

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

The meeting was called to order by Sen. Neil H. Arasmith at
Chairperson

9:00 a.m./~~p.m.~~ on February 14, 1984 in room 313-S of the Capitol.

All members were present except:

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Joan Lieber, Kansas Farm Bureau
Viola Dodge, Kansas Agri Women
Fred Allen, Kansas Association of Counties
Ivan Wyatt, Kansas Farmers Union
Bob Nellis, Kansas Independent Bankers Association
John Tincher, Kansas Independent Bankers Association

The minutes of February 13 were approved.

The chairman announced that Sen. Feleciano had requested time to question Eugene Hegarty, Bank Commissioner, regarding testimony of the previous day before the hearing for opponents of SB 673 began. Sen. Feleciano's question pertained to the discussion as to if additional staff and money would be needed to enforce the requirements for the Bank Commissioner's office in SB 673. Sen. Feleciano was concerned as to if the information in the previous testimony accurately relayed the fiscal impact on the State Department. Mr. Hegarty explained that the fiscal impact of the bill is found on lines 107-114 where it indicates that the Bank Commissioner would have to check the record of performance after an application for acquisition is filed. This would require more personnel.

The chairman called on Joan Lieber, Kansas Farm Bureau, to give her testimony opposing SB 673. (See Attachment I.)

The chairman then called on Viola Dodge, Kansas Agri Women, for her testimony on SB 673. (See Attachment II.)

Fred Allen, Kansas Association of Counties, followed with his testimony in opposition to SB 673. He said that he had mailed copies of his platform earlier and called the committee's attention to item four of the platform which deals with the opposition to the multi-bank holding company concept.

Next to be heard was Ivan Wyatt of the Kansas Farmers Union. He stated that he would mail copies of his testimony soon. He said that his main concern was that the farmer will no longer be dealing with the man owning the bank but with a mere employee if the multi-bank holding companies are allowed in Kansas. He feels that agriculture is too often overlooked even though the larger portion of banking business in Kansas is related to agriculture. Regarding the safeguards in the bill, Mr. Wyatt feels that they will last for a short time only, and then legal loopholes will be found when people forget the passage of the bill.

The chairman called on Pete Magill, Kansas Independent Bankers Association, to introduce conferees from his association. Mr. Magill introduced Bob Nellis, President of the Exchange State Bank in Douglas, Kansas, who gave his testimony in opposition to SB 673. (See Attachment III.)

Mr. Magill introduced John Tincher of the Lyndon Bank appearing on behalf of the Kansas Independent Bankers Association in opposition to SB 673. (See Attachment IV.)

Mr. Tincher's testimony concluded the hearing for opponents of SB 673. The chairman

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS,
room 313-S, Statehouse, at 9:00 a.m./~~xxx~~ on February 14, 1984.

called for questions from the committee.

Sen. Werts questioned Mr. Nellis in regard to part of his testimony referring to the possibility of force feeding a loan in excess of the legal lending limit to a subsidiary bank in the multi-bank holding company situation. He asked Mr. Nellis in his experience as a bank examiner who he looked to for responsibility when examining a bank. Mr. Nellis answered that the chairman is responsible although the board is responsible to hire a competent chief executive officer and does approve loans sooner or later after the loans go on the books. Mr. Nellis added that if the board is controlled by a holding company representative, then that one man can control loans. Sen. Werts inquired if the examiner looks to the board for responsibility of making a bad loan. Mr. Nellis answered that, no, the bad loan is charged off and not carried in the assets any longer. Sen. Werts asked why Mr. Nellis speaks of force feeding as bad lending. Mr. Nellis replied that too often the board is directed by the chairman or owner, and in a multi-bank holding company situation, one individual can control making a larger loan than the legal limit because he can downstream it to his other banks. Sen. Werts asked if this would be similar to chain banking now in existence, and Mr. Nellis said it would be and further agreed with Sen. Werts that they are less efficient than the multi-bank holding company plan.

Sen. Reilly expressed his concern that the definitions of "bank" in New Section 2 and in other sections of SB 673 allow the State of Kansas to usurp the federal government's authority in the acquisition of a bank which he feels may not be legal. Patrick Hurley, Kansas Association for Economic Growth, responded to Sen. Reilly's concern. He informed the committee that he had talked with attorneys at the Federal Reserve who had said that they were not sure how this would apply to the acquisition by a holding company because Congress has given states the authority to decide if they will allow holding companies, and it could follow that states could, thus, also deny holding companies.

The chairman asked the committee if it wished to take action on the bill in the time remaining.

Sen. Harder expressed his feeling that the committee should not have to act as referee in a feud between two different banking philosophies. He made a motion that SB 673 be reported adversely. Sen. Gordon seconded the motion.

Sen. Werts made a substitute motion that SB 673 be reported without recommendation. Sen. McCray seconded the motion after stating that he felt that this would allow the bill to get on the Senate floor which is necessary since it is of statewide importance.

The chairman expressed his reluctance to approve this type of committee action because it is a poor reflection on the committee's ability to make a decision. He then called for a vote on the substitute motion made by Sen. Werts. The chairman felt the motion failed. A request for division was made, and the motion failed with a tie vote.

Sen. Reilly said that he felt to report the bill without recommendation would not be the correct approach because it is the duty of the committee to make a decision. However, he felt that the committee needed more time to discuss the bill among themselves. He added that he, himself, still needed more time to make this important decision.

The chairman reminded the committee that the session was in its sixth week, and the multi-bank holding company concept had been discussed during this time even though the bill was not actually introduced until a few days ago. He felt that most of the committee members had made up their minds during these weeks of waiting for the bill to be introduced.

The chairman called for another vote on the motion made by Sen. Harder to report SB 673 adversely. He was in doubt on the voice vote and called for a hand vote. The motion failed.

The chairman announced that committee discussion on SB 673 would be held on February 16.

The meeting was adjourned.

SENATE COMMITTEE

ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2/14	Joe Burke	1917 ^{Topo} Arms ^{Headed}	Fairbank ^{off} Bank ^{Bank}
	Kennel Wath	Topeka, ks	Kansas Indpnt Bank
	Harold Stone	Topeka KS	Ks Bankers Assn
	Jim Mass	"	" " "
	Joan St. Peter	Osage City	Kansas Farm Bureau
	Sue Anderson	Cardonvale	KIBA
	John Fincher	Lyndon	KIBA
	Kirk McConachie	Wichita, ks.	KIBA
	Jeffery J. Holm	Belton	KEAG
	Patrick J. Hurley	Topeka	KAEG
	Mark Benett	Topeka	Am Bus Assn
	Mervin Chubotte	"	KCUL
	Andrew Dandrea	Topeka	Kansas Bankers Assn
	Jim McBride	Topeka	United Way of Topeka
	Dr. Charles E. Massman	Harveyville	KIBA
	Bette Fowler	Burlingame	First State Bank
	David Fowler	Burlingame	1st State Bank
	Mark Johnson	Lyndon	Lyndon State Bank
	M. Haver	Topeka	Charters - Lyndon
	Joel Wright	"	KCUL
	David Hanzlick	"	HS W & Hs
	Jones	Topeka	
	Susan Jones	Topeka	
	Jim Turner	Topeka	KLSI

STATEMENT TO THE
SENATE COMMERCIAL & FINANCIAL INSTITUTIONS COMMITTEE
REGARDING SENATE BILL 763
BY

JOAN LIEBER
KANSAS FARM BUREAU

FEBRUARY 14, 1984

Atch. I (attachment)

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS JOAN LIEBER. I AM A FARM WIFE IN OSAGE COUNTY, AND AM SPEAKING IN BEHALF OF KANSAS FARM BUREAU.

IN KANSAS FARM BUREAU, OUR POLICY BEGINS AT THE GRASSROOT LEVEL WITH SUGGESTIONS FOR POLICY COMING FROM THE MEMBERS. THESE SUGGESTIONS ARE RESEARCHED AND DISCUSSED IN STUDY AND RESEARCH PAPERS WHICH ARE SENT TO THE COUNTY FARM BUREAUS. THE COUNTY MEMBERS READ THE MATERIAL, DISCUSS IT AND ANSWER THE ATTACHED QUESTIONNAIRE. THE RESULTS ARE REVIEWED AT THE KFB RESOLUTIONS COMMITTEE MEETING WHICH PROPOSES RESOLUTIONS FOR KFB POLICY.

THE PROPOSED RESOLUTIONS ARE BROUGHT BEFORE THE ANNUAL KFB CONVENTION WHERE DELEGATES FROM ACROSS THE STATE DISCUSS, AMEND, AND VOTE ON THEM, AND THOSE PASSED BECOME PART OF KFB POLICY. THIS IS NO RUBBERSTAMP MEETING, IT IS REALLY DEMOCRACY IN ACTION.

FOR THE LAST TWO YEARS, I SERVED ON THE KFB RESOLUTIONS COMMITTEE, AND ONE OF THE STUDY PAPERS SENT OUT WAS ENTITLED "CONTROVERSIES IN BANKINGS." IT WAS AN UNBIASED, COMPREHENSIVE PAPER HELPING TO BRING THE MEMBERS UP-TO-DATE ON PAST AND PRESENT BANKING LAWS, EXPLAINING VARIOUS SYSTEMS OF BANK OWNERSHIP AND GAVE THE ARGUMENTS FOR AND AGAINST MULTIBANK HOLDING COMPANIES.

ONE OF THE QUESTIONS ON THE QUESTIONNAIRE SHEET WAS "SHOULD A KANSAS FARM BUREAU RESOLUTION ENDORSE OR OPPOSE MULTIBANK HOLDING COMPANIES?" THE RESULTS WERE OVERWHELMING. OF THE COUNTY COMMITTEES WHICH RESPONDED TO THE QUESTIONNAIRE, OVER 94% OPPOSED MBHCs. THIS IS AN USUALLY LARGE PROPORTION OF UNIFORM OPINION FOR A RESEARCH PAPER.

AT THE ANNUAL KFB MEETING, THE DELEGATES ADOPTED A RESOLUTION THAT READS AS FOLLOWS:

BANKING FACILITIES AND SERVICES

WE BELIEVE THERE SHOULD BE NO FURTHER DEVELOPEMNTN OF DETACHED FACILITIES OR SERVICES BY BANKS OR OTHER FINANCIAL INSTITUTIONS. WE ARE OPPOSED TO BRANCH BANKING AND TO THE ACQUISITION OF BANKS OR OTHER FINANCIAL INSTITUTIONS BY MULTIBANK HOLDING COMPANIES.

