Approved ______________________
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS.

The meeting was called to order by Representative Harold P. Dyck at
Chairperson

3:30 ~~a.m.~~/p.m. on March 19, 1985 in room Old Supreme Court Room of the Capitol.

All members were present except:

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

Conferees appearing before the committee:

Don Steffes, President, Kansas Bankers Association; President, McPherson Bank & Trust Co.
Deryl K. Schuster, President-Elect, Kansas Bankers Association; Chief Executive Officer of the First National Bank, Liberal
Ed Bruske, President, Kansas Chamber of Commerce and Industry
Scott Gard, President, Scott Gard Associates, Inc., Overland Park
Eugene T. Barrett, Jr., Bank Commissioner
John Myers, Director of Policy for Governor John Carlin
Roger Beverage, Director of Department of Banking and Finance for the State of Nebraska

Chairman Dyck called the meeting to order and asked Dr. Bill Wolff of the Legislative Research Department to brief the committee on SB102.

The chairman then called on Don Steffes, President of the Kansas Bankers Association, who was the first of seven proponents testifying on SB102. (See Attachment I for Mr. Steffes' testimony.)

Second proponent for SB102 was Deryl K. Schuster, President-Elect, Kansas Bankers Association. (See Attachment II for testimony)

Ed Bruske, President, Kansas Chamber of Commerce and Industry, was the third conferee to testify. (See Attachment III for testimony)

Fourth conferee on SB102 was Scott Gard, President, Scott Gard Associates, Inc. (See Attachment IV for testimony.)

Eugene T. Barrett, Jr., Bank Commissioner was the fifth conferee. (See Attachment V for testimony.)

John Myers, Director of Policy for Governor Carlin, was the sixth conferee on SB102. (See Attachment VI)

Seventh and last conferee was Roger Beverage, Director of Department of Banking and Finance for the State of Nebraska. (See Attachment VII for testimony)

Dennis M. Shockley, Federal and State Affairs, City of Kansas City, Kansas, was unable to be present. His written testimony was distributed to the committee members. (See Attachment VIII)

Following a period of questions and answers, Chairman Dyck reminded the committee that opponents of SB102 would be heard tomorrow.

Representative Dorothy Nichols moved that the minutes of the last meeting be approved. Representative Lawrence Wilbert seconded the motion. Motion approved.

The meeting adjourned at 5:15.

DATE March 19, 1985

GUEST REGISTER

HOUSE

COMMERCIAL & FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
Sarah Gard		2919 W 51st St.
Scott Gard	Scott Gard Assoc.	5650 Marty O.P. KS 66202
David Kersley	Scott Gard Assoc.	1118 N. Mulberry Ottawa 66067
Maureen Kelly	KANU	Lawrence
Jim Burgess	—	KCMO
Patrick J Hurley	KAEG.	Topeka
Julia Young	Banking Dept.	Topeka
Pete McGill	KIBA	Topeka
[illegible]	NEBRASKA BANKING DEPT.	Lincoln, Nebraska
Ed Bruske	KCCI.	500 KAN AVE.
Bud Grant	KCCI	TOPEKA
CHARLES BELT	WICHITA CHAMBER OF COMMERCE	WICHITA
DERYL K. SCHUSTER	KANSAS BANKERS ASSOC.	P.O. Box 1217 LIBERAL
Don Steffes	— —	M.B.T. - McPherson
Harold Stones	KBA	Topeka
Anderson Chandler	KBA	Topeka
John L Myers	Governor's Office	Topeka
Mary Harper	AAM	Healy Ks.
Linda McGill	KIBA	Topeka
Larry Kimbrough	Highland Park Bank	Topeka
[illegible]	St. Bank of Meriden	Meriden, Ks.
BEN NEILL	KIBA	Topeka

DATE March 19, 1985

GUEST REGISTER

HOUSE

COMMERCIAL & FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
Bernard A. Griffiths	Commercial State Bk	Long Island, Ks
Linda L. Woolsey	Midland Natl Bank	Newton, KS
J. Sue Anderson	KIBA	Carbondale, KS
Cecil F. Mann	KIBA	Carbondale, KS
Bill D Reinhardt	Farm Bu.	Chanute, Ks.
Wayne L. Taylor	Farm Bu	Chanute Ks
Virgil Fagel	Farm Bu.	Chanute Ks
Jack Hines	Farm Bu.	Erie, Ks.
Gary Shimer	Fouch Financial Corp.	Wichita
Leon Neufeld		Balko Okla
Jess Harder	Rep Dist. 103	Buhler, Ks
Rick Bowden	Rep Dist 93	Goddard, Ks

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 19, 1985

TO: House Committee on Commercial & Financial Institutions

RE: Senate Bill 102

Mr. Chairman and members of the committee:

My name is Don Steffes. I am President of the McPherson Bank & Trust Co., and also President of the Kansas Bankers Association. I would like to comment briefly about how and why the KBA supports the passage of Senate Bill 102.

Over our 98-year history, our charge and responsibility has been to provide input and direction to the Legislature on Kansas banking laws. Your charge and responsibility has then been to determine the public policy of Kansas regarding banking and to enact it into law. That is a proper role and relationship for the KBA to have with the State Legislature.

When I became President of the KBA almost a year ago, the KBA had no position on the question of modernizing our banking laws. We were neutral because of a significant difference of opinion within our membership. I visited with a great many Kansas bankers, and it was obvious to me that there was a definite shift of opinion underway among my colleagues in favor of multi-bank holding companies.

This was also at a time when dramatic changes were occurring in the banking industry throughout the country. Congress had begun to deregulate all financial industries with swift and dramatic consequences in its impact on banks. New competition for bank deposits arose overnight, whether it was in the form of savings and loans with new powers; or non-bank banks; or Mark Twain type relocations across state lines; or retailers such as Sears, Penneys, and K-Mart getting into the financial service business. All these new challenges loomed under the threatening cloud of interstate banking. I am sure these are some of the reasons why I detected a change of heart was occurring among my colleagues.

Ironically, the state laws which once protected banks from competition from one another, now served to restrict banks in their ability to meet these new challenges.

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While these changes were not unique to Kansas, Kansas was certainly unique among the states in its reaction to them. Every other state responded to these challenges by modernizing its banking laws. Typically they removed antiquated restrictions on their banks, allowing them to grow and expand by giving them either branching authority or multi-bank acquisition authority. Only Kansas failed to take any action; only Kansas continued under its old law to prohibit both.

As we watched the actions being taken by other state legislatures, we observed that more and more of our sister banking associations were stepping forward from their prior positions of neutrality and taking the lead in their respective states. The shift of opinion I detected in Kansas was occurring nation-wide.

So we began the same process within our own Association. During the past year, this issue was the primary topic of discussion at a major CEO Forum held in September, and then at the CEO Sessions held at six regional locations throughout Kansas. After these discussions, it was reviewed and endorsed by our State Affairs Committee and then by our full Governing Council. Both bodies endorsed having the KBA assume a position of support for multi-bank holding companies in Kansas.

A group of our banks petitioned for a Special Convention of all of our members, as they can do under our Bylaws, and one was held. It was the first Special Convention ever called in our 98-year history. But it was attended by the greatest number of Kansas banks ever to attend any convention in recent history of the KBA. Obviously, the time had come to address this issue in force and numbers and our members did. By a margin of 273-205, the KBA members voted to support Senate Bill 102. Once and for all the question was resolved, as to the will and desire of the majority of Kansas banks on this issue.

One very important point is that this Special Convention cemented the KBA position. A position taken by a Convention cannot be overturned or changed by any other means than by another Convention. This means the KBA will be a proponent of multi-bank holding companies for all the foreseeable future. If something happens that the bill is killed this year, the KBA has no choice but to keep trying year after year, unless the unlikely event of another Convention changes its mind.

More importantly, however, now that consensus has been achieved among our members, the Kansas Bankers Association is ready to resume its proper role of providing direction and leadership to you, the Legislature, on this important issue.

After endorsing the issue, the KBA appointed a Task Force to draft the provisions for legislation which became Senate Bill 102. This Task Force was carefully balanced as to size and geographic representation. I have attached to my testimony an explanation of each of the provisions of the bill. It explains each major provision and compares it to similar laws in several other states which have recently enacted multi-bank legislation.

I would add, however, that the bill in total is the result of very carefully balanced compromises and decisions made by the members of this Task Force. On the one hand, it would allow bank holding companies to acquire banks, if they so choose, subject to restrictions and limitations. But at the same time, it builds in a number of protections and safeguards for those banks which choose to remain independent unit banks. The result is a fair and responsible law which would be among the most restrictive, if not the most restrictive, multi-bank law in the United States. I would therefore urge that you not begin a rewrite of provisions of this bill. At the very least, we would seek the opportunity for the KBA to respond directly to any proposed changes.

As a final note, I would simply tell you that obviously our process in reaching this point was not an easy one; nor was the decision of the KBA unanimously accepted by its members. Honest disagreements existed before the KBA Convention and, although those disagreements are fewer, some continue after it, as you will undoubtedly hear in testimony tomorrow.

The arguments pro and con on this issue could continue endlessly if you allow them to. However, it is important to state that in arriving at our position in support of this change in our laws, the KBA considered all of these arguments, just as did the Governor of our State, the Chamber of Commerce and Industry, the several past State Bank Commissioners who have endorsed it, the 47 other state legislatures which have adopted the law, and a strong majority of the members of our Kansas Senate. And each decided that the time has indeed come to join the rest of the country in modernizing our banking laws.

As much as we would all like for things not to change, change is inevitable and unstoppable. When it does come, it is our collective responsibility, yours and ours, to meet those changes head on, and to deal with them responsibly.

I am proud as the President of the KBA to say that our Association has accepted its charge and responsibility in meeting these challenges and in addressing this issue. We urge you now to do the same. We urge the passage of <u>Senate Bill 102</u>.

Don C. Steffes, President
Kansas Bankers Association

ADDENDUM

AN EXPLANATION OF RESTRICTIONS IN SENATE BILL 102

KBA TASK FORCE REPORT

The provisions of Senate Bill 102 were carefully drawn based upon recommendations of a nine-person Task Force created by the KBA Governing council. It consisted of the following persons:

(1) J. Rex Duwe, Chairman of the Board, Famrers State Bank, Lucas, Kansas, and former President, American Bankers Association

(2) William D. Bunten, President, First National Bank, Wichita, Kansas

(3) Merle Starr, Director, Haskell County State Bank, Sublette, Kansas

(4) Emery E. Fager, Chairman, Commerce Bank of Topeka, Kansas, and former Kansas State Bank Commissioner

(5) Frank L. Carson, President, Mulvane State Bank, Mulvane, Kansas, and Chairman of the KBA State Affairs Committee

(6) Lynn Anderson, President, First National Bank, Lawrence, Kansas

(7) Eugene Hegarty, President, Farmers & Merchants State Bank, Effingham, Kansas, and former Kansas State Bank Commissioner

(8) R. D. Jones, President, Farmers National Bank, Oberlin, Kansas

(9) Dean D. Haddock, President, Guaranty State Bank, Beloit, Kansas

These respected bankers worked on drafting a bill which is basically a very conservative approach to bank structure and which implements many safeguards to satisfy those bankers and groups who are concerned that multibank legislation could allow too much concentration of resources. Attached is an explanation of the contents of their work product.

EXPLANATION OF THE MULTI-BANK HOLDING COMPANY BILL OF THE KANSAS BANKERS ASSOCIATION

The KBA bill would allow bank holding companies to own more than one bank in Kansas, but it would place a number of limitations or restrictions on such holding companies. These limitations would prevent any one holding company from growing too big and would also prohibit them from initiating direct competition against existing Kansas banks.

The bill would define a bank holding company as any company which owned 25% or more of one bank, and more than 5% of one or more additional banks. Such a holding company would, in effect, be a multi-bank holding company and would therefore be subject to all the limitations and restrictions in the bill.

I. Restrictions and Limitations on Multi-Bank Holding Companies

A. Restriction on Size

No one (multi-bank) holding company could control total deposits in an amount greater than 9% of the deposits of all banks and savings and loans in the state (similar to Oklahoma, Missouri, Kentucky, and Arkansas; identical to Nebraska).

This provision would prevent a disproportionate concentration of assets in any one holding company. No other state's law would be more restrictive.

The two key components of this formula are the percentage and the base of deposits. The rationale of the Task Force was that a multi-bank holding company ought to be allowed to grow as large as the state's largest savings & loan, since banks and S&L's now compete for the same depositors. The largest S&L is now slightly over two billion dollars in deposits. This formula would allow a multi-bank holding company to reach a limit approximately equal to $2.32 billion, using year-end 1983 data. It was assumed that the Legislature would not statutorily mandate a limit on a multi-bank holding company in an amount less than an S&L as a matter of public policy.

Therefore, if the base is narrowed by removal of S&L deposits, the percentage would have to be increased to approximately 13% to achieve the same parity between banks and S&L's.

B. <u>Guarantee of Continued Local Representation</u>

The majority of the board of directors of each bank acquired by a multi-bank holding company must be residents of the local community of that bank (same as Oklahoma). This provision would guarantee continued community representation on the board of the acquired bank.

II. Protections for Independent Unit Banks

A. <u>Prohibition of De Novo Charter by a Multi-Bank Holding Company</u>

No multi-bank holding company could charter a new bank (same as Oklahoma, Nebraska, Arkansas, Kentucky, and Louisiana).

This provision would prevent a holding company from entering a community in any manner other than by purchasing an existing bank. This would protect an existing bank from competition from a new or additional bank.

B. <u>Five-Year Life of the Acquired Bank</u>

No multi-bank holding company could buy a bank that was less than five years old (same as Oklahoma, Nebraska, Louisiana, and Kentucky).

This provision would prevent a friendly charter of a new bank followed by the immediate sale to a holding company. Again, this prevents entry into a community except by the acquisition of a long-time existing bank.

III. Emergency Acquisition of Failed Banks

The bill also contains emergency acquisition provisions for cases of failing banks. It would exempt such multi-bank holding companies from these limitations in cases where the state or federal regulatory authority determined that an emergency existed and that the acquisition was necessary to protect the public interest against the failure or probable failure of bank (similar to Nebraska, Arkansas, Missouri, and Oklahoma).

These "safety net" provisions were requested by the Kansas Bank Commissioner as urgently needed to assure the maximum number of bidders in future cases of failing banks in order to prevent the loss of a bank to a community. Emergency provisions such as these have been consistently supported by the Federal Reserve, the FDIC and the U. S. Comptroller of the Currency.

IV. Prohibition Against Non-Bank Banks

The bill would also prohibit bank holding companies or their subsidiaries from operating "non-bank banks" in Kansas.

Over 300 applications have been filed with the U. S. Comptroller of the Currency to open "non-bank banks" throughout the United States. The Comptroller has already approved 255 and Congress has yet to act to close this loophole. Recently the Comptroller preliminarily approved the application to start a "non-bank bank" in Kansas (Commerce of KCMO).

We are grateful to the Kansas Legislature for passing, without a single dissenting vote, Substitute for SB 42. However, SB 102 will give further armor-plating to non-bank bank subsidiaries of bank holding companies.

V. Prohibition Against Interstate Banking

The bill would also clearly restate as Kansas law the express prohibition on out-of-state bank holding companies from acquiring a Kansas bank.

This has been the law of Kansas and would continue to be the law. Interstate bank acquisition into Kansas would still be prohibited.

VI. Prohibition Against Future Mark Twain Type Relocations

The bill would also prohibit an out-of-state holding company from relocating a bank from another state into the state of Kansas.

This provision is designed to prevent a bank in a border state from simply relocating across the state line into Kansas. The Mark Twain Bank in Kansas City, Missouri, was given such approval from the U. S. Comptroller of the Currency through a provision in the federal law that allows a bank to relocate up to 30 miles from its present location.

While the Mark Twain case is currently being litigated in the courts, this provision would clearly prohibit any similar relocations into Kansas in the future.

#3

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 19, 1985

TO: House Committee on Commercial & Financial Institutions

RE: Senate Bill 102

Mr. Chairman and members of the committee:

My name is Deryl Schuster; I am President and Chief Executive Officer of the First National Bank in Liberal; I also have an interest in banks in Syracuse and Elkhart. In addition, I am President-elect of the Kansas Bankers Association.

I really appreciate the opportunity to be here today and to present this brief testimony in support of Senate Bill 102, which authorizes multi-bank holding companies in Kansas, with proper safeguards and restrictions.

People in banking in Liberal, Syracuse and Elkhart, Kansas are totally involved in agricultural banking. First National Bank of Liberal, Kansas, is 74% loaned up, and I can assure you that any loan portfolio in western Kansas is directly or indirectly tied to agriculture.

I have been deeply concerned over the allegations that have been made throughout the debate on multi-bank holding companies that somehow, someway, somewhere, multi-bank holding companies are bad for agriculture. I have searched long and hard for evidence of this, because no one in his right mind in southwest Kansas would want to do anything harmful to the agricultural economy. I hope agricultural bankers in Kansas are intelligent enough not to voluntarily commit economic suicide. Therefore, this subject has been of great interest and concern to me --- and I have done considerable research into the facts.

Mr. Chairman, and members of the committee, I can find absolutely no factual evidence that multi-bank holding companies harm agriculture in any way --- and, in fact, existing evidence points in exactly the opposite direction.

I would like to illustrate, my factual significant evidence in the following charts.

