

Approved February 2, 1984  
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS

The meeting was called to order by REPRESENTATIVE HAROLD P. DYCK at  
Chairperson

3:30 ~~xxx~~ p.m. on January 31, 1984 in room 527-S of the Capitol.

All members were present except: Rep. Ken Franciso, excused.

Committee staff present: Bill Wolff, Research Department  
Myrta Anderson, Research Department  
Bruce Kinzie, Revisor of Statutes Office  
Mitchell Lousch, Intern  
Virginia Conard, Committee Secretary

Conferees appearing before the committee:

Jim Maag, KBA  
Wayne Angell, Professor, Ottawa University  
Charles Henson, General Consul, KBA

Chairman Dyck called the meeting to order. Jim Maag was the first conferee, testifying in favor of HB2657.

Representative Bob Ott made the motion, seconded by Rep. David Louis, that when and if HB2657 is passed favorably out of committee that the oral amendments recommended by Mr. Maag be made. Motion carried.

Conferee Jim Maag testified favorably for HB2758. (See Attachment I). Also testifying favorably for HB2758 was Professor Wayne Angell.

Mr. Maag testified in favor of HB2759. (See Attachment II.) Second proponent for HB2759 was Charles Henson. Questions were directed by committee members to Andy Chandler, president of the KBA Board, as well as to Mr. Maag and Mr. Henson.

On HB2195, Rep. David Louis made the motion that this bill be reported out adversely. Rep. Bob Ott seconded the motion. Motion carried.

Rep. Bob Ott moved that HB2604 be passed favorably. Rep. Homer Jarchow seconded the motion. Motion passed.

Chairman Dyck announced the appointment of a subcommittee to study HB2126 and to report back their findings to the full committee. Chairman of the subcommittee is Rep. David Miller. Members are Rep. Richard Eckert and Rep. Richard Schmidt.

Rep. David Miller moved that the minutes of the January 26 meeting be approved, as corrected. Rep. Dorothy Nichols seconded the motion. Motion carried.

The meeting was adjourned at 4:35 p.m.

The next meeting will be Thursday, Feb. 2, 1984.



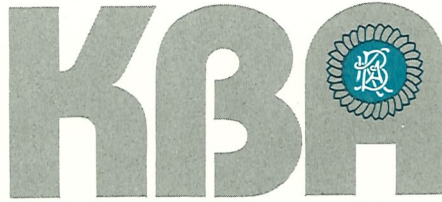
HOUSE COMMITTEE ON  
COMMERCIAL AND FINANCIAL  
INSTITUTIONS

TESTIMONY ON HB 2758

BY

KANSAS BANKERS ASSOCIATION

JANUARY 31, 1984



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

January 31, 1984

TO: House Committee on Commercial and Financial Institutions

RE: HB 2758—Investment authority for state chartered banks

Mr. Chairman and members of the committee:

We appreciate the opportunity to appear before the committee and discuss the amendments to K.S.A. 1983 Supp. 9-1101 as contained in HB 2758. K.S.A. 9-1101 is that section of the banking code of the state of Kansas which grants state chartered banks their investment powers. HB 2758 would add four additional subsections to this section of the code so that state chartered banks might have the same powers of investment as those granted to nationally chartered banks. These amendments are necessary as a result of actions taken by the United States Congress and federal regulatory agencies in recent years.

New subsection (18) of HB 2758 would allow state chartered banks to buy, hold and sell mortgages, stock, obligations and other securities of the Federal Home Loan Mortgage Corporation ("Freddie Mac"). State chartered banks have had this authority since 1979, but under federal law such authority for these investments will expire by 1985 unless affirmative action is taken by the appropriate state legislatures. The investment in Freddie Mac participation certificates by Kansas banks has proven to be a sound investment practice and as of November 1982, Kansas banks owned 115 Freddie Mac participation certificates totalling \$26.5 million. This represents about 8.06% of all investments in Freddie Mac paper in Kansas by all investor types. Thus, we respectfully request that the legislature grant state chartered banks the authority to continue to invest in these securities.