MY HUSBAND AND I HAVE BEEN KANSAS RESIDENTS ALL OUR LIVES, AND ARE CONTINUING IN THE BUSINESS ESTABLISHED BY OUR FATHERS. THE MAJOR BUSINESS BANKING WAS DONE WITH A LARGE BANK IN KANSAS CITY, MISSOURI; CARRYING ON THE FAMILY TRADITION. BUT WHEN THAT BANK CHANGED INTO THE MBHC SYSTEM, WE NOTICED A CHANGE IN ATTITUDE AND POLICY. WE TRAVELED TO KANSAS CITY APPROXIMATELY EVERY 6 MONTHS FOR BANK CONFERENCES. EACH TIME WE WENT TO THE BANK, SOMEONE ELSE WAS IN CHARGE OF AGRICULTURAL LOANS, AND THERE WAS NO CONTINUITY OF PERSONNEL OR POLICY. THE PERSON IN CHARGE OFTEN DIDN'T UNDERSTAND OR CARE ABOUT OUR CATTLE BUSINESS. SOON, WE MOVED THAT ACCOUNT TO A LOCAL BANK IN OUR OWN COUNTY. WE FOUND A BANK THAT UNDERSTANDS OUR BUSINESS AND OUR OWN SPECIAL CIRCUMSTANCES . WHEN A LOAN IS TOO LARGE FOR OUR BANK--IT IS HANDLED THROUGH CORRESPONDENT BANKS, OR OFTEN WITH OTHER INDEPENDENT BANKS WITHIN THE COUNTY.

AGRICULTURAL LOANS DO NOT EARN THE HIGHEST RATES OF INTEREST, BUT AGRICULTURE IS THE MOST IMPORTANT INDUSTRY IN KANSAS, AND KANSAS BANKS ARE HANDLING THAT SECTOR VERY WELL.

ACCORDING TO THE 1983 ANNUAL REPORT OF THE AGRICULTURAL BANKERS DIVISION OF THE AMERICAN BANKERS ASSOCIATION, KANSAS RANKS NUMBER ONE IN THE NATION IN THE PERCENTAGE OF TOTAL FARM LOANS HELD IN BANKS AMONG STATES WITH OVER \$1 BILLION IN FARM LOANS. IN CONSIDERING THE STATE OF KANSAS BY ITSELF, KANSAS BANKS PROVIDE KANSAS AGRICULTURE WITH 56% OF ALL NON-REAL ESTATE FARM FUNDING. THAT IS MORE THAN ALL THE OTHER TYPES OF AGRICULTURAL LENDING INSTITUTIONS COMBINED.

BECAUSE THEIR LOCAL BANKS ARE DOING SUCH A GOOD JOB, KANSAS FARMERS ARE RELYING MORE ON THEM AND LESS ON THE FEDERAL GOVERNMENT AGENCIES, SUCH AS PRODUCTION CREDIT ASSOCIATION. FEDERAL AGRICULTURAL CREDIT INSTITUTIONS ARE SUBSIDIZED BY YOUR TAXES, SO THE CAPABLE KANSAS BANKS ARE HELPING HOLD DOWN YOUR TAXES.

WHEN YOU ALLOW A CORPORATION WITH A LARGE POOL OF MONEY TO BUY BANKS, THE POTENTIAL TOWARD AMASSING AND CONCENTRATING POWER IS MUCH GREATER THAN WHEN YOU LIMIT IT TO INDIVIDUALS; VERY FEW INDIVIDUALS HAVE THAT KIND OF MONEY!

LARGER ORGANIZATIONS AREN'T ALWAYS MORE EFFICIENT, AND THEY CERTAINLY AREN'T AS MINDFUL OF COMMUNITY NEEDS. EVEN IF BANK DIRECTORS WERE LOCAL, THEY WOULD BE ELECTED ACCORDING TO THE WISHES OF THE LARGE STOCK HOLDERS, AND THEIR DECISIONS WOULD BE IN ACCORDANCE TO THE WISHES OF THE STOCK HOLDERS WHO ELECTED THEM.

GIVEN THE KNOWLEDGE OF BANKING PRACTICES; PAST, PRESENT AND POSSIBLE FUTURE, THE MEMBERS OF KANSAS FARM BUREAU ARE OPPOSED TO ANY CHANGE IN THE CURRENT BANK STRUCTURE WHICH WOULD ALLOW MULTIBANK HOLDING COMPANIES.

TESTIMONY TO SENATE COMMERCIAL & FINANCIAL INSTITUTIONS COMMITTEE
FEBRAURY 14, 1984
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THE CURRENT BANK STRUCTURE WHICH WOULD ALLOW MULTIBANK HOLDING
COMPANIES

THE KFB RESEARCH PAPER AQND REPORT OF THE AGRICULTURAL
BANKERS DIVISION OF THE AMERICAN BANKERS ASSOCIATION ARE INCLUDED
IN THE COPY OF MY REMARKS.

THANK YOU FOR YOUR TIME HERE TODAY.

AGRICULTURAL LOAN TOTALS

January 1, 1983

<u>State</u>	<u>Non-Real Estate Loans Held by Banks</u> (Millions)		<u>Real Estate Loans Held by Banks</u> (Millions)		<u>Total Farm Loans Held by Banks</u> (Millions)	<u>State Total***</u> (Millions)	<u>Bank %</u>
Kansas	\$2,224	(56%)*	\$211	(6%)**	\$2,434	\$7,809	31%
Nebraska	2,863	(49%)	115	(3%)	2,977	10,102	29%
Missouri	1,385	(51%)	559	(14%)	1,943	6,595	29%
Oklahoma	1,255	(47%)	228	(8%)	1,483	5,376	28%
California	3,762	(58%)	532	(6%)	4,294	15,112	28%
Illinois	2,379	(54%)	537	(8%)	2,916	10,781	27%
Kentucky	612	(40%)	409	(18%)	1,020	3,831	27%
Texas	2,552	(43%)	556	(9%)	3,107	11,998	26%
South Dakota	1,266	(44%)	50	(2%)	1,316	4,974	26%
Iowa	3,766	(51%)	343	(4%)	4,108	16,121	25%
Minnesota	2,256	(41%)	283	(5%)	2,539	11,154	23%
Wisconsin	1,047	(35%)	475	(13%)	1,521	6,771	22%
Indiana	997	(38%)	521	(11%)	1,498	7,225	21%
North Dakota	913	(30%)	120	(5%)	1,033	5,379	19%

* % of all agricultural non-real estate loans held by banks

** % of all agricultural real estate loans held by banks

*** Total of all agricultural loans by all lenders

Kansas ranks number one (#1) in the nation in % of total farm loans held in banks among states with over \$1 billion in farm loans. (National average = 21%. Kansas = 31%)

Kansas ranks #2 in the nation in the % of non-real estate farm loans held by banks. (National average = 34%. Kansas = 56%)

FARM BUREAU

POLICY DEVELOPMENT



Research Paper

KANSAS FARM BUREAU

Public Affairs

— 2321 Anderson Avenue, Manhattan, Kansas —

Study Subject. No. 3 -- Commercial and Financial
Institutions

April 23, 1982

- TO: County Policy Chairman
Vice-chairman for National Affairs
Vice-chairman for State Affairs
1. Please ask county Farm Bureau Secretary to distribute copies of this material IMMEDIATELY to committee members so that they may become familiar with the issue.
 2. Call a meeting to discuss the issue and to offer recommendations and conclusions.
 3. Use the attached green sheet to send a report by 1 June 1982 to: Public Affairs Division, Kansas Farm Bureau, 2321 Anderson Avenue, Manhattan, Kansas 66502.

CONTROVERSIES IN BANKING

Banking, "any associated form of general dealing in money or credit," is as old as man. "Time was when there were no banks, but time never was when there was no banking." Trade, barter and exchange were banking practices however simplistic. Banking functions have been and are fundamental and indispensable and belong to all stages and stratas of human society. If not originated, they will in the very nature and necessity of things automatically originate themselves. The banking business is a continually changing entity, which becomes more complex as each year passes.

Definitions Given

The following definitions for unit banking, branch banking, multi-bank holding companies (mbhc), and chain banking are background to help understand the surface processes of banking.

Unit banking -- exists when banking services are offered by a single-bank corporation operating from a single place of business.

Membership Participation - Our Solid Foundation

The corporation has its own board of directors and stockholders and is not controlled by any other bank, corporation or individual that controls another bank and the bank itself does not control any other bank. (Under more common usage, states which permit limited-service, detached facilities or ownership of two or more banks by a single individual are considered to have a unit banking structure. Kansas allows one-bank holding companies. The holding company may own one bank and no more than 25% of the voting shares of another bank.)

Branch banking -- a single banking business conducts banking operations at two or more places. The branches are controlled from one location and by the same stockholders. Bank policies are formulated by a single management team at the head office.

Multi-bank holding companies -- own a substantial portion of the stock of two or more banks. Each bank in the group has its own board of directors and management. The actual loan limit of each subsidiary is constrained by the capital of that subsidiary. Through loan participation, however, the subsidiary has a potential loan limit equal to that of the organization. Receiving capital on loan from others within the organization (loan participation) is contingent on the holding company's management approval. The management of each holding company maintains overall control of the member banks and determines the total investment, loan and operating policies of each bank to a great extent. A multi-bank holding company may also own non-banking interests. These interests, however, must be closely related to banking and not contrary to the public interest.

Chain banking -- ownership or control of two or more banks by one individual or group of individuals. The difference between this and holding company banking is that in chain banking ownership may not be by a corporation. There is little state law throughout the U.S. regarding chain banking and no restrictions or prohibitions of it exist in Kansas.

"Deregulation" Discussed

The primary aim of deregulation in any industry is to establish a "level playing field" for all competitors. Deregulation is occurring for depository institutions with the phasing out of restrictions through the Depository Institutions Deregulations and Monetary Control Act of 1980. Following are certain provisions of this Act:

1. *The phase-out of interest rate ceilings on deposits over a six-year period.*
2. *The authorization to offer NOW (negotiable order of withdrawal) accounts (fundamentally, interest-earning checking accounts) at all federally insured depository institutions beginning December 31, 1980 to individuals and non-profit organizations.*
3. *The authorization of share drafts at federally insured credit unions (effective March 31, 1980)*
4. *The authorization for mutual savings banks to offer demand deposits to business customers*
5. *Increased investment options for thrift institutions*
 - For federal-chartered savings and loans:*
 - a. *consumer lending, commercial paper, and debt security investment of up to 20 percent of assets*
 - b. *issuance of credit cards*
 - c. *trust-fiduciary powers*
 - For federally insured credit unions:*
 - a. *real estate loans*
 - For federal mutual savings banks:*
 - a. *commercial, corporate and business loans, (up to 5 percent of assets)*

Federal savings and loans can branch statewide even in states that limit banks to a single office or limited facilities. Those nondepository institutions not regulated as to geographic expansion are finance companies, money market mutual funds and brokerage firms.

Kansas Situation Explored

The Banking Act of 1891 was the first legislation concerning banking enacted in Kansas. Before this legislation was passed, Kansas had over 400 state institutions operating in an unrestrained manner. From the early 1850's to 1891, three types of banking flourished: (1) the independent individual who mixed banking with the principal business in which he was engaged, (2) private banks, a partnership form of banking, (3) incorporated banks. Kansas state banks are now private corporations which, while governed in their operations by the Kansas Banking Law, receive their corporate status by virtue of the general corporation law of the state (K.S.A. 17-202 and 17-214). The existence of a Kansas bank begins on the day the charter is

filed in the office of the Secretary of State and continues for a period of 50 years.