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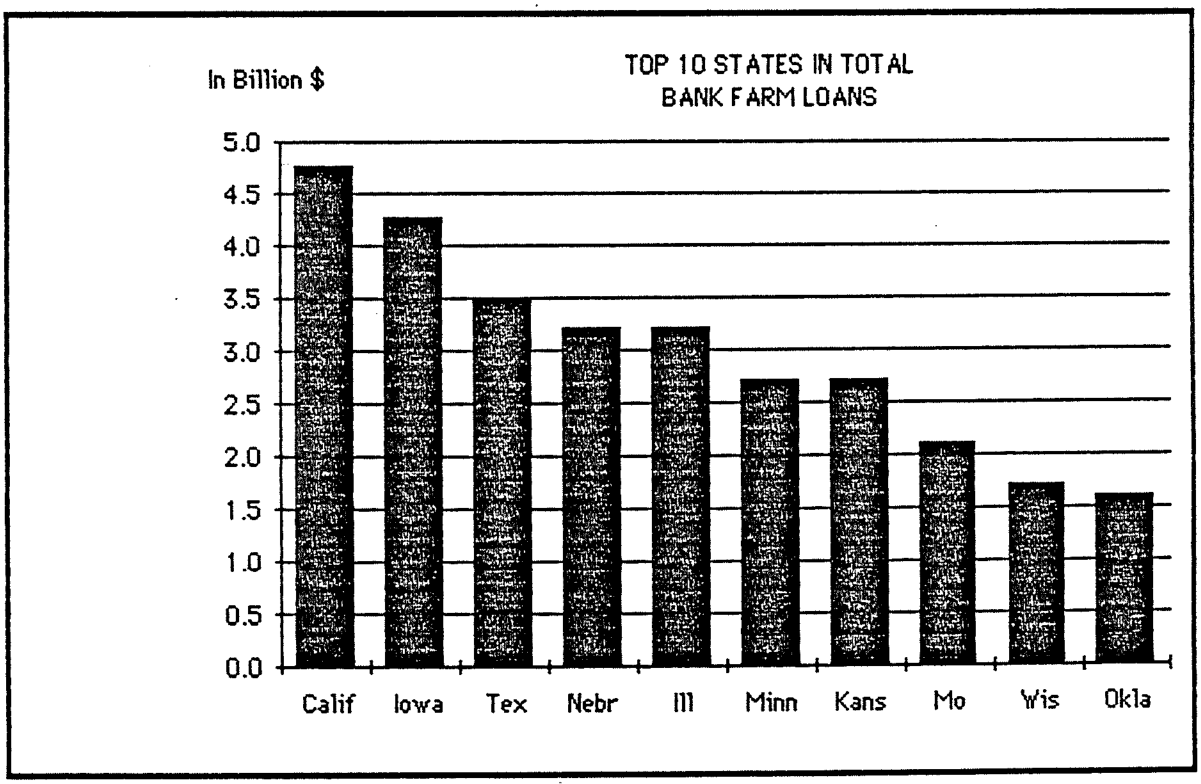
Chart #1 below clearly shows the top ten states in the entire nation in total farm loan volume held by banks. You will note that Kansas ranks seventh in the nation of total farm loans held by banks, with totals of $2.7 billion. I am very proud of that figure, and Kansas bankers deserve some credit for their active involvement in the agricultural economy.

CHART #1

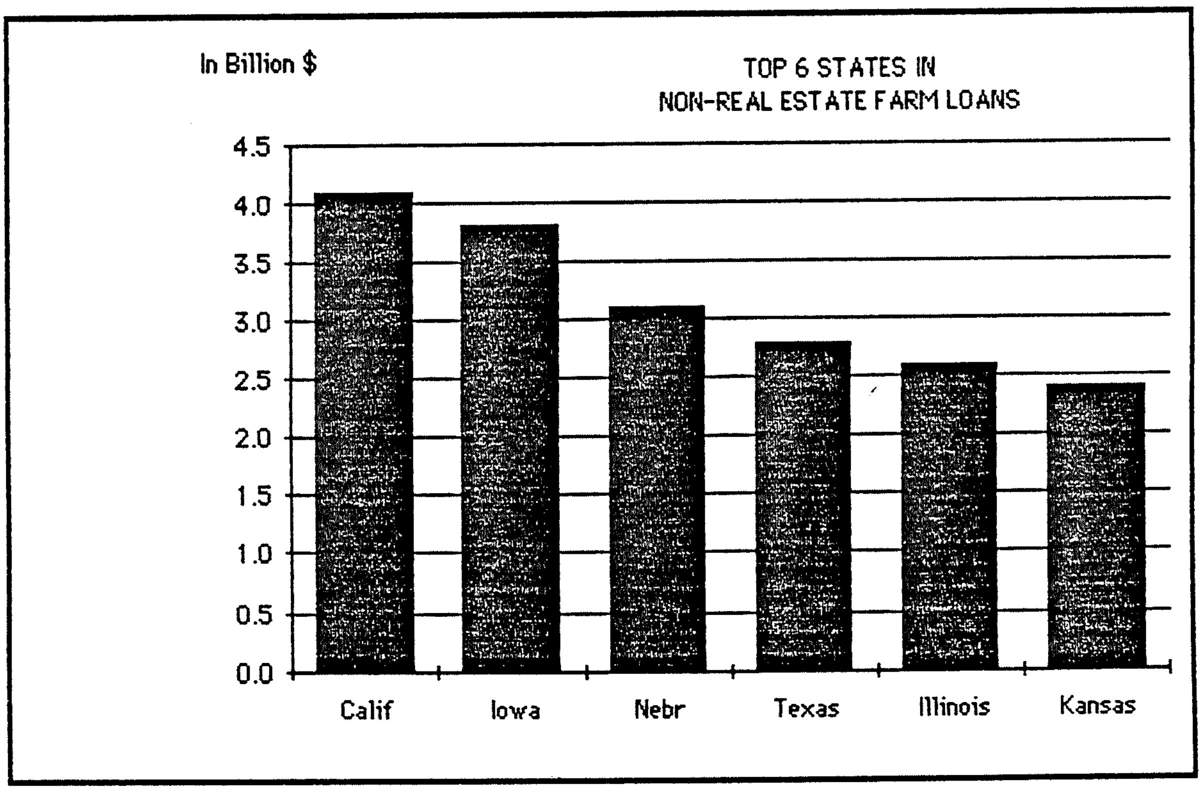


But you will also note that the six states which have higher volumes of bank farm loans than Kansas are all states which authorize multi-bank holding companies; California, Iowa, Texas, and Minnesota have authorized multi-bank holding companies for years, while Illinois and Nebraska are more recent in their legislation. There doesn't seem to be any evidence on the basis of loan volume that multi-bank holding companies have held back agricultural credit in the various states in any way.

House Committee on Commercial & Financial Institutions
March 19, 1985
Page Three

Chart #2 shows the top six states in the United States in non-real estate farm loans. We call these production, or operating loans. Here you will note that Kansas ranks sixth in the nation, and the five states which have higher loan volumes than we do are all multi-bank holding company states, some of them have been for many years.

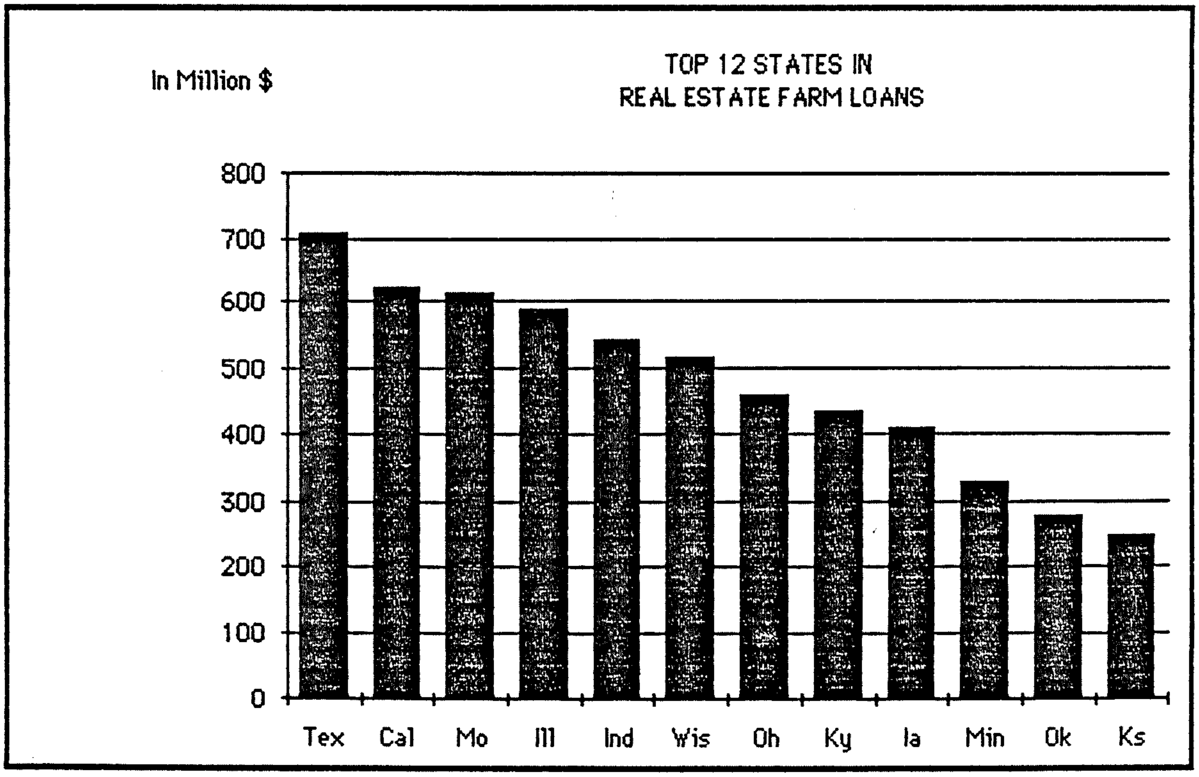
CHART #2



It is difficult to find any evidence of harm in Chart #2 that multi-bank holding company states are not doing a good job with farm operating loans.

Chart #3 illustrates the top twelve states in the nation in volumes of real estate farm loans.

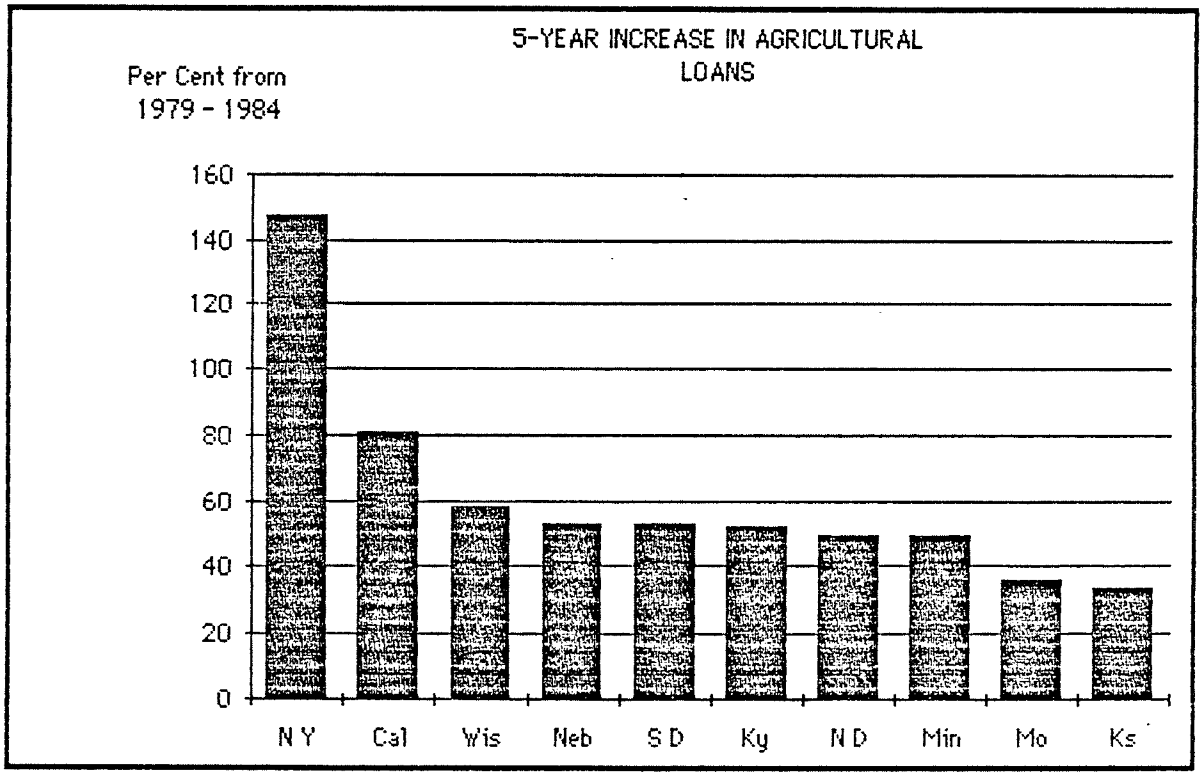
CHART #3



Kansas ranks 12th, and again, you will note that ten of the eleven states which rank above Kansas in real estate farm loans held by banks are multi-bank holding company states. Only Indiana is not. There doesn't seem to be any harm existing in the real estate farm loan category either.

Chart #4 is different, and serves as a checking point, because it looks at trends rather than actual volumes. Chart #4 illustrates the top ten states in the United States showing a five-year increase in agricultural loans held by banks.

CHART #4



You will note immediately that Kansas ranks number ten, and every single one of the nine states ranking above Kansas is a multi-bank holding company state.

These four charts would seem to make very clear that agricultural banks will support agriculture no matter what structure laws they live under --- and multi-bank holding companies do not deter or shrink agricultural credit in any way.

Also, I thought the committee would be interested in looking at the share of total farm loans which are held by banks in the states of Kansas and Missouri. You will note in Tables 5 and 6 that the total volume of farm loans held by all creditors is somewhat higher in Kansas with $7.8 billion than Missouri's $6.5 billion.

CHART #5

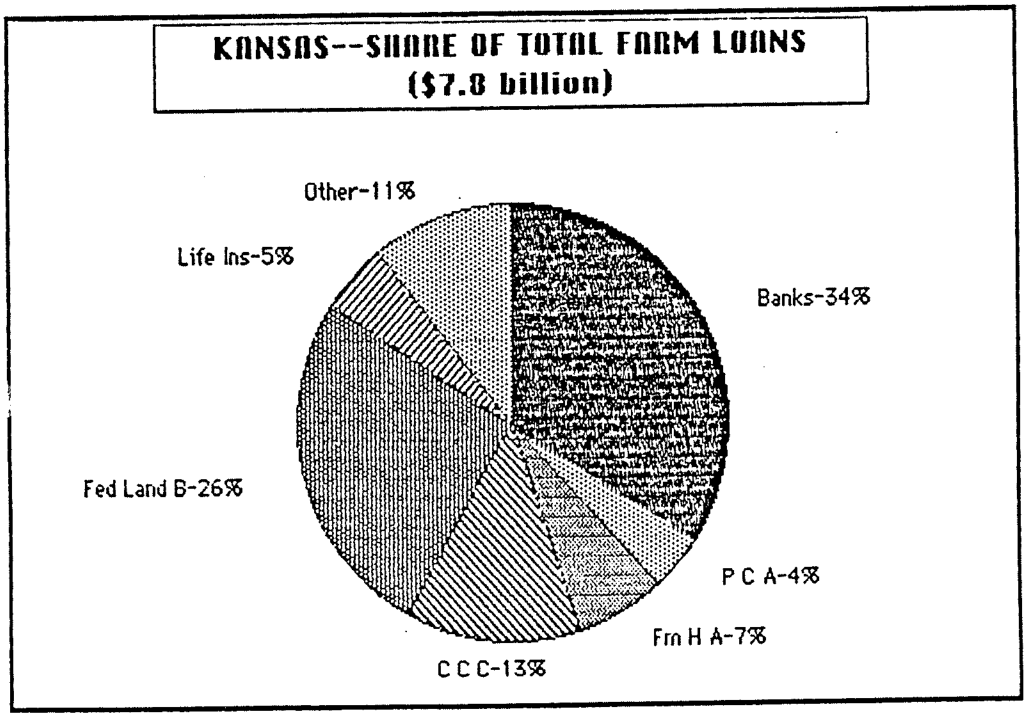
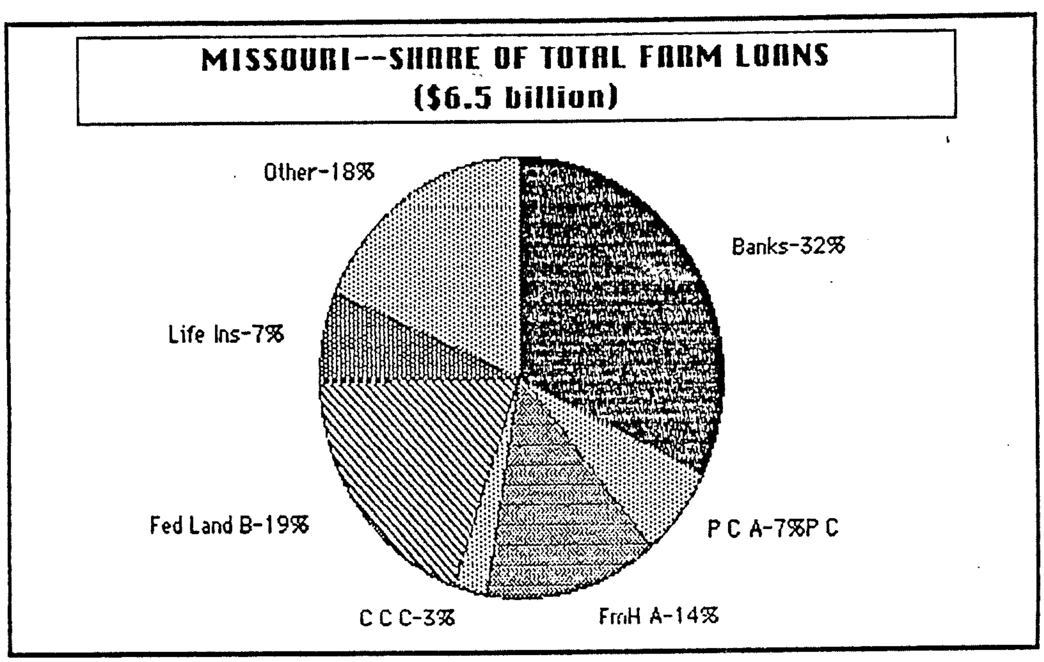


CHART #6



You will also note from the two pie charts, however, that the share of total farm loans held by banks is substantially the same. Kansas has a slight edge at 34%, with Missouri at 32% --- but you can see graphically on the pie charts there is very little difference between the two. Missouri has had multi-bank holding companies for years, and is often held up as the classic example of bank holding company effects. These charts would indicate that bank agricultural credit certainly has not been harmed by multi-bank holding companies.

