more closely. Many analysts still fear that underperforming loans could continue to rise in the banks' HLT portfolios.

And despite the increases in loan-loss provisions this year, some analysts say that HLT portfolios are not quite out of the woods yet.

Even the number of deals in trouble or in need of restructuring, S&P expects a rough year ahead," Standard & Poor's Corp. analyst Tanya Azarchs wrote recently. "Nonperformers will rise beyond current levels, though perhaps in a bumpy fashion."

Banks are clearly in a bind

See **HLT** *next page*

Top 25 Banks in HLT Loans

Among the 400 publicly traded banks, the 25 with the largest amount of highly leveraged transaction loans outstanding on June 30, 1990, compared with March 31, 1990 (dollar amounts in millions)

HLT Rank	HLT Rank Previous Quarter	HLT 6/30/90	HLT 3/31/90	Total Assets 6/30/90	Total Assets 3/31/90	HLT as a % of Assets 6/30/90	HLT as a % of Assets 3/31/90
1	1	Citicorp, New York	8,820	8,774	227,752	238,071	3.87%	3.68%
2	4	Bank of New York Co., Inc.	4,720	4,020	49,954	47,845	9.60	9.41
3	3	Chemical Banking Corp., New York	4,501	4,497	102,371	108,617	4.40	4.19
4	5	Security Pacific Corp., Los Angeles	4,400	4,800	94,547	89,463	4.65	5.36
5	2	Bank of Boston Corp., Boston	4,205	4,815	37,287	37,285	11.28	12.91
6	7	NCNB Corp., Charlotte, N.C.	3,051	3,076	66,189	63,683	5.52	6.01
7	8	Bankers Trust New York Corp.	3,000	2,600	50,361	49,992	7.15	5.20
8	12	Wells Fargo & Co., San Francisco	3,000	2,000	61,712	60,170	4.86	3.32
9	9	Bankers Trust New York Corp.	3,000	3,700	57,341	59,287	5.10	6.24
10	6	Chemical Banking Corp., New York	3,400	3,469	75,215	74,150	4.52	4.68
11	11	Manufacturers Hanover Corp., New York	3,200	2,987	63,549	59,713	5.04	5.00
12	10	J.P.Morgan & Co., Inc., New York	2,900	3,100	99,100	89,751	3.11	3.45
13	13	Continental Bank Corp., Chicago	2,700	3,000	29,532	29,095	9.14	10.34
14	14	PNC Financial Corp., Pittsburgh	2,597	2,599	47,823	46,710	5.43	5.54
15	15	BankAmerica Corp., San Francisco	2,300	2,300	103,990	101,057	2.21	2.28
16	16	First Union Corp., Charlotte, N.C.	1,675	1,622	38,385	39,084	4.36	4.15
17	19	Mellon Bank Corp., Pittsburgh	1,614	1,439	31,670	30,759	5.10	4.68
18	17	Bank of New England Corp., Boston	1,200	1,560	23,071	24,899	5.59	6.30
19	20	Corestates Financial Corp., Philadelphia	1,241	1,191	22,765	22,239	5.45	5.35
20	18	MNC Financial, Inc., Baltimore	1,102	1,200	27,339	25,872	4.01	4.64
21	21	First Bank System, Inc., Minneapolis	828	961	19,425	20,249	4.26	4.75
22	22	Midlantic Corp., Edison, N.J.	816	816	24,203	23,744	3.37	3.80
23	24	First Interstate Bancorp., Los Angeles	789	784	61,052	61,143	1.29	1.27
24	23	Ameritrust Corp., Cleveland	776	838	11,097	10,825	6.99	7.72
25	25	U.S. Bancorp, Portland, Ore.	743	764	17,749	17,227	4.19	4.43
		Total	$68,948	$70,174	1,493,887	1,469,158	4.61%	4.78%

Data Sources: All HLT data provided by SNL Securities, Charlottesville, Va., from its rate base of 400 publicly traded commercial banking companies. HLTs are highly leveraged transaction loans. A "purpose test" has been developed by the federal bank regulators to define an HLT transaction. A bank holding company is considered to be in noncompliance of the guidelines if it has HLTs in addition to its core capital that exceed 75% of its core capital. In addition to the purpose test, there is a definitional test that is used to determine whether the financing of a particular transaction is an HLT. The definitional test mandates that for the transaction to be considered an HLT: (1) the transaction at least doubles the subject company's liabilities and results in a leverage ratio (total liabilities/total assets) higher than 50%; (2) the transaction results in a leverage ratio higher than 75%; or (3) the transaction is designated by the lead bank as an HLT by a syndication agent. To qualify under the transaction rules in the credit an HLT, when the credit meets the purpose test but is not covered by any of the three criteria above. The new rules will not affect the status of outstanding HLT borrowers, regardless of whether they meet the definition of HLT. Banks with significant HLT data for March 31, 1990, were required to report HLT data for June 30, 1990, even if they had fallen below the 25 as of March 31 were not available. The ranks shown for March 31 were generated by American Banker using the March data for the top 25 banks on the June 30 list. Securities Data Publishing tracks publicly traded companies. Thus, the number ranges from 400 to 1,000 for major foreign-owned U.S. holding companies — Deutsche Bank Capital Corp., Dresdner Bank Holding Corp., Inc., Dresdner Securities, Inc., Buffalo, N.Y.; National Westminster Bancorp., Inc., New York; Barclays Bank, Inc., Chicago, and First American Bankshares, Inc., Washington, D.C. — are not included. Also, banks that have been acquired or merged with companies from which the top 25 banks were drawn.

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Auction Notices

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By ANTONIO BELLANTON, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Mercury, 1D#2MEBP95F5FX638805. Together With One Yellow Two Way Radio Rights In Cars #245 & 274. Said Public Auction Sale Will Be Held On Friday, September 7, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

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NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By MAXWELL OWUSU, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1985 Mercury, 1D#2MEBP95F0FX666418. Together With Four-A-Cab Two Way Radio Rights In Car #237. Said Public Auction Sale Will Be Held On Friday, September 7, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

NOTICE OF FORECLOSURE AND SALE BY VIRTUE OF A Default In A Certain Security Agreement Made By JOSE SIERRA, Debtor, To LEAGUE OF MUTUAL TAXI OWNERS FEDERAL CREDIT UNION #1532, Secured Party, Notice Is Hereby Given That G.E.M. Auction Corp., Auctioneer, Will Sell At Public Auction The Following Collateral: 1987 Lincoln, 1D#1LNBM81J7HY815147. Together With Bell Two Way Radio Rights In Car #71. Said Public Auction Sale Will Be Held On Friday, September 7, 1990 At 10:00 A.M. At The Offices Of League Of Mutual Taxi Owners Federal Credit Union #1532, 377 Ninth Avenue, New York, N.Y. 10036. The Secured Party Reserves The Right To Bid And/Or Confirm This Sale. 25% Deposit In Cash Or Cert. Check. Bal. Within 24 Hours. Michael J. Gilhooly. DCA #693772. Sale Subjected To Any Prior And Perfected Security Interest.

C. LAUDISI & ASSOC'S, auct'rs sell September 13, 1990 at 10 AM at 71 Denton Ave, New Hyde Park, L.I. Chevrolet #1G1AW19R3DG109917 Acct., Mr. Ahmad and/or J.E. Orve; 11AM at 170-28 Jamaica Ave., Qns 1983 Oldsmobile #1G3JC5099FK306276 Acct., L.E. Rose and/or D.J. Rose; 1PM at 70-11 50th Ave., Qns 1984 Chevrolet #1G1AS87H3EN179232 Acct., B.V. Rodd; 1986 Mercury #1MEBM66U4GH660028 Acct., Active Tire Sprinkler Corp., 1988 Plymouth #1P3BA46K5JF447447 Acct., J. Averkhiyan; 2PM at 51-30 Northern Blvd., 1982 Chevrolet #WVWCA0534CK031242 Acct., Hanover Insurance Co., and/or E.C. Doyle; 3PM at 110 Emerson Place, Bklyn 1987 Nissan #JN1HU11E1HX035942 Acct., L. Hamilton, Jr.; Published August 29 & September 5, 1990.

Joel Pope auct'r Lic #794209 sells on 9/6/90 9 AM at 1334-96 Ave Qns NY '83 Caddy #1G6AL578BD830199 Re: Chun Young Joon, GMAC; 10 AM at 5-10 Richmond Plaza Bklyn, NY '75 Chevy #1R07D1F444430 Re: G. Sandiago; 11 AM at 2453 Westchester Ave Bnx, NY '79 Jeep #1F89F93H830904 Re: F. Butler; 12 PM at 31-30 44th Rd Qns NY '83 Mazda #JM1FB3314D0762974 Re: F. Robbé; 1 PM at 185 Maspeth Ave Bklyn, NY '91 Plymouth #3P3BP31D3HT734850 Re: F. Flynn, New York Times Emp FCU; '87 Chrysler #J1J3CC54H1HZ033265 Re: Chrysler Financial Corp.; '82 Audi #WAUGB043XCN051166 Re: T. Williams, Barclays Bank of NY; '84 Ford #1FABP0732ET189666 Re: T. Croft. Published 8/22/90 & 8/29/90.

DEFAULT In Security Agreement Made By Miguel Torres to Rodriguez Investors, Inc. I Will Sell On 8/30/90 At 11 AM At 1816 18th Ave., Bklyn, NY All Right, Title & Interest In & to Fixtures, Equipment & Inventory Subject To & All Prior Liens & Mortgages. Secured Party Reserves The Right to Bid. FRANK E. SEIPP, Auct'r Lic #7322334 of F.E.S. AUCTIONS INC, As Agents

CORRECTION NOTICE: E.F. Fazio Auct'r Lic #7987 Sold on 8/14/90 11 AM at 1135 Webster Ave Bnx '79 Cadillac #1G6AW5479BR618145 Re: A. B. Villar. Published 8/29 & 09/05/90.

Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX THE GREEN POINT SAVINGS BANK, Plaintiff against AIDA MARTINEZ et al Defendant(s). Pursuant to a judgment of foreclosure and sale entered herein and dated July 6, 1990, I, the undersigned Referee will sell at public auction in Room 118, Mezzanine, 851 Grand Concourse, Bronx, NY on the 11th day of September, 1990 at 11:00 AM premises beginning at a point on the south side of Watson Avenue 115 feet easterly from the corner formed by the intersection of the southside of Watson Avenue and the easterly side of Virginia Avenue, being a plot 75 ft 4 ins Maspeth Ave Bklyn, NY 91 Plymouth #3P3BP31D3HT734850 Re: F. Flynn, New York Times Emp FCU; '87 Chrysler #J1J3CC54H1HZ033265 Re: Chrysler Financial Corp.; '82 Audi #WAUGB043XCN051166 Re: T. Williams, Barclays Bank of NY; '84 Ford #1FABP0732ET189666 Re: T. Croft. Published 8/22/90 & 8/29/90.

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DEALS: HLT Portfolio for the Top 25 Lenders Shows a Slight Decline

Continued from page 21

with regard to their HLT lending. On the one hand, bank management is feeling pressure from shareholders and regulators to reduce the riskier HLT lending. On the other, the need to deploy high-yielding assets is crucial for banks now, because of the pressure on earnings and the slow growth in the economy.

"There's a big tug of war between reducing exposure and booking loans," said a longtime lender to leveraged companies. "You're not going to make it up with lines to IBM."

Also contributing to the slow but steady pace of HLT lending is that new loans appear to be of better quality -- and often include higher fees -- than deals originated a year or two ago. RJR Nabisco Inc., for instance, is expected to help banks' bottom lines because of the high fees and interest rates of 3.5% over the London interbank offered rate.

> **"The few deals being done now appear to be structured more conservatively."**
>
> **Tanya Azarchs**
> *Standard & Poor's Corp.*

"The few deals being done now appear to be structured more conservatively, with larger equity cushions," Ms. Azarchs noted. She saw such prudence as "holding out the possibility that credit quality may return to normal when the 1988-1989 bulge works its way through the system."

Officials at First Chicago were not available for comment about the huge increase in its HLT portfolio. But a spokeswoman said that $2 billion of the $3.6 billion of HLTs is in communications loans, up from $1.2 billion in the first quarter. Most of the nonmedia new HLT loans came from reclassifying loans already on the bank's books.

Cable and communications loans have been deemed HLTs because of the industry's high leverage, even though most of the loans were not used for buyouts or recapitalizations.

Other banks that have increased their HLT portfolios include Manufacturers Hanover Trust Co., which increased its portfolio by around $200 million, and Bank of New York Corp., which added $200 million in leveraged loans. Hanover has been involved in the year's largest deals, and Bank of New York continued to be a major lender to communications companies.

Cutting Exposure

Banks that have significantly reduced their HLT exposure include Bank of Boston Corp., whose portfolio fell from $4.8 billion to $4.2 billion; Security Pacific Corp., which saw its exposure plunge from $4.8 billion to $4.4 billion in the second quarter; Wells Fargo & Co., which shaved its portfolio from $4 billion to $3.6 billion, and Continental Bank, which went from $3 billion to $2.7 billion.

Bank of Boston has been selling loans in the secondary market to boost capital. Also, its 12.93% HLT-to-asset ratio was an industry high in the first quarter.

A spokeswoman for Security Pacific said its figure fluctuates by a few hundred million each quarter. She noted that the fourth quarter of 1989 showed a $4.1 billion HLT figure.

A Wells Fargo spokeswoman said the bank had a sizeable amount of debt that was paid off in the second quarter. Continental Bank had the second-highest ratio of HLTs as a percentage of assets in the first quarter after it was moved to reduce the figure, bankers said.

At least some banks are actually keeping two sets of HLT numbers, because of the feeling that the definition used by the three banking regulators -- the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., and the Federal Reserve Board -- is too onerous, especially with regard to communications lending.

Mellon Bank Corp., for instance, says in its 10-Q that it has $729 million in HLT loans by its own definition but $1.614 billion as defined by the regulators. The bank's definition "specifically considers industry leverage norms so that the definition of HLTs does not become so broad so as to render the definition a less relevant measure of risk." □

Deals Collapse as Buyers Rethink Risk

Continued from page 19

likely to be exercised. Home Savings spokesman Ron Wong reports that so far the company has "not received any instruction from shareholders not to complete the transaction."

Similarly, U.S. Bancorp's proposed acquisition of Heart Federal in California depends on the acquirers' stock price at the time the deal is completed, probably next spring. While U.S. Bancorp's stock declined along with the market to a level below the specified deal range, the remaining time frame for completion of the deal and the likelihood of a rebound in the prices of healthy banks like U.S. Bancorp probably will leave this transaction intact. □

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Highlights for Tuesday, August 28

Top 10 Gainers %

BayBanks, Inc.	8.3
Plaza Commerce Bancorp	8.1
Valley National Bancorp	6.9
Equimark Corporation	6.5
First Security Corporation	6.4
First Interstate of Iowa, Ina.	6.0
Mark Twain Bancshares, Inc.	5.4
Chemical Financial Corporation	5.3
Wesbanco, Inc.	5.2
United Bankshares, Inc.	4.8

Top 10 Losers %

Bank of New England Corp.	-23.5
Sunwest Financial Services	-11.5
Northeast Bancorp, Inc.	-7.7
First Security Financial Corp.	-6.9
Evergreen Bancorp, Inc.	-6.1
Mid-America Bancorp	-5.7
Cal Rep Bancorp	-5.6
Citizens First Bancorp, Inc.	-4.8
Merchants Bank of New York	-4.6
Jefferson Bankshares, Inc.	-4.2

Most Shares Traded

First Fidelity Bancorporation	1233000
Citicorp	740000
Chase Manhattan Corporation	477000
Midlantic Corporation	475000
BankAmerica Corporation	474000

Volume as % of Average

Mid Am, Inc.	1018.2
First Interstate of Iowa, Inc.	766.5
First Fidelity Bancorporation	613.0
Wilmington Trust Company	598.6
Planters Corporation	508.0

Stock Index Trends

*Weighted average of top 225 banks and 25 thrifts

1/3/89=100

Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.12	0.42	-10.37	0.03	0.05	-11.70	-0.44	1.05	-13.91

Top 225 Banks (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Mkt Cap.	Chg.
23¾	18½	1stSourceCorp IN	6.4	98.5	19¼	½
14¾	9¾	1stWFinancial	5.4	77.3	18¾	-¼
28⅝	18¾	AmSouthBancorp AL	7.4	77.3	18¾	-¼
18¼	13	AmTrust Corp	5.1	76.9	13	-¼
29	13¾	AmeritrustCorp OH	23.9	79.7	14¾	½
23¾	17	AscotvestBancs MI	6.5	116.6	18¾	-¼
24¾	17⅛	BB&T FinCorp NC	7.7	96.0	18	--
15¾	7¾	BancFlorida FL	8.5	147.0	9	--
48¾	30	BancPonce PR	13.2	141.2	43⅛	--
33¾	24¾	BancTennessee TN	10.2	144.2	25¾	-¼
34⅜	19½	BancoPopular PR	5.5	83.0	18½	--
56⅜	36¾	BancorpHawaii HI	9.0	131.5	41	--
23¾	18	BancorpMiss MS	6.7	85.3	18	--
36¼	19⅜	BankAmericaCorp CA	4.7	67.7	22¾	¼
24	17⅜	BankGranCorp NC	12.3	216.9	20	--
23⅜	15¾	BankNewEngland MA	28	34.9	19¾	-¼
14⅜	7⅜	BankSouthCorp GA	8.8	83.2	7¾	⅛
12	8	BankAtlantic A FL	5.1	70.4	8⅜	--
62	61	BankersBosh IA	10.6	102.4	65	--
39¾	24¾	BankersTrustNY	7.7	97.4	24⅜	--
40¼	11⅜	BayBanks MA	NM	36.4	13	--
39¼	25⅝	BeaverValleyMn MD	7.1	83.2	26⅜	--
25¾	15¼	BeaverwestBnc IL	228.6	104.1	16	-¼
18⅜	12¾	BenefBancorp PA	7.4	101.1	14¾	--
43¾	30¼	CCB FinCorp NC	7.8	103.5	30¼	-¼
22¾	15	CCNB Corp PA	6.3	89.3	15¾	--
22⅜	18¾	CNB Bancshares IN	10.1	121.4	21	-¼
27	17¼	CPB Inc. HI	9.0	138.5	18¾	-¼
28	11⅜	CVB FinCorp CA	8.8	201.8	12¾	--
33⅜	17	CalFed Bancorp CA	6.8	133.5	17	-¼
18¼	12⅜	CentralBcshs KS	6.8	93.1	14¾	--
34⅛	23¾	CentralFidelity VA	7.1	100.4	25⅜	--
27	10⅝	CentralJersey NJ	6.2	73.9	10⅝	--
44⅜	18¾	ChaseManhattanNY	NM	50.5	17¾	--
41¼	30⅜	ChemicalBanking NY	NM	62.5	21¾	-¼
35	28	CitizensBancorp MD	8.7	95.0	30	--
35¼	17¼	Citizens NY	NM	72.4	18½	--
25¾	15¼	CitizensBancorp MD	7.4	91.0	18	--
29¾	20⅜	CitizensBanking MI	7.3	69.8	21¼	-¼
15¼	7½	CitizensFirstBk NJ	NM	102.7	7½	--
34⅜	18¾	CitizensSouthn GA	5.7	80.4	19¾	-¼
27½	14⅜	CityNational CA	7.6	78.6	15¾	--
22⅜	12⅞	ColoradoNatBksh CO	33.4	75.1	13¾	-¼
58¾	30¾	CommerceInc MD	7.9	87.9	37¾	--
29¾	21¼	CommercialBcshs MO	6.9	93.9	21⅜	--
37¾	21¾	CommercialNet GA	6.8	85.7	21¾	--
37½	10¾	ConstellationNJ	6.7	37.7	11	--
29¾	8⅜	CoreStatesFin PA	8	43.3	10	--
49⅜	31⅜	CorusStatesFinCp PA	32.8	125.2	33½	--
34	17⅜	CrossmarFirst Corp PA	6.8	75.1	17⅜	--
18¾	7¾	CullenFrost TX	37.0	48.1	10	--
37¾	26⅜	DauphinDeposit PA	7.7	114.7	27	--
32	21	DepositGuaranty MS	7.5	66.3	21⅛	⅛
25½	11½	DominionBcshs VA	8.8	73.6	11¾	-¼
14⅜	3¾	EquimarkCorp PA	NM	31.0	4¼	-¼
21¾	11½	EvergreenBancs NY	5.9	82.9	11¾	-¼
15¾	12	F & M NatCorp VA	10.0	153.9	12¾	-¼
14¼	11¾	FBS Corp PA	7.8	92.0	11¾	--
26	21¼	FNW Bancorp IL	9.9	184.8	21½	--
30⅜	25	FarmersCapital KY	12.1	106.0	25	--
39¾	27	FifthThirdBcp OH	9.3	143.5	37	-¼
28⅜	17	FirstAmBcshs TN	7.4	123.8	20	-¼
51¼	33	FirstNorthW IL	8.1	86.2	33	-½
19¾	14⅜	FirstAlabamanc AL	8.1	103.4	15¾	-¼
25¾	19½	FirstAmCorp TN	NM	96.0	19¾	½
30¼	21¾	FirstBancorp OH	NM	96.4	21¾	-¼
30¾	12¼	FirstBankSystem MN	NM	95.6	12¾	--
32¾	22¾	FirstBcshs MO	7.2	91.0	25½	--
29	21	FirstCitizens NC	6.8	79.7	22¾	--
32¾	23	FirstCommerce LA	7.1	52.3	27	--
18¾	11	FirstColonial IL	8.7	103.5	11¾	--
28¾	21¾	FirstCommerce GA	7.2	96.3	21¾	--
29	21¼	FirstCommerce NC	8.5	88.7	29¼	--
31¾	17⅜	FirstCommerce OK	6.8	106.3	17¾	--
19¾	16¼	FirstCommercial AR	7.4	108.1	19¼	--
19¾	14¾	FirstCommunity IL	13.1	113.6	16¼	--
35½	18	FirstEastern PA	8.8	82.5	18⅜	-¼
22	15¼	FirstEmpire NY	7.3	86.1	15¾	-¼
33⅜	13¾	FirstFidelity NJ	NM	68.3	14½	-¼
36	25	FirstFidelityBcp OH	11.7	167.1	26¼	-¼
34¼	17¾	FirstFloridaFL	9.3	71.0	18¾	-¼
34¾	17¾	FirstHawaiianInc HI	7.3	106.1	18¾	-¼
24⅜	18	FirstHubbard IL	9.6	127.0	18¼	--
24¾	17¾	FirstMarblehead MA	7.5	166.3	18¾	--
44	18	FirstPeoples NJ	4.3	68.1	18¼	-¼
19¼	11¾	FirstSecurity NY	10.3	86.2	12¾	-¼
18	13¾	FirstSecurity NC	12.1	159.8	13¾	-½
39¾	24¾	FirstSecurityCp KY	7.1	74.4	24¾	--
28¼	21	FirstTennessee TN	7.5	90.1	22	-¼
25¾	13¾	FirstVirginiaCorp VC	6.2	74.2	15	--
35¾	20¼	FirstVirginia VA	6.9	97.1	21¾	-¼
25¾	16	FirstWisconsin WI	9.3	146.4	17	--
35	25⅜	FirstarCorp WI	6.7	105.2	26¼	-¼
20¾	12	FirstbankIL IL	8.2	103.6	12¾	--
55¾	40¼	FirstofAmerica MI	6.9	87.4	40¾	-¼
25¾	18¾	FleetNorstarCp RI	11.6	81.2	19¾	-¼
25	18⅜	FortWayneNatCp IN	8.3	100.9	19¼	-¼
25¾	20¾	FourthFinCorp KS	7.1	100.4	21¾	-¼
21⅜	14¼	FulterCorp PA	6.9	107.8	14¾	-¼
21¾	16¾	GBC Bancorp CA	7.5	184.3	18¼	--
15¾	8	GreatSouthernB MO	16.8	65.3	8¾	-¼
29¾	20¼	HarleysvilleNat PA	10.3	116.1	20¾	--
4	2	HawkeyeBancorp IA	3.7	98.5	6¼	--
21¼	14¾	HeritageFinCorp IL	8.5	112.9	15	--
26⅛	12	HiberniaCorp LA	15.9	98.3	13¾	-¼
20¾	12¾	HuntingtonBancsh OH	6.6	95.6	13¾	--
32¾	18¾	IBERICorp LA	7.2	83.6	19	--
37¾	27¾	IrwinFedBancorp CA	7.3	87.1	28¾	--
26¼	15⅝	IndependenceBcp PA	8.3	88.6	16	-¼
30¾	22¾	IntegraFinCp PA	8.1	96.1	23¾	--
48	33	InterNatlBnkshs IA	8.1	105.9	33	--
34	31¾	J.P. Morgan NY	NM	135.2	32¾	-¼
26¼	16¼	JeffersonBcshs VA	7.4	84.8	17	-¼
25	15¾	KeyCorp NY	8.5	99.1	16¼	--
29¾	21	KeyCorp KY	6.4	91.6	22	¼
30¾	21¾	KeystoneFinCp PA	7.4	108.3	21¾	--
35⅜	20	KeystoneHeritgCp PA	7.7	118.9	22¾	-¼
29¾	18¾	LaSalle Nat'l	34.3	174.2	20¾	--
18	8¾	LandmarkBancs MO	6.8	52.5	9¼	--
30¾	21¾	LeeBancorp VA	7.5	95.9	22	--
27	17¾	LincolnFinCp IN	6.4	78.5	18¾	-¼
29¾	24¾	MBC FinancialMD	15.0	51.2	25¾	--
18	11	MagnaGroup IL	8.0	80.1	11¼	-¼
39¾	30¾	ManufacturersNat MI	5.9	89.3	40	--
44¾	23¾	ManufacturersNY	NM	62.3	29¾	-¼
25	15¾	MarineCorp IL	11.1	120.1	16¼	--
20¼	13¾	MarshallsBancs WI	8.1	101.4	15	¼
30¾	21¾	MellonBankCorp PA	7.7	101.3	21¾	-¼
34⅜	16⅜	MetroBankCorp PA	4.0	64.8	19¾	--
39¾	21	MercantileBcsh MD	35.5	83.4	25¾	--
23¾	18¾	MetroBcshs NC	NM	91.4	18¾	-¼
19¾	10¾	MidlandBancorp IL	7.5	87.9	11¾	--
14	10¾	MidlandBnks WV	7.5	87.9	11	--
17¾	12¾	MidwestBancCp IL	7.1	93.8	12¾	--
62	49	MinnCountries NJ	7.3	58.1	49	--
24¾	16¾	MorganKeeganCp TN	8.2	51.0	25½	-¼
27¾	20	NBD Bancorp MI	8.1	100.2	20¾	-¼
36	22¾	NBT BancorpNY	8.1	137.2	29¾	--
28¼	17¾	NationalBcshs TX	7.2	136.0	19¼	--
24¾	15¾	NationalCity OH	8.5	98.1	15¾	-¼
87⅜	50¾	NatlCorp CA	4.1	100.0	53¾	-¼
34	25¾	NatlCity IN	7.2	100.0	33¾	-¼
27½	19½	NextBnkBancSys CO	7.2	91.2	21	--
37¾	17¾	NorthFork NY	20.3	87.3	19	--
44¼	34	NorthwestBancorp PA	9.3	219.2	34	-¼
19¾	14⅜	NorthwestBcp WI	11.4	91.9	14⅜	--
32¼	25	ZionsBancorp UT	6.3	86.5	25	-¼

Top 25 Thrifts (4 PM Prices)

52 Wk Hi	Lo	Name	PE	Mkt to bk	Mkt Cap.	Chg.
24⅜	15¾	AmericanFed CA	7.1	80.3	19¾	-¼
45⅜	26¼	AppleBancorp NY	8.3	54.5	30⅜	1¼
27¾	17¾	CalFederal	24.0	116.3	19¾	-¼
55⅜	36¾	CitizensMidCp PA	7.8	57.3	36⅜	-¼
20¾	9	CoastSavingsFin IA	NM	32.3	9¼	--
16¼	5¼	DimeSvgBk NY	NM	20.5	5¾	--
24	13	DowneySavings CA	20.3	87.3	13¾	--
27	18½	FirstFedOneCp CA	8.5	108.2	19¾	--
21¾	12	FstFedMichigan MI	8.3	32.4	13	--
24¾	9¾	GLENFED CA	2.8	25.0	10	-¼
24¾	13¾	GoldenWestFnCa	8.2	104.1	20¾	-¼
24¾	13½	GreatWesternFn CA	12.3	83.8	13¾	-¼
13¾	1	GtAmericanBcsh IL	1.0	8.3	1¼	--
47¼	6¾	HomeFedCorp CA	NM	18.2	8¼	-¼
23¾	12¾	HomeSvgsAmerica	15.4	82.2	17¾	-¼
16⅜	9¼	KBB Bancorp MA	9.3	39.4	9¼	-¼
24¾	14¾	People's BancCT	9.3	24.0	15	-¼
25¾	9¾	PeoplesHstrcNy NY	7.1	35.7	11	--
23⅜	8¾	RochesterCmtyBk NY	5.9	27.8	9	--
22¾	16¾	SecurityFedgaCT	3.8	29.8	19¾	-¼
24¾	15¾	SouthFstFinGp SC	NM	54.6	9⅜	-¼
25¾	9¾	StandardFedBk MI	5.7	48.9	7¼	-¼
26¼	11⅜	WashingtonFedInc	8.1	53.6	13⅜	--
31¾	21¾	WashingtonMutInc WA	8.2	164.3	23¾	-¼
31¼	19¾	WellsGardnerCo IL	10.0	83.3	19¾	--

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as of August 28. The market value of all common shares outstanding (As of June 30) is used to rank the banks and thrifts. Banks with $500.11 mil. and for thrifts $100.41 mil.) to $2.5 bil. for the nearest 52-week high and low closing prices for the stocks. The banks' earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. NM, is listed, the ratio of the current stock closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. The date of which the stock last traded. If no trades for the day, the latest bid. **All Bank and Thrift Indexes:** A weighted average of the top 200 banks in market value and the top 50 thrifts in market value, respectively. Components are the largest percentage of the index and two volume indicators most shares traded and today's volume as a percentage of average shares traded over the past year.

Data sources: SNL Securities, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides DNL with the daily prices.

Key Loan Registrations

August 20 - 24

Dollars in millions

Working Cap./Gen'l Corp. Purposes	
Severn Trent Plc.	$2,327.0
Budget Rent-A-Car Corp.	775.0
Federal Paper Board Co.	500.0
Capital Holding Corp?	450.0
First Union Corp.	450.0
Hallmark Cards	250.0
Public Service Electric & Gas Co.	200.0
U.S.A. Financial	154.5
Progress Capital Corp.	150.0
Duke Power Company	130.0
Amistad Industries	100.0
Werton Steel Corp.	100.0
Lotus Development Corp.	50.0
Hondo Oil & Gas Company	30.0
Wisconsin Gas Company	20.0

Debt Repayment	
WPP Group Plc.	$804.5
I.C.H. Corp.	225.0
JWP Inc.	150.0
Fairfield Manufacturing Company	105.0
Hondo Oil & Gas Company	44.4

CP Backup	
ConAgra Inc.	$1,520.0

Acquisition / Takeover	
Contel Corp.	$1,300.0
Steinberg Inc.	599.0
Bond Corporation Chile	219.5
Mobley Airlines	206.5
Prime Cable Income Partners LP.	160.0

Description: This table tracks key corporate financial filings made weekly with the SEC. (*)-Deal older than 1yr.
Data Source: Loan Pricing Corp., New York (212) 489-5455

Key Rates

(August 28, 1990)

	8/28	8/27	8/21
Federal Funds-domestic range:	8-⅛/a	8-⅛/a	7½/a-8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit*			
3 Month Posted	7.60	7.75	7.65
6 Month Posted	7.70	7.85	7.75
1 Year Posted	7.90	8.00	7.80
Eurodollar deposits*			
3 Month	8⅛/a	NA	8⅛/a
6 Month	8¼	NA	8¼
1 Year	8⅛	NA	8⅛
LIBOR*			
3 Month	8⅛/a	8¼	8⅛/a
6 Month	8¼	8⅜/a	8¼
1 Year	8¼	8⅜/a	8⅜

Mid-afternoon quotes, New York market. (*)— Largest offering rates at selected NYC banks (*)— Late London bid (*)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS
Northern Trust Weak Despite Its Performance

By GORDON MATTHEWS

NEW YORK – Shares of Chicago's Northern Trust Corp., which runs one of the country's largest trust banking operations, have been hit hard in the most recent period of weakness in bank stock prices despite its steady fee revenues and low level of nonperforming assets.

Analysts are scratching their heads to figure out why.

Summer Slippage For Northern's Shares

Percentage change



*Weighted average of 225 largest publicly traded banking companies ranked by market capitalization.
Figures for Wednesday as of 3 p.m.
Source: DB Technology Inc., BNL Securities, Standard & Poor's Corp.

Its 25% fall since June 1 has been part of the trend by investors to take profits in better-quality banks whose stocks until this summer had declined much less than others in the long slide of bank equities since last October.

Weaker than Its Peers

While the decline is in line with bank stocks generally – the *American Banker* index of the 225 largest publicly traded banks is off 26% – Northern's shares have eroded noticeably more than those of its peers among the nation's leading trust-oriented banks.

In contrast, State Street Boston Corp. has fallen 14.5% since June 1, while Wilmington Trust Co. has slipped 12.6% and United States Trust Corp. is off 11.1%.

"This seems an aberration to me. Maybe it's a case of the marketplace not being as efficient as usual," noted Kenneth F. Puglisi, senior vice president of Keefe, Bruyette & Woods Inc.

On Tuesday afternoon, Northern's shares were up 37.5 cents, to $24.875, in afternoon trading on moderate volume as the stock market generally treaded water while awaiting further news from the volatile Persian Gulf region.

Mr. Puglisi, who tracks the performance of major Midwestern banks, said the summer weakness in the stock was odd since Northern can be viewed as "the kind of banking company that is best equipped to deal with today's uncertain economic environment."

Analysts at Goldman, Sachs & Co. noted that noninterest revenues amounted to 58% of total revenues at midyear, with trust fees rising 10% in the second quarter. They recently said they expect double-digit growth from trust fees through next year.

Northern has the second largest master trust and custody business in the country, behind State Street, with $200 billion of assets under administration. It also manages $18 billion in pension fund assets and $17 billion in personal trust assets.

* * *

TUESDAY'S MARKET

Major bank and thrift stocks were mixed in moderate trading on Tuesday as the stock market was in a mode of watchful waiting for further news from the Middle East. Late in the day, the Dow Jones industrial average was down two points, to 2,609.

Late summer doldrums also helped keep volume at a moderate pace in the bank issues. Citicorp, the nation's largest banking company and usually the leader in volume among bank stocks, had traded only 660,000 shares by late afternoon. It was unchanged at $18.375.

NCNB Rises 50 Cents

NCNB Corp., often the volume leader among supperregional banks, had traded only 84,800 shares by the same time. It rose 50 cents, to $33.375.

Selling pressure was apparently in the shares of several major banks. Banc One Corp., Columbus, Ohio, slipped $1, to $25.125; J.P. Morgan & Co., New York, was off 50 cents to $32.75; and Wells Fargo & Co., San Francisco, fell 75 cents, to $53.625.

Showing the most forward progress were Security Pacific Corp., Los Angeles, up $1.125, to $28.25; PNC Financial Corp., Pittsburgh, up 87.5 cents to $25.25; and BankAmerica Corp., San Francisco, up 75 cents, to $22.125. □

CAPITAL
Is Wall Street Mispricing Bank Bonds?

Continued from *page 1*

tion that's somewhat problematic, it's very hard to price," said Andrew J. Cooley, a managing director at Merrill Lynch Capital Markets.

Second, banks themselves are not blameless when it comes to pricing debt offerings. Those with limited capital needs can easily decide to focus on keeping capital costs low, rather than on building investor confidence.

The temptation is clear to issue bonds at the lowest interest rate possible, leaving underwriters to deal with unsold inventory and other banks to contend with a more hostile market.

If banks "have a lot of paper to do, they can't push the market too hard," said Matthew J. Grayson, a vice president at Salomon Brothers Inc. "But some people let the investment banks bid themselves down to loss levels."

Third, the market for bank bonds has already become so illiquid that secondary market performance of any offering is difficult to predict, even when a bank's credit quality is not materially changing.