Kansas' unit banking system has 619 banks, of which 469 are state chartered. One-bank holding companies have 233 of the 469 state chartered banks. Of the remaining 236 state chartered banks, 121 are owned by 47 individuals or families.

With 619 banks, Kansas maintains about 4½% of the country's banks with 1% of the country's population. (The U.S. has around 14,000 banks, more than the total number of banks in the rest of the world.) This situation exists, in part, because Kansas is one of only three states which allow neither multi-bank holding companies nor branch banking.

Kansas Legislation Expanded Service

From 1891 to 1929, the laws of Kansas were silent as to the subject of branch banking and, because of the silence, branch banking was held to be prohibited.

In 1929, written into the Kansas banking laws was a positive negative -- if such exists -- prohibiting Kansas state banks from establishing branches. The Kansas Legislature has enacted legislation in the last 20 years causing a weakening of this prohibition.

In 1957, legislation was enacted to allow banks to have one detached facility to cash checks and receive deposits. The facility had to be within a half mile of the main bank. In 1973, banks were permitted two more facilities within the city limits to handle checking accounts. These facilities are not allowed to make loans.

Whatever extent state banks are permitted by state law to establish branches, to that same extent national banks are permitted by federal law to exercise the same functions. The McFadden Act of 1927 preserves the right of states to determine their own banking structure. National banks are regulated by the same regulations as state banks for structural purposes.

Banking Legislation Introduced

Legislation to reduce banking constraints failed in both the 1979 and 1980 Legislative Sessions.

Two House bills, HB 2408 and HB 2409, were carried over from the 1981 session. These bills were referred to the Committee on Commercial and Financial Institutions. Neither bill received hearings in 1981 nor 1982 and, consequently, died in committee.

HB 2408 would have allowed full service branch banking. Banks would not be limited in the number of branch banks established.

HB 2409 would have repealed K.S.A. 9505 and 9505a. This is the Kansas law prohibiting bank holding companies except previously established bank holding companies. (Kansas statute defines multi-bank holding companies as corporations owning one bank and more than 25% of the shares of a second bank.)

Existing bank holding companies can not:

- a. Acquire control of more than 25% of the voting shares of two or more banks.
- b. Merge with any other bank holding company.

This legislation, HB 2409, would allow multi-bank holding companies.

Legislation introduced during 1982, HB 3123, allowed any existing detached facility to make consumer loans not exceeding \$100,000. This measure also did not meet the deadline for consideration of bills in committee, and died.

Controversy Surrounding Banking Structure

Statewide branch banking is allowed in 22 states. The unit banking structure is used in 11 states (including Kansas) and the remaining states allow some form of limited branching.

Legislation, as stated above, has been considered to allow branch banking in Kansas. This has created a great deal of controversy. The issue of allowing branch banking has three main areas:

- a. Retain existing territory regulations (pg. 4) but allow these banks to issue consumer loans.
- b. Allow banks to establish full service branches throughout the state.
- c. Retain status quo.

There are few proponents of statewide branch banking. However, there are many who advocate full service for those detached facilities presently allowed arguing that requiring a consumer to drive downtown to the main bank is "not providing full and convenient service to customers. The ability to make loans at branch facilities is just another constraint on bank growth and service to the consumer, business and agriculture."

Those who oppose any expansion of detached facility regulations fear that additional expansion will lead to statewide branch banking (parent banks establishing branches outside their city limits). Statewide branching, it is feared, will eliminate the small town independent banks. The problem is where to draw the line. Sam Forrer, Sr. V-Pres., Grant County State

Bank, claims "allowing them to make loans in their detached facilities probably is not significant in itself. But the idea it conveys that branch banking is all right is what we object to." The argument that non-bank institutions are threatening Kansas banks is rejected by Forrer saying they should meet the competition head on with competitive interest rates.

Those who want expansion of banking services claim they can not meet competition head on because of the diversification of non-bank institutions and the different regulations governing them.

"For the first time in recent history, community bankers are now experiencing severe competition--not from the banks across the street or in a neighboring Kansas town, but from the host of financial intermediaries operating nationwide without controls and regulations."

"Consider for a moment that Bank of America in California, the nation's largest bank owns Finance America and they have 382 offices in 38 states. Citibank, the second largest, owns Nationwide Financial Services with 184 offices in 27 states. Security Pacific, a large Los Angeles based bank owns Security Pacific Finance which has four offices in Wichita. Continental Bank in Chicago just purchased (1980) the \$121 million Foothill Group with finance offices in California, Texas and Colorado."

"Credit unions are offering share draft accounts and are now in the banking business. Merrill Lynch took the lead in offering Money Market funds which allow individuals to make deposits and withdrawals through their margin accounts." In January of 1980, "these broker funds (held) more than \$40 billion, which was about 5% of the entire U.S. money supply. Sears is selling small denomination notes directly to the public. Thirty years ago commercial banks held nearly 60% of the financial assets in this country, (in 1980) that total was 40%." (Quote--Robert Asmann, Exec. V-Pres., 4th Nat'l Bank, Wichita) (Addenda A)

The argument continues that in order for banks to remain active in the financial world, banks must be allowed more freedom from regulations in order to compete (i.e. increased branch banking and/or multi-bank holding companies).

Controversy Over Multi-Bank Holding Companies

A multi-bank holding company is a corporate entity organized primarily to acquire controlling interest in more than one bank. This compares to a branch banking organization in which one bank is permitted to establish full service offices throughout a geographic territory, normally confined to county or state lines. Multi-bank holding companies are prohibited in 10 states.

Small bankers who look favorably upon multi-bank holding companies see it "as a positive concept designed as a marketplace for their stock and an opportunity to align themselves with a large institution possessing expertise (and assets) not always available to each individual bank." (In 1976, 50% of Kansas banks had less than \$6 million in resources. The average loan limit of those banks to an individual borrower, at that time, was less than \$50,000.)

Bankers who look unfavorably upon multi-bank holding companies see them as an entity interested only in the wholesale takeover of individual banks leading to the demise of the independent, small town bank.

Interstate Banking Fear Used

Both those who advocate multi-bank holding companies and those who oppose multi-bank holding companies see interstate banking as a phenomenon occurring in the near future. Both also use the fear of interstate banking to support their argument for or against multi-bank holding companies.

Those opposed to multi-bank holding companies maintain that a move to allow acquisitions of banks across state lines would make any Kansas multi-bank holding company "a plum for some giant in another state to purchase." Any concentration of Kansas banking resources, the argument goes, would make takeover and control of resources by an out of state entity that much faster and easier.

Those who advocate multi-bank holding companies use the "ominous cloud of interstate banking" theory in a different manner. This argument claims that multi-bank holding companies are necessary to balance the competition generated by multi-bank holding companies from other states. The assertion is that without Kansas multi-bank holding companies, no bank in Kansas will be large enough to fend off the threat from other states. This argument makes the assumption that it is better for large Kansas multi-bank holding companies to own previous Kansas independent banks than multi-bank holding companies from other states.

These advocates also use the theory that interstate banking has already occurred throughout the financial world with the exception of the commercial bank. The allegation is that competition has greatly increased not from other banks but from other financial intermediaries as discussed earlier. They are brokerage houses, thrift institutions, finance companies, retailers and insurance companies (see pg 6). The argument maintains that these institutions are conducting to some degree some facet of the banking business without the same regulations. In order for banks to compete with these institutions, the argument goes, multi-bank holding companies are necessary.

Interstate Banking Practices Growing

Interstate banking was curtailed in 1956 by the Douglas Amendment to the Bank Holding Company Act. This prohibits the acquisition of a bank in any but a bank holding company's home state unless expressly authorized by state law. Under the Act, twelve interstate banking operations were "grandfathered." Several, like California based Western Bancorporation, with 22 banks in 11 western states and over \$21 billion in deposits have significant interstate operations. Currently, Iowa allows new acquisitions by one out of state bank holding company. Maine allows bank holding company acquisitions from states that allow acquisitions by Maine bank holding companies.

Despite the aforementioned restrictions, the banking industry has managed to expand toward nationwide proportions. This expansion has been mainly in the form of lending.

Banks have established loan production offices to serve their corporate loan customers. The International Banking Act of 1978 expanded the banks' ability to establish branches of Edge Act corporations through which they can serve the international credit and deposit needs of domestic and foreign customers at many U.S. locations.

Two major bank holding companies have extensive national coverage. Each has about 400 offices located in about 40 states.

Other States Reviewed

Missouri -- A statutory prohibition against branch banking. A branch banking proposal was voted down by the Missouri voters in 1959. In 1965, the Missouri Legislature passed a law allowing multi-bank holding companies. Currently about 20 large multi-bank holding companies control about 2/3 of the total banking assets and 1/3 of the banks. The trend seems to be

toward continued purchase of independent banks by multi-bank holding companies.

Nebraska -- Basically the same banking system as Kansas. Allows four detached facilities rather than three. Also, does not allow loans to be issued from the detached facilities. Prohibits multi-bank holding companies.

Nebraska has legislation introduced this session similar to Kansas' proposed legislation. The proposals include:

- a. Allowing multi-bank holding companies.
- b. Statewide branch banking.
- c. Increased service at present detached facilities.

Last December, the Nebraska Farm Bureau took a position, for the first time, opposing legislation allowing multi-bank holding companies.

Colorado -- The Colorado Legislature defeated legislation to allow statewide branch banking during the 1981 session. Colorado banks are allowed limited, detached facilities within 1000 feet of the main bank.

Colorado does allow multi-bank holding companies. The Colorado holding company can acquire, subject to approval, ownership of other banks in the state without limitation to a concentration of banking assets. The acquired banks continue to operate under their own corporate entity with their own board of directors. The parent company as owner provides basic management policies.