New subsection (19) would allow state chartered banks of Kansas to buy, hold and sell obligations or securities of the Student Loan Marketing Association ("Sallie Mae"). This association is a stockholder owned corporation established by the Higher Education Act of 1965 to provide liquidity primarily through secondary market and warehousing activities for originators of loan made under federal student loan programs. Sallie Mae is authorized to purchase, warehouse, sell, offer participations or pooled interest in, or otherwise deal in student loans and make commitments for any of the foregoing. Sallie Mae obtains funds for its operations primarily from the sale of its debt obligations. Sallie Mae issues to investors a variety of non-guarantee debt obligations, including discount notes in fixed and floating rate notes. As noted earlier, the authority to invest in Sallie Mae obligations is already granted to national banks and we believe similar authority should be provided for Kansas state chartered banks.

New subsection (20) of HB 2758 allows state chartered banks to engage in financial future contracts, forward replacement contracts and standby contracts on United States government and agencies securities. Such authority would be subject to rules and regulations as might be prescribed by the State Banking Commissioner in order to promote safe and sound banking practices. Again, such authority currently exists for nationally chartered banks in Kansas.

New subsection (21) of HB 2758 would grant to Kansas state chartered banks, the authority to acquire and sell shares in an open-end investment company registered with the SEC and of a privately owned offered company sponsored by an affiliated bank the assets of which consist solely of securities which may be purchased by the bank for its own account. Such shares may be purchased without limit if the assets of the company may consist solely of the obligations which are eligible for purchase by the bank without limit. If the assets of the company include securities which may be purchased by banks subject to limitation such shares may be purchased subject to the limitation applicable to purchase of such securities. Investment in such shares is subject to rules and regulations as State Bank Commissioner may adopt safe and sound banking practices. Such authority was granted to national banks by the Comptroller of the Currency on December 15, 1983. We believe the establishment of this authority would be beneficial to the state banks of Kansas because of the flexibility, liquidity, and the ease of investing on a short-term basis.

Thank you, Mr. Chairman, for the opportunity to appear on HB 2758 and we respectfully request that the committee give favorable consideration to this important legislation for Kansas state chartered banks.

James S. Maag  
Director of Research

## **FEDERAL HOME LOAN MORTGAGE CORPORATION**

The Federal Home Loan Mortgage Corporation is a corporate instrumentality of the United States created pursuant to an Act of Congress (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459, the "FHLMC Act") on July 24, 1970. The Corporation was established primarily for the purpose of increasing the availability of mortgage credit for the financing of urgently needed housing. It seeks to provide an enhanced degree of liquidity for residential mortgage investments primarily by assisting in the development of secondary markets for conventional mortgages.

The principal activity of the Corporation currently consists of the purchase of first lien conventional mortgages or participation interests in such mortgages and the resale of the mortgages so purchased in the form of mortgage securities, primarily Mortgage Participation Certificates ("PCs"). PCs, which represent undivided interests in groups of conventional mortgages purchased by the Corporation, provide for monthly pass-through of principal and interest based on collections with respect to the underlying mortgages. The Corporation guarantees to PC holders timely payment of interest at the certificate rate and the ultimate collection of principal. In 1981 the Corporation initiated the Guarantor Program under which the Corporation purchases mortgages from sellers in exchange for PCs representing interests in the mortgages so purchased. In late 1981 and throughout 1982, transactions under the Guarantor Program resulted in a significant increase in the volume of the Corporation's mortgage purchase and PC sales activity. At December 31, 1982 approximately \$41.2 billion of PCs were outstanding, including approximately \$23.6 billion attributable to the Guarantor Program.

At particular points in time the Corporation's statutory and structural relationship with the federal government may cause it to conduct its mortgage purchase and financing activities in ways different from those which might otherwise be pursued, and from time to time this could have an adverse effect on the Corporation's results of operations. Further, the FHLMC Act and other federal legislation bearing on the Corporation may be amended in a fashion that could materially affect the scope and results of the Corporation's activities and operations.

Neither the United States nor any agency or instrumentality of the United States nor any Federal Home Loan Bank is obligated, either directly or indirectly, to fund the mortgage purchase and financing activities of the Corporation. For a more complete description of the Corporation and its activities, see "Business."