With little trading activity and wide bid-ask spreads, bond yields relative to Treasuries can jump on a heavy sell order, according to John C. Morris, an executive vice president at Smith Barney, Harris Upham & Co.

"There is not enough liquidity in the market to say it is really efficient," he said. "If anyone wanted to do anything in size, it would move the market."

To be sure, investment banks are the parties most vulnerable if a deal is priced too aggressively. Underwriters run the risk of getting left with an inventory of bonds investors do not want at the initial price.

Widening Yield Spreads on Bank Bonds

Selected issues in 1990

Date	Issuer	Size (dollars in millions)	Initial spread	5/30 spread	Lead manager
5/22	Great Western Bank	130	187.5	208	Merrill Lynch
6/7	Bankers Trust New York	200	115	205	Shearson Lehman Hutton
6/8	Great Western Bank	150	180	195	Shearson Lehman Hutton
6/26	BankAmerica	100	130	145	Merrill Lynch
7/26	BankAmerica	125	130	145	Shearson Lehman Hutton
7/27	First Chicago	100	165	195	Salomon Brothers

Source: Ameritrade Banker

"If you keep mispricing that capital management process, you're going to find a lack of support from Wall Street and investors," said one investment banker.

Not all bankers agree that mispricing is the cause of the wider spreads on bank bonds. Robert Rosholt, senior vice president and treasurer of First Chicago, believes investors' concerns about credit quality are causing spreads to widen on bank bonds, regardless of the credit quality of a particular bank.

"There is an industry factor that goes into spreads," he said, noting that the spread relative to Treasuries on his own bank's bond issue has widened about 30 basis points. "The various concerns that may be out there for industry credit quality is affecting spreads as well as stock prices."

But mispricing hurts the market as well, because investors who do buy bonds on an initial offering are often left with securities whose yield spread widens once the offering syndicate breaks. If more investors are becoming wary of bank bonds, the market for bank securities will shrink further, making future offerings even more difficult.

Investment banks charge fees equal to about 0.65% of the principal amount of an offering for subordinated debt, according to one investment banker. For a 10-year debt offering, that works out to about 10 basis points per year.

That means an investment bank has roughly 10 basis points' margin between the price at which it buys a deal from the issuer and the price at which the deal is sold before the transaction becomes a money losing prospect.

* * *

MARKET MONITOR

Security Pacific Corp. has filed a shelf registration for up to $300 million and two million shares of preferred stock. Proceeds will be used for general corporate purposes.

Citicorp is redeeming a $150 million subordinated note issue due in 1995 at par. The notes carry a hefty 11% coupon. □

FINANCIAL TECHNOLOGY UPDATE

The NCR Financial Tower Thrift System with Starcom interface automates a range of teller and platform services to improve handling of deposits, window posting, new account processing and loan processing.

The Financial Plus® teller platform from Systems Concepts, Inc. and the Cross Sell Manager™ platform application are combined with the NCR 5067/5267 Financial Workstations and interfaced via a Local Branch Network (LBN) through an NCR TMX Tower branch processor to the NCR data center. This combination delivers the versatility and flexibility to speed transaction processing and reduce long service lines . . . which allows for more concentration on customer satisfaction.

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Marine Midland Bank

New York City
October 15 & 16
The Vista Hotel

Los Angeles, CA
November 8 & 9
L.A. Hilton & Towers

Boca Raton, FL
December 5 & 6
The Boca Raton Resort & Club

(Advertisement)

October 15 & 16, 1990
The Vista Hotel
New York, NY

DAY ONE:

8:45 **CHAIRMAN'S OPENING REMARKS:**
Sanford Rose, *Senior Columnist*, American Banker (NY)
John S. Poelker, *President*, Poelker & Associates (LA)
Clayton G. Deutsch, *Principal*, McKinsey & Co. (BOCA)

SECTION I
EXAMINING SUPERIOR COST PERFORMERS

9:00 **WINNING THE PRODUCTIVITY RACE THROUGH STRATEGIC COST MANAGEMENT (NY, LA, BOCA)**
- Which banks are the superior cost performers and how did they raise productivity through cost management?
- How good is a bank and where are the areas of potential improvement?
- What kind of programs can bring expenses under control?

James M. McCormick, *President*
First Manhattan Consulting Group (NY, LA, BOCA)
Rodgers L. Harper, *Managing Vice President*
First Manhattan Consulting Group (NY, LA, BOCA)

9:45 **BANK OF NEW YORK - A CASE STUDY (NY, LA, BOCA)**
- As selected from First Manhattan Consulting Group's Expense Productivity Analysis

J. Carter Bacot, *Chairman*, Bank of New York (NY)
Speaker to be announced, Bank of New York (LA, BOCA)

10:30 **CONTINENTAL BANK - A CASE STUDY (NY)**
Richard L. Huber, *Vice Chairman*
Continental Bank (NY)

AMSOUTH - A CASE STUDY (BOCA)
- As selected from First Manhattan Consulting Group's Expense Productivity Analysis

John W. Woods, *CEO*, or **C. Stanley Bailey**, *Senior Executive Vice President & CFO*
Amsouth Bancorporation (BOCA)

COST CUTTING IN COMMERCIAL LENDING (LA)
Nicholas L. Hayes, *Senior Vice President & Manager*
Bank of California (LA)

11:15 **COFFEE/TEA**

11:30 **THE ANALYST'S REPORT CARD (NY, LA, BOCA)**
- How analysts measure a bank's cost effectiveness and how it affects stock prices
- Why cost efficiency will become an increasingly important driver of bank profitability

James J. McDermott, Jr., *EVP & Director of Research*
Keefe, Bruyette & Woods, Inc. (NY)
Richard A. Mueller, *Financial Group Head*
Duff & Phelps (LA)
Anthony R. Davis, *Senior Vice President*
Wheat First Securities (BOCA)

12:15 **LUNCHEON FOR ATTENDEES AND SPEAKERS:**

COST RE-ENGINEERING IS NOT A ROCKET SCIENCE! . . . AN OVERVIEW (NY, LA, BOCA)
Robert M. Fletcher, *Sector Executive-Finance & Chief Financial Officer*, Marine Midland Bank (NY)
James Benowski, *Principal*, McKinsey & Co. (LA)
Douglas E. Ebert, *President & COO*
Southeast Bank (BOCA)

SECTION II
ALTERNATIVE STRATEGIES FOR SUCCESSFUL COST MANAGEMENT

1:45 **ALTERNATIVE STRATEGIES FOR SUCCESSFUL COST MANAGEMENT (NY, LA, BOCA)**
- An outline of four different approaches that work
  - — Process Analysis
  - — Economies of Scale
  - — Resource Allocation
  - — Budget Discipline

William T. Gregor, *Senior Vice President*
The MAC Group (NY, LA, BOCA)
Robert B. Hedges, Jr., *Vice President*
The MAC Group (NY, LA, BOCA)

2:30 **COST RESTRUCTURING THROUGH PROCESS ANALYSIS (NY, LA, BOCA)**
- Increasing efficiency by eliminating archaic processes and functions
- Achieving real, lasting unit-cost reductions; looking beyond belt-tightening
- Dealing with staff and customers during cost restructuring
- Analyzing each individual business on its own and in your bank's matrix

Janet S. Hartung, *Senior Vice President*
Mellon Bank (NY, LA, BOCA)

3:10 **THE BENEFITS OF ECONOMIES OF SCALE (NY)**
- Why using economies of scale to drive down unit costs will grow increasingly important
- Which businesses are most appropriate for this strategy

Robert L. Nelson, *Director Strategic Planning & Development*, Fleet/Norstar Financial Group, Inc. (NY)

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STRATEGIC BANK COST MANAGEME T

New Approaches to Reducing Costs In An Era Of Uncertainty

November 8 & 9, 1990
The L.A. Hilton & Towers
Los Angeles, CA

December 5 & 6, 1990
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YOU CAN'T BE ALL THINGS TO ALL PEOPLE... A NEW LOOK AT MARKET SEGMENTATION (LA, BOCA)

- Why reorganizing your business mix to segment profitable businesses is essential in today's market:
  - — To reduce the costs of cross selling
  - — To know your client base better
  - — To allow directed growth in desirable niches
- Three ways of looking at market segmentation:
  - — By product
  - — By customer
  - — By organization

Peter Lowe, *CFO,* Mitsui Manufacturers Bank (LA)
R. Todd Bowers, *CFO,* Sun Bank (BOCA)

3:55 COFFEE/TEA

4:10 CITIZENS AND SOUTHERN CORP — THE RESOURCE ALLOCATION APPROACH (NY, BOCA)

- The challenges of a multistate, multibank structure
- Setting growth priorities
- Assessing the proper priority on a program-by-program basis
- Phasing out poor performers

James D. Dixon, *Vice Chairman, CFO & CAO*
Citizens and Southern Corp. (NY, BOCA)

THE BUDGET DISCIPLINE APPROACH (LA)

- Focusing on primary geographic markets
- Leveraging existing customer relationships
- Exploiting successful lines of business
- Examining a long term approach to cost cutting

Lucy Reid, *Senior Vice President*
1st Nationwide Bank (LA)

4:45 SOLVING THE THRIFT CRISIS THROUGH COST REDUCTION (NY, LA, BOCA)

- Comparative costs - Banks vs. Thrifts
- Low Cost Producers vs. Niche Players
- Bank/Thrift mergers - Can cost savings justify the price?

Sanford Rose, *Senior Columnist,* American Banker (NY)
Keith P. Russell, *President & COO*
GlenFed & Glendale Federal Bank (LA)
Michael A. Murphy, *Managing Director*
Trident Financial Corp. (BOCA)

5:30 END OF DAY ONE

DAY TWO:

8:30 CHAIRMAN'S REMARKS
Sanford Rose, *Senior Columnist*
American Banker (NY)
John S. Poelker, *President,* Poelker & Associates (LA)
Clayton G. Deutsch, *Principal,* McKinsey & Co. (BOCA)

8:45 1990'S COST MANAGEMENT: THE SECOND WAVE (NY, LA, BOCA)

- Achieving 1990s cost leadership beyond traditional cost cutting through refined business scope, workforce optimization, technology rationalization and corporate real estate control
- Deriving competitive measures for noninterest cost drivers

Charles H. Nobs, *Senior Vice President - Corporate Operating Services,* Bankers Trust Co. (NY, LA, BOCA)

SECTION III

ORGANIZING AND USING TECHNOLOGY TO IMPROVE BANK COST PERFORMANCE

9:30 INTRODUCTION: A PERSPECTIVE ON THE ORGANIZATION AND COST OF TECHNOLOGY (NY, LA, BOCA)

- Organizing Information Technology (IT) to achieve an appropriate and effective strategic cost structure
- Managing the operating cost of IT
- Employing technologies to constrain banks costs... both IT and non-IT

Patrick J. Leempaute, *Partner*
Price Waterhouse (NY, LA, BOCA)
Charles F. Kalmbach, *Senior Manager*
Price Waterhouse (NY, LA, BOCA)

10:15 HOW CAN TECHNOLOGY HELP YOUR BANK CONTAIN COSTS?...THE BANKER'S PERSPECTIVE (NY, LA, BOCA)

- Examining opportunities in emerging technologies
- How technology can be used to restructure banks to make them more profitable and cost effective
- Making sure that technology spending is in line with corporate strategy

H. Edward Nyce, *Executive Vice President*
Manufacturers Hanover Trust Co. (NY)
William L. Chenevich, *President & COO*
Security Pacific Automation Co. (LA)
Walter E. Leonard, Jr., *Executive Vice President*
First Wachovia Corp. (BOCA)

10:55 COFFEE/TEA

11:10 CONSOLIDATING DATA CENTERS AND BANK OPERATIONS AFTER THE MERGER (NY, LA, BOCA)

- Multibank common systems...Myth or Reality?
- Consolidating bank operations after the merger

Michael Zucchini, *EVP & CIO*
Fleet/Norstar Financial Group Inc. (NY)
James Kridel, *Executive Vice President*
Glendale Federal Bank (LA)
Stephen F. Callaghan, *Executive Vice President*
Citizens and Southern Corp. (BOCA)

11:40 USING IMAGING APPLICATIONS PROFITABLY (NY, LA, BOCA)

- Cost savings and productivity gains broaden acceptance across a range of banking applications
- Technology opens new opportunities for image-enhanced customer service

David F. Liddell, *Image Solutions Manager*
IBM (NY, LA, BOCA)
Speaker to be announced, Mellon Bank (NY)
Peter R. Hill, *Senior Vice President*
Bank of America (LA)
Speaker to be announced, Royal Bank of Canada (BOCA)

12:40 LUNCHEON FOR ATTENDEES AND SPEAKERS:

COST CUTTING IN RETAIL BANKING (NY, LA, BOCA)

- Why banks lose money on 30-50% of their retail consumers
- The difference between efficient and effective marketing
- The need to alter pricing structures

Peter Carroll, *Partner*
Oliver, Wyman & Co. (NY, LA, BOCA)

10 STRATEGIC ADVANTAGES OF OUTSOURCING - A CASE STUDY (NY, LA, BOCA)

- How outsourcing can provide strategic advantage
- Factors leading to outsourcing at First Fidelity
- How First Fidelity evaluated the outsourcing option and its experience to date

Ladd Willis, *Managing Vice President*
First Manhattan Consulting Group (NY, LA, BOCA)
Don Parcells, *Senior Vice President*
First Fidelity Bancorp (NY, LA, BOCA)

SECTION IV

EFFECTIVE COST MANAGEMENT IN THE MERGER PROCESS

3:10 COST RATIONALIZATION IN INTERSTATE MERGERS (NY, LA, BOCA)

- What benefits should be anticipated from consolidation
- The difference between intrastate and interstate
- The difference between small and large institutions
- What are the implications to the industry...are mergers inevitable?

Harry H. Totonis, *Principal*
Booz-Allen & Hamilton (NY, LA, BOCA)

3:55 ECONOMIES IN MERGERS AND MULTIBANK SYSTEMS: THE EXPERIENCE AND THE POTENTIAL (NY, BOCA)

- What merger economies should banks seek and when?
- What common mistakes are made and how can they be avoided?
- How should a bank holding company balance the advantages of a multibank system and the potential economies from merging banks?
- How can a multibank system survive the trend toward mergers?

Peter Merrill, *President,* BEI Golembe (NY, BOCA)

THE INTEGRATION PROCESS: HOW TO MANAGE THIS COSTLY PROCESS EFFECTIVELY (LA)

- Sizing the integration effort
- Selecting the appropriate integration approach
- Organizing and managing the process to facilitate centralized planning and decentralized decision making

Carole Kay Lynn, *Partner*
Edgar, Dunn & Conover, Inc. (LA)

4:40 END OF CONFERENCE

AMERICAN BANKER IS NOW ACCEPTING APPLICATIONS FROM VENDORS FOR THE FOLLOWING OPPORTUNITIES:

(1) BOOTH SPACE (2) SPECIAL SUPPLEMENT AND (3) CONFERENCE WORKBOOK

Conference Display: Through a booth demonstration, attendees will have the opportunity to familiarize themselves with various systems to improve productivity and reduce bank costs.

Special Supplement: There will be a special supplement in **American Banker** on Monday, December 17th. This supplement will include articles and advertisements dedicated to cost management.

Conference Workbook: This publication will contain excerpts of the speeches from the conference, in addition to reference information, advertisements and articles.

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SEVP & CFO
Amsouth Bancorporation

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AMERICAN BANKER

VOL. CLV NO. 170 — Thursday, August 30, 1990 — 155th year

The Rot Spreads To Northeastern Business Loans

By TOM LEANDER

Northeastern banks recorded the worst performance in the nation during the second quarter amid signs that the cancer plaguing real estate portfolios had spread into commercial and industrial lending.

Earnings at superregional and regional institutions in the Northeast fell an average of 30% during the period, according to Keefe Bruyette & Woods Inc. By comparison, bank profits fell 1% in the Southeast, were flat in the Midwest, and rose 7.5% in the West.

Analysts said they expected real estate problems would continue to batter Northeastern banks. But many said they were surprised at the rise in nonperforming commercial and industrial loans, which they called an ominous sign of impending recession.

"It's a serious trend," said Gerard Cassidy, an analyst for Tucker, Anthony & R.L. Day Inc. in Portland, Maine.

Further balance-sheet deterioration is expected in the third quarter. Higher oil prices resulting from Iraq's invasion of Kuwait are expected to hit the Northeast particularly hard because the region is heavily dependent on oil for heating and electricity generation.

Focusing on Problem Assets

This troubled economic climate has prompted northeastern bankers to toss aside earnings performance as a goal and set their sights on clearing problem assets off their books. Many institutions simultaneously posted nonrecurring gains to soften the blows to earnings.

"Many banks have taken the stance that it's best to bite the bullet this year and focus on 1991," said Richard S. Golenkewski, an analyst for Goldman, Sachs & Co., New York. "They're concentrating on how to tighten their belts."

Shawmut National Corp., headquartered in Hartford, Conn., and Boston, also showed signs of weakening asset quality in the second quarter. Its nonperforming commercial and industrial loans rose 10%, to $348 million, and its nonperforming construction loans also were up 10%, to $448 million.

Weak Residential Mortgages

Shawmut's residential mortgage portfolio also began showing cracks; nonperformers in this category rose 14%, to $105 million. The bank reported a

See **ROT** *page* **10**

INSIDE NEWS

FINANCE

BB&T Stock Has Fared Better than Most Banks'

Percentage change



SHARES OF BB&T Financial Corp., Wilson, N.C., have managed to weather the storm that has battered bank stocks this year. *Page 20*

THRIFTS

THE FDIC this week sidestepped a prickly debate over thrift exits from the Federal Home Loan Bank System. *Page 2*

INTERNATIONAL

BANKERS TRUST New York Corp., calling it the first deal of its kind for a U.S. bank in Eastern Europe, has won the assignment to help privatize Czechoslovakia's major state glass producer, Sklo Union. *Page 12*

TECHNOLOGY

SOFTWARE that a few years ago was viewed only as a tool for upper management is now being employed in banks as an integral part of day-to-day operating decisions. *Page 3*

MANAGEMENT

LOWELL BRYAN of McKinsey & Co. says banks need to restructure and get out of activities in which they have no competitive advantage. *Page 8*

COMMENT

PERFORMANCES of the sort logged by Rep. Frank Annunzio and economist Dan Brumbaugh on "Nightline" do nothing to strengthen the banking system, writes William M. Isaac. *Page 4*

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C&S/Sovran: Shaping Up As Balanced

By KENNETH CLINE

ATLANTA — Reflecting a merger of equals, C&S/Sovran Corp. unveiled Wednesday an organizational and command structure that strikes an apparent balance between C&S and Sovran.

C&S/Sovran executives remained tight-lipped about layoffs and other cost savings that may be imposed after the biggest merger in U.S. banking is completed tomorrow.

Some Attrition Expected

C&S/Sovran Corp.'s chairman, Bennett A. Brown, said the new organizational structure, which groups operations along functional rather than geographic lines, will produce some attrition. But, but added, there will be no "sizable" layoffs.

"When there are functions being brought together where there is duplication, we will then attempt to relocate those individuals," Mr. Brown said. "If not, they will be treated extremely

See **C&S/SOVRAN** *page* **9**

Crisis Hurts Demand For Consumer Loans

By PHIL ROOSEVELT

NEW YORK — The Persian Gulf crisis, now entering its second month, has started to dampen demand in the United States for consumer loans, particularly mortgages.

A number of lending executives say people appear to be holding back from borrowing because of an increased risk of recession, volatile financial markets, and the threat of war.

Applications Down 25%

Demand for home mortgages has been hurt by a surge in long-term market yields, which are used for setting rates on many mortgages. Some banks say their volume of mortgage applications has dropped by 25% since Iraq invaded Kuwait on Aug. 2.

(Separately, the Mortgage Bankers Association of America reported Wednesday that delinquencies on home mortgages rose modestly to 4.52% in the second quarter. See story on page 2.)

Rates on home equity loans, auto loans, and other types of consumer loans – which all reflect shorter-term market yields – have changed little. But consumers are still showing renewed caution because of general fears about the economy, several lenders and analysts said.

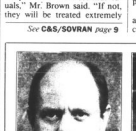
Mortgage Rates Rise Since Iraqi Invasion



Confidence Index Plummets

Underscoring such concerns, the Conference Board in New

See **GULF** *page* **6**





SURVIVOR: James D. Rode, left, is being talked of as a permanent successor to Jerry V. Jarrett, right, at Ameritrust.

Did Ameritrust's Jarrett Jump, Or Did Comptroller Push Him?

By NANINE ALEXANDER

Jerry V. Jarrett, who announced his resignation this week as chairman and chief executive officer of Ameritrust Corp., may have gotten a push from the Office of the Comptroller of the Currency, industry sources speculated Wednesday.

Neither the company nor the Comptroller's office would comment on the rumors or on a memorandum of understanding that was the result of the agency's examination of Ameritrust Co. earlier this year.

The memo, a relatively light regulatory sanction, required improvements in Ameritrust operations, analysts said.

Mr. Jarrett, who no longer works at the Cleveland-based banking company, could not be reached for comment.

Successor Not Named

Analysts, who viewed Mr. Jarrett as a hands-off chief executive, raised questions about whether James D. Rode would be named as his successor. Mr. Rode, 42, was seen as the principal architect of the strategy that led Ameritrust into its current fix, but he was elevated Tuesday to chief operating officer of the

See **JUMP** *page* **11**

Data Network Takes Shape at Bank of America

By RICHARD LAYNE

BankAmerica Corp. is within two weeks of completing the most extensive network for data communications at a U.S. banking company.

The network, which will link its 850 California branches and service centers, will reduce costs and help the San Francisco-based company bring products to market faster. The data freeway will initially form the backbone of BankAmerica's new branch automation system and will eventually compass all California wholesale banking applications.

Linking 13,000 PCs

By mid-September, 13,000 personal computers and 5,000 "dumb" terminals will be linked to the network. That total will rise to 20,000 when the bank finishes installing hardware for its vast branch automation project, begun in the mid-1980s.

While comparisons are difficult, the consolidated data network is considered the largest at a U.S. bank. Security Pacific Corp. and Banc One Corp. are among other big banking companies working to install extensive networks for domestic com-

See **DATA** *page* **3**

PEOPLE *in the news*

Michael Zapf of Chemical Stresses War on Illiteracy

By FRANKLIN SMITH

Illiteracy, a problem hindering bankers' recruitment efforts, is the No. 1 issue for Michael J. Zapf as the newly elected president of the American Institute of Banking.

A division of the American Bankers Association, with more than 550 chapters and study groups nationwide, the institute plays a key role in the training and education of bankers on every level and in developing ABA policies to assess bankers' personnel needs. More than 300,000 bank employees attend its courses and programs each year.

An Emphasis on Basic Skills

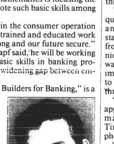
A labor pool deficient in reading and mathematics is focusing the institute's attention on programs to promote such basic skills among lower-level workers.

Mr. Zapf, a 49-year-old vice president in the consumer operation at Chemical Bank, New York, said a well-trained and educated work force is needed "to keep our industry strong and our future secure."

In his year as institute president, Mr. Zapf said, he will be working to help implement the institute's new basic skills in banking program, a move designed to help bridge the widening gap between employer skills and job requirements.

The program, known as "Strategic Skill Builders for Banking," is a cooperative effort of the institute and Simon & Schuster Workplace Resources. It addresses specialized reading, math, communications, and learning problems exhibited by entry-level bank employees.

A 1989 ABA survey found skills deficiencies to be most prevalent among tellers and other key positions, according to Mr. Zapf.



Michael J. Zapf

Another program with a similar aim is "Job Power," which is one of two government-funded efforts of the institute's New York chapters. Participating banks guarantee jobs to people who complete the training.

Other areas of concentration at the institute, Mr. Zapf said, will be to "increase and recognize all the volunteers of AIB and to continue and build the strength of relationships between AIB and the state bankers associations across the country.

"We must continue to provide the highest quality of education to the member banks," Mr. Zapf said.

25 Years at Chemical

He said effective education programs foster a closer relationship between bank executives and employees and help managements better understand and serve customers. "We must manage business education with the goal of developing better consumer services and products," he said.

A 25-year veteran of Chemical New York Corp.'s lead bank, he previously served as the institute's regional vice president and has also been New York state chairman and a member of the institute's national board of trustees.

Mr. Zapf managed the staff development and employment mobility groups at Chemical from 1970 to 1981, was branch and district manager in the metropolitan division from 1981 to 1986, and regional sales manager for consumer banking in 1986 and 1987. He then was director of human resources in the national division until 1989, when he was named director of employee relations for the consumer banking group. □

NEWS *briefs*

Arkansas Group to Seek Review of Branch Ruling

WASHINGTON — The Arkansas Independent Bankers Association and the Arkansas bank commissioner said they will ask the 8th U.S. Circuit Court of Appeals to reconsider its ruling this week allowing the Resolution Trust Corp. to override state branching laws when selling failed thrifts.

Overturning a lower court's decision, a divided appeals panel said the RTC could let Worthen Bank & Trust Co., Little Rock, acquire Independence Federal Savings Bank and operate its 20 offices as branches, though that would not have been permitted under the state's branch banking law.

The Arkansas groups that lost the case are opposing an RTC motion to expedite Worthen's purchase.

— Washington Bureau

Northeast Bancorp Adopts A Shareholder Rights Plan

STAMFORD, Conn. — Northeast Bancorp Inc., which recently saw its plan to merge with Bank of New York Co. rejected by the Federal Reserve Board, adopted a shareholder rights plan and declared a dividend of one right for each outstanding share of common stock and nonvoting convertibk common.

Northeast said it wants to deter abusive takeover tactics and is not responding to any specific bid for control. — Reuters

FDIC Postpones a Decision On Thrifts Exiting System

By DEBRA COPE

WASHINGTON — Sidestepping a prickly debate over thrifts' requests to leave the Federal Home Loan Bank System, the Federal Deposit Insurance Corp. has postponed for 18 months a decision on whether a Wisconsin institution can maintain its insurance coverage if it withdraws from the Chicago home loan bank.

The FDIC's move buys time for the Office of Thrift Supervision to draft home loan bank system membership rules for thrifts it oversees.

The postponement, on a request by Wauwatosa Savings and Loan Association, also staves off an exodus of thrifts from the 12 district banks. Senior Treasury officials have warned that departures could impair the bank system's ability to contribute to costs of the thrift bailout.

"I think Wauwatosa could reapply once we finish the rulemaking," OTS Director Timothy Ryan Jr. said in a telephone interview.

"It is possible we would decide whether we have some flexibility [to grant exits], or whether we need to propose some legislation," he said.

"That doesn't satisfy me at all," said Raymond J. Perry, president of the $352 million-asset Wauwatosa, "They're saying, put this thing on hold for 18 months and we'll make some rules that say you can leave."

"It was a gutless nondecision. Legally, they can't say no. Politically, they can't say yes. So we get a nonanswer."

Others File Exit Applications

Wauwatosa, which has strong earnings and an 11% capital-to-assets ratio, wants to redeem its $3 million stock investment in the Federal Home Loan Bank of Chicago, and seek higher returns elsewhere. Since its petition was made public last March, several other exit applications followed in the Chicago, Des Moines, and San Francisco home loan bank districts from state-chartered thrifts.

But the OTS ruled that Wauwatosa has a legal obligation to remain in the system, and that the thrift's safety and soundness could be jeopardized if it quits the Chicago bank. OTS's views sustained an earlier opinion presented to the FDIC by the Federal Housing Finance Board.

Thrifts that quit the Federal Home Loan Bank System may not rejoin for 10 years, and Wauwatosa has not demonstrated that it can maintain safe and sound operations during that period if it lacks access to the liquidity facility, the OTS said.

Ruling Puts Damper on Plans

The FDIC ruling puts a damper on efforts by roughly a dozen more thrifts to quit the Federal Home Loan Bank System.

"Our board is of the opinion that we want out of there, but not if we have to sacrifice our insurance of accounts," said J.R. Moody, president and chief executive of the $147 million-asset First Savings and Loan Association, Mount Vernon, Wis., which sought to redeem its $800,000 investment in the Des Moines home loan bank.

"I guess there would be some avenues through the federal court system, but I'm not sure an institution our size will want to bear the expense" of litigation. □

Delinquencies In Home Loans Increase Slightly

By ROBERT TRIGAUX

WASHINGTON — A nationwide survey found the delinquency rate on home mortgages rose only slightly in the second quarter, to 4.52%, as against 4.41% in the first quarter.

Experts warned, however, that the percentage of overdue loans might continue to increase well into 1991 as the U.S. economy weakens and unemployment grows.

Economists said the increase was not substantial, with the rate still considered low by 1980s standards and well below the 6.07% record set in the first quarter of 1985. The quarterly survey of 400 mortgage lenders, released Wednesday, was conducted by the Mortgage Bankers Association of America.

No Reason to Increase

Delinquencies rose for conventional, FHA, and VA mortgages, but much of the increase was confined to loans overdue by only 30 days – considered the least severe category of problem loans. The rate of overdue loans of 60 days or 90 days or more remained largely unchanged since the first quarter.

At least for commercial banks in a fast-growing sector of the mortgage origination market – mortgages appear to remain a

See HOME *page* 17

Corrections

A chart accompanying an article Wednesday ("Is Wall Street Overaggressive in Bond Pricing?" page 1) misstated the current yield spread of Bankers Trust New York Corp.'s new debt offering. The spread was 150 basis points over Treasury securities on Aug. 28, up from 115 basis points when offered.

■

A chart on Cullen/Frost Bankers Inc., on page 18 Tuesday, omitted the time periods of the depicted performance.

The return on average assets ratios were for 1987, 1988, 1989, and the first quarter of 1990. The loan delinquency ratios were for the four quarters that ended March 31, 1990.

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TECHNOLOGY/OPERATIONS NEWS

Data Network Nearly Complete

Bank of America Expects to Gain Competitive Edge

Continued from *page 1*

munications, but they are years away from completing their projects.

The BankAmerica network will give branch employees access to a variety of information on products and customers and allow them to bring products and services to market quickly.

The technology to support a new service need be installed only once – at the bank's telecommunication center – rather than hundreds of times in branches on numerous networks.

Beating Out Competitors

"The network provides a way to beat competitors in bringing more products to the marketplace," said George Cheng, vice president, who has been involved in the project since its inception in 1985. "It cuts the time from months to weeks," he said. "The network goes hand-in-hand with the projects under way at the branches and the service centers."

By mid-September, 13,000 personal computers and 5,000 "dumb" terminals will be linked to the network.

Previously, the company had 10 to 15 networks running into each California branch, supporting single or multiple products.

With completion of the California network, the bank will reduce its worldwide total of networks from 66 to about 50. It said the savings from consolidation will be substantial, though it refused to give an estimate. BankAmerica also declined to comment on the automation project's cost, although industry observers said it exceeds $100 million.

825 Branches On-Line

About 825 branches in California are already sending and receiving information via the new network. Mr. Cheng said about 17 branches remain to be plugged in.

The retail applications – checking, savings, and time deposit – are now running on the network's freeway at those 825 branches. The network will accommodate consumer loan and commercial loan systems by the end of October. A consumer loan servicing system will be added next year, along with a system for real estate loans.

Outdistancing Its Rivals

"I don't think any other major bank has gone as far as we have – no bank has completed a network of intelligent workstations for all the branches," said Mr. Cheng.

BankAmerica's old networks were installed piecemeal over the years to handle the increasing amount of information transmitted to and from branches and service centers. One network may have handled personnel information; another, deposit information; and a third, loan information.

Cumbersome Old System

No desk-top computer was linked to all three networks. To gain access to transactions systems running on different networks, branch officers often had

"The network provides a way to beat competitors in bringing new products to the marketplace. It cuts the time from months to weeks."

George Cheng *BankAmerica Corp.*

two or more computer terminals on their desks or simply borrowed a colleague's computer.

With the new network, a product can be introduced simultaneously across the state of days rather than months because the network support is installed. No communications lines need be added at branches. □

Mellon May Sell A Trust Unit

NEW YORK — As part of a continuing evaluation of its trust business, Mellon Bank Corp. is considering the sale of the corporate account segment of its corporate trust group.

The Pittsburgh-based banking company said it had a number of prospective buyers and intended to reach a sales pact in the fourth quarter.

In the corporate trust group, Mellon serves as trustee for both corporate and municipal debt issues. The corporate account segment, which includes nearly 1,500 issues for which Mellon currently serves as trustee, has annual revenue of $5 million. Mellon intends to remain in the municipal part of the business. □

Executive Systems Gain Middle Managers' Favor

By JEANNE IIDA

NEW YORK — Middle managers in banking and other industries are now using software as an integral part of the day-to-day decision-making process, according to a study by Input, a research firm in Mountain View, Calif.

Only a few years ago, the use of such software, known as executive information systems, was restricted to upper management, the firm said.

Uniting Many Sources

Executive information systems are designed for executives who are not adept at using computers. The systems can help these managers make complex decisions more rapidly by gathering information from a wide variety of sources.

Typically, they pull together information from such corporate areas as finance, accounting, sales and marketing, operations, and personnel.

Input said managers are using the systems less as a monitoring tool, in which top executives gain an overview of company performance, and more as an operating tool, in which lower-level managers get the data to big picture before they make decisions in their areas.

Helpful at Lower Levels

"Their use is spreading well beyond the corporate office," said Douglas Tayler, director of research at Input. "They're more valuable at those lower levels, because that's where operating decisions are made."

Input's report, called "Developments in Executive Information Systems," was based on a survey of 126 companies in manufacturing, insurance, banking, telecommunications, and utilities. About 5% of respondents came from banking and finance, making it the third-largest industry group surveyed.

More than half the companies surveyed had an executive information system in use or in development.

Of the companies with systems in place, 60% said corporate executives used them, 40% said financial personnel also used the systems, and about 30% said both marketing and accounting personnel used the systems.

Software Costly

The systems can be pricey, with the average software package ranging from $50,000 to $100,000. Major vendors include Comshare, Pilot Executive Software, Execucom, and International Business Machines Corp.

Many of the systems run on personal computers from IBM or Apple Computers Inc.

More than 58% of the companies said their executives can access monthly information using the systems, and 35% said they can access daily information. By 1991, 90% of the respondents expect to provide access to monthly figures, and 72% expect to provide daily updates.

"If you're moving to [providing] daily information, you're talking about it becoming the heartbeat of the company, not just a monitoring tool for upper management," said Mr. Tayler.

The number of users is also a good indication of how system use has spread, Mr. Tayler said. About 49% of those with systems said that at least 25 people in their organization used them. About 17% said their company had more than 100 users.

Among the respondents, 34% had executive information systems installed, 10% were testing systems, 10% were developing systems, and 4% planned to do something this year. □

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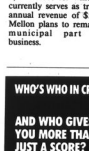

Thomas A. O'Brien, President, First Western Bancorp

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COMMENT/ *By William M. Isaac*

Rx for the Banking System: Less Rhetoric, More Action



The House Banking Committee's Financial Institutions Subcommittee, chaired by Frank Annunzio, has hired Stanford economist Dan Brumbaugh to study the condition of the banking system and the adequacy of the FDIC insurance fund. The recent performances by these gentlemen on ABC News' "Nightline" should leave no doubt about the outcome of the study.

Mr. Brumbaugh after claiming six of the nation's largest banks were "very close to true insolvency," pronounced: "I believe we are in the midst of the largest government cover-up of a financial scandal ever in the country's history."

Rep. Annunzio was no less vitriolic when he added: "The FDIC is not only in bad shape, it is in horrible shape. And without a massive transfusion of money, it will die very shortly and the taxpayers will have to pay for the funeral, and it will be the most expensive funeral in the history of any country in the world."

Questionable Judgments

Now those are pretty amazing statements, coming as they do on the heels of the $200 billion S&L debacle. One might wonder what qualifies these gentlemen to render these judgments and on what facts they base them.

Rep. Annunzio is a longtime member of the House Banking Committee. Over the years, he has been one of the S&L industry's staunchest supporters and has been anything but a constructive force in efforts to reform the financial system.

Mr. Brumbaugh's main claim to fame is that "when I was deputy chief economist at the Federal Home Loan Bank Board . . . I first estimated in 1985 that the FSLIC was insolvent." Readers will be forgiven if they find this feat underwhelming. The FDIC's staff (and, I am informed, at least some members of the Bank Board's supervisory staff) had reached the same conclusion several years earlier.