ADDENDUM A

	End of Period					Annual Growth Rates			
	1960	1965	1970	1975	1979	1960-1965	1965-1970	1970-1975	1975-1979
COMMERCIAL BANKS (insured only)									
Business loans	\$ 43.1	\$ 71.2	\$112.2	\$174.3	\$256.0	10.6%	9.5%	9.2%	10.1%
Mortgages	28.7	49.4	73.1	134.6	243.2	11.5	8.1	13.0	15.9
Consumer loans	26.4	45.5	66.0	106.0	186.4	11.6	7.7	9.9	15.1
U.S. Treasury and agency securities	60.4	59.2	61.6	117.6	136.8	-0.4	0.8	13.8	3.9
State and local securities	17.3	38.5	69.4	101.8	131.9	17.3	12.5	8.0	6.7
Other assets	80.4	111.6	194.1	310.4	441.2	6.8	11.7	9.8	9.2
TOTAL	256.3	375.4	576.4	944.7	1,395.4	7.9	9.0	10.4	10.2
SAVINGS & LOAN ASSOCIATIONS									
Mortgages	\$ 60.1	\$110.3	\$150.3	\$278.6	\$ 475.8	12.9%	6.4%	13.1%	14.3%
Investment securities	4.6	7.4	13.0	30.9	46.5	10.0	11.9	18.8	10.8
Other assets	6.8	11.9	12.8	28.8	57.0	11.7	1.6	17.5	18.6
TOTAL	71.5	129.6	176.2	338.3	579.3	12.6	6.3	13.9	14.4
MUTUAL SAVINGS BANKS									
Mortgages	\$ 26.7	\$ 44.4	\$ 57.8	\$ 77.2	\$ 98.9	10.7%	5.4%	6.0%	6.4%
U.S. government securities	6.2	5.5	3.2	4.7	7.6	-2.6	-10.5	8.5	12.6
State and local securities	.7	.3	.2	1.5	2.9	-13.8	-9.2	51.0	17.3
Corporate and other securities	5.1	5.2	12.9	28.0	37.1	0.4	20.0	16.8	7.3
Other assets	1.9	2.8	5.0	9.6	16.8	8.5	12.1	13.9	15.1
TOTAL	40.6	58.2	79.0	121.1	163.4	7.5	6.3	8.9	7.8
CREDIT UNIONS									
Loans outstanding	\$ 4.4	\$ 8.1	\$ 14.1	\$ 28.2	\$ 53.1	13.0%	11.7%	14.8%	17.2%
Other assets	1.3	2.5	3.8	9.9	12.7	14.3	9.4	20.8	6.6
TOTAL	5.7	10.6	18.0	38.0	65.9	13.3	11.2	16.2	14.7

SOURCES: *Banking and Monetary Statistics*, 1941-1970; *Annual Statistical Digests*, 1971-1975 and 1974-1978; *Federal Reserve Bulletin*, March 1980 and October 1980.

Branch bank dispute flares anew in state

EDITOR'S NOTE: For three decades, a battle has raged in Kansas over branch banking. The issue has heated up anew, because of the threat the state's larger banks say is posed by giant national financial institutions coming in and taking capital and loan business away from them. The issue is explored in a three-part series starting today.

By LEW FERGUSON
Associated Press writer

Across the street from Merchants National Bank in downtown Topeka sits a Finance America Corp. loan office.

A few blocks away, officials of First National Bank of Topeka can look out the window and see a loan office of Security Pacific Finance Corp.

At the White Lakes Shopping Center in southern Topeka, Sears Roebuck and Co. is making loans at its big department store.

Similar situations exist in Wichita, Kansas City, Kan., Salina and some other Kansas cities.

In Johnson County, branches of United Missouri Bank, which can make loans, blanket State Line, which divides Kansas and Missouri.

These burgeoning branch investment and loan-making facilities are a sign of the times in the financial world.

They frequently advertise they will pay higher interest on your savings, and will offer you lower interest rates on loans than banks and savings and loans do.

To some Kansas bankers, whose basic livelihood depends on their ability to

make loans, they are viewed as an insidious threat to their well-being, if not to their very existence.

These bankers, who also have seen fast-growing money market mutual funds siphon off millions of investment dollars, fear they face an ever-shrinking loan market unless they are allowed to expand and flex greater capitalistic muscle.

The source of their fear is not complicated, but the answer to what can — or should — be done to help them is highly complex, and controversial.

The metropolitan bankers say they want to be allowed to expand and grow so they can meet the mushrooming competition from the giant national holding companies, such as Security Pacific, Manufacturers Hanover, Citicorp, BankAmerica and others.

They presently are stifled by what they consider constrictive Kansas laws that prohibit full-blown branch banking and multi-bank holding companies.

Unless they are permitted to make loans in their branch facilities, or unless the law is changed to permit them to form multi-bank holding companies and buy out smaller banks, they say they may not be able to remain strong enough to meet the competitive challenge of the massive financial corporations spreading their tentacles into Kansas.

They contend the intramural squabbling among state bankers over branch banking saps the effort to meet the real threat facing all Kansas banks, namely federal legislation that would permit interstate ownership of banks.

They say they could be swallowed up by the financial giants along with the little banks if that happens.

Their arguments are disputed and their cause staunchly opposed by the state's so-called independent bankers, who generally include the smaller, more rural banks but range in size up to medium-sized banks in metropolitan areas.

At stake, say the independent bankers, is control of their communities' financial resources.

If multi-bank holding companies, or unlimited branch banking, is allowed, then control of all banking in Kansas ultimately will be vested in a half-dozen or so big banks in Wichita and Topeka, they argue.

They also say decisions on making loans in rural Kansas will be dictated by policies established by the big banks and no longer will a hometown banker

decide whether Farmer Jones is a good risk to have his loan granted, or extended.

Advocates of multi-bank holding companies contend the threat is coming from outside Kansas, and state bankers must join forces to meet it. Otherwise, they say, all may be lost if no Kansas banks are large enough to fend off takeovers by the financial giants if interstate banking is permitted by Congress.

Caught in the middle, and forced to retreat to a neutral position, is the Kansas Bankers Association, which numbers virtually all of the state's 620 banks among its members.

"It is an honest-to-God issue where fair minds can honestly differ," said Harold Stone, KBA executive vice president, who believes the issue ultimately will be decided by Congress and not the Kansas Legislature.

"If national banks are allowed to branch out across Kansas, then I think the Legislature is likely to let state banks do it, too," he said.

KBA members have been split for years over branch banking.

When the automobile drive-in craze hit in the early 1950s, banks started installing drive-through windows. Those banks located in the middle of city blocks needed outlet facilities, detached from their main banks.

That prompted the Legislature in 1957 to permit banks to have one detached drive-in facility to cash checks and receive deposits, as long as it was within a half mile, or 2,600 feet, of the main bank.

With the rise of shopping centers in the 1960s came a push for more detached facilities. So, in the 1973 session the Legislature allowed banks to put in two more facilities anywhere within their city limits — but only to handle checking accounts and not to make loans.

Bills which would allow banks to make consumer loans in their detached facilities failed in the 1979 and 1980 sessions, but two bills introduced last session remain alive in the House Commercial and Financial Institutions Committee.

Those two, both submitted by Rep. James Holderman, D-Wichita, would permit unlimited branch banking in Kansas and would legalize multi-bank holding companies.

It is those two bills that make advocates of "independent" banking see red.

Next: The case for the big banks.

Bankers say Kansas banks bound by 'archaic' laws

December 3, 1981

By LEW FERGUSON
Associated Press writer

Jordan Haines is president of Fourth Financial Corp., a one-bank holding company which owns Fourth National Bank and United Financial Corp. of Wichita.

Fourth National Bank is Kansas' largest bank, by a wide margin. Its assets of \$930 million make it nearly twice as big as First National Bank of Wichita, the second largest with \$500 million.

Oliver Hughes is president of Merchants National Bank of Topeka, one of the capital city's two largest banks.

Haines and Hughes share a strong conviction that unless the shackles placed on Kansas banks by what they view as archaic state laws are removed by the Legislature, both their banks could wind up small potatoes, if Congress deregulates the industry.

Fourth National Bank ranks 221st in size among the nation's banks. That means there are a lot of bigger ones around who might absorb a bank the size of Fourth National if Congress approves interstate banking.

In the fiscal year which ended last June 30, the 10 biggest banks in Kansas saw their assets rise less than .1 of 1 percent, or \$7.7 million — despite the fact the economy continued in a period of double digit inflation.

If Kansas' largest banks can't hold their own, there must be a reason.

Banking leaders such as Haines and Hughes say that reason is a financial revolution which has spawned a proliferation of loan offices placed in Kansas by large national companies, the drain of millions of investment dollars to money market mutual funds and the banks having to fight their competition with one hand tied behind their backs.

Unless Kansas banks — all of them and not just the big ones — are allowed to compete on equal footing with other types of lending and savings institutions, they believe they may become easy prey for takeovers from the outside.

Haines said he does not advocate statewide branch banking in Kansas, but does support letting banks' detached facilities make consumer loans and strongly endorses legalization of multi-bank holding companies.

However, he said the larger banks have not yet decided whether to lobby in the 1982 session for legislation to allow multi-bank holding companies.

Fourth Financial Corp. took the first step this fall toward becoming a multi-bank holding company, if it ever becomes legal. It purchased 24.99 percent interest in the Kansas State Bank of Newton. State and federal laws limit bank holding companies' investments in banks to less than 25 percent. The purchase awaits Federal Reserve Board approval.

"Very simply put, we have a philosophy which we believe is shared by well over 200 of the 620 banks in Kansas, and that philosophy is that open competition best serves us and the people of this state," said Haines.

"It is truly not a 'big bank versus little bank' issue. I can name dozens of independent, smalltown banks who have realized their market is being invaded. They realize their world is changing."

Haines said Fourth National decided four years ago that "we could no longer continue as an island." So it launched an information campaign to get other banks to join in a drive to change the state law prohibiting multi-bank holding companies.

Allowing them would mean any bank would be free to offer to buy other banks and operate them under one corporate structure. Banks could not be compelled to sell.

"It would mean competition, and the competitive situation would benefit the consumer," Haines said.

Kansas is one of just three states that do not permit branch banking or multi-bank holding companies in one form or another.

To illustrate the competitive disadvantage he believes Kansas banks are under, Haines cited his own bank's situation.

"In Wichita, we have more than 150 offices of finance companies, investment banking firms, credit unions, savings and loans and commercial banks," he said.

"Only one of those five types of institutions is without the freedom to compete in the market place, and that is the commercial bank. All the rest can compete, statewide and without re-

straints.

"The result is the egg basket is getting smaller and more people are trying to get the eggs. If we can compete only at the corner of Douglas and Broadway (in Wichita), then we're not serving our stockholders or our customers very well.

"We are functioning in a very antiquated system, and I don't know who possibly is being well served by it."

Haines said the Reagan administration is dedicated to deregulating the banking industry and it would be far better for the Legislature to write this state's laws to regulate it.

Hughes, who plans to retire next spring, said too many Kansas bankers miss the point that change is coming whether they like it or not.

"We need to address the problems of structure in Kansas banking calmly and decide what's best for our banks and our customers, or there is going to be a drastic change in the whole structure before we know it.

"The threat is coming from outside Kansas and some are failing to recognize it. The federal government is on the verge of making it easier to have interstate banking."

"It may be the 'big' banks of Kansas are going to be swallowed up along with the 'little' Kansas banks."

Hughes disputed the contention that allowing multi-bank holding companies in Kansas would destroy local control over community banks.

He said holding companies invariably have a local board to help set policy and "common sense dictates that the holding companies will follow the advice of the local board."

"I think the multi-bank holding companies are the real answer, perhaps with citywide (branch) banking," Hughes said.

"In the absence of something like this, there are going to be an awful lot of small banks fall by the wayside, and we're actually going to have less banking in these small communities."

Loss of local bank control feared

December 4, 1981

By LEW FERGUSON
Associated Press writer

Sam H. Forrer is senior vice president of the Grant County State Bank in Ulysses. His nearest competitor bank is more than 20 miles away.