CHART #7

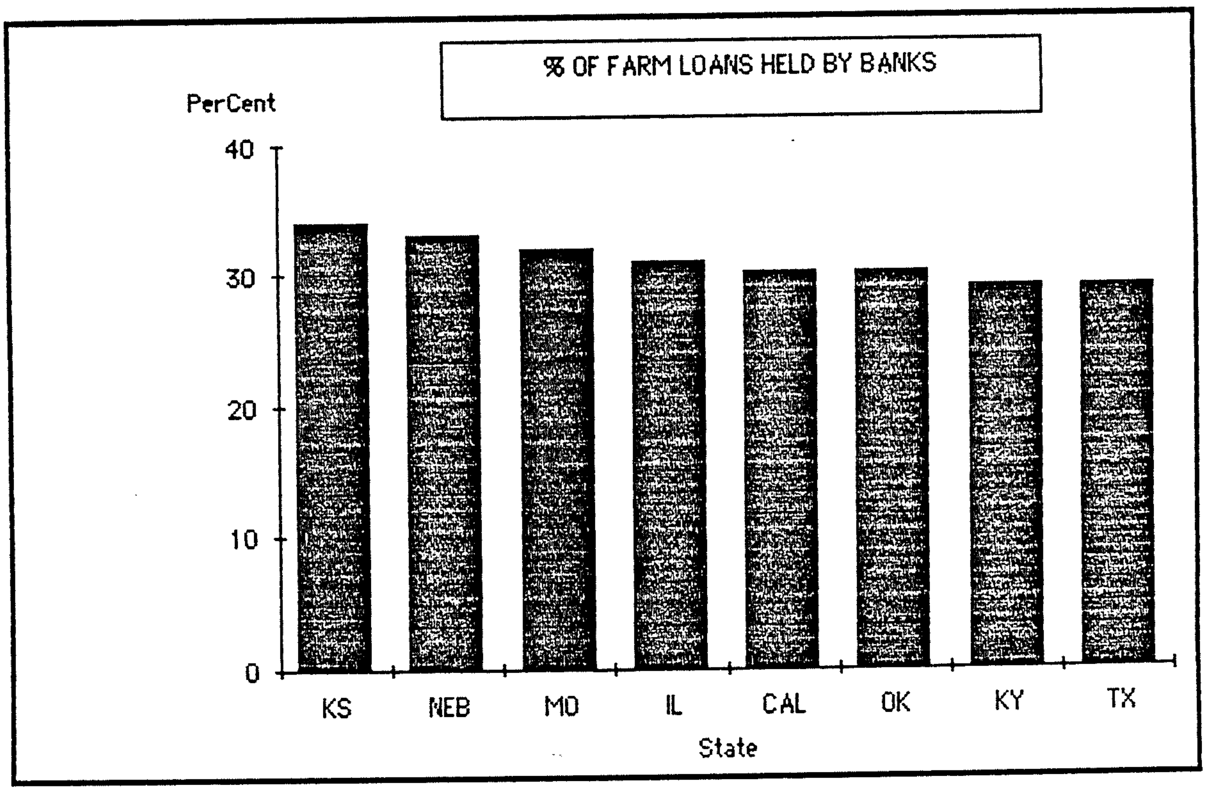


Chart #7 contains data showing the percent of total farm credit held by banks. I am proud that Kansas ranks Number 1 with 34%. Note that Texas ranks 8th with 29%. Only 5% separates Number 1 from Number 8, not a significant difference. And, it is important to recognize that all of the top eight states are multi-bank holding company states except Kansas. Again, where is the evidence that multi-bank holding companies have hurt agricultural credit?

In fact, Mr. Chairman and members of the committee, I believe multi-bank holding companies allow banking organizations to put together the amounts of credit which are so essential to the future of a healthy and vibrant agricutural economy.

City banks have for years been supplying money for agricultural credit in the form of overline loans. This fact has been used by opponents of multi-banking that no need for a change exists. But how can they make the illogical leap that if multi-bank legislation passes, by magic those same city banks will immediately turn their backs on agriculture. I ask you to think this through and see if you think it is logical.

In southwest Kansas, where I do business, the size of farming operations is definitely on the increase, and amount of credit is on the increase. If this economy is to be served effectively, then we need to be able to put banking organizations together and pool credit so that the very scarce capital resources in Kansas can be utilized to promote and maintain a very healthy agricultural economy.

The future of the people of southwest Kansas depends upon it.

Mr. Chairman and members of the committee, thank you very much for allowing me to present this evidence, and I close by respectfully asking you to support Senate Bill 102, for the agricultural and economic betterment of this state.

Deryl K. Schuster, President
First National Bank
Liberal, Kansas

President-elect
Kansas Bankers Association

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the Kansas State Chamber of Commerce, Associated Industries of Kansas, Kansas Retail Council

SB 102

March 19, 1985

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

Mr. Chairman and Members of the Committee:

My name is Ed Bruske and I am president of the Kansas Chamber of Commerce and Industry. I am very pleased to be here today to testify in support of SB 102.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses plus 215 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

In February, 1984, several of our banking industry members requested KCCI take a position on the multi-bank holding company issue. Our chairman at that time, Mr. George Nettels, appointed a special committee to study the issue and to make a

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recommendation to the KCCI board of directors at the earliest possible date.

The committee at several meetings heard testimony from both proponents and opponents of multi-bank holding companies. A substantial amount of material was supplied by the Kansas Independent Bankers Association and the Kansas Association for Economic Growth. All material was reviewed at committee meetings and on an individual basis by each of the members.

It should be noted that none of the members of the committee was a professional banker, and together this group represented a cross section of the business spectrum of KCCI. They approached the issue as it related to the Kansas business community and not the Kansas banking community. The primary concern of the committee was the continued growth of the Kansas business community and the need to continue to supply job and business opportunities to the state's citizens.

The major areas of focus can best be broken into three concepts:

1. free enterprise considerations,

2. Kansas economic development considerations, and

3. the effects of deregulation on the Kansas banking industry.

Looking briefly at each of these areas:

1. Dealing with the free enterprise issue, the committee concluded:

a. Kansas banks should individually have the freedom of opportunity to select that structure which best serves their stockholders and customers and should have the freedom of opportunity to buy or sell to either a bank holding company or an individual.

b. a legal distinction between chain banks and multi-banks is not one that makes good economic sense.

c. Kansas banks should not be structurally restrained from fully competing in the marketplace with other forms of unregulated competition, and,

d. multi-bank holding would be voluntary, i.e., no bank would be required to form one or be a part of one, no bank would be required to sell to a multi-bank, and each individual bank would have the opportunity to determine for itself the structure that would best enable it to compete and to survive.

2. To promote economic development in Kansas, the committee found that:

a. the governor's Task Force on High Technology in September, 1983, endorsed the multi-bank holding concept.

b. multi-banking would tend to increase the customer loan capacity of Kansas banks through the combining of assets of two or more banks (it, of course, would not create new capital).

c. Kansas banks often are at a competitive disadvantage by selling participating loans to large out-of-state banks who then are able to and often do "cherry pick" prime customer accounts in Kansas.

d. multi-banking would offer multi-location Kansas businesses the opportunity to consolidate their banking yet maintain their banking relations on a local level and,

e. a considerable number of Kansas companies are presently banking outside the state

Kansas banking laws should facilitate the access to capital market for Kansas business, thereby insuring that inadequacy of banking is not a factor in the exodus of Kansas business or loss of its expansion programs here.

3. As to deregulation of the banking industry, the committee found that:

a. existing banking operations are being challenged by non-banking entities such as retail stockbrokers (Merrill Lynch), life insurance companies and large retailers (Sears & Allstate), credit card companies (American Express) and large manufacturers entering the consumer loan business (GM, Ford, Chrysler). The committee believes Kansas laws restricting the structure of Kansas banking are outdated and obsolete. These laws put local Kansas banks on an unequal playing field in a very competitive industry.

b. large, regional and national, non-regulated, financial and non-financial companies are accelerating their interests into Kansas banking where Kansas banks have been found vulnerable.

c. multi-branch banking would increase competition among Kansas banks, and consequently result in a wide range of new services available to the traditional Kansas banking customer.

d. only three states do not permit multi-banking and Kansas is the only state that prevents both multi-banking and branch banking.

e. Kansas banks are poorly equipped to effectively compete in the emerging regional bank networks.

In conclusion, the committee concluded many of the protections and restrictions on the Kansas banking industry have been made obsolete by the marketplace. Regional and national financial firms are finding that Kansas' domestic banking community is structurally hobbled in a new financial environment. Certainly the fact that Kansas has had more bank failures than any other state in the Country indicates to us that our current system leaves something to be desired. A strong domestic community is vital to the economic development of our state and KCCI believes it is appropriate to take a stand on an issue that so materially affects all Kansas business.

At a September 13, 1984, meeting in Overland Park, the board of directors of the Kansas Chamber of Commerce and Industry adopted the following policy statement:

"In order that the Kansas banking community might even better serve the citizens of Kansas and Kansas business, the Kansas Chamber of Commerce and Industry supports amending Kansas banking statutes to allow multi-bank holding companies and establish the positive banking atmosphere needed to effectively compete and survive in the ever evolving banking environment."

Thank you, Mr. Chairman, for allowing us to appear before you today. I will attempt to answer any questions.

IV

SCOTT GARD ASSOCIATES
BANKING AND ECONOMIC CONSULTANTS

The Remarks of

Mr. Scott Gard, President

Scott Gard Associates, Inc.

Overland Park, Kansas

before the

Commercial and Financial Institutions Committee

of the Kansas House of Representatives

Concerning S.B. 102

March 19, 1985

- ATTACHMENT 4 3/19/85 -

5650 MARTY • OVERLAND PARK, KS 66208 • (913) 362-0013

SIX HUNDRED HANOVER BLDG. • 15 WEST 10TH • KANSAS CITY, MO 64105 • (816) 221-4760

Mr. Chairman, and members of the Committee, my name is Scott Gard and I want to thank you for the opportunity to present the findings of a comprehensive study recently completed by my firm. IV A A copy of the complete study has been provided to each of you for your review. This study analyzes the efficiency of our Kansas banking industry under the existing unit banking system and discusses the impact of multibanking as proposed in Senate Bill No. 102.

My background prior to forming Scott Gard Associates three years ago included my employment for 10 years with Midwest Research Institute in Kansas City as Program Director for Banking and Economic Studies; and, as Senior Economist with Economic Research Associates in Washington, D.C.

I was raised on a small, family farm in the Midwest, worked as a youth on the wheat harvest from Texas to the Canadian border, and raised and showed a reserve champion steer at the American Royal. Through my own farm operation and frequent contacts with family who are farmers, I have maintained a sensitivity to the emerging problems in the rural Midwest farm economy.

Dave Kersley, who is a member of my firm and is with me today, served as research director for the banking study. A native of Ottawa, David has followed deregulation for years, has served as Managing Editor of a newsletter on banking deregulation and the performance of banks and bank holding companies, and has analyzed as many as 3,000 bank holding company acquisitions and mergers.

Our study is divided into three major sections: a profile of Kansas banks, the performance of our banks over the last five years, and the advantages and disadvantages of a multibank structure.

In analyzing the current structure of our banking system on a comparison basis with surrounding states, we found some disturbing problems relative to the financial strength of our banks under the current structure:

1. Kansas banks are among the very smallest in the nation, posting average assets of 34.5 million dollars -- 75% below the national average.

2. The majority of our small banks are operating within markets dominated by the recessionary agricultural sector of the economy. The inability of the small, unit banks to operate within a broader, more diverse economic base has put them in a critical situation.

3. The average loan to-deposit ratio for Kansas banks is a full 13 percentage points below the national average and is the lowest among our neighboring states. If the Kansas loan-to-deposit ratio was on par with the national average, banks would have extended more than two-and-a-half billion dollars in additional loans. But because of the lack of a diverse resource

and lending base, caused by restrictions on geographic expansion, banks are choosing investment vehicles other than loans.

4. The return-on-assets (ROA), or profitability, of small Kansas banks has declined 35% in the last three years alone, as a result of a devistating agricultural economy.

5. Approximately two-thirds of our Kansas counties have experienced below-average or marginal rates of growth in bank deposits in recent years. This low rate of deposit growth further impairs the ability of our unit banking system to meet the future capital needs of the state, especially the agriculture sector.

6. Kansas banks face a major problem of increasing agriculture-related loan losses. With the exception of Oklahoma banks (which suffered significant problems in both energy and ag loans), <u>Kansas banks posted the largest rate of increase in problem loans in the Tenth Federal Reserve District</u>. And, based on our professional judgement and other recent studies conducted by the Federal Reserve Bank of Kansas City, Chase Econometrics, and the Comptroller of the Currency, the outlook for the agriculture sector is bleak.

7. More banks were closed in our state last year than in any other except Tennessee. Let me point out that the majority of the 1984 closures were not agricultural banks. But when a bank is closed, regulators must search for someone to come in and buy and manage the thing. As more banks are closed, fewer individuals with the resources and special management skills to

take on such a responsiblity are available -- because our current law prohibits companies with adequate resources and proven management abilities from taking on troubled banks. If our law is not changed, it is likely that in the future troubled banks will be permanently closed for lack of qualified buyers. That would reduce competition and could result in great inconveniences.

In addition to the obvious problems uncovered by our analysis, rapid deregulation further highlights the need for us to shore-up our banking industry. Banks in our state cannot compete with most of the providers of financial services which now include real estate and insurance companies, as well as thrifts. The Depository Institutions Deregulation Act of 1982 bailed out the savings and loans by giving them broader powers. Today in our state, these newly strengthened institutions are providing services very similar to banks', and without restrictions on geographic expansion. In fact, profits of savings and loans are improving, and Kansas S&Ls grew an astronomical 25% in 1984 alone. What banks want -- and truly need -- are the same opportunities we now give to S&Ls and credit unions.

In following this issue, we've often heard the wise addage, "If it ain't broke, don't fix it." Our study proves in no uncertain terms that our banks are experiencing major problems under this archaic, unit banking structure. In other words ladies and gentlemen, it is "broke" and we need to try and fix it. Fortunately for our citizens, the legislation pending before you takes giant steps to remedy this crisis.

Let's now review what our study concludes relative to the multibanking question:

1. The increasing credit needs of the state, including the agriculture sector, would be better met under a banking system that has the capability to operate under a broader economic and geographic base. Despite what you might hear there is absolutely no evidence whatsoever that farmers are ignored or discriminated against by multibank companies. Statements to the contrary must be the result of misinterpretations of data.

2. Multibank holding companies provide a safety net whereby struggling subsidiaries or troubled banks have access to capital necessary for survival, and provide regulators with options other than closure.

3. Competition would be enhanced under multibanking, especially in urban markets. Our study proves that urban Kansas markets are more highly concentrated than in multibank states.

4. Suggestions that huge multibank corporations would sweep through Kansas, gobbling up bank after bank, are untrue. Federal regulations and the provisions of the legislation you are now considering prohibit domination of the system by only a few companies. A detailed explanation of the restrictions on multibank companies is included in our study.

In summary, Senate Bill No. 102 would strengthen our banking system and allow banks to provide better services to our citizens. On the basis of our extensive research and our conclusions, we join with the bankers of our great state and endorse this legislation.

We'll do our best to answer any inquiries you may have after we've heard from the other conferees. Thank you very much.

SCOTT GARD ASSOCIATES
BANKING AND ECONOMIC CONSULTANTS

STAFF STUDY 1985.2

KANSAS BANKING STUDY

IV a (?)

3/19/85

5650 MARTY • OVERLAND PARK, KS 66208 • (913) 362-0013

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EXECUTIVE SUMMARY

The first section of this study shows: that Kansas banks are among the smallest in the nation; that they have substantially lower loan-to-deposit ratios than in other states; that the majority of banks are small, rural institutions operating within markets dominated by the recessionary agricultural sector of the economy; that the future ability of Kansas banks to meet the future credit needs of the states is doubtful; and, that further concentration of deposits in many market areas would be unlikely under multibanking because many Kansas markets are more highly concentrated than are markets in multibanking states and federal regulations preclude acquisitions that would result in unfair market domination by a multibank holding company (MHC).

The second section of the study shows: that while larger organizations have maintained and even increased profit levels over the last five years, smaller Kansas banks' return-on-assets have fallen dramatically; that the majority of Kansas counties are showing a signficant slow-down in deposit growth; that operating expense growth among Kansas banks is approximately on par with those in other states in the Tenth Federal Reserve District; and that the faltering agricultural economy which has already taken its toll on Kansas banks looms as a potential crisis under the current system.

The third section of the study shows the many advantages that would accrue to Kansans under a multibanking system, including: a strenghthening of the banking system that would better equip banks with the resources to meet the credit needs of the state, including the farm sector; a greater level of convenience; the unliklihood that multibanking would yield an anticompetative impact upon market concentration ratios; and that bank owners can expect the market value of thier holdings to increase significantly when MHCs are active.

KANSAS BANKING: A PROFILE

As of December 31, 1983, 622 commercial banks, the deposits of which were insured by the Federal Deposit Insurance Corporation, were operating in the state of Kansas. State law expressly prohibits corporate ownership of more than one bank. One-bank holding companies totalled 389 and controlled 63.8% of Kansas' banking deposits; 213 independent banks held 23% of statewide deposits; and, nine organizations are recognized by Federal Reserve regulations as multibank holding companies (MHCs), controlling 13.2% of deposits. Kansas' ten largest banking organizations held deposits at year-end 1983 of $3.5 billion, or 19.6 percent of the statewide total.

Kansas' primary industry is agriculture, and the majority of banks in the state conduct business in a rural setting with a relatively homogenious customer base. In the absence of a diversified lending base, Kansas banks have fallen victim to struggling farm economies and a continuing depression of commodity and land values. While commercial banks are not the primary provider of farm credit, most operate in agriculture-based economies that are directly impacted by the recessionary industry. Loan losses among smaller banks jumped 35% between 198Ø and 1983, and the 1984 data is expected to show continuing loan loss problems. The industry outlook is increasingly bleak as farmers' problems continue to be compounded by growing debts, a depressed market for grains and livestock commodities, and what appears to be resolute opposition to expansive farm support programs by the Reagan Administration. (Supplemental agriculture data is provided at Appendix Pages 9 and 1Ø.)