Few Facts Offered

Turning to their factual bases, Rep. Annunzio offered none to back up his statement. Mr. Brumbaugh provided no facts to support his conclusion that the six large banks he named were "very close to true insolvency." The only facts he offered to support his contention that the FDIC fund is broke are that "there are 460 banks with $42 billion [in assets] that have had losses in each year since 1986."

If Mr. Brumbaugh's figures were correct and if all of those banks were to fail next year (two very big ifs), the FDIC's cost of resolving them would likely be in the range of the FDIC's income during the year. Mr. Brumbaugh's figures have usually been distorted by his penchant for including banks already resolved by the FDIC and banks that are members of holding companies not in danger of failing.

> **"The government has consistently turned a deaf ear — and that, folks, is scandalous."**

My purpose is not to suggest there are not problems in the banking system or that the FDIC is not under pressure. The FDIC was buffeted by one problem after another during the 1980s: the savings bank crisis, the failure of Continental Illinois, the widespread failures of farm banks, and the banking collapse in the Southwest. The insurance fund has declined to an unacceptable level, particularly when it will likely continue to be called upon to resolve failures of some magnitude. In recognition of this reality, the FDIC board recently proposed a substantial hike in insurance premiums.

No one with even passing knowledge of the supervisory process would contend the banking regulators are covering up problems or are failing to deal with insolvencies. Indeed, the regulators are being so stringent these days that many thoughtful people are concerned that the regulators are helping to create a scarcity of credit that threatens the economy.

There is a scandal in Washington, but not the one identified by Rep. Annunzio and Mr. Brumbaugh. The scandal is the failure of the federal government to face up to the problems and implement the structural reforms so clearly needed to revitalize our nation's financial institutions.

Experts have for years been urging reform of the deposit insurance system, elimination of the restraints on geographic and product diversification by banks, and a substantial reduction in the budget deficits. The government has consistently turned a deaf ear to these entreaties - and that, folks, is scandalous.

The banking system needs to be able to attract more capital. It won't be able to do that to any great degree until we put in place the reforms necessary to convince the capital markets that our nation's banks can be operated profitably without undue risk.

Performances of the sort logged by Rep. Annunzio and Mr. Brumbaugh on "Nightline" do nothing to advance efforts to strengthen the banking system. To the extent their claims of a cover-up are given credence, they serve only to undermine confidence and further restrict access by banks to the capital markets.

It's time for a lot less rhetoric and considerably more attention to the absolute necessity of major structural reforms. □

Mr. Isaac was chairman of the Federal Deposit Insurance Corp. from 1981 to 1985. He now heads the Secura Group; a Washington-based consulting firm.

LETTERS *to the editor*

Allow Deduction of Rental Losses To Revitalize Realty Developers

To the Editor:

Paul Nadler's Aug. 20 column ["Plenty of Blame to Go Around for the Real Estate Losses that Took Place," page 4] correctly points to governmental policies that contributed to the current dramatic decline in real estate prices. However, it fails to highlight the single policy that has, in several regions, had the most dramatic negative effect: the about-face on rental real estate losses that took place between the 1981 and 1986 tax laws.

Money Flowed In

The real estate incentives in the 1981 tax act greatly magnified the desirability of owning, and consequently building, rental real estate. Under the law, owners could subtract both operating losses (such as renting a property for less than the cost of the mortgage) and noncash expenses (such as depreciation) from other, nonrelated income.

This incentive produced the desired result: a massive infusion of money into the rental real estate market at a time when the baby boom generation was seen to be in need of such housing.

> **"The '81 incentives may have gone too far. But two wrongs do not make a right."**
>
> **Janet M. Pavlska**

But when the bill came due, it wasn't paid. Instead, the 1986 Tax Reform Act swept away the ability to deduct real estate losses from income related to anything other than passive gains.

The short three-year phase-in of this provision and the exception for moderate-income owners did almost nothing to help. Developers, investors, and financial institutions could not undo prior contracts that made sense under the 1981 public policy.

And because many owners tried to unload their rental property onto the owner-occupied market, the fall in rental real estate spilled over, significantly increasing the drop in single-family and other owner-occupied real estate.

The '81 incentives may have gone too far. But two wrongs do not make a right. Deals consummated before the 1986 law should have been grandfathered. And the ability to subtract at a minimum rental property operating losses from other income would cushion the blow while putting rental real estate on a more equal footing with other businesses.

Taxpayer Is Penalized

Difficult as this situation has been for the real estate and financial industries, the chief victim is now the taxpayer, for two reasons:

Declines in the value of real estate caused or contributed to bank and thrift insolvencies, for which the taxpayer will ultimately pick up the tab.

As a result of these insolvencies, the government, in the form of the Resolution Trust Corp., is rapidly becoming the largest property owner in the country. Because of the decline in real estate prices, the majority of these properties are valued well below book. And the RTC must now sell them into the depressed real estate market.

Thus, the revenue Congress hoped it could raise by eliminating real estate tax incentives will be more than offset by the need-lessly increased costs of resolving failed financial institutions.

Fortunately, a bill now in Congress will generate discussion and, we hope, some rectification of this situation. The Andrews/Thomas bill (H.R. 3732, introduced in the Senate by Boren and Heinz, S. 2384) proposes, at a minimum, to permit real estate entrepreneurs to deduct rental losses from other real estate-related income. The bill is cosponsored by 302 representatives and 18 senators.

The bill would not resolve most of the problems caused by the '86 Tax Reform Act. But it would be a first step, allowing the stronger players in the real estate business to get back on their feet while providing the opportunity for further discussion of this crucial issue.

Janet M. Pavlska
Chairman
National Council of Savings Institutions
Washington

Reader Forum

The *American Banker* welcomes points of view on issues of interest and importance to the banking industry.

Please direct correspondence to Jeffrey Kutler, assistant managing editor, *American Banker*, One State Street Plaza, New York, N.Y. 10004. Letters may be edited for space.

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MARKETING/ADVERTISING

Key to ATM Promotions: Ads and Motivated Staff

By LAURYN FRANZONI
Special to the American Banker

Community bankers say the best way to market self-service banking machines is through snappy advertising and a motivated, informed staff.

Warren Bank and Trust Co., Warren, Ark., combined those elements in an award-winning campaign called "Bank by night or by day." Earlier this year, the Bank Marketing Association named the advertising effort Best of Print among institutions with less than $250 million in assets.

The first step of the campaign was to educate the bank's southeast Arkansas customers about the new technology. "There wasn't an ATM in a 100- to 200-mile radius" when the campaign was launched, said Greg Harton, director of marketing for the $83 million-asset bank. "People in Bradley County just didn't know what they were."

Along with an educational battle, the bank faced stiff competition from First State Bank of Warren in the form of Saturday hours. The bank used that prospect to motivate bank staff to market ATM accounts. "No one here wanted to work on Saturday, so we set a goal for new [ATM] accounts and scrambled to meet it," Mr. Harton said.

The bank's staff sold ATM accounts aggressively to avoid having to work Saturdays.

The ad campaign, which is still running, focuses on the machines' convenience. Using two-page newspaper ads, Warren Bank entices customers with lines such as "In a dash for cash?" and "No time for lines?" as well as "In a crunch for lunch?"

After the initial effort, 45% of retail customers received an ATM card and began to use it.

But this spring, one year after the ads began, the bank found that the majority of customers was ignoring the machines. The institution responded with an incentive campaign among employees and a promotional campaign developed by the Cirrus network. In the Money Game promotion, customers won cash prizes by using their ATM cards. During the promotion, which ended in June, transactions rose to a record.

Since then, Warren Bank has continued its print advertising campaign, and Mr. Harton reports transaction levels are still climbing. Transaction volume is almost double the level before the game, and cash distributed through the machines each month has risen 30%.

Bank management says it will not need to open on Saturdays as long as transaction levels remain steady.

Promoting Deposits at ATMs

"As a banker, the biggest expense problem is having staff on hand to cash paychecks," said Jim Neill, vice president of United Savings Bank, a Greenfield, Mass., institution with $192 million in assets.

To ease the problem, the bank decided to encourage customers to use its six ATM locations for deposits. Even though ATM transaction volume was growing at an acceptable rate, "we felt we were lacking on the deposit side," Mr. Neill said.

So the bank ran a six-week campaign this spring called Deposit Mania. During the promotion, customers used their ATM deposit receipts as entry tickets for prize drawings.

Large goldfish bowls full of silver dollars were placed at each teller window with a sign instructing customers to take one if the teller did not mention Deposit Mania.

United used advertising to promote both the prizes and the benefits of self-service banking.

Along with the central promotion, Mr. Neill began training programs for all the customer service staff. Even though many were familiar with ATMs, he soon found gaps in their knowledge.

"The [transaction] increases during the promotion were astronomical," Mr. Neill said. Overall, he credits the promotion with an average increase of 35%. In April, transaction volume jumped nearly 60% in both withdrawals and deposits, which Mr. Neill partly attributed to an increase in vacation usage.

The results, he noted, were achieved on a very limited advertising and marketing budget. "Looking back, if someone had told me that this is what I could achieve at that cost, I'd have thrown them out the door," Mr. Neill said.

Technique Challenged

After reviewing a number of campaigns, ATM marketing consultant Catherine Bond of Hartford, Conn., has concluded that ATM ads focusing on the technology or a prize for customers consistently generate mediocre responses.

"Effective advertising is customer focused, will stimulate interest in the service rather than bribing the customer, talks about the ATM's benefits, and deals directly with potential objections," Ms. Bond said.

"It's important to remember why we are advertising," she said. "We need to educate, create awareness, and generate ATM-related action. The customer shouldn't come in just to get a present."

Ms. Franzoni is a freelance reporter based in Springfield, Mo.

Gulf Crisis Dampens Loan Demand

Continued from page 1

York reported earlier this week that its consumer confidence index plunged 18 points in August to 83.8% – a seven-year low.

Demand for home equity loans usually gets an autumn lift, starting in the last two weeks of August, because of back-to-school expenses and sales on home improvement supplies and services. But such a rise has yet to materialize this year, said Jan Goodman Bechtel, a vice president at Huntington National Bank, Columbus, Ohio.

She and others said it is still too early to precisely gauge the impact of the crisis. Indeed,

"The real story will be told in September."

Karl Mendenhall
First Union Corp.

some consumer bankers maintain that the Gulf crisis has had virtually no impact on loan volume so far.

September Is Test

Still, the prospect of a sustained slowdown has many bankers viewing September as an important test for the market.

Reduced demand for consumer loans, which was evident even before the crisis erupted, has broad ramifications for the banking industry. Because of problems with loans for commercial real estate and highly leveraged transactions, consumer loans have emerged as a vital part of many bank's balance sheets.

"To the extent that you see consumer loan demand slowing down, it will reflect in the earnings of some big banks," said Raimundo C. Archibold Jr., a bank analyst at Fox-Pitt Kelton Inc.

Home Mortgages Hit Hard

The home mortgage arena, which has attracted scores of commercial banks during the past year, has clearly been the hardest hit in recent weeks. That is because mortgage rates, though still lower than levels seen earlier this year, have been rising rapidly on fears of inflation.

According to one closely followed measure, rates on 30-year fixed-rate mortgages have climbed by more than 50 basis points since Aug. 1.

The measure – the yield required by Federal Home Loan Mortgage Corp. when purchasing loans at par — rose from 9.7% on Aug. 1 to 10.3% last Friday; it dropped back to 10.24% on Tuesday. Lenders often charge borrowers the required yield plus 25 basis points.

Several major lenders reported a surge in loan applications just as the rate rise began, as borrowers scrambled to avoid further increases. Because of that brief bonanza, some big mortgage lenders, such as First Union Corp. and Norwest Corp., say their total volume for August to be very strong.

But in the past week or so, volume at First Union has been off about 25% from normal, said Karl Mendenhall, a vice president at First Union's mortgage unit.

"The real story will be told in September," he said. "If people take the application volume of last week and multiply it by four, and if September comes in at that level, then I'm going to start worrying."

Adjustables Gain Favor

At Great Western Bank, the nation's second-largest thrift, application volume has fallen "measurably" this month, said E.S. Lyons, a senior vice president and manager of mortgage banking.

But the Beverly Hills, Calif., thrift, which specializes in adjustable-rate mortgages, expects those loans to gain popularity relative to fixed-rate models, because the initial rates on adjustables have risen less rapidly. As a result, Great Western expects to start gaining market share and has not lowered its projections for annual volume, Mr. Lyons said.

Great Western is now offering its main adjustable at 7.95% – unchanged for the past several months.

The monthly index used for setting adjustables at Great Western and other big thrifts – an average of Southern thrifts costs of funds – should actually show a slight decline when it is published late Friday, according to Merrill Lynch Mortgage Capital Inc.

Realtors Not Optimistic

All the same, residential real estate brokers do not offer much encouragement about home sales. "There's a lot of hesitation going on out there," said Daniel Youngblood, president of the South Carolina Association of Realtors.

"There's a lot of hesitation going on out there."

Daniel Youngblood
South Carolina Assn. of Realtors

He noted that the market for second homes in such resort areas as Hilton Head, S.C., has been crimped by stock market declines, which have eroded the net worth of wealthy individuals. The Dow Jones industrial average has fallen by about 10% since Iraq invaded Kuwait.

Meanwhile, some bankers in executive search firms maintain that the crisis has yet to cut demand for other types of consumer loans.

"I see it as too early to call," said Walter R. Day 3d, senior vice president of consumer lending at Mellon Bank, Pittsburgh. Mellon's consumer loan volume has not been hurt yet, he said.

Rates Little Changed

Rates on most consumer loans have changed little. Last week, unsecured personal loans were offered at an average of 17.34%, versus 17.33% in early August, according to *Bank Rate Monitor*. Auto loans were 17.34%, versus 17.33% early in the month. Credit card rates were unchanged at 18.64%.

For home equity loans, which are pegged to the prime rate, HSH Associates, Butler, N.J., expects to see little change when it calculates the average rate among lenders for August. The average rate for July was 11.60%.

"Without prime actually doing something, there won't be much change" in home equity rates, said HSH spokesman Keith Gumbinger. Prime last changed in January, falling to 10%. □

Consumer Money Index

/Bank Rate Monitor's™

Auto, personal and credit card rates

Market	CREDIT CARD 6/30/90	CREDIT CARD 6/5/90	PERSONAL 6/30/90	PERSONAL 6/5/90	AUTO 6/30/90	AUTO 6/5/90
New York	19.29	19.29	19.46	19.46	13.62	13.62
Los Angeles	19.16	19.16	20.12	20.12	13.25	13.25
Chicago	18.85	18.85	17.10	17.10	11.96	11.96
San Francisco	19.74	19.74	20.12	20.12	13.87	13.87
Philadelphia	18.03	18.03	14.79	14.79	11.66	11.66
Detroit	19.00	19.00	15.92	15.92	11.93	11.93
Boston	17.40	17.40	17.56	17.56	12.79	12.79
Houston	18.12	18.12	14.62	14.62	11.49	11.49
Dallas	19.17	19.17	16.87	16.87	11.37	11.37
Washington D.C.	18.81	18.81	16.79	16.79	11.55	11.55
BMM Index	18.66	18.66	17.34	17.34	12.27	12.27

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $9,000, 48-month, new car loan with 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES	6/30/90
First Tennessee, Memphis	13.62
Philadelphia Nat'l Bank, Philadelphia	12.49
Beneficial Sup. Bk., Wilmington	13.00
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank Of America, San Francisco	21.25
First Interstate Bank, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
Team Bank, Dallas	10.75%
First City, Texas, Dallas	10.75
LaSalle Nat'l Bank, Chicago	11.00
HIGHEST AUTO LOAN RATES	
Citibank, NY	15.90%
Manufacturers Hanover Trust, NY	15.90
Chemical Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Sav., Boston	14.90%
St. Paul Fed. Bank, Chicago	15.90
Benjamin Franklin Sav., Houston	15.90
HIGHEST CREDIT CARD RATES	
World S&L, San Francisco	20.90%
Homestead Savings, San Francisco	20.90
Riggs Nat'l Bank, Washington	19.80

EXECUTIVE *changes*

LoBello Named To Bank of New England Post

Bank of New England Corp., Boston, said **Joseph D. LoBello**, a 27-year veteran of Bank of New England-West, will be named western regional president of BNE-West and Bank of New England, which was announced earlier this month. The merger is subject to normal regulatory approvals.


Joseph LoBello

As regional president, Mr. LoBello will oversee the four western Massachusetts counties for customers and markets in Bank of New England's five lines of business – retail banking, commercial banking, corporate banking, real estate banking, and trust and private banking – and will personally head the corporate and commercial banking activities.

Mr. LoBello will also organize and direct a regional advisory board of community and business leaders. BNE-West president C.D. **"Buzz" Harrington**, who earlier this summer announced his intention to retire, will chair the advisory board.

"I'm looking forward to taking on this terrific banking opportunity . . . and to be a part of Bank of New England's recovery," Mr. LoBello said.

MIDDLE ATLANTIC

CIT Group, New York, has appointed **Lawrence A. Marsiello** as president of its factoring unit.

Mr. Marsiello had been executive vice president of CIT's business credit unit, offering acquisition and debt restructuring financing.

CIT's factoring unit is a leader in the industry serving the retail, apparel, textile, and furniture industries.

First Federal Savings Bank, San Juan, P.R., said two highranking officers at the thrift have resigned their posts as part of a bank reorganization.

Arturo J. Somohano, senior executive vice president and chief operating officer, and **Fernando Calderon** vice president for investments, have resigned their respective positions.

Mr. Somohano's resignation will be effective Sept. 21 while Mr. Ochoa's will take effect Aug. 31.

Mariano J. Mier, chairman of the board, said that **Angel Alvarez,** now executive vice president and general counsel, will take over Mr. Somohano's duties as chief of operations.

Mr. Ochoa's post will be filled on an interim basis by **Jorge R. Rodriguez,** now vice president for investment manager, who will report to **Annie Astor de Carbonell,** executive vice president and chief financial officer.

According to Mr. Mier, the reorganization is aimed at strengthening the institution and correcting some administrative faults that had been pointed out in the recent audit by the Office of Thrift Supervision.

SOUTHWEST

Temple-Inland Inc., Diboll, Tex., has named **M. Richard Warner** vice chairman of the board of its Guaranty Federal Savings Bank subsidiary, a new position, and **H. J. Shands 3d** to treasurer of Temple-Inland, succeeding Mr. Warner.

Mr. Warner will be based at Guaranty's home office in Dallas and will assist **Richard M. Jones,** chairman and chief executive officer in oversight of the bank's operations.

Mr. Shands has been senior vice president and treasurer of Lumbermen's Investment Corp., Temple-Inland's mortgage banking company based in Austin, and will continue to reside there.

First Trust Corp., Denver, a subsidiary of **Fiserv Inc.,** has named **Debbie Bergen** as vice president of client services, **Brad Newman** as controller, and **Ward A. Anderson** as vice president of marketing.

WEST

Corporate Capital West, San Francisco, has named **Russell J. Notides** as managing director of its new San Francisco office.

Corporate Capital, a division of **Westinghouse** Credit Corp., Pittsburgh, provides corporate finance and merchant banking services to businesses throughout the western United States.

Mr. Notides will be responsible for marketing and business development activities in Northern California and the Northwest.

He previously was director of investment and merchant banking for Prudential-Bache Capital Funding in San Francisco.

Standard Chartered Bank, Los Angeles, has named **Terry Dowrick** as regional manager for its Los Angeles operation.

He succeeds **Douglas Beckett,** who launched the new office last Agusut and is leaving to assume a new post at Standard Chartered's London headquarters.

Mr. Dowrick has held a variety of management positions in bank operations, lending, and business development that span the globe, primarily with Standard Chartered's Middle East and Asian branches. In addition, he worked in the bank's New York, Chicago, and Houston offices from 1979 to 1988.

Bank of California, Los Angeles, said **John Balcon** has joined its Long Beach regional office as vice president and commercial lending officer. He formerly was a commercial lender at the Los Angeles regional office of Security Pacific National Bank.

First Interstate Bank of California, Los Angeles, has appointed **Wayne A. Mekjian** as senior vice president in its information services division.

— Franklin Smith

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AN INTERVIEW WITH LOWELL L. BRYAN

Being Competitive May Mean Sticking to What You Know

Lowell L. Bryan, a director with Washington-based consultant McKinsey & Co., recently spoke with a group of American Banker editors about management issues facing the industry. In a wide-ranging discussion, Mr. Bryan touched on the need to restructure the traditional hierarchical management system; fallout from the thrift crisis; cost-cutting strategies, and ways to maintain employee productivity amid continuing consolidation.

Q.: What's the toughest issue facing bank managers today?

BRYAN: Managers are worried about coping. So much of what affects whether or not they make money is beyond their control. The structure of the industry, the deposit insurance system, many things. There's also fallout from a decade of neglect in Washington. That has made it hard even for highly skilled players to make money in banking.

An added frustration is that we've never had a better set of bank managers than we have at this moment. Over the last ten years, there have been dramatic increases in the skill, competence, and motivation of bankers throughout the country. And yet, in terms of profits, things have gone the other way.

Q.: What can the industry do to climb out of the hole?

BRYAN: That would involve significant restructuring. And banks getting out of activities in which they have no competitive advantage. Not every bank should be offering every kind of product.

Q.: Will further consolidation help to shore up the situation, at least in terms of aiding expense reduction?

BRYAN: Consolidation is an important part of the answer, yes. Whether you do it with whole institutions or you do it with a line of business, the net effect is that you would wind up with two or three really strong companies in any particular area.

Ideally, one or two banks should be concentrating on the retail business in a given area, while others concentrate on the operations side. Banks ought to become more different, as opposed to becoming more the same.

Q.: In terms of management style, what is the first thing banks should consider changing?

BRYAN: Banks should ask themselves, what kind of management style can I afford? The classic bank bureaucracy is much harder to afford today. You really have to move to much more task-driven organizations.

Q.: What is a task-driven organization?

BRYAN: A task-oriented system uses a project-based approach. For example, say you want to install a new computer system. Rather than assigning that to the systems department in general, you would put specific line managers together with operations people, give them a two-year assignment, and hold them accountable for the task.

Also under this kind of system, an employee's performance appraisal would come from the manager of a given project, not necessarily their actual boss.

This is much different from the traditional way a commercial bank operates. Actually, this is more the way law firms, consulting firms, and investment banks operate.

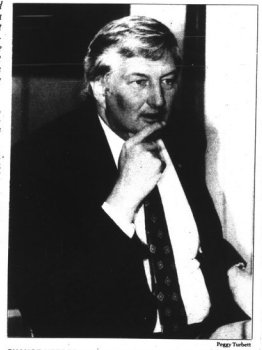
Q.: What kinds of personal attributes would managers need to operate under this kind of a system?

BRYAN: First of all, they would need to be much less concerned with hierarchy, which of course is uncomfortable if you're the one who's running the show. On a day-to-day basis, they would also need to have much more hands-on contact with the rank-and-file or the line manager.

Managers need to spend a lot more time communicating with their people, getting closer to the troops. They need to spend time after hours with the people who work the night shift, acting as visible cheerleaders.

In short, they need to do a lot of the things that managers in excellent, nonbank companies always have done.

Q.: What can banks learn from companies outside the industry?



Peggy Turbert

CHANGE NEEDED: Lowell Bryan says banks need to restructure and to quit activities in which they have no competitive advantage.

BRYAN: In the branch system, for example, you can apply techniques used by McDonald's Corp. and other retailers: how to use people, how to move them around, how to get the right information or service to the right customer.

Q.: What are some things that banks can do to cut costs?

BRYAN: One of the biggest levers is eliminating mistakes. That may sound trivial, but if banks work hard at truncating mistakes at the front end, then they won't have to spend money to fix things later.

Q.: What can banks do on the revenue side?

BRYAN: There's a lot of creative things you can do with the pricing of individual products.

A lot of banks think all customers think alike on pricing. They don't really do a hard analysis of what different subsegments of the market are buying.

Q.: You've followed the thrift crisis closely. Are there any lessons that managers of commercial banks can learn from the episode?

BRYAN: Yes. The biggest lesson is that you can never justify taking excessive credit risk, no matter what the short-term earnings pressures.

Keeping your earnings going by being a little more aggressive on terms and conditions is just not healthy. It's much more appropriate to address your economic problems directly than to mask them by taking more risk.

Of course, these are lessons that would have been better learned five years ago.

Q.: The work force – both inside and outside the industry – will change drastically over the next decade. Women and ethnic minorities will comprise a greater share of the whole, while overall, the level of education seems likely to decline. Are banks doing enough to prepare themselves for what's ahead?

BRYAN: The industry likely won't employ as many clerks and tellers. By contrast the need for skilled people – in the technology area, among others – will increase at a time when, demographically speaking, the work force likely will be little prepared to fill that need.

The upshot is that banks may have to be quite creative in their search for talent; they may have to look beyond the obvious sources. They may have to educate the people they take on and become more flexible in terms of hours and schedules. □

C&S/Sovran Structure Balances the Partners

Continued from page 1

well."

First announced last September, the merger of Atlanta-based Citizens and Southern Corp. and Sovran Financial Corp., Norfolk, Va., has received all the required regulatory approvals. The merger will produce the nation's 13th-largest bank holding company, with $50.3 billion in assets and more than 1,000 offices in seven states.

Plan Is Confirmed

Officials of the combined organization have been saying for months that they intended to form one unified operating company rather than leave the Georgia- and Virginia-headquartered banks as separate entities. The organization structure announced Wednesday is the first confirmation that they followed through on that plan.

Under the new structure, C&S/Sovran will be organized along product or functional rather than geographic lines. Eight new divisions will operate companywide as opposed to being confining to one state or region.

Participants on both sides insisted there had been no horse trading of positions.

The new units include credit policy and administration, headed by C&S's chief credit officer, Willard A. Alexander; legal and regulatory, headed by Sovran's corporate general counsel, Page D. Cranford; consumer banking in the seven states, reporting to Sovran's chief executive officer, Albert B. Gornto Jr.; real estate and consumer nonbank, headed by Sovran's vice chairman, Doyle E. Hull; corporate banking and trust services, both reporting to C&S's president, Hugh M. Chapman.

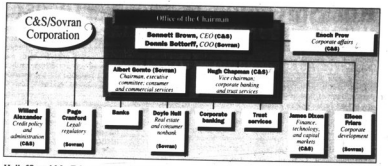
Also, finance, technology, and capital markets, headed by C&S's chief financial officer, James D. Dixon; and corporate development, managed by Eileen Friars, a former consultant with the MAC Group who has been working with Sovran for the past three years.

Transition Team Active

The creation of the organizational structure was overseen by Sovran's chief operating officer, Dennis C. Bottorff, who headed a nine-person transition that has been planning the merger for the past 11 months. Mr. Bottorff had initiated a similar reorganization at Sovran several years ago.

Although the new structure appears, on the surface, well balanced between Sovran and C&S executives, analysts have noted that ultimate control of the new company will pass to Mr. Bottorff when Mr. Brown retires, probably within the next year or so. In addition, the consumer banking operations in the seven states – the heart of the new company – will report to Mr. Gornto, leaving Mr. Chapman with the more specialized corporate banking and trust services.

Finally, except for Mr. Dixon, who is 47, and Mr. Alexander, who is 59, the younger executives in the lineup are associated with Sovran, including Mr. Bottorff, 46; Mr. Cranford, 55; Mr. Hull, 57; and Ms. Friars, 40.



Participants on both sides insisted there had been no horse trading of positions. Study teams equally weighted between C&S and Sovran officers had, instead, focused on picking the right individual for the right job, they said.

This careful division of responsibilities is reinforced by C&S/Sovran's continuing insistence on maintaining a dual headquarters in Atlanta and Norfolk. Mr. Brown said this was based on the need for the company to preserve its dominant market share in both Georgia and Virginia.

"What is more important than some expense dollars is, we continue to be the two dominant institutions in our market areas," Mr. Brown said. □

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COST CONTROL
For Banks, Office Supply Services Offer Headache Relief and Savings

By JEFFREY MARSHALL

Commercial Bank of Georgia, an Atlanta-based community bank, routinely saves 15% to 30% on the cost of office forms by using a supply service. Sugar River Savings Bank in New Hampshire uses the same approach to save about 37% on its office supplies.

While the office supply business includes divisions of major manufacturing companies, such as Xerox Corp. and Boise Cascade Corp., local vendors dominate the marketplace.

These vendors sell relief for the office manager's biggest headache: keeping adequate inventories of office supplies and business forms. Most individual bank departments do their own buying from a scattered network of vendors, and virtually all business is repeat ordering.

Supply service says that banks are inefficient buyers of office supplies, since office managers focus more on vendor relationships than on cost-cutting strategies. They say centralized bulk purchasing can save time and money.

Inventory control is another benefit of using a purchasing service. Keeping close track of inventory reduces the need for storage space in bank branches.

Cutting office supply costs can yield significant savings – 5% to 10% of noninterest expense, judging from a sampling of bank balance sheets.

"I don't see us as just selling ink on paper," said Raymond Brewer, who manages a franchise for one such service vendor, Proforma Business Products Inc., Cleveland. "When we go in, rather than taking and reproducing a form, we ask if we can walk though the department. Many times, we can bring a form back and reduce its size and cost."

As a result, some banks are saving 20% or more on supplies like forms encoded for magnetic ink character recognition (MICR), correction tapes, driver-in teller envelopes, business cards, and checkbook covers, according to purchasing experts.

Bankers who have used such services are sold on the idea.

Mike Johnson, manager of data processing at Commercial Bank, cited the inventory reports he gets monthly, quarterly, and yearly as being especially helpful.

Other vendors said that by simply ordering envelopes in bulk, banks could save 10% to 15%. Here are two other examples of potential cost savings:

- Most banks have difficulty controlling business card expenses because logos are expensive to recreate for each short print run. An office supply service, however, can do a master run of 10,000 to 50,000 cards with the logos, and add names and titles later. This could save banks 50% of the cards' cost.
- By pre-encoding cash-in and cash-out tickets for tellers, an office supply service can reduce MICR encoding errors, saving time and effort. Large-volume orders also can save an institution up to 24% of the standard cost of $6.50 per thousand. □

For Bankers Who Mean Business
Commercial Real Estate
Every Tuesday in AMERICAN BANKER

Rot Spreading in the Northeast

Continued from *page 1*

$30 million profit for the period, including a special gain of $5 million.

In a sign that it is gaining tighter control of its real estate losses, Bank of Boston Corp. reported a 12% decline in nonperforming commercial real estate loans for the second quarter. At the same time, the company's nonperforming loans in the commercial and industrial portfolio increased 17%, to $487 million.

Of these, $281 million worth were highly leveraged transactions, which, as a separate category, had risen 19% since March 31. Commercial and industrial loans that were not HLTs were up 15%.

The company earned $3.5 million for the period, down 96% from the 1989 second quarter. A $200 million loan chargeoff was a sign, analysts said, that the company had decided to take its dose of bitter medicine this quarter in an effort to alleviate lending woes.

Subsidiaries Bolster Fleet

Fleet/Norstar Financial Group, which earned $60 million in the second quarter, remained buoyed by strong profits from its nonbank subsidiaries and healthy earnings in subsidiaries outside New England. Combined gains from the company's Financial Services Group, Fleet Finance consumer banking subsidiary, and Fleet Mortgage Group were $53 million.

Fleet's bad loans increased 15%, to $756 million, from the first-quarter level. And 55% of Fleet's $691 million in nonperforming real estate assets were in New England. Fleet's commercial banking subsidiaries in Rhode Island, Connecticut, and New Hampshire posted losses for the year's first half. Only Fleet-Maine was profitable.

In common with its New England peer group, Fleet is experiencing commercial and industrial loan problems, analysts said.

Buffalo Unit Profitable

Fleet's Norstar-Buffalo subsidiary returned to profitability, earning $15 million in the second quarter, compared to a $24 million loss in the first quarter. It also saw a 7% decline in nonperforming loans, to $124 million.

But analysts said that this still-heavy load of nonperformers in the Buffalo area – a region that has largely escaped the real estate bust of New England, New York, and New Jersey – was significant because a large share of the problem loans were commercial and industrial.

Despite strong efforts by new management to reverse its woes, Bank of New England Corp. posted a $33 million quarterly loss. That loss actually signaled a slightly less dramatic hemorrhaging of asset quality than in the first quarter, when the company posted a $48 million loss.

Bank of New England's Options

Many analysts said the company's options are running out as it searches for new ways to keep its $2.2 billion in nonperforming loans from dragging it down.

The company has already sold about $6 billion in assets to raise capital, and only its Rhode Island unit remains on the block. Officials repeatedly say that Bank of New England's survival depends on improvement in the region's economy.

Meanwhile, the by now familiar New England pattern of losses and tighter regulatory controls was duplicated in New Jersey, New York, and eastern Pennsylvania in the second quarter.

"The wave of losses that began hitting New England last fall has now reached New York and New Jersey," said Carole Berger, an analyst with C.J. Lawrence, Morgan Grenfell in New York.

Examiners from the Office of the Comptroller of the Currency are poring over Midlantic Corp.'s balance sheet. The regulatory exam, analysts said, was reflected in the $24.8 million loss it reported for the quarter, largely due to real estate losses.

Although the company is well-reserved – with $550 million socked away to cover losses, or 75% of the value of its nonperforming loans – analysts said Midlantic's exposure, with about 30% of its total loans in real estate, is greater than at other large banks in the area. They said they expect losses to continue in the third quarter.

First Fidelity Bancorp. posted a $150.4 million loss after taking a $300 million provision for possible credit losses. □

Second-Quarter Earnings at Northeastern Banks

Dollar figures in millions

	Trailing 12 months	2Q '90 net income	Versus 2Q '89	NPA*	Equity**
Bank of Boston	$37,297	$3.5	-96%	8.30%	5.66%
Fleet/Norstar	34,120	60.0	33	4.93	6.70
Shawmut National	26,577	30.0	-65	7.71	5.21
Bank of New England	23,071	-33.0	-210	14.90	1.64
BayBanks	10,055	-11.5	-163	3.84	5.38
First Fidelity	29,848	-150.4	-294	4.37	4.67
Midlantic	24,231	-24.8	-200	5.14	6.40
Citytrust	2,200	21.2	16	NA	1.72

* Loans in default, reworked loans, and foreclosed properties as a percentage of total loans and foreclosed properties
** Equity capital as a percentage of total assets

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Jarrett's Resignation: Did He Jump, or Was He Pushed?

Continued from *page 1*

company.

The $11 billion-asset Ameritrust reported a $33.2 million loss for the first six months of 1990 and announced a major restructuring several weeks ago. This month, Ameritrust said it would take as much as an $18 million charge against third-quarter earnings and reduce its work force by 11.5%, or 780 people.

At a news conference Tuesday, Craig R. Smith, a director of the bank who was elected acting chairman and chief executive of the holding company, was asked about likely permanent candidates. "The next CEO may very well be standing next to me," he said, indicating Mr. Rode.

Observers, who include former regulators, employees, consultants, and analysts, spoke only on the condition of anonymity. All said Mr. Jarrett ceded much management control to Mr. Rode, who has been president of both the holding company and the main bank and a director of both since 1983.

"Craig Smith talked to the OCC, and they made it clear that management was weak," said one source.

Nevertheless, sources said they believe the board was hesitant to force out Mr. Jarrett, who had been CEO since 1982, and that the decision to leave was his own.

A Cleveland-area bank consultant had not heard the rumor about the Comptroller's role in Mr. Jarrett's departure, but said the bank's problems were attributable to a poor strategy over many years.

This month, Ameritrust said it would take as much as an $18 million charge against third-quarter earnings and reduce its work force by 11.5%, or 780 people.

Shunned Consolidation

Ameritrust, long one of the most profitable banks in its peer group, did not follow the consolidation strategy of other Ohio banks. When they began consolidating, Ameritrust entered Cincinnati and Toledo with de novo facilities, with little impact.

In the mid-1980s it acquired troubled Central Bank of Denver by swapping commercial paper it held of Baldwin United Corp. when it went bankrupt. Because of interstate banking laws, Ameritrust never was able to exercise effective control, and it sold the Colorado bank in late 1988.

Analysts said Ameritrust also was preoccupied by unfriendly advances from the investor Alfred Lerner, now the largest stockholder of MNC Financial Inc., Baltimore. Those moves diverted attention from possible acquisitions. "They managed with no financial loss, but they lost a lot of credibility," a banking consultant said. □

Judge Names Executive for Keating's Firm

Reuters

PHOENIX — A federal judge said he has named Thomas Arnold, a Phoenix real estate developer, as "temporary responsible party" for American Continental Corp., parent of the failed Lincoln Savings and Loan.