How, then, can Sam Forrer get so worked up that he launches into a 45-minute dissertation on the wisdom of preserving Kansas' independent banking system and the evils he sees in branch banking and multi-bank holding companies?

Unless the bank's owner, Floyd Pinnick, decided to sell, odds are overwhelming that no other bank would move into Ulysses.

But Sam Forrer will tell you of his conviction that Kansas, and the two other states that have blocked the concentration of banking control, are serving their people the best.

"Local control is what this fight is all about," he said. "The thing that is at stake here is the preservation of the independent banking system.

"It's not because we're afraid we're going to get run out of the state. The thing we are most adamant about is the community bank is the one that is going to serve its community best.

"We have a lot of bankers scrambling around making charges, but the ones who are really going to be affected are the people. If they bought me out, I'd do very well. But it's the people I'd be selling down the drain, and they've put their trust in me."

Forrer is far from alone in his fight to save the banks of Kansas from what he says would be the concentration of banking power in a half-dozen big banks if multi-bank companies were allowed.

The Kansas Independent Bankers Association has a membership of 275 banks, or about 45 percent of all the banks in the state.

Among its members are three banks in Topeka, Fairlawn State, Kaw Valley State and First State Bank; two in

Wichita, Southwest National and Bank of Mid-America; and one in Kansas City, Turner State.

Also listed as members of the independent bankers group are banks in Abilene, Arkansas City, Augusta, Coffeyville, Fort Scott, Goodland, Junction City, Leavenworth, Parsons, Russell, Wellington and Winfield.

Generally the force that brought them together was the threat they per-

Last of a series

ceive from unlimited branch banking and multi-bank holding companies. Generally they have assets below \$100 million, many less than \$50 million.

"They are divided only by philosophy; there is no other dividing line," said Pete McGill, the former House speaker who now counts the independent bankers association among the clients served by his Topeka lobbying firm.

McGill recalls the battles of the early 1970s to get the Legislature to approve more detached facilities for the city banks. He and Forrer say that the big banks will never rest until they get wide open branch banking. They are girding for another fight in the 1982 legislative session.

"It was obvious they didn't need those fancy detached facilities for cashing checks," McGill said. "Obviously they built them with fullblown branch banking in mind."

"We have definite indication consideration is being given to pushing for multi-bank holding companies."

Forrer says the basic issue is where to draw the line in allowing banks to expand. He contends that letting city banks have three detached facilities for handling checking accounts — as they now have — is going far enough.

"Allowing them to make loans in their detached facilities probably is not

significant in itself," he said. "But the idea it conveys that branch banking is all right is what we object to. It paves the way for them to go to the Legislature and say, 'Let us have citywide branch banking,' and once they get that they'll ask for statewide branch banking. It just opens it up."

Forrer said the crux of the issue was who should control local financial resources. In his view the choice is whether it is better to vest it in a hometown banker with concern for his community and its future, or a banking executive in Wichita or Topeka who will set general policies for many local banks, without any special regard for individual towns and their unique problems.

"In a multi-bank holding company situation, the decisions eventually are made by those who run the holding companies in other cities, not by the people who are residents of the town," he said.

"The question is where are the financial resources of the community going to be used, and who is going to make the decisions on where they are used. The whole thrust of the issue is who controls the resources.

"That is what is so often lost in this debate. The people who have the most at stake in this are the depositors, and nobody is asking them what they think."

He rejects the argument that the metropolitan banks of Kansas are threatened by the influx of loan companies into the state, most of them subsidiaries of giant national financial institutions. He says they should meet the competition head-on, with competitive interest rates on loans and savings accounts.

"Are we banks in Kansas going to say we want to run the finance companies out of business in this state?" he asked. "I don't think so."

CONTROVERSIES IN BANKING

DISCUSSION QUESTIONS

COUNTY _____

DISTRICT _____

DATE OF MEETING _____

NUMBER IN ATTENDANCE _____

1. Does your county membership think Kansas Farm Bureau should have a resolution addressing banking practices in Kansas?

YES _____ NO _____

COMMENTS _____

(If yes, answer the following questions:)

2. Should a KFB resolution oppose any expansion of detached facility services or regulations?

YES _____ NO _____

a. If yes, why? _____

- b. If no, should:

The number of detached facilities presently allowed remain constant, but be allowed to issue consumer loans?

YES _____ NO _____

Statewide branch banking be allowed?

YES _____ NO _____

Study Subject No. 3 -- Commercial and Financial Institutions

3. Should a KFB resolution endorse or oppose multi-bank holding companies?

ENDORSE _____ OPPOSE _____

a. If endorse, why? _____

b. If oppose, why? _____

4. Should KFB support an AFBF resolution addressing interstate banking?

YES _____ NO _____

If yes, OPPOSE _____ or SUPPORT _____

What should the resolution include? _____

5. GENERAL COMMENTS: _____

Mr. Chairman and Members of the Committee:

I am Viola Dodge, Olsburg, Kansas, and I represent Kansas Agri Women.

we oppose S.B. 673 which would allow multibank holding companies in Kansas.

Those of us in agriculture know the value of local owned and operated banks in our communities. These independent banks provide a vital service and have more response to a community. There is something to be said about setting across the desk and meeting eye to eye with your banker to discuss ones needs. We believe these needs can be better met at the local level.

The success of the independent bank is interdependent upon the success of the community it serves. That's why funds are re-invested locally to help build success for all.

Why, would a bank in Topeka, Kansas City or Wichita want to own the Olsburg bank? would they provide better services to the community? No ! It is already a full service bank.

Would it be for lower interest rates for borrowers? No ! Independent banks are more competitive.

The sole purpose for owning the bank would be for the profit that could be taken out of the community. To quote from an article on banking in the February 13, Time magazine; "During the 1960s and 70s, many money-center banks began looking overseas in search of opportunities to expand. But with their books now showing bad debts from Poland, Brazil and other countries, bankers are trying to tap safer, domestic markets." That means Kansas.

Negative things do happen with multi-bank holdings. In Nebraska where a Lincoln bank took over a small city bank near the Kansas Nebraska border, within six months they begin calling in loans which by their criteria were considered marginal loans. They were not interested in net worth all they went by was cash flow and farmers were put out of business because of it.

I want to tell you of an experience we had with a multi-bank holding in Missouri. Several years ago our son went to Missouri and made a purchase. The party would not take a check so Dan went to the bank in the little town of O'Fallon to see about getting a check cashed. He was needing about \$800. The banker said he would not cash his check. Dan ask if he could call his banker in Manhattan to verify it, the banker said it wouldn't do any good. Dan then called his banker in Manhattan and ask that the money be wired to him. The Manhattan banker said "Let me talk to that banker and I will verify your check. The O'Fallon banker refused to talk to him. Do you know why? That was a multi-bank and he was nothing but a peon for a bank in St. Louis. It took almost 24 hours to have the money wired because it could not be sent direct to O'Fallon but went back east and then to St. Louis and finally to the O'Fallon bank. If that is what multi-bank holdings are all about we don't want it in Kansas.

I leave you with this thought: If it works, don't try to fix it.

TESTIMONY PRESENTED TO
THE
SENATE COMMERCIAL & FINANCIAL INSTITUTIONS COMMITTEE
IN OPPOSITION TO SENATE BILL 763

BY

Robert D. Nellis, President
Exchange State Bank, Douglass, Kansas

MR. CHAIRMAN, SENATORS:

MY NAME IS BOB NELLIS, PRESIDENT OF THE EXCHANGE STATE BANK IN DOUGLASS, KANSAS. IT'S A SMALL COMMUNITY BANK LOCATED IN SOUTH CENTRAL KANSAS. THE COMMUNITY HAS A POPULATION OF APPROXIMATELY 1500 AND OUR BANK SIZE IS APPROXIMATELY \$13 MILLION. BEFORE I BEGIN MY TESTIMONY, LET ME GIVE YOU A BRIEF BACKGROUND AS TO MY EXPERIENCE. I WAS BORN AND RAISED IN KANSAS AND ATTENDED KANSAS SCHOOLS THROUGHOUT MY LIFE. I HOLD A B.A. and a M.A. FROM EMPORIA STATE AND HAVE DONE POST GRADUATE WORK AT MANKATO STATE UNIVERSITY IN MINNESOTA. FOR THE PAST TEN YEARS, PRIOR TO JUNE 1 OF 1983, I WAS EMPLOYED BY THE OFFICE OF THE COMPTROLLER OF THE CURRENCY, THE ADMINISTRATOR OF NATIONAL BANKS, IN THE CAPACITY OF BOTH AN ASSISTANT NATIONAL BANK EXAMINER AND AS A NATIONAL BANK EXAMINER I AND II. MY RESPONSIBILITIES IN THE LAST FOUR YEARS WITH THE O.C.C. INCLUDED THE SUPERVISION AND ADMINISTRATION OF NATIONAL BANKING LAWS IN 23 BANKS LOCATED IN NORTHWEST KANSAS WITH ADDITIONAL RESPONSIBILITY FOR LARGER BANKS LOCATED OUT OF THE WICHITA, KANSAS, SUBREGION.

I FEEL THAT THE ISSUE OF MULTI-BANK HOLDING COMPANIES IS ONE THAT NEEDS TO BE DISCUSSED FULLY. THE MAIN ISSUES THAT HAVE BEEN PRESENTED BY THE PROPONENTS OF MULTI-BANK HOLDING COMPANIES, AS I UNDERSTAND, HAVE BEEN FOURFOLD. THEY HAVE STATED THAT MULTI-BANK HOLDING COMPANIES WILL: (1) INCREASE THE CAPITAL BASE IN THE BANKING INDUSTRY; (2) MULTI-BANK HOLDING COMPANIES WILL BE ABLE TO PROVIDE A LARGER LEGAL LENDING LIMIT THAN THE PRESENT UNIT BANKING STRUCTURE DOES; (3) IT WILL PROVIDE INCREASED SOUNDNESS TO THE BANKING SYSTEM; AND (4) IT WILL PROMOTE ECONOMIC GROWTH. I DO NOT FIND AND HAVE NOT BEEN ABLE TO FIND THAT MULTI-BANK HOLDING COMPANIES OR CHAIN BANKING WILL PROVIDE FOR ANY OF THE ABOVE FACTORS.