The principal office of the Corporation is located at 1776 G Street, N.W., Washington, D.C. 20006 (telephone 202/789-4700). It has established five regions for administrative purposes, with offices located in Arlington, Virginia; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas and Los Angeles, California.

## SUMMARY OF INFORMATION RELATING TO THE CORPORATION

The following summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere herein.

### The Federal Home Loan Mortgage Corporation

The Corporation is a corporate instrumentality of the United States created pursuant to an Act of Congress. The principal activity of the Corporation consists of the purchase of first lien conventional residential mortgages or participation interests in such mortgages from mortgage lending institutions and the resale of the mortgages so purchased in the form of guaranteed mortgage participation securities. To minimize interest rate risk the Corporation generally matches its purchases of mortgages and sales of mortgage participation securities. Mortgages retained by the Corporation are financed with debt and equity capital.

### Selected Financial Data

	December 31,				
	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
	(thousands of dollars)				
Mortgage Data:					
Mortgage Securities .....	\$42,952,361	\$19,897,363	\$16,962,234	\$15,315,979	\$12,016,759
Mortgages Retained .....	4,732,877	5,237,260	5,056,356	4,051,621	3,090,767
Income Statement Data:					
Income from total portfolio .....	697,855	626,453	493,052	384,562	293,681
Net interest margin .....	107,180	69,514	76,526	72,997	51,203
Net income .....	59,928	30,904	33,586	35,610	25,391
Balance Sheet Data:					
Total assets .....	6,035,924	6,326,122	5,478,394	4,648,066	3,697,126
Total liabilities .....	5,270,340	5,875,992	5,057,168	4,260,426	3,345,096
Total subordinated borrowings and stockholders' equity .....	765,584	450,130	421,226	387,640	352,030

## LEGAL INVESTMENT STATUS OF FHLMC OBLIGATIONS AND STOCK

Currently, Section 306(e) of the Federal Home Loan Corporation Act authorizes any investor to purchase, hold or invest in Federal Home Loan Mortgage Corporation debt obligations or other securities to the same extent as U.S. government obligations. The legal investment status conferred by Section 306(e) of the Charter Act upon Freddie Mac securities will expire on June 30, 1985, unless states' officials take affirmative administrative or legislative action, as required by applicable state statute, to grant legal investment status to Freddie Mac securities. Prior to the sunset of this provision in the corporation's Charter Act, the Mortgage Corporation seeks to assure that its debt obligations, PCs, and preferred stock will remain lawful investments for all investors, including state chartered banks, after the June 30, 1985 sunset date. While other investors may also be affected by the anticipated sunset, this background paper focuses specifically on state chartered savings and commercial banks since, in a number of jurisdictions, Freddie Mac debt obligations and securities may become unlawful investments for these financial institutions. Federally chartered institutions are unaffected by the sunset because Freddie Mac securities are permissible investments under federal statute.

This background paper is intended to advise you of this situation and to enlist the support and resources of the American Bankers Association and its affiliate state associations in our effort to assure the continuation of the legal investment status of FHLMC securities for state-chartered banks.

### BACKGROUND

As part of its continuing operations, the Federal Home Loan Mortgage Corporation regularly offers and sells guaranteed mortgage participation certificates (PCs) in various forms pursuant to its authority under the Charter Act. Recently, the 97th Congress authorized Freddie Mac to issue preferred stock.

In 1979, Congress authorized investment by all investors in Freddie Mac obligations and securities to the same extent as obligations issued or guaranteed by the United States or an agency of the U.S. government, not withstanding state law to the contrary, until June 30, 1985. Prior to this sunset date, the states may act to grant or restrict legal investment in FHLMC securities. Congress deemed the sunset period desirable and of sufficient duration " ... for states to decide on the investment authority they wish[ed] to grant to FHLMC securities." (Housing and Community Development Amendment of 1979, House Report 96-706)



LEGAL INVESTMENT STATUS OF FILING PREFERRED STOCK UPON SUNSET OF 306(c)

Legal (23)

Not Legal/General Prohibition (10)

Not Legal/FNMA Exception (15)

Not Legal/Others (4)