Capital Needs and Kansas' Adequacy of Resources

Kansas banks are among the smallest in the nation, posting average assets of $34.5 million, 75 percent below the national average. The average equity-to-assets ratio, a measure of capital strength, ranked above the national average (8.4% vs. 7.2%).

Illustration 1

MIDWEST BANKING DATA
JUNE 30, 1984

STATE		# BANKS	ASSETS	LOANS	DEPOSITS	EQUITY	LN/DEPO	EQ/ASSE	AVG ASSETS
COLORADO	CO	418	22315	13825	18317	1703	75.5%	7.6%	53.4
ILLINOIS	IL	1244	132347	97241	121516	8881	80.0%	6.7%	106.4
INDIANA	IN	385	39697	22331	33783	2857	66.1%	7.2%	103.1
IOWA	IA	632	27137	13910	23168	2271	60.0%	8.4%	42.9
KANSAS	KS	622	21429	11576	18326	1806	63.2%	8.4%	34.5
MNNSTA	MN	743	42883	26991	34812	2970	77.5%	6.9%	57.7
MISSOURI	MO	715	42130	23150	34975	3185	66.2%	7.6%	58.9
MONTANA	MT	167	6940	3998	5810	529	68.8%	7.6%	41.6
NEBRASKA	NE	474	14765	8477	12501	1272	67.8%	8.6%	31.1
N MEX	NM	94	8647	5008	7376	638	67.8%	7.4%	92.0
OKLAHOMA	OK	519	30635	17635	26023	2344	67.8%	7.7%	59.0
S DKTA	SD	144	11308	8398	7799	995	107.7%	8.8%	78.5
USA AVG.	USA	14675	2133776	1532311	2005566	153224	76.4%	7.2%	145.4

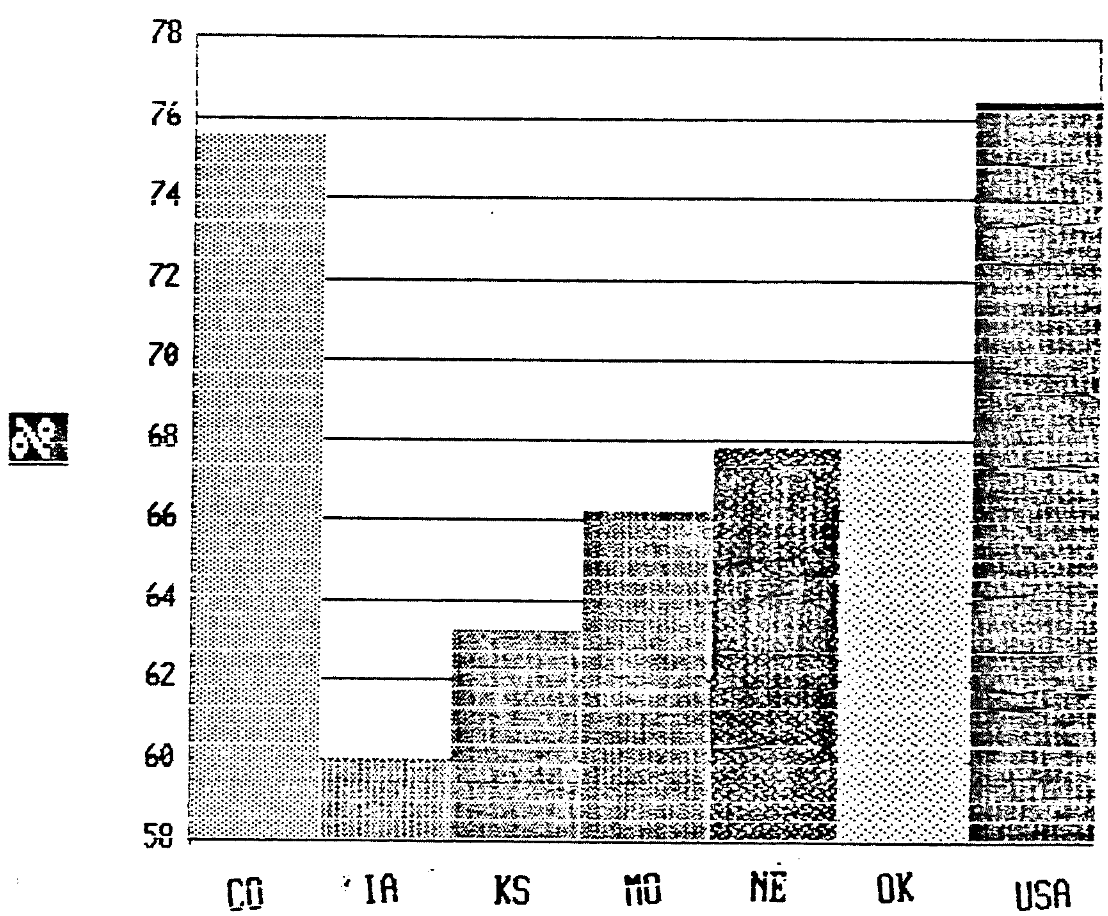
Several factors must be examined in determining the adequacy of Kansas' banking resources relative to the capital needs of the state, including loan and deposit information and bank profitability (performance of Kansas banks is discussed in more detail in the following section of the study).

Deposits are the core liabilities which fund the majority of loans and investments, and deposit growth reflects the propsects for future resource adequacy. SGA utilizes a method of analyzing deposit growth on a county-by-county basis. This methodology integrates a geographics factor, as discussed in more detail in the Performance section of this study. As will be shown, Kansas ranks unfavorably with neighboring states in deposit growth, as well as in bank profitablility.

Average loans-to-deposits data is commonly used as a measurement of a state's banking system's ability to meet the credit needs of the state.

Illustration 2

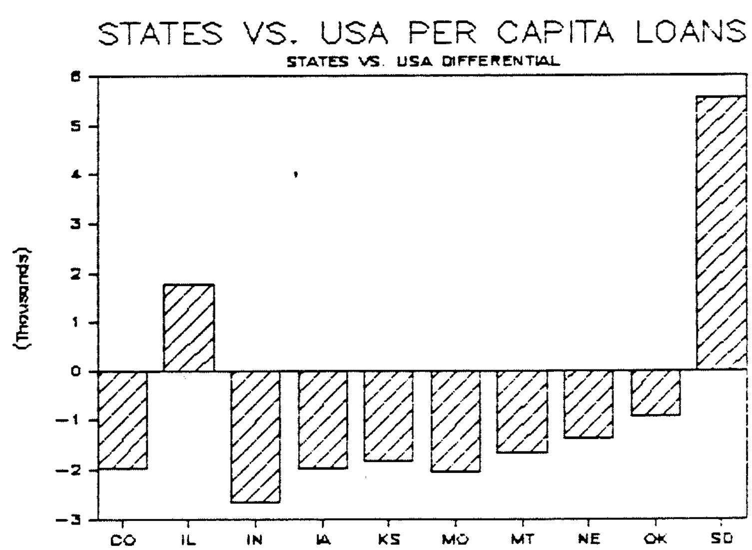
Loan-to-Deposit Ratios



The Kansas loan-to-deposit average is a full 13 basis points below the national average, and is the lowest among Kansas' neighbors. With some exceptions, Kansas banks are prohibited from extending credit to a single borrower in an amount exceeding 15% of capital and surplus, resulting in an average Kansas single-loan maximum of $383,000 (average assets x average equity-to-assets x .15), compared to $1,876,000 on the basis of national bank size and equity-to-assets averages.

The following graph provides information relative to the per capita loan average for selected states against the national average. The plots indicate the average dollar discrepancy of the various state averages against the U.S. average per capita loan:

Illustration 3

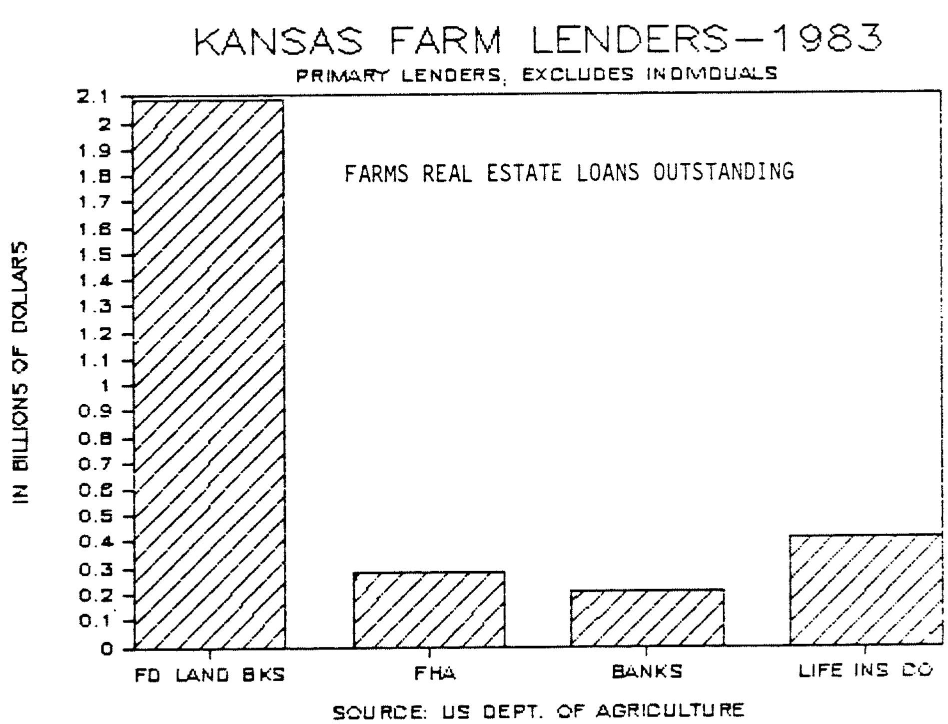


(Supplemental structure data is provided at Appendix Pages 1 through 4.)

Kansas, interestingly, ranks above Colorado, Indiana, Iowa, and Missouri in terms of per capita loan averages, but falls substantially below the national average and that of Illinois. It must be recognized, however, that the U.S. data, and to some extent the Illinois numbers, reflect the international loan portfolios of large, money-center banking organizations. The South Dakota loan data are skewed by credit card banks which do not accept deposits. On the basis of the per capita loan data it appears that Kansans' credit needs are accommodated by banks as well as in other farm states.

The following Illustration shows the current primary sources of farm real estate credit in the state, based on current balances outstanding:

Illustration 4



Although Kansas banks hold only approximately 6% of real estate loans directly, they are a major supplier of operating capital (nonreal estate loans). In 1983, Kansas banks held real estate loans to farmers totalling $211 million; at the same time, bank exposure to loans to farmers for operating capital totalled $2.2 billion, or roughly half of the total agriculture debt in the state.

A major problem may be looming on the horizon. With increasing reluctance on the part of the Federal Government to expand farm support programs, Kansas farmers may have to turn to banks for emergency credit assitance. Given the declining performance of small, rural banks and the grim outlook for the farm economy, it can reasonably be asserted that <u>Kansas banks are unable to meet any increased credit demands from the agriculture sector</u>.

Because of structural limitations, Kansas banking instutions are unable to pool resources from a diverse geographic area and economic base through a multibanking network. This lack of diversity of deposit and lending resources calls into question the ability of the unit banking system to sustain a severe depression within the sector to which it is highly exposed-agriculture. <u>The high rate of farm failures predicted by some doomsayers would impact the whole economic base of banks and emperil the viability of a major share of the state's depository institutions most of them smaller, rural banks</u>.

The Structure of Kansas Banking

Opponents of the multibanking legislation now pending in the Kansas Legislature espouse one major argument: a multibanking structure would result in aggregation of resources to large, urban-headquartered organizations and the credit needs of the agriculture sector would be overlooked.

First, it is doubtful that the current system could absorb an additional agricultural loan burden, even if it wanted to.

Second, a well managed bank has procedures used to identify the creditworthiness of potential borrowers. There is no evidence that multibanking organizations, which are mandated to adequately serve the credit needs of its customer base along with independent banks, discriminate unfairly against farmers.

Third, a balanced MHC with a diverse economic base and a larger capital base would be better equipped to assist farmers than the current scores of tiny, independent banks.

Fourth, considering that more banks were closed in Kansas in 1984 than in any other state except Tennessee, a multibank system gives regulators an opportunity to seek out merger candidates, rather than pursue complete closure. Such would benefit banking customers.

And finally, it is important to point out that after years of observation and analysis of Midwest banking merger activities, SGA recalls few occasions when participation in a MHC is not fully voluntary. Some would paint "Pac-Man"like pictures of giants wildly gobbling up small banks. Studies of other states indicate that once multibanking is endorsed by a state, the acquisition process is slow and methodical, and that the option to join or not join a MHC lies with bank owners.

Market Concentration

It is important to examine the current level of deposit concentration in the state in order to address the issue of competative equilibrium. SGA utilizes the Herfindahl-Hirschman Index (HHI), a commonly accepted concentration measurement methodology used by the Federal Reserve, the Comptroller of the Currency, and the U.S. Department of Justice. The HHI takes into account not only the relative size of a banking organization within a specific geographic market area, but also the number of providers. Each banking organization's market share is squared to establish for each an HHI factor, and the sum of the factors results in the HHI. The HHI is on a scale of 100 to 10,000, with the higher number reflecting greater concentration (one bank holding all deposits within a market: 100% x 100 = 10,000).

For illustration purposes, SGA has prepared the following table which illustrates the method of measuring the concentration of deposits within a hypothetical geographic market and the impact upon the HHI of a hypothetical merger.

Market Concentration Measurement Demonstration

BANK	TOTAL DEPOSITS	MARKET SHARE	HHI FACTOR
Bank A	$ 63,085,000	36.55%	1336.56
Bank B	9,436,000	5.46%	29.90
Bank C	36,824,000	21.34%	455.40
Bank D	47,320,000	27.42%	752.01
Bank E	1,209,000	.70%	.49
Bank F	14,683,000	8.51%	72.40
TOTAL MARKET	$172,557,000	100%	2646.76

The following assumes that Bank A acquires Bank C:

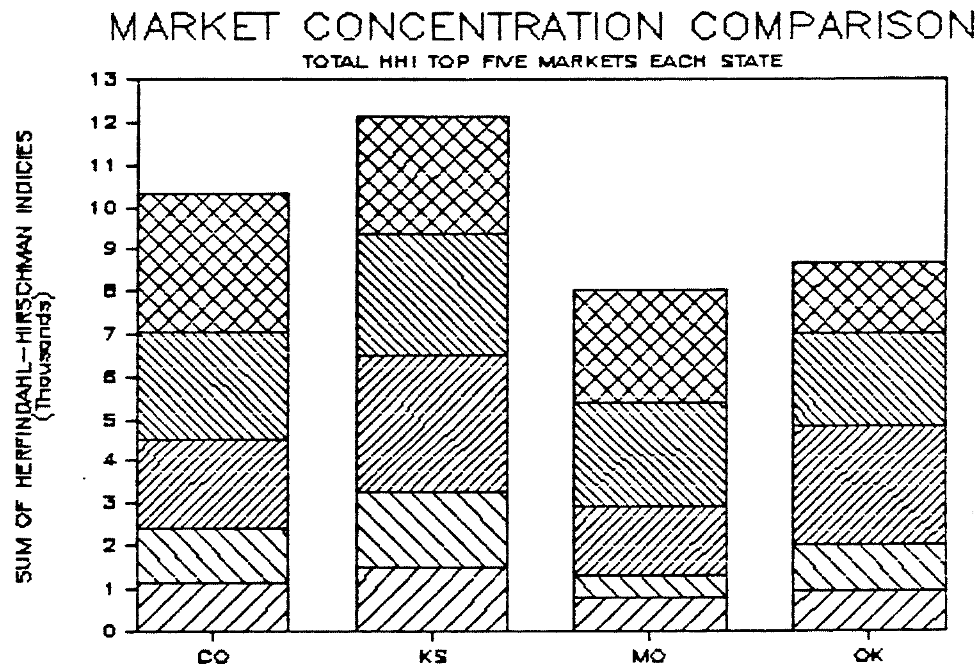
BANK	TOTAL DEPOSITS	MARKET SHARE	HHI FACTOR
Bank A/C	$ 99,909,000	57.89%	3352.31
Bank B	9,436,000	5.46%	29.90
Bank D	47,320,000	27.42%	752.01
Bank E	1,209,000	.70%	.49
Bank F	14,683,000	8.51%	72.40
TOTAL MARKET	$172,557,000	100%	4662.51

While the acquired bank controlled only about one-fifth of total deposits in our hypothetical market, the HHI increased by more than 2,000 points or 76%. Any market with an HHI of 1,200 is considered by federal regulatory authorities as moderately concentrated, and an HHI of 1,800 or above indicates a highly concentrated market area. U.S. Department of Justice merger guidelines indicate that Justice is very likely to intercede if a proposed merger would increase the HHI by more than 100 points in a highly concentrated market. Chances are slim that our hypothetical merger would be approved by regulators.

Comparative HHI Data

SGA has established market concentration data for the five largest geographic markets in Colorado, Kansas, Missouri, and Oklahoma. The following Illustration shows the sum of the HHIs for each of the states' top five markets; on this basis, Kansas's top five urban markets are more highly concentrated than in neighboring multibank states. (Market-by-market comparison data is provided at Appendix Pages 5 and 6.)

Illustration 5



Studies indicate that that concentration ratios generally decline in urban areas under multibanking, as will be discussed later. Certainly the statewide concentration data would change as certain acquisitions are made by Kansas MHCs in out-state markets, but any attempt to utilize the HHI methodology of measuring concentration within a competative context cannot apply to statewide analyses because one cannot assume the entire state to be one's geographic market area.