No other appointments were announced at a hearing Tuesday, which was called to designate a supervisor for the bankrupt company after its chairman, Charles H. Keating Jr., and five top officials resigned.

Resignation After Ruling

Mr. Keating resigned last week after a federal court in Washington upheld the government's April 1989 takeover of Irvine, Calif.-based Lincoln, which is expected to require one of the costliest S&L bailouts.

Donald Gaffney, an attorney for American Continental's creditors committee, said the committee had drawn up a proposal requesting that American Continental be transferred from Mr. Keating to Mr. Arnold.

U.S. Bankruptcy Judge Richard Bilby said Mr. Arnold will hold the temporary post until Sept. 7. On that date, the committee will petition the court to name Mr. Arnold the "permanent responsible party," Mr. Gaffney said.

Lincoln Lawsuit Dismissed

Mr. Keating had been actively involved in Lincoln; its failure is expected to cost taxpayers more than $2 billion. He sued the Office of Thrift Supervision to recover Lincoln, but U.S. District Judge Stanley Sporkin dismissed the suit, alleging that Mr. Keating and others had looted the thrift.

A plan of reorganization has been filed with American Continental's creditor committee, and the company's lawyer has said he believes it eventually will be liquidated.

The others who resigned from American Continental were Judy Wischer, president; Robert Kielty and Robert Wurzelbacher Jr., who is Mr. Keating's son-in-law, both senior vice presidents; Andrew Liggett, chief financial officer; and Bradley Boland, company spokesman and another Keating son-in-law. □

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GLOBAL *dispatches...*

Moody's Sees Risk in East For West Germany's Banks

By JAMES R. KRAUS

NEW YORK — West German banks rushing to do business in East Germany risk undermining their asset quality, increasing their operational costs, diverting management, and using up scarce capital for investments without any return, Moody's Investors Service has warned in a report.

The rating agency added that although most German banks should be able to adjust sufficiently to economic conditions in East Germany, overly aggressive banks may pick up poor assets that could reduce their ratings in the future.

More than 30 West German banks have set up operations in East Germany, which is due to unite politically with West Germany before the end of this year.

However, Moody's noted that West German banks are setting up a new banking infrastructure virtually from scratch as East Germany's uncompetitive, state-run banking system is phased out.

The rating agency added that East Germany faces considerable economic uncertainty and will have to replace an obsolete and decaying industrial infrastructure, cope with rising unemployment, and increase consumer purchasing power.

More than 8,000 East German companies will have to be kept afloat until they can be restructured, made competitive, and sold off or liquidated, the report stated.

"The overriding factor . . . will be whether the transition to a market economy in today's East Germany can be done in an orderly manner under manageable cost, in the process of creating a competitive economy," Moody's said.

U.S. Loss Trims Hongkong's Net

LONDON — **Hongkong and Shanghai** Banking Corp., dragged down by poor results in the United States and Australia, reported a 21% drop in earnings for the first half of 1990.

The bank, Hong Kong's largest financial institution, said earnings after tax fell to $196 million, against $247 million a year earlier.

The bank made significantly higher provisions against losses by two major subsidiaries, Marine Midland Banks in the United States and Hongkong Bank of Australia Ltd. Marine Midland reported a net loss of $19.8 million in the first-half versus net income of $81.6 million a year earlier.

In common with other U.S. banks, the American unit's results were adversely affected by the continued weakness of the real estate market, Hongkong Bank said. — **John Evans**

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Bankers Trust Wins Czech Account

Will Help Privatize Sklo Union, a Major Glass Maker

By JOHN EVANS

LONDON — In what Bankers Trust New York Corp. calls the first deal of its kind for a U.S. bank in Eastern Europe, the New York banking company has won the assignment to help privatize Czechoslovakia's major state glass producer, Sklo Union.

The Prague company, with annual sales of more than $500 million and 10,000 employees, is searching for a foreign partner to take a major stake and help it become a private company along Western lines.

Alasdair Dundas, an executive in Bankers Trust International, the New York money center's London-based investment banking arm, said: "It wants a major shareholder to help fund future development and to benefit from Western marketing experience."

No Capital Required

Bankers Trust is the latest of a number of Western banks to garner advisory fees for organizing privatizations as a low-risk way to move into Eastern Europe in the search for business opportunities, say bankers and analysts.

Most banks regard large-scale commercial lending to the East as undesirable, reflecting the huge financing requirement needed to bail out these nations' stumbling economies.

On the other hand, helping to advise and organize the privatization process can generate fee income for banks without their having to use their precious capital.

Assets to Be Large

New stockholder-owned corporations with assets worth many billions of dollars are expected to emerge in Eastern Europe over the next five years, according to Tony Porter, a senior partner of international accountancy firm Price Waterhouse & Co.

"Poland and Hungary have both put formal legislation in place allowing for privatization," Mr. Porter, an executive

U.S. banks are looking to earn advisory fees in East Europe instead of making loans.

in the firm's privatization department added. "Poland has indicated that up to 80% of state industry will be turned over to private hands. Hungary hasn't given a percentage like Poland, but has forecast asset sales could be valued at $32 billion over the next five years."

East Germany has produced a list of 5,000 companies for which it wants assistance from West Germany and other Western partners.

Price Waterhouse itself is acting as an adviser in Poland and Hungary and has taken a role similar to Bankers Trust in Czechoslovakia, where it is seeking Western partners to help modernize Skoda, the main auto manufacturer, Mr. Porter said.

Competition Expected

But there are warnings that, attracted by this new business honey pot, the Western companies flocking to Warsaw, Budapest, and Prague will find the expected new earnings bonanza illusory as competition drives down advisory fees.

Mr. Porter estimated that at least 50 or 60 foreign companies, including major commercial and investment banks, accounting firms, and management consultants, are working in the East.

Bankers Trust's Mr. Dundas, a vice president who is in charge of the Sklo transaction, predicted gloomily that "like privatizations in the West, banks will see declining fee income from this type of business."

He added: "There are no set fees for Eastern European privatizations and sometimes a bank will do the business for the publicity and prestige attached to a deal."

Price Waterhouse's Mr. Porter argues Western companies will be realistic over business opportunities.

"I think that most advisers are taking that view. This is really an opportunity to forge long-term business relationships in a completely new area." □

Kuwait's Central Bank Operating in Exile

Reuters

LONDON — The Kuwait central bank is still operating and prepared to ensure that Kuwaiti debts to foreign banks are paid, its governor said in a *Financial Times* interview.

"It is very important that our banks meet their obligations in their interbank and foreign exchange markets," Sheik Salem Abdul-Aziz al-Sabah told the newspaper. "But we need time and information to work this out."

The *Financial Times* said Sheik Salem gave the interview Tuesday and asked that for security reasons his whereabouts not be disclosed.

Vaults Said to Be Looted

Sheik Salem said that Iraqi occupation forces had looted the central bank's vaults in Kuwait and removed $1.6 billion in gold and bank notes.

Asked what resources the central bank now has at its disposal to act as a lender of last resort, he said: "We will find the means. That is no problem."

The newspaper quoted him as saying he had been working closely with the monetary authorities of foreign countries, mainly in the Gulf and Europe along with the United States, in reconstructing Kuwaiti finances and recovering records.

Sheik Salem said it was unlikely Kuwaiti banks would be stretched by the Gulf crisis because the Kuwait banking system as a whole was a net creditor of the rest of the world to the sum of $4.9 billion at the end of May and a net creditor of the international interbank market of $600 million.

"But some banks may have a mismatch problem," he said, referring to a situation when a bank funds a loan with short-term deposits that have to be renewed. □

Key International Rates*

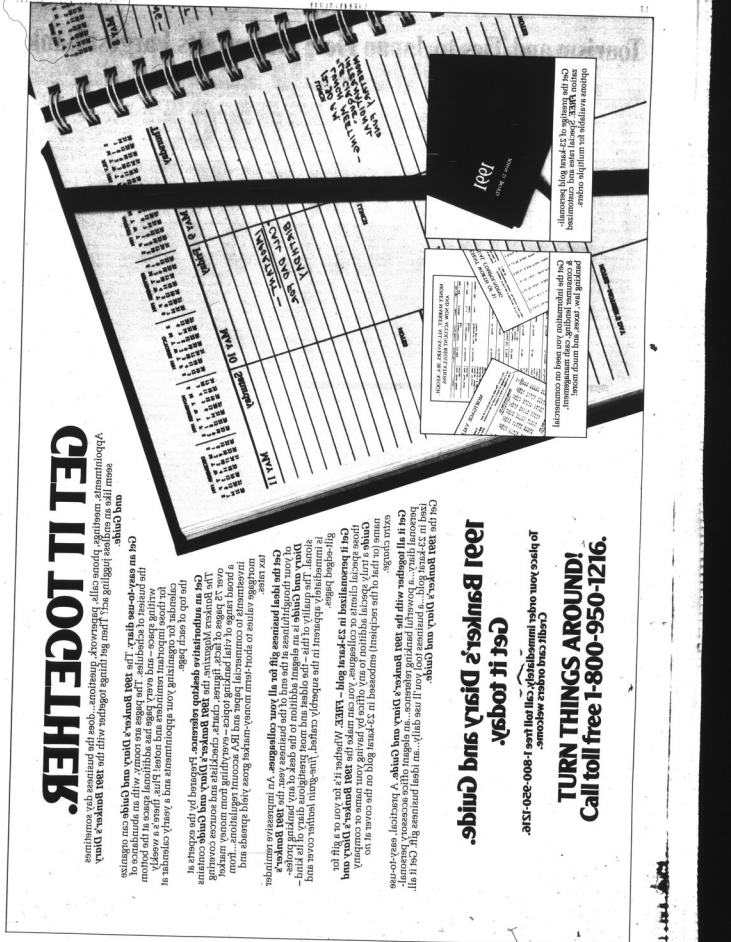
	Day-to-day money			5-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	Bid	Asked	Call	Bid	Asked	Call	Bid	Asked	Call	Bid	Asked	Call	Bid	Asked	Call
United States	8.00	8.00	8.00	8.18	8.18	8.25	8.25	8.25	8.25	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.53	8.43	7.43	8.37	8.28	8.12	8.50	8.40	8.25	5.25	5.25	5.25	7.13	7.13	7.13
Canada	11.00	13.75	13.50	12.81	12.75	13.12	12.93	12.43	12.62	13.01	13.01	13.34	14.25	14.25	14.75
U.K.	15.00	15.00	15.00	15.00	14.88	15.00	14.81	14.81	14.93	14.25	14.25	14.25	15.00	15.00	15.00
West Germany	8.06	7.93	8.00	8.43	8.43	8.50	8.75	8.75	8.81	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	7.00	7.00	8.62	8.75	8.62	8.87	8.75	8.75	8.87	6.00	6.00	6.00	10.88	10.88	10.88
France	9.93	9.93	10.00	10.31	10.31	10.37	10.50	10.50	10.68	9.50	9.50	9.50	10.50	10.50	10.50
Italy	10.25	10.25	11.12	11.43	11.50	11.25	12.00	12.00	12.00	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars		Sterling		West German marks		Swiss francs		Yen	
3 to 6 months	8.09		14.23		8.77		8.65		8.49	
6 to 12 months	8.27		13.94		8.96		8.66		8.46	
12 to 24 months	8.56		12.66		9.26		8.62		8.22	

* Midday quotes in the New York market

Source: Ahonen, Astley & Pearce Inc., New York.



Tourism and Ties to Japan Help Hawaii, Its Largest Banks

By LESLIE ADLER
Reuters

HONOLULU — Hawaii's two largest banks, which rank among the best-performing U.S. banks in both earnings and returns on assets, said they expect the state's strong tourist trade and its appeal to Japanese investors to produce continued, though slower, earnings growth.

Top executives of Bancorp Hawaii and First Hawaiian Inc., in separate interviews, pointed to the same factors as boosting their performance, beginning with growth in the Hawaiian economy. The Mideast crisis and higher oil prices are, however, tempering the short-term outlook.

Strong Economic Supports

"The basic economic segments that support our economy have been very, very strong," said Howard Stephenson, chairman of Bancorp Hawaii, parent of Bank of Hawaii. Tourism, the construction industry, and the nondefense government sector have all contributed to growth, he said.

"That is certainly the underpinning of our success," Mr. Stephenson said.

And Walter Dods, chairman of First Hawaiian Inc. and First Hawaiian Bank, said: "The best thing we have going for ourselves is that we really have two economies to work off of, the U.S. and Japan."

"Japan has given us a new, double base for our tourist business," said Mr. Stephenson. "That has been very, very significant in strengthening the long-term prognosis of how this business is going to develop."

Tourism Is Fundamental

Tourism is Hawaii's principal industry, accounting for 40% to 45% of the gross state product.

In addition, Hawaii's increasing appeal to Japanese investors shows no sign of abating. Although the favorable yen-dollar exchange rate has played a part in Japanese investment in Hawaii, a change in rates would be unlikely to stem the investment flow, Mr. Dods said.

"You'd have to have a pretty drastic change [in exchange rates] to make it unattractive to the Japanese," he said. "It wasn't that long ago that it was 360 yen to the dollar; now, it's 150 or so. By Japanese real estate standards and prices, Hawaii real estate looks like a pret-

> **"We really have two economies to work off of, the U.S. and Japan."**
>
> **Walter Dods**
> *First Hawaiian Inc.*

ty decent buy."

Even if the exchange rate went into sharp reverse, the Japanese would be unlikely to pull out of Hawaiian investments, Mr. Dods said. "There's very little incentive for Japanese investors to sell these properties and take the profits back to Japan because of the very high tax rates in Japan," he said.

Bank to Stay Conservative

First Hawaiian, which has a history of conservative lending practices, plans no deviation from that strategy.

"We have the lowest loan writeoffs of any bank in the United States," Mr. Dods said. "It's 0.09%, and sensing that we see some softening in the national and other economies, we're more careful about our loans."

First Hawaiian, on loans of $2.81 billion at Dec. 31, had average net chargeoffs for 1989 of 0.10%.

Although he expects First Hawaiian to post record earnings in 1990, Mr. Dods said the uncertain international situation makes him reluctant to forecast beyond that. "If we didn't have the oil shock, I'd be very comfortable" projecting continued record earnings, he said.

First Hawaiian earned $57.4 million, or $2.14 a share, on assets of $5.08 billion in 1989.

Mr. Stephenson, meanwhile, said he expects Bancorp Hawaii's asset growth to slow from the 20%-plus rate of the last several years. "Our expectations for growth over the near term would be somewhere in the range of 12% to 14%," he said.

Bancorp Hawaii earned $79.9 million, or $5.41 a share, on assets of $8.32 billion in 1989. Projections for asset growth include both its current businesses and its newly acquired thrift, FirstFed America, Mr. Stephenson said.

Richard Dahl, chief financial officer of Bancorp Hawaii, said the company expects FirstFed to continue to earn a 1% return on assets, with asset growth of 12% to 14%.

"It earns about $10 million [a year] now," Mr. Dahl said of FirstFed. "We feel it will continue to earn that plus, with its asset growth of 12% to 14%, earnings should grow somewhere in that same magnitude." □

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Bank Call Notice

REPORT OF CONDITION

Consolidating domestic and foreign subsidiaries of the

Union Chelsea National Bank

of New York City

In the state of New York, at the close of business on March 31, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter number 02641 Comptroller of the Currency Northeastern District

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances	$ 6,770
Interest-bearing balances	13,555
Securities	19,447
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds sold	36,600
Loans and lease financing receivables:	
Loans and leases, net of unearned income 183,521	
LESS: Allowance for loan and lease losses 17,058	
Loans and leases, net of unearned income, allowance, and reserve	166,463
Premises and fixed assets (including capitalized leases)	1,882
Other real estate owned	141
Investments in unconsolidated subsidiaries and associates	814
Intangible assets	18
Other assets	11,192
TOTAL ASSETS	$256,973

LIABILITIES	
Deposits:	
In domestic offices	$196,319
Noninterest-bearing 29,837	
Interest-bearing 166,482	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	48,289
Noninterest-bearing 2,228	
Interest-bearing 46,041	
Federal funds purchased	250
Bank's liability on acceptances executed and outstanding	814
Other liabilities	5,731
TOTAL LIABILITIES	251,416

EQUITY CAPITAL	
Preferred stockand related surplus	2,500
Common stock	5,000
Surplus	10,232
Undivided profits and capital reserves	(31,325)
TOTAL EQUITY CAPITAL	(13,543)
TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$256,973

I, Thomas C. Pickel, SENIOR VICE PRESIDENT & COMPTROLLER of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

THOMAS C. PICKEL
July 31, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

A.J. GONZALEZ-RUBIO
BRUCE F. HENDERSON
ALBERT P. MOLINARO, JR.
DIRECTORS

Bank Call Notice

REPORT OF CONDITION

Consolidating domestic and foreign subsidiaries of the

Union Chelsea National Bank

of New York City

In the state of New York, at the close of business on June 30, 1990, published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161. Charter number 02641 Comptroller of the Currency Northeastern District

ASSETS	Dollar Amounts In Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$15,600
Interest-bearing balances	18,055
Securities	16,382
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:	
Federal funds sold	48,100
Loans and lease financing receivables:	
Loans and leases, net of unearned income 181,147	
LESS: Allowance for loan and lease losses 17,248	
Loans and leases, net of unearned income, allowance, and reserve	163,898
Premises and fixed assets (including capitalized leases)	1,797
Other real estate owned	141
Investments in unconsolidated subsidiaries and associates	1,089
Intangible assets	17
Other assets	11,419
TOTAL ASSETS	$277,479

LIABILITIES	
Deposits:	
In domestic offices	$194,305
Noninterest-bearing 28,668	
Interest-bearing 165,637	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	68,866
Noninterest-bearing 2,966	
Interest-bearing 65,720	
Federal funds purchased	1,100
Bank's liability on acceptances executed and outstanding	1,089
Other liabilities	5,246
TOTAL LIABILITIES	269,056

EQUITY CAPITAL	
Common stock	30,500
Surplus	9,082
Undivided profits and capital reserves	(32,082)
TOTAL EQUITY CAPITAL	8,423
TOTAL LIABILITIES, AND EQUITY CAPITAL	$277,479

I, Thomas C. Pickel, SENIOR VICE PRESIDENT & COMPTROLLER of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

THOMAS C. PICKEL
July 31, 1990

We, the undersigned directors, attest to the correctness of this statement of resources and liabilities. We declare that it has been examined by us, and to the best of our knowledge and belief has been prepared in conformance with the instructions and is true and correct.

A.J. GONZALEZ-RUBIO
BRUCE F. HENDERSON
ALBERT P. MOLINARO, JR.
DIRECTORS

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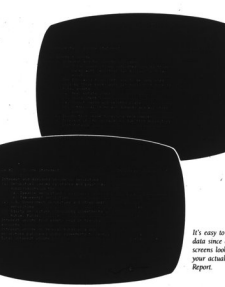

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FINANCE

DEALS

Tracor Offers Securities in Swap for $272 Million of Bank Loans

By STEPHEN KLEGE

Troubled Tracor Holdings Inc. is asking its banks to exchange about $272 million of bad loans for a similar face value of securities in its businesses.

Westmark Systems, holding company for the Austin, Texas-based company, proposed a restructuring of $730 million of debt, including the bank debt on which it is in default. The company acknowledged that it may file for bankruptcy protection if creditors don't approve the plan.

Tracor, a defense electronics company, traces its problems to both an overleveraged balance sheet and improved relations between the superpowers that reduced demand for its products, according to analysts.

The proposal appears to favor the banks over the current bondholders and shareholders, said David Sotnick, analyst for Standard & Poor's Corp. He noted the proposal would give the banks $175 million of senior secured debt in newly formed Westmark, including Littelfuse, "the most profitable" part of the operation.

The proposal appears to favor the banks over the bondholders and shareholders.

Toronto Dominion Bank was agent for the bank facility, and Bank One Texas, BankAmerica International and Barclays Bank were members of the group that financed Tracor. None would comment for this article.

The plan requires the approval of 95% of bondholders, said James B. Skaggs, chairman of Tracor. But he added that "the companies are alternatively seeking approval of the plan through a 'prepackaged' Chapter 11 (bankruptcy reorganization) filing if less than 95% but more than two-thirds in principal amount and a majority in number of the Tracor bondholders approve the recapitalization plan."

Under the proposal, the banks would also receive $75 million of a senior secured revolving credit facility to Tracor's troubled defense-related business – "which could be worth something down the road if business improves," Mr. Sotnick said. Also, they'd receive a $22.7 million of zero-coupon senior secured notes of Tracor Aviation, which the company is expected to try to sell.

Unit Sold to Reduce Debt

In May and June of this year, Tracor used the proceeds from the sale of its instruments division to reduce its bank debt by $100 million and raise $15.4 million of working capital, the company said.

Tracor said it has defaulted on its bank debt and the banks have issued a notice blocking payments to bondholders, including a $16 million interest payment due Friday.

Mr. Sotnick said failure to make that payment would result in a "D" rating on the 14% senior subordinated debentures due 1998, signifying a default.

Growth Never Materialized

Tracor was bought by Westmark Systems, a company controlled by Dallas merchant banker Mason Best Co., for $714 million, or 23 times earnings, in 1987. Mason Best recruited Navy Adm. and former deputy CIA director Bobby R. Inman to head the company. But after the expected growth of the company failed to materialize as relations improved between the superpowers, Adm. Inman, left the company late last year, making public warnings on the dangers of LBO financing.

Tracor's public bondholders are being asked to exchange $458 million of debt for all of Westmark's common stock; $48 million face amount of zero coupon convertible subordinated notes of Westmark, due 1998; and all of Tracor Aviation common stock.

Westmark shareholders would get the common stock of the defense business.

Manda Klein, who follows the bonds for Donaldson, Lufkin & Jenrette, said she has not completed her analysis of the proposal, but added: "I don't see why any equity should go to the existing equity holders, given the situation." □

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THE PREMIER ATM NETWORK

Riggs to Return Most Of FDIC-Deal Loans

WASHINGTON — Riggs National Corp. said that by Sept. 9 it will have exercised its option to sell back $655 million to $680 million of the roughly $750 million in loans it bought from the Federal Deposit Insurance Corp. as receiver for the failed National Bank of Washington.

Riggs will retain about $20 million in overdraft lines of credit related to demand deposit accounts and will determine within weeks whether to retain another $50 million to $75 million of loans covered by the agreement. — **Reuters**

BANK AND THRIFT STOCKS

Highlights for Wednesday, August 29

TOP 10 GAINERS %

Union Bank	12.9
Equimark Corporation	12.5
Bancorp of Mississippi, Inc.	11.1
Iowa National Bankshares Corp	9.1
Summit Bancorporation	7.0
Magna Group, Inc.	6.7
First Security Financial Corp.	6.5
Valley Bancorporation	6.1
Mid-America Bancorp	6.0
Pacific Western Bancshares	5.3

TOP 10 LOSERS %

Grenada Sunburst System Corp.	-8.6
Valley Capital Corporation	-8.5
Trustmark Corporation	-6.1
National Penn Bancshares, Inc.	-7.0
Amcore Financial, Inc.	-5.8
Bank of Boston Corporation	-5.5
Southeast Banking Corp.	-5.2
Planters Corporation	-5.2
Plaza Commerce Bancorp.	-5.0
National Community Banks, Inc.	-4.8

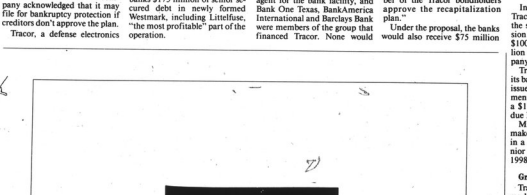
MOST SHARES TRADED

First Bank System, Inc.	2133100
Citicorp	778900
Bank of New England Corp.	649600
BankAmerica Corporation	496100
Chase Manhattan Corporation	484400

VOLUME AS % OF AVERAGE

Sunwest Financial Services	1836.5
First Bank System, Inc.	825.1
Mark Twain Bancshares, Inc.	564.4
Fourth Financial Corporation	544.1
First Financial Corporation	418.4

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

1/3/89=100

Percentage Changes

Computed from the indices reported 1, 5, and 21 days previous, respectively

Dow Jones Industrial Average			AB Bank Index*			AB Thrift Index*		
Day	Week	Month	Day	Week	Month	Day	Week	Month
0.67	2.82	-9.39	0.36	1.30	-10.28	1.75	4.35	-12.03

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt to-bk	Yld.	Chg.	Chg.
23	18¼	1stSourceCorp/In	6.3	86.3	19	-¼	
14¼	9¾	AFFBancshares/CO	13.7	56.0	9%	-¼	
28¾	18¾	AmSouthBancorp/FL	7.5	77.8	18¾	-¼	
19¾	12¼	AmcoreFin/IL	7.1	72.4	12¼	-¼	
23	13¾	AmericanFdsCorp-Dpf	23.0	91.3	13¾	-¼	
22¾	18	AssociatedBanc-W	8.7	119.7	19	+½	
24¾	17¾	BB&T FinCorp/NC	7.8	97.3	18¾	-¼	
15¾	7¾	BaltimoreBanc-MD	6.9	49.0	9%	-¼	
40¾	28	BancOne-OH	13.3	142.9	44	-¼	
33½	24¼	BancOne-Corp-OH	9.5	147.1	25¼	-¼	
24¾	16¾	BancoPonce-PR	8.5	83.0	16¾	+½	
56¾	36¾	BancorpHawaii-HI	7.9	132.3	41¼	-¼	
23¾	18	BancorpRhode-MD	7.5	94.8	20	-2	
36¾	19¾	BankAmericaCorp/CA	4.7	88.7	22⅝	-¼	
24	17⅝	BankNewEngland-MA	123	216.9	20	-¼	
23¾	7¾	BankNewEngland-MA	NM	32.4	15¾	-½	
13¾	7¾	BankSouthCorp-GA	6.7	81.9	7¾	-¼	
57¾	34¾	BankersTrust-NY	NM	125.4	36¼	-¼	
21¾	9¾	BarnettBanksGroup-FL	4.6	50.5	9¾	-¼	
39¾	8¾	BarnsBoston-MA	NM	32.9	8¾	-½	
13¾	12¾	BayBanksWV-NY	NM	66.8	23¼	-¼	
12	6	BenMcAdAmer-OK	NM	50.1	8¾		
11¾	8	BerkshireBncsh	10.4	100.8	84	-1	
39¾	34¾	BernetBankInc-IL	7.8	91.8	25¼	¾	
40¾	31¾	BostonCorp-MA	NM	39.9	13½	-¼	
35¾	25¾	BostonPrivBcshs-MD	7.1	82.8	26¾	-¼	
25¾	15¾	CBT Corp/New Haven	225.3	104.1	16	-¼	
18¾	12¾	CCB Financial-NC	7.3	100.2	14¼	-¼	
43¾	30¾	CCB FinCorp-SC	7.3	100.1	30¾	-¼	
22¾	15	COMB Corp-IL	8.6	123.5	17	-¼	
22¾	18⅝	CNB Bancshares-IN	10.1	121.4	20¾	-¼	
27	17¾	CPB Inc-MI	9.2	115.9	19¾	+¼	
28	11¾	CVB FinCorp-CA	9.0	205.9	12¾	-¼	
33¾	17	CalFedBancCA	6.8	123.5	17	-¼	
16¾	12¾	CentralBcshs-KL	6.6	90.6	13¾	-¼	
34½	23¾	CentralBcshs-VA	7.1	100.4	25¾	-¼	
27	10⅝	CentralJersey-NJ	6.4	76.6	10¾	-¼	
44¾	18¾	CharterMunMtge-NY	NM	48.7	17¾	-¼	
41¾	20¾	ChemicalBanking-NY	NM	82.2	21¼	-¼	
25	20	ChemicalFinCorp-MI	8.8	96.6	20¾	-¼	
35¼	17¾	Citicorp-NY	NM	70.4	18	-¼	
25¾	15¾	CitizensBancorp-MD	7.4	91.0	16	-¼	
39¼	20¾	CitizensBnk-RI	7.4	70.3	21¼	-¼	
15¼	7¾	CitizensBncsh-MI	NM	102.7	7¾	-¼	
34¾	18¼	CitizensSouthCn-CA	5.7	86.4	19¾	-¼	
27¼	14⅝	CityNational-CA	6.3	78.6	17¾	-¼	
22½	12¾	ColoradoNatBksh-CO	33.8	75.8	13¾	-¼	
18¾	16¾	Comerica-MI	8.0	88.5	18	-¼	
29¾	21¼	CommercBcshs-MO	6.9	93.9	21¼	-¼	
20¾	14¾	CommonwealthPA	7.8	85.7	15¾	-¼	
37¾	10½	Constellation-NJ	6.6	36.9	10¾	-¼	
28¾	8¾	ContinentalCorp-IL	NM	43.9	10¼	-¼	
49¾	31¾	CoreStates/PaCp-PA	33.5	127.5	34¾	-¼	
34	17¾	CoreStatesFinCorp-PA	6.3	76.6	17¾	-¼	
18	7¾	CulbertsonFin-TX	36.6	47.5	9¾	-¼	
37¾	29¾	DauphinDeposit-PA	8.1	117.4	27¾	-¼	
32	21	DepositGuaranty-MS	7.7	67.9	22	-¼	
35½	15¼	DimeSavingsofNY-NY	6.5	72.8	15¾	-¼	
14¾	3¾	EquimarkCorp-PA	NM	33.8	4½	+½	
21¼	11¼	EvergreenBancp-NY	5.7	80.9	11½	-¼	
15¾	12	F & M NatCorp-VA	10.0	153.9	12¾	-¼	
14¾	11¼	FNB Corp-PA	7.8	82.0	11¼	-¼	
26	21¼	FNH Bancorp-IL	10.3	170.5	22¼	-¼	
29	25	FarmersCapitalKY	12.1	106.0	25	-¼	
36¾	27	FifthThirdBncp-OH	9.7	148.8	28	-¼	
38¾	29	FinancialTrust-IL	9.7	123.8	30	-¼	
51½	33	FirstFedFin-MI	8.2	98.9	39¼	-¼	
19¾	14¾	FirstAlabama-AL	8.3	105.8	18¾	-¼	

52 Wk Hi	Lo	Name	PE	Mkt to-bk	Yld.	Chg.	Chg.
25¾	9¾	FirstAmerCorp-TN	NM	53.8	9¾	-¾	
34½	21½	FirstBancorp-OH	7.4	68.0	22¼	-¼	
36¾	12¾	FirstBancSystem-NM	6.9	83.6	15¾	-¼	
40¾	21¼	FirstChicago-IL	6.8	63.4	22¾	-¼	
29	20¾	FirstCitizBnc-NC	6.8	78.8	20¾	-¼	
39½	18¾	FirstCityBanc-TX	2.8	54.5	18¾	-¼	
18¾	11	FirstCmtyBncp-CA	8.6	108.3	11¼	-¼	
23¾	18¾	FirstCommerce-LA	7.7	86.2	18¾	-¼	
21¾	17¾	FirstCommercial-AL	9.6	106.8	17¾	-¼	
21¾	17¾	FirstCommercial-TN	9.4	106.6	17¾	-¼	
19¾	14¾	FirstCommerceBk-NC	7.4	108.1	18¾	-¼	
19¾	14¾	FirstCommunity-IL	11.1	113.6	18¾	-¼	
35½	18	FirstEastern-PA	6.8	62.6	18¾	-¼	
72	51¼	FirstEnterp-NY	7.3	86.7	54¾	-¾	
33¾	13¾	FirstFedAy-NJ	NM	69.9	14¾	-¼	
50	36	FirstFedAm-MI	11.8	169.0	37¼	-¼	
34¾	17¾	FirstFedFin-FL	9.2	71.0	18¾	-¼	
26¾	17¾	FirstHawaiian-HI	8.3	172.6	19¾	-¼	
11	6¾	FirstIllinois-IL	9.2	155.5	6¾	-¼	
69¾	27½	FirstInterstate-CA	NM	76.0	28¾	-¼	
7	3¾	FirstInterstate-IL	6.4	90.2	4¾	-¼	
18¾	13½	FirstMichBkCorp-MI	7.5	104.3	13¾	-¼	
34¾	18	FirstMidwest-IL	8.8	125.3	18¾	-¼	
29¾	17½	FirstNBancorp-CA	7.6	118.9	18¾	-¼	
44	18	FirstPennBc-PA	4.3	68.1	18¾	-¼	
19¾	11¾	FirstSecurity-KY	10.1	93.1	12¾	-¼	
18	13¾	FirstSecurityNC	12.8	169.9	14¾	-¼	
33¾	24¾	FirstSecurity-UT	7.1	73.6	24¾	-¼	
29¼	21	FirstTennessee-TN	7.5	89.6	23¾	-¼	
25¾	14¾	FirstUnionCorp-NC	6.2	74.2	15	-¼	
25¾	20¾	FirstVirginia-VA	7.0	96.2	22	-¼	
45¾	25	FirstWisconsin-WI	9.5	143.2	37¾	-¼	
35	25	Firstbank-MI	6.9	108.2	29¾	-¼	
39¾	17	FirstfedFinL-IL	8.2	102.6	17¾	-¼	
55¾	40¾	FirstofAmerica-MI	7.0	87.2	40¾	-¼	
39¾	14¾	FleetFinancial-RI	12.0	89.9	15¾	-¼	
25	18¾	FortWayneNatCp-IN	8.1	97.8	19¾	-¼	
28	20¾	FourthFinCorp-KS	7.3	144.2	24¾	-¼	
21¾	14¾	FultonFin-Corp-PA	7.1	112.2	14¾	-¼	
34¾	18¾	GBC Bancorp-CA	7.7	188.0	19¾	-¼	
15¾	8	GreenvilleSunburst-MS	15.4	59.8	8	-¾	
29¾	21¼	HarleysvilleNa-PA	10.3	170.3	29	-¼	
9¾	6	HawthenBancsh-KS	3.7	100.4	6¾	-¼	
31¾	21¾	HeritageFinCorp-IL	8.2	109.1	24¾	-¼	
26	12¾	HiberniaCorp-LA	15.9	98.3	13½	-¼	
20¾	12¾	HuntingtonBancsh-OH	6.6	68.4	13¾	-¼	
37¾	19¾	INBFinCorp-IN	7.4	85.8	19½	-¼	
13	7¾	IndependenceBc-MI	5.8	94.1	12¾	-¼	
26	15¾	IndependentBp-PA	8.7	92.8	18¾	-¼	
20¾	13¾	IntegraBnk-IN	13.5	82.0	14¾	-¼	
48	33	InvestmentBnkhs-KI	8.8	115.6	36	2	
31¾	21¾	J.P. Morgan-NY	8.0	91.0	40¾	-¼	
26¾	18¾	JeffersonBnkshs-VA	7.4	84.8	17	-¼	
21	18¾	KeyCorp-NY	8.4	94.2	21	-¼	
29¾	21	KeyCorp-NY	6.4	91.6	22	-¼	
24¾	17¾	KeystoneFin-PA	7.5	138.9	18¾	-¼	
35¾	20	KeystoneHeritgp-PA	7.8	118.3	22¾	-¼	
19¾	14¾	LaSalleBancA	14.1	172.1	15¾	-¼	
18	8¾	LendmarkBcshs-MO	6.8	53.9	9¾	-¼	
30¾	21¾	LibertyNatBncs-KY	7.5	95.8	22	-¼	
27	17¾	LincolnFinCp-IN	6.5	80.1	18¾	-¼	
29¾	8¾	MBC FinancialMD	15.2	52.0	8¾	-¼	
18	11	MagnaGroup-IL	8.5	85.4	12	-¼	
40	38¾	MahaningNatBk-OH	6.0	91.0	40¾	-¼	
44¾	23¾	ManufacturersNt-IN	NM	61.4	29¼	-¼	
21	18¾	MarlinCorp/L.*-	11.2	125.7	18¾	-¼	
20¾	13¾	MartFinnshBancsh-MO	8.2	103.1	15¾	-¼	
37¾	26¾	MarshallBkNy-NY	8.0	104.1	26	-¼	
35¾	18¾	MellonBankCorp-PA	3.9	64.3	19¾	-¼	
38¾	21	MercantileBnc-MO	36.1	84.9	22	-¼	