Arizona  
 California  
 Connecticut  
 Delaware  
 District of Columbia  
 Illinois  
 Indiana  
 Maine  
 Maryland  
 Massachusetts  
 Minnesota  
 Missouri  
 Nebraska  
 Nevada  
 New Hampshire  
 North Carolina  
 Ohio  
 Rhode Island  
 South Carolina  
 Tennessee  
 Utah  
 Vermont  
 West Virginia

Alaska  
 Arkansas  
 Colorado  
 Idaho  
 Louisiana  
 Mississippi  
 Montana  
 Texas  
 Washington  
 Wisconsin

Alabama  
 Florida  
 Hawaii  
 Iowa  
 Kansas  
 Kentucky  
 Michigan  
 New Mexico  
 North Dakota  
 Oklahoma  
 Pennsylvania  
 Puerto Rico  
 South Dakota  
 Virginia  
 Wyoming

Georgia - administrative  
 remedy available  
 New Jersey - administrative  
 remedy available  
 New York - administrative  
 remedy available  
 Oregon - not legal for preferred  
 stock only

## LEGAL INVESTMENT SURVEY

State	Savings Banks	Commercial Banks	Savings and Loan Associations	Trust Funds	Life Insurance Companies	Insurance Companies Other Than Life	State Employees Retirement Systems	Teachers Retirement Systems
Alabama .....	(1)	Legal	Legal	Legal	Legal	(2)	Legal	Legal
Alaska .....	Legal	Legal	Legal	(2)	Legal	Legal	(3)	(3)
Arizona .....	(1)	Legal	Legal	(2)	Legal	Legal	Legal	(4)
Arkansas .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
California .....	Legal(1)	Legal	Legal	(3)	Not Legal	Not Legal	Legal	Legal
Colorado .....	(1)	Legal	Legal	(3)	Legal	Legal	(3)	(3)
Connecticut .....	Legal	Legal	Legal	(3)	Legal	(2)	(3)	Legal
Delaware .....	(2)	Legal	(5)	(3)	Legal	Legal	(3)	(4)
District of Columbia .....	(1)	(2)	(2)	(3)	Legal	Legal	Legal	Legal
Florida .....	Legal(1)	Legal	Legal	(3)	Legal	Legal	Legal	(4)
Georgia .....	Legal(1)	Legal	Legal	Legal	Legal	Legal	Legal	Legal
Hawaii .....	Legal(1)	(6)	(7)	(3)	Legal	Legal	(3)	(4)
Idaho .....	(1)	Legal	Legal	(3)	Legal	Legal	(3)	(4)
Illinois .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Indiana .....	Legal	Legal	Legal	(3)	Legal	Legal	(3)	Legal
Iowa .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(2)
<b>Kansas .....</b>	<b>(1)</b>	<b>Legal</b>	<b>Legal</b>	<b>(3)</b>	<b>Legal</b>	<b>Legal</b>	<b>(3)</b>	<b>Legal</b>
Kentucky .....	(1)	Legal	Legal	(3)	Legal	Legal	(3)	Legal
Louisiana .....	Legal(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Maine .....	Legal	Legal	Legal	(3)	Legal	Legal	(3)	(4)
Maryland .....	(8)	(2)	Legal	(2)	Legal	Legal	Legal	Legal
Massachusetts .....	Legal	Legal	Legal	(2)	Legal	Legal	Legal	Legal
Michigan .....	(1)	Legal	Legal	Legal	Legal	Legal	Legal	Legal
Minnesota .....	Legal	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Mississippi .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(4)
Missouri .....	(1)	Legal	Legal	(2)	Legal	Legal	Legal	Legal
Montana .....	Legal(1)	Legal	Legal	Legal	Legal	Legal	Legal	Legal
Nebraska .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Nevada .....	(1)	Legal	Legal	(3)	Legal	Legal	(3)	(4)
New Hampshire .....	Legal	Legal	Legal	(3)	Legal	Legal	Legal	(4)
New Jersey .....	Legal	Legal	Legal	(3)	Legal	Legal	(3)	(3)
New Mexico .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
New York .....	Legal	Legal	Legal	(3)	Legal	Legal	Legal	Legal
North Carolina .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(4)
North Dakota .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Ohio .....	Legal(1)	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Oklahoma .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(3)
Oregon .....	Legal	Legal	Legal	(3)	Legal	Legal	(3)	(9)
Pennsylvania .....	(3)	Legal	Legal	(3)	Legal	Legal	(3)	(3)
Puerto Rico .....	Legal	Legal	(2)	(2)	Legal	Legal	Legal	Legal
Rhode Island .....	Legal	Legal	(10)	Legal	(2)	(2)	(3)	(4)
South Carolina .....	(1)	Legal	(11)	(3)	Legal	Legal	Legal	(4)
South Dakota .....	(1)	Legal	Legal	(3)	Legal	Legal	(3)	(4)
Tennessee .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(4)
Texas .....	(1)	Legal	Legal	(3)	Legal	Legal	(3)	(3)
Utah .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(4)
Vermont .....	Legal	Legal	Legal	(2)	Legal	Legal	Legal	Legal

