January 1996

Nevada BUSINESS JOURNAL

Nevada's Only Statewide Business Magazine

NEVADA BANKING

NEVADA BUSINESS JOURNAL
2127 Paradise Rd.
Las Vegas, NV 89104
* Address correction requested *

BULK RATE
U.S. Postage
PAID
Permit No. 1034
Las Vegas, NV

Nevada BUSINESS JOURNAL

PUBLISHER
Lyle E. Brennan

ASSOCIATE PUBLISHER – EDITOR
Connie Brennan

ASSOCIATE PUBLISHER – NORTHERN NEVADA
Eklof & Associates

ASSOCIATE EDITOR – ART DIRECTOR
Barbara L. Moore

SALES MANAGER
Justin Halliday

SENIOR ACCOUNT EXECUTIVE
Chuck Dandy

CIRCULATION/DISTRIBUTION
Jean Kopp

CONTRIBUTING EDITORS
Congresswoman Barbara Vucanovich
David Hofstede / Kathleen Foley / Forrest Ward
Tom Neubig / Terry Jacobs / Joe Mullich

LAYOUT TEAM
Jan M. Crandy / Sherri Beiser / Susan Radman / Sarah Zita

CORPORATE OFFICE
2127 Paradise Road • Las Vegas, NV 89104
(702) 735-7003

NORTHERN NEVADA SALES REPRESENTATIVE
Eklof & Associates
401 Court St., #7 • Reno, NV 89501 • (702) 323-8013

COVER PHOTO: by Tom Craig

The Nevada Business Journal is listed in Standard Rates & Data, #20A-Business-Metro, State & Regional. **NBJ** has applied for membership in BPA International.

Advertisers should contact Justin Halliday at (702) 735-7003 in southern Nevada, or Eklof & Associates at (702) 323-8013 in northern Nevada, or write to: **The Nevada Business Journal**, 2127 Paradise Rd., Las Vegas, NV 89104. Demographic information available upon request. Month-to-month circulation may vary.

The Nevada Business Journal corporate offices are located at 2127 Paradise Rd., Las Vegas, Nevada 89104. **NBJ** is published monthly, bulk postage paid. Subscription rate is $36.00 per year. Special order single-copy price is $3.50.

CHANGE OF ADDRESS: Please send previous address or mailing label & new address. Allow six weeks.

EDITORIAL SUBMISSIONS: Address all submissions to the attention of Connie Brennan. Unsolicited manuscripts must be accompanied by a self-addressed stamped envelope. **NBJ** assumes no responsibility for unsolicited materials.

DISCLAIMER: Editorial views expressed in this magazine are not necessarily those of the publisher.

Webster University:
the best career move in the Las Vegas area.

You don't have to be downsized, rightsized, riffed, or stiffed. Not if you're on the move.

Internationally recognized as an innovator in designing high quality educational programs for working adults, Webster University gives you the Las Vegas area's most flexible professional development options:

- Multiple degree programs and practical courses taught by professionals who actually work in the fields they teach.
- Evening classes that fit your job, travel, and home obligations.
- Lots of networking with faculty and students who are already successful professionals in your chosen field.
- Five terms a year to permit accelerated programs.
- Convenient four-hour classes that meet once a week for nine weeks.
- A unique global educational perspective from a respected private university with 50 campuses and more than 10,000 students worldwide.

Want to accelerate your professional standing? Call, write, or fax for detailed information on all the choices available to you at Webster.

Webster
UNIVERSITY
IN LAS VEGAS

▶ Please send me information about the following degree program(s):

MBA	MA	Programs in Las Vegas
☐	☐	Computer Resources and Information Management
☐	☐	Human Resources Development
☐	☐	Management

Evenings...
five terms a year...
nine weeks each.

Name

Address

City State Zip

Daytime Phone Evening Phone NEJ

Webster University
3430 E. Flamingo Road, Suite 350
Las Vegas, NV 89121
(702) 435-6660 FAX: (702) 435-4411

Accredited: North Central Association of Colleges and Schools

TABLE OF CONTENTS

January 1996

Volume 11 – No. 01

Features

ON THE COVER:
Las Vegas Business Bank's Al Alvarez, Tina Peraza, Gregory N. Manley, Sr. and Thomas Hodson.
page 10
Cover Photo by Tom Craig/Opulence

NEVADA BANKING

Departments

Congresswoman Barbara Vucanovich
page 23

The Battle for First Interstate Bank

by David Hofstede

The first big Nevada banking story of 1996 is also the last big banking story of 1995: the battle for First Interstate Bank (FIB). In one of the more prominent moves of the consolidation/ merger frenzy that has gripped the industry for the past five years, FIB, the nation's 14th largest banking company, landed on the Christmas lists of two other banks looking to establish a powerful West Coast presence.

Wells Fargo & Co. submitted a hostile bid of $10.83 billion, but FIB agreed instead to be acquired by First Bank System Inc. (FBS) of Minneapolis for $10.3 billion. Both offers top the previous high bid for a bank merger, the $10 billion combination of Chemical Bank and Chase Manhattan, but FIB selected the lower offer, according to published reports, because the two banks are more compatible, and would form a regional powerhouse with 1,515 offices in 21 western and midwestern states.

"First Interstate believes the strategic combination of First Interstate and FBS will create a dynamic, lower risk, multistate banking alliance that will provide substantial near-term and long-range value," said FIB Chairman and CEO, William E.B. Siart.

But Wells Fargo is not going away quietly. The bank filed its hostile bid with the Securities and Exchange Commission. If FIB shareholders reject First Bank System's offer, they could exchange their shares for Wells Fargo shares and a merger could be completed by the end of March.

"We believe it is unfortunate that a respected institution like Wells Fargo would jeopardize its reputation by ignoring our board of directors' carefully considered decision, and choosing instead to

recklessly pursue its hostile takeover proposal," said Siart. "We will not be deterred or distracted from completing our pending merger with First Bank."

If FIB is forced to defend its decision before the shareholders, the institution is prepared to name several factors in FBS' favor. These include the greater earnings per share and cash flow per share of an FBS combination, compared to a Wells Fargo combination; higher dividends per share; the reduced credit risk resulting from operations in 21 states under the FBS merger, as contrasted with the substantially greater exposure to the California market that would result from a Wells merger; the superior market position created by an FBS merger – a top three ranking in 10 states, as opposed to increasing FIB's top three ranking in only one state in a Wells merger.

Other factors include the substantial loss of revenue, when taking into account Well's public statements, that would result from proposed branch closings, other cost-saving measures and antitrust divestitures, not present in the FBS merger; the dependence of the value of the Wells offer on Wells' sustaining its price-to-earnings ratio relative to other high quality bank stocks, and Wells' use of purchase accounting for the transaction, which created additional goodwill in excess of $7 billion, substantially reducing future earnings and returns on equity.

The advantages of combining with FBS were outlined in a letter to FIB shareholders: "We expect the FIB/FBS company to achieve 1997 EPS accretion of 23 percent and a return on equity of 27.5 percent, with virtually no tangible book value dilution. Because cost reductions would be achieved through back office and staff cuts and systems integration, they can be accomplished quickly and with minimal impact to our customers and revenue. Under pooling accounting, the combined company will avoid the creation of goodwill and still be able to continue returning excess capital to shareholders through share repurchases.

"Regardless of who we ultimately merge with, we will continue to be the most successful bank in Nevada"

"The company will have a reduced risk profile and an expanded foundation for future business growth across our 21-state service territory. It will have an exceptional, low-cost deposit base and be a leader in pioneering alternative delivery systems. The combined company will be the number one ranked bank in the country in corporate cards, purchasing cards, corporate trust and ATM/POS, in addition to being among the top five banks in merchant card processing and asset management."

As of November 20, Wells Fargo has made three offers, all of them rejected, and observers wondered if either Wells or FBS have yet reached the top price they would pay, and how their respected shareholders would react to a higher offer.

Local reaction to the potential either/or merger is mixed: "I think the impact will be minimal, since the upper-echelon decision making (at FIB) has occurred out of state for some time," said Jim Bradham, president of American Bank of Commerce. "Assuming they don't have a substantial amount of management turmoil, they'll just be reporting to a different state."

But Bill Martin, president of Pioneer Citizens Bank, disagrees. "No matter who acquires FIB, you will see noticeable changes, banks have different customers they seek. The most obvious – will Wells Fargo or FBS lend to gaming? Also, Wells Fargo uses a lot of credit scoring for its small business loans, FIB does not; that changes the way people apply for loans, and the way they're approved."

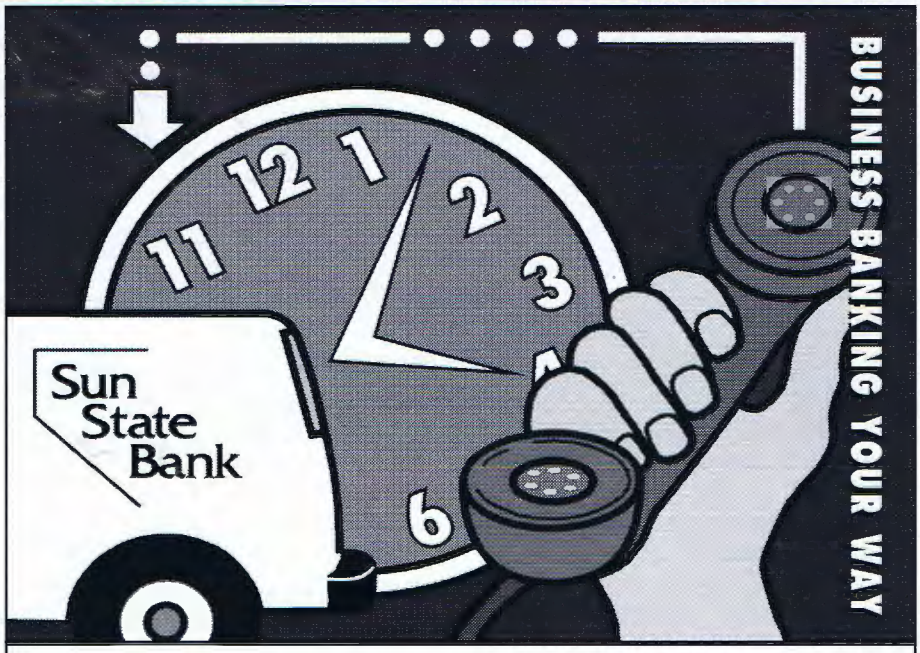
Another concern is not what will happen during the merger, but what will happen during the interim period of uncertainty, as FIB employees and customers alike await the outcome of the competition. Memories of how lending came to a virtual halt when Bank of America took over Valley Bank are hard to ignore. "Any merger could distract them from focusing on their customers," said PriMerit President Dan Cheever.

Clint Arnoldus, chairman and CEO of First Interstate Bank of Nevada, takes strong exception to such speculation. "We will continue to be active in the market, and to keep the same visibility that the bank has had. We plan to keep making loans and promoting new products, and do everything we've done to become the most successful bank in Nevada, and that policy extends from our tellers to our executive officers.

"Regardless of who we ultimately merge with, we will continue to be the most successful bank in Nevada – I'm very confident of that," Arnoldus continued. "Whatever happens is only going to make us bigger, smarter, faster and better."

When banks make the front page of the business section this year, what will the headline be? The growing popularity of home banking and other computer-related services should continue to make news. Although there is nothing on the horizon in new products or services that is of headline significance, 1996 may be the year consumers take advantage of services that already exist. "Many of these products have been available for ten years, the problem has been getting the customer to use them," says Jim Bradham.

"After (Microsoft Chairman) Bill Gates said banks were 'dinosaurs,' and announced plans to acquire Quicken, it scared a number of institutions, who have started to focus on new technology," says Dan Cheever. "There will always be



people who prefer to deal with a person, but a lot of younger people who use computers frequently are interested in high-tech products, and banks will be there to accommodate them."

Rapidly advancing technology not withstanding, consolidation is still at the top of the list, according to the experts. "No big failures, no major scandals, the next big story will be another merger," says Pioneer's Bill Martin.

"I would think it's almost a non-story that 1996 will be more of the same in high earnings and minimal loan losses for the banks in the state," says Jim Bradham. "Our growth and good economy should continue. But we'll see at least one more merger – possibly the acquisition of a large thrift in the state."

PriMerit's Dan Cheever points to a merger that has already happened, that of Norwest's acquisition of American Federal in Reno, as making news in 1996. "Norwest is a customer service-oriented institution with a good product line, that will challenge many of the larger banks for customers," he predicts.

How many more years can consolidation dominate the headlines? "We have a long way to go, if you compare our banking system to other major industrialized countries around the world," says Clint Arnoldus. "At one time we had more than 14,000 banks, where most countries have fewer than ten. Some of the unique banking regulations [that caused the high number] are now breaking down, so we should continue to see mergers for the next three to five years."

Although the trend is national, Nevada remains one of the more tempting targets of relocation. "Nevada is such an attractive economy that naturally many banks are looking at us," says Arnoldus. "Also, the gaming industry has expanded throughout the country, and has won more acceptance than it has traditionally received, so banks are more comfortable setting up business here."

Richard Etter, Bank of America: Banking 1996

by Kathleen Foley

"The banking industry will be very successful in Nevada during 1996," according to Richard Etter, chairman of the board and CEO of Bank of America Nevada. "Banks are mirror images of the economy. When the economy is good, people are able to make their loan payments, and business borrow money to expand. We feel that Nevada's economy is going to be strong for the foreseeable future." Southern Nevada's population growth has contributed to a growing economy, which Etter says is good news for banks. "Retail sales have been good, more people are relocating here every day, and the new hotels planned to open this year will create many more jobs," according to Etter. "Each job at one of the new hotels creates three more jobs in other areas of the economy."

He also cites geographical factors as a reason for his optimism about Southern Nevada: "Las Vegas has a great climate, and it's located in the heart of the Southwest, a short flight away from all its major cities. It makes good business sense for companies to use it as a business hub or regional office." The rise of the two-income household has also created more business for the resort industry, according to Etter: "People have stressful jobs, and work at a quick pace. They need getaways and three-day weekends to unwind. Southern Nevada's convenient location and low rates are ideal for this kind of customer."

Etter urges those pushing for diversification of the state's economy to be cautious not to disturb the balance between the tourism/gaming industry and the rest of the economy. "Nevada's low tax rate and absence of a state income tax make our state attractive to prospective residents and businesses," he points out. "But this unique situation is made possible by taxes paid by the gaming industry. If we disturb the balance of tourism and gaming in our state's economy, we cannot expect gaming to be able to carry the burden of state taxes." Etter claims that the state's economy is actually diversified in one sense, because tourists who visit here come from all parts of the world and from many economic backgrounds. A slump in one area of the country would therefore not greatly affect Nevada's income. As he says, the economy will remain strong.

"It is technology which will bring about the biggest changes in the banking industry," according to Etter.

During 1996, Bank of America Nevada's biggest thrust will be on improving customer services, according to its CEO. "We already have a commanding market share of the wholesale banking business: government entities, large businesses, major hotel/casinos," he explains. "Now we're going to focus more on individual consumers and small businesses." Bank of America Nevada can take advantage of name recognition for clients moving here from other areas. It has a moving program, in which customers from another state served by the BankAmerica Corporation can contact the bank in their home town and arrange to have their assets transferred to Bank of America Nevada.

Etter says his organization is moving quickly to position itself to take advantage of recent changes in the marketplace. For example, in the fall of 1995 regulations went into effect to allow banks to institute full interstate banking, including depositing funds in one state to be credited to an account in another state. Etter says Bank of America Nevada is in the process now of instituting procedural changes to allow them to make the transition to full interstate banking. "It is technology which will bring about the biggest changes in the banking industry," according to Etter. "Customers will be able to bank by phone. They can conduct banking in many different places, like grocery stores and storefront locations. Banks have been taking deposits at teller windows for a hundred years, but traditional banking will change quickly in response to technological innovations."

Al Alvarez and Las Vegas Business Bank: Bring Big Business Experience To Small Business

Over 27 years, banker Al Alvarez worked his way from the corridors of big international businesses to the doorsteps of small local businesses, from the executive headquarters of corporate banking to the accessible offices of community banking.

This might seem an unconventional career path until one considers today's phenomenal growth of small business – and the surge of local community banks to service small business.

With keen foresight and an in-depth understanding of what makes businesses – large or small – successful, Alvarez has helped build many companies throughout the Las Vegas Valley and, in the process, helped improve the local economy.

In his new position as president and chief executive officer of Las Vegas Business Bank, Southern Nevada's newest bank, Alvarez continues to demonstrate his commitment to small business and prove there is a need for another state-chartered community bank geared toward assisting small business and professionals.

Alvarez, the bank's board of directors and his staff have specifically tailored their banking services to the financial needs of small businesses and area professionals.

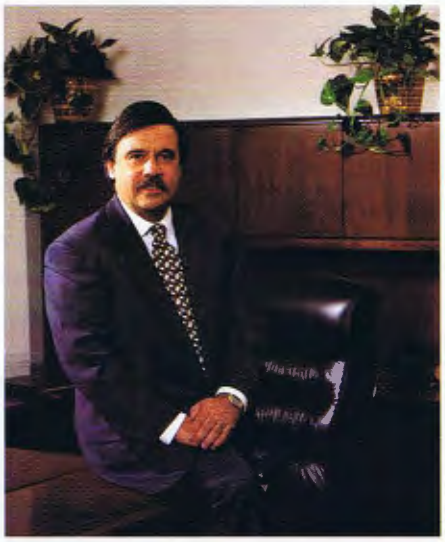
"Small business is the evolution or, perhaps I should say, the revolution in this country. It's where today's growth is, the potential is, the excitement is, particularly as corporations downsize." says Alvarez.

"Nine out of ten businesses in this country are considered small businesses," he adds. "And Nevada is no exception."

Even with the opening of four community banks within the past two years, commercial banking is a niche in Las Vegas' rapidly-expanding economy that has yet to become over-saturated, Alvarez says.

Evidence of his confidence is the bank's noteworthy initial growth. Within four weeks of the bank's opening, the bank's assets expanded to $9 million, or 39 percent, which was more than was targeted in the bank's exhaustive business plan.

With that rate of growth, the bank's goals for the first 12 months of operation



"Small business is the evolution or, perhaps I should say, the revolution in this country. It's where today's growth is, the potential is, the excitement is, particularly as large corporations downsize."
— Al Alvarez

are certain to be surpassed or, perhaps, even doubled, he says.

Alvarez was raised and educated in New York. A summer job between college semesters at a New York City bank 27 years ago established his interest and aptitude for banking.

When he graduated, after four years of juggling business and finance classes around his work schedule at the bank, the bank offered to pay his way through graduate school.

During the course of his career, Alvarez worked his way from big to small. In New York City, Alvarez handled multi-million-dollar accounts in the garment and jewelry trades, some of which involved international assignments.

Then, he was recruited by the U.S. Department of Commerce to become deputy director of its New York City offices. There, he directed financial analysis, time and motion studies, and management evaluations for corporate clients.

But big is not necessarily better, says Alvarez. "Real growth in the economy is in small business," he says. "In a relative sense, corporate banking is easy. You apply your models and study the numbers. It's like being in grad school forever."

Burnt out by New York City and bored with corporate work, Alvarez and his wife, Mona, headed west. For several years, as an officer at Valley Bank, Alvarez handled casinos, corporate clients and bank branches as he worked on creating Southern Nevada's first commercial lending centers.

By his account, Valley Bank's commercial lending centers were the first in the area to actively court small and mid-size businesses. Until then, he says, area financial institutions practically ignored small business portfolios.

The idea of pursuing small business was, at the time, an increasing trend across the country but an idea that had yet to take hold in Nevada.

Within six years, Valley Bank's commercial lending centers grew from a portfolio of $14 million to over $400 million, an achievement Alvarez humbly calls "very gratifying."

"Of course, at that time big banks didn't have the competition from community banks, which they face today," he adds with a smile.

According to Alvarez, community banks are now taking over some of the turf of large banks. It is a claim that may be documented by the phenomenal growth of small community banks and may be reflected in the recent decreasing assets and deposits in the area's largest financial institutions. Looming mergers of big banks into monolithic banks is already causing many small business customers to search out smaller institutions that can provide the personalized services needed.

"Area businesses and consumers all benefit from growth in the financial community. A new community bank always inspires improved service and better products," says Alvarez.

Although Las Vegas Business Bank and its competitors are, well, highly competitive, Alvarez points out several deals that

his bank and other community banks recently teamed up to fund.

Where Alvarez feels his bank has an edge is with the Valley's professionals: primarily physicians, attorneys and accountants. The bank is strategically located near Sunrise and Desert Springs Hospitals. In addition, six members of the board are respected area physicians.

"For a long time in Las Vegas, building the business of professional banking was all but ignored," says Alvarez. "Big banks tended to pursue the good-old-boy professional and ignore the new professionals in the area who often were just getting out of school and starting up their practices."

But professionals in the community have matured," says Alvarez. "They've paid off student loans, acquired some wealth and now need personalized banking and financial services to protect and build their capital.

"Professionals and small business owners are expected to be experts on everything from management to strategic marketing to finance. But in today's changing economy, understanding it all takes considerable time, especially when you weigh the many financing and investing options available," says Alvarez.

"There are few things more thrilling than showing someone the options of opening the door to increased opportunity," he says. "That is the motivation behind Las Vegas Business Bank."

One of the small business successes Alvarez recalls with pride is a retailer who was granted a loan of $25,000 shortly after he started the business.

"On paper, he wasn't a good risk. He was young, with very little capital, and he was embarking into a high-risk, competitive retail market. But when you looked beyond the paper, it was evident that he was ambitious. The guy was working seven days a week."

The initial $25,000 loan helped start a business that is worth $20 million today, says Alvarez. "It's a great example of how the financial industry can build businesses and the economy and what the Las Vegas Business Bank intends to do."

Deregulation: A Date with Destiny

by Forrest (Bud) Ward

The United States is one of the few countries where consumers still have to deal with multiple entities to obtain their financial service products. Why is it taking so long for banking and insurance products and services in the U.S. to be offered by a single institution?

As Congress again takes up the thorny issue of deregulation, emotions on this topic are running high, with the opponents and proponents of the separation of banking and insurance jockeying for position. A blurring between bank and insurance products is under way in the marketplace, with banks generating substantial revenue from the sale of annuities and some banks experimenting with new products like retirement CDs.

History shows market forces will find a way to circumvent regulatory and legislative restraints that impede the natural evolution of the marketplace. Whenever regulation creates an imbalance in the market, nonregulated competitors will seize the opportunity to grab profitable market share, causing *de facto* deregulation that may eventually be acknowledged by legislation. This natural evolution of the marketplace should be kept in mind as the debate over deregulation intensifies.

As Congress once again takes up the thorny issue of deregulation, emotions on this topic are running high, with the opponents and proponents of the separation of banking and insurance jockeying for position.

Up from the Ashes

The history of the banking industry illustrates the power of the forces at work in the marketplace. The banking system, as we know it today, arose from the ashes of the Great Depression of the 1930s. Shortly after that watershed event, the industry enjoyed a 30-year period of relative stability. Interest rates and inflation were generally low, banks tended to be homogenous with little innovation or change and the industry was highly regulated. Relatively few banks failed – only 110 altogether from 1942 to 1982.

In the early 1960s inflation reared its head, driving up interest rates. Quickly, the banking industry became highly volatile. Banks were prohibited from paying competitive rates on deposits, spurring new competition in the form of money market mutual funds, which quickly gobbled up market share. In fact, four years after its inception, the Merrill Lynch Market Fund went from having zero deposits to deposits that exceeded the total assets of the largest U.S. bank.

To counter this assault, banks asked regulators and Congress to level the playing field by regulating the competition. But deregulation was the watchword in the Reagan era of the mid 1980s, so Congress responded by deregulating the interest rates banks and thrifts paid on deposits. This created a huge problem for the thrifts, which had their assets in long-term, fixed-rate loans.

Soon, institutions with negative net interest margins and losses began to topple until the late 1980s, the savings and loan crisis touched off the largest government bailout in history. Congress then passed two new laws that tightened the regulation of the banking industry, and as inflation and interest rates began to decline in the early 1990s, the financial institutions that survived quickly regained their health.

Market Forces at Work

Throughout this entire time period, up to and including 1993, Congress passed only two pieces of legislation that could truly be considered deregulation – the bills allowing banks and thrifts to pay market rates of interest on deposits. And yet, many believe the banking industry already has undergone deregulation. Actually, the deregulation that has taken place so far is the result of market forces, not legislation. If anything, the legislative agenda has simply acknowledged what has already occurred in the marketplace.

In the early 1970s, the banking industry had a market share of approximately 50 percent for deposit products. Today, that percentage is under 25 percent. Market share was lost to new competitors – including mutual funds, pension funds, investment banks and insurance companies – that did not carry the same regulatory burden as the

banking industry. In addition, new products and services developed, blurring the distinction between deposits and investment products. For example, is an annuity an insurance product or a deposit? Is a mutual fund an investment or a deposit?

Now, as Congress once again takes up the issue of banking and insurance, several crucial issues should be considered in the context of banks' prior experience. Why do banks want to become involved in insurance, and how do they expect to benefit? What dangers and pitfalls will they face? And who will be the ultimate winners and losers if banks are granted the powers they seek?

Impact on Bank Operations

One way to address these issues is to examine how acquiring insurance powers would affect the primary functions of a financial institution – assets and liability management, and product distribution/customer interface.

Asset management/Investment opportunities. Currently, the banking industry has a record level of capital, so the real question is what assets can banks invest in to obtain the best return for shareholders. The insurance industry offers few advantages over banks in the asset arena, since the typical insurance company invests in assets similar to those in which banks currently invest. Therefore, few banks are seeking insurance power to improve asset structure or investment opportunities.

Liabilities/sources of funds. The liability side presents an entirely different story. Banks' dependence on short-term, volatile funds has increased by almost $200 billion in the past three years – a growth rate double that of core deposits. This explains why banks are more interested in annuity products– which can provide a low-cost, stable source of funds – than in either property/casualty or life insurance products – in which the use of funds is severely restricted by regulations.

Distribution/customer interface. Banks have a huge distribution system close to the customer both physically (through branches and ATMs) and electronically (through telephone and home banking). In theory, banks should be able to use these resources to provide insurance products to customers at a lower cost than insurers, while at the same time improving customer service.

If consumers can obtain insurance products more conveniently and at lower cost, it should be a win for the consumer. If banks can generate fee income by allowing insurers to use their distribution system to provide their products to more consumers – and at a lower cost – it should be win for the insurance industry.

If this is a "win-win" proposition, why is there any opposition? Obviously, independent agents feel threatened because they fear a banking distribution system could make their role obsolete. Yet the discount brokerage business did not eliminate the need for securities dealers and brokers. While discount brokerage does serve a certain segment of the market, an entirely separate segment still uses salespeople or brokers and pays normal commissions.

In reality, brokers or independent agents who can benefit the customer will survive and will continue to be paid for the value they add to the distribution process.

In fact, given the banks' less than outstanding record in providing discount brokerage and mutual funds to consumers through existing distribution systems, some believe a deregulated financial services system would provide insurance agents with a distinct marketing opportunity in areas where customer service and product expertise are important.

The Product Perspective

Another way to look at banks' interest in insurance is from the product perspective, since some products offered by insurers clearly are more attractive to banks than others. Historically, banks have not done well in entering new businesses if they did not understand the fundamentals involved. Bankers are reluctant to expand into products or services not consistent with core competencies. In fact, today the trend is for banks to outsource such activities. How would this mindset affect banks' insurance product preferences?

Property/casualty insurance. Most bankers would say they have no experience or expertise whatsoever in property/casualty products, an insurance segment viewed as highly volatile and unpredictable in terms of losses. So even if banks were given permission to underwrite property/casualty insurance in the foreseeable future, which is not likely, banks probably would have little interest in underwriting these products. Introducing this type of volatility to a banks' earning capacity would adversely affect market-value perceptions. On the other hand, many banks will be interested in receiving fees from insurers for the use of their distribution system to sell this insurance to bank customers.

Life insurance. Unlike property/casualty risks, banks believe the underwriting risks associated with life insurance can be reasonably predicted using actuarial techniques. While the use of mortality tables would be new to banking, the use of actuarial concepts is not. Banks have long used actuarial techniques to predict potential loan growth and loan losses in consumer portfolios. In fact, it could be argued the management of a credit card portfolio or a single-family mortgage portfolio requires an understanding of actuarial concepts to manage risk and to operate profitably on a long-term basis.

But while banks may be comfortable with running a life insurance business, the question is whether life insurance can be profitable enough for banks given the intense competition, the restrictions on the use of funds received from premiums, and the substantial investments in new technologies that banks would require to compete. The 64 largest banking companies (each with total assets in excess of $10 billion) had an average return on equity (ROE) of 15.5 percent for 1994, and seven had ROEs in excess of 20 percent. Would a life insurance business help or hurt a bank's ROE?

If banks were given the power to enter the business, it appears unlikely that they would set out to build a de novo life insurance operation. The start-up costs, the cost of building market share, the lack of industry expertise, the absence of systems and infrastructure to support an insurance business – all of these barriers, plus many more, suggest that de novo is a no go. This is an area where a marriage between a large banking company and a large insurer could provide long-term opportunities for both parties. Insurers could take advantage of the customer base of the distribution powers of the bank while the bank could leverage the expertise of the insurer to better deliver new products to a "warm" and friendly customer base.

Annuities and other "non-insurance-insurance" **products.** In *NationsBank v. VALIC,* the Supreme Court ruled that annuities were investments, not insurance. But do consumers really care whether their annuity is from an insurance company or a bank, or are they more concerned with yield and safety?

While insurers' safety has been seriously challenged in recent years, banks are currently considered safe by depositors now that the jitters caused by the S & L crisis have eased. The recent strong performance of the industry, and the nominal losses of depositors in the last down cycle, have calmed the fears and predictions of doom that made headlines during the last presidential election.

Many banks are already offering annuities to their customers. For example, BankAmerica alone sold $1.2 billion of annuities in 1994. But annuities, as valuable as they are to banks, are not the only "noninsurance insurance" product. Banks have been allowed to offer other products that blur the distinction between insurance and banking, including municipal bond insurance, debt cancellation contracts and so-called retirement CDs. Although recent tax rulings are likely to halt the sale of retirement CDs, we can expect increasingly open competition and blurring of the distinction between bank and insurance products.

A Winning Combination

So what is best for the consumer? Should we seek ways to provide the best products to customers in the most convenient manner and at the lowest cost? Does the continued separation between banking and insurance achieve that goal?

Experience tells us that regulatory barriers will continue to be eroded by the marketplace. Those who resist the changes demanded by the marketplace are likely to become financial dinosaurs. The leading financial services institutions of the future will be those that respond to change and find a better way to provide the products and services the consumer wants at a lower cost and in a more convenient fashion. If the banking and insurance can work together with those goals in mind, we can create a winning combination for both industries.

Forrest (Bud) Ward is national director of Ernst & Young's Financial Services Industry practice.

The Tax (Reform) Man Cometh

by Tom Neubig and Terry Jacobs

The tax reform man is coming to Washington, and insurance executives who think they can elude his icy grasp are in for a chilling surprise. While a sweeping overhaul of the tax system will not occur overnight, the Congressional hopper is already filled with proposals that seek to "pull the income tax up by its roots and throw it by the side of the road" – the goal articulated by House Ways and Means Committee Chairman Bill Archer (R-Tex.). Proposals that seek to replace the individual and corporate income tax – usually with some type of broad-based consumption tax – would have far-reaching effects on insurers' product designs, sales techniques and profitability, as well as their competitiveness with other financial institutions.

Over the past three decades, the U.S. income tax system has been revamped periodically, with the last major revision in 1986. But since then, the system has grown more complex and burdensome, especially in the areas of financial products and international business. Taxpayer compliance costs now are estimated to exceed $200 billion a year. These huge costs, in conjunction with the fallout from the major tax increases in 1990 and 1993, have increased the appeal of switching to a consumption tax.

Proponents of consumption taxes say they are simpler, promote savings and investment, exempt exports, tax imports, capture revenue from the underground economy, and minimize dreaded taxpayer encounters with the IRS. But these desired benefits may be too good to be true, for any consumption tax proposal that survives the political process could end up being anything but simple.

As an alternative to a consumption tax, House Minority Leader Dick Gephardt (D-Mo.) has suggested implementing a low-rate, broader-based, and simpler income tax. Under this proposal, three-quarters of all taxpayers would pay taxes of only 10 percent, and the tax base would be broadened by taxing employer-provided health insurance and increasing the corporate income tax. So far, the idea of simplifying the income tax has not received much attention, but it too will be part of the evolving debate.

A Beast with Many Heads

None of the tax reform proposals put forth so far is a clear front runner. In fact, the half-dozen tax bills now on the table are strikingly different in their approach and scope.

With respect to consumption taxes, the most familiar versions are the retail sales taxes in effect in many states and the value-added taxes (VAT) in Europe and Canada. Some 45 states rely on retail sales taxes, which have relatively narrow tax bases since they exclude many goods and services. Sen. Richard Lugar (R-Ind.) has proposed a national retail sales tax that would be administered by state governments.

In Europe, many countries have adopted a "credit invoice" VAT to expand the tax base and avoid the tax cascading through the production and distribution chain that is caused by gross receipt taxes. A credit-invoice VAT is a multistage sales tax in which a tax is applied to the value added at each stage of the production and distribution processes, with a credit for taxes paid on business inputs. European VATs, however, contain many exemptions and multiple tax rates, reflecting compromises made for political reasons. To avoid these problems, U.S. politicians have tried to move away from the European model in their own consumption tax schemes, which include the following iterations:

A business value-added tax. Several congressional proposals, including those by Rep. Sam Gibbons (D-Fla.) and by Sens. Pete Domenici (R-N.M.) and Sam Nunn (D-Ga.) call for a "subtraction method" VAT to be paid by businesses. Under this approach, the tax base is formed by business receipts from domestic customers, less purchases from other businesses. This latter deduction removes any tax on intermediate purchases, thereby taxing a business's value added, similar to the credit-invoice VAT.

A major advantage of the subtraction method is that the tax is imposed at the entity level, rather than on each individual transaction. Also, an annual subtraction-method VAT could be easily imposed on companies through a revision to the current 1120 forms.

For most nonfinancial companies, however, a value-added tax base would be much greater than the current corporate income tax base. Although capital investments would be deducted currently (expensed), no deductions would be allowed for employee compensation or for most interest expense. Thus, unless such a tax could be passed on to customers through higher prices or to workers through lower compensation, it would have an adverse impact on profitability.

Depending on the tax rate set, a value-added tax also would likely increase taxes for financial services companies. Most proposals have not fleshed out the tax rules for financial service providers, but would attempt to tax their value added from financial intermediation and insurance. For insurers, measuring value added raises difficult and crucial issues of appropriate deductions for reserves and claims.

A tax on consumed income. In addition to their business tax, Sens. Domenici and Nunn also have proposed a "consumed income" tax for households, with tax rates ranging from 8 percent to 40 percent. Their consumed income tax would start with total income from the current 1040

form, but would include the cost of employer-provided fringe benefits. Taxpayers would be granted the equivalent of an unlimited IRA deduction for net increases in household savings. Additions to savings would be deducted and not subject to tax until withdrawn. Deductible savings contributions include premiums for life insurance and annuities, as well as bank deposits, and purchases of mutual funds, stocks, bonds and CDs.

A "flat tax," or two-tier consumption tax. In contrast to a value-added tax, House Majority Leader Dick Armey (R-Tex.) and Sen. Arlen Specter (R-Pa.) have proposed a flat tax under which wages and pension benefits are taxed at the household level and the remainder of value added is taxed at the business level, with businesses allowed a deduction for wages and pension contributions. A two-tier tax is made progressive by providing family allowances and exemptions against the wage tax.

Eyeing the Impact

In this formative state of tax reform, the key issues for the insurance industry could easily get lost in the complex details of the various plans. The two pivotal issues for insurers are how reform will influence the competitive position of their products *vis-a-vis* those of other financial institutions, and how it will affect their overall tax burden and profitability.

With respect to consumers, insurers must assess whether reform would increase the investment dollars flowing to the industry or create additional competition for new business. An increase in insurers' tax burden also could have a severe negative impact on the profitability of in-force business, unless wages were reduced to recognize taxes saved at the individual level, or product prices are adjusted, as was generally done for the deferred acquisition cost (DAC) tax. Specific issues include:

The implications of replacing income taxes with consumption taxes. Most tax reformers support consumption taxes to replace the income tax, not as an additional levy. But for insurers, replacement of the income tax would have momentous implications because of the loss of the current favorable tax treatment of insurance products. Life insurers could see an immediate shift in the attractiveness of, and demand for, such products as annuities, whole life insurance, retirement vehicles and employer-provided health insurance.

With a pure consumption tax, insurance products would lose their distinctive status in the marketplace because banks, mutual funds and securities firms would be able to sell tax-deferred investment products similar to those offered by insurers. Increased competition would put more pressure on insurers' sales as well as agents' commissions, spurring a reexamination of the product distribution system.

Moreover, a pure consumption tax would wipe out the special tax treatment of retirement assets, giving short-term savings the same deferral as retirement savings. While such a change would obviate the need for complex pension rules, it could reduce employee and employer funding of retirement plans and wreak havoc in insurers' asset/liability matching because of early withdrawals and shifts of funds out of retirement plans.

A pure consumption tax also would tax employer-provided fringe benefits, including health insurance, at either the business or employee level. A value-added tax would include fringe benefits in the business tax base by denying employers a deduction for purchases of employee benefits. So most of these proposals would increase the cost of providing health insurance for employees.

The impact of such dramatic changes in the employer's role of providing health insurance is hard to envision, but might include accelerating the trend to higher deductibles and co-payments or shifts away from indemnity plans. More likely, with the current tax advantages to both employers and workers removed, employers would rethink whether they should continue to provide fringe benefits or just substitute higher wages.

Property/casualty and life insurance could end up being heavily taxed at the insurer level if a consumption tax applied to the entire premium, including the portion for claims payments and death benefits. To be comparable to the tax on other goods and services, a consumption tax would have to apply only to the administrative services element of insurance products, not the risk transfer or savings

element. The proposals generally recognize this issue, but most have not spelled out how the administrative services element will be measured.

Tax treatment of financial service providers. Countries with credit-invoice VATs generally have not included financial services in their tax base, although many fee-based services are included. Of all countries with credit-invoice VATs, New Zealand is the only one that taxes insurance, and then only property/casualty insurance. While many nonfinancial businesses would find a consumption tax much simpler than the current system, the rules for measuring the value added from financial intermediation would be daunting.

It appears unlikely that Congress would scrap the corporate income tax and exempt financial service providers without imposing some form of compensatory tax, such as a premium tax, as is done in some other countries. Therefore, any jubilation over shrinking corporate levies is premature.

The current congressional proposals envision taxing financial service providers, but the mechanics for doing this are still being worked out. The still-evolving Nunn-Domenici proposal, the most detailed plan of this type, would tax banks and other regulated depository institutions under a "subtraction method" approach, while insurers and other financial intermediaries would be subject to a "cash flow" approach. The biggest difference between the two methods for insurers is the timing of the deduction for investments held to pay future claims. The cash-flow method provides a deduction when funds are invested, while the subtraction method requires defining allowable reserve deductions.

While these two approaches may be similar in theory, in practice there would be significant differences in the timing of tax payments. And with a potential level playing field for the taxation of financial products at the household level, even small differences in the tax treatment at the company level could cause serious tax-induced competitive disadvantages for insurers.

Transition issues. The transition rules needed to move from an income tax to a consumption tax base constitute one of the biggest hurdles for proponents of a consumption tax. Primary among the barriers to quick adoption is the issue of which groups may pay more or less tax and the battle needed to eliminate favored deductions and credits.

Many transition issues are related to the way in which households and businesses have responded to the current income tax through their choice of investment portfolios (tax-exempt bonds, retirement plans), their selection of fringe benefit packages, and their tax-planning strategies (life insurance for estate tax planning, corporate-owned life insurance). The repeal of income taxes would create large windfall gains and losses from asset price changes driven by a changed tax regimen. Such windfalls might be mitigated by transition rules and phase-ins, but a multiyear transition to a new tax system would increase complexity and compliance costs for taxpayers.

Transition rules are important for households, such as the elderly, that have accumulated assets out of after-tax income and now would be subject to tax on their consumption. For businesses, the transition rules applicable to tax reserves, net operating losses, unexpired tax credits, and unrecovered basis in depreciable property, will be major issues. Also, the accounting recognition of a new tax and its transition could have dramatic effects on insurers' financial statements. Thus, for insurers, the transition rules may be as important as the legislation itself.

Don't Be Caught Napping

While the total impact on the insurance industry will depend on the specifics of any plan adopted, tax reform – if enacted – will bring about fundamental change for insurers. The proposals submitted so far raise many unsettling questions, including:

- Will in-force policies have higher than anticipated lapses or surrenders, and what will be the financial impact on the company?
- What will happen to the sales of individual and group pension products if all financial investments and savings receive the same tax treatment?
- How will the health and long-term care insurance markets be affected if employer-provided health insurance is taxed at the business and/or household level?
- How will tax reform affect the value of existing investments such as tax-exempt bonds, mortgage-backed securities and equities?
- What will be the effect on distribution networks if the service component of financial services is taxed?
- What impact will the changing demographics have on all these issues?

The tax reform debate is just beginning. While hearings have been held, and a Congressional commission is sifting through the various proposals, no legislative action is likely until 1997 at the earliest. But industry input into these initial proposals is vital to ensure financial services are taxed in an equitable and simple manner. Since consumption taxation of financial services would be unique to the U.S., other countries' experiences are not directly applicable. Several insurance trade associations are currently studying the implications of the different proposals, and CEOs should use these analyses to begin staking out their position on reform.

The insurance industry cannot be caught napping when tax reform arrives. A simpler tax system – one more conducive to growth, exports and savings – could be achieved under either a consumption tax or a revised income tax system, but it is already clear that a consumption tax would have a far greater impact on insurers than would proposals to simplify the income tax. Given the potential impact of reform, insurers must stay on top of this issue and play an active part in helping to shape the progress of the debate.

Tom Neubig is national director, Tax Policy Economics, and Terry Jacobs is national director, Insurance Industry Services for Ernst & Young. Both are in the firm's Washington, D.C. office.

James Adamany: First Community Financial

by Kathleen Foley

President and founder of First Community Financial Corporation, Jim Adamany, admits to working long hours, because "my life is my business and my business is my life. It's more than just making money," he smiles. "It's meeting and helping people to realize their dream. It's an intimate, passionate involvement."

Jim Adamany founded First Community Financial in 1985, and now maintains an average loan volume of $35 million a month. Based in Phoenix, First Community also has offices in Las Vegas and Salt Lake City. They have chosen the fastest growing cities in the West for their business because there's more room for asset-based financing for growing companies whose need for operating capital exceeds their current borrowing power through traditional banking sources.

"For a small company," he reports, "getting a large contract can cause serious problems, because they may not have the cash to hire additional employees and buy the materials and equipment necessary to complete the job. Conventional lenders will usually judge them on past performance, rather than seeing the potential available to them if they can complete their contract. That's where we step in. We fill a gap in the evolution of a business's growth, and without us many of these small companies wouldn't make it over the rough spots. It's gratifying to see them make use of our services to get through temporary difficulties, and then take off like a rocket. They come back to us after they've become successful, and express their gratitude. That makes all the hard work worthwhile."

Borrowers are typically emerging companies with insufficient cash to fund rapid growth, highly leveraged companies unable to secure bank financing, or enterprises that have limited or no historical earnings. "Conventional financial ratios, a company's working capital position and length of time in business are secondary," states Adamany. "We look behind the figures – at management expertise and commitment, growth potential, and the quality of a company's accounts receivable." His company has provided financing to businesses that previously incurred losses or have been through a bankruptcy proceeding. Funding ranges from $25,000 to $1 million, with larger loans available through a participation program with other lenders.

James Adamany

First Community Financial provides working capital chiefly through revolving loans against accounts receivable and inventory. They may loan up to 80 percent of the value of the accounts. Each day collections are remitted to First Community as customers pay their accounts, and the loan is paid down. Since the loan revolves, a company borrows only what it needs and when it needs it. Transactions can typically be funded within two weeks of receiving financial information, and advances are made into the client's bank account the same day requests are received. In addition to revolving lines of credit, First Community also offers financing through the purchase, or factoring, of the clients accounts receivable. The funds advanced by First Community are repaid through the collection of the receivable.

First Community has set up a computerized system to monitor each client's accounts receivable on a daily basis. "They provide us with a written update each day on sales and collections," reports Adamany. "In return, they get money each day to meet their needs. Daily contact with clients is important, because we can get a good overview of their situation, but it's also good for the client, because they know they can contact us with questions and we'll be there for them."

Adamany emphasizes that First Community is not competing with banks, but rather cooperates with them. He estimates that 80-90 percent of his business results from referrals by regulated financial institutions. "If a bank is not in a position to meet it's client's cash flow needs," he reports, "they can still say 'yes' by recommending First Commercial. Once the client has built up his financial statement, he will return to the bank as a regular commercial loan customer. We only offer one service, and they need the bank for the other services it can provide."

Adamany earned his finance degree from the University of Wisconsin and received a Master of International Management from the American Graduate School of International Finance. He has over 22 years experience in the commercial finance industry, including a position as the senior vice president in charge of the commercial finance/asset based lending department of Great Western Bank. He is married, has two children, and admits to being almost as excited about a good golf game as he is about his business – but lending money to help others achieve their goals will always be his great passion.

Nevada State Bank Leads the Way in Supermarket Banking

Nevada State Bank continues to change the face of supermarket banking. Its newest branch near The Lakes district leads the way by providing an environment comparable to those found at traditional branch banks, but in a supermarket setting and with customer-oriented service hours.

"We were the first bank in Nevada to enter a supermarket more than six years ago. This new branch proves we will continue breaking through the status quo in customer service," said George B. Hofmann, president of Nevada State Bank. We want customers to see a supermarket branch as more than just a place to open a checking account, but as a full-service office where loans can be transacted, securities purchased, money-market portfolios developed, all the while enjoying the professional, private environment expected with financial transactions."

To this end, Nevada State Bank designed its Sahara-Durango branch, located in the Smith's Food and Drug Center at 8555 W. Sahara Ave., around the idea of providing as much privacy as possible. The company accomplished this by incorporating an enclosed loan room, a secluded new-accounts desk and a more intimate teller console.

Further increasing the allure of banking at this branch is its boardroom-style interior, which uses stately, mahogany pillars and paneling, as well as marble countertops and marble accents.

"Simply put, banking at this branch feels no different than if you visited a traditional branch, but we are open seven days a week," said Jacque Griffin, Nevada State Bank branch manager a Sahara-Durango. "This also applies to the full menu of products and services available at this branch. So, no matter what your needs are, our bank branches can meet them."

The Sahara-Durango branch, which is open from 10 to 8 weekdays and Saturdays; and Sundays from 12 to 5, marks Nevada State Bank's 25th branch statewide. In this year alone, the bank opened branches in Elko, Mesquite and Gardnerville. The institution also opened its regional banking center in Reno.

Silver State Schools Federal Credit Union

Started out of a briefcase in 1951, Silver State Schools Federal Credit Union (SSSFCU) has grown into Nevada's third largest credit union, with over $114 million in loans and over $209 million in assets. SSSFCU is member-owned, with its board of directors comprised of seven credit union members.

As the Las Vegas community has experienced remarkable growth, so has SSSFCU. Annual loan growth has been 23 percent and 31 percent in the last two years, respectively. Membership growth now stands at more than 31,000.

Such growth has resulted in a need for facility expansions. In 1995, two new storefront branches were opened to serve the Henderson/Green Valley and Nellis/Sunrise Mountain communities. In 1996, a remodeling/expansion project at the credit union's main office will be complete, providing members and staff with over 45,000-square-feet of office space.

Recent technological innovations include a state-of-the-art phone system, a computer network connecting all branches and offices, a streamlined automated loan processing system, and branch offices equipped with 24-hour ATMs. Plans for the near future include a VISA debit card and a voice response system offering such new services as loans by phone and automated bill paying. Eventually, SSSFCU will offer home banking.

Members can currently take advantage of a variety of both deposit and loan products. For depositors, SSSFCU offers share savings, checking, insured money market, IRA shares, share certificates and jumbo certificates. Loan products include VISA classic and gold cards, mortgages, home equity loans, signature loans, and new and used auto, boat and recreational vehicle loans.

The first SSSFCU members were Clark County teachers and other district employees, still one of the primary groups served by the credit union. Others eligible for membership include Lincoln, Nye and Esmeralda County school district employees, UNLV and community college faculty and staff, the Westside stakes of the Latter Day Saints church, relatives of current members and area residents age 50 and above.

SSSFCU was instrumental in the formation of the Oswiata Gdansk Teachers Credit Union in Poland, an effort that earned the 1995 Silver Award from the World Council of Credit Unions. John Witkowski, SSSFCU chairman, was invited to the first organizational meeting for the group in 1993. The board chairman and president of Oswiata Gdansk Teachers Credit Union visited Las Vegas for a two-week training program in late 1994.

During a March, 1995 visit to Gdansk, SSSFCU's board chairman signed a partnership agreement with Oswiata Gdansk Teachers Credit Union. "The concept of 'people helping people' is central to the credit union philosophy," said Alan Pughes, president of SSSFCU. "It has been a very meaningful experience to assist people halfway around the world who share this fundamental principle, and to help them expand and improve their community."

Balancing the Budget for Banking, Business and Nevada

by Congresswoman Barbara Vucanovich

The big issue Congress is grappling with that will have a major impact on the banking industry, as well as businesses and families across America, is balancing the federal budget. For too long this nation has operated under the premise that we can tax and spend our way into prosperity. Consequently, Americans shoulder a heavy tax burden and face a $5 trillion debt that will crush the economic prosperity of every single Nevadan if we don't reverse the course.

The long-term consequence of failing to balance the budget is the bankruptcy of America. If we continue on our present spending course, entitlements and interest payments on the debt will consume all tax revenues by 2012. That means no tax dollars for roads, schools, veterans, housing, environmental protection, or law enforcement. If we continue our current spending course, Medicare will be bankrupt in seven years and our children will face a lifetime tax rate of 80 percent to pay our bills.

The Republican Congress understands the disastrous consequences of continual deficits, and we feel Congress has a moral obligation to balance the budget without smoke and mirrors or Washington tricks or gimmicks. The Republican Seven-Year Balanced Budget proposal is an honest effort to balance the budget by the year 2002, save Medicare from bankruptcy, cut taxes for American families and businesses and change the welfare system so it fosters work and responsibility. If we are successful in balancing the budget, our legacy to our children will be the American dream, instead of the American debt.

Congresswoman Barbara Vucanovich

The Seven-Year Balanced Budget Act gives us a chance to switch tracks from our past tax habits to a new path which emphasizes less government, lower taxes, and increased economic growth. Eliminating the deficit will boost savings and investment, lower interest rates, enhance U.S. competitiveness in international markets, increase productivity growth, and create more and better jobs.

The tax cut provisions provide incentives for job creation and will return some of the taxpayers' money to the taxpayer, where it rightfully belongs. The $500 per child tax cut will benefit the families of 52 million children, pumping over $23 billion per year into local economies as parents provide for their children in a way government spending cannot. In Nevada, 128,000 households will receive $97 million in tax credits. More than 7,000 low-income Nevadans will find their tax bill at $0! Additionally, the capital gains tax cut will create approximately 233,000 new jobs each year, while actually enhancing federal revenues by $23 billion!

Despite much of the rhetoric, the Balanced Budget Act does not destroy America through extreme spending cuts. We are saving America by controlling the growth of spending.

Under our Seven-Year Balanced Budget plan, the federal government will actually spend $2.6 trillion more than it spent during the last seven years. That's not to suggest that we aren't cutting spending on excessive federal bureaucracies; wasteful, redundant, and outdated programs; and programs the federal government ought not be in the business of funding, because we are targeting this spending. But, we are increasing spending for Medicare and Medicaid; we are increasing spending on veterans health care; we are increasing spending on student loans; and we are increasing funding for school lunches. We are reducing the Environmental Protection Agency's budget, but these reductions target the excessive EPA bureaucracy and needless oversight, not programs necessary to protect the health and safety of Nevadans. Finally, our tax cuts do not target the wealthy rather our plan gives tax relief to middle class Americans who work hard every year so they can provide for their families.

The bottom line is we must eliminate the deficit and balance the budget to save the American dream for Nevada's youth, workers, business entrepreneurs and seniors. It is the greatest single thing we can do to ensure our children's future and secure the economic well being of businesses in Nevada and throughout the nation.

Banking Briefs

(l to r) Dick Conner, executive director of the North Las Vegas Chamber of Commerce; James V. Bradham, president and chief operating officer for American Bank of Commerce; Claudine Williams, chairman of the board; and James Seastrand, North Las Vegas Mayor, break ground on American Bank of Commerce's branch in North Las Vegas.

Bank of America Nevada Introduces New Product

Securing a credit line for small businesses will now be easier with the introduction of a new Bank of America Nevada product for small businesses.

Advantage Business Credit (ABC) Express Line will provide a line of credit from $2,500 to $10,000 to qualifying small business customers who have a business checking account with BofA.

The revolving line of credit also provides checking account overdraft protection and monthly payments are automatically deducted from the checking account.

According to Rod Dunnett, senior vice president of BofA Nevada's business banking division, the ABC Express Line application process is as simple and convenient as the product itself. Applications are credit scored for higher approval ratios, and responses are mailed to the business within one day of receipt of a completed application. Financial statements are not required for approval.

"Fast access to credit can sometimes mean the difference between boom or bust for many small businesses," said Dunnett. "Bank of America's ABC Express Line provides small business customers with credit they need to operate their companies successfully, plus the overdraft protection feature provides added convenience and security."

The monthly minimum payment is only 5 percent of the balance, or $50, whichever is greater. Credit line funds are advanced automatically in $50 increments to the business checking account, and there is no charge for overdraft transfers.

First Business Bank in North Las Vegas breaks ground

American Bank of Commerce, Southern Nevada's oldest business bank, recently broke ground on a 4,635-square-foot branch in North Las Vegas. When complete in mid-1996, the branch, to be located on the northeast corner of Losee and Frehner Roads, will be the city's first business bank aimed at serving the needs of small- to medium-sized businesses.

American Bank of Commerce opened its doors in November 1979 with an asset base of $2 million and 12 employees. Sixteen years later, American Bancorp of Nevada, parent company of American Bank of Commerce, is the longest-established, independent financial institution in Southern Nevada, boasting $266 million in total assets, four branches, more than 100 employees and some 3,500 customers.

PriMerit Bank Announces Earnings

PriMerit Bank, the largest Nevada-based financial institution, reported net income of $2 million for the third quarter of 1995, the same as the third quarter of 1994. Net income for the first nine months of 1995 was $5.8 million versus $6.3 million for the same period in 1994. Net income for year-to-date 1994 included a $742,000 after-tax gain on the sale of the bank's credit card portfolio, while no such gain was included in 1995's year-to-date net income.

PriMerit ended the first nine months of 1995 with total assets of $1.82 billion, an increase of $8 million from December 31, 1994, and an increase of $41 million from September 30, 1994. The bank is a wholly-owned subsidiary of Southwest Gas Corpora-tion (NYSE-SWX) and operates 25 bank branches throughout Northern and Southern Nevada.

Nevada State Bank Hires Stahl

Martin Stahl has joined Nevada State

Bank as a branch manager, where his duties will include supervising branch staff, developing new business and ensuring customer relations.

Stahl's banking experience includes serving as a personal banker at Founders Bank of Arizona and as a branch manager, sales manager, operations manager, assistant manager and manager trainee at Chemical Bank in New York City.

Stahl holds a bachelor's of arts degree in education from Brooklyn College, as well as an AIB Professionals in Banking certificate.

BofA Nevada Names New Vice Presidents

Bank of America Nevada announced that its board of directors have named six new vice presidents.

The new appointments include: George Burns, compliance manager of retail banking; John Cooper, preferred banker of the university branch; Christopher J. Funai, account officer of the real estate industries division; Todd R. Miszner, manager of accounting and finance; Susan Tompsett, manager of the internal consulting department; and Deborah L. Wetzel, business development officer of financial management & trust services.

Gaming Banker Named Senior Vice President

Joseph L. Brady, manager of First Interstate Bank's gaming division for Northern Nevada, has been named senior vice president.

Brady joined First Interstate 11 years ago as a loan officer in the bank's Northern Nevada gaming division office in Reno. He became head of the Northern Nevada gaming division in 1989.

Brady was general manager of sales for American Electronics Inc. of Sacramento before joining First Interstate in 1984. He had been with the world banking division of Bank of America in San Francisco and Los Angeles from 1973 to 1976. Brady received a master's degree in business administration and a bachelor's of science degree, both from the University of Southern California.

Nevada State Bank Promotes Crowder

Nevada State Bank has promoted Deb Crowder to the position of vice president/administration officer. Her duties include providing support services for the retail banking division, monitoring and initiation bank programs and projects and conduction research and developing analysis on bank products and services.

Crowder has worked for Nevada State Bank for over 12 years, most recently as vice president/operations officer at the bank's West Sahara branch. She has also held such posts as assistant vice president/operations, operations officer, branch operations manager and secretary.

BofA Reports Significant Loan Growth

Bank of America Nevada reported a 10 percent increase in loans during the third quarter of 1995 and a 21 percent increase in loans from the third quarter of last year.

As of September 30, 1995, commercial loans, including real estate and gaming loans, had increased to $1.1 billion, up 16 percent from $951 million a year ago.

Community Bank of Nevada breaks ground

On November 7, 1995, Community Bank of Nevada (CBN), one of Nevada's newest banks, broke ground on a 9,100-square-foot banking facility located at

1400 S. Rainbow Boulevard in Las Vegas. Approximately 300 witnessed the ceremony conducted by members of the bank's board of directors. The board consists of Edward M. Jamison, president/CEO and vice-chairman; Noall J. Bennett, chairman; Steven B. Cohen, senior partner in the law firm Cohen, Johnson & Day; Margaret I. Elardi, owner Frontier Hotel & Casino; Shamin N. Nagy, a practicing psychiatrist; James E. Rogers, chief executive officer of Valley Broadcasting and former chairman of the board of Nevada National Bank; James C. Saxton, chairman, president/CEO of JSI, a real estate development company; Gary W. Stewart, senior partner in the accounting firm of Stewart, Archibald & Barney; Russell C. Taylor, a retired investor who served on the board of directors of Nevada Commnity Bank; Jan Laverty Jones, mayor of Las Vegas and former director of Bank of America Nevada; and John R. Blackmon, executive vice president and chief credit officer of Community Bank of Nevada.

President/CEO Edward M. Jamison stated "the bank is making a strong financial commitment to Las Vegas by construction of this banking facility. We are committed to being responsive to community needs; preserving the integrity and safety of the bank'd deposits and capital; maintaining a strong level of earnings as further protection for depositors and to insure an appropriate return to our shareholder's as well."

The bank began less than four months ago with $8.1 miilion in capital and has since grown to have in excess of $35 million in total assets with deposit and asset growth far exceeding original budgets. CBN realized a profit during the second month, a feat which would normally take a new bank a new bank one to two years. Jamison stated, "Because of the support of shareholders, directors, customers, associates and friends, CBN has experienced tremendous growth and looks forward to a bright future."

TAX TIPS

Selecting the right credit card

If you're in the market for a new credit card, or thinking of trading in your old model for a new one, the Nevada Society of CPAs offers the following advice.

First, when it comes to credit cards, "less is more." Owning a wallet full of credit cards doesn't mean lenders view you as a good credit risk. In fact, it can work against you – even if you don't use them. That's because when some lenders review your credit application, they add your credit limits, as well as your actual debts. A large available credit limit may cause a lender to think you are financially over-extended and may even result in the denial of a future loan request. Saying "yes" to too many offers to raise your current credit card limits could have a detrimental effect.

What's The Best Card In The Pack?

The best credit card is one that suits your individual spending and payment habits. If you regularly pay off your credit card balances each month, look for a card with no annual fee. The rate of interest is less important. On the other hand, if you carry a balance from month to month, you'll want a card with as low an interest rate as possible.

A wise strategy is to have two credit cards – one no-fee card for purchases you plan to pay in full each month, and one low-interest-rate card for the big-ticket items you'll repay over time.

Read The Small Print

It's important you read the fine print on any new credit card agreement. In addition to rates and annual fees, find out how much the bank charges for late payments, bounced checks and exceeding your credit limit. Also important is the length of the grace period – the time during which no interest charges accrue on new purchases. Without a grace period, you'll be assessed finance charges even if you pay your bill in full each month.

Beware Of Temptation

Don't jump at credit card offers touting low, teaser rates. A card with a 7.5 percent interest rate might seem like a winner, but that rate may rise by as much as 10 points after the relatively short introductory period is over. Cards that offer low rates for a limited period of time are best only if you plan to transfer a balance from another card on which you are paying a higher interest rate.

Also, it is not wise to let your credit card become an easy source of quick cash. The interest rate charged on enhancements like cash advances and convenience checks are almost always higher than the rate you pay on purchases. You may be charged a fee as well, and there is no grace period – you start paying interest on cash immediately.

To Buy Or Fly?

What about the new wave of rebate cards and frequent-flier cards? Rebate cards offer cash rebates and/or credits towards the purchase of a new car, discount certificates at national retailers and more. In many instances, higher interest rates and/or annual fees offset these extras. As a general rule, rebate cards only make sense for those who charge large sums (several thousand dollars a month) and pay balances in full each month.

If you sign up for a frequent-flier credit card in the hope of earning a free airline ticket, allow yourself plenty of time. Generally, cardholders earn a free mile for every dollar charged. Since most frequent-flier deals require 25,000-miles for a free ticket, it will take a cardholder who normally charges $2,500 a year 10 years to earn a free ticket.

Prepared by members of the Nevada Society of Certified Public Accountants.

People on the Move


Mark Ricciardi

Mark Ricciardi has been elected to the board of directors of the **Southern Nevada Human Resources Association.** He was installed on December 8, during a SNHRA luncheon meeting at the Palace Station with Senator Richard Bryan as the guest speaker.

Norma J. Bucelato has joined **The Five Star Group** as an account executive with primary responsibilities related to promoting the activities and fund raising of the Ronald McDonald House.


Jan Wilson

The Howard Hughes Corporation has named **Jan Wilson** vice president, marketing, Summerlin division. Summerlin, a 22,500-acre master-planned community under development in northwest Las Vegas, was recently ranked the country's best-selling master-planned community for the third consecutive year.

Christina Palacios, director/operation support for **Southwest Gas Corporation,** has been promoted to vice president of the company's Southern Nevada division, replacing Rich Misdom who announced his retirement effective at the end of the year.

Ted H. Moore has joined **Dain Bosworth Incorporated** as vice president and investment officer in the Reno office. Moore is a 26-year securities industry veteran.

As an investment officer, Moore assists individual and corporate clients in selecting appropriate investments including stocks, taxable and tax-exempt bonds, options and mutual funds, develop retirement plans and money management programs.


Lisa M. Jacob

The **Howard Hughes Corp.** has named **Lisa M. Jacob** corporate communications coordinator.

Most recently, Jacob worked at the Imperial Palace Hotel and Casino as the advertising coordinator and has free-lanced for the "View" section of the *Las Vegas Review-Journal.*


Melborne E. Joseph, Jr.

Associated General Contractors Las Vegas chapter has appointed **Melbourne E. Joseph, Jr.,** as the interim executive vice president for the chapter, replacing Dallas Coonrod who has taken a position with the Arizona chapter of AGC.


Candice Morrison

Candice Morrison has recently been hired as director of public relations at **Quillin & Co. Advertising.** Her responsibilities include overseeing the public relations needs for each client.

Kent Mason has recently been hired as marketing manager of **Cashman Cadillac and Cadillac West** in Las Vegas. Mason has 10 years of experience in the car business. Cashman Cadillac was established in the 1920s, and is Nevada's oldest auto dealership.

Former Las Vegas City Attorney **Roy Woofter** has joined **Lawyer's Title of Nevada** as marketing and public relations consultant. His duties will include developing new business and advising the firm's existing clients.


Gene Czajkowski

Gene A. Czajkowski has joined **Construction Consultants, Inc.** as the managing partner. Prior to joining the firm Czajkowski was director of construction for the commercial and industrial division of The Howard Hughes Corporation.


Kara Kelley Panebianco

Kara Kelley Panebianco has recently joined the government affairs department of the **Las Vegas Chamber of Commerce** as special projects coordinator. In that capacity, Panebianco will oversee the management of the chamber's in-house polling and research center, as well as work on general issues analysis. A native Las Vegan, Panebianco has more than 10 years of experience in the political arena. She graduated with distinction from UNLV.

Maureen Bissett, George Curtis, Debbie Tanner and Fenita Wells were recently named the most outstanding support staff members of the Community College of Southern Nevada for 1995 as recipients of the **President's Classified Employee of the Year Award.** Criteria for the coveted award include: quality of work, work ethic, attitude, professional development, dedication to college goals and participation in service activities.

by Joe Mullich

This Time, Don't Give a Hoot[er] About Discrimination

EVEN while the government shutdown forced many federal workers to be sent home, the ever-vigilant Equal Employment Opportunity Commission did not waver in their important mission: to force a restaurant to dress men in halter tops and hot pants.

The restaurant in question is Hooters, a fast-growing chain that serves burgers, fries and beer. But the main thing it serves up are its waitresses, the "Hooters Girls." Imagine the Dallas Cowboys Cheerleaders clad by Victoria's Secret and you get the picture.

Apparently four guys in Chicago decided they wanted to be Hooters servers, too. They were turned down on the grounds that Hooters customers don't want their décolletage served up with chest hair. So these four guys – instantly becoming the poster children for angry middle-classed men everywhere – sued Hooters for discrimination. Then these yahoos filed a complaint with the EEOC, which launched an investigation. Because of the government shutdown the EEOC wasn't available for comment. But I can't understand why the EEOC didn't tell the four guys to stop whining and try out for Chippendales, if that's their thing.

However, a former professor-in-residence at the EEOC told the Associated Press that Hooters doesn't deserve the same exemption from discrimination laws Dallas Cowboy Cheerleaders and Playboy Bunnies get. "The distinction is there was never any question that Playboy was selling sex," the professor said. "I don't think Hooters is doing the same thing. They've made it clear publicly that they're selling food."

No offense, professor, but you need to get out of the house more. Men aren't forming lines around Hooters for burgers and fries. They could go to McDonald's for that. Hooters' distinct competitive advantage is one thing and one thing only: Burgers a-la Baywatch.

Some people might not like Hooters. But forcing Hooters to hire scantily clad men is no different than asking 7-11 to stop selling slurpies. It's their trademark. It's the only reason Hooters exists. This isn't about discrimination and unfair employment. It's about four people not getting what they want and the EEOC letting them abuse important discrimination laws. It's about a world where everyone keeps a lawyer on speed dial in case they stub a toe.

According to a new report, the EEOC wants Hooters to provide sensitivity training "to teach Hooters' employees how to be more sensitive to men's needs." (Supply your own punch line.) The EEOC also wants Hooters to put $22 million into a fund administered by the EEOC to, as *USA Today* put it, "be distributed to male victims of Hooters' hiring policy." Victims? Of course! Aren't we all victims of something these days! Do you get a sense the entire world is turning into one of those afternoon talk shows? Let's make Geraldo the next Chief Justice of the Supreme Court.

People who don't get the jobs sue for being denied them. People who get the job sue because they have to do the work. According to *USA Today,* some Hooters servers are suing the restaurant chain because they say the risqué uniforms subject them to harassment. Understand, I'm not excusing men who harass women. I say throw out the creeps and don't let them return until they develop an IQ of at least two digits. But if Hooters servers dressed in typical waitress outfits, you know what you'd have? Denny's. There's nothing wrong with Denny's. But if that's where you want to work, don't apply for a job at a place that's a swatch or two away from a strip club.

People have lost their perspective, if not their minds. Any day I expect someone to sue the NBA for discriminating against the vertically-challenged. But I guess we should go with the politically-correct flow: If you'll excuse me, I have to call the Environmental Protection Agency to file a complaint. You see, the Hooters' logo features a picture of an owl. And if that's a spotted owl, simply using it must violate some kind of endangered species law.

business indicators & analysis

Nevada's sales activity shows strong growth. Measured relative to year ago levels, August taxable sales tax collections were up 7.17 percent for Clark County (Las Vegas), 15.42 percent for Washoe County (Reno), and 9.68 percent for Nevada. Taxable sales offer a good approximation of Nevada's retail activity, although taxable sales include more than retail activity.

In comparison, national retail sales grew at 5 percent over the same period. The difference between Nevada and U.S. retail sales per capita is less once adjustments are made for population changes. Nevada's population growth rate is near 6 percent (measured at mid-year). As a result, national stories about possible concern that "tapped out" consumers bearing increased consumer installment debt will not spend as much as in the months ahead may not be directly applicable to Nevada.

Gaming activity continues to trend upward, although recently at more moderate rates. Gross gaming revenue for September increased at 5.23 percent over year ago levels for Nevada. With the opening of the new Silver Legacy, Washoe County's gaming revenue growth rate jumped to 11.72 percent over year ago levels. On the other hand, Clark County grew only at 3.9 percent, reflecting in large measure the difficulty of keeping up with large percentage increases experienced in 1994.

Overall, economic conditions remain favorable in Nevada and the U.S. The latest unemployment rates show improvement. As of September, seasonally adjusted unemployment in Nevada's rates ranged from a low of 4.5 percent in Reno to 5.9 percent in Las Vegas.

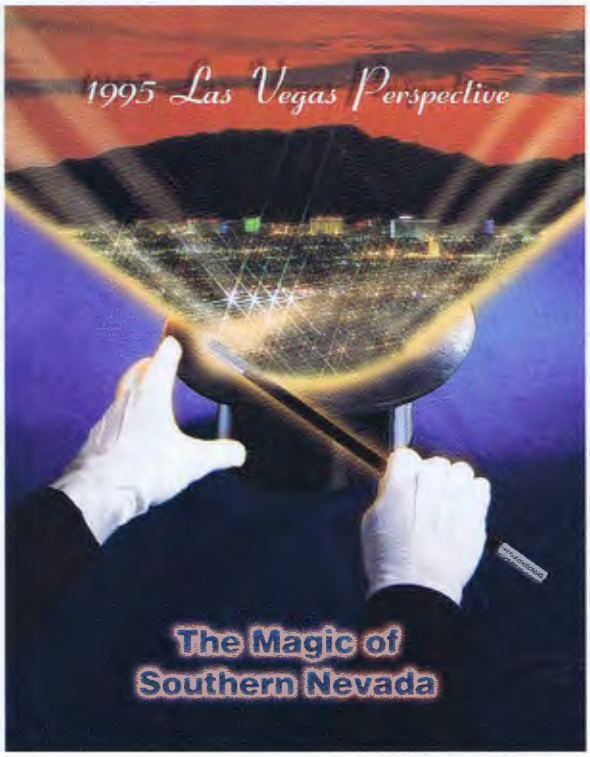
Nationally, the unemployment rate is at 5.6 percent, near the 5.5 percent rate that some believe signals future inflation problems. Yet, all indications point to modest future price increases. That is, concern for inflation may not be appropriate as growth rates in prices have slowed. The September CPI inched upward a modest 2.54 percent. Thus, information shows both lower unemployment rates and inflation. At present, most would conclude that the economic picture is bright, but all agree that things can easily change.

R. Keith Schwer, UNLV Center for Business & Economic Research

	DATE	UNITS	LATEST PERIOD	PREVIOUS PERIOD	YEAR AGO	CHANGE YR AGO
UNEMPLOYMENT						
Nevada	September, 1995	%	5.3	5.6	6.0	-11.67%
Las Vegas	September, 1995	%	5.9	5.9	6.3	-6.35%
Reno	September, 1995	%	4.5	4.6	5.1	-11.76%
U.S.	August, 1995	seasonally adj.	5.6	5.7	6.0	-6.67%
RETAIL ACTIVITY						
Nevada Taxable Sales	August, 1995	$ thousand	1,751,649	1,700,122	1,597,040	9.68%
Clark County	August, 1995	$ thousand	1,115,292	1,063,294	1,041,106	7.13%
Washoe County	August, 1995	$ thousand	346,310	328,906	300,053	15.42%
U.S. Retail Sales	August, 1995	$ million	197,251	196,023	187,864	5.00%
GROSS GAMING REVENUE						
Nevada	September, 1995	$ thousand	650,542	663,234	618,229	5.23%
Clark County	September, 1995	$ thousand	490,299	506,317	471,887	3.90%
Washoe County	September, 1995	$ thousand	97,695	90,851	87,443	11.72%
CONSTRUCTION ACTIVITY						
Las Vegas Area						
New Residences	3rd qtr 1995	# permits	5,245	5,271	4,953	5.90%
New Commercial Permits	3rd qtr 1995	# permits	290	267	169	71.60%
Reno Area						
New Residences	2nd qtr 1995	# permits	739	422	912	-18.97%
New Commercial Permits	2nd qtr 1995	# permits	79	52	97	-18.56%
U.S.						
Housing Starts	August, 1995	$ thousand	1,398	1,390	1,463	-4.44%
Total Construction	August, 1995	$ billion	530.4	531.6	509.6	4.08%
HOUSING SALES						
Las Vegas Area						
Average Sales Price[1]	3rd qtr 1995	$	141,971	134,097	120,475	17.84%
Average Cost/Square Foot	3rd qtr 1995	$ per sq. ft.	85.47	80.78	76.9	11.14%
Average Mortgage Rate[2]	3rd qtr 1995	%	7.41	7.59	8.57	-13.54%
Washoe County						
Average Sales Price[1]	2nd Half 1994	$	178,711	168,199	170,325	4.92%
Average Cost/Square Foot	2nd Half 1994	$ per sq. ft.	95.55	92.67	96.88	-1.37%
Average Mortgage Rate[2]	2nd Half 1994	%	9.10	7.90	7.20	26.39%
U.S. Home Sales	August, 1995	$ thousand	710	785	672	5.65%
TRANSPORTATION						
Total Passengers[3]						
McCarran Airport, LV	3rd qtr 1995	passengers	7,140,650	7,079,738	6,956,897	2.64%
Cannon Airport, Reno	3rd qtr 1995	passengers	1,531,391	1,482,052	1,443,020	6.12%
State Taxable Gasoline Sales	September, 1995	thousand gal.	64,478	72,380	60,766	6.11%
POPULATION ESTIMATES						
Nevada	July,1995	people	1,582,280		1,494,230	5.89%
Clark County	July,1995	people	1,036,180		971,680	6.64%
Washoe County	July,1995	people	294,290		282,630	4.13%
NATIONAL ECONOMY						
Consumer Price Index[4]	September, 1995	1982-84=100	153.2	152.9	149.4	2.54%
Money Supply – M1	August, 1995	$ billion	1,143.5	1,144.9	1,150.8	-0.63%
Prime Rate	September, 1995	%	8.75	8.75	7.75	12.90%
Three-Month U.S. T-Bill	September, 1995	%	5.26	5.41	4.64	13.36%
Gross National Product	3rd qtr 1995	$ billion	7,113.2	7,030.0	6,791.7	4.73%

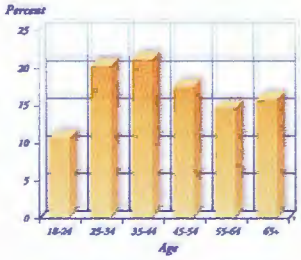
NOTES: (1) houses, condos, townhouses; (2) 30 yr. FHA; (3) enplaned/deplaned passengers; (4) all urban consumers
SOURCES: Nevada Dept. of Taxation; Nevada Employment Security Deptartment.; UNLV, Center for Business and Economic Research; UNR, Bureau of Business and Economic Research; US Dept. of Commerce; US Federal Reserve.
COMPILED BY: UNLV, Center for Business and Economic Research

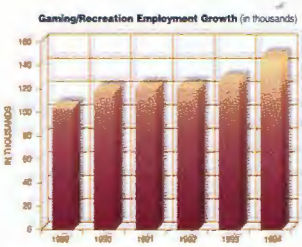
All you need to know about Southern Nevada is in this book…



Demographics • Lifestyle • Retail • Business & Industry • Tourism

Sales Professionals
Complete demographic profiles of Southern Nevada – organized by zip code.





Gaming Professionals
Visitor profiles, gaming revenue, conventions, major resorts, construction projects.

Business Owners
Tax structure, annual operating costs comparisons, transportation and utility information, employment, wages.

All Residents
Climate, cost of living, religion, parks, attractions, arts and cultural, education, emergency services, health care.

Retailers
Retail sales by category, major retail employers, shopper profiles, retail space summary.

The most up-to-date, comprehensive profile of Southern Nevada is now available for $25 at the locations listed below. A companion video is also available through the Nevada Development Authority at a cost of $16.

Las Vegas Review-Journal
Cashier's Office
111 W. Bonanza Rd.
Las Vegas, NV 89106
(702) 383-0240

Las Vegas Chamber of Commerce
711 E. Desert Inn Rd.
Las Vegas, NV 89109
(702) 735-1616

Nevada Development Authority
3900 S. Paradise Rd., Suite 155
Las Vegas, NV 89109
(702) 791-0000