52 Wk Hi	Lo	Name	PE	Mkt to-bk	Yld.	Chg.	Chg.
27¼	18¾	MercantileBncsh-MD	7.5	114.3	18¾	-¼	
35¾	42	MerchantsBank-NY	10.6	154.4	42	-2	
32	17¾	MerchantsNa-IN	9.5	79.0	19¾	¾	
24¾	15¾	MetroBankBancorp-PA	6.9	83.6	15¾	-¼	
56	24½	MichiganNatCorp-MI	2.3	52.5	26¼	-¼	
18¾	12¾	MidAmericaIN-KY	8.8	84.7	13¾	-¼	
23¾	18¾	MidlnInc.-OH	9.0	138.2	18¾	-¼	
24¾	14¾	MidlantecCorp-NJ	7.1	26.5	15¾	-¼	
25¾	5¾	MultibankInc-MI	NM	21.8	6¼	-¼	
21¾	14¾	NBD Bancorp-MI	7.6	110.7	20¾	-¼	
28	13¾	NCNB Corp-NC	6.5	118.0	13¾	-¼	
23¾	13¾	NationalCityBncp-CA	13.7	143.0	15¾	-¼	
23¾	18¾	NationalCityCorp-OH	7.4	125.7	22¾	-¼	
51	33	NationalPenn-PA	8.8	171.0	33	-2½	
31½	25¾	NationsBkMd-MD	8.6	175.0	26¾	-¼	
24¾	20¾	NatlCommerce-TN	6.3	102.2	20¾	-¼	
44¾	14¾	NatlCommunity-NJ	4.9	72.4	14¾	-¼	
20¾	8¾	NorthFinSvBanc-NY	4.5	52.8	8¾	-¼	
21	10⅝	NorthwestBncp-MI	NM	40.2	12	-¼	
33¾	23¾	NorthernTrust-IL	8.2	152.7	24¾	-¼	
23¾	17¾	NorwestCorp-MN	7.0	130.3	18¾	-¼	
32¾	20¾	OhioBancorp-OH	8.7	89.4	21¼	-¼	
22¾	21¾	OldKentFinCorp-MI	7.4	103.6	22¾	-¼	
26¾	23¾	OldKentBancorp-IN	12.6	151.2	23¾	-¼	
25¾	19	OneNorthBancorp-NY	6.8	83.3	20	-¼	
48¾	22¼	PNC FinCorp-PA	7.8	86.9	25¼	-¼	
28¾	22¼	PacificBancA	10.0	143.6	24	-¼	
13¾	8¾	PacificWestern-CA	7.8	142.3	10	-¼	
19¾	13¾	PeoplesBancorp-NC	8.0	108.2	13¾	-¼	
27	26	PeoplesNatl-NY	9.6	122.6	26½	-¼	
15¾	9¾	PeoplesCommerce-CA	7.3	136.7	9¾	-¼	
6¾	3	PremierSavingsLA	19.4	57.8	3¾	-¼	
27	21¼	PremierBancShs-OH	8.7	124.4	22	-¼	
14	5¾	PremierBnshrs-MO	NM	38.0	6¾	-¼	
37¾	17¾	Puget Sound Bancp-WA	11.5	180.7	33¾	-¼	
52¾	42¾	RepublicNYCorp-NY	134.5	117.6	44¾	-¼	
26¾	12	RiggsNatlCorp-DC	8.0	58.7	14¾	-¼	
32¼	25	RiverForest-IL	12.2	271.3	27¾	-¼	
43¾	18¾	SanMarinoBancp-CA	9.9	179.5	21	-¼	
23¾	15¾	SecurityBancorp-MI	7.4	124.7	16¾	-¼	
21¾	15¾	SecurityPacific-CA	4.5	75.4	20¼	-¼	
28¾	8¾	ShawmutNatCorp-MA	NM	46.8	8¾	-¼	
42¾	14¾	SignetBanking-VA	4.5	53.6	15¼	-¼	
38¾	27¼	SocietyCorp-OH	8.6	95.0	27¾	-¼	
27¼	16	SouthCarolinaBp-SC	6.3	81.3	16¾	-¼	
28¾	6¾	SoutheastSCorp-FL	NM	32.9	6¾	-¼	
29¾	10¾	SouthernNatCp-NC	8.7	121.2	10¾	-¼	
25¾	18¾	SouthtrustCorp-AL	6.6	87.3	18¾	-¼	
25¾	22¾	SovereignBncp-PA	6.2	86.5	23¾	-¼	
26¾	18½	Star Banc Corp-OH	8.4	109.9	18¾	-¼	
31½	20¾	StateStBkCorp-MO	11.5	180.7	30¾	-¼	
20¾	4¾	StatewideBanc-KI	NM	99.1	4¾	-¼	
29¾	15¾	SuburbanBancorp-IL	12.5	81.0	18¾	-¼	
34¾	21	SumitomoBank-CA	5.1	80.9	34	1	
11¾	8¾	SumnerCo-IN	8.9	86.1	10¾	-¼	
28¾	19¾	SummitBancorp-NJ	5.6	82.0	23¾	-¼	
19¾	14¾	SunTrustBanks-GA	7.4	114.4	18¾	-¼	
18¾	8¾	SunwestFinServ-MM	48.8	48.0	10¾	-¼	
23¾	16¾	SuperiorBancorp-IL	7.1	93.0	17	-¼	
18	14	SymmonyFinCorp-OH	15.7	231.2	14¾	-¼	
16½	13	TheFirstBancorp-CA	10.7	169.9	13¾	-¼	
37	24¾	TrustCoBancorp-NY	8.8	152.4	29	-¼	
21¾	15	TrustcompanyNJ	7.5	83.1	15¾	-¼	
21¾	15¾	TrustmarkCorp-MS	7.6	69.4	17	-1¼	
27¼	19¾	U.S. BancorpOR	7.3	109.2	20¼	-¼	
41	31¾	UJB Financial-NJ	6.1	108.8	32¾	-¼	
28¾	10¾	UJB FinancialNJ	6.0	60.8	11¾	-¼	
31¾	9¾	USF Corp-MA	5.6	17.5	9¾	-¼	
31¾	17¾	UnionBank-CA	4.8	79.0	19¾	2¼	
15¾	6¾	UnionPlanters-TN	NM	53.8	6¾	-¼	

TOP 25 THRIFTS (4 PM PRICES)

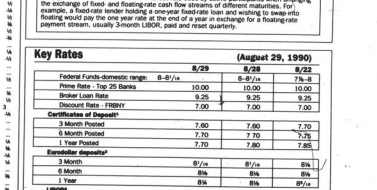
52 Wk Hi	Lo	Name	PE	Mkt to-bk	Yld.	Chg.
23¾	18¾	AmeribankCorp/CO	7.3	83.3	17¾	¼
45¾	28¼	AppleMetroInc-NY	7.4	70.2	28¾	-¼
27¾	17¾	CityFedFinCp-PA	7.0	55.8	18¾	-¼
22¾	16¾	CoastSavingsCo-CA	7.5	66.3	16¾	-¼
18¾	5¾	DimeCapital-NY	NM	20.1	6¾	-¼
18¾	5¾	DimeSavBk-NY	NM	20.1	6¾	-¼
24	13	EmpireSavings-FL	20.1	87.1	13	
27	18¾	FirstFedFinCorp-DE	6.6	110.3	20	¼
21¾	12	FirstFedMichCp-MI	6.3	61.3	12¾	-¼
24¾	9¼	GLOBEFD-CA	2.8	25.0	10	-¼
24¾	22¾	GoldenWestFin-CA	9.3	144.1	23¾	-¼
14¾	10¾	GreatWesternFin-CA	12.6	88.2	14	-¼
13¾	9	GibraltarSavBank-CA	NM	11.3	11¾	-¼
47¾	6¾	HomeFedCorp-CA	NM	17.7	8	-¼
21¾	15¾	HomeFedCorp-MD	16.0	88.3	17¾	-¼
16¾	9¼	NBB Bancorp-MA	9.4	40.0	9¾	-¼
30¾	25¾	PeoplesHeritage-ME	25.7	317.7	43¾	-¼
25¾	9¾	PeoplesHeritage-NY	7.1	35.7	11	-¼
18¾	8¾	SocieteCorp/SBNY	8.1	42.3	8¾	-¼
22¾	6¼	SoCorp/SoSgaCT	4.1	32.0	7	½
19¾	9¾	SpiegelCorp-IL	NM	53.8	9¾	-¼
12¾	6¼	StandardFedBk-MI	6.0	51.4	7¾	¼
20¼	11¾	WashMutualSB-WA	9.0	61.9	13¾	-¼
31¾	21¼	WashingtonFedSL-WA	8.3	166.1	23¾	-¼
11¼	6¾	WestsideSB-CA	10.2	85.3	7¾	

Bank Stock Table Explained: The table lists in alphabetical order daily closing stock prices for the 225 largest publicly traded commercial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding as of the end of June. In 1990, the largest market value cutoff for banks was $56.71 mil. and for thrifts $107.8 mil.) $2 Wk Hi Lo: the moving 52-week high and low closing prices for the stock. PE: the price earnings ratio. It is the current stock price divided by the trailing four-quarter earnings, as reported or as adjusted for latest announced earnings. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Book value is adjusted for announced earnings and dividends. Ctg.: The price as of the previous day, added if it relates to the day the table was published. Yld.: Annual dividend. Indicated: A weighted average of the top 250 banks in each of the 50 states and the top 50 thrifts in market value, respectively, highlights the largest percent gainer/losses in price; and two volume indicators most shares traded and traded volume as a percentage of average shares traded daily over the past year.

Data source: SNL Securities, Charlottesville, VA, 804-977-1600, produced the tables. Financial News Network, Vienna, VA, provides SNL with the daily prices.

Libor Swap Yield Curve

Wednesday, August 29, 1990



Data source: Manufacturers Hanover Trust Co., New York

Description of table: For lenders and borrowers in the interest rate swap market, the LIBOR swap yield curve is the benchmark interest rate used by active participants when arranging the exchange of fixed- and floating-rate cash flow streams of different maturities. For example, a fixed-rate lender holding a one-year fixed-rate loan and wishing to swap into floating would pay the one year rate at the end of a year in exchange for a floating-rate payment stream, usually 3-month LIBOR, paid and reset quarterly.

Key Rates

(August 29, 1990)

	8/29	8/28	8/22
Federal Funds-domestic range:	8-8⅛	8-8⅛	7⅞–8
Prime Rate - Top 25 Banks	10.00	10.00	10.00
Broker Loan Rate	9.25	9.25	9.25
Discount Rate - FRBNY	7.00	7.00	7.00
Certificates of Deposit¹			
3 Month Posted	7.60	7.60	7.70
6 Month Posted	7.70	7.70	7.75
1 Year Posted	7.70	7.80	7.85
Eurodollar deposits²			
3 Month	8⅛	8⅛	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅛	8⅛
LIBOR³			
3 Month	8⅛	8⅛	8⅛
6 Month	8⅛	8⅛	8⅛
1 Year	8⅛	8⅝	8⅞

Mid-afternoon quotes, New York market. (¹)— Largest offering rates at selected NYC banks (²)— Late London bid (³)— Annualized money market basis - source: Manufacturers Hanover Tr.

STOCKS

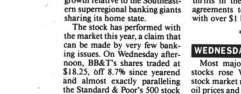
Strong Earnings And Low Profile Bolster BB&T

By GORDON MATTHEWS

NEW YORK — Shares of BB&T Financial Corp., Wilson, N.C., have managed to weather the storm that has battered bank stocks this year, helped by its low profile and strong earnings growth relative to the Southeastern supergional banking giants sharing its home state.

The stock has performed with the market this year, a claim that can be made by very few banking issues. On Wednesday afternoon, BB&T's shares traded at $18.25, off 8.7% since yearend and almost exactly paralleling the Standard & Poor's 500 stock index.

BB&T Stock Has Fared Better than Most Banks'
Percentage change



In comparison, the *American Banker* index of the 225 largest publicly traded banks is off 23%.

Others Are Weaker

As for its better-known neighbors, highly regarded First Wachovia Corp. Winston-Salem, N.C., is off 9% while First Union Corp., Charlotte, N.C., is off 26%, and NCNB Corp., also based in Charlotte, is off 27.3%.

"You've got three dominant banks in North Carolina and then a smaller and less known regional bank group with BB&T at the top of that list," noted Kathryn Hart Bissette, a banking analyst in Atlanta for Interstate/Johnson Lane.

Quality Has Lasted

Avoiding the limelight, of course, is not the whole story. BB&T has kept up the pace of earnings growth. Net earnings per share for the first half of this year were up 19% over the level a year earlier. Most of all, it has avoided problem loans.

"BB&T's asset quality today is essentially the same as it was in 1985," noted Andrew R. Davis, the banking industry analyst for Wheat First Securities Inc., Richmond, Va.

Operates Statewide

The company has no foreign loans and has financed no high-leverage transactions. Real estate construction loans are a sizable 12% of its loan portfolio – but growth of this lending has been small – up only 8% in two years, Mr. Davis noted, and does not involve financial of speculative projects.

BB&T is a $5 billion-asset company whose chief subsidiary is Branch Banking and Trust Co., North Carolina's smallest bank operating statewide. It also has a subsidiary bank in Greenville, S.C.

Since enactment of the thrift industry bailout law a year ago, BB&T has become one of the leading acquirers of healthy thrifts in the Southeast. It has agreements to buy five thrifts with over $1 billion in assets.

* * *

WEDNESDAY'S MARKET

Most major bank and thrift stocks rose Wednesday as the stock market rallied on a drop in oil prices and the absence of bad news from the Persian Gulf region.

The major California banks all registered gains, regaining a bit of the substantial ground they have lost since mid-July. But analysts said they regarded the shift as more technical than fundamental.

Shares of Rivals

Wells Fargo & Co., San Francisco, rose $1.30, to $55.375, while its local rival, BankAmerica Corp., climbed 50 cents, to $22.625. In Los Angeles, First Interstate Bancorp. was up 62.5 cents, to $29.25 in afternoon trading.

On the East Coast, First Fidelity Bancorp., Newark, N.J., rose 12.5 cents, to $14.625, on news that it will sell its Philadelphia mortgage banking company, Latimer & Buck, to Legg Mason Inc., Baltimore.

Meanwhile, Northeast Bancorp, Stamford, Conn., declined $1.25, to $12. on the announcement that it adopted a shareholders rights plan "to deter abusive takeover tactics." □

CAPITAL

Banks Take a Cue from High-Yield Bonds

By FRED VOGELSTEIN

In their continuing effort to find alternative ways into the capital markets, banks are looking at a technique used in the high-yield bond market that lets them sell stock and debt privately and file later to make them public securities.

The use of private placements with registration rights enables banks to raise capital faster but often without the premiums associated with private placements, experts say.

Until recently, time was not a major factor for banks issuing securities publicly. However, regulators have begun scrutinizing bank filings more closely and taking longer with them.

"In the old days, banks' balance sheets and income statements were boring. Now they're extremely controversial," said Michael L. Ryan, a partner at Cleary, Gottlieb, Steen & Hamilton. Bankers "are starting to use techniques historically reserved for issuers with controversial balance sheets."

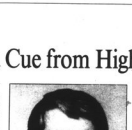
In the past six months Cleary, Gottlieb has seen a sharp increase" in discussions with banks and investment bankers about private placements with registration rights, Mr. Ryan said.

Hanover Among Leaders

Manufacturers Hanover Corp. is one of the only banks to have used the technique. It did so mainly for price, not speed.

However, four other banks are thinking about taking similar steps, said Dirk Stirrup, a managing director for financial institutions at Merrill Lynch & Co.

"The SEC review procedure has basically gotten extended," Mr. Stirrup said. In some cases now the review takes as long as six weeks, he said. "It used to


Michael L. Ryan
Cleary, Gottlieb

take only about a week."

The private-placement technique is hardly a cure-all, as the deals require banks to be in registration much longer than in traditional methods for raising capital. Also, with stock issues, the deals don't reduce the downward pressure on prices that occurs during any new offering.

"To say [to the market] that a whole block of stock is free to trade in four or six months" is like having to wait the extra time for the registration statement to clear, said George Miling, treasurer at Banc One Corp.

He agreed that for a bank in urgent need of capital, the private-public hybrid could be a viable alternative. But Banc One did not consider the option when it recently issued stock, he said; because it didn't urgently need the capital, it decided to issue the stock the traditional way.

Banc One sold 11.5 million shares but had to wait 110 days for SEC approval, about twice as long as in the past.

In the Hanover deal, the bank issued $85 million in mandatory convertible preferred stock. A group of about 20 investors bought the issue with the stipulation that the participants could sell it in the secondary market within six months or receive a higher coupon for their shares.

Hanover plans a similar issue of $50 million in the fall.

* * *

MARKET MONITOR

National Westminster Bank PLC on Wednesday became the latest foreign bank to lose its AAA rating, when Standard & Poor's Corp. downgraded the London-based bank's senior debt to AA-plus.

Two weeks ago Moody's Investors Service downgraded long-term debt of Japan's Dai-Ichi Kangyo Bank Ltd. and Fuji Bank Ltd. to Aa1 from Aaa.

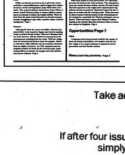
The NatWest downgrade affects $7.5 billion in debt and includes subordinated debt and junior subordinated perpetual debt in addition to senior debt. The subordinated debt was downgraded to AA from AA-plus, the junior subordinated to AA-minus from AA.

S&P said the downgrade reflects "a marked deterioration in the bank's profitability and asset quality."

California Federal Bank's debt and that of its parent, Calfed Inc., were downgraded Wednesday by Moody's Investors Service, which cited California Federal's weakened capital position and increased uncertainty about commercial real estate in the state. California Federal's senior debt and long-term deposits, which were lowered to Ba2 from Baa3, are now speculative grade. About $875 million in debt is affected.

Moody's also lowered California Federal's ratings on commercial paper and short-term deposits to Not Prime from Prime-3. It also downgraded the subordinated debt ratings for Calfed to B2 from Ba3. □

MIDEAST MARKETS



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AMERICAN BANKER
VOL. CLV NO. 171 Friday, August 31, 1990 155th year

Profit Potential Of Robert Bid-Called Dubious

By BARBARA A. REHM

WASHINGTON — With the Resolution Trust Corp. awarding its first major asset-management contract this week, sources close to the spirited bidding wonder whether winner J.E. Robert Co. can hope to make any money.

That was the speculation in the asset-management industry Thursday as the RTC was expected to sign a contract with Joseph E. Robert, chief executive of the Alexandria, Va., company. Robert won the bidding to manage $2.38 billion of assets taken over from the failed University Savings Association of Houston.

Sources close to the deal were interviewed Thursday afternoon in advance of a possible announcement of the contract signing by the RTC.

"I will be very surprised if at some future date we don't learn that the J.E Robert Co. has achieved a level of profitability," said one losing bidder.

Income Estimated

Other sources said Mr. Robert's company is expected to make $41.4 million over the life of the three-year contract. This consists of $21 million to manage the assets and $20 million in disposition fees.

Those figures are misleading, J.E. Robert could earn less if disposition of the assets takes longer than expected or if assets are sold for less than the RTC-established "estimated recovery value."

Most of the assets are nonperforming multifamily residential loans, many of them carrying land loans, or real estate owned, consisting mainly of apartment properties, according to a source close to the deal. "A lot of it was pretty nice stuff," he said, "with ready and willing buyers."

Contract Signing Imminent

While the company and the RTC declined to comment Thursday, a contract was expected to be signed that afternoon in Houston.

The RTC also was expected to award a contract Thursday to Northcorp Realty Advisors. The Dallas-based concern is to be paid about $4 million to manage and sell 1,215 single-family properties and 431 single-family nonperforming loans.

Regardless of the final details, the RTC is turning a critical corner: from seizing failed thrifts, which requires spending money,

See **PROFITABILITY** *page* **7**

INSIDE NEWS

MORTGAGES

CONSUMER GROUPS and some bankers are expecting a surge in allegations of loan discrimination against home mortgage lenders because of rigorous new reporting requirements. *Page 8*

CONSUMER

FANNIE MAE and **Freddie Mac** rush to the aid of mortgage servicers pinched by obligations to reservists who have been called up. *Page 6*

DESPITE ANTITRUST concerns, the Federal Reserve Board has narrowly approved the application of Norwest Corp. to acquire First Minnesota Savings Bank. *Page 2*

TECHNOLOGY

FIRST FIDELITY Bancorp. said Thursday it will turn over a major systems development project and data center operations to EDS Corp. under a 10-year contract valued at $460 million. *Page 3*

FINANCE

THE FED is considered unlikely to be more swayed by the Bank of Japan's decision to raise its discount rate than by domestic economic conditions in deciding whether to ease interest rates, according to many economists and bankers. *Page 20*

INTERNATIONAL

BANK OF JAPAN'S increase in the discount rate Thursday may be only the first salvo in Japan's battle against inflation. *Page 12*

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TO OUR READERS:
The *American Banker* will not be published on Monday, Sept. 3, in observance of Labor Day.

OTS Says Healthy Thrifts Led Decline in 2d Quarter

By DEBRA COPE

WASHINGTON — The health of savings and loans continued to falter during the second quarter, with the greatest declines appearing among thrifts previously in the highest category of strength, the Office of Thrift Supervision said Thursday.

Of the 2,453 thrifts that had survived as of June 30, the total in Group 1, those deemed healthy and profitable by the OTS, fell to 1,175, down from 1,264 based on a review earlier last spring.

Weakest Group Is Trimmed

At the same time, the OTS shaved its estimate of thrifts that are expected to be transferred soon to government hands – Group 4 – by 64 institutions, to 246, mostly because 52 institutions already had been shifted to the Resolution Trust Corp.

OTS Director T. Timothy Ryan Jr. said he was not surprised at the changes in the upper levels of the industry, given deepening troubles nationally in the real estate sector and weakness in the economy generally.

"If current economic conditions continue, it is very possible we will see additional deterioration," he said, when the agency assesses the thrifts' health again in three months.

In response to a question, the



OTS acknowledged it had downgraded its prognosis for 181 thrifts, while noting that another 73 had improved their chances of surviving and prospering.

Overall, the assessments of the 2,453 surviving thrifts were based on OTS evaluations of thrifts' March 31 financial reports, plus the results of examinations, supervisory decisions,

— *See* **OTS** *page* **11**

Comptroller Denies BNE Seizure Is Imminent

Bank Seeking to Raise $150 Million Privately

By FRED VOGELSTEIN and TOM LEANDER

NEW YORK — Federal regulators late Thursday afternoon denied that the seizure of Bank of New England Corp.'s lead bank was imminent after rumors of a takeover swept financial markets.

Meanwhile, in a last-ditch effort to raise capital, the Boston-based company has hired two investment banks to try to privately place $150 million in equity, the *American Banker* has learned.

The news of the effort by Lazard Freres & Co. and Goldman Sachs & Co. came as Bank of New England's stock was being battered by persistent talk that the deeply troubled bank's seizure could come as soon as this weekend.

The Office of the Comptroller of the Currency, which regulates the Bank of New England, told the *American Banker* that the bank would not be seized over

See **REGULATORS** *back page*

Retail Deposits Showing Gains From Gulf Fears

By YVETTE D. KANTROW

The Persian Gulf crisis and resulting drop in stock prices are touching off a strong flight to safety, providing a boost to retail deposits, bankers report.

While it is too early to quantify, the increase in deposits has been noticeable since Iraq's invasion of Kuwait earlier this month, bankers said in interviews.

Some Expansion Seen

"We have seen an uptick in some deposit products," said William J. Laraia, an executive vice president in charge of community banking at National Westminster Bank in New York.

Because banks will not calculate August deposit increases for a few weeks, they cannot yet pinpoint how much of a windfall they are receiving. And so far, the increases do not seem to be as sharp as those that followed the stock market crash in 1987.

But the current uptick could

See **RETAIL** *page* **6**

Banks Float Above the Wreckage In Massive Southland Workout

By STEVEN LIPIN

If troubled Southland Corp.'s financial restructuring is any indication of how lenders fare in workouts, bankers and bank watchers can breathe a small sigh of relief.

While subordinated creditors are poised to take a massive cut in principal in exchange for 25% of the company's equity, senior lenders have their investments virtually intact and are receiving interest and amortization payments.

Banks Unscathed

The Citicorp-led bank group did grant certain waivers in the bank covenants, but otherwise banks have avoided damage. Not only are the company's loans current, but banks are cushioned by Southland's $661 million sale of its share of Citgo, which will help ensure that Southland makes its tough amortization schedule.

The proposed recapitalization of Southland suggests that banks that lent to highly leveraged transactions can recoup their full investment in some of the financial restructurings under

Southland's Massive Debt Load

	$ in millions
Senior term loans	$887
Senior working capital facility	$350
Senior payment-in-kind debentures	$497
Senior subordinated notes	$350
Senior subordinated discount notes	$402
Subordinated debentures	$500
Junior subordinated discount debentures	$946
Cumulative exchangeable stock	$247

Source: Southland Corp., Standard & Poor's

way, some executives and bankers say.

A workout need not mean taking the loans off of a current basis, even if their bonds are in default. It also points to the importance of strong collateral.

See **SOUTHLAND** *page* **18**

PEOPLE *in the news*

Investment Group Head Sets Sights on the Midwest

By STEVEN KLEGE

While other New York-based investment funds, set up in expection of opportunities in the thrift bailout, have stalled amid concern about the future of the industry, Keith Stock is looking homeward to find potential winners.

A native of Decatur, Ill., Mr. Stock left a position in the financial institutions group of McKinsey & Co., New York, to head First Financial Investors. The group has been focusing on the Midwest in its search for underachieving institutions. It has made several investments and recently took control of its first company, St. Louis Bank for Savings, Duluth, Minn., teaming up with some local investors to recapitalize the thrift.

Focusing on Smaller Companies

"I'm working with much smaller institutions than at McKinsey, and I'm having a very immediate impact," he said, expressing satisfaction with his new role.

Mr. Stock said in an interview at his Park Avenue office that his group does not rule out investing in other parts of the country, But



Keith Stock

because interstate banking has been slower to blossom in the Midwest, he argued some small and medium-sized locally based institutions stand a better chance of dominating such cities as Duluth.

"Price expectations are more reasonable because growth has not been as dynamic," he said, adding that the collateral value of real-estate and other assets in markets that have avoided the boom that took place on the coasts tends to be "sounder" as well.

First Financial is a qualified bidder for companies being sold by the Resolution Trust Corp., but has yet to make any acquisitions from the agency. The thrifts under RTC control tend to feature a high level of short-term certificates of deposit and to have sold off their most valuable assets, Mr. Stock said.

St. Louis Bank, formerly St. Louis Federal Savings and Loan Association, "rose to the top" among more than 100 institutions reviewed by First Financial because of its potential to be a dominant, diversified financial services company within its market, he said.

Also Serving as Chairman

Its $210 million in assets already makes it the largest financial institution in the Duluth area. "It has a uniquely loyal and valuable customer base, a high quality, experienced staff, the leading home mortgage market share and attractive savings products," Mr. Stock said.

The bank consultant, who has taken over as chairman of the board and has been shuttling back and forth between New York and Duluth, said he expects to make some modest operational improvements, to reprice some deposit products, and to introduce "some new products on the consumer side."

The transaction, a voluntary supervisory conversion from mutual to stock form, was greeted with a wave of favorable publicity in Duluth.

818 Million of New Money

Local television reporters interviewed a bank customer who said he was pleased by the new strength behind the bank. And president Peter Pichetti, who will step down once a replacement is found, was shown pointing out that the infusion of capital came without taxpayer assistance.

The amount of new capital raised in the transaction, was not disclosed locally. According to the Office of Thrift Supervision in Washington, the deal brought $18 million of new money into the industry. □

Fed Plans to Ease Brokerage Rule

WASHINGTON — The Federal Reserve Board proposed on Thursday to let bank holding companies act as full-service securities brokers and perform certain financial advisory activities for institutional investors without getting specific permission from the central bank.

Already Allowed Case by Case

The Fed said the proposed amendment to its regulations would not expand the companies' authority beyond what is already permitted on a case-by-case basis.

The Fed sought comments from interested parties on whether it should be appropriate to let the companies provide such discretionary investment services to retail clients as well as institutional investors.

Previous Restrictions

In its past actions approving the combination of investment advice with brokerage services, the Fed has limited director, officer, and employee connections between a bank and a securities brokerage affiliate.

It said Thursday that it is not proposing to retain those restrictions.

Divided Fed Backs Norwest On Bid to Buy Weak Thrift

By LINDA CORMAN

WASHINGTON — Despite antitrust concerns, the Federal Reserve Board has narrowly approved the application of Norwest Corp. to acquire First Minnesota Savings Bank, a Minneapolis thrift, and merge it into Norwest Bank Minnesota.

The deal, which means Norwest, whose $7.8 billion in deposits ranks it second among commercial banking organizations in Minnesota, will gain $2.3 billion in deposits. Its share of Minnesota commercial bank deposits will go from 19.7% to about 25.9%. Norwest will remain second-ranked in the state.

The board's 3-2 decision, announced Wednesday, included a lengthy assessment of the deal's implications for competition and a joint dissent by Governors John P. LaWare and Wayne D. Angell.

A Warning Shot

The unusual split decision is a warning shot to financial institutions, indicating the central bank is stepping up its vigilance in potential antitrust situations, according to a lawyer and Fed-watcher. "The dissent sends the message to Norwest that the Fed may not approve more acquisitions," said Melanie L. Fein, a partner in the Washington firm of Arnold & Porter.

"I think Norwest is significant for the future consolidation of the banking industry," Ms. Fein said. "The board is sending a signal it will closely scrutinize mergers in markets where there are only a few dominant competitors."

The Fed's analysis said the acquisition would increase Norwest's share in certain Minnesota markets would exceed the "highly concentrated" level in the Minneapolis market, the board's majority said it was approving the application because First Minnesota, which has negative net worth, would get a capital in-



Wayne D. Angell
Dissenter in Norwest decision

Louise Kraft

fusion from Norwest.

"Thus, the proposal has the significant public benefit of resolving the capital deficiency of an impaired institution in a private transaction without cost to the federal deposit insurance funds," the board wrote in its approval.

In their dissent, Governors Angell and LaWare said competition issues were overriding. Other institutions bid for First Minnesota, they noted, adding that Norwest and one other banking organization control more than 56% of deposits in the Minneapolis-St. Paul market.

"The acquisition proposed here does not bear close scrutiny and would have a direct and adverse effect on competition in the Minneapolis-St. Paul banking market," they wrote.

Approval was based on the year-old Oakar amendment to the Financial Institutions Reform, Recovery, and Enforcement Act, which allowed bank holding companies the first time to acquire thrifts and merge them with banking units. Since that amendment was passed, about 13 holding companies have gained such approvals.

Besides the acquisition of First Minnesota, the board allowed acquisition of several of its subsidiaries, including those involved in the sale of variable- and fixed-rate annuities. It was the first time the board has allowed a bank holding company to sell annuities. □

See **NANTUCKET** *page* **13**

From Nantucket, The Mini-Saga of A Scuttled Deal

By TOM LEANDER

NANTUCKET, Mass. — As buyout dramas go, it may not match Bank of New York Corp.'s hostile bid for Irving Trust Co. But for this picturesque island get a taste of a Wall Street-style financial flap this summer when a group of investors tried to block a local thrift's bid to buy a bank on nearby Martha's Vineyard.

The saga began in December, when Homeport Bancorp. Inc. made a $15 million cash offer for Martha's Vineyard National Bank. The deal seemed sensible enough: $112 million-asset Homeport and $115 million-asset Vineyard National would merge and use their combined know-how to expand in their respective island markets. The marriage was to be consummated this month.

The Challenger

Enter Alex Porter, whose New York investment banking firm, Porter, Felleman Inc., held a 10% interest in Homeport. Mr. Porter charged that privately held Vineyard National was a deeply troubled bank, and that Homeport's stock would be irreparably damaged if it completed the acquisition.

The banking company, parent of Nantucket Bank, reported that its nonperforming loans more than doubled during the fourth quarter, to 5.2% of its $87.7 million loan portfolio.

Mr. Porter and two investing groups – Centennial Associates and the Sabre Fund – tried to head off at the annual meeting it May but were defeated by Homeport's other shareholders, most of whom live on Nantucket.

Deal Died Anyway

As it turned out, Homeport's acquisition plans, including, ironically canceled by "mutual consent," according to Robert G. Stover, chairman and chief executive of-

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TECHNOLOGY/OPERATIONS NEWS

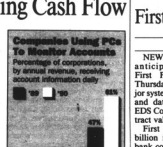
Middle Market Companies Are Automating Cash Flow

By RICHARD LAYNE

NEW YORK — Middle-market companies are increasing the use of automation in cash management, according to a study by Trans Data Corp., Wayne, Pa.

By automating, companies are increasing efficiency and creating electronic bonds that will lead to closer ties with their financial institutions, bankers say.

Trans Data, an affiliate of the *American Banker*, found that corporate treasurers are increasingly using personal computers to tie into bank's mainframe computers. With those links, companies can initiate funds transfers and check their account balances.



523 Companies Surveyed

For the study, middle market was defined as companies with annual sales of $5 million to $250 million. Trans Data surveyed a total of 523 companies.

Sixty-one percent of companies with $50 million to $250 million in annual sales said they used a PC to monitor their account balances, up from 47% the previous year, according to the study. Automated clearing use rose among companies with $5 million to $19.9 million in annual sales.

Among the larger companies, 40% use PCs to initiate funds transfers through the automated clearing house system, up from 30% in 1989.

Automation Low in Some Areas

Still, the level of automation remains low in certain areas. Almost three-quarters of the companies surveyed still use the telephone to initiate wire transfers, the same as last year.

Among middle-market companies that do not use a PC for transfers, 24% say they are interested, according to the survey.

Overall, 32% of the treasurers surveyed are interested in an an electronic link to their bank, creating an electronic window to receive a number of services. That is a slight increase from the previous year, according to Trans Data.

"Everyone is becoming more sophisticated about the electronic communications side of the business, and that applies to middle-market as well as large corporations," said James S. Wolf, national sales and marketing director for global cash management at Mellon Bank Corp.

"I like people to book to me electronically," said Mr. Wolf. It allows companies and banks to share information, "and it shows a high level of trust," Mr. Wolf said. The electronic ties can lead to a stronger relationships with customers and a more stable customer base, he added.

"There is a nationwide push among corporate treasurers to

EDS Lands $450 Million Contract

First Fidelity Makes Outsourcing Agreement Official

By KAREN GULLO

NEW YORK — In a much anticipated announcement, First Fidelity Bancorp. said Thursday it will turn over a major systems development project and data center operations to EDS Corp. under a 10-year contract valued at $450 million.

First Fidelity, which has $30 billion in assets, is the largest bank company to hand over its technology operations to a third party. As expected, its outsourcing contract is one of the biggest in the banking industry.

The pact is also a boon to Dallas-based EDS, whose roster includes many bank and nonbank companies but only a few contracts of comparable size.

Under terms of the contract, EDS is charged with converting First Fidelity's software systems into a common suite of 60 systems that will support core operations at the Lawrenceville, N.J., banking company. The project is slated for completion in 18 months.

Merging Data Centers

EDS also will merge the bank's data centers in New Brunswick, N.J., and Philadelphia into a single location, which has yet be determined. The consolidation is expected to be completed within six months. EDS, which is a unit of General Motors Corp., will then manage the operation and put the data center staff on its payroll.

The move to an outside vendor is widely seen as a cost-cutting move, but bank officials downplayed cost considerations.

"We have set an ambitious timetable in which to achieve total integration and consolidation of all of the company's products and services," said chairman Anthony P. Terracciano.

"EDS's extensive experience in managing data processing conversions and the availability of its very large pool of talented and seasoned computer and systems professionals provide us a critical edge in achieving that objective in far less time than would have been possible by ourselves."

Decision to Retain Some Staff

EDS will manage the common systems project but will work with First Fidelity's applications

EDS is charged with consolidating some 250 software systems into a common set of 60 systems that will support core bank operations.

development staff on it. The bank will retain the development staff, which will maintain the system and develop future enhancements, an EDS spokesperson said it was too soon to determine how many of its own personnel would be deployed for the project.

At the data centers, EDS will offer jobs to about 300 First Fidelity employees, who work at the two main data centers and at smaller facilities in Wilkes-Barre, Pa., and Morristown, N.J. Paul Levine, bank spokesman, said employees would be offered the same compensation and a comparable benefits package.