<u>State</u>	<u>Savings Banks</u>	<u>Commercial Banks</u>	<u>Savings and Loan Associations</u>	<u>Trust Funds</u>	<u>Life Insurance Companies</u>	<u>Insurance Companies Other Than Life</u>	<u>State Employees Retirement Systems</u>	<u>Teachers Retirement Systems</u>
Virginia .....	(1)	Legal	Legal	(3)	Legal	Legal	Legal	(4)
Washington.....	Legal	Legal	Legal	(3)	Legal	Legal	(3)	(3)
West Virginia .....	(1)	Legal	Legal	Legal	Legal	Legal	Legal	Legal
Wisconsin.....	Legal	Legal	Legal	(3)	Legal	Legal	Legal	Legal
Wyoming.....	(1)	Legal	(12)	(3)	Legal	Legal	Legal	(4)

(1) According to *Polk's World Bank Directory*, North American Edition, 170th Issue, Fall, 1979, as of mid-year 1979, there were no mutual savings banks in this jurisdiction.

(2) No relevant statutory provision.

(3) Legal provided "Prudent Investor Test" is met or "Prudent Man Rule" is followed.

(4) Teachers are covered by the State Employees Retirement System.

(5) Legal only for members of the Federal Home Loan Bank System.

(6) Legal only with the consent of the Director of Regulatory Agencies of Hawaii; otherwise, legal only for members of the Federal Reserve System.

(7) Legal only for associations which are members of the Federal Home Loan Bank System and the accounts in which are insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation, subject to the consent of the Director of Regulatory Agencies of Hawaii.

(8) The relevant statute provides that any deposit of money in a savings institution "shall be invested . . . on good security, in the discretion of the directors."

(9) Legal to extent permissible under directives of the Oregon School Board.

(10) Legal only if the Director of Business Regulation of Rhode Island authorizes state-chartered associations to exercise the powers of federal savings and loan associations.

(11) Legal only if the South Carolina Board of Bank Control issues regulations permitting state-chartered associations to engage in activities authorized for federal savings and loan associations.

(12) Legal to extent permissible under rules or regulations of the Wyoming State Examiner.

CHART II  
 FHLMC INVESTOR BASE, JANUARY, 1982 - NOVEMBER, 1982  
 BANK INVESTMENT VOLUME  
 (\$ = 000)

<u>STATE*</u>	<u>TOTAL DOLLARS**</u>	<u>% FHLMC INVT. VOL.</u>
AK*	\$ 21,943	41.69
AL	24,096	16.24
AR*	2,774	1.02
AZ	38,051	11.95
CA	18,982	.07
CO	6,156	1.70
CT	2,965	.83
DC	33,434	3.44
DE	6,859	80.85
FL	18,290	.98
GA	2,670	1.13
HI	92	.10
IA	10,550	5.20
ID	5,126	5.23
IL	33,020	1.79
IN	16,477	7.78
KS	26,513	8.06
KY	40,479	20.29
LA*	9,715	6.22
MA	44,282	7.41
MD	13,767	3.15
ME	6,390	33.84
MI	270,080	15.87
MN	16,132	3.36
MO	2,671	.67
MS*	1,320	2.59
MT*	292	.85
NC	-	-
ND	2,601	2.77
NE	471	.77
NH	1,810	7.35