THE PERFORMANCE OF KANSAS BANKS

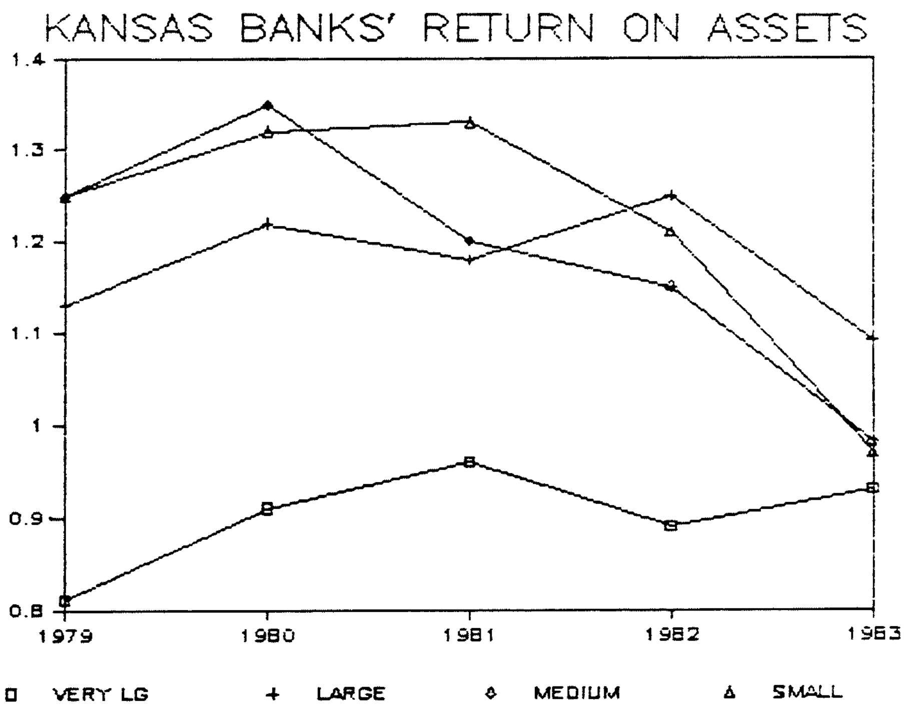
The operating performance of banking institition is an increasingly important element in pro forma structure forecasting. The banking industry over the last few years has been met with unprecedented change. A shift in regulatory policy, augmented by entry into the financial products and services arena by a growing number of nonbank providers, has resulted in increased competition for sources of funds through which capital needs can be met. While rapid deregulation presents opportunities for the banking community, it also has created a competative challenge.

> "If the marketplace plays a greater role in determining the suppliers of financial services, banking profitability will be the crucial variable determining the future structure of the industry. Relative profit rates in the financial industry entice entry or force exit, and they are a key factor in determining which banks will have the resources to expand. Ultimately, profitability will determine which types and sizes of banks will survive."
>
> "Bank Profits in a Changing Environment"
> The Federal Reserve Bank of Kansas City

Return on Assets as a Performance Measurement

One of the principal measurements of performance among banking institutions is return on average assets (ROA), which measures net income over a specific period of time as a percentage of average assets. The ROA method of performance measurement integrates several factors: asset growth, operating and interest expense, interest income, and loan portfolio performance.

Illustration 6



The illustration above plots the average ROA for Kansas banks from 1979 through 1983, the most recent five-year period for which data is available. Larger banks held their own, but smaller banks suffered nearly a 35% decline in profitability during the 1980-1983 period, reflecting an increase in operating (overhead) expenses, somewhat tightening net interest margins (net interest income vs. net interest expense), and a large increase in reserves for loan losses resulting chiefly from poor performance of agricultural loan portfolios.

Both the small and medium-sized banks suffered from narrowing profit margins during the period. The source data indicate the significant and rapid decline in profitability is linked more directly to loan losses than to narrowing interest spreads, as demonstrated in the following chart:

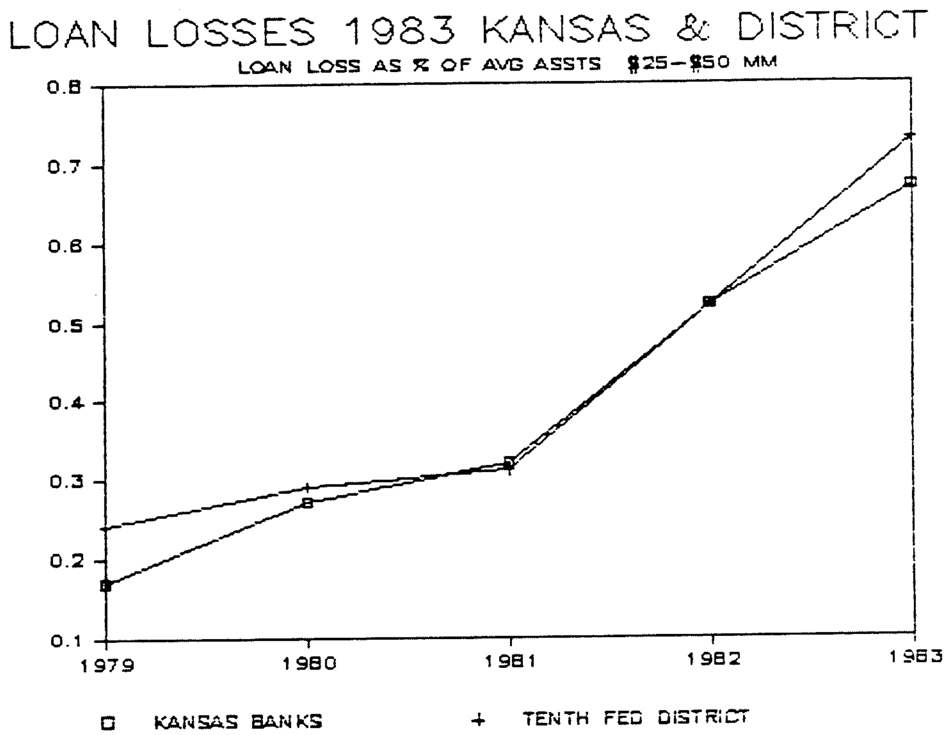
Profitability Analysis 1979-1983

	Bank Size		
	Under $25 MM	$25 MM to $50 MM	$50 MM to $100 MM
Net Interest Margin			
1979	4.21	3.94	3.77
1980	4.55	4.24	3.99
1981	4.72	4.25	4.02
1982	4.68	4.34	4.12
1983	4.52	4.25	4.06
Loan Loss Provision			
1979	.24	.17	.22
1980	.32	.27	.25
1981	.36	.32	.22
1982	.48	.52	.37
1983	.57	.67	.48

While interest margins remained fairly consistent, loan losses increased precipitously over the period -- by 138% among small banks, by 294% among medium-sized banks, and by 118% among the larger institutions. Loan losses are represented herein as provisions for loan losses. Information relative to classified assets (so-called "problem loans") was not available, but the rate of increase in loan loss provision can be assumed to approximate the rate of increase in classified assets. In the aggregate, it can be reasonably concluded that Kansas banks are facing significant loan problems.

The following Illustration plots the growth in loan losses among institutions with assets of $25 to $50 million in Kansas against those in the Tenth Federal Reserve District:

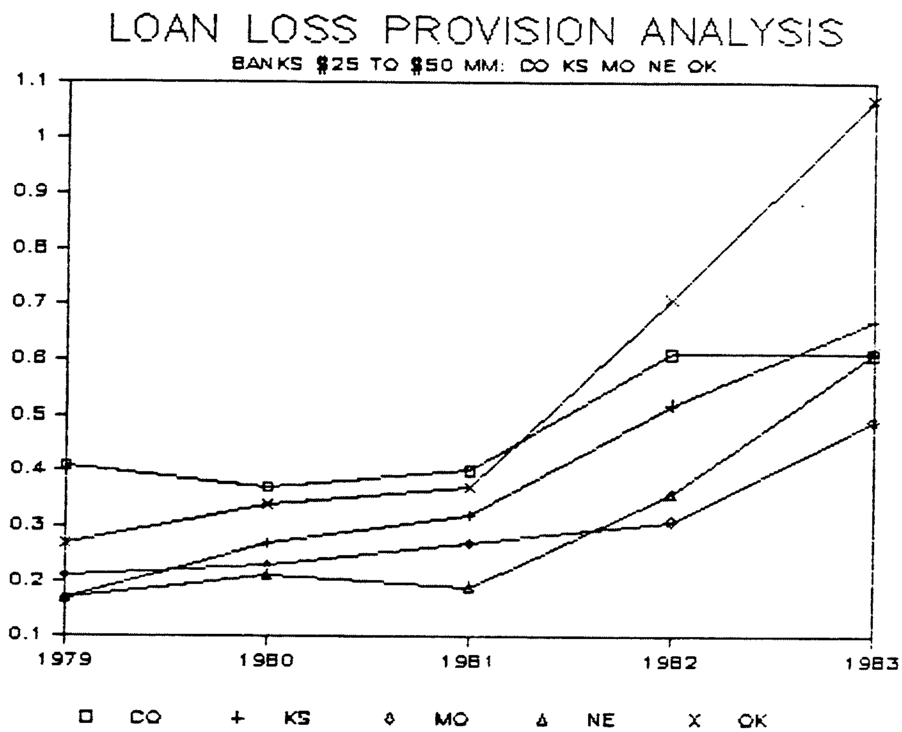
Illustration 7



Although the Kansas and Tenth District data are roughly parallel, the Tenth District information includes Oklahoma banks which collectively experienced an astronomical increase in loan losses (nearly 300 percent over five years, and 190 percent during 1981 to 1983). With the exception of Oklahoma, Kansas banks suffered the highest relative increase in loan losses in the District.

The following Illustration plots loan loss growth in Kansas and in individual surrounding states:

Illustration 8



Another important factor in evaluating bank performance and the ROA method of measuring that performance relates to overhead expenses. Several studies indicate that one of the prinicpal factors impacting the profit margins of banking institutions is an ability by bank managers to control overhead expenses. A recent Federal Reserve Bank of Kansas City analysis demonstrates that a ten percent reduction in overhead expense would increase profits by 24% among larger banks, 26% among medium-sized banks, and 15% among small institutions.

Kansas banks have experienced moderate overhead expense growth during the five-year period of 1979 through 1983.

Illustration 9 plots the growth of overhead expenses among small banks (assets under $25 million) in Kansas against the Tenth District average. Illustration 1Ø plots growth among medium-sized banks ($25- to $5Ø million in assets) on the same basis.

Illustration 9

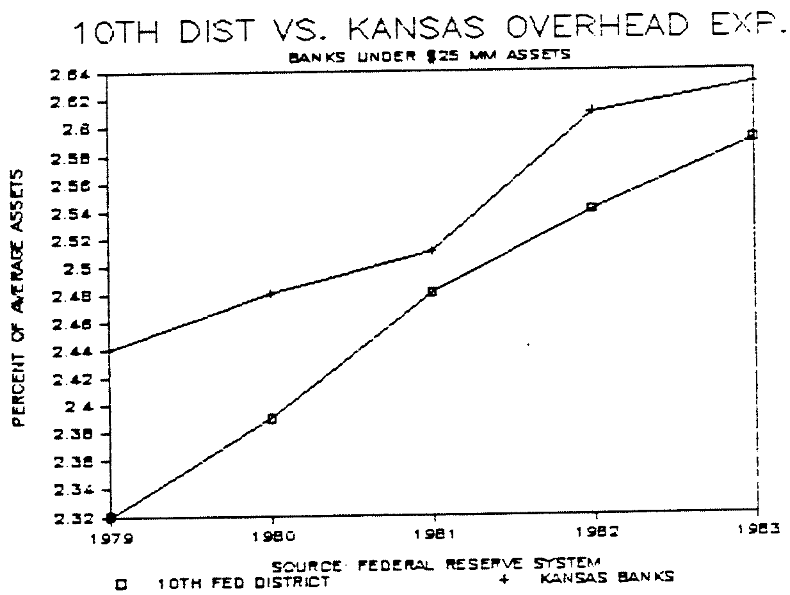
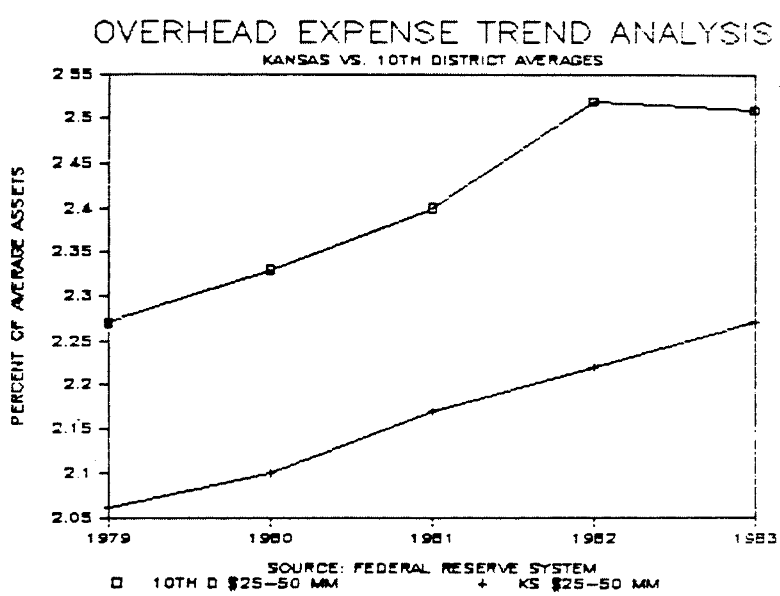


Illustration 1Ø

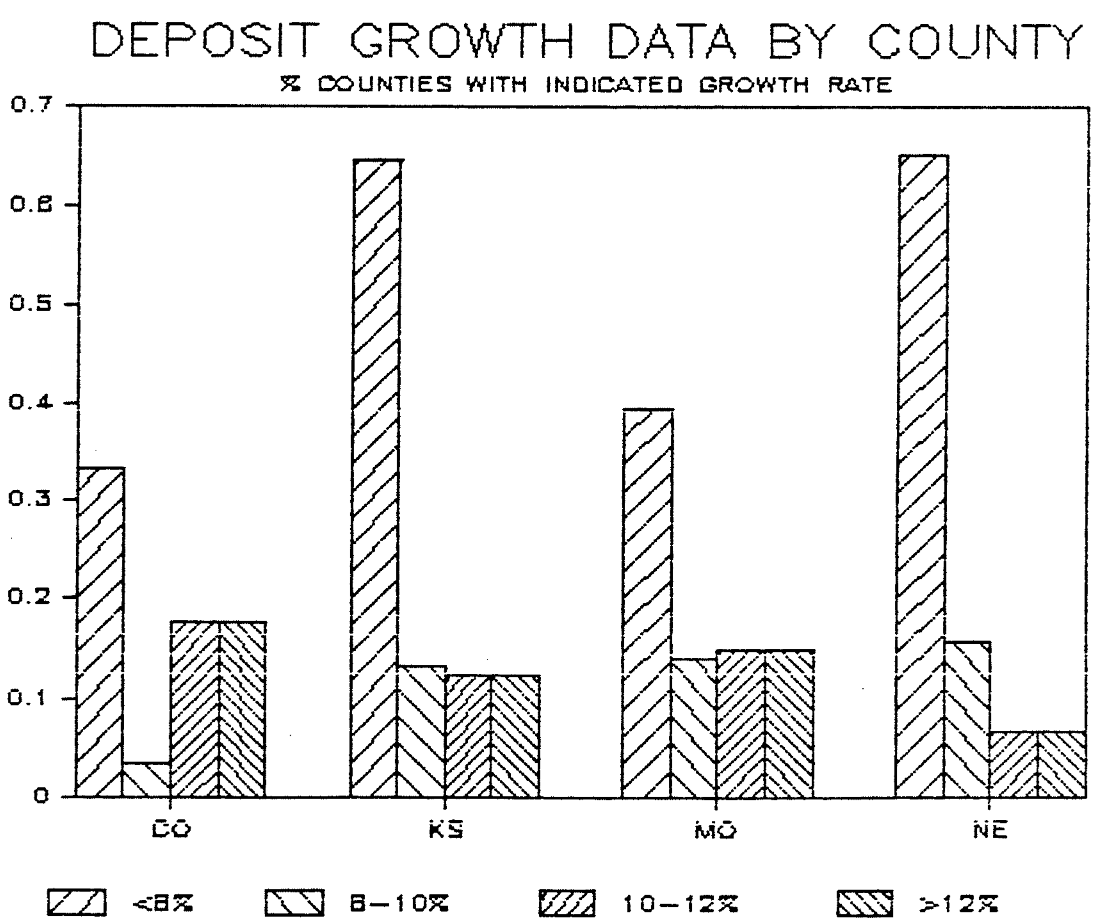


Deposit Growth as a Performance Measurement

Another, though more informal, barometer of the status of banking lies in deposit growth. Deposit growth information as compiled for this study reflects the ability of Kansas banks to compete with other providers of financial services as well as a number of economic factors within a particular geographic area. Banks depend upon a growing deposit base for funds to meet the capital requirements of its customer base. If that customer base is deficient in providing banking institutions with an adequate deposit base, or if the bank is unable to compete with other providers for such deposits, a bank's ability to provide adequate levels of credit to meet the needs of its community is diminished. Many banks are turning to brokered deposits as supplemental deposit sources, and these funds are typically acquired at a higher interest rate than would normally be offered to regular customers. The practice of utilizing brokered deposits has been criticized by federal regulatory authorities as a leading factor in the closure of banking institutions, and the FDIC is considering restrictions on funds brokerage. Brokered funds, when well managed, enable a bank to enhance its short-term liquidity and better meet the capital needs of its customers. The key is for bank managers to minimize risks associated with loans funded by brokered deposits; any diminished repayment ability relative to such loans reduces the spread between interest income and interest expense (net interest margin), and further impairs profitiability due to the higher rate of interest being paid on the brokered funds.