LET'S TAKE A MINUTE AND EXAMINE EACH OF THE ISSUES THAT THE PROponents HAVE BROUGHT BEFORE YOU AND FIND OUT SPECIFICALLY WHY THEIR ARGUMENTS ARE INVALID. THE FIRST CONTENTION THAT HAS BEEN EXPRESSED BY THE PROponents IS PROVIDING AN INCREASED CAPITAL BASE TO THE BANKING SYSTEM. IF YOU HAVE TEN UNIT BANKS, EACH WITH A CAPITAL BASE OF \$5 MILLION, YOU HAVE A CONSOLIDATED EQUITY CAPITAL POSITION OF \$50 MILLION. SIMPLY BY ALLOWING MULTI-BANK HOLDING COMPANIES TO COME INTO EXISTENCE IN THE STATE OF KANSAS WILL NOT INCREASE THIS \$50 MILLION TO A FIGURE HIGHER OR LOWER. THE \$50 MILLION CAPITAL BASE WILL STILL REMAIN \$50 MILLION. THE ONLY THING MULTI-BANK HOLDING COMPANIES WOULD DO WOULD BE TO INCREASE THE CONSOLIDATED EQUITY POSITION OF THE HOLDING COMPANY. THE ARGUMENT BEFORE YOU GENTLEMEN TODAY IS NOT THAT THE PRESENT ONE-BANK HOLDING COMPANIES OF KANSAS NEED TO INCREASE THEIR CAPITAL POSITION BUT THAT MULTI-BANK HOLDING COMPANIES WOULD INCREASE THE CAPITAL OF THE BANKING SYSTEM. THAT ARGUMENT IS SIMPLY WRONG. MULTI-BANK HOLDING COMPANIES WILL NOT AND CANNOT MAGICALLY CREATE NEW CAPITAL BY THE FORMATION OF A NEW CORPORATION OR BY ALLOWING AN EXISTING CORPORATION TO EXPAND THEIR HOLDINGS. FOR INSTANCE, CONSIDER THE CAPITAL POSITION OF A MAJOR MULTI-BANK HOLDING COMPANY IN KANSAS CITY, MISSOURI, WITH APPROXIMATELY 25 BANKS IN THEIR BANKING SYSTEM. ON A CONSOLIDATED BASIS, THIS BANK HOLDING COMPANY HAS A SIGNIFICANT CAPITAL BASE. HOWEVER, THAT CAPITAL BASE IS REPRESENTED ONLY AS THE SUMMATION OF THE CAPITAL OF EACH OF THEIR SUBSIDIARY BANKS. THERE WAS NO, AND LET ME EMPHASIZE THIS, THERE WAS NO NEW CAPITAL CREATED WHEN THIS HOLDING COMPANY PURCHASED CONTROLLING INTEREST IN THEIR SUBSIDIARY BANKS. PRESENTLY YOU HAVE IN EXCESS OF 600 FINANCIAL CORPORATIONS IN KANSAS PROVIDING SERVICE TO THEIR LOCAL AREAS. BY ALLOWING MULTI-BANK HOLDING COMPANIES YOU WILL NOT STRENGTHEN, HOWEVER YOU COULD WEAKEN, THE EXISTING CAPITAL BASIS.

THE SECOND ARGUMENT THAT I'VE HEARD A GREAT DEAL OF, NOT ONLY THIS YEAR BUT IN THE PAST TEN YEARS, HAS BEEN THAT MULTI-BANK HOLDING COMPANIES WILL BE ABLE TO PROVIDE A LARGER BORROWING BASE FOR THOSE CUSTOMERS THAT ARE IN NEED OF SIGNIFICANT FUNDS. IN BANKING TERMS MULTI-BANK HOLDING COMPANIES WOULD HAVE AN INCREASED LEGAL LENDING LIMIT. HERE I DRAW UPON MY EXPERIENCES AS A REGULATOR TO REFUTE THIS ARGUMENT. THIS PROPOSED LEGISLATION WILL NOT, CANNOT, INCREASE THE LEGAL LENDING LIMIT OF ANY INSTITUTION SIMPLY BY ALLOWING MULTI-BANK HOLDING COMPANIES. OUR BANK HAS APPROXIMATELY \$125,000 LEGAL LENDING LIMIT. IF WE WERE PART OF A MULTI-BANK HOLDING COMPANY, OUR LEGAL LENDING LIMIT WOULD NOT BE UP NOR WOULD IT BE DOWN. IT WOULD BE THE SAME SITUATION TODAY AS IT WAS YESTERDAY. MULTI-BANK HOLDING COMPANIES, HOWEVER, WOULD HAVE THE AUTHORITY AT CORPORATE HEADQUARTERS TO MAKE INCREASINGLY LARGER LOANS, KNOWING THAT THOSE LOANS WILL BE FORCE FED TO THEIR SUBSIDIARY BANKS WITH NO THOUGHT AND NO DISCUSSION ON THE PART OF SUBSIDIARY BANKS. PRESENTLY, IN MY SITUATION, IF I WANT TO MAKE A LOAN SIGNIFICANTLY LARGER THAN MY LEGAL LENDING LIMIT, I MUST TURN TO MY CORRESPONDENT BANKS AND ASK THEM TO SHARE IN THIS CREDIT WITH ME. IF THEY CHOOSE NOT TO SHARE IN THAT CREDIT, THEY HAVE MADE AN INFORMED DECISION. I MUST SHARE WITH THEM THE FINANCIAL STATEMENT OF THE BORROWER, THE PURPOSE OF THE BORROWER, THE SOURCE OF REPAYMENT AND THAT BORROWER'S CASH-FLOW INFORMATION. IN OTHER WORDS, IF I MAKE A LOAN IN EXCESS OF MY LEGAL LENDING LIMIT, I AM IN EFFECT ASKING MY CORRESPONDENT TO SHARE IN THAT LOAN AS IF HE HAD MADE IT HIMSELF. HOWEVER, UNDER A MULTI-BANK HOLDING COMPANY, THAT LOAN CAN BE MADE AT THE CORPORATE LEVEL AND DOWNSTREAMED TO THEIR SUBSIDIARY BANKS WITH NO THOUGHT, WITH NO DISCUSSION, ONLY WITH THE ORDER - YOU WILL UPSTREAM TO US A CERTAIN AMOUNT OF CASH TO PAY FOR THIS PARTICIPATION THAT WE ARE SELLING TO YOU TODAY. MULTI-BANK HOLDING COMPANIES DO NOT INCREASE LEGAL LENDING LIMITS, THEY INCREASE THE ABILITY OF ONE INDIVIDUAL TO MAKE A SIGNIFICANTLY LARGER LOAN

THAN PRESENTLY ALLOWED BECAUSE HE KNOWS FULL WELL THAT IF IT IS IN EXCESS OF HIS LEGAL LENDING LIMIT THAT HE WILL BE ABLE TO TELL HIS RESPONDENT BANKS DOWNSTREAM THAT THEY ARE BUYING A PORTION OF THIS CREDIT WHETHER THEY WANT TO OR NOT.

THIS DIRECTLY LEADS TO THE THIRD ARGUMENT THAT I HAVE HEARD, THAT OF INCREASED SOUNDNESS. MULTI-BANK HOLDING COMPANIES HAVE INDICATED THAT BECAUSE OF THEIR SIZE THEY WILL BE MUCH SOUNDER OPERATIONS. ON THE SURFACE THIS ARGUMENT SOUNDS EXTREMELY VALID. HOWEVER, LET US LOOK AT THE REAL WORLD, PARTICULARLY THE WORLD OF 1983 IN THE STATE OF TENNESSEE WHERE WE HAVE AN ORGANIZATION, UNITED AMERICAN BANKSHARES OUT OF KNOXVILLE. NOT ONLY DID THE PARENT FOLD, BUT WHEN THE PARENT BANK FAILED, THE SUBSIDIARY BANKS OF THAT HOLDING COMPANY ALSO EXPERIENCED DIFFICULTY AND A SIGNIFICANT NUMBER OF THEM DID FAIL. MULTI-BANK HOLDING COMPANIES HAVE WITHIN THEM AN ABILITY TO PROVIDE A GREATER DEGREE OF UNSOUNDNESS AND RISK TO THE BANKING SYSTEM THAN THE PRESENT UNIT BANKING STRUCTURE DOES. UNIT BANKING PROVIDES FOR THE OLD ADAGE THAT TWO HEADS ARE BETTER THAN ONE. WITH MULTI-BANK HOLDING COMPANIES YOU HAVE BUT ONE CENTRAL DECISION MAKER. THE DOWNSTREAM OR SUBSIDIARY BANKS DO NOT HAVE A VOICE IN THE CORPORATE ORGANIZATION, OTHER THAN WHAT THE CORPORATE GOLIATH CHOOSES TO SAY. IT IS IMPERATIVE, IN MY OPINION, THAT WHEN I WANT TO MAKE A LARGE LOAN WELL IN EXCESS OF MY IN-HOUSE LEGAL LENDING LIMIT, I SEEK THE ADVICE AND COUNSEL OF ANOTHER INDIVIDUAL. I WILL ASK FOR THEIR ADVICE. I WILL SHARE WITH THEM THAT CREDIT. THEY MAY FIND SOMETHING IN THAT CREDIT THAT I HAVE OVERLOOKED. THEY MAY SEE A DIFFERENT WAY TO STRUCTURE THE CREDIT TO PROVIDE FOR A MUCH SOUNDER LOAN THAN WE HAVE HAD IN THE PAST. OR THEY MAY JUST SAY, THAT'S A BAD LOAN, YOU'VE MADE A BAD DECISION. AT THIS POINT IN TIME IF I HEAR THAT FROM ENOUGH SOURCES, PERHAPS I HAVE MADE A BAD DECISION. PERHAPS THERE IS SOMETHING WRONG WITH THAT LOAN. BUT

I HAVE AFFORDED THEM THE CHOICE OF EITHER PURCHASING THAT CREDIT OR NOT. THAT CREDIT WAS NOT SHOVED DOWN THEIR THROATS, AND THEY WERE NOT TOLD THEY HAD TO BUY THAT CREDIT. THEY MADE AN INFORMED DECISION. I WILL ACKNOWLEDGE THAT IF I ~~ASK TEN BANKS TO SHARE IN A TEN MILLION DOLLAR CREDIT,~~ AND THAT TEN MILLION DOLLAR CREDIT WENT UNDER, THE RESULT WOULD BE THE SAME WHETHER YOU HAVE MULTI-BANK HOLDING COMPANIES OR YOU HAVE UNIT BANKS, BUT WE ALL WOULD HAVE MADE AN INFORMED DECISION. IT WOULD NOT HAVE BEEN, THIS IS THE LOAN THAT YOU ARE BUYING TODAY FROM US.

MULTI-BANK HOLDING COMPANIES WILL NOT PROVIDE FOR INCREASED SOUNDNESS TO THE BANKING SYSTEM. I THINK THE EXACT OPPOSITE HOLDS SOME POSSIBILITIES. LOOK AT MULTI-BANK HOLDING COMPANY STATES AND SEE THAT THE BANKING STRUCTURE OF SOME OF THE LARGEST MULTI-BANK HOLDING COMPANIES IN THE COUNTRY ARE PRESENTLY EXPERIENCING PROBLEMS. IT IS NOT JUST THE LEAD BANKS THAT ARE EXPERIENCING PROBLEMS, IT IS THE ENTIRE HOLDING COMPANY. SO, WHEN THE LEAD BANK IS EXPERIENCING TROUBLE, NOT ONLY IS IT THE LEAD BANK, BUT IT'S ALL OF THEIR SUBSIDIARY BANKS. THAT HAS A DIRECT RELATIONSHIP TO THE BANKING STRUCTURE. THE SAME ARGUMENT CAN BE HELD WITH CHAIN BANKS.