## STUDENT LOAN MARKETING ASSOCIATION

The Student Loan Marketing Association is a stockholder-owned corporation established by the Higher Education Act of 1965, as amended (the "Act"), to provide liquidity, primarily through secondary market and warehousing activities, for originators of loans made under the Federal Guaranteed Student Loan Program ("GSLP") and the Health Education Assistance Loan ("HEAL") program. The GSLP is a program provided for by the Act pursuant to which the U.S. Department of Education directly insures loans and reinsures loans guaranteed by various states and a limited number of non-profit private agencies. The HEAL program is similar to the GSLP but is administered by the U.S. Department of Health and Human Services. See "The Guaranteed Student Loan Program". Under the Act, Sallie Mae is authorized to purchase, warehouse, sell, offer participations or pooled interests in, or otherwise deal in student loans, including but not limited to loans insured under the GSLP, and to make commitments for any of the foregoing. Sallie Mae is also authorized to undertake a variety of additional activities in support of the credit needs of students. See "Business and Operations".

Sallie Mae obtains funds for its operations primarily from the sale of its debt obligations. Until recently, Sallie Mae financed its activities principally through the issuance to the Federal Financing Bank ("FFB") of debt obligations guaranteed by the Secretary of Education. In March 1981 the FFB agreed to lend Sallie Mae up to a total of \$5 billion, inclusive of borrowings then outstanding. The funds available under this agreement were exhausted in January 1982. Sallie Mae issues to investors a variety of non-guaranteed debt obligations, including discount notes and fixed and floating rate notes. See "Capitalization", "Management's Discussion and Analysis of Operating Results and Financial Condition" and "Business and Operations—Financing".

The principal office of Sallie Mae is at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007, and its telephone number is (202) 333-8000.

### USE OF PROCEEDS

The net proceeds from the sale of the Adjustable Rate Preferred Stock offered hereby will be used by Sallie Mae for general corporate purposes, including the acquisition of additional variable rate assets.

### SELECTED FINANCIAL DATA

	December 31.				
	1982	1981	1980	1979	1978
<b>(Dollars in thousands, except per share data)</b>					
Net interest income .....	\$ 90,091	\$ 50,165	\$ 27,018	\$ 17,341	\$ 15,038
Net income .....	37,753	18,046	9,440	6,347	5,905
Student loans .....	3,222,004	2,071,500	1,217,058	732,177	438,051
Warehousing advances .....	3,191,117	2,754,915	1,421,622	707,621	413,966
Total borrowings .....	7,292,722	5,019,497	2,720,000	1,505,000	915,000
Stockholders' equity .....	103,339	67,711	51,198	43,092	37,745
Net interest margin .....	1.47%	1.26%	1.23%	1.46%	2.12%
Earnings per share .....	\$37.75	\$18.05	\$9.44	\$6.35	\$5.90
Dividends per share .....	2.13	1.53	1.33	1.00	.63

such loans made pursuant to either of such sections and in the share capital and capital reserve of the inter-American savings and loan bank. This authority extends to the acquisition, holding, and disposition of loans having the benefit of any guaranty under section 221 or 222 of such act, or of any commitment or agreement for any such guaranty;

(C) investments under subparagraph (A) of this paragraph shall not be included in any percentage of assets or other percentage referred to in this subsection. Investments under subparagraph (B) of this paragraph shall not exceed, in the case of any association, 1% of the assets of such association;

(4) an association whose net worth in aggregate exceeds that amount which is determined by the national housing act is authorized to invest in obligations which constitute prudent investments, as defined by the commissioner, of Kansas and its political subdivisions thereof, (including any agency, corporation, or instrumentality) if the proceeds of such obligations are to be used for rehabilitation, financing, or the construction of residential real estate, and the aggregate amount of all investments under this paragraph shall not exceed the amount of the association's net worth accounts.