SGA has analyzed deposit growth data on a county-by-county basis. Countywide deposit growth statistics were compiled without regard to the size of the banks operating in each county. This methodology integrates a geographics factor, in that counties were aggregated within specified deposit growth ranges. The following Illustration plots the percent of counties in selected states experiencing five-year average annual deposit growth rates within specified ranges (below 8 percent; 8 to 10 percent; 10 to 12 percent; and above 12 percent):

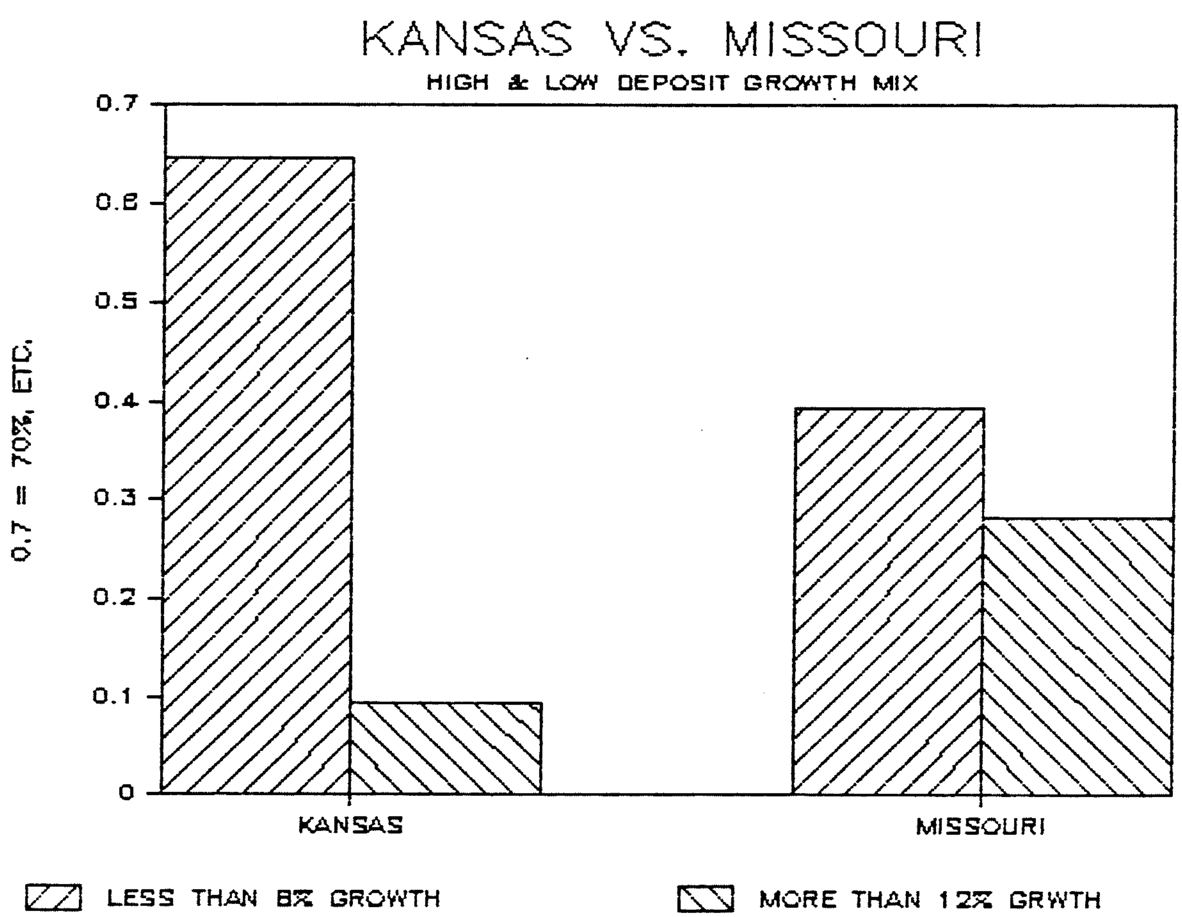
Illustration 11



The preceeding graph shows the vast descrepancy of deposit growth among banks within the various Kansas counties; a significant proportion of those counties (roughly 65%) posted very low deposit growth rates (less than 8 percent) in comparison with the roughly 1Ø percent of Kansas counties showing high rates of deposit growth.

The following represents the mix of high deposit growth and low growth counties in Kansas and Missouri. The Illustration below clearly demonstrates a greater descrepancy among Kansas counties to attract deposits than among Missouri's.

Illustration 12



Kansas Bank Performance: A Definite Problem

The key trouble spot facing Kansans relates to the growing problem of agriculture-related loan losses. More banks were closed in Kansas in 1984 than in any other state except Tennessee. Excepting Oklahoma banks (which suffered significant problems in energy related loan portfolio performance), Kansas banks posted the largest rate of growth in problem loans in the Tenth District. And, needless to say, the outlook for the agricultural sector is at best uncertain, but can more reasonably be described as bleak.

As banks face the problem of declining profitability due primarily to poor performance of past loans and a diminished ability to attract deposits, the current structure of Kansas banking may impair the industry's ability to meet the capital needs of the state and mandate a lower level of risk exposure.

Because Kansas is primarily an agricultural state, many small, rural institutions are facing, or will face, severe problems. Agriculture is a capital intensive industry, and farmers depend upon their banks for resources requisite for doing business. Kansas bankers, in dutifully attempting to meet the capital demands of thier customer bases, have been victimized by low crop and livestock prices, and diminished land values. To some extent, agriculture loans are increasingly speculative and the risks associated with such are thereby increased.

The survival of small farming operations depends upon the financial viability thereof -- having access to capital, and the ability to repay farm loans. Given the current structure of Kansas banking, the long-time survival of rural, agriculture-oriented Kansas banks depends upon 1) minimizing risk associated with their ag loan portfolio, 2) a rapid upturn in the agricultural sector, and/or 3) greater diversification of loan mix.

An effort to minimize risk associated with ag loans is difficult under the cirmustance, because bankers feel a need to serve the credit needs of the community, and because survival of farmers depends upon access to credit. An upturn in the ag sector cannot at this time be counted upon. Greater diversification is next to impossible, given the limited resources available to the small banks serving a restricted geographic area and a mostly homogenious customer base.

(Supplemental performance data is provided at Appendix Pages 7 and 8.)

MULTIBANKING IN KANSAS:
THE ADVANTAGES AND DISADVANTAGES

The debate over legislation that would allow MHCs to form in Kansas is one of emotion as well as reason. Kansas is one of the few states in the nation to retain a banking system that is traditionally dominated by small, rural institutions whose management feel close to, indeed a part of, their customer base. In the minds of many there is a justified fear that small communities will come to rely upon large, impersonal bureaucracies from distant cities to understand the particular wants and desires of their townsfolk.

There is a deeprooted nostalgia about smalltown banking. In many instances, generation after generation of customers have come to rely upon the advice, assistance and comradery of their bankers. But times have changed.

The advent of new technologies, the rapid deregulation of thrift institutions, a relaxed regulatory attitude, and the proliferation of providers of financial services not bound by the highly restricted banking laws, all challenge the survival of the unit banking system that once served Kansans well.

In the professional opinion of SGA the advantages that would accrue to the Kansas banking system and its customers in a multi-banking environment far outweigh the disadvantages.

THE ADVANTAGES OF A MULTIBANK SYSTEM

Strength of the Banking System

In the opinion of SGA, the legislation now pending before the Kansas Legislature (Senate Bill Number 1Ø2) would advtangeously impact the strength of the Kansas banking system. The preceeding section outlined the struggling agricultural economic base of the majority of Kansas banks as well as a decline in profitability for smaller organizations.

Multibanking organizations will generally operate over a larger geographic area, with an urban/rural mix in customer bases. Thus urban/rural diversity lends strengths to a banking system that is currently one-sector (agriculture) oriented. Organizations with a much larger capital base would be more capable of absorbing what SGA considers to be an inherently larger future reliance upon commercial banks by farmers for operating capital.

There is little reason to susupect that the immediate forerunners in a new multibanking system would tend to avoid agriculture dominated markets. Fourth National of Wichita, for example, has made substantial investments in markets such as Coffeyville, Salina, Pittsburgh, and Newton -- all of which are dominated by the agricultural sector.

Furthermore, well-capitalized MHCs emerge as candidates to take on troubled institutions and provide regulators with options other than simple closure of troubled banking institutions. Such alternatives often result in greater competition within markets as a result of troubled banks being revitalized by MHCs.

Convenience & Needs

A number of statewide banking organizations would greatly enhance the convenience afforded to banking customers. Major savings and loans now enjoy the added attraction of giving customers statewide banking services. The aggregation of capital enables large corporate customers access to funds for which they now must often travel to neighboring (or even distant) states.

Competition

In many respects, the competative environment would be enhanced under a multibanking system, and enhanced competition will benefit consumers of banking services.

Under the proposed law, Kansas banking instutions would be enabled to compete with the statewide "banking" services currently offered by savings and loan associations -- most of which are indistinguishable from traditional banks -- such as access to cash through elaborate ATM networks, common identity of affiliated S&Ls, etc.

Also, market concentration ratios in urban areas is likely to decline. A 1983 study conducted by the Federal Reserve Bank of Kansas City ["Potential Competition and the Factors Influencing Banking Concentration"] indicates that multibanking generally results in new entries into urban markets, increasing the number of banking services providers, thereby enhancing competition. The study shows that MHCs have a statistical preference for existing organizations, and tend to avoid de novo entry into urban markets (Kansas law precludes MHCs from de novo entry).

Federal Reserve Regulations and Department of Justice merger guidelines preclude approval of acquisitions that would result in high concentration levels or substantially increase the level of concentration in already concentrated markets. De novo entry into concentrated markets is one means by which MHCs might be expected to enter such (highly concentrated) markets. Regardless of study results indicating MHCs generally don't enter new markets through the de novo charter, one of the aspects of the Kansas Senate proposal that might be considered as anitcompetative is the prohibition on new MHC charters. In a highly concentrated market, an MHC could move into that market through a new charter, and thereby increase the level of competition. But under the Kansas provisions, an MHC wishing to enter any market must do so through the acquisition of an institution existent for five or more years. Acquisition of a bank in a highly concentrated market by a MHC not currently operating in that market does not impact the level of concentration, and thereby is assumed to have no impact (pro or con) on competition therein.

But that is not to say that under the Kansas provision potential de novo entry by new, independent investors in urban or other markets would be diminished. A 1983 study conducted by Swords Associates, Inc., a Kansas City-based bank consulting firm, indicated that market values of banking institutions, measured on a price/equity basis, increase substantially in states where MHCs are active. Simply put, when the number of bank buyers increase, so does the demand; a higher demand yields a higher relative price. *De novo* banks, five years down the road, could net investors a healthy profit upon the sale of such to an MHC.

Greater Efficiencies in Banking

A free market tends to reward efficiency. Under the enhanced level of competition likely to arise in a multibanking environment in Kansas, greater scales of economies can be achieved. Studies generally indicate that larger pools of resources can be managed at a lower relative cost. Larger and/or newer institutions, as well as banks participating with them, with access to capital to take advantage of new technologies enjoy the advantages of more efficient funds management and capital allocation.

THE DISADVANTAGES OF THE MULTIBANK SYSTEM

Centralization of the Capital Allocation Process

It is often said of banks that are subsidiaries of MHCs that individual bank presidents are nothing more than glorified "branch managers," and are required to comply with control procedures and capital allocation guidelines established by the parent company, often headquartered in some distant city. It is conceivable that, even though banks are required by the Community Reinvestment Act to meet the credit needs of its community, an MHC subsidiary may in certain instances be reluctant to extend credit, especially when in a highly speculative (high risk) situtation is involved -- even though the bank may have done so on a regular basis when it was independently owned and managed.

In reality banks are established for one reason: to provide investors with a return on their money. But most banking organization realize, or quickly learn, that the best way to make money is to provide the best possible service and convenience to customers. While one does hear stories about imported managers from headquarters coming in and restructuring the management policies of a new subsidiary, most banking organizations make an effort to accommodate the quirks of particular communities and to serve customers as best as possible; if a bank doesn't provide an adequate level of service, customers will go elsewhere.

High Levels of Concentration in Certain Markets

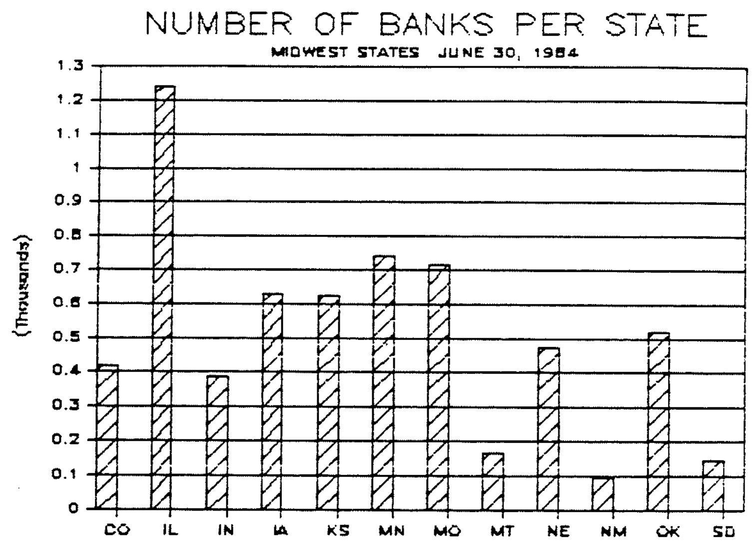
In certain, but relatively rare, instances, the multibanking legislation now pending in Kansas would not remedy already-high levels of market concentration.

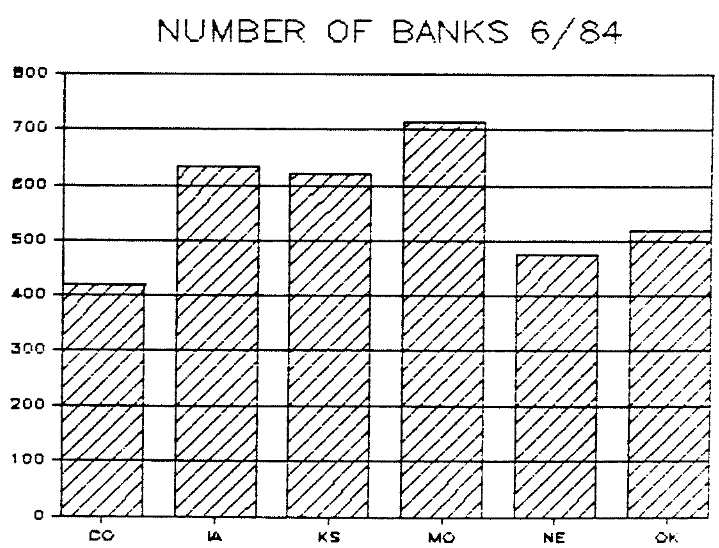
In some rural areas, one individual may own several banks in a particular market. Prior to adoption of the 1977 Change in Bank Control Act, purchases of banks were made without regard to existing levels of concentration when holding companies where not involved. If banks within a market have a "long-standing" affiliation as to common ownership, MHCs could acquire the entire chain of banks under current regulations.

The logic permitting this kind of acquisition is that several banks in fact operating under long-standing common ownership are controlled by a single entity. An MHC's acquisition of a chain would not impact the market concentration of the particular market in question, but would simply transfer ownership of several banks from one entity to another.

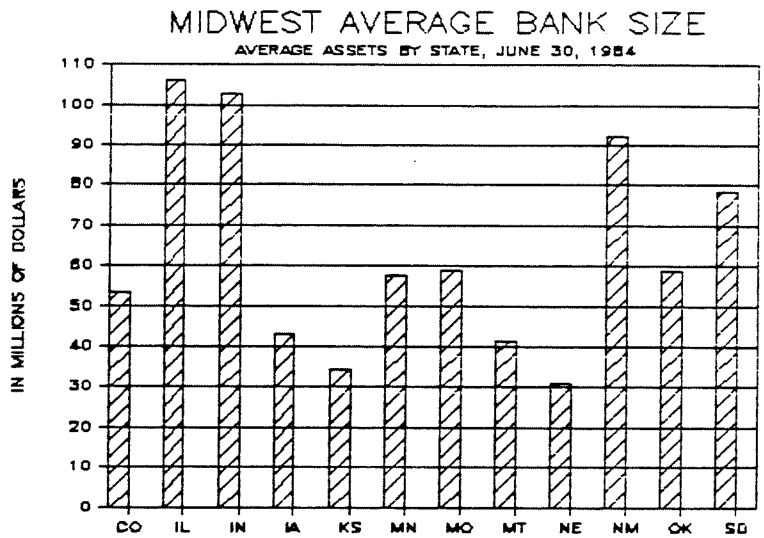
The Federal Reserve's policy relative to this type of acquisition is not clearly defined. Chains formed after 1977 probably couldn't be acquired if the market within which it operates is moderately or highly concentrated by virture of the common affiliation. But those chains formed long prior to 1977 could be acquired by an MHC, maintaining an anticompetitive level of market concentration.