THE LAST ARGUMENT THAT I HAVE HEARD IS THAT MULTI-BANK HOLDING COMPANIES WILL PROVIDE FOR INCREASED ECONOMIC GROWTH, PROVIDE FOR A MUCH STABLER CLIMATE. WHEN WE REVIEW THE HIGH-TECH REPORT THAT WAS HEADED BY FORMER U.S. SENATOR JAMES B. PEARSON, IT STATES IN EFFECT THAT THE DEVELOPMENT AND SUPPORT OF HIGH TECHNOLOGY INDUSTRY REQUIRES CAPITAL IN LARGE AMOUNTS AND CONTINUOUS AVAILABILITY. STATUTES WHICH RESTRICT GROWTH IN THE KANSAS BANKING SYSTEM ALSO RESTRICT GROWTH OF CAPITAL AND ITS FREE FLOW. THE HIGH TECH REPORT HAS BEEN TOUTED BY MANY OF THE PROPONENTS OF THE MULTI-BANK HOLDING COMPANIES. THAT IS WHY KANSAS DOES NOT HAVE HIGH TECHNOLOGY. YET, WE LOOK AT THE KANSAS BUSINESS REVIEW, VOLUME 7 NO. 1 FROM THE FALL OF 1983, AND THERE ARE APPROXIMATELY SEVEN TABLES IN THAT ISSUE THAT TALK ABOUT THE FACTORS OF WHY FIRMS DECIDE TO LOCATE IN KANSAS, OR WHY THEY DECIDE TO EXPAND IN KANSAS. NO WHERE IN THAT ISSUE DO WE FIND ANY

REFERENCE TO THE LACK OF CAPITAL AVAILABILITY IN KANSAS.— I WILL RECOGNIZE, AS I AM SURE ANY INFORMED PERSON WOULD, THAT PRESENTLY OUR BANKS ARE SMALL, THAT WE DO NOT HAVE IN ONE BANK THE CAPITAL NEEDS FOR A CORPORATION SUCH AS BOEING, BEECH, OR CESSNA. HOWEVER, THOSE CORPORATIONS CAN GO TO A BANK IN KANSAS AND ASK TO BORROW THREE HUNDRED MILLION DOLLARS. THAT BANK WOULD HAVE TO GO TO ITS CORRESPONDENT AND SAY, WOULD YOU LIKE A PARTICIPATION IN THIS CREDIT. SIMPLY BY ALLOWING MULTI-BANK HOLDING COMPANIES TO FORM IN KANSAS, YOU WILL NOT PROMOTE ECONOMIC GROWTH, YOU WILL PROMOTE THE GROWTH OF THAT BANKING CORPORATION.

WHAT HAVE UNIT BANKS DONE FOR US? UNIT BANKS HAVE PROVIDED FOR US A SOUND, SAFE SYSTEM OF BANKING IN KANSAS THAT HAS MET THE LEGAL NEEDS AND THE LEGITIMATE REQUIREMENTS OF SMALL TOWN KANSANS FROM DOUGLASS TO BREWSTER AND FROM KANSAS CITY TO WICHITA. UNIT BANKS HAVE SERVED THEIR COMMUNITIES WELL. UNIT BANKS, BECAUSE OF THE INTENSE COMPETITION PROVIDED BY A LARGE NUMBER OF BANKS, HAVE HAD TO HOLD THEIR PRICES DOWN BECAUSE WE ARE MORE COMPETITIVE, NOT LESS COMPETITIVE.

I'D LIKE TO TAKE THIS TIME NOW TO HANK YOU FOR LISTENING TO ME AND WOULD WELCOME ANY QUESTIONS FROM YOU.

MY NAME IS JOHN TINCHER. I AM PRESIDENT OF THE LYNDON BANK WHICH IS LOCATED ABOUT 30 MILES DUE SOUTH OF HERE. I AM A DIRECTOR OF THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA AND I AM APPEARING HERE ON BEHALF OF THE KANSAS INDEPENDENT BANKERS ASSOCIATION.

WE ARE STRONGLY OPPOSED TO SENATE BILL 673. IN FACT - OUR OPPOSITION TO PAST EFFORTS OF KAEG COULD BE TERMED "LUKE WARM" COMPARED TO OUR OPPOSITION TO THIS BILL.

MR. HURLEY SAID YESTERDAY THAT THIS BILL IS A COMPROMISE BETWEEN WHAT THE INDUSTRY NEEDS AND THE PEOPLE OF KANSAS. THROUGHOUT MY TESTIMONY PLEASE RECOGNIZE THAT I AM HERE REPRESENTING A GROUP (KIB) THAT UNDERSTANDS WHAT THE PEOPLE OF KANSAS WANT AND WE WOULD CHANGE MR. HURLEY'S STATEMENT TO SAY, "A COMPROMISE BETWEEN WHAT A PART OF THE INDUSTRY WANTS AND THE PEOPLE OF KANSAS. THIS BILL HAS NO COMPROMISES AS I WILL POINT OUT LATER IN MY TESTIMONY. BUT CONTRARY TO WHAT HAS BEEN SAID IN THE PAST, THIS ISSUE IS NOT A FIGHT AMONG BANKERS. THIS IS A PEOPLES ISSUE AND I WOULD REQUEST THAT WE ALL KEEP THIS IN MIND AS WE TALK ABOUT WHAT BANKERS WANT.

NOW MR. HURLEY SPOKE OF MODERNIZATION AND STATED THAT MBHCs COULD OFFER SERVICES TO COMMUNITIES NOT NOW BEING OFFERED. YET MR. SHERRER, HEAD SPOKESMAN FOR KAEG LAST YEAR TOLD THE HOUSE COMMITTEE THAT MBHCs COULD OFFER NO SERVICES NOT NOW BEING OFFERED TO THE COMMUNITIES. I REMEMBER THAT SO WELL BECAUSE IT WAS THE FIRST THING THAT GARY EVER SAID THAT I AGREED WITH.

IT SEEMS THAT THE MAIN REASON GIVEN BY KAEG FOR NEEDING SB 673 IS TO GIVE THEM THE ABILITY TO COMPETE WITH NON-BANK COMPETITION. SAVINGS & LOANS DIDN'T ARRIVE ON THE SCENE YESTERDAY WITH THEIR TAX FAVORED STATUS AND THEIR AUTHORITY TO BRANCH. IF THEIR ADVANTAGES ARE UNFAIR YOU DON'T OPEN THE GATE AND LET ALL THE GOATS OUT JUST BECAUSE ONE SLIPPED THROUGH THE FENCE. YOU NEVER HEARD ONE BREATH OF DOCUMENTATION ON HOW A BANK CAN BETTER COMPETE BY OWNING MORE BANKS. AND AS FAR AS I AM CONCERNED SEARS IS STILL JUST A PLACE TO BUY CHEAP UNDERWEAR IF YOU LIKE TO WEAR CHEAP UNDERWEAR. ISN'T IT STRANGE THAT NON-BANKS ARE THE MOST ACTIVE IN STATES THAT NOW HAVE MBHCs. HOW CAN ALLOWING A FEW PEOPLE ^{to} CONTROL MORE OF THE STATE'S RESOURCES BETTER PREPARE THEM TO COMPETE WITH NON-BANKS. YESTERDAY WE HEARD THE QUESTION BUT WE ARE STILL WAITING FOR THE ANSWER.

ON SHORT NOTICE THE ONLY THING I COULD LAY MY HANDS ON TO EXPLAIN TO YOU HOW THE BANKS OF KANSAS ARE DOING IN THEIR EFFORTS TO MEET NON-BANK COMPETITION IS IN FRONT OF YOU MARKED EXHIBIT 3. IT IS AN ARTICLE FROM THE WICHITA EAGLE DATED JANUARY 15, 1983 AND IT STATES THAT FOURTH FINANCIAL CORPORATION IN WICHITA DECLARED A 3 FOR 2 STOCK SPLIT AND PAID A HIGHER CASH DIVIDEND THAN IN PREVIOUS YEARS. I REFER YOU TO THE THIRD PARAGRAPH FROM THE END WHERE IT SAYS, "BOTH MEASURES OF PROFITABILITY WILL BE AMONG THE HIGHEST RECORDED IN 1982 BY BANKING COMPANIES WITH ASSETS OVER \$1 BILLION," NOW THAT IS REALLY COMPETING WITH NON-BANK COMPETITION.

WHEN SPEAKING TO THE KDED STAND ON THIS ISSUE I CHOOSE NOT TO REPRESENT KIBA AND SPEAK ON THE SUBJECT AS A TAXPAYER THAT WILL EXERCISE HIS CONSTITUTIONAL RIGHT AND CRITICIZE A STATE SUPPORTED AGENCY THAT HAS TAKEN A STAND "IN SPITE" OF THE MATERIAL THEY GATHERED. I REFER YOU TO EXHIBIT 4 REGARDING THIS MATERIAL. ON AUGUST 24, 1983 DR. HOLLY ZANVILLE TESTIFIED BEFORE THE 1202 COMMITTEE OF THE LEGISLATURE. SHE STATED THAT KANSAS RANKS 14TH FROM THE TOP NATIONALLY IN THE NUMBER OF HIGH TECHNOLOGY INDUSTRIES. KANSAS HAS 355 COMPANIES CLASSIFIED AS HIGH TECH. SHE ALSO STATED THAT KANSAS RANKS SIXTH FROM THE TOP NATIONALLY IN SMALL BUSINESS CLIMATE. THAT IS BECAUSE KANSAS RANKS HIGH IN CAPITAL THAT IS AVAILABLE TO SMALL BUSINESSES FROM BANKS IN THE STATE. NOW I HAVE BEEN A KANSAS BANKER FOR 38 YEARS AND A TAXPAYER FOR JUST AS LONG AND I AM INCENSED THAT THE DIRECTOR OF A STATE AGENCY THAT I BELIEVE WAS BORN THE YEAR THAT I WENT TO WORK IN A BANK WOULD COME BEFORE THIS COMMITTEE AND MAKE STATEMENTS SUCH AS THOSE THAT WERE MADE HERE YESTERDAY WITHOUT DOCUMENTATION. A LETTER IS ON FILE ASKING MR. SWARTZ FOR DOCUMENTATION ON STATEMENTS THAT HE MADE DURING THE STUDY ON HIGH TECH. AFTER PRODDING MR. SWARTZ ADMITTED THERE WAS NO SUCH DOCUMENTATION. WHEN WE PRESENTED DOCUMENTED PROOF OF 219 MAJOR INDUSTRIES MOVING FROM JACKSON COUNTY, MO INTO KANSAS DURING THE INTERIM HEARINGS IN THIS ISSUE A YEAR AGO LAST SUMMER THEN I BELIEVE THAT MR. SWARTZ WAS USING MY TAX DOLLARS IN AN UNFAIR MANNER IN THIS ROOM YESTERDAY.

I REFER YOU TO EXHIBIT 5. THIS IS A VERY RECENT ARTICLE DATED FEBRUARY 6, 1984 CONCERNING BANK CHARGES AND FEES. IT STATES, "A 1983 STUDY BY THE AMERICAN BANKERS ASSOCIATION FOUND THAT SMALL COMMUNITY BANKS CHARGE FEWER, AND LOWER, FEES THAN LARGE BANKS. IN GENERAL, THE BIGGER THE BANK THE BIGGER THE FEE." YET DOCUMENTATION IS AVAILABLE TO SHOW THAT GENERALLY THE SMALLER THE BANK THE BIGGER THE CAPITAL RATIO TO DEPOSITS WHICH IS REAL PROTECTION FOR THE DEPOSITORS.

ALONG THESE SAME LINES I WOULD REFER TO EXHIBIT 6 AND THE FIASCO AT CITICORP WHEN THEY MADE A RULE THAT YOU COULDN'T TALK TO A REAL LIVE TELLER UNLESS YOU MAINTAINED A BALANCE OF \$5,000 IN THE BANK. EVEN THOUGH THEY HAD TO BACK OFF ON THIS RULING IT SHOWS US WHAT CAN HAPPEN WHEN WE GET SO WORRIED ABOUT THINGS LIKE OUR LOAN LIMITS AND NOT WORRIED ABOUT WHAT IS GOOD FOR THE PEOPLE AND THE SAFETY AND SOUNDNESS OF OUR BANKS.

YOU HAVE BEEN ASKED WHY 45 OTHER STATES HAVE "REMOVED THE ARTIFICIAL BARRIERS" AGAINST EXPANSION OF BANKS. THE TRUTH IS THAT VERY FEW STATES REMOVED ANY BARRIERS. THE KANSAS LEGISLATURE WAS ONE OF A FEW THAT SAW THE EVILS OF CONCENTRATION OF RESOURCES AND PASSED A LAW PROHIBITING MBHCs. IN MOST STATES THEY GREW LIKE A NOXIOUS WEED BECAUSE THERE WAS NOTHING TO PROHIBIT THEM. CONDITIONS TODAY DICTATE THAT THERE ARE MORE REASONS FOR PROHIBITING THE CONCENTRATION OF RESOURCES THAN THERE WERE WHEN THE PROHIBITIVE LEGISLATION WAS PASSED.

LAST YEAR OUR PEOPLE WERE CHASTISED BECAUSE WE SUPPOSEDLY SAID THAT BRANCH-BANKING AND MBHCs WERE ONE AND THE SAME WHEN WE WERE ONLY QUOTING FROM FRB PUBLICATIONS THAT MADE THIS STATEMENT. NOW THE PROponents ARE TALKING OF BRANCHING, MBHCs AND INTERSTATE BANKING IN THE SAME BREATH. AND GET THIS!!! IF YOU HAVE TWO SONS WHO OWN BANKS AND YOU BUY 5% OF THE STOCK IN EACH BANK AND SERVE ON THE BOARD OF EACH BANK YOU ARE IN THE FED COMPUTOR AS A CHAIN OF BANKS. WHAT REALLY IS CHAIN BANKING? AND BESIDES - KIB HAS NEVER ONCE GIVEN AN INDICATION TO BEING OPPOSED TO "INDIVIDUAL RIGHTS." HOWEVER WE HAVE SEEN CORPORATIONS BECOME MONSTERS.

WHY ARE STATES WITH MBHCs NOT RETURNING TO UNIT BANKING? ONCE THE POWER THAT GOES WITH THE SYSTEM IS ESTABLISHED IT IS ALMOST IMPOSSIBLE TO REVERSE. A FORMER CHAIRMAN OF CHASE MANHATTAN BANK ONCE SAID, "LET ME CONTROL THE DEBIT POWER OF AMERICA AND I WILL CONTROL AMERICA." SO COULD MBHCs CONTROL KANSAS.

NOW I WOULD LIKE TO SPEAK TO THE SO-CALLED COMPROMISES IN THIS BILL. COMPROMISES BETWEEN THE PEOPLE AND WHAT SOME BANKS WANT. SECTION 9 OF THE BILL WOULD CREATE THE POSSIBILITY OF HAVING 10 INSTITUTIONS WITH \$2.8 BILLION IN ASSETS INSTEAD OF 732 SMALLER BANKS, S&Ls AND CREDIT UNIONS AS WE HAVE TODAY. RATHER THAN A COMPROMISE THIS IS ASKING THE PEOPLE FOR THE UNCONDITIONAL SURRENDER OF THEIR HARD EARNED RESOURCES TO THE CONTROL OF A FEW BANKERS. IT WAS STATED HERE YESTERDAY THAT THIS IS ONLY MY INTERPRETATION OF SECTION 9. WELL I HAVE MEASURED THIS SECTION BY SIMPLE ARITHMATIC BECAUSE THAT IS ~~THE~~ ^{HOW YOU} WEIGH THE ECONOMIC AND POLITICAL POWER OF LARGE CORPORATIONS.

THE SECOND SO-CALLED COMPROMISE IS CONTAINED IN SECTION 10 WHERE IT SAYS, "NOT LESS THAN A MAJORITY OF THE TOTAL MEMBERSHIP OF THE BOARD OF DIRECTORS OF THE BANK FROM THE LOCAL AREA IN WHICH THE BANK IS LOCATED." YOU CAN'T CONTROL A BANK WITH ZIP CODES. I SHOWED THIS SECTION TO A BANK EXAMINER AND THEY, IN THEIR JOBS, VISIT MANY BOARD ROOMS. THE COMMENT WAS, "MANY BOARDS ARE CONTROLLED BY ONE PERSON." REGARDLESS OF HOW YOU DRAFT THE BILL, BANK DIRECTORS GET THEIR AUTHORITY THE SAME WAY THAT SENATORS DO - - FROM THE PEOPLE WHO PUT THEM IN THEIR JOB. SECTION 10 IGNORES THE REAL CORPORATE WORLD. POLICIES IN ALL BANKS OF A MBHC SYSTEM WILL BE DECIDED BY THE PARENT ORGANIZATION - NO ONE ELSE.

LAST WEEK KAEG SAID, "AGRICULTURE IS THE MOST 'CAPITAL POOR' INDUSTRY IN OUR COUNTRY AND THIS BILL WILL GIVE US A GREAT INFLUX OF CAPITAL FOR AGRICULTURE." WE HAVE PROVIDED YOU WITH FACTS (EXHIBIT 1) PREPARED BY THE AMERICAN BANKERS ASSOCIATION FOR 1983 THAT ABSOLUTELY REFUTES THE LATTER PART OF THEIR STATEMENT. KANSAS IS SECOND IN THE NATION IN THE PERCENTAGE OF "NON REAL ESTATE" FARM LOANS HELD BY BANKS. OUR PRESENT UNIT BANKING SYSTEM IS DOING A BETTER JOB THAN STATES WITH MBHCs.

YOUR FINANCIAL RESOURCES PUT IN A BANK AS A DEPOSIT ARE THAT BANK'S LIABILITIES. LARGE BHCs IN THIS NATION ARE NOW DESPARATE FOR MORE LIABILITIES. THEY HAVE TRAINED MARKETING OFFICERS AND LOAN OFFICERS THAT ARE ACQUIRING ASSETS FASTER THAN THEY CAN CREATE THE FUNDS TO COVER THEM. NOW THE CHEAPEST WAY TO ACQUIRE THESE LIABILITIES IS TO ACQUIRE MORE BANKS. IF YOU ARE NOW TIRED OF HEARING BANK LEGISLATION EVERY YEAR THEN YOU SHOULD BE AWARE THAT SB 673 IS JUST THE "TIP OF THE ICEBERG". A MISSOURI SENATE COMMITTEE HAS PASS^d AND THE NEW MEXICO LEGISLATURE IS CONSIDERING BILLS THAT WOULD ALLOW "OUT OF STATE" HOLDING COMPANIES TO OWN BANKS IN THOSE STATES. LEADERS OF MISSOURI MBHCs ARE SOUNDING LIKE INDEPENDENT BANKERS IN THEIR OUTRAGE OVER THIS INTRUSION AT THE SAME TIME THEY ARE SAYING, "IF WE HAVE OUR CHOICE OUR NEXT EXPANSIONS WILL BE IN ILLINOIS AND KANSAS AND PARTS OF NEBRASKA AND OKLAHOMA." THESE BILLS ARE BEING LOBBIED BY PEOPLE FROM NEW YORK REPRESENTING CITICORP. THE GOVERNOR OF NEW MEXICO IS ON THE SIDE OF CITICORP AND HE OPENLY FIRED HIS BANK COMMISSIONER AND SECURITIES COMMISSIONER BECAUSE THEY OPPOSED THE BILLS. IN KENTUCKY THEIR HOLDING COMPANY LAW HAD GEOGRAPHICAL RESTRICTIONS. A BILL IS BEING DEBATED THERE TO LIFT THESE RESTRICTION AND ALLOW INTERSTATE BANKING. JUST WHEN IT APPEARED THAT THE BILL HAD THE VOTES TO PASS REP. ELMER PATRICK CAME FORTH WITH TAPES TO PROVE THAT THE LOBBYIST FOR THE PROPONENTS HAD OFFERED \$5,000 FOR HIS VOTE. AND "BACK HOME IN INDIANA" THE HOUSE OF REPRESENTATIVES DEFEATED THE MBHC BILL 62-38 AFTER HEARING IT FOR THE 20TH CONSECUTIVE YEAR. THESE PEOPLE ARE LIKE FLIES AT A PICNIC - THEY SEEM TO NEVER GO AWAY.

THESE PEOPLE ARE ABSOLUTELY DESPARATE TO CONTROL YOUR FINANCIAL RESOURCES TO COVER THE ASSETS WHICH THEY ALREADY OWN. YOUR RESOURCES WOULD NO LONGER SUPPORT BUSINESSES AND FARMS IN YOUR COMMUNITY NOR BE USED TO BUY THE BONDS OF YOUR SCHOOL DISTRICT. THE NEBRASKA UNICAMERAL IS CONSIDERING A BILL CONCERNING OUT OF STATE OWNERSHIP OF THEIR BANKS IN THIS, THE FIRST YEAR, AFTER PASSING A BILL TO ALLOW MBHCs.

PROponents HAVE REPEATEDLY CAST REFLECTIONS ON OUR INTELLIGENCE WHILE EXPLAINING WHY KANSAS IS A UNIT BANKING STATE. ACTUALLY NO MEMBER OF KIB HAS EVER BEEN ALLOWED TO VOTE ON THE ISSUE. WE ARE A UNIT BANKING STATE BECAUSE OUR LEGISLATURE DOES IT THE OLD FASHIONED WAY. THEY WEIGH A BILL ON THE MERIT OF WHETHER IT IS FOR THE ENRICHMENT OF A FEW AS AGAINST THE WELL BEING OF THE PEOPLE. KEEP IT UP.