(aa) *Subject to such prohibitions, limitations and conditions as the commissioner may by regulation provide an association may engage in financial futures transactions and financial options transactions.*

(bb) *Subject to such prohibitions, limitations and conditions as the commissioner may by regulation provide an association may establish or maintain a data processing office with functions limited to providing data processing services for its own use or primarily for other depository institutions without observing the application and approval procedures for branch offices as provided for in K.S.A. 17-5225, and amendments thereto. An association may participate with others in establishing or maintaining a data processing office, except that the association may participate in establishing or maintaining a data processing office controlled by an entity not subject to a federal or state agency regulating financial institutions only if such entity has agreed in writing with the commissioner that it will permit and pay for such examination of the office as the commissioner deems necessary, and that it will make available for such purposes any records in its possession relating to the operation of the office.*

(cc) *Subject to such prohibitions, limitations and conditions as the commissioner may by regulation provide an association may provide correspondent services primarily to other deposi-*



# NEWS RELEASE

Comptroller of the Currency  
Administrator of National Banks

NR 83-84

Washington, D. C. 20219

For: IMMEDIATE RELEASE

Contact: Marie France  
(202) 447-1800

Date: December 15, 1983

## National Banks Can Purchase Shares in Money Market Mutual Funds

The Office of the Comptroller of the Currency (OCC) today announced guidelines for national banks to purchase shares of money market mutual funds. The guidelines permit national banks to purchase, for their own accounts, shares offered by open-end investment companies that invest solely in the types of securities that banks may purchase directly under the national banking laws.

In announcing the guidelines, Senior Deputy Comptroller H. Joe Selby explained that "deregulation of the liability side of the bank balance sheet is causing a larger percentage of liabilities to be far more rate-sensitive and to have shorter maturities. Many smaller banks are finding it increasingly difficult to match their liabilities with direct investments in their asset accounts."

Allowing banks to purchase shares in certain money market mutual funds provides an alternative to direct purchase of securities, which can be costly, Selby said. "For some banks, investing in money market fund shares may provide more liquidity, risk diversification, flexibility and convenience, yet also provide investment results comparable to those gained from purchasing securities directly."

The guidelines require national banks to purchase solely from investment companies that are money market funds. If a company's securities are subject to a bank's investment or lending limits, investment in the fund must be limited to 10 percent of the bank's capital and surplus. Banks that invest in shares of more than one investment company must ensure that their cumulative holdings of shares subject to the 10 percent limit do not exceed that limit.

The guidelines also stipulate that bank investment policies specifically provide for such investments and that board approval be obtained before the initial purchase of funds. Banks should also conduct reviews of their holdings at least monthly.

(more)

Today's guidelines are intended to ensure that banks establish proper controls, so that investments are made in a prudent and legal manner. Selby cautioned, however, that "it remains the responsibility of bank management to ensure that a particular investment company fund is a proper investment for the bank's portfolio."

The guidelines issued in Banking Bulletin No. 83-58 are attached.

###





# BANKING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Banking Bulletin

Subject: National Bank Portfolio Investments  
in Mutual Funds Composed Wholly of  
Bank Eligible Investments

TO: Chief Executive Officers of all National Banks and  
Examining Personnel

This Office has determined that it is permissible for a national bank to purchase for its own account shares of open-end investment companies which are purchased or sold at par (i.e. money market funds), as long as the portfolios of such companies consist solely of securities which are eligible for purchase by national banks pursuant to paragraph Seventh of 12 USC 24.

National banks which desire to make such purchases should be aware that it remains the responsibility of a bank's management to ensure that the particular investment company is a proper investment for the bank's portfolio. That decision is the ultimate responsibility of the bank's board of directors. Each holding of shares of an investment company must be reviewed at least on a monthly basis in order to determine whether that particular investment continues to be appropriate for the bank's portfolio.

Banks may purchase and hold investment company shares without limitation if the portfolio of such a company consists wholly of investments in which the bank could invest directly without limitation pursuant to provisions of paragraph Seventh of 12 USC 24. Funds whose portfolios contain investments which are subject to the limits of 12 USC 24 or 12 USC 84 may only be held in an amount not in excess of 10% of capital and surplus. That is, a bank may only invest an amount not in excess of 10% of its capital and surplus in each such investment company.