EDS Will Offer Jobs

The merging of the two data centers will result in staff reductions, but Mr. Terracciano refused to speculate on how many employees will be affected. As part of the contract, EDS "is committed to offering extra people employment opportunities elsewhere in the EDS system," Mr. Levine said.

Unlike some outsourcing agreements between EDS and its bank clients, First Fidelity will retain ownership of its computer systems. On at least one occasion, EDS has even purchased stock in a bank that was an outsourcing customer. Federal regulators have warned banks to avoid such arrangements.

Mr. Levine said EDS has not purchased stock or other assets from First Fidelity.

Rigorous Cost-Cutting Plan

The banking company has been on a cost-cutting campaign since spring, when it set out to reduce operating expenses $115 million annually. The company expects to save an additional $50 million through the consolidation of software systems over the next 18 months.

"Without common systems, we could have met the target for savings, but we would still have faced constraints on our ability to fully realize the power of our large distribution network," said Don Parcells, senior vice president and manager of corporate operations and systems.

Mr. Parcells will oversee the conversion to common systems and will serve as liaison between EDS managers at the data center and the bank.

Bank officials say it would have taken First Fidelity's in-house technology staff much longer than EDS to complete the data center and common system projects.

"EDS' experience in conversions of this type also will minimize the inherent risks of such a consolidation and conversion process," Mr. Terracciano said. □

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COMMENT/ *By Donald E. McNees*

Regulatory Reform a Must As World Market Develops

The world's financial marketplace is changing. Many countries are preparing for the emerging global market by transforming their regulatory structures so that these structures are more efficient and responsive to investor and borrower needs. The countries aim to be ready for the increased worldwide competition.

For the United States to compete in this new global environment, Congress must consider changes to the structure of the U.S. financial regulatory system. Congress needs to support more "omnipurpose" or "universal" systems, in which securities and banking activities are considered to be part of one financial market served by many of the same institutions.

For several years, Congress has been examining how to modify the U.S. financial services industry so it will be more competitive in the world market.

European Banks Forging Ahead

While Congress debates this major public policy issue, European banks forge ahead by forming alliances and, in some cases, merging to prepare for the single European market scheduled for 1992. By streamlining their banking, insurance, and securities industries, the Europeans are becoming stronger and more efficient.

Another major economic power, Japan, enjoys premier status in the world's banking market. At present most of the 10 largest banks in the world are Japanese.

To strengthen its position even further, Japan is now considering changing its securities law – patterned after the U.S. Glass-Steagall Act – to establish a less fragmented banking system.

This new system would allow Japanese banks to engage in the securities business. Amid these changes, the United States embraces a system that has long outlived its usefulness.

U.S. Banks at Disadvantage

Now, more than ever, U.S. banks and securities firms are playing catch up with those countries that can offer customers full service.

The current U.S. regulatory approach constrains U.S. banks and securities firms, so in many ways they are unable to improve market efficiency, increase their competitiveness, or improve service to customers.

A Changing Role

To understand the need to restructure the U.S. regulatory system, we should reflect on the changing role of U.S. financial institutions over the past several decades.

In the 1950s and 1960s, U.S. banks were catapulted to world leadership as a result of the dominance of the U.S. economy in world markets. But by the early 1980s, the United States had become a debtor nation in its trade relationships.

The primary flow of international investment funds no longer came from U.S. banks channeling abroad the capital of U.S. investors; rather, inflow of capital came from investors in Asia. As a result, institutions with the

> **"The current U.S. regulatory approach constrains U.S. banks and securities firms."**

closest relationships to the world's leading investors have shifted from the United States to Asia.

Shrinkage of Influence

This shift is significant. The U.S. position in today's world economy has dramatically changed – our share of the world economy has declined from 60% to only 26%. As a result, the United States still has the world's largest economy in size, a unified European Common Market by itself would surpass the United States.

The recent shift of Eastern Europe to more capitalistic open-market economies may boost Europe's combined economic strength even more.

In this new era of increased competition, the United States can no longer rely on economic dominance as its primary source of strength. Most of all, this country can ill afford to continue its regulatory practices – including complex organizational structures, firewalls, and some types of disclosures – without being certain of the potentially high cost of doing business versus the benefits.

U.S. banks believe they have been innovative in trying to overcome their disadvantages, and they have. But they haven't been fully competitive in responding to customer needs. The belief that U.S. innovation and leadership are unassailable may be the most significant threat the United States faces.

If the U.S. banking and securities industries remain segregated, other global institutions will be the dominant financial powers as they move more aggressively toward combining intermediation and securities capabilities.

Reliance on Foreign Banks

Ultimately, the United States will come to rely more on financial institutions of other nations, which will become competitively stronger – both nationally and globally – and control a greater share of the world's financial business.

If the United States wants to remain a leader in the global financial services marketplace, Congress must consider changing the regulatory structure of the financial services industry so U.S. institutions can offer customers full service at competitive prices. Only then will this country remain a strong, sound participant in the world economic and financial system. □

Mr. McNees is a partner in the national financial institutions consulting group of KPMG Peat Marwick, New York.

COMMENT/ *By Anat Bird*

Strategic Alliances May Help Banks Achieve Global Reach



U.S. banks have not met their own expectations in the global arena. Time and again, they try to sell a global product or enter a global market, only to pull out several years (and millions of dollars) later.

The most recent examples include Eurobonds and Euro commercial paper. As regional banks increase their involvement in global markets, following their customers' business, the need for international service capability appears greater than ever, and so do the perils.

But there are lessons to be learned from successful global players.

Not Being 'Everything'

Global giants such as Credit Suisse, Deutsche Bank, or Nomura Securities Co. are huge financial institutions, but even they do not try to be all things to all people, nor do they believe their way of doing business is the only right way.

Most successful international players build upon a strong domestic market share or a great corporate ability to innovate. These, coupled with a strong strategic focus, appear to offer a proven formula for success.

In each case, global winners have clearly identified core competencies and built upon them.

Explicit Strategic Focus

Successful global players, big or small, have explicit, well-articulated strategic direction. Even Nomura, the largest financial services company in the world, recognizes that it cannot compete effectively in certain business areas that require indigenous presence, such as retail brokerage or real estate.

The same strategic focus can be found in other major market participants. Examples include State Street Boston Corp. which is among the largest global custody vendors and essentially provides a single technological capability. Reuters Holdings, which had the vision to innovate by redefining how to exchange trading practices; and Morgan Stanley & Co., which has a strong market image of quality and know-how that it extended to seize new market opportunities.

The common theme across this diverse group is a well-defined road map and the commitment required to carry out the strategy over the long run.

Major players recognize that the global financial business is not unified. Each subset of the business, such as investment management, trade finance, securities underwriting, etc., entails its own factors that are essential to success.

For example, securities underwriting requires a massive distribution network (placement power) and local presence. Conversely, securities handling (including services such as global custody) requires a major, upto-date technological capability.

By the same token, several key success factors are common to all global businesses. They include elements such as strategic focus and direction, as well as the flexibility to deliver services according to local customs in different markets.

U.S. Banks Inflexible

A major problem in the U.S. approach to global financial services is a reluctance to recognize the latter critical success factor. It has often been said that their inability to adapt to local customs is a primary contributor to U.S. banks' failure to penetrate many international markets.

What can U.S. banks that are considering expansion of their global presence learn from these comments?

Certain conclusions are apparent:

- The strategic course should be plotted before a global expansion is embarked on.

The strategic direction should depend upon the attractiveness of each product or market; the bank's position, customer needs, and potential ability to compete; current competitive structure; and the position in the capital markets' evolutionary life cycle.

Once a strategy is determined, it should be given a chance to succeed through a predetermined grace period – long-term commitment is critical.

- Opportunities vary by market and by product.

Certain businesses require local presence and identification, such as securities distribution in Japan or branch banking in West Germany or the United Kingdom. Other business sectors are saturated with existing players, and the likelihood of success is very small. Examples include overcapacity in the markets for gilt-edged securities, Eurobonds, or Euro commercial paper.

U.S. banks in general provide value added when serving their

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Ms. Bird is director of financial-institutions consulting at BDO Seidman.

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SMALL BUSINESS

Trying to Short-Circuit A Traditional Runaround

By LAURYN FRANZONI
Special to the American Banker

Bankers are devising some creative ways to manage the delivery of personal investment services to small-business owners.

These approaches are needed, some bankers and other observers say, because traditional turf battles between corporate and private banking units may alienate highly valued entrepreneurial clients

"The problems arise mostly with loans," said Marjorie Bloom, a former commercial lending and private banking officer who is now a managing director of David Ross Palmer & Associates, New York.

"If a small-business owner wants a $2 million real estate loan, his business banker might suggest a personal loan, his private banker would likely say he doesn't handle mortgages over $1 million, and the real estate department probably thinks the loan is too small," Ms. Bloom said.

It is up to senior management, she said, to establish a structure that encourages interaction between the units. "In most banks, that hasn't been done."

Peter Phelan, senior vice president of private banking for Manufacturers Hanover Trust Co., believes one solution is the creation of "referral managers" in all business units. These officers, selected from the ranks of senior line managers, could help departments communicate with each other and would sit on a corporate referral committee. The committee could set policies, develop incentives, and examine new product opportunities.

The individual officers could funnel product information back to the units and ensure that referrals between departments were handled efficiently and by the right person.

A Cautionary Tale

A banker at a money-center institution used the following incident to illustrate how difficulties can arise.

A private banking client touched off a controversial string of events when he used the bank's corporate lending unit to finance business expansion. He approached the business banking officer for added credit. The business banker insisted that the client pledge personal assets invested through the private bank. Such action would have had serious tax consequences for the client.

When he complained to his private banker, the private banker called in the bank's private placement specialist and accomplished the financing. The private placement specialist boosted his department's earnings, received an individual bonus, and reaped a great deal of criticism from the corporate lenders, who would have liked to have made the placement themselves.

The customer, who remains one of the largest clients of the private bank, was caught in the scuffle.

The banker familiar with the situation said, "There was a conflict. We should have had someone (or a policy) over us to settle it."

Splitting the Difference

"Bankers need to have a clear direction about how to manage the relationships," Ms. Bloom said. "They need to do what's right for the client and what's right for the bank overall without letting parochial interests intercede."

First Interstate Bank of California, Los Angeles, has a defined division of labor. The needs of customers who own businesses are handled by a private banker, who will lend to the business if the main source of repayment is listed as client wealth, not business cash flow. But if repayment will come from cash flow, the private banker will try to move that part of the relationship to the middle-market banking group.

"The client understands the need for specialists," said John Macon, senior vice president in private banking at the First Interstate Bancorp unit. "But we expect the private banker to make the introductions and to keep on the lending officer's case until the deal gets done."

A Team Approach

The Bank of San Francisco, founded in 1979 to serve small-business owners and wealthy people, considers it essential to have one person handling all of a business's business and personal needs.

"We feel private banking and small-business banking are one and the same," said executive vice president Jack Cortis. "We seek the individuals' corporate business, and we feel the relationship is more effective if one officer handles the business."

Individual business accounts are handled by teams of three to 12 bankers. The team leader determines specializations and work load. About 40% of the portfolio these teams handle represents services to individuals, 30% services to their companies. The remaining 30% is real estate lending; the real estate business is backed by a central team of credit administrators, who help when deals become complex.

"The client wants a strong relationship with a banker who will take care of them," Mr. Cortis said. "We handle it all – personal, business, and mortgages. The small-business owner likes that relationship even more than a typical private banking client."

Ms. Franzoni is a freelance banking reporter based in Springfield, Mo.

Retail Deposits Gain in Gulf Crisis

Continued from *page 1*

accelerate, bankers said. "If the stock market stays where it is, we will all see more deposits," said John Doyle, an executive vice president at Southern California Savings and Loan Association, Beverly Hills. The Dow Jones industrial average has fallen by about 10% since the invasion.

Trend Held Unclear

Some bankers said they have yet to see the impact of the Persian Gulf crisis on their deposit-taking activities. "Things are so unsettled that there doesn't seem to be any consistent trend at this point," said William McDonald, an executive vice president at National City Bank, Cleveland.

But others, sensing that consumer interest in bank certificates of deposit and money market accounts is on the rise, said they had already taken steps to attract new funds.

Mr. Doyle's thrift, for instance, began offering a seven-month CD product when the stock market took its first Persian Gulf-related hit. The CD allows consumers to keep adding funds to their initial investment.

"We thought it was a good time to do it," Mr. Doyle said. During the last two weeks, Southern California's deposit inflows grew at a slightly faster clip than expected, he said.

A Vote of Confidence?

Given that public concern over the strength of the banking system is growing, the current flight to safety seems especially significant. Industry observers said that despite media reports questioning the safety and soundness of the nation's banks, consumers still view their financial institutions as safe havens.

"I doubt whether there has been an adverse affect on banks," said Robert Litan, a senior fellow at the Brookings Institution in Washington, D.C., commenting on the recent rash of bad bank publicity. "But that would change if there were headlines that the FDIC confessed it was broke."

Mr. Litan and others said that as long as the Federal Deposit Insurance Corp. guarantees bank deposits, consumer confidence in banks will remain strong. And even if consumer faith in the system were to erode, banks by default would still be the primary beneficiaries of a flight to safety.

Only One Substitute

"The only viable substitute for banks would be a money market fund," Mr. Litan explained. The funds can yield higher returns than similar accounts at banks, but do not offer the government guarantee.

Because general economic conditions today are more unsettled than they were in late 1987, most bankers say the future of this deposit uptick is harder to predict.

"The impact of the crash was much more decided," Mr. Larsia said. "This has been a slower escalation. We see a combination of factors here," including the possibility of war and the expectation of a recession.

That could prove useful to retail bankers this fall, when a large number of CDs will mature. Faced with market uncertainty, consumers may be more likely to roll over CDs rather than turn elsewhere for investments.

The current flight to safety demonstrates that increases in deposit inflows differ among banks according to the customer bases they serve. At Ameritrust Corp. in Cleveland, for instance, the impact has been minimal, said Drexel Andrews, probably because most of its depositors are older and conservative.

"These people have most of their funds in deposits anyway," Ms. Andrews said. □

Aid for Mortgage Servicers in Gulf Crisis

By PHIL ROOSEVELT

NEW YORK — As the Persian Gulf crisis builds, Fannie Mae and Freddie Mac are rushing to the aid of mortgage servicers.

The two titans of the secondary market vowed Thursday to help servicers comply with a law requiring slashed interest rates for borrowers called to active military duty.

The law – the Soldiers' and Sailors' Civil Relief Act of 1940 – has been thrust into prominence by President Bush's decision to activate thousands of reservists for the Gulf crisis.

Some banks already have announced plans to comply with the law or even exceed its requirements. The law caps at 6% the interest rates that may be charged on loans incurred by people before they enter active military duty; current mortgage rates are above 10%.

Now, Fannie Mae, or the Federal National Mortgage Association, and Freddie Mac, or the Federal Home Loan Mortgage Corp, are adding their voices to the issue – and waiving the flag.

Basically, the agencies said that servicers – banks and other companies that funnel monthly mortgage payments from homeowners to holders of mortgage securities – can slash rates for eligible GIs without worrying about payments to investors.

That is because Fannie Mae and Freddie Mac will absorb such rate reductions on loans backing their securities, thus ensuring that payments to investors are not disrupted.

"We have a unique opportunity to show our commitment to investors by honoring all guarantees of pass-through of principal and interest while supporting servicemen and women who are called to serve their country," said Henry Cassidy, Freddie Mac's senior vice president of credit policy.

The agencies' action "is being received very positively by the industry," said James W. Nesbon, of the Mortgage Bankers Association of America. □

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These are the highest jumbo CD rates and retail CD yields offered on August 22 by the 100 largest banks and thrifts in the nation's 10 largest markets. The star ratings are supplied by Veribanc Inc. of Wakefield, Mass., which evaluates the financial condition of institutions using fourth quarter, 1989, data from federal regulators and assigns 0 (lowest) to 3 (highest) star to the institutions. Information from Veribanc is believed to be reliable, but the accuracy, adequacy, and completeness of the information is not guaranteed.

Retail Yields

Six-month		
Heritage Svgs Bank, Richmond, Va.		8.77%
John Hancock Svgs, Bellevile, Mich.	*	8.75
Metro Svgs Bank, Portland		8.72
Columbia SBL, Irvine, Calif.		8.71
Imperial Fed Svgs, San Diego, Calif.		8.67
One-year		
Heritage Svgs Bank, Richmond, Va.		8.67%
Metro Savings Bank, Portland		8.66
Imperial Fed Svgs, San Diego, Calif.		8.78
Columbia SBL, Irvine, Calif.		8.76
John Hancock Svgs, Bellevile, Mich.	*	8.75
Five-year		
Setra Nat'l Bank, New York	***	8.82%
NVR Svgs Bank, Mclean, Va.	*	8.80
Washington Svgs Bank, Waldorf, Md.	***	8.76
Eastern Svgs Bank, Hunt Valley, Md.	*	8.75
The Bank Mart, Trumbull, Conn.		8.75

Jumbo Rates

Six-month		
John Hancock Svgs, Bellevile, Mich.	*	8.85%
Heritage Svgs Bank, Richmond, Va.		8.80
Dartmouth Bank, Hooksett, N.H.		8.45
Brookhollow Svgs, Addison, Calif.		8.41
Imperial Fed Svgs, San Diego, Calif.		8.40
One-year		
Calif. Thrift&Loan, Santa Barbara, Calif.	***	8.85%
Homeland Savings, Millbrae, Calif.		8.67
Dartmouth Bank, Hooksett, N.H.		8.65
Heritage Svgs Bank, Richmond, Va.		8.55
Imperial Fed Svgs, San Diego, Calif.		8.50
Five-year		
Bank Hapoalim, Chicago, Ill.		9.00%
Metropolitan Bank for Svgs, Arlington, Va.	***	9.00
Brookhollow Bank, Tenn.	***	8.75
Am General Fin. Ctr. Thrift, San Francisco	***	8.65
Chase Manhattan Bank, New York	*	8.60

Source: Bllbank Rate Monitor, North Palm Beach, Fla. 33408. All inquiries: (407) 627-7333

Profitability of J.E. Robert Bid for RTC Assets in Question

Continued from *page 1*

to selling their assets, which brings in money.

NCNB Texas National Bank, Dallas, an NCNB Corp. subsidiary, was thought to be the logical choice to get the RTC contract. NCNB bought University Savings last October. The bank took the thrift's deposits but turned back most of its assets to the RTC.

The RTC hired NCNB Texas to manage the assets until it had time to bid out the package. Because the bank is so familiar with the assets and already has the people in place to handle management and disposition, it was assumed that NCNB would win the bidding.

Confusion over Eligibility

Wednesday, the RTC cleared up some confusion about whether an interim manager such as NCNB may win a long-term contract. The agency announced that it would award final management contracts to companies doing the work on an interim basis. Because any information the interim manager gains from its work must be shared with companies bidding on the long-term contract, the RTC said, "there appears to be no chance of the interim manager gaining an undue advantage over its competitors."

Many asset managers objected to NCNB's being permitted to bid, claiming that the bank's interim management of the assets gave it a leg up in the bidding.

But many asset managers objected to NCNB's being permitted to bid, claiming that the bank's interim management of the assets gave it a leg up in the bidding.

Winning bidder J.E. Robert, however, apparently made the RTC an offer it could not refuse, sources said.

"NCNB is motivated by profit, and I think there are other motivations driving the J.E. Robert Co.," said a competitor. "He wanted to make a splash, get the first big deal."

Keeping NCNB on

Sources close to the deal said that J.E. Robert will pay NCNB $1.2 million a year to continue servicing loans in the portfolio.

Industry sources said the 1,008 properties that Robert is contracting to manage will take at least 50 professionals, raising questions of whether the company has the resources to handle the deal.

"Nobody can tell me that Joe Robert has the kind of people sitting around ready to do the job. He has got to rely on subcontracting and hiring," one source said.

"I think the RTC is saying one thing and doing another," said a competitor who claims the RTC told him that he would need all the people in place before bidding.

Mr. Robert may not have to go far to find the employees he needs. NCNB has said it would lay off 250 to 300 people if it did not get the contract. □

VA Sets Issue Of Securities At $293 Million

Reuters

NEW YORK — The U.S. Department of Veterans Affairs said it has planned an innovative $293 million offering of mortgage-backed securities via First Boston Corp.

American Housing Trust VII will be the issuer. The securities will be backed by vendee loans, which the agency uses to finance purchases of VA-foreclosed property.

The issue is unusual in that it will combine $97.6 million of pass-through certificates and $195.4 million of multiclass securities. Such issues are usually made separately. Actual amounts of the two parts will be decided only when the offering is priced.

Structure Aids Flexibility

The so-called proportional coupon allocation structure was designed to provide flexibility in marketing the offering, said Frederick Tersol, director of the investment banking group at First Boston.

"As investor demand increases or decreases for the pass-through or multiclass portion, we will shift the par amount" between the two parts, he said.

Mr. Terrell said he expects the pass-throughs to trade at a tight spread to Government National Mortgage Association securities because they also will be backed by the full faith and credit of the U.S. government.

This is the second VA issue with full government backing.

Yields to Top Ginnie Maes'

The pass-throughs will have a coupon of 9.3% and a 12.7-year average life. They will have higher yields than Ginnie Maes only because they are less liquid, Mr. Terrell said.

The remainder of the offering will consist of four tranches with maturities of three, seven, 10, and 20 years. Their average lives will be 3.4, 7.6, 11, and 20.5 years, respectively. All the classes have a 9.125% coupon.

The mortgage loans underlying the offering have coupons of 7.5%, 9.5%, and 10%, Mr. Terrell said. Those will be combined to produce a synthetic coupon of 9.25%. □

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Home MORTGAGES
A weekly feature
AMERICAN BANKER
Friday, August 31, 1990

Lenders Seen Facing Surge in Loan Discrimination Claims

By LOUIS GERHARDSTEIN

WASHINGTON — Consumer groups and some bankers are expecting a surge in allegations of loan discrimination against home mortgage lenders because of rigorous new reporting requirements.

As part of the thrift-bailout law last year, the Home Mortgage Disclosure Act was amended to require home lenders to provide detailed information about applicants. The intent is to expose any patterns of redlining.

Home mortgage lenders must record the disposition of mortgage applications made after Jan. 1, 1990, as well as the race, sex, and income level of all applicants. The lenders will compile the data into a registry of loan information at yearend and send it to their primary regulator.

First Reports in March

The first round of expanded reports, covering the 1990 calendar year, is due by March 1, 1991.

"We now have the lull before the storm," said Allen Fishbein, general counsel for the Center for Community Change, a not-for-profit legal assistance group that advises community groups on fair housing issues. The amendment is "a significant tool for civil rights enforcement," he said.

The reports will be filed with the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Office of Thrift Supervision. Those regulatory agencies will turn the books over to the Federal Reserve Board, which will process the numbers, compile aggregates of the information, and release its report by yearend.

Data Will Pile High

Federal Reserve Board Governor John P. LaWare said the Fed estimates the new mortgage reporting requirements will produce 1.7 million sheets of data – a stack 30 feet higher than the Washington Monument.

"It sounds awful and probably is in some sense, but we will be able to extract data to help us better see discrimination against minorities or lower-income groups," Mr. LaWare said.

Before the amendment, loans were reported by Census tract data, which provided only general information about applicants and where loans were made.

Fears of Harassment

Some bankers worry that the form in which the information is published may lead to harassment of lenders. Without other relevant statistics, such as an applicant's credit history and debt-to-income ratio, the added personal information "might look worse than it is," said Fritz Elmendorf, spokesman for the Consumer Bankers Association.

But even appearances can trigger an investigation of an institution's lending practices. "We still anticipate a lot of trouble with charges of discrimination," Mr. Elmendorf said.

In recent testimony before Congress, Mr. LaWare of the Fed faced the wrath of Senators who wanted to know why the Fed was not more aggressive in pinpointing redlining practices. The Fed governor conceded the central bank lacked the proper data.



"It sounds awful . . . but we will be able to extract data to help us better see discrimination."

John P. LaWare
Federal Reserve Boara

Answers Expected

The new disclosure "will let us answer critics with real statistics," he said.

"The HMDA [amendment] will give you more information about what is being turned down, what's not, and why," said Peggy Miller, legislative representative for the Consumer Federation of America, a consumer interest group."

Mortgage lenders are included under the law if they write more than 10% of their loans for home mortgages, have assets of more than $10 million, and do business in a metropolitan area.

Requirement Is Expanded

The reporting requirement also extends to mortgage companies not affiliated with financial institutions, which did not have to report loan information under the original disclosure act.

Some of the nation's top providers of home mortgages fall into this category, including the Fireman's Fund Mortgage Corp., which services a $33.8 billion loan portfolio and originated $1.6 billion in home mortgages in the first six months of 1990, and GMAC Mortgage Co., with a portfolio of just under $30 billion.

The Home Mortgage Disclosure Act "is not going to lead to any more audits than we already have," said Fireman's Fund audit department manager Arlene K. Spencer. The disclosure amendment is "almost overkill," she said, because existing laws in states where Fireman's has offices already require the company to report on the loans it services, she said.

Annual Audit by HUD

The Department of Housing and Urban Development also conducts a yearly audit of the loans that Fireman's services and can audit the loans it originates whenever necessary, Ms. Spencer said.

FDIC and Fed officials, as well as consumer groups, said the reports themselves were not evidence of a pattern of discrimination.

"In and of itself, it's not the end of the story, . . . it's not an end-all data set," said Glenn B. Canner, senior economist with the Fed who had extensive involvement in formulating the new regulations.

The true value of the data, Mr. Canner said, is as "a tool to set up hypotheses which can be tested" to determine if a particular institution is discriminating.

Mr. Gerhardstein writes for the Medill News Service.

SECURITIES

Young Unit of Japanese Bank Makes $1 Billion Deal with Fannie Mae

By PHIL ROOSEVELT

NEW YORK — As mortgage bankers gathered for a convention here this spring, Greenwich Capital Financial Inc. stole the show in the exhibit hall. Its booth featured flashing lights, pulsating rock music, and a Cher lookalike.

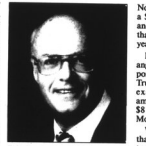
Last week, the racy, three-year-old mortgage company made another big splash. It announced a deal to funnel $1 billion of new mortgages through the Federal National Mortgage Association over the next 16 months.

Under the binding agreement, the Irving, Tex.-based Greenwich will exchange most of the loans for Fannie Mae mortgage securities and sell the rest to the agency for cash. Ultimately, Greenwich will sell the securities.

A Major Participant

With this deal, Greenwich has "entered the ranks of the major mortgage banking companies," declared Judith Dedmon, senior vice president for Fannie Mae's southwestern region.

A unit of Greenwich Capital Markets Inc., which in turn is owned by Long-Term Credit Bank of Japan, the mortgage company has no plans to stop now.



B.L. Terrell
Greenwich Capital Financial

Led by B.L. "Bud" Terrell – a well-regarded veteran of Security Pacific National Bank's mortgage operations – the unit is taking bold strides in both originations and servicing.

Primarily a player in the wholesale business, Greenwich plans to produce about $2 billion of new mortgages this year through purchases from more than 200 banks, thrifts, and other lenders across the country, Mr. Terrell said. Next year, he added, that volume should jump to $3 billion.

Servicing Rights Grow

In the past, Greenwich sold not only the loans it produced but the related servicing rights. Now, however, it has assembled a $1 billion servicing portfolio and Mr. Terrell plans to pump that up to at least $2 billion by yearend.

In fact, Greenwich has been angling for some of the biggest portfolios on the Resolution Trust Corp.'s auction block. For example, the company was among the final bidders for the $8 billion portfolio of Foster Mortgage Co., Fort Worth.

While Greenwich did not win that portfolio, "we're still going to be active in bidding for other," Mr. Terrell vowed. Acquiring a portfolio of Foster's size probably would place Greenwich among the top 25 mortgage companies in servicing, up from the middle ranks of the top 300.

Capabilities Noted

Not surprisingly, this bluster of activity has attracted considerable attention in mortgage circles.

"They're a little showy, a little flashy, a little aggressive," said one Texas banker. "But I think they're competent and capable of carrying out what they're trying to do."

The mortgage company's immediate parent, which is based in Greenwich, Conn., is a well-known player in mortgage-backed securities; some of its staffers made their names at Salomon Brothers under market pioneer Lewis S. Ranieri.

Earlier this year, Greenwich Capital Markets was tapped to advise the Resolution Trust Corp. on securitization. A Greenwich lawyer said the advisory work does not pose any conflicts for the mortgage company when it bids for servicing, because the portfolios on which it has been bidding are not held by any of the thrifts involved in the securitization work.

Koji Hirao, a general manager of the bank, recently traveled to Irving to dine with the unit's executives and see its facilities

"He kept looking at our management philosophy – the openness of our approach – and saying it was a lot like a Japanese company," Mr. Terrell recalled. "I really think that was a compliment."

And what do officials at Long Term-Credit think of Greenwich Financial's razzle-dazzle approach to trade shows?

"That's one thing they haven't seen yet," Mr. Terrell said. □

Key Interest Rates

	Week ended 8/24/90	Week ended 8/17/90	Year ended 8/25/89
30-year fixed-rate mortgage	10.20	10.19	10.14
1-year adjustable-rate mortgage	8.20	8.19	8.69

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan terms.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 8/29	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	98-20	0-25	9.88	-0.15	+106	
Fannie Mae 9½%	98-23	0-25	9.83	-0.16	+101	-2
Freddie Mac 9½%	98-06	-1-16	9.83	-0.17	+101	-3

Yields bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. Treasury spread: the mortgage security yield minus the yield on the current 10-year Treasury bond in basis points. [*]— Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

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COMMENT

Strategic Alliance For Global Reach

Continued from *page 4*

own customers' needs abroad. They can also position themselves to provide cross-border linkage services for their own or others' underserved customers.

Examples of linkage services include global risk diversification (derivatives, etc.), global investment management (including basket funds and index or currency funds), and global custody and payment systems.

• Marketing and service delivery must be consistent with each country's business customs. Knowing the language, customs, collateral expectations, etc. is necessary to gain local acceptance and develop a local client base.

The growing globalization of financial and trade markets does present exciting opportunities for banks. The key question is: What is the most effective way to enter these new markets and capitalize upon these opportunities?

Strategic Alliances' Rightness

An alternative that has not been in vogue in recent years is strategic alliances. However, we believe these alliances can be the

> **"The right strategic alliance can bring acceptance of an otherwise unacceptable outsider."**

very vehicle for successful entry of foreign banks into indigenous markets.

This is particularly true today, as we see the emergence of regional economies and regional financial institutions that have global links. In the real world, globalization is neither simple nor integrated. Rather, it is like putting together a jigsaw puzzle, where investment in and collaboration with local top-tier boutiques may be the only viable strategy for global coverage.

The right strategic alliance can bring acceptance of an otherwise unacceptable outsider and, with it, an instantaneous distribution network for many services. Strategic alliances may be the only feasible vehicle for foreign banks, particularly smaller, regional banks, that want to enter new geographic markets and fully serve their customers.

Paths to Market Entry

The benefits of strategic alliances should be evaluated not only in the context of feasibility but also through cost-benefit analysis. In general, market entry can be gained by one of the following paths:

• De novo (build from scratch).

• Acquisition (buy for a premium).

• Strategic investment (alliance).

De novo entry not only is difficult but also has a very long payback period. Such ventures often fail and are also extremely expensive. These factors may make this path prohibitive, particularly for banks with shallow pockets.

Acquisition may be an effective entry mode in some cases. It entails paying a premium in most cases and also has the potential shortcoming of changing the acquired entity from a perceived local player to a foreign one, whereupon local acceptance may decline.

Combining Strengths

Strategic alliances appear to combine the best of both worlds: minimal cash (or stock) outlay and no harm to domestic perception of the institution. Many globally successful companies have used strategic alliances as an expansion tool.

A notable example is Credit Suisse-First Boston, which created a complex ownership structure giving 20 foreign financial institutions from 1% to 3% of the company. This loose relationship encourages cooperation and enhances the strategic benefits of the alliance, yet it does not give any single investor major control over CSFB. Nor does it require a significant cash outlay from any investor.

Similar alliances, such as Sumitomo Bank's 12.5% stake in Goldman, Sachs & Co. or Daiichi Kangyo Bank's 5% in Manufacturers Hanover Corp., may signal the start of a trend. Such alliances are Nomura's stated global strategy.

Longer-term experiences, such as Security Pacific Corp.'s 20-year alliance with Mitsui Bank Ltd., have proven very effective, bringing about mutual leverage. The Japanese bank gained technical support and technological expertise, and the California bank got a large distribution network for its products.

A similar relationship has recently been forged between Hongkong and Shanghai Banking Corp. and Wells Fargo & Co.

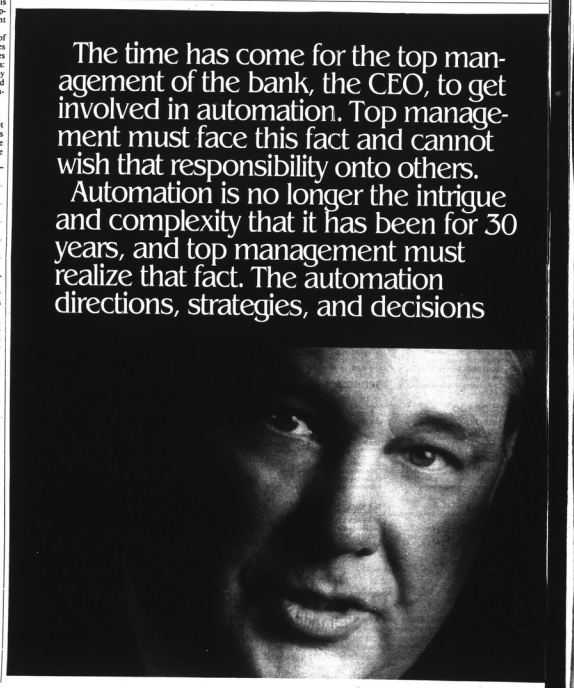
Strategic alliances with non-Japanese companies have been successful as well.

Europeans Participate, Too

Spain's Banco Santander has a 10% stake in Royal Bank of Scotland, a 30% stake in Istituto Bancario Italiano, and a 10% stake in Portugal's Banco de Comercio e Industria. Dresdner Bank and Banque Nationale de Paris have swapped board members; and both Midland Bank and Hongkong and Shanghai Bank and Paribas and Banca Commerciale Italiana have swapped equity.

The underlying theme is the formation of alliances – cooperative ventures – at minimal cost and for maximum benefits.

As U.S. banks see their way through the maze of global expansion, they may reverse their reluctance to invest strategic stakes in institutions around the world. Doing so can allow them to gain inexpensive entrance to new distribution markets and local presence and service breadth that will ultimately allow a strengthening of their positions with clients while increasing profitability. □



OTS Says Healthy Thrifts Slipped

Continued from *page 1*

and earnings and capital trends through June 30.

Outlook Found Gloomier

"Upon a closer look, they don't look as good as their financial report numbers indicate," said Bert Ely, an Alexandria, Va., analyst. "The qualitative analysis comes up with an overall gloomier outlook."

Among thrifts formerly classified among the nation's strongest and most profitable, 106 turned in poorer earnings, consumed capital, or were forced to provide for potential losses uncovered by examiners and supervisors.

Another 55 thrifts were downgraded from the OTS's second rank of thrifts, those that meet minimum capital requirements.

The number of troubled thrifts already slated to be shifted to the RTC for liquidation or sale declined to 246 from 310 earlier this spring. From that same grouping, 34 institutions were upgraded as a result of improved capital or supervisory opinions.

Middle Categories Cloudy

Of four categories of thrifts cited by the OTS, the number of institutions in the two middle groups increased, evidence that there are no clear-cut signs of how these institutions will ultimately fare, Mr. Ryan said.

"Until now, the decisions have been like [identifying] pornography – you know it when you see it," Mr. Ryan said. That will become more difficult as the OTS tries to decide how to treat institutions "on the fringe," he said.

OTS's Group 3, consisting of institutions with poor earnings and low capital, grew from 311 to 352 thrifts.

Group 2 institutions, those with nearly-adequate capital and mediocre earnings, swelled from 620 to 680 thrifts. "They are the regulatory survivors, but they are not making it in the marketplace," Mr. Ely said of these institutions. □



T. Timothy Ryan Wide World
Office of Thrift Supervision

must come from bankers, not data processing people. For those CEOs who realize this, the bank can move ahead now. If they won't take the responsibility, then the bank will have to wait until the CEO is willing to become involved.