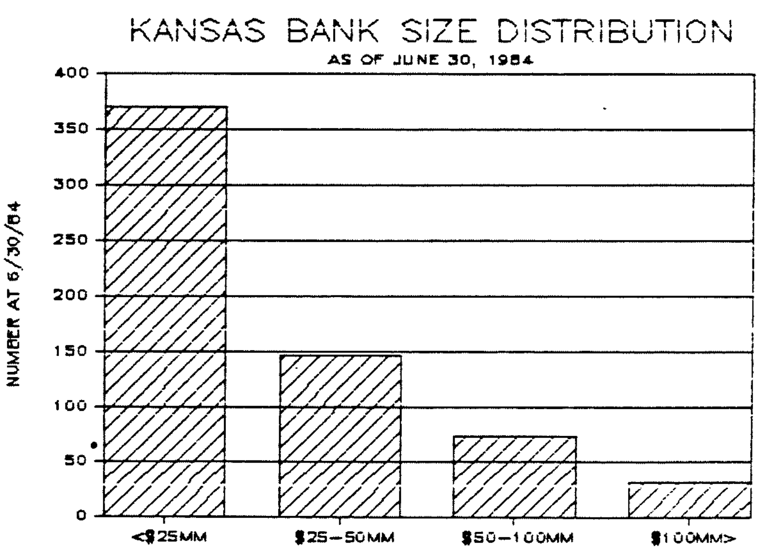
STRUCTURE DATA


NUMBER OF BANKS PER STATE
MIDWEST STATES JUNE 30, 1984
(Thousands)
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
CO IL IN IA KS MN MO MT NE NM OK SD

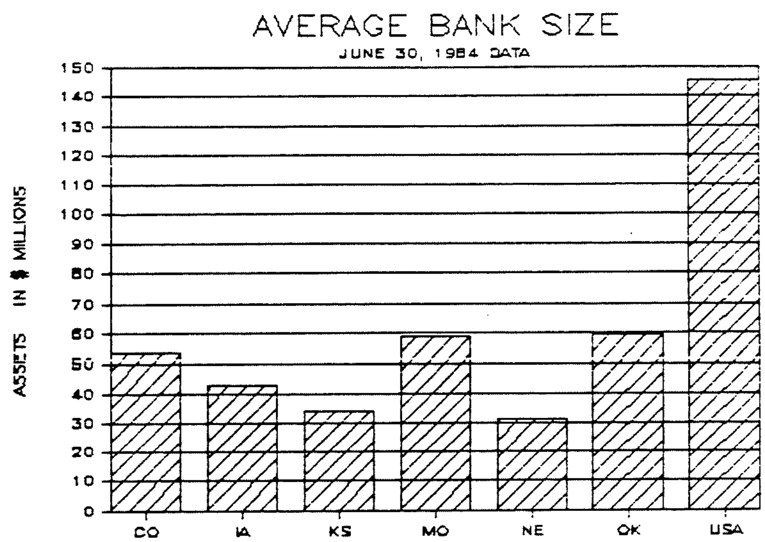

NUMBER OF BANKS 6/84
800
700
600
500
400
300
200
100
0
CO IA KS MO NE OK

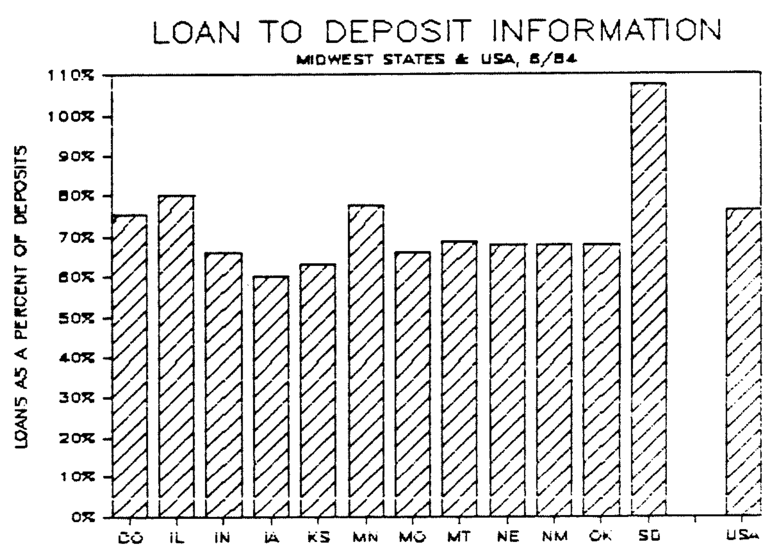
APPENDIX 1


MIDWEST AVERAGE BANK SIZE
AVERAGE ASSETS BY STATE, JUNE 30, 1984
IN MILLIONS OF DOLLARS
110
100
90
80
70
60
50
40
30
20
10
0
CO
IL
IN
IA
KS
MN
MO
MT
NE
NM
OK
SD

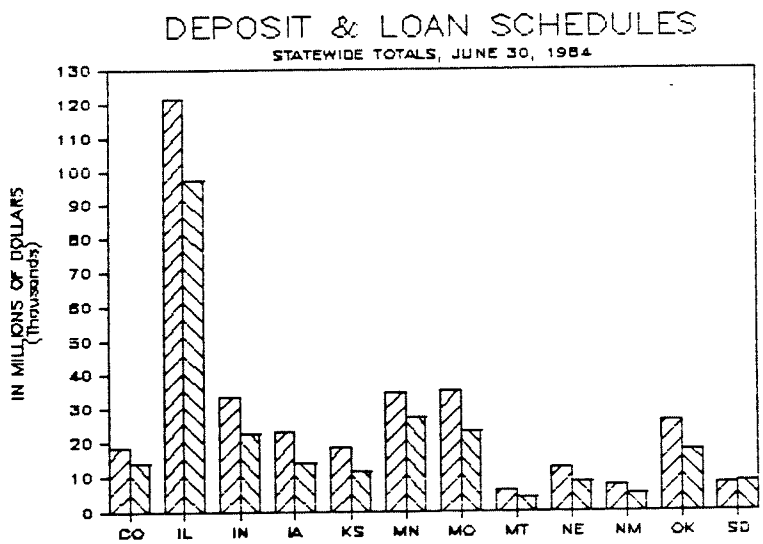

KANSAS BANK SIZE DISTRIBUTION
AS OF JUNE 30, 1984
NUMBER AT 6/30/84
400
350
300
250
200
150
100
50
0
<$25MM
$25–50MM
$50–100MM
$100MM>

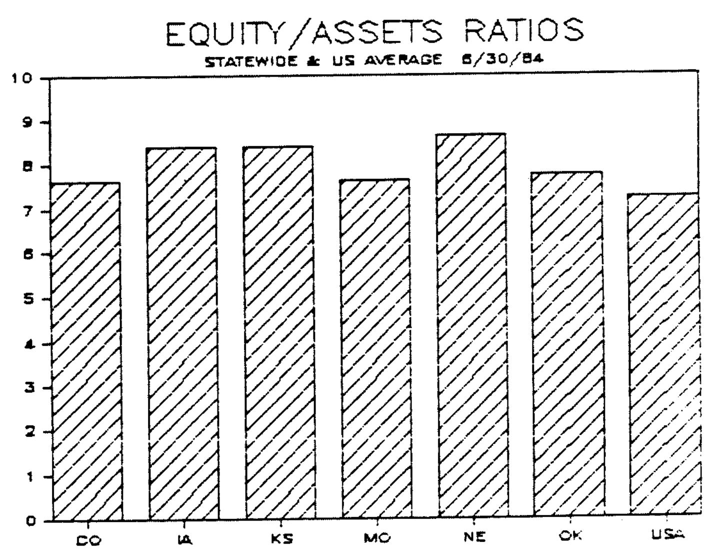
APPENDIX 2


AVERAGE BANK SIZE
JUNE 30, 1984 DATA
ASSETS IN $ MILLIONS
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
CO
IA
KS
MO
NE
OK
USA


LOAN TO DEPOSIT INFORMATION
MIDWEST STATES & USA, 6/84
LOANS AS A PERCENT OF DEPOSITS
110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
CO
IL
IN
IA
KS
MN
MO
MT
NE
NM
OK
SD
USA

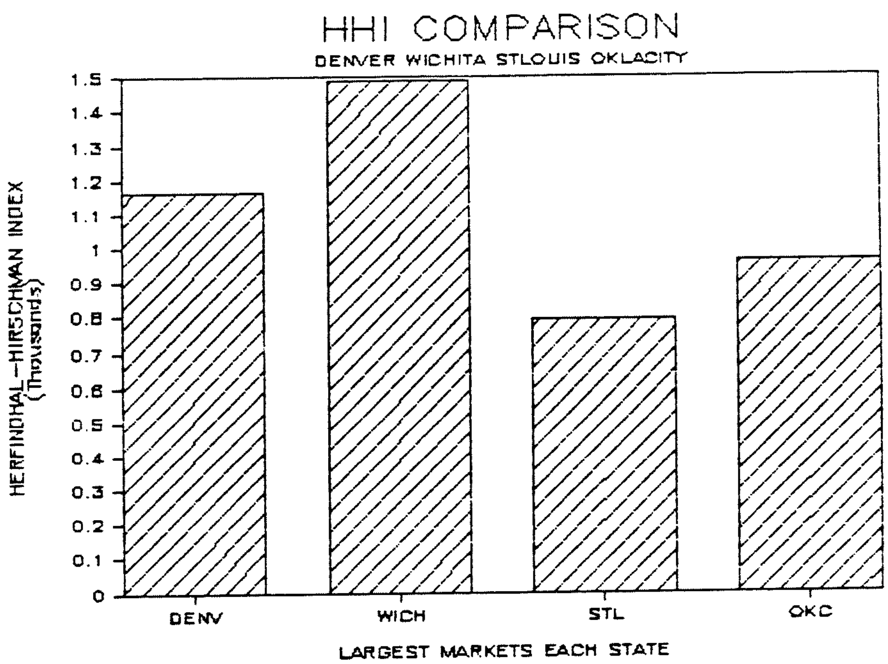
APPENDIX 3

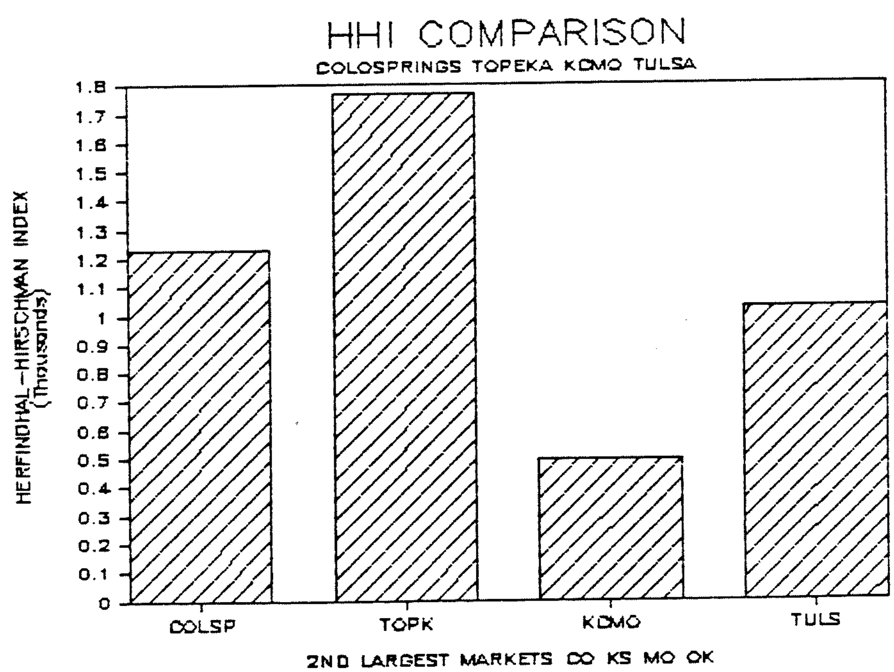

DEPOSIT & LOAN SCHEDULES
STATEWIDE TOTALS, JUNE 30, 1984
IN MILLIONS OF DOLLARS (Thousands)
130
120
110
100
90
80
70
60
50
40
30
20
10
0
CO
IL
IN
IA
KS
MN
MO
MT
NE
NM
OK
SD


EQUITY/ASSETS RATIOS
STATEWIDE & US AVERAGE 6/30/84
10
9
8
7
6
5
4
3
2
1
0
CO
IA
KS
MO
NE
OK
USA

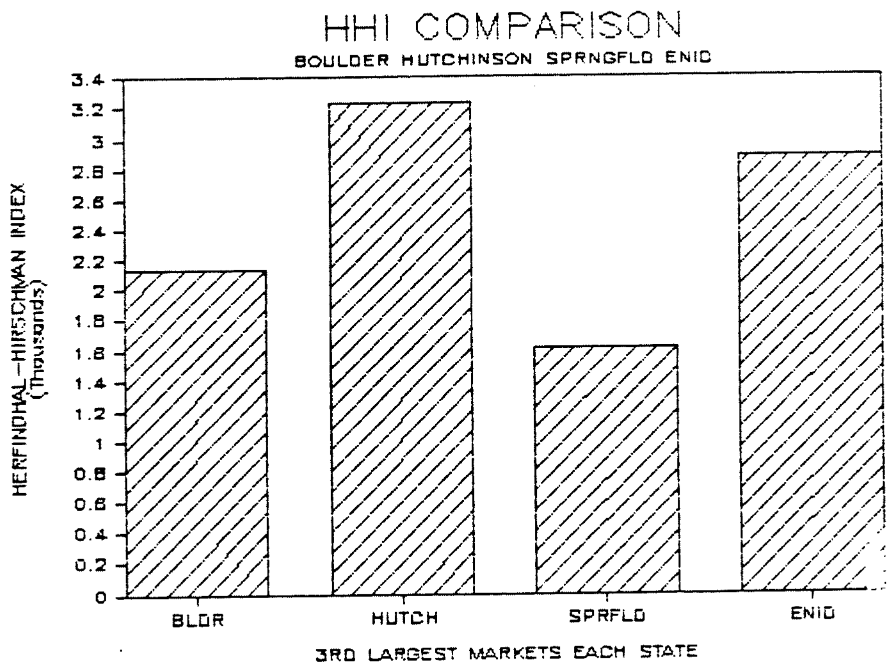
APPENDIX 4

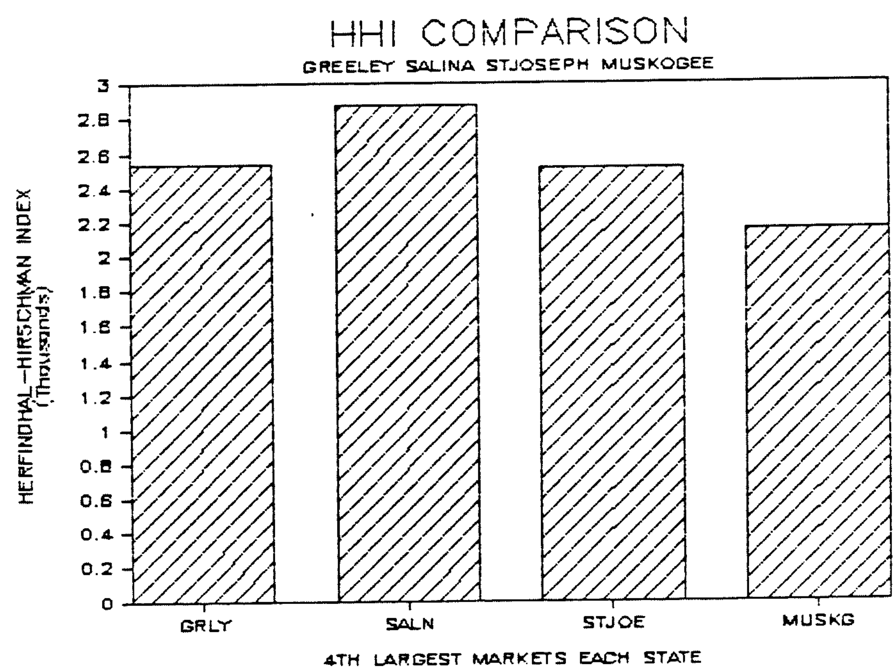
MARKET CONCENTRATION DATA


HHI COMPARISON
DENVER WICHITA STLOUIS OKLACITY
HERFINDHAL-HIRSCHMAN INDEX (Thousands)
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
DENV
WICH
STL
OKC
LARGEST MARKETS EACH STATE


HHI COMPARISON
COLOSPRINGS TOPEKA KCMO TULSA
HERFINDHAL-HIRSCHMAN INDEX (Thousands)
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
COLSP
TOPK
KCMO
TULS
2ND LARGEST MARKETS CO KS MO OK

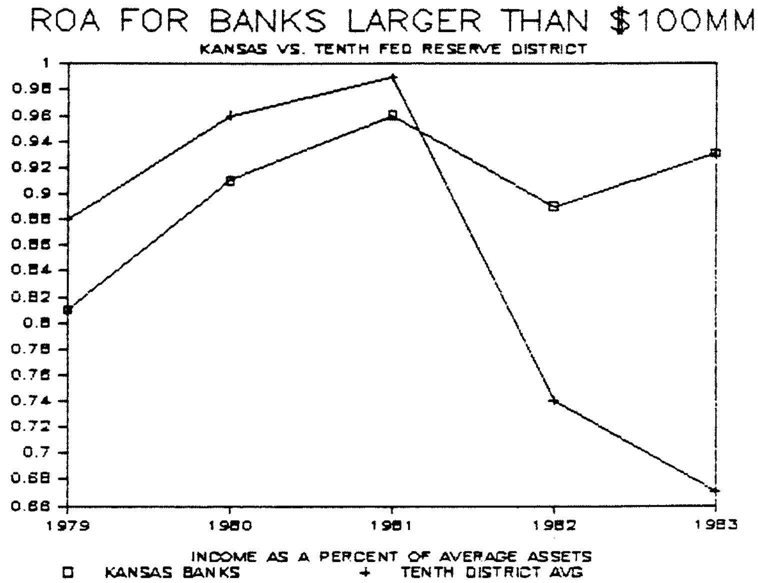
APPENDIX 5

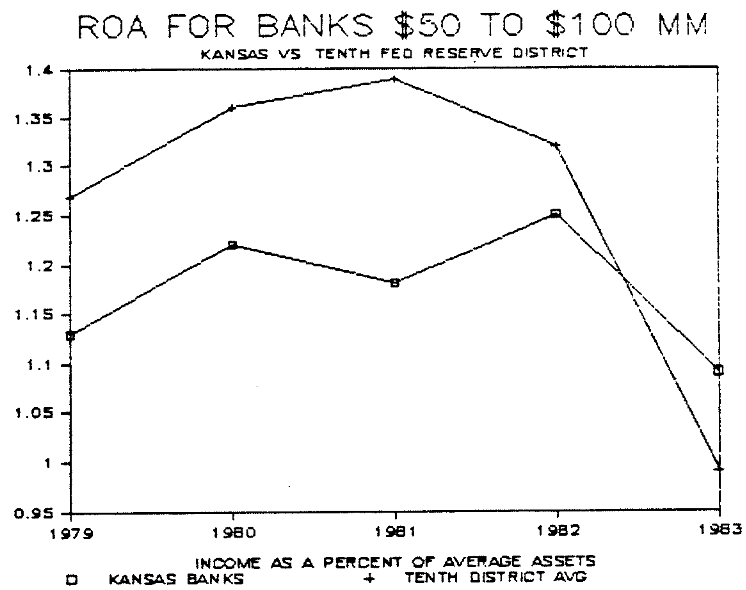

HHI COMPARISON
BOULDER HUTCHINSON SPRNGFLD ENID
HERFINDHAL-HIRSCHMAN INDEX (Thousands)
3.4
3.2
3
2.8
2.6
2.4
2.2
2
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
BLDR
HUTCH
SPRFLD
ENID
3RD LARGEST MARKETS EACH STATE