In addition, banks which invest in investment companies which have portfolio investments of this type must be aware of the possibility of a violation by the bank of the 10% limitation of paragraph Seventh of 12 USC 24, by virtue of the cumulative holdings of a particular security in the portfolio of more than one investment company. Accordingly, it will be the responsibility of the bank which has invested in shares of more than one investment company, to determine that its pro rata share of any security in the fund portfolio which is subject to the 10% limitation, is not in excess of that limitation by reason of being combined with the bank's pro rata share of that security held by all other funds in which the bank has invested. Periodic reviews of the holdings of investment companies whose shares are held by the bank must be conducted for this purpose.



# BANKING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Banking Bulletin

Subject: National Bank Portfolio Investments  
in Mutual Funds Composed Wholly of  
Bank Eligible Investments

In summary, the approval of this Office for the investment of bank portfolio funds in the shares of investment companies is conditioned as follows:

1. The fund is an open-ended investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and Securities Act of 1933 or a privately offered fund sponsored by an affiliated commercial bank.
2. When the fund's assets consist solely of and are limited to obligations that are eligible for investment by a national bank, there is no limit on the bank's investment. But where the fund contains securities subject to the bank's investment or lending limitations, investment must be limited to 10% of capital and surplus.
3. The fund's shares are bought and sold at par (i.e., the fund is a money market fund).
4. The shareholder has an equitable and equal proportionate undivided interest in the underlying assets of the fund.
5. Shareholders are shielded from personal liability for acts or obligations of the fund.
6. The bank's investment policy, as formally approved by its board of directors, specifically provides for such investments; prior approval of the board of directors is obtained for initial investments in specific funds and recorded in the official board minutes; and procedures, standards, and controls for the implementation of such investments are established.
7. The bank conducts reviews at least monthly of its holdings of investment company shares to ensure that such investments are in accordance with the foregoing principles.

No page 3 of 3

Banking Issuance

12/15/83

A Attachment I.



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

January 31, 1984

TO: House Committee on Commercial and Financial Institutions

RE: HB 2759--Powers of bank service corporations of state chartered banks

Mr. Chairman and members of the committee:

We respectfully request that this committee give favorable consideration to HB 2759 which gives state banks the authority to invest in bank service corporations which would have expanded powers commensurate with those granted to bank service corporations for national banks under the provisions of the Garn-St.Germain Act of 1982. As we have stated in past testimony on conformity legislation we believe that it is vital in our dual banking system that state chartered banks and their subsidiaries have authority to provide services substantially equal to those provided by national banks and their subsidiaries.

HB 2759 allows banks service corporations to perform other than clerical services and for other than stockholding banks. It further allows such corporations to perform stated clerical service for banks, trust companies, saving and loan associations, savings bank and credit unions. However, with the approval of the Bank Commissioner and the Banking Board, such service corporations could perform for any other person a service its bank stockholders are authorized to perform other than deposit taking, and at such locations as its bank share holders are authorized to perform such services. It is important to emphasize that bank service corporations may not take deposits.

The bill further provides that such service corporations may perform services in other states with the approval of the State Bank Commissioner and State Banking Board. The bill does require, however, that all shareholding banks be located in Kansas except with the express approval of the Commissioner and Banking Board and that at least one stockholding bank must be a Kansas state chartered bank.

HB 2759 also allows service corporations to perform anywhere any service, other than deposit taking, that the federal reserve has determined by regulation to be permissible for bank holding companies. The bill further makes such service corporations subject to examination by the Commissioner and gives him and the State Banking Board authority to adopt rules and regulations to carry out the act and to prevent evasions.

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*Attch. II*  
*1/31/84*

House Committee on Commercial and Financial Institutions  
January 31, 1984  
Page Two

Under the provisions of the bill, state banks are authorized to invest up to 10% of capital and unimpaired surplus and up to 5% of total assets in service corporations. The bill further prohibits any service corporations from unreasonable discrimination in the providing of services to any depository institution which does not own stock in the corporation.

Thank you for the opportunity to appear on HB 2759 and we respectfully request that the committee give favorable consideration to the provisions of this bill.

James S. Maag  
Director of Research