Automation is no longer decisions in hardware and software, but decisions in the art and science of banking.

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Securities Staff At Hanover Cut In Layoff Plan

By JOHN J. DORAN
The Bond Buyer

Manufacturers Hanover Corp. dismissed seven professionals from its securities subsidiary, Manufacturers Hanover Securities Corp., last week as part of a plan to lay off about 1,400 employees company-wide, a spokesman for the banking company said.

In addition, Margaret A. Curvin, a managing director in charge of fixed-income sales and a former member of the bank's municipal bond department, "voluntarily resigned" on Tuesday, the spokesman said, adding that Ms. Curvin's move was not related to the cutbacks.

"This is part of the 1,400" planned layoffs, the spokesman said, adding that the bank is doing "selective pruning" of staff. The cuts were made across the board in the securities subsidiary, he noted, and at least one from the municipal department.

All domestic securities sales, trading, and underwriting are included in the section 20 subsidiary, he said. Officials in the municipal department could not be reached for comment.

In its quarterly filing with the Securities and Exchange Commission, the bank holding company says that "a subsequent reduction of approximately 1,400 will be achieved primarily through a selective sharpening of focus in domestic and overseas markets and a downsizing of various functions. Approximately $40 million of the $100 million pre-tax restructuring expense relates to the staff reductions."

The corporation reported income of $33 million in the second quarter of 1990, reflecting a special one-time restructuring expense of $100 million. Excluding this charge, net income for the second quarter of 1990 was $93 million, compared to $106 million in the second quarter of 1989, the bank holding company's filing says.

Ms. Curvin, who could not be reached for comment, joined the bank's municipal bond department in October 1984. She was appointed a vice president shortly thereafter and then promoted to managing director in 1986.

In the first half of 1990, Manufacturers Hanover Securities ranked 39th among senior managers, underwriting seven issues totaling $259 million. For all of 1989, Manufacturers Hanover ranked 27th, acting as lead manager on 16 issues totaling $619 million.

***The Bond Buyer* is a sister publication of the *American Banker*.**

OTS Approves Thrift Merger

DEERFIELD, Ill. — Deerfield Federal Savings and Loan Association said it received Office of Thrift Supervision approval to merge with Norwood Federal Savings Bank.

Chicago-based Norwood, a mutual association, will be converted to stock ownership and operate as a unit of Deerfield Federal. — **Reuters**

INTERNATIONAL NEWS

GLOBAL *dispatches...*

J.P. Morgan Is Expanding Latin Investment Banking

By JAMES R. KRAUS

NEW YORK — J.P. Morgan & Co. has landed two more deals in its drive to become an investment banking force in Latin America.

Morgan and Holland's NMB Postbank are coagents for a $165 million facility to Mexicana de Cobre SA to help finance an all-cash $475 million acquisition of Compania Minera Cananea SA from Nacional Financiera, a Mexican government agency.

Plan Termed Ambitious

Terms of the loan have not been disclosed.

The deal, in which Morgan is acting as both a lender and an adviser to Mexicana de Cobre, highlights Morgan's ambitious plan to operate in both the commercial and investment banking arenas.

Belgium's Generale du Banque is agenting a $115 million advance payment facility to the reconstituted Cananea.

Equity from Others as Well

The $195 balance will be provided in the form of equity from other sources, including Belgium's Societe Generale de Belgique.

Union Miniere, a unit of Societe Generale, is taking a 21% stake in Cananea.

Cananea is Mexico's oldest copper mining company and holds 5% of the country's copper reserves.

On Aug. 20, Mexicana de Cobre won out against a competing $468 million bid for Cananea by West Germany's Metallgesellschaft and Ingenerios Civiles Asociados, a Mexican construction company.

The sale of Cananea is the second-largest privatization in Mexico to date and is due to close Sept. 27.

Buildup in Assignments

Morgan has been steadily building up its corporate advisory, mergers and acquisitions, and underwriting activities in Latin America.

In November, the bank acted as an adviser on a private debt restructuring by Mexican steelmaker Hylsa SA.

In a separate deal last week, Morgan advised Instituto de Fomento Industria, the Colombian industrial development bank, on a $330 million privatization, financial restructuring, and merger of Papeleria Colombiana, a pulp and paper mill in southern Columbia.

... *by country*

JAPAN

Recent declines on the Tokyo stock market and in real estate prices in Japan are not expected to significantly reduce the high credit quality of Japan's major banks, according to Fitch Investors Service Inc.

The New York-based rating agency said that it expected Japanese banks to maintain their strong credit profiles, attain new international capital guidelines set by the Bank for International Settlements, and keep close scrutiny over real estate collateral and the strength of borrowers.

Fay Wong, vice president for international and money-center banks, said she expected Japanese banks to shrink assets to comply with capital requirements.

Fitch added that although Japanese banks will be hard pressed to maintain net interest margins as a result of deregulation and higher interest rates, Japanese regulators will play an important role in safeguarding the system's stability.

In its first rating of letters of credit issued by Japanese banks, Fitch assigned only one bank, **Industrial Bank of Japan**, a triple A rating.

— James R. Kraus

SWITZERLAND

Increased economic uncertainty and rising inflation will keep interest rates in Switzerland at their present high levels, the **Swiss Bankers Association** has said.

The association added that Swiss National Bank's decision to increase short-term interest rates to 8.5%, from 3% at the end of 1988, and long-term interest rates to 6.5%, from 4%, has driven some $24 billion out of savings accounts and into higher-interest money market accounts.

Withdrawals from savings accounts have increased the shortfall in mortgage funding to $118 billion and forced banks to fund their lending with more-expensive certificates of deposit and long-term deposit programs.

— James R. Kraus

ARGENTINA

Argentina's government is close to securing the assent of creditor banks to complete its first major privatization, the sale of the ailing Entel telephone company.

"Some small banks have yet to grant the waiver, as well as large ones like Midland Bank and Lloyds Bank," said an Argentine economic team official who asked not to be named.

"But I am sure of those two accept, we'd have 70% of the banks and we could press ahead," he added.

— Reuters

CANADA

The **Bank of Montreal** said it cut its prime rate to 14% from 14.25%, effective Aug. 30.

The bank is the first major Canadian bank to cut its prime from 14.25%.

— Reuters

Japan May Raise Rates Again in '90

Central Bank Leaves Door Open After Discount Hike

By KUNIO INOUE
Reuters

TOKYO — The Bank of Japan's increase in the discount rate Thursday may be only the first salvo in Japan's battle against inflation. The markets appear to be expecting another rise this year if the Middle East crisis worsens and oil prices jump, economists said.

While local financial markets generally reacted calmly to the increase to 6% from 5.25%, uncertainty over the Middle East would keep them uneasy about a further rise in the discount rate, they said.

Door Is Left Open

"Today's discount rate rise didn't assure us that the BOJ will not raise it again later," said Sachio Nakagawa, manager at securities houses' research division at Mitsubishi Trust and Banking Corp.

"Another rate rise is possible if oil prices rise further in coming months."

Comments made by the Bank of Japan's governor, Yasuhi Mieno, at a news conference after the announcement of the discount rate rise intensified such speculation.

Mr. Mieno said that while the bank had no plans for another discount rate hike now, it will manage monetary policy flexibly, taking into account changes in various economic factors.

"Our battle against inflation has entered into extra innings," he said, adding that today's discount rate increase was aimed at making the bank's anti-inflationary stance clearer.

The markets generally interpreted his comments as an indi-

Economists believe a worsening of the Middle East crisis could trigger a further rate rise.

cation that the central bank would be ready to raise the discount rate again if needed.

Economists noted that the statement issued by the Bank of Japan explaining reasons for the rate increase made no reference to rising oil prices.

The statement said the bank raised the rate while taking into account several economic factors, such as a tightening labor market, higher domestic prices, steady growth in the money supply, and rising rates in the local money market.

"The lack of reference to oil prices meant that the BOJ raised the discount rate due primarily to domestic reasons and not due to Mideast reasons," said one economist.

"The implication of this is that the BOJ may act again if the Mideast crisis gets worse and oil prices shoot up," the economist said.

Mr. Mieno said at the news conference that the Mideast crisis and higher oil prices were only an additional factor this time, and that the central bank raised the discount rate mainly taking into account the domestic economic conditions of the past few months.

Some economists said time was ripe for a rate rise.

Move Called Appropriate

"From the macroeconomic point of view, the discount rate hike was appropriate now and helpful in alleviating any potential inflationary threat," said Keikichi Honda, director and head of economic research at Bank of Tokyo Ltd.

Economists said the scale of the rate rise was also appropriate.

"The 75-basis-point rise was appropriate because a 100-point rise could have deprived the BOJ of its discretion to raise the rate if oil prices surge later this year," said Mr. Nakagawa of Mitsubishi Trust. But other analysts questioned the timing as it could accelerate expectations of higher interest rates. □

Japan Banks Resist New Eurotunnel Ante

By JOHN EVANS

LONDON — Japanese banks are proving slow in putting up their share of a further $3.75 billion being sought in financing for the 30-mile tunnel under the English channel.

European bankers are warning that the $15 billion construction project, Europe's biggest, may collapse as a result of the current drive by Japanese banks to reduce their overseas assets. The banks are under pressure because of the slump in the Tokyo stock market and pressure to meet capital rules.

Threat Is Evaluated

This Japanese holdout is described in London as the biggest threat to a major international loan syndication since Tokyo's big banks shunned the $6.5 billion UAL Corp. buyout financing in the United States in 1989.

The 40 Japanese banks participating in the tunnel project have been asked to contribute about one-quarter of the additional $3.75 billion.

As of mid-August, only about $2 billion had been committed by about half of the 210 banks that make up the banking syndicate, with virtually all Japanese banks failing to respond.

This syndicate originally raised $9.25 billion in funding for the project, but the additional bank loans are needed to help meet cost overruns as well as to go ahead with a $950 million public stock offering this fall.

Because of this major shortfall, U.S. banking companies such as Chase Manhattan Corp., Chemical Banking Corp., and Manufacturers Hanover Co. have been asked to contribute. Only Citicorp and Security Pacific Corp. participated in the original syndication.

Japanese bankers in London, requesting anonymity, said that after making a major commitment to the project, they are reluctant to increase their exposure. However, at least one, Fuji Bank Ltd., has said that it is now willing to contribute more.

Lead bankers to Eurotunnel PLC, the Anglo-French consortium building the tunnel, have meantime granted an extension until mid-September to arrange the extra funding. □

Key International Rates*

	Day-to-day money		Short-term		Long-term		Prime rate	
	Aug. 30	Aug. 31	Aug. 30	Aug. 31	Aug. 30	Aug. 31	Aug. 30	Aug. 31
United States	8.00	8.00	8.12	8.19	8.18	8.31	8.19	8.25	8.37	7.00	7.00	7.00	10.00	10.00	10.00
Japan	7.75	7.93	7.50	8.25	8.37	8.18	8.44	8.50	8.37	6.00	6.00	5.25	7.13	7.13	7.13
Canada	11.00	11.00	13.00	12.75	12.81	13.12	12.38	12.50	12.62	13.01	13.01	13.34	14.00	14.25	14.75
U.K.	15.00	15.00	15.00	15.00	15.06	15.06	14.88	14.94	14.88	14.38	14.34	15.00	15.00	15.00	15.00
West Germany	8.25	8.05	7.87	8.00	8.43	8.56	8.75	8.75	8.87	9.00	9.00	9.00	10.00	10.00	10.00
Switzerland	6.00	7.00	8.62	8.69	8.75	8.87	8.69	8.75	9.00	8.00	8.00	8.00	10.69	10.69	10.69
France	10.00	9.00	10.00	10.25	10.31	10.50	10.62	10.62	10.88	9.00	9.00	9.00	10.50	10.50	10.50
Italy	10.25	10.25	11.12	11.25	11.43	11.87	11.89	12.00	12.25	12.50	12.50	12.50	13.00	13.00	13.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.09	14.56	8.75	8.68	8.38
6 to 12 months	8.25	13.38	9.02	8.49	8.40
12 to 24 months	9.10	12.75	9.30	8.70	8.18

* Midday quotes in the New York market

Source: Morgan, Keiley & Pierce Inc., New York

Nantucket Saga of a Scuttled Deal

Continued from page 2

ficer of Homeport.

But many say that the Federal Reserve Board of Boston "kabobbed the deal" — in the words of one analyst — after launching an investigation into complaints by the investors.

Bitterness Lingers

Meanwhile, the players on the gentle, breezy summer island of Nantucket — and in New York — are still nursing grudges.

"Stover is a little like Captain Ahab," Mr. Porter says of Homeport's chief executive, who was the architect of the deal.

Ahab, of course, was the Nantucket whaling captain in Herman Melville's "Moby-Dick" who sacrificed his crew, his ship, and himself to kill a white whale. Mr. Stover's comparable obsession, in Mr. Porter's view, was an ambition to expand its tiny bank as the New England real estate market began dragging down bank earnings.

Adding to these tensions was an element of social conflict, a note of small-town businessmen versus the big-city financiers.

Islanders and Others

Nantucket has long been overrun in the summer months with wealthy people from the Northeast and other regions who have

A shareholder asked, "What's your address?" "They all bristled when he said, 'Park Avenue,' " says one person who was present.

vacation homes on the island.

Though the moneyed elite is usually present only during the summer, its members exert an influence far beyond their numbers. And there is periodic friction with the natives, fishermen, and merchants who make up much of the island's permanent population.

Board Is Home-Grown

Homeport's directors represent the latter group. There isn't a financier among them. And the board does include a plumbing inspector, a self-employed electrical contractor, a clerk of a plumbing and heating company, and a funeral director.

At a highly contentious annual meeting in May, some of these contrasting social elements emerged.

Investor in Camouflage

Mr. Porter taxied from Nantucket's tiny airstrip to Homeport's annual meeting. He had chucked the Wall Street pinstripes and was decked out casually in slacks and a sports coat.

He was seeking a seat on the board to fight the deal, he said. His reason: The high cost of the deal would weaken the already depressed stock price, which throughout the summer has hovered at $4.88 or about 40% of the company's book value.

Also, he said, management needed a financial expert on the board to keep an eye on its balance sheet.

Loan-Loss Reserves

Mr. Porter said he was particularly incensed by Mr. Stover's decision to cut Homeport's loan-loss reserve at the end of the first quarter to $949 million, from $1.3 million in the fourth quarter, after taking a $1.3 million chargeoff. Mr. Porter charged that Homeport had reduced the provision to avoid reporting a loss.

He also charged that Vineyard National probably was chockfull of problem loans, given the region's deteriorating economy.

(Since Vineyard National is private, no one but management and regulators know its true financial condition. The bank is 87% owned by investor Edward Redstone of Lowell, Mass., brother of Sumner Redstone, who owns Viacom Inc.)

Robert Wheeler, president of Martha's Vineyard National, does not agree that with Mr. Porter's assessment. He says that the level of nonperforming loans at his bank is not a problem, and that the bank is healthy.

But some people on Martha's Vineyard said Mr. Porter was probably right.

Want-Ad Worries

"With the market going down 20% to 30%, there's probably mounting nonperforming loans on the books," said one local real estate agent. He noted that



Tom Leander

PLANS SCUTTLED: Nantucket Bank thought Martha's Vineyard National a likely acquisition target. A New Yorker had other ideas.

the back pages of the *Vineyard Gazette* are filled with foreclosure advertisements.

A fast-talking North Carolina native, Mr. Porter, 52, appears to be much younger than he is, save for a shock of white hair. He also is quite an athlete; at age

See NANTUCKET page 15



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C. LAUDISI & ASSOCS INC., auct'rs sell September 7, 1990 at 11 AM at 70-11 50th Ave., Qns 1987 Nissan #JN1HU11P6HT334367 Accts., R. P. Spyke; Darien 1982 #JN1FB04S5C9276066 Accts., H. K. Lakha; 1988 Chevrolet #1G1LT31W6JY653870 Accts., H. Sanchez; 3 PM at 1077 Atlantic Ave., Bklyn 1980 Toyota #JT5T023B2B0 Accts., M. Pinzoi; 4 PM at 222 East 39th St., NYC 1985 Kawasaki JKAZX4A15FA014541 Accts., S. H. Mehler. Published August 31 & September 7, 1990.

BY VIRTUE OF A Default In A Certain Security Agreement Made By Edsons Bake Shop Inc., Debtor, To Modernistics Bake Shop Inc., Secured Party, Notice Is Hereby Given That ACE AUCTIONEERS & LIQUIDATORS INC., Auctrs. As Agents, Will Sell At Public Auction On Tues., Sept. 4 1990 At 10 AM. At 219 Forest Ave., Glen Cove, N.Y. 'R/T/I In & To Fixtures & Merchandise. Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right To Bid. Auctrs. Tel: (516) 333-9758.

DEFAULT In Security Agreement Made By Jack's Corner Restaurant Corp. to Andreas Angeropoulos 1 Will Sell On 9/4/90 At 11:30AM At 47-02 37th St., L.I.C., NY All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right to Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents

Citation Notices

File No. 2266-1990 SURROGATE'S COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK CITATION THE PEOPLE OF THE STATE OF NEW YORK BY THE GRACE OF GOD FREE AND INDEPENDENT, TO THE ATTORNEY GENERAL OF THE STATE OF NEW YORK, 120 Broadway, New York, NY THE PUBLIC ADMINISTRATOR OF NEW YORK COUNTY, 31 Chambers St., New York, NY and the unknown heirs at law, distributees and next of kin of ELIAS KIS, deceased, and if any of them be dead, to their heirs at law, next of kin, husbands or wives or successors in interest. A petition having been duly filed by VISKAL H. EIDELMAN, who is domiciled at 47C East 2nd Street, Brooklyn, New York 11218. YOU ARE HEREBY CITED TO SHOW CAUSE before the Surrogate's Court, New York County, at Room 509, 31 Chambers Street, New York, on September 25, 1990, at 9:30 a.m. why a decree should not be made in the estate of ELIAS KIS, lately domiciled at 645 Water Street, New York, New York 10002 in the County of New York, admitting to probate as a will of said deceased property a paper dated June 28, 1989, and ordering the Letters of Testamentary issue to VISRAEL H. EIDELMAN Dated, Attested and Sealed, August 17, 1990 (L.S.) HON. Marie M. Lambert, Surrogate, County of New York Robert N. Reeves Clerk of the Surrogate's Court Name of Attorney: SOLOMON RUBIN Telephone Number 212-253-8570 Address of Attorney: 148 East Broadway, New York, N.Y. 10002. This citation is published once you as required by law. You are not obliged to appear in person. You have a right to have an attorney appear for you. If you fail to appear it will be assumed that you do not object to the relief requested.

Notices of Foreclosure

NOTICE OF SALE Index No. 7250/89 NY VIEW INVESTMENT CORP., against - EDDIE'S REALTY CORPORATION, THE CITY OF NEW YORK, THE STATE OF NEW YORK AND NEW YORK, Defendants. Pursuant to a judgment of foreclosure and sale dated and sale dated June 18, 1990 and duly entered herein, I will sell at public auction in the Mezzanine, Room 118 of the Bronx County Courthouse, Bronx, New York on September 26, 1990 at 9:30 A.M., the premises situated in the Borough of Bronx, City of New York, known as 1236 Clay Avenue, number 2379 East Tremont Avenue, on the north side of East Tremont Avenue and southwesterly side of Bronxdale Avenue between Section 4 and Block 3779 + 25 feet. Amount of judgment $37,784.75 with interest. Costs and Disbursements $619.00. Sale subject to any state of facts an accurate survey may show; existing statutory tenancies and occupancies, if any; covenants, zoning regulations, restrictions and easements of record, if any, and charges for maintenance of street vaults, if any. Dated August 23, 1990. Herbert Hugh Campbell JAMES A. CARTELLI, ESQ. Attorneys for Plaintiff 26 Court Street White Plains, New York 10601 (914) 993-0100

Auction Notices

R. A. Feider Lic Auct' #793917 sells on Tuesday 10 AM at Rte. 25A, Wading River, '85 Ford #1FABP0644FW168558 Re: C. Nelson; 11 AM at 1990 Jericho Ave, Newburg, '62 Omen #NY936S1W Re: R. Kilcullen; 12 PM at Rt. 647 Rte 52, Narrowsburg, NY '85 Chevy #1GCDT07D5T141930 Re: J. Doe; 1 PM at 57-07 Qns Blvd, Maspeth, NY Merc #2MEBP95F8FX632260 Re: J. Camano; 2:30 PM at 70-10 Alstyne Ave, Richmond Hill, '78 Chevy #CKU188F144886 Re: M. Mansour, on 9/1/90 10 AM at 12-14 31st Ave, Qns, '76 Jaguar #UGJT6032BW Re: A. Francisti. Published 8/24 & 8/31/90.

DEFAULT In Security Agreement Made By 1055 Ogden Food Corp. to Ricardo Perez & assigned to R.A.P. Enterprises of N.Y., Inc. I Will Sell On 9/4/90 At 10 AM At 1053-57 Ogden Ave., Bxs, NY All Right, Title & Interest in & To Fixtures, Equipment & Inventory Subject To Any & All Prior Liens & Mortgages. Secured Party Reserves The Right to Bid. FRANK E. SEIPP, Auct'r Lic #732234 of F.E.S. AUCTIONS INC, As Agents

Nantucket Saga of a Scuttled Deal

Continued from page 13

35, for example, he made it the final heats in the competition to select the U.S. Olympic wrestling team.

Park Avenue Problem

In a pitch to shareholders to help his candidacy, Mr. Porter told of his background in a small Southern town that he said was not very different from the villages on Nantucket.

A shareholder asked, "What's your address?"

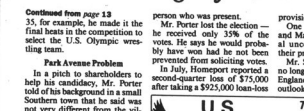
"They all bristled when he said, 'Park Avenue,'" says one person who was present.

Mr. Porter lost the election — he received only 35% of the votes. He says he would probably have won had he not been prevented from soliciting votes.

In July, Nantucket reported a second-quarter loss of $75,000 after taking a $925,000 loan-loss provision.

One week later, Homeport and Martha's Vineyard National Bank unceremoniously canceled their proposed merger.

Mr. Stover said the idea was no longer a viable option for New England's troubled economic outlook. □



Eastern Europe's Banking Challenge

JACKSON HOLE, Wyo. — Reforming banking and financial systems is one of the most difficult tasks facing Eastern Europe as it moves from centrally planned to market-oriented economies, said E. Gerald Corrigan, president of the New York Federal Reserve Bank.

"In part those difficulties are technical, in part they are economic, and in part they are political," he told banking officials from Eastern Europe.

But the biggest difficulty, he said, would be gaining public confidence in a system people are not accustomed to.

Mr. Corrigan spoke last weekend at the Federal Reserve Bank of Kansas City's annual economic symposium in Jackson Hole.

Officials at Conference

Banking officials from the Soviet Union, Poland, Czechoslovakia, Hungary, Bulgaria, Yugoslavia, and Romania attended the conference, whose theme was "Central Banking Issues in Emerging Market-Oriented Economies."

— Reuters

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Partnership Notices

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of COBB & CO. for the conduct of business at 53 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of COBB & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CUMMINGS & CO. for the conduct of business at 53 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CUMMINGS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of C.A. ENGLAND & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of C.A. ENGLAND & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of FINMAN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of FINMAN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of HILLERS & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of HILLERS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of H. A. WHITTEN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of RAPCO and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK

ss:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of SECNAT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of SECNAT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

Automating the Flow of Cash

Continued from page 3

automate everything they are doing," said Beverly B. Wells, senior vice president at First Wachovia Corp., Winston-Salem, N.C. "Banks are telling them they should be concerned about cash management."

Bankers say that middle-market companies will at least keep pace with their larger brethren in automation. Part of the reason is because they will be forced to go electronic. A growing number of states are requiring corporations to file income tax forms electronically.

Ms. Wells estimates that 85% of corporate treasurers now have PCs in their offices, four times the number that did three years ago. Once the PC is in place, treasurers seek more ways to use it, leading to more automation of their cash management activities.

Some major cash management banks already sell software to allow wire transfer and other treasury functions from PCs. At least two major banks – First Wachovia and Mellon – plan to introduce more comprehensive software for cash management activities. □

Comfed Begins Equity Offering

LOWELL, Mass. — Comfed Bancorp Inc. said it began a private equity offering with Goldman, Sachs & Co. as underwriter in a plan to restructure its wholly owned Comfed Savings Bank unit.

The company, which retained Goldman Sachs to help it develop the restructuring plan, also said it signed a regulatory consent agreement limiting the company's operations and confirming the Office of Thrift Supervision's authority as a conservator or receiver if appropriate.

Comfed said the equity offering, the size of which it did not disclose, and receipt of regulators' preliminary response to its plan to apply for open thrift assistance through the Federal Deposit Insurance Corp. are significant steps in the restructuring.

The company also said the OTS agreement will allow it to continue banking and mortgage operations adopted under more conservative strategies in the bank's operations and confirming the Office of Thrift Supervision's authority as a conservator or receiver if appropriate.

Comfed said the equity offer-

BancFlorida to Buy Shares for Its ESOP

NAPLES, Fla. — BancFlorida Financial Corp. said it has directed the trustee of its employee stock ownership plan to purchase 600,000 of its shares for the benefit of ESOP participants.

The trustee will make the stock purchases in open market transactions with funds contributed by BancFlorida, the company said. BancFlorida has 3.41 million shares outstanding now and 1.14 million shares of cumulative convertible preferred stock outstanding. — Reuters

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Partnership Notices

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ROBIN & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ROBIN & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of MERRICK & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of MERRICK & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of W'O & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of W'O & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of J. C. ORR & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of J. C. ORR & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of NICO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of NICO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of COSMO & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of COSMO & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of LISTER & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of LISTER & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of JENKINS & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of JENKINS & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of GNAT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of GNAT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Maden, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Rayner, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of ROMMEL & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of ROMMEL & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

Sheldon P. Gnatowsky, 219 Brown Street, Mineola, New York 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, New York 11755.

3) That the following 2 (two) persons identified on the Certificate as partners under said partnership are withdrawing their names as a partner:

Paul Vera, 559 54th Street, Brooklyn, New York; George Ziemer, 8 Sandhill Road, Byram Township, New Jersey 07874.

IN WITNESS WHEREOF, the undersigned have this 16th day of July, 1990 made and signed this Certificate.

Treasury Aide Asks Credit Reform for U.S.-Backed Lenders

By LYNN STEVENS
The Bond Buyer

NAPLES, Fla. — Michael E. Basham, a high-level Treasury Department official, said last week he hoped congressional negotiators would include credit reform in budget legislation next month to make sure government-sponsored enterprises never encounter the kind of crisis faced by the savings and loan industry.

Mr. Basham, acting assistant secretary for domestic finance, said a congressional task force on credit reform was "giving serious consideration" to Treasury proposals that government-sponsored enterprises be required to obtain a triple-A credit rating from at least two nationally recognized agencies.

Speaking at a meeting here of state treasurers, Mr. Basham said government-sponsored enterprises are organizations such as the Federal National Mortgage Association and Student Loan Marketing Association that facilitate the flow of credit to private borrowers in housing, post-secondary education, and agriculture.

They do this by raising funds in the capital markets to make or purchase loans, issuing pass-through securities, or guaranteeing the liabilities of others.

The enterprises were established and chartered by the federal government to perform specific credit functions but are almost all privately owned now. They have borrowed or guaranteed more than $900 billion.

Mr. Basham said that because the market perceives that the enterprises have government backing, they are able to borrow at rates only slightly higher than the Treasury but significantly lower than private corporations. In addition, they are able to employ much greater leverage in their activities than private corporations that do not have any special ties to the federal government.

This ability "results in significantly higher returns for shareholders when [an enterprise] is successful," but it can lead to "tremendous pressure for government assistance" if financial difficulties occur. Such pressures came about with the Farm Credit System a few years ago and are being felt now with the savings and loan crisis.

"It is imperative that we scrutinize closely the financial stability of the [government-sponsored enterprise] and the risks associated with their activities," he said.

The U.S. official fears a new financial crisis in operations such as Fannie Mae or Student Loan Marketing.

Under the Treasury proposal, any enterprises that could not qualify for a triple-A rating would have to develop a comprehensive business plan showing so within five years, Mr. Basham said. If the enterprise did not adhere to the business plan, sanctions would be imposed, he said, adding that these could include limits on new investments, financial leverage, or debt issuance.

"Because GSEs are, with one exception, privately owned corporations, we think it is appropriate to rely on the market mechanism to evaluate" each of them, Mr. Basham told the treasurers. The Treasury also has proposed that a "financial safety and soundness regulator" be established to monitor the enterprises. But this new position would be separate from a currently existing "program regulator."

Mr. Basham talked to the state treasurers about the savings and loan crisis. He stressed that the federal government attempts to help resolve its crisis was not a bailout for thrift and loan owners or shareholders, but rather a commitment to uphold the federal deposit insurance program. □

BancFlorida to Buy Shares for Its ESOP

NAPLES, Fla. — BancFlorida Financial Corp. said it has directed the trustee of its employee stock ownership plan to purchase 600,000 of its shares for the benefit of ESOP participants.

The trustee will make the stock purchases in open market transactions with funds contributed by BancFlorida, the company said. BancFlorida has 3.41 million shares outstanding now and 1.14 million shares of cumulative convertible preferred stock outstanding. — Reuters

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Partnership Notices

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of CRONSKY & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of CRONSKY & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Maden, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Rayner, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of WINT & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of WINT & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Maden, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Rayner, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of MADDER & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of MADDER & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Maden, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Rayner, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of HENDL & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of HENDL & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Maden, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Rayner, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

AMENDED BUSINESS CERTIFICATE PURSUANT TO SECTION 130 OF THE GENERAL BUSINESS LAW STATE OF NEW YORK COUNTY OF NEW YORK ss.:

WHEREAS, the undersigned hereby certify that a Certificate of Doing Business under the assumed name of UTEPET & CO. for the conduct of business at 55 Water Street, New York, New York was filed in the Office of the County Clerk, New York County, State of New York, on the 18th day of October, 1985, under Index # 8323-85.

It is hereby further certified that this Amended Certificate is made for the purpose of more accurately setting forth the facts recited in the original Certificate, and to set forth the following changes in such facts;

1) That 2 (two) new partners have entered the partnership with authority to sign the partnership name for the purpose of transferring securities as set forth in the Partnership Agreement of UTEPET & CO. and as amended.

2) That the names and addresses of the new partners are as follows:

James J. Canale, 27 Winnie Lane, Brentwood, NY 11717; Wilfredo Cuevas, 1131 East 31st Street, Brooklyn, NY 11234; Robert A. Hendley, 65-60 79th Street, Middle Village, NY 11379; Angelina Maden, 10-20 River Road, Fairlawn, NJ 07410; Kenneth Peters, 1251 37th Street, Brooklyn, NY 11218; Louis Rayner, 1049 Lincoln Place, Brooklyn, NY 11213; Victor Sciascia, RD 1, Box 172, Ridge Road, Dover Plains, NY 12522; Barbara Strohmeier, 3 Kubala Avenue, Carteret, NJ 07008; Leonard S. Wronski, 35 Lake Avenue, Colonia, NJ 07067; Sheldon P. Gnatowsky, 219 Brown Street, Mineola, NY 11501; Mark A. Winters, 2 Alpine Place, Lake Grove, NY 11755. IN WITNESS WHEREOF, we have signed this Certificate as of July 16, 1990.

Notices of Sale

BY VIRTUE OF a Default In The Payment Of Obligations Due Jack Greenbaum, A Secured Party, Of Debtors, Pennsylvania Car Wash, Inc. And Its Officer, Patrick Cook, The Undersigned Will Offer For Sale At Public Auction All Of The Machinery, Equipment Fixtures, Inventory Of Merchandise and All Other Property And Property Rights Of The Debtors, Located At 1859 Utica Avenue, Brooklyn, New York, On September 4, 1990 At 11 A.M. At The Offices Of Marshall Kaplan, Esq., 189 Montague Street, Brooklyn, New York 11201. The Secured Party Reserves The Right To Bid. Marshall Kaplan, Esq., Attorney For Secured Party, 189 Montague Street, Brooklyn, New York 11201, Stanley Siebert, Simon Rosenbach, Peter Gruenberg & Associates & Appraisers #0574498-493384/g 152 Noble Street, Brooklyn, New York 11222.

Auction Notices

DEFAULT In Security Agreement Made By Rafael Rodriguez to Nicholas Garcia & assigned to Sea Crest Trading of Connecticut, Inc. Will Sell On Sept. 19, 1990 At 2:00 PM At 1544 E. 174th St., Bx., NY All Right, Title & Interest In & To Fixtures, Equipment & Inventory Subject To Any & All Liens Of Record. Secured Party Reserves The Right to Bid. FRANK E. SEIPP, Atty. Lic.#732234 of F.E.S. AUCTIONS INC, As Agents

FRED REISSNER INC, Auct'r Lic #732421 Sells Sept. 19, 1990 at 8:30 AM at 59-51 Maurice Motorcycle Mopeds NY 92 Plymouth #1P3BP26D1CC123612 Rec. Daniel M. Lehman; at 3 PM at 395 Knox Ave, Brooklyn, NY '75 CHEVROLET Truck #1TCE665V567516 Rc: Cynthia M. Belcher; at 5 PM at 66 W. 38th St., New York, NY '90 Nissan #JN1HD01H7LT418212 Rc Alfredo Johnson. Published 8/31/90 & 9/07/90.

DEFAULT IN A Security Agreement Made By Carlos Agron & Aniero Salcedo To Premier Corp. Sale Aug. 31, 1990 At 9 A.M. At 1094 Ruiland Road, Brooklyn, N.Y. R/T/I In & To Chattles & Fixtures At Pre Schedule Subject To Liens Exist. N/A Secured Party Reserves The Right To Bid LEO FRANK INC., Auctr. As Agent. DCA #464147.

Ronald Zazo Auct'r Lic #883451 sells 9/14/90 9 AM at 72 Vestry St, NYC, '87 Ford #1G2AC6046D7220 Rc: USAA; '80 Dodge #KH22CAR171150 Rc: J. Brown; 9/21 at 77-12 Northern Blvd, Jackson Hts, '87 Toyota #JT5VZ20E2H1017060 Rc: Pollard & Chemical Bank. Published 8/31 & 9/7/90.

R. A. Felder Lic Auctr #793917 sells on 9/18/90 10:30 AM at 1207 Wilts Ave, Syr, '83 Cadi #1G6AL578ED8E604427 Rc: C. Baugh. Published 8/31 & 9/7/90.

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Boston Bank Reacts to Law

BOSTON — Bank of Boston Corp. said its directors voted to opt out – until July 1, 1991 – of the provisions of a recently passed Massachusetts law on nationwide interstate banking.

The vote was not a response to any known bid to acquire the bank, Bank of Boston said, but was consistent with the company's intention to remain an independent institution and to build long-term stockholder value. — Reuters

DEALS: Southland Bank Group Emerges Unscathed from Workout

Continued from page 1

something not all HLTs include.

"In the long run, banks can come out unharmed," said Andrew Herenstein, an analyst at the bankruptcy firm Delaware Bay Co.

'The Naked and the Unnaked'

"All troubled HLTs aren't alike," said E. Theodore Stolberg, a partner at Weiss, Peck & Greer, a buyer of distressed companies. "There are the naked and the unnaked – those that have collateral and those that don't."

Nervous banks that sold Southland loans at a discount in the secondary market rather than risk a possible bankruptcy have found interest among the buyers of troubled loans such as the Foothill Group, which purchased an undisclosed amount of Southland debt at a discount.

There are clear reasons for optimism in the Southland case. Because the loans are secured by stores, inventory liens, and receivables, they're overcollateralized at least two times, said bond analyst who follow the company.

And lenders have already received more than half their investment back. Southland has $887 million outstanding on the $2 billion term loan arranged in late 1987 for its $4.9 billion leveraged buyout, a spokeswoman said. It has already paid off its $550 million divestiture term loan, she said.

"The banks are so far unscathed," said Andrew Leinoff, a McCarthy, Crisanti & Maffei analyst of high-yield bonds.

"Southland is adequately secured by all valuations," said John Nickoll, co-chief executive officer of the Foothill Group,

A Risky Assumption

Because they are senior creditors, bank lenders often assume that their senior creditor status will protect them in any distressed situation.

But in Interco Inc.'s restructuring, for example, bank creditors have deferred interest and principal payments on roughly $1 billion in loans, and asset coverage is tenuous at best because of poor operations and asset sales that fetched less than forecast – "overadvance on collateral" in banking parlance.