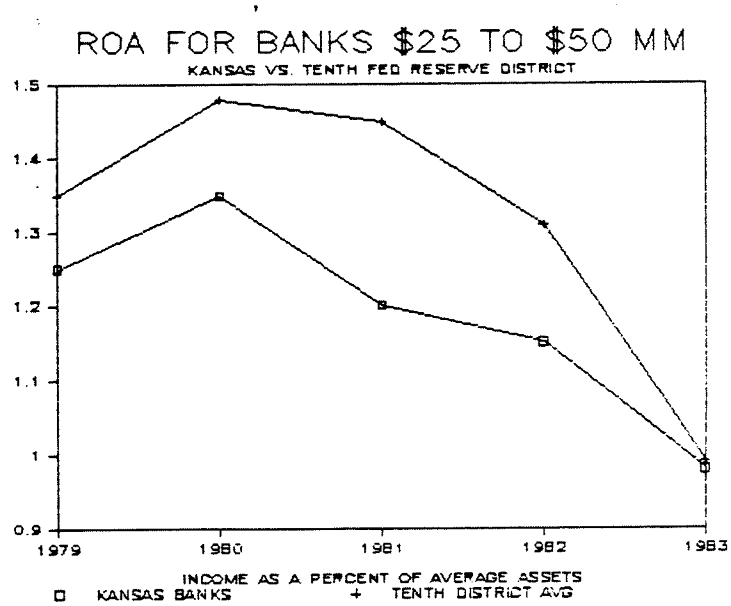

HHI COMPARISON
GREELEY SALINA STJOSEPH MUSKOGEE
HERFINDHAL-HIRSCHMAN INDEX (Thousands)
3
2.8
2.6
2.4
2.2
2
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
GRLY
SALN
STJOE
MUSKG
4TH LARGEST MARKETS EACH STATE

APPENDIX 6

PERFORMANCE DATA

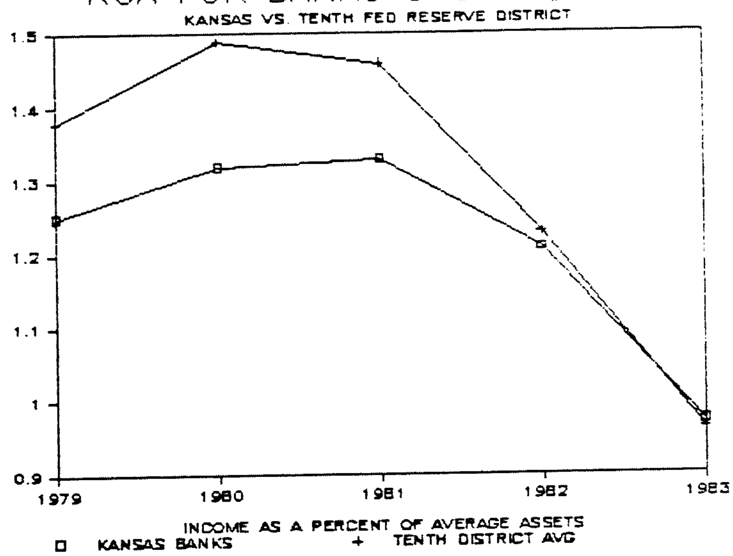

ROA FOR BANKS LARGER THAN $100MM
KANSAS VS. TENTH FED RESERVE DISTRICT
1
0.98
0.96
0.94
0.92
0.9
0.88
0.86
0.84
0.82
0.8
0.78
0.76
0.74
0.72
0.7
0.68
0.66
1979
1980
1981
1982
1983
INCOME AS A PERCENT OF AVERAGE ASSETS
KANSAS BANKS
TENTH DISTRICT AVG


ROA FOR BANKS $50 TO $100 MM
KANSAS VS TENTH FED RESERVE DISTRICT
1.4
1.35
1.3
1.25
1.2
1.15
1.1
1.05
1
0.95
1979
1980
1981
1982
1983
INCOME AS A PERCENT OF AVERAGE ASSETS
KANSAS BANKS
TENTH DISTRICT AVG

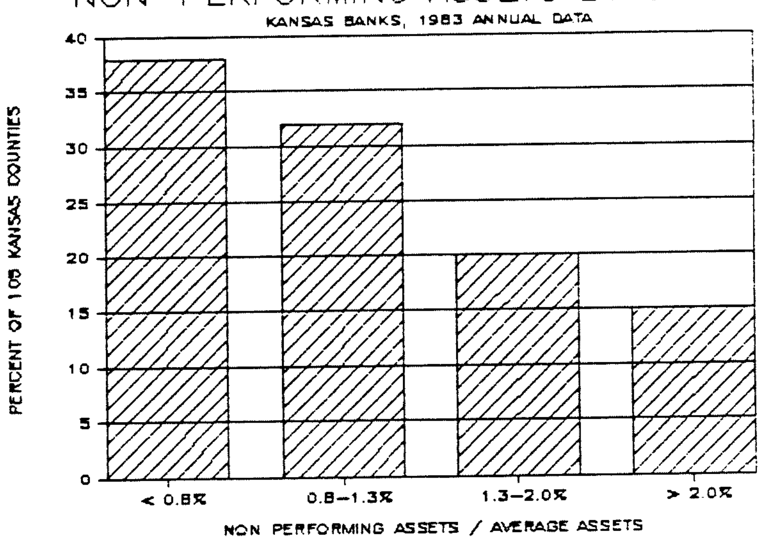

ROA FOR BANKS $25 TO $50 MM
KANSAS VS. TENTH FED RESERVE DISTRICT
1.5
1.4
1.3
1.2
1.1
1
0.9
1979
1980
1981
1982
1983
INCOME AS A PERCENT OF AVERAGE ASSETS
KANSAS BANKS
TENTH DISTRICT AVG

APPENDIX 7

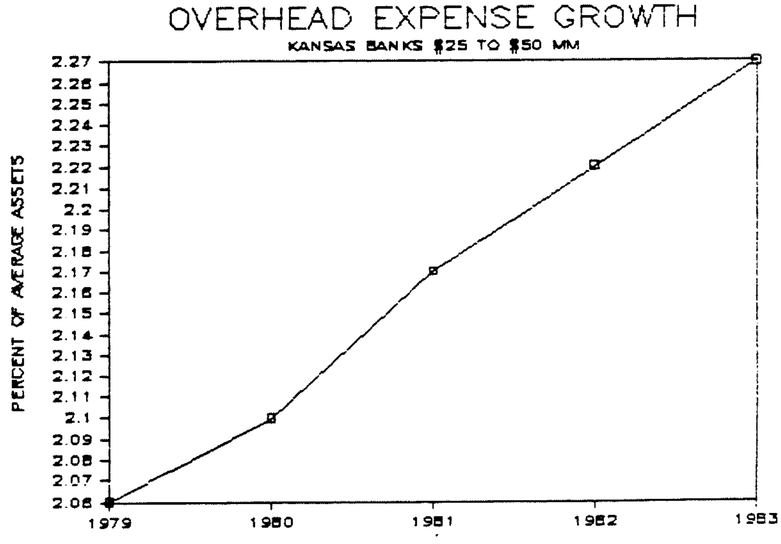
ROA FOR BANKS UNDER $25MM



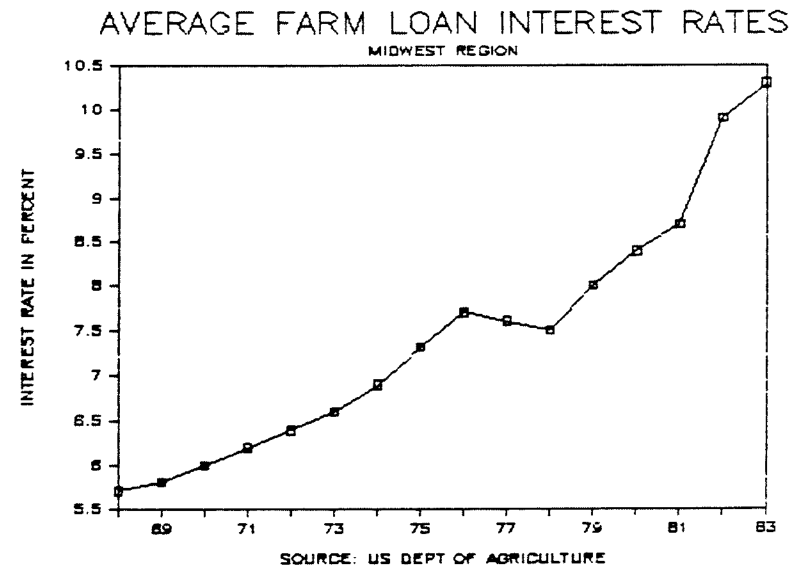
NON-PERFORMING ASSETS BY COUNTY

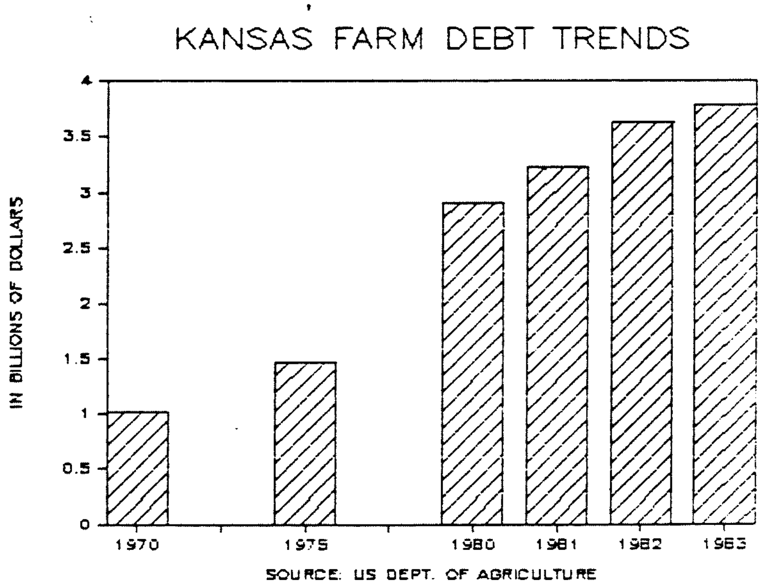


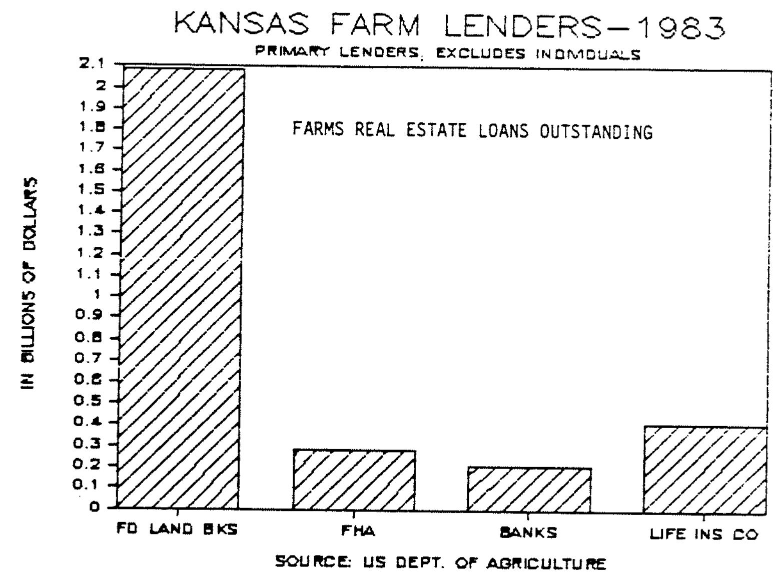
OVERHEAD EXPENSE GROWTH

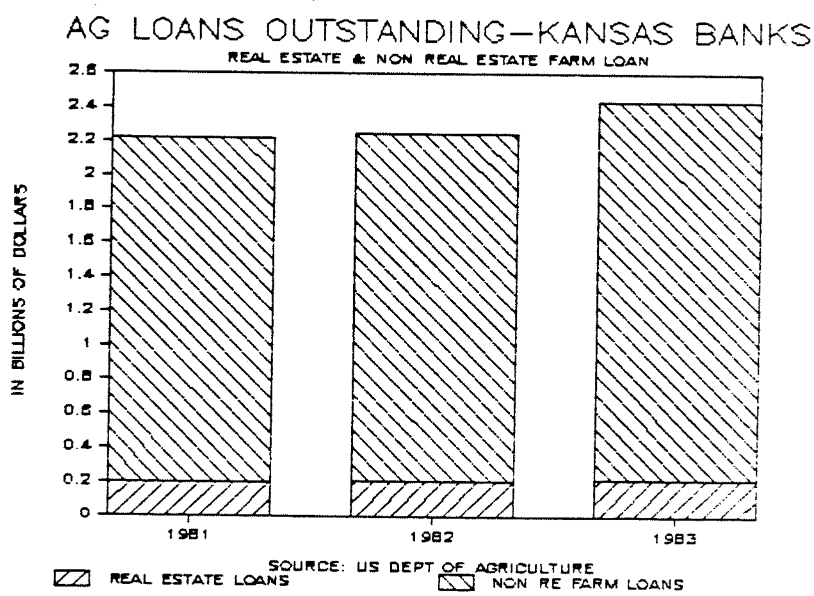


AGRICULTURE DATA


AVERAGE FARM LOAN INTEREST RATES
MIDWEST REGION
INTEREST RATE IN PERCENT
10.5
10
9.5
9
8.5
8
7.5
7
6.5
6
5.5
69
71
73
75
77
79
81
83
SOURCE: US DEPT OF AGRICULTURE


KANSAS FARM DEBT TRENDS
IN BILLIONS OF DOLLARS
4
3.5
3
2.5
2
1.5
1
0.5
0
1970
1975
1980
1981
1982
1983
SOURCE: US DEPT. OF AGRICULTURE


KANSAS FARM LENDERS—1983
PRIMARY LENDERS; EXCLUDES INDIVIDUALS
FARMS REAL ESTATE LOANS OUTSTANDING
IN BILLIONS OF DOLLARS
2.1
2
1.9
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
FD LAND BKS
FHA
BANKS
LIFE INS CO
SOURCE: US DEPT. OF AGRICULTURE


AG LOANS OUTSTANDING—KANSAS BANKS
REAL ESTATE & NON REAL ESTATE FARM LOAN
IN BILLIONS OF DOLLARS
2.6
2.4
2.2
2
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
1981
1982
1983
SOURCE: US DEPT OF AGRICULTURE
REAL ESTATE LOANS
NON RE FARM LOANS

SCOTT GARD ASSOCIATES
BANKING AND ECONOMIC CONSULTANTS

V

THE STATE OF KANSAS

BANKING DEPARTMENT

TOPEKA

EUGENE T. BARRETT, JR.
BANK COMMISSIONER

January 8, 1985

Dear Members of the KBA Governing Council:

In the few weeks that I have been Kansas Bank Commissioner I have followed with great interest the recent actions of this council in endorsing Multi-Bank Holding Company legislation for Kansas.

I applaud your actions and support them - both as a Kansas banker and as Kansas Bank Commissioner. I believe that it is essential that our state banking laws be changed to allow Multi-Bank Holding Companies in Kansas.

As a banker, I feel this legislation is in the best interest of the Kansas banking industry as a whole. It will make our Kansas banks stronger and allow us to more effectively compete in the offering of financial services to all Kansas consumers.

As Kansas Bank Commissioner I feel this legislation is urgently needed. As you know, this past calendar year, 1984, we have seen a record number of bank failures in the United States, and in the state of Kansas.

Each time we have had a bank fail in Kansas, the federal and state regulatory agencies have had a most difficult time in securing a buyer for the failed bank. On some occasions, in fact, there has ultimately been only one bidder. With each bank failure we increase the risk of not obtaining a buyer and incurring the situation where a bank is not reopened and a community loses its bank. I have discussed this dilemma with the federal regulatory authorities, with past bank commissioners, and with Governor Carlin. They share my concern.

(See page #2)

ATTACHMENT 5 3/19/85

THE STATE OF KANSAS

BANKING DEPARTMENT

TOPEKA

EUGENE T. BARRETT, JR.
BANK COMMISSIONER

This difficulty in finding buyers occurs primarily because, under our current laws, all Kansas banks are automatically prohibited from buying a failed bank.

As bank commissioner I believe that the passage of Multi-Bank legislation would go a long way towards relieving this particular problem, as all Kansas banks would immediately become eligible to bid in future cases of failing banks. This should greatly reduce the risk of being unable to reopen a failed bank.

However, I would urge that you include in your bill emergency acquisition provisions similar to those in the multi-bank laws in Arkansas, Kentucky, Nebraska, Oklahoma and Missouri.

I would suggest that you include provisions stating that the limitations on Multi-Bank Holding Companies would not apply in the case of the acquisition of a bank at the request of the regulatory authority for the purpose of preventing the probable failure of the bank or to protect the depositors or following a declaration of insolvency. In other words, such an acquisition made at the request of the regulatory authority would be exempt from the limitations otherwise contained in the bill. This is commonly called a "safety net provision" in these other states. It is designed to assure the maximum number of bidders in the case of failing banks in order to prevent the loss of a bank to a community.

I urge you to recommend such a bill to the legislature as being in the best interest of the banking industry of Kansas, and in order to give our office all the necessary tools to most

(See page #3)

effectively deal with any future bank failures in Kansas. In return I pledge my full backing and assistance in securing its passage.

Thank you.

Sincerely,

Eugene T. Barrett, Jr.
Bank Commissioner

ETBjr:jas

VI

STATE OF KANSAS

OFFICE OF THE GOVERNOR
State Capitol
Topeka 66612-1590

John Carlin *Governor*

Testimony to
House Commercial and Financial Institutions
on Senate Bill No. 102
by John Myers
on March 19, 1985

Mr. Chairman, Committee Members:

I am appearing today on behalf of Governor Carlin to support Senate Bill No. 102.

Governor Carlin first endorsed the need for multi-bank holding company legislation for Kansas six months ago in September of 1984. At the time, he concluded that a strong Kansas domestic banking industry was vital to