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ANNUAL REPORT

FEDERAL RESERVE BANK OF CLEVELAND

Celebrating the 75th Anniversary of the Federal Reserve System

On December 23, 1913, President Woodrow Wilson signed the Federal Reserve Act into law, establishing the nation's central banking system.

The Federal Reserve System is responsible for formulating and implementing U.S. monetary policy. It also supervises banks and bank holding companies, and provides financial services to depository institutions and the federal government.

The Federal Reserve Bank of Cleveland is one of 12 regional Reserve Banks in the United States which, together with the Board of Governors in Washington, D.C., comprise the Federal Reserve System.

The Federal Reserve Bank of Cleveland, its two branches in Cincinnati and Pittsburgh, and its Regional Check Processing Center in Columbus serve the Fourth Federal Reserve District. The Fourth District includes Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky.

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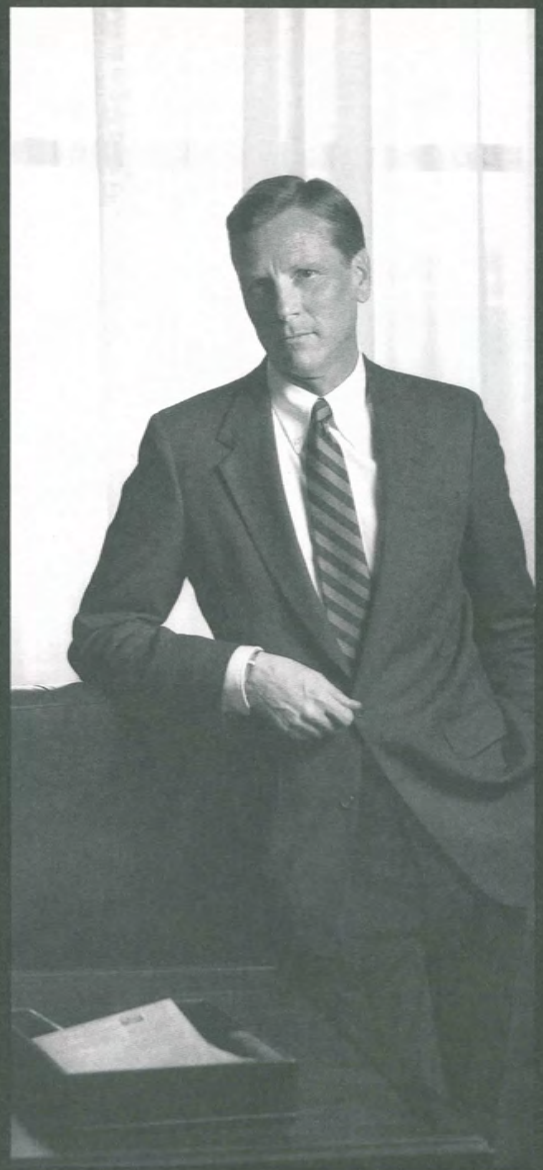
TWENTY-TWO Directors

TWENTY-FOUR Officers



THE PRESIDENT'S FOREWORD

The past year was especially eventful for the world economy, for the Fourth District, and for the Federal Reserve Bank of Cleveland. The economy continued to expand, and notable progress was made in reducing the trade deficit. Monetary policy has held the acceleration in the rate of inflation to very modest proportions so far, but directors of the Federal Reserve Bank of Cleveland and I are disappointed by the lack of progress being made toward a less inflationary environment.

Another issue that has become increasingly critical over the last year is the need for banking deregulation and for deposit insurance reform. Comprehensive government proposals now call for expenditure of public funds, reorganization of some supervisory and regulatory responsibilities, and higher deposit insurance premiums for thrifts and banks.

The current administration and structure of this nation's deposit insurance programs effectively insulate depositors from the consequences of their banks' business decisions. At the same time, regulations limit the extent to which banks are able to respond to market forces. Ultimately, Americans pay a high cost for the results of regulation and deposit insurance.

The basic strength of a market system is that markets encourage and facilitate the efficient use of scarce resources. With a deregulated banking system and reformed deposit insurance structure, consumers would enjoy the benefits of a more competitive financial services market: reduced prices, and new and better services.

Banks would also benefit from a more competitive environment. They would be free to become more diversified geographically, making them less vulnerable to the economic problems of a particular community or region. Banks would be able to adjust the range of services and products to changing technology and market demands. Well-managed institutions would prosper, as would the American financial system.

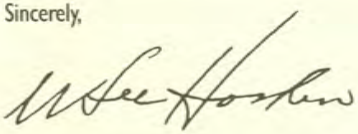
If deregulation and deposit insurance reform would be so beneficial to all participants in the economy, why haven't the necessary steps toward change been taken yet? The essay in this year's annual report attempts to explore the misconceptions that impede progress. Fundamental changes in both regulation and deposit insurance are necessary to avoid severe, costly problems, such as those being addressed in the thrift industry.

During the coming year, the Federal Reserve Bank of Cleveland will continue to monitor these issues and other situations that affect the economy of the Fourth Federal Reserve District. We are guided in these efforts by our 23 directors, to whom we extend our deepest appreciation. We are especially grateful for the contributions of three directors who have completed their terms of service on our boards: William A. Stroud (Chairman and Chief Executive Officer of First-Knox Banc Corp.), who served on the Cleveland board; Robert A. Hodson (President and Chief Executive Officer of 1st Security Bank), who served on our Cincinnati branch board; and Lawrence F. Klima (President of The First National Bank of Pennsylvania, who served on our Pittsburgh branch board.

Our directors represent a variety of banking, business, and educational interests from throughout the District. Their valuable and dedicated service and guidance, as well as that of our member of the Federal Advisory Council, Thomas H. O'Brien (President and Chief Executive Officer of PNC Financial Corp), and the members of the 1988 Small Bank and Small Business Advisory Councils, are very much appreciated.

Finally, I wish to extend my personal gratitude to the officers and staff of the Bank whose energy, creativity, and commitment made 1988 a successful year.

Sincerely,



W. Lee Hoskins
President
March 9, 1989

Banking Deregulation: Examining the Myths

1. The banking industry has flourished under regulation.

2. Regulation of products is necessary to keep banks safe and sound.

3. Nationwide interstate banking allows an undesirable concentration of banking assets.

4. Deposit insurance is essential to protect small depositors and solvent banks, and to avoid the collapse of the money supply.

5. Bank failures are harmful to bank customers and the banking system.

6. Deregulation has caused a deterioration in the condition of banks.

Many myths about bank regulation — conventional wisdoms that "everyone knows to be true" — are causing substantial harm. The myths are harmful because they are used to justify extensive, unnecessary, and costly regulation of the banking industry. These misconceptions have also been used to justify the current structure and administration of a deposit insurance system that reduces the incentives for banks to operate responsibly. Although this article is specifically about the commercial banking industry, some of it is applicable to the thrift industry. We endeavor to dispel some of those myths that have clouded discussions of comprehensive banking reform. Rather than being an attempt to present all points of view, this analysis is a statement of one view: this Bank's view. We believe that removing restrictions on the products banks may offer and on where banks may do business — deregulation — would be a positive step for the future. Furthermore, reform of deposit insurance, beyond proposals now being considered by the Administration and Congress, is essential to achieve the benefits of deregulation.

1. The Banking Industry Has Flourished Under Regulation.

Many people believe that the banking industry is healthy and prosperous. People with this view often dismiss recommendations to reduce regulation of the banking industry as merely partisan efforts to feather the nest of an already-prosperous industry.

The fortunes of the banking industry have been hurt in recent years by several developments. Banks have incurred substantial loan losses due to the financial problems of the highly indebted developing nations, the oil industry, and the American farm sector. **DVERSE TRENDS** Adding to these problems are some adverse long-term trends that could be even more damaging. First, banks are losing market share in commercial lending, traditionally banks' primary market. Large and even medium-sized firms are now turning to the commercial paper market for more and more of their borrowed funds. Second, banks are losing market share in the consumer installment credit market due to competition from unregulated business firms. While banks have earned an increasing share of the revolving credit market, these gains have not fully offset their declining share of automobile financing. Third, banks are attracting smaller shares of the funds that savers place in time and savings deposits and in money market mutual funds. Although banks are now free to offer competitive interest rates, money market mutual funds can offer some services to customers that banks cannot offer because of regulatory restrictions. As a result of these and other adversities, the banking industry's return on assets has been falling during the 1980s, reaching a level in 1986 not seen since 1959. **OOD OR BAD** Even if the banking industry is experiencing some hard times, it is not clear whether this is a good or bad trend for the nation. No industry deserves to prosper, or even survive, merely because it is large or has existed for a long time. The decline of an industry is not to be lamented if the industry has become uncompetitive because of its own acts or failures to act. **NNECESSARY RESTRICTIONS** However, if an industry's efforts to remain competitive are hampered by unnecessary regulations, as is the case with banking, it is sensible to remove those restrictions. The market system will determine whether the industry provides useful services, measures up to the competition, and deserves to prosper.

2. Regulation of Products is Necessary to Keep Banks Safe and Sound.

For many years, people have been convinced that the government needs to regulate banks' products, permitting some while proscribing others, in order to keep banks safe and sound.

Product restrictions are not only unnecessary for achieving bank safety, but may actually detract from bank safety. The idea that bank services must be restricted stands on two shaky pillars. First, if commercial banks were free to engage in investment banking, there is a fear that they would repeat the securities abuses that led to enactment of the Glass-Steagall Act in the 1930s. Second, some lines of business supposedly are more risky than "traditional" banking activities, especially for newcomers. **AN OLD MYTH** Despite the aura of truth that can develop around a myth that is more than a half-century old, scholars today argue that the securities abuses in the 1920s and 1930s were not widespread among banks, nor were they limited to banks, nor were they the cause of bank failures. Some of the abuses resulted from unregulated activities in securities markets that the Securities and Exchange Act of 1934 sought to eliminate. Permitting banks to engage in investment banking activities would not necessarily make securities abuses any more likely to recur. **CHINESE WALL** Banks did have conflicts of interest between their lending activities and their securities activities prior to 1933, and those conflicts of interest could return if banks obtain more investment banking powers. However, conflicts of interest are present in many lines of business. For example, there is a potential for a conflict of interest between a bank's trust department and its corporate lending department. This problem has been dealt with by building a "Chinese wall" — forbidding exchange of information — between the departments, rather than by forbidding banks to engage in both activities simultaneously. **LOW-RISK ACTIVITIES** There is also little threat to bank safety hidden in other lines of business. Many activities that banks would like to enter, such as real estate brokerage, insurance brokerage, travel agency, and data processing, are not inherently risky. These activities may be less risky than some currently approved activities, such as leasing, mortgage banking, and venture capital provision. Most of the outcry against new activities has come from

nonbank providers of such services, who are more worried about new competitors than the safety of the banking system.

FOREIGN ACTIVITIES Many large U.S. bank holding companies have subsidiaries that for years have engaged in several activities abroad that currently are prohibited in the United States. The fact that Glass-Steagall Act restrictions do not apply to foreign activities of U.S. banking organizations suggests that domestically prohibited activities are not necessarily dangerous. **SYNERGY** Even if the income variability of a new activity is greater than that of already-permitted activities, which might be the case with, say, insurance underwriting, the variability of a bank's total income stream still could be reduced if the income streams of the individual activities were negatively correlated. The important idea is that a bank cannot be viewed as a portfolio of separate activities. New activities will not have an isolated effect on bank safety, since important synergies and efficiencies are generated when additional services are offered through the same outlet. **LIMITATIONS AND FAILURES** Limitations on product offerings make it more difficult for banks to compete with some nondepository financial firms. Securities firms and retail stores have the advantage of being able to offer a broad range of financial services through nationwide networks. In addition, the primary contributor to the safety and soundness of banks, and of every other business in the market economy, is the discipline imposed on owners and managers by the ever-present possibility of failure. **RESTRICTIONS AND REFORM** Restrictions on banks' product powers probably should not be removed without also reforming the deposit insurance system. The deposit insurance system, as currently administered, has removed many of the incentives for safe and sound banking by making good the losses of failed banks. To avoid extending this subsidy to additional business activities, reform of the deposit insurance system should be a prerequisite or a corequisite for the expansion of bank powers.

3. Nationwide Interstate Banking Allows an Undesirable Concentration of Banking Assets, and Would Reduce the Availability of Banking Services in Smaller Communities.

People fear that interstate bank mergers reduce competition and encourage some banks to become too big.

Rather than causing problems, full interstate banking would yield important benefits to the nation. If full interstate banking were permitted, competition would be increased rather than reduced. Banks could enter another state by opening a new bank or a new branch, or by merging or acquiring an existing bank. Of these, the most popular way for a bank to enter a new market would undoubtedly be through purchases of or mergers with existing banks. It is unlikely that such mergers

would significantly reduce competition. Existing antitrust laws could be used, on a case-by-case basis, to prevent problematic banking dominance in an area. If interstate banking were permitted, the increased threat of potential entry would encourage competitive behavior by the banks that are already in a market. In addition, concerns about "undesirable" concentrations of economic and political power could be easily allayed by limiting the share of the nation's banking assets that any one bank is permitted to hold. Such a limitation would be a more direct and efficient approach to the problem than using restrictions on interstate banking to indirectly limit bank size. **SMALL BANKS** Interstate banking need not mean the end of small banks that serve their communities well. A few years ago, when large New York City banks were first permitted to branch into upstate New York, they generally were unable to displace the small banks that were already operating. Numerous small banks operate successfully in California, a state that has always permitted statewide banking. **SMALL COMMUNITIES** Interstate banking is unlikely to be detrimental to small communities. First, current restrictions on interstate banking do not prevent the flow of capital between communities or across states. The free flow of capital to where it will be most productive and can earn the highest returns is desirable within a national market. To the extent, if any, that interstate banking facilitates the flow of capital, economic efficiency is enhanced. Second, a bank can ill-afford to be insensitive to local needs, because such behavior would be an invitation to more-sensitive competitors. **BARRIERS REMAINING** Some barriers to interstate banking have been removed in recent years. However, many barriers to full interstate banking remain. Some states still do not permit interstate banking through bank holding companies. Many states that do permit entry, limit acquisitions and mergers to bank holding companies from nearby states. This increases the probability that several regional banking systems will develop, instead of a national banking system. And little, if any, interstate branch banking is permitted, despite the fact that branching would be the simplest and most direct approach to interstate banking.

4. Deposit Insurance Is Essential to Protect Small Depositors and Solvent Banks, and to Avoid the Collapse of the Money Supply.

Proponents of deposit insurance usually offer three basic justifications for the program: the need to protect small depositors, the need to prevent bank runs, and the need to contain a banking system panic.

Deposit insurance was established to protect small depositors from loss due to a bank failure. Deposit insurance protects those who cannot afford to seek advice about the soundness of a specific bank or who cannot afford to hire a qualified financial manager. **PROTECTING DEPOSITORS** This justification for deposit insurance is based on the premise that society should protect people who are not able to protect themselves. Seen in this light, it would appear that the present federal insurance system, which insures an unlimited number of $100,000 deposit accounts per person, offers much more

insurance than is necessary to protect those who are unable to protect themselves. **PROTECTING BANKS** The second justification for deposit insurance is that it is necessary to prevent runs on solvent banks. The fear is that a run could make a solvent bank insolvent, if the bank had to sell assets quickly at fire-sale prices to meet demands for withdrawals. This is an unfounded concern, because a solvent bank can use its good assets as collateral to borrow at the Federal Reserve's discount window. Only insolvent banks have difficulties meeting crises, and shouldn't be protected from the consequences of their own weaknesses. **AVOIDING A CONTRACTION OF THE MONEY SUPPLY** Usually, when depositors withdraw funds from a bank because of concerns about the bank's solvency, they redeposit their funds in another bank. It is possible that large numbers of depositors would simultaneously withdraw currency and would not redeposit it in other banks. This could cause a contraction of the money supply. However, the Federal Reserve could prevent a contraction of the money supply by providing additional bank reserves through open market operations and discount window lending. Thus, deposit insurance is unnecessary to avoid a contraction of the money supply. **PROMPT CLOSING** Panics are unlikely if bank regulators establish a record of promptly closing insolvent banks and if the Federal Reserve Banks lend to solvent banks facing incipient runs. These actions should be sufficient to maintain depositor confidence, effectively preventing contagious bank runs. **INHERENT WEAKNESS** The current federal deposit insurance system actually impairs the soundness of the banking system in two related ways. First, overly generous deposit insurance eliminates the concern that depositors otherwise would have with the soundness of their bank. Such levels of deposit insurance, in turn, remove the necessity for a bank to have a prudent ratio of capital to assets to reassure depositors. Second, because deposit insurance eliminates depositors' concern with the quality of their bank's

portfolio of assets, a bank's management may freely make riskier loans and investments. This concern is especially relevant when a bank is insolvent or is near insolvency. With a safety net of deposit insurance, management can gamble with very risky assets in the hope of earning a large return and rescuing the bank. Because of the limited legal liability feature of a corporation, the management and stockholders would be no worse off for having taken the gamble if the bank failed. The deposit insurance fund would absorb the additional losses. **DE FACTO INSURANCE** The deposit insurance system, as presently administered, usually provides de facto insurance to uninsured depositors and other bank creditors. Thus, the market discipline that these groups would have exerted on bank management also has been removed. **DEPOSIT INSURANCE REFORM** Clearly, deposit insurance needs to be reformed. The amount of deposits insured for any one person might be limited to a level consistent with the objective of providing protection for those unable to protect themselves. Such a level might be surprisingly low, because the average (arithmetic mean) insured deposit account was only about $8,000 at year-end 1987. **WELL-MANAGED BANKS** A more realistic deposit insurance system would eliminate both de jure and de facto insurance for large depositors, other bank creditors, and bank stockholders. To attract funds, banks would need to be well-managed, because depositors would prefer to patronize banks with high capital-to-assets ratios and low-risk portfolios, or banks that offered depositors higher interest rates to compensate them for the higher risk. Regulators and banks might be required to provide more financial information, so that the public would make informed judgments about a bank's soundness. **CLOSURE** Regulators would act swiftly to close an insolvent bank or to recapitalize it and install new management. These actions, along with market forces, would encourage sound management of banks, and thereby would remove the incentive and opportunity for a failing bank to gamble with risky investments.

5. Bank Failures are Harmful to Customers and the Banking System.

Many people believe that regulatory policy should be directed at preventing bank failures, because of the ill effects of failures on customers and on the banking system.

In recent years, banks have been failing in larger numbers than at any time since the Great Depression. When a bank is liquidated, depositors and borrowers need to find another bank with which to do business. Consequently, they lose the value of the banking relationship they have built up over the years. However, insolvent banks often are not liquidated but are purchased and operated by new owners. In such cases, bank customers would not be inconvenienced.

LIQUIDATIONS If a failed bank were liquidated, borrowers and other customers of the bank would be inconvenienced, but this also would be true for customers of any firm that failed. Inconvenience to customers is not a persuasive argument for using regulatory policy to prevent bank liquidations. Even without deposit insurance, if a bank were liquidated, depositors would not necessarily lose much of their funds. Depositors of banks that failed between 1930 and 1933 received, on average, more than 99 cents for each dollar of deposits, even though the Federal Deposit Insurance Corporation had not yet been established. For most depositors, the real cost was delay in obtaining their funds, rather than loss of funds.

OTHER BANKS Failure of a large bank could lead to losses for other banks with which it does business. This possibility is sometimes offered as evidence that some banks are too big to let fail. But if banks are exercising prudent limits on their exposures to the failed bank, their losses won't be fatal. Losses to other banks would be moderate if regulatory authorities seized a failing bank quickly, rather than waiting until it had depleted all of its capital and perhaps had moved to a large negative net worth position.

NOT TOO BIG It may be true that some banks are so big that liquidating one of them would be awkward. If a bank is liquidated, customers must establish new banking relationships, bank staff must find new employment, and bank property, loans, and investments must be sold. These actions might be difficult if a very large bank is liquidated, but it is unlikely that any bank is too big to let fail. A failed bank can be recapitalized by new owners and continue to operate.

FAILURES Rather than being harmful, permitting banks to fail can strengthen the banking system and the nation. First, the possibility of bank failure provides stronger incentives to bank management to follow sound banking practices. Second, the reality of a bank failure is a powerful reminder to others. Finally, liquidation of a bank prompts the reallocation of scarce labor and property resources to more efficient uses.

6. Deregulation Has Caused a Deterioration in the Condition of Banks.

The sharp increase in the number of bank failures in the 1980s has been attributed by some people to recent deregulation, so they argue that further deregulation is undesirable.

It is true that some of the constraints on the banking industry have been removed or successfully bypassed in the last decade, but the progress of deregulation has been piecemeal, incomplete, and pursued without a set of guiding principles. Interest-rate ceilings on deposits were phased out between 1980 and 1986, allowing banks to compete more freely with other institutions for funds. Regulators have granted some new powers to banks in the absence of new bank-powers legislation. For example, the Federal Reserve Board recently has permitted some limited securities underwriting privileges to banks on a case-by-case basis. **MORE DEREGULATION NEEDED** In any event, the recent increase in bank failures

is not a result of the deregulation that has occurred. Instead, the difficulties of some banks would have been lessened if more deregulation had occurred sooner. Many bank failures in the 1980s resulted from hard times in the agricultural and oil-producing areas of the nation, particularly in the Southwest, that caused many bank loans to go sour. Banking deregulation certainly did not cause the hard times in oil and agriculture. But the regulations that limit banks' product lines and prevent their geographic diversification have made banks more vulnerable to downturns in the local economies in which they operate. The fact that fraud and insider abuses continue to be among the leading causes of bank failures in the 1980s, just as in the past, is further evidence that deregulation is not at fault. **BENEFITS OF DEREGULATION** Rather than weakening the banking industry, deregulation allows banks to become stronger — more efficient, more competitive, more responsive to consumers. In a deregulated environment, banks could diversify geographically, making them less vulnerable to the economic problems of a particular community or region. Banks could offer a broader range of services, increasing their ability to serve customers while diversifying their sources of income. Those banks that chose to broaden their geographic and product ranges and to increase their size would be better able to compete against larger and less-regulated foreign banks for the business of multinational corporations.

Many myths about bank regulation and deposit insurance have formed through the years. Those myths have placed an aura of necessity and desirability around certain bank regulations and around some aspects of deposit insurance that are actually harmful to the public and to the banking system. This article attempts to dispel those myths, in the hope that the nation can move forward with banking deregulation. If this is accomplished, we would reap the benefits of free markets and eliminate some of the hidden costs of regulation.

COMPARATIVE FINANCIAL STATEMENT

For years ended December 31

Statement of Condition

	1988	1987
Assets		
Gold certificate account	$ 655,000,000	$ 664,000,000
Special drawing rights certificate account	314,000,000	314,000,000
Coin	25,463,147	27,530,552
Loans and securities:		
Loans to depository institutions	890,000,000	63,475,000
Federal agency obligations bought outright	402,430,203	453,028,595
U.S. government securities		
Bills	6,515,038,679	6,459,213,324
Notes	5,253,906,524	4,976,685,879
Bonds	1,728,921,594	1,693,907,233
Total U.S. government securities	13,497,866,797	13,129,806,437
Total loans and securities	14,790,297,000	13,646,310,032
Cash items in process of collection	243,970,219	293,797,319
Bank premises	31,674,850	32,265,020
Other assets	793,404,407	750,233,144
Interdistrict settlement account	(559,500,560)	135,947,039
Total Assets	$16,294,309,063	$15,864,083,106
Liabilities		
Federal Reserve notes	$13,703,779,373	$12,987,455,204
Deposits:		
Depository institutions	1,893,425,046	2,123,425,856
Foreign	8,250,000	9,000,000
Other deposits	13,993,166	42,239,230
Total deposits	1,915,668,212	2,174,665,086
Deferred availability cash items	266,000,247	317,030,608
Other liabilities	179,054,731	159,545,408
Total Liabilities	$16,064,502,563	$15,638,696,306
Capital accounts		
Capital paid in	$ 114,903,250	$ 112,693,400
Surplus	114,903,250	112,693,400
Total Capital Accounts	$ 229,806,500	$ 225,386,800
Total Liabilities and Capital Accounts	$16,294,309,063	$15,864,083,106

Income and Expenses

	1988	1987
Current income		
Interest on loans	$ 1,384,919	$ 555,846
Interest on government securities	1,055,774,529	965,834,554
Earnings on foreign currency	16,607,328	20,633,487
Income from services	40,109,734	39,224,730
All other income	571,323	524,982
Total current income	$1,114,447,833	$1,026,773,599
Current operating expenses	65,237,787	63,432,778
Cost of earnings credits	11,043,526	10,452,713
Current Net Income	$1,038,166,520	$ 952,888,108
Profit and loss		
Additions to current net income		
Profit on foreign exchange transactions	$ -0-	$ 108,256,617
Profit on sales of government securities	1,369,885	2,511,011
All other additions	5,885	20,142
Total additions	$ 1,375,770	$ 110,787,770
Deductions from current net income		
Loss on foreign exchange transactions	$ 28,098,147	$ -0-
All other deductions	108,533	691
Total deductions	$ 28,206,680	$ 691
Net additions or deductions	$ 26,830,910	$ 110,787,079
Assessments by Board of Governors		
Cost of Unreimbursable Treasury Services	$ 1,924,431	$ 3,094,741
Board of Governors expenditures	4,620,100	4,822,900
Federal Reserve currency costs	10,064,330	10,906,391
Total assessments by Board of Governors	$ 16,608,861	$ 18,824,032
Net Income Available for Distribution	$ 994,726,749	$1,044,851,155
Distribution of net income		
Dividends paid	$ 6,811,391	$ 6,719,445
Payments to U.S. Treasury (interest on Federal Reserve notes)	985,705,508	1,036,752,610
Transferred to surplus	2,209,850	1,379,100
Total distributed	$ 994,726,749	$1,044,851,155

FEDERAL RESERVE BANK OF CLEVELAND DIRECTORS

As of December 31, 1988

Cleveland Directors
(first row) Deputy Chairman John R. Miller
(second row) Robert D. Storey, Frank Wobst, Laban P. Jackson, Jr.
(third row) Daniel M. Galbreath, Chairman Charles W. Parry
(back row) William H. May, William A. Stroud

Chairman
& Federal Reserve Agent
Charles W. Parry
Retired Chairman
& Chief Executive Officer
Aluminum Company of America
Pittsburgh, Pennsylvania

Deputy Chairman
John R. Miller
Former President
& Chief Operating Officer
Standard Oil Company of Ohio
Cleveland, Ohio

Daniel M. Galbreath
President
John W. Galbreath & Co.
Columbus, Ohio

Verna K. Gibson
President
The Limited Stores, Inc.
Columbus, Ohio

Laban P. Jackson, Jr.
Chairman of the Board
International Spike, Inc.
Lexington, Kentucky

William H. May
Chairman & President
First National Bank
of Nelsonville
Nelsonville, Ohio

Robert D. Storey
Partner
Burke, Haber & Berick
Cleveland, Ohio

William A. Stroud
Chairman
& Chief Executive Officer
First-Knox Banc Corp.
Mount Vernon, Ohio

Frank Wobst
Chairman
& Chief Executive Officer
Huntington
Bancshares Incorporated
Columbus, Ohio

Cincinnati Directors
(first row) Jerry L. Kirby, Robert A. Hodson
(second row) Kate Ireland, Jack W. Buchanan
(back row) Marvin Rosenberg, Robert M. Duncan

Chairman
Owen B. Butler
Retired Chairman of the Board
The Procter & Gamble Company
Cincinnati, Ohio

Jack W. Buchanan
President
Sphar & Company, Inc.
Winchester, Kentucky

Robert M. Duncan
President
First National Bank of Louisa
Louisa, Kentucky

Robert A. Hodson
President & Chief Executive Officer
1st Security Bank
Hillsboro, Ohio

Kate Ireland
National Chairman
Frontier Nursing Service
Wendover, Kentucky

Jerry L. Kirby
Chairman of the Board,
President & Chief Executive Officer
Citizens Federal Savings
& Loan Association
Dayton, Ohio

Marvin Rosenberg
Partner
Towne Properties, Ltd.
Cincinnati, Ohio

Pittsburgh Directors
(first row) Milton A. Washington
(second row) Stephen C. Hansen, Karl M. von der Heyden
(third row) Chairman James E. Haas
(back row) George A. Davidson, Thomas G. Dove

Chairman
James E. Haas
President & Chief Operating Officer
National Intergroup, Inc.
Pittsburgh, Pennsylvania

George A. Davidson, Jr.
Chairman & Chief Executive Officer
Consolidated Natural Gas Company
Pittsburgh, Pennsylvania

Thomas G. Dove
Chairman of the
Executive Committee
& Chief Executive Officer
Wheeling Dollar Bank
Wheeling, West Virginia

Stephen C. Hansen
President & Chief Executive Officer
Dollar Bank, FSB
Pittsburgh, Pennsylvania

Lawrence F. Klima
President
The First National Bank
of Pennsylvania
Erie, Pennsylvania

Karl M. von der Heyden
Senior Vice President-Finance
& Chief Financial Officer
H.J. Heinz Company
Pittsburgh, Pennsylvania

Milton A. Washington
President
& Chief Executive Officer
Allegheny Housing
Rehabilitation Corporation
Pittsburgh, Pennsylvania

FEDERAL RESERVE BANK OF CLEVELAND OFFICERS

As of March 1, 1989

W. Lee Hoskins
President

William H. Hendricks
First Vice President

Randolph G. Coleman
Senior Vice President

John M. Davis
Senior Vice President
& Director of Research

John J. Ritchey
Senior Vice President
& General Counsel

Samuel D. Smith
Senior Vice President

Donald G. Vincel
Senior Vice President

Robert F. Ware
Senior Vice President

John J. Wixted, Jr.
Senior Vice President

Andrew J. Bazar
Vice President

Jake D. Breland
Vice President

William S. Brown
Vice President

Andrew C. Burkle, Jr.
Vice President

Jill Goubeaux Clark
Vice President
& Associate General Counsel

Patrick V. Cost
Vice President & General Auditor

Lawrence Cuy
Vice President

Creighton R. Fricek
Vice President

R. Chris Moore
Vice President

Sandra Pianalto
Vice President & Secretary

Robert W. Price
Vice President

Edward E. Richardson
Vice President

William C. Schneider, Jr.
Vice President

Mark S. Sniderman
Vice President
& Associate Director
of Research

Robert Van Valkenburg
Vice President

Andrew W. Watts
Vice President
& Regulatory Counsel

Margret A. Beekel
Assistant Vice President

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Assistant Vice President

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