And in the American Healthcare Management bankruptcy, banks are accepting principal losses of 30 cents to 40 cents on the dollar because their security was stock in the company's subsidiaries, sources said.

The Southland deal has yet to receive the necessary consents from bondholders. Nor is it the first deal to remain current; Revco Inc., the first large buyout to fail, has been paying interest on its bank debt, said Mr. Herenstein of Delaware Bay Co.

Nevertheless, as fears of exploding HLT loans intensify, lenders – and equity analysts who follow the banking industry – can take some comfort from the knowledge that not every restructuring need devastate an income statement.

"It's the quality of HLTs that's important, not the amount," said Mr. Nickoll said of banks' exposure to leveraged deals.

Mr. Stolberg of Weiss Peck believes deals that had significant high-yield debt underneath and strong collateral in the loans have a strong chance of repaying their senior loans in a workout. Because equity and subordinated debt are, in essence the first line of defense, even when they are extinguished in a workout "banks have a cushion underneath."

'In General, Banks Do Better'

Craig Davis, director of research at R. D. Smith & Co., noted: "In general, banks do better than everyone else."

Southland Corp., which operates 6,700 7-Eleven stores in North America, needed consents from its Citicorp-led bank group waiving cross-default covenant in the bank loan agreement.

Because the company defaulted on some of its $1.8 billion in bonds, it was vulnerable had its loan covenants without a waiver. In addition, banks waived a covenant reduced the draw-down of a $350 million working-capital facility from $75 million to $50 million, and the life year the facility was reduced from $450 million.

Lead banks also include Manufacturers Hanover Trust Co., Security Pacific National Bank, Bankers Trust New York Corp., and Canadian Imperial Bank of Commerce.

Not surprisingly, the fact that senior lenders are current has not gone over well with subordinated creditors, analysts said. And it has made it more difficult, some say, to complete the exchange offer now under way.

"Banks have not let up on their fairly onerous [amortization] schedule," said Mr. Leinoff of McCarthy, Crisanti & Maffei. "Part of what's caused the the difficulty in the financial situation is the inflexibility about altering the schedule."

Payments to Rise

Southland has a $35 million amortization payment this year. Payments jump to $45 million next year, $105 million in 1992, $200 million in 1993, $300 million in 1994, and $200 million in 1995. Proceeds from the sale of the 50% stake in Citgo, which was purchased by the Venezuelan government, will be put to various principal payments, a Southland spokeswoman said.

Under the exchange offers, Southland bondholders and preferred stockholders are being offered new debt securities and about 25% of newly issued Southland common stock. □

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Highlights for Thursday, August 30

TOP 10 GAINERS %

Premier Bancorp, Inc.	7.1
First Security Corporation	6.1
Amcore Financial, Inc.	6.1
Grenada Sunburst System Corp.	6.1
Merchants Bank of New York	4.8
Keystone Heritage Group, Inc.	4.8
Suburban Bancorp, Inc.	4.6
Plaza Commerce Bancorp	4.0
Fulton Financial Corporation	3.6
Riggs National Corporation	3.5

TOP 10 LOSERS %

Bank of New England Corp.	-23.1
Multibank Financial Corp.	-8.0
First Fidelity Bancorporation	-6.9
First Security Financial Corp.	-6.1
First Community Bancorp, Inc.	-6.1
MNC Financial, Inc.	-6.0
Bank of Boston Corporation	-5.7
Banks of Mid-America, Inc.	-5.5
Provident Bankshares Corp.	-5.5
Southeast Banking Corp.	-5.4

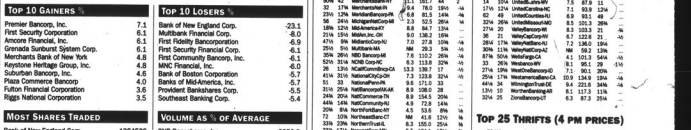
MOST SHARES TRADED

Bank of New England Corp.	1264500
Citicorp	804300
BankAmerica Corporation	531800
MNC Financial, Inc.	521300
Bank of Boston Corporation	445400

VOLUME AS % OF AVERAGE

CNB Bancshares, Inc.	2256.9
Sunwest Financial Services	941.9
Fulton Financial Corporation	733.8
BB&T Financial Corporation	656.3
Affiliated Bankshares of Co.	580.9

Stock Index Trends



*Weighted average of top 225 banks and 25 thrifts

Percentage Changes

Computed from the indexes reported 1, 5, and 21 days previous, respectively.

Dow Jones Industrial Average			American Banker Bank Index			American Banker Thrift Index		
Day	Week	Month	Day	Week	Month	Day	Week	Month
-1.49	4.42	-10.55	-1.09	3.07	-9.41	-1.51	5.92	-11.42

TOP 225 BANKS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk	Chg.	Chg.
23	18¾	1stSourceCorp/In	6.3	86.3	19	--
14¾	10¾	1stTennessee/Tn	5.0	56.0	6%	--
28¾	18¾	AmSouthBancorp/	7.6	79.4	19¾	--
10¾	7¾	Ameribank/Sc	5.4	76.6	12	--
23	13¾	AmericanExpCo/	23.9	78.7	14¾	--
22¾	17¾	AmericanFstFncl	8.0	100.0	19¾	--
24¾	17¾	BB&T Fncl/Nc	8.0	100.0	19¾	--
15¾	7¾	BkWorcester/Ma	7.1	45.1	4¾	--
49¾	39	BankAmerCp/De	13.6	146.1	4¾	--
33¾	24¾	BancOneCorp/Oh	9.7	142.8	24½	--
26¾	16¾	BancorpHawaii/Hi	5.7	85.6	1¼	--
56¾	36¾	BancorpHawaii/Hi	7.8	130.7	40¾	--
22¾	18	BancSouthCorp/Ar	12.3	80.0	7¾	--
36¾	19¾	BankAmericaCorp/Ca	4.6	86.7	21¾	--
36¾	17¾	BankersCorp/Nj	4.5	49.2	9¾	--
29¾	8¾	BankersTrstCo/Md	9.1	31.5	8¼	--
15¾	10¾	BankersTrstCo/Ny	4.7	87.6	2¾	--
12	8	BanksMid-Amer/Ok	NM	47.2	8¼	--
62	61	Barnett/Fl	10.6	102.4	46	--
39¾	24¾	BarnettBanks/Fl	7.8	91.3	25¼	--
40¾	31¾	BayBanks/Ma	NM	77.1	12¾	--
39¾	25¾	Boatmen'sBcshs/Mo	7.2	83.6	26¾	¼
106¾	75¾	BostonCo/Inc	25.0	102.5	15¾	¼
16¾	12¾	Brenton Banks/Ia	7.3	100.2	14¼	--
36¾	30¾	CBT Corp/Ct	7.9	104.7	30¾	--
22¾	15	CCNB Corp/Pa	6.2	87.9	15½	¼
23¾	19¾	CNB Bancshr/In	10.2	122.6	21¼	¼
27	17¾	CPB Inc/Il	9.2	135.9	19¾	--
28	11¾	CNB Fl/Clrtpa	5.2	205.8	12¾	--
33¾	17	CalFed/Spon Ca	6.9	125.3	17¼	--
16¾	12¾	CalifornBcshs/Ca	6.7	91.5	13¾	--
34¼	23¾	CentralTrst/Ky/Ky	7.2	102.2	26¼	½
27	19¾	CentralBancorp/Ky	6.3	75.7	19¾	--
44¾	19¾	ChaseManhattan/Ny	NM	49.0	17	¾
41¾	30¾	ChemicalNewYork/Ny	NM	61.4	21	¼
35	28	ChemicalFnCorp/Mi	8.8	96.6	30½	--
35¼	17¾	Citicorp/Ny	NM	70.0	18¼	--
25¼	15¼	CitizensBancorp/Md	7.4	91.0	16	--
26¾	20¾	CitizensBanking/Mi	7.4	70.3	21¼	--
15¼	7¾	CitizensFirst/Ri	NM	99.3	7¼	--
34¾	18¾	CitizensUtilities/Ct	5.7	84.9	19¾	--
27½	14¾	CityNatCorp/Ca	8.4	151.6	14¾	--
27¾	17¾	ColonialBancGrp/Va	32.2	72.3	17¾	--
58¾	36¼	ComericaInc/Mi	7.9	87.9	37¾	--
29¾	21¼	CommercialBcshs/Mo	7.0	94.4	22	--
20¾	14¾	CommonwealthPA	6.9	86.4	15	--
37½	19¾	CommunityBcs/Al	9.5	104.6	19¾	--
29¾	8¾	Continental/L	NM	43.6	10¼	--
31¾	25¾	CoreStatesFnCp/Pa	8.7	124.7	31¾	--
34	19¾	CrestarFnCorp/Va	5.9	71.8	19¾	--
37¾	27¾	CullenFrost/Tx	37.0	48.0	10	--
37¾	29¾	DauphinDeposit/Pa	7.9	137.8	27¾	¼
31	21	DepositGuaranty/Ms	7.7	87.9	22	--
25¾	11¼	DominionBnkshs/Va	8.5	72.8	11¾	--
14¾	3¼	EquitorialCorp/Ok	NM	34.7	4¾	--
21¼	11¾	EvergreenBcshs/Mi	5.7	80.9	11¼	--
15¾	12	F & M Nat'l Corp/Va	10.3	158.6	12¾	--
14¾	11	FNB Corp/Pa	7.6	88.9	11	--
26	21¼	FNB Bancorp/Ri	9.9	104.6	21¼	--
39	25	FarmersCapital/Ky	12.1	106.0	26	--
27	18¾	FifthThirdBancorp/Oh	9.9	151.4	26¾	--
38¾	28¾	FinancialTrust/Ark	7.8	117.8	28¾	--
33¾	33	FirstAlaBcshs/Al	8.2	86.5	33¼	--
19¾	14¾	FirstAlabama/Al	8.5	107.4	16¼	--

52 Wk Hi	Lo	Name	PE	Mkt Bk	Chg.	Chg.
25¾	8¾	FirstAmerCorp/Tn	NM	52.3	8¾	-¼
34¼	21¼	FirstBancorp/Nc	7.5	80.0	22¼	--
26¾	12¾	FirstBankSystem/Mt	NM	97.5	12¾	-¼
20¾	13¾	FirstBanks/Co	6.8	78.8	20¾	--
20¾	15¾	FirstCharlotte/Nc	6.8	78.8	20¾	--
21¾	17¾	FirstCitizBcshs/A	8.8	115.0	21¼	¼
21¾	17¾	FirstCommerce/La	9.6	106.6	17¾	--
19¾	14¼	FirstCommerce/Ok	9.6	106.6	17¾	--
19¾	14¼	FirstCommunity/L	10.4	106.8	19¾	-¼
14¾	9¾	FirstEmpire/Ny	6.9	84.2	14¾	--
72	51¼	FirstEmpire/Ny	7.3	85.9	53¾	--
33¾	13¾	FirstFidelity/Nj	5.1	106.4	13¾	--
50	36	FirstFinlCorp/In	11.6	166.7	37	-¼
34¼	17¾	FirstFinlInc/Fl	9.3	176	34¼	--
39¾	17¾	FirstHawaiian/Hi	8.0	165.9	18¾	--
9¾	6¾	FirstHorizon/Tn	9.1	106.4	9¾	--
50	36	FirstIndiana/In	11.6	166.7	37	-¼
34¼	17¾	FirstInterstate/A	7.1	80.5	34¼	--
18¾	13¾	FirstMidAmCp/Il	7.6	108.1	14	--
24¾	16	FirstMiss/Ms	9.6	127.0	24¾	--
20¾	18	FirstNChicago/In	7.4	113.7	18	-¼
54	48	FirstNiagara/Ny	42.1	77.6	48	--
19¾	13¾	FirstSecurity/Ky	10.7	98.8	13	--
19¾	12¾	FirstSecurity/Ut	12.1	138.6	13¾	-¼
33¾	24¾	FirstSecurity/Ut	7.1	74.4	24¾	-¼
28¾	21	FirstTennessee/Tn	7.8	90.1	22	--
25¾	14¾	FirstUnionCorp/Nc	6.3	75.4	15¾	--
65¾	45¾	FirstVirginia/Va	7.0	96.2	22	--
45¾	25	FirstWachovia/Nc	9.4	140.8	37¾	--
35	25¾	FirstCorp/In	6.9	107.7	25¾	--
20¾	17	FirstbankN.A.	8.2	102.6	17¾	--
55¾	40¾	FleetFinancial/Ri	7.2	85.6	51¾	--
29¾	14¾	FleetNorstar/Ri	11.5	80.6	15	-¾
28¾	18¾	FortWayneNatCp/In	8.3	88.6	28¾	--
28	20¾	FourthFncGrp/Ks	14.3	140.2	21¾	-¼
24¾	14¾	FulcrumCorp/Pa	7.0	188.6	14¾	--
18¾	10¾	GBC Bancorp/Ca	7.7	188.6	17¼	--
16¾	8	GrenadaSunburst/Ms	16.8	65.7	8¾	--
29½	21¼	HarleysvilleNat/Pa	9.9	169.6	26	-1
9¾	6	HarleysvilleSavin/A	3.7	100.4	9¾	--
21¼	14¾	HeritageFnSrvc/Ia	8.3	110.1	14¾	-¼
20¾	12¾	HiberniaCorp/La	8.3	85.7	12¾	--
20¾	12¾	HuntingtonBcshs/Oh	6.5	94.1	12¾	-¼
20¾	15¾	IMBFlCorp/In	7.4	85.8	19¾	--
27¾	13	ImperialBancorp/Ca	5.8	83.3	13¾	-¼
25½	13¾	IndependentBk/Ma	8.7	83.7	25½	--
30¾	18¾	IntegraFnCp/Pa	13.1	85.7	19	-¼
48	33	InvestNatlBcshs/Va	8.4	107.2	33¾	-¼
48	31¾	J.P. Morgan/Ny	NM	132.6	32	¾
24¾	18¾	JeffersonBkshs/Va	NM	58.3	24	-¼
15¾	10¾	KeyCentCorp/Wv	8.9	94.2	11	--
29½	21	KeyCorp/Ny	7.8	89.2	21¾	--
29¾	17¾	KeystoneFn/Pa	7.5	108.9	19¾	--
35¾	20	KeystoneHeritage/Pa	7.8	114.9	20	--
29½	18¾	LakeShore/L	34.1	172.1	20	--
18	8¾	LandmarkBancs/Mo	6.0	54.2	9¾	-¼
30¾	21¾	LibertyNatBanc/Ky	7.7	99.2	22¾	-¼
27	17¾	LincolnFnCorp/In	6.4	77.9	18¾	--
29¾	7¾	MNC Financial/Md	14.3	48.9	7¾	-¼
18	11	MagnaGroup/L	8.7	87.2	12¾	-¼
60	38¾	ManufacturersNt/Mi	6.0	91.0	40¾	--
44¾	23¾	ManufacturersNt/Wi	NM	58.3	24	-¼
21	18¾	MarineCorp/L	11.1	130.1	18¾	-¼
21¾	14¾	MarshallBanc/Mo	7.8	99.2	15¾	--
37¾	26¾	MarshallMilkey/Wi	8.0	105.0	28¾	-¾
35¾	18¾	MellonBankCorp/Pa	5.8	91.6	35¾	-¾
28¾	21	MercantileBanc/Mo	35.7	83.9	21¾	-¼

52 Wk Hi	Lo	Name	PE	Mkt Bk	Chg.	Chg.
23¾	16¾	MercantileStrBnk/Md	7.6	115.8	18¾	-¼
90¾	42	MerchantsBank/NY	31.1	181.7	44	--
32	17¾	MerchantsNat/In	9.4	78.0	19¾	-¼
23¾	12¾	MetroBancorp/Pa	6.8	81.5	14¾	-¼
56	24¾	MichiganNatCorp/Mi	2.3	52.5	26¼	-¼
18¾	12¾	MidAmerica/Ky	8.2	84.7	12¾	--
21¾	15¼	MidlinInc./Oh	9.0	136.2	18¾	--
47¾	9¾	MidlanticCorp/Nj	7.0	27.8	10¾	-¼
25¾	5¼	MidlothianEn/Va	NM	29.3	5¾	-¼
30¾	20¾	MBT Bancorp/Mi	7.6	112.2	26¾	-¼
52¾	31¼	NCNB Corp/Nc	6.3	113.8	32¾	-¼
13¾	10¾	NCAR/Combs&Hcp/Ca	13.3	139.7	11	--
41¾	31¾	NationalCity/Oh	7.3	123.8	32¼	-¼
51	33	NationalPenn/Pa	8.1	171.0	33	--
31¾	25¾	NatlBancorp/Pa/AK	8.9	108.0	28	--
24¾	20¾	NatlCommerce/Tn	8.9	154.5	20¾	--
44¾	14¾	NatlCommunity/Ny	4.9	72.8	14¾	--
29¾	8¼	NorthFinlGrp/Il	4.5	53.6	8¾	-¼
72	10¾	NortheastBanc/Ct	NM	41.6	12¾	-¼
23¾	17¾	NorthernTrust/L	8.3	155.0	21¾	-¼
23¾	17¾	NorwestCorp/Mn	6.7	124.1	17¾	-¼
25¾	20¾	OhioBancorp/Oh	8.4	86.2	20¾	--
29¾	22¾	OldKentFnCorp/Mi	7.5	104.7	22¾	-¼
22¾	12¾	OldNatBancorp/Ky	12.6	151.1	20¾	--
19	13¾	OneNetBancWsr/Wi	6.7	81.2	19¾	-¼
48¼	23¾	PNC Fin/Cp/Pa	7.6	83.9	24¾	--
28¾	22¾	PacificBcrs/Ca	10.0	143.6	24	--
16¾	11¾	PacificMetBcrs/Ca	7.4	135.1	16¼	-¼
19¾	13¾	PeoplesBancorp/Ac	7.8	109.2	13¾	-¼
17¾	8¾	PhoenixInvest/Ar	9.6	122.6	16¼	--
19¾	8¾	PiedmontGroup/Va	7.6	142.1	9¾	-¼
6¾	3	PioneerBancorp/Ia	6.0	61.9	3¾	--
27¾	21¾	PremierBancorp/La	8.3	134.4	22	--
14	9¾	ProvidentBkshs/Md	NM	75.1	9¾	--
25¾	17	RepCityBancShs/Mi	9.4	91.4	17	-¼
52¾	42¾	RepublicNYCorp/Ny	133.7	117.0	44¾	-¼
20¾	12¾	RiggsNatCorp/Dc	8.3	60.7	15	-¼
32¾	25¼	RiverFore/IL	12.3	272.6	27½	--
28¾	18¾	SantaBarbaraBcs/Ca	9.6	179.5	21	--
23¾	15¾	SecurityBancorp/Mi	7.4	125.7	16¾	--
25¾	19¾	SecurityPac/Ca	4.3	73.7	21¾	--
28¼	8¼	ShawmutNatCorp/Ma	NM	44.8	8¼	-¼
24¾	14¾	SignetBanking/Va	4.5	53.8	15¾	--
38¾	27¼	SocietyCorp/Oh	8.7	95.9	28	--
37¾	18	SouthCarNatCp/Sc	6.3	81.3	18¾	--
28¾	6¾	SoutheastBkCorp/L	NM	31.7	6¾	--
31¾	10¾	SouthernNatCp/Ac	8.7	121.2	10¾	--
25¾	16¼	SouthTrstCorp/Al	6.7	88.6	17¼	--
42¾	22¾	SouthernFnCorp/Ga	6.2	86.0	23¾	--
26¼	16¼	Star Banc Corp./Oh	8.7	112.9	18¾	--
25¾	16¾	StateStBkCorp/Ca/Ri	11.1	134.0	22¾	--
20¾	4¾	StatewideBanc/Ri	NM	94.0	4¾	--
25¾	16¾	SunburstBancorp/L	11.1	84.8	17	--
34¾	21	SuntrustBanks/Ga	5.2	82.6	24½	--
20¾	15¼	SuperiorBancorp/Il	6.9	86.1	15¼	--
21¾	10¾	SurmitBancorp/Nj	5.5	80.2	11¼	--
26¾	19¾	SurTrstBanks/Ga	7.4	114.4	19¾	--
28	10¾	SunwestFinSrvs/Az	48.2	47.4	10¾	-¼
28	15¾	SusquehannaBcshs/Pa	7.1	93.0	17	--
19	14¼	SynovusFnCorp/Ga	15.6	233.2	14¾	--
18¾	13	TCFBancorp/Co/Mn	8.4	114.6	13¾	--
33	27¾	TrustCoBanCorp/Ny	8.8	152.4	29	--
15¾	15	TrustcorpInc/Oh	8.4	123.4	15	--
23¾	17	TrustmarkCorp/Ms	6.0	70.4	17¼	--
25¾	17¾	U.S. BancorpOr/	7.4	109.2	20¾	--
41	31¼	U.S.TrustCorp./Nj	11.1	168.9	32¼	--
24¾	10¾	UJB Financial/Nj	5.8	59.4	11¾	-¼
17¾	9¼	UST Corp./Ma	5.6	77.5	9¾	--
19¾	17¾	UnionBancCo/Ca	4.8	76.9	19	--
15¾	6¾	UnionPlanters/Tn	NM	53.8	6¾	--

52 Wk Hi	Lo	Name	PE	Mkt Bk	Chg.	Chg.
23¾	16¾	UnionBkCal/Ca	NM	94.5	19¾	-¼
14	10¼	UnitedBcshs/Wv	8.7	91.5	14	--
17¼	12¼	UnitedCarolina/Nc	7.1	93.9	12¼	--
62	49	UnitedCounties/Nj	8.0	93.1	53¾	--
32¼	26¾	UnitedMissouri/Mo	8.5	105.3	26¾	--
27¼	20	WellsFargo/Ca	8.3	103.3	21	--
36	21	WestyCapCorp/Wv	6.7	122.6	21	-¼
28¼	17¾	WestyBancorp/Ri	7.2	100.2	17¾	--
30¾	11¾	WestAmerCorp/Az	NM	59.2	13¾	--
87¾	50¾	WellsFargo/Ca	8.1	105.1	54¾	--
33	26¾	WestbancoInc/In	9.1	95.1	29	-1½
25¾	17¾	WestcornBancorp/Ri	8.1	101.3	18¾	--
25¼	17¾	WestamericaBanc/Ca	10.9	134.9	19¾	-¼
19¾	14¾	WestcoastBcshs/Fl	8.3	87.3	15¾	--
13¾	10	WorthenBanking/Ar	8.1	117.3	11¾	--
32¼	25	ZionsBancorp/Ut	8.3	87.3	25¼	--

TOP 25 THRIFTS (4 PM PRICES)

52 Wk Hi	Lo	Name	PE	Mkt Bk	Chg.	Chg.
24¾	15¾	AmericanSvFd	7.2	81.5	17¾	-¼
15¾	10¾	AmeriFirstFn/Fl	6.4	80.0	13¾	-¼
37¾	7¾	CalFed/Inc/Ca	23.3	15.4	8¾	-¼
15¾	10¾	CharterMacCp/Ca	7.8	57.3	36¾	--
20¾	3	CoastSavings/Ca	NM	30.4	4	-¼
15¾	10¾	CommercialFd/Ia	7.4	135.1	15¾	--
24	13	DowneySavings/Ca	20.5	88.1	13¾	-¼
27	18¾	FirstFedFnCorp/Ca	6.7	113.5	20¾	--
21¼	12	FedNatMtg/Va	6.2	32.8	13¾	--
34¾	25¾	GLENFED/Inc	2.7	24.4	26¾	-¼
34¾	22¾	GoldenWestFn/Ca	8.9	139.3	25¾	-¼
24¾	13¾	GreatWestern/Ca	12.4	84.6	13¾	-¼
13¾	1	GtAmericanBcs/Ca	NM	11.3	1¼	--
13¾	1	GtAmericanBcs/Ca	NM	11.3	1¼	--
21¾	13¾	HomeSecBanc/Mi	15.9	87.6	17¾	-¼
14¾	9¾	HMB Bancorp/Ri	9.8	41.6	14¾	-¼
34¾	26¾	People's Bank/Ct	26.3	34.8	5	-¼
35¾	6¾	PeoplesHeritage/Me	7.7	37.7	6¾	--
30¾	23¾	SIS Bancorp/Ma	5.9	37.8	8	-¼
22¾	6¼	SocietyFnCorp/Oh	5.7	39.9	6¾	--
27¾	3¾	SoFlaBancorp/Fl	NM	23.6	3¾	-¼
12¾	8¾	StandardFed/Mi	6.0	51.4	9¾	-¼
14¾	10¾	StandardFed/Mi	6.0	51.4	9¾	-¼
33¾	21¼	WashingtonFed/Wa	8.4	169.6	24¼	-¼
13¾	9¾	Westcorp/Ca	10.4	88.3	9¾	-¼

Bank Stock Table Explained: The stock data in alphabetical order daily closing stock prices for the 225 largest banks and 25 largest thrift financial banking firms and the 25 largest publicly traded thrifts as measured by the market value of all common shares outstanding (As of June 30, 1990), the same value used for the Aug. 31 issue of $586.71 mil. and for thrifts $107.8 mil.) $2.96 Wk Lo: the indexes 52-week high and low closing prices for the week. PE: the price-earnings ratio. It is the current stock price divided by the trailing four-quarter earnings per share adjusted for latest announced earnings. Mkt. to book: the ratio of the current day's closing price to the stock's book value, expressed as a percentage. Mkt. Chg.: the change adjusted for announced earnings and dividends. Chg.: the price at which the stock last traded. If no trades for the day, the latest bid. AB Bank and Thrift Indexes: A weighted average of the top 250 banks in market value and the top 50 thrifts in market value, respectively. Highlights show largest percent gainslosses in price; and two volume indicators show shares traded and today's volume as a percentage of average shares traded daily over the past year.

Data sources: SNL SECURITIES, Charlottesville, VA, 804-977-1600, produced the tables. Thomson News Network, Vienna, VA, provides SNL with the daily prices.

Selected Data from the Federal Reserve Board

From the New York Fed's weekly press release of August 30, 1990, ($bil.)

Monetary Aggregates*	8/20/90	8/13/90	Change	8/08/90	7/09/90	7/23/90
M1- weekly average	$ 817.6	$ 814.9	+$2.7	$ 813.0	$ 809.0	$ 807.5
M2- weekly average	3,306.4	3,299.9	+6.5	3,292.2	3,281.0	3,281.6
M3- weekly average	4,091.0	4,085.9	+ 5.1	4,083.2	4,073.0	4,073.8
M1- annual change:						
Latest 13 weeks	+2.2%					
Latest 26 weeks	+3.7%					
Latest 52 weeks	+4.2%					
Other data	8/20/90	8/15/90	Change	8/08/90	7/09/90	7/25/90
Business Loans*						
9 New York City banks	$ 59.0	$ 59.5	-$0.5	$ 58.2	$ 58.4	$ 57.2
Demand Deposits						
9 New York City banks	$ 47.6	$ 58.8	-11.3	$ 44.8	$ 55.1	$ 45.4
Commercial Paper						
All issuers

STOCKS

Despite the Slide, It's a Dry Season For Repurchases

By GORDON MATTHEWS

NEW YORK — The woeful share prices at many banks would seem a classic invitation to initiate stock repurchase programs, but few banks have done so. There are some important regulatory and capital reasons for reluctance in the industry:

• Many banks interested in expanding their franchises through deals with regulators for pieces of the disintegrating thrift industry want to preserve their capital for use in such transactions.

• In general, regulators tend not to encourage the employment of a bank's capital and liquidity for buying back stock, especially in period of economic uncertainty like the present.

Some Banks That Have Repurchased Shares This Year

- First Empire State Corp. Buffalo
- Michigan National Corp. Farmington Hills, Mich.
- CoreStates Financial Corp. Philadelphia
- First of America Bank Corp. Kalamazoo, Mich.
- MNC Financial Inc. Baltimore
- Puget Sound Bancorp Tacoma, Wash.

Source: American Banker

• A repurchase program could also narrow options for buying other banks in the future at a premium because of accounting difficulties, although a very big repurchase program would be necessary to cause significant problems.

• Finally, it is not clear that a repurchase effort effectively bolsters a bank's stock price when the general bank stock environment is as negative as it is now.

Nevertheless, some banks with a strong capital base have begun to enact programs. CoreStates Financial Corp. was the latest large bank to announce a stock repurchase program, initiating a program last week that would buy back up to 1.1 million shares of its stock.

A possible opportunity for increasing market share via the thrift route may be the reason First Empire State Corp., Buffalo, N.Y., among the most frequent repurchasers of its own shares, is not in buyback mode.

Some analysts have speculated that First Empire State may be interested in at least part of Empire of America Savings Bank, the large Buffalo institution in the possession of the Resolution Trust Corp.

First Empire's policy is to repurchase shares when possible rather than raise its dividend, which is among the banking industry's lowest. On Thursday, its shares traded at $53.75 but yielded only 2.2% on its $1.20 annual payout.

The company has mounted four buyback programs in the past two years, but a bank spokesman said Thursday there are no plans for another.

Acquiring another bank at a premium could present problems, since a large repurchase program could stop an acquiring bank from financing a deal with the pooling-method of accounting. The alternative is the purchase method, which can cause problems with goodwill and hurt future earnings.

Meanwhile, buyback programs cannot buck an overwhelming market trend. In February, Michigan National Corp., Farmington Hills, Mich., announced a major repurchase program, in an apparent effort to support its stock price, then $40.25.

Though the program caused a brief rise in share value, it did not keep Michigan National's stock from sliding. Thursday afternoon it traded at $27, up $1 on the day.

* * *

THURSDAY'S MARKET

Major bank and thrift stocks resumed their slide Thursday as the stock market plunged sharply in anticipation of the holiday weekend. Analysts said investors were selling equities because of the unsettled Persian Gulf situation. In late afternoon trading, the Dow Jones industrial average was down 40 points, to 2,593.

The biggest decliners were Manufacturers Hanover Corp., New York, off $1.125 to $24; First Interstate Bancorp, Los Angeles, off $1.125 to $27.75, and First Fidelity Corp., Newark, N.J., off $1 to $13.375.

CoreStates Financial Corp. also was hurt, falling $7.5 cents to $33.25 just before the close.

Citicorp and Bank of New York were the best performer of the money-center group. □

CAPITAL

Fed Seen as Unswayed by Rate Rise in Japan

By KELLEY HOLLAND

The Bank of Japan's decision to raise its discount rate may delay any easing by the Federal Reserve Board. But the Fed appears to be leaning toward reducing interest rates, and the Japanese move will not change that, economists and bankers said.

Higher interest rates overseas could prompt the Fed to hold to its current interest rate management strategy in order to keep foreign investors attracted to the U.S. market. But with domestic indicators pointing to a weakening economy, the Fed is likely to push U.S. interest rates lower eventually, experts said.

"At the end of the day, the Fed will have to deal with the domestic situation here," said Neil M. Soss, chief economist at First Boston Corp. The Bank of Japan's action "is a small push in the direction away from easing," he said, "but if the probability was 99%, it is 98% now."

A Relative Increase

Interest rates overseas have risen relative to U.S. rates. Since Jan. 1, the yield on 10-year Japanese bonds has risen nearly 200 basis points, on 10-year British bonds, 121 basis points; and on Canadian and German bonds, 102 basis points.

But 10-year note yields in the United States have risen just 82 basis points for the period.

Higher relative interest rates overseas create the risk that global investors will be sold out of the U.S. market. The rate differential could also cause the dollar to weaken as investors shift their U.S. holdings into higher-yielding bonds denominated in foreign currencies.

But the dollar held its ground in the wake of the announcement after the Japanese discount rate increase, from 5.25% to 6%. The dollar was trading at about 144 yen Thursday, compared to 143.55 yen Wednesday.



Fed Focusing on Economy?

The press of domestic economic concerns could well induce the Fed to ease sometime this quarter, economists said. "There's no doubt the Fed has to be somewhat concerned about the domestic economy," said Richard S. Peterson, chief economist at Continental Bank Corp.

To be sure, no one is certain the Fed is readying a rate reduction. But economists agree that the Bank of Japan's move will not hinder the Fed's ability to ease if officials think that will be condition of the domestic economy.

"It really would take more weak economic numbers to induce the Fed to ease," said William C. Dudley, senior economist at Goldman, Sachs & Co.

The timing of any easing is uncertain.

False Rumor of an Easing

Reports circulated in the federal funds market Thursday that the Fed might signal an easing that morning by selling system repurchase agreements. The Fed refrained from open market operations, however, and economists now expect no easing before August job statistics are released next Friday.

An easing would likely come early in September, some economists said. Inflation indicators, such as the consumer and the producers price indexes for August, are likely to show a sharp rise in inflation stimulated by the surge in oil prices after Iraq's Aug. 2 invasion of Kuwait.

* * *

MARKET MONITOR

A downgrading of the Bank of New York Co. by Moody's Investors Service will probably not affect the bank's funding strategies significantly, a spokesman said.

Bank of New York's long-term debt ratings were cut one notch, a change that is unlikely to affect materially the interest rates it would have to pay on new debt.

And although the bank's commercial paper rating was cut to Prime-2, from Prime-1, and the commercial paper market is less and less liquid for second-tier credits, Bank of New York has only about $600 million in commercial paper outstanding.

CalFed Inc. reacted with disappointment to news that Moody's had reduced its ratings on the California thrift's debt. The downgrading "is part of a pattern of lowered ratings for California banks and thrift institutions generally," the company said in a prepared statement.

Moody's cut CalFed's convertible subordinated commercial paper ratings were reduced to Not Prime, from Prime-3, and its long-term senior and subordinate-term note ratings were cut to Ba2, from Baa3. □

Regulators Deny BNE Seizure Is Imminent

Continued from *page 1*

the Labor Day holiday.

The remarks by the Comptroller were unusual — banking agencies normally do not discuss the possibility of bank seizures — and were prompted by widespread speculation the bank's demise was imminent.

"It is not true — Bank of New England is not going under this weekend," said Ellen Stockdale, a spokeswoman for the Office of the Comptroller of the Currency.

The Comptroller's office said it had been inundated with calls this week seeking information about Bank of New England.

The volume of calls jumped Thursday after a Massachusetts candidate for Congress, Ted Dimauro, released a statement saying that the Federal Deposit Insurance Corp. had recommended the closing of the bank.

"This is a sad day for Massachusetts as the FDIC has recommended the liquidation of Bank of New England," Mr. Dimauro's press release stated. Mr. Dimauro is running for the seat now held by Rep. Richard E. Neal.

The Comptroller's spokeswoman was critical of the Dimauro statement, saying such unfounded remarks can undermine financial institutions. "Things like this can make things happen," she said.

The company's stock closed Thursday at $1.125, down 50 cents. Some 1.3 million shares traded hands, six times more than normal, making it the most active stock of the day. After hovering between $2 and $2.50 for six weeks, the stock began falling early this week as speculation of a seizure grew. Since Monday, the stock has lost 47% of its value.

The rumors drove up the price of U.S. Treasury bills on flight-to-quality buying, Reuters reported traders as saying.

The effort by Lazard Freres and Goldman to find equity investors began roughly three weeks ago when regulators told the bank that its announced plan to swap most of its debt for equity could not be done with the bank's own money, sources said.

The bank has been selling assets to boost its thin capital ratios and had hoped to use some of those proceeds, particularly the $60 million to $80 million from a planned sale of its Rhode Island unit, to fund the debt-equity swap.

The swap is considered crucial to the bank's survival. Without the swap, the bank is burdened with $60 million in annual interest payments that, given its financial condition, analysts say it may not be able to pay. Roughly $28 million is due Oct. 1.

R.T. McNamar, Bank of New England vice chairman, would not confirm the amount of the equity offering and would say only that the equity infusion was one of roughly 10 recapitalization options being considered by the bank.

He said, "It is not a selected option. . . It's a possibility." He would not elaborate on what the other options were.

Lazard Freres and Goldman Sachs declined to comment.

Regulators had ordered the company to boost its capital ratios to 3% by May 31. That still has not happened, although regulators have not penalized the bank for not meeting the deadline. The company's capital ratio at the end of the second quarter was 1.64%. The company has $23 billion in assets.

James Dorsey, a spokesman for Bank of New England Corp., dismissed the rumors as "destructive and outrageous." The talk is another example of the "holiday rumor syndrome," Mr. Dorsey said, referring to previous speculation that the bank would be seized over holiday weekends earlier this year.

Robert Trigaux in Washington contributed to this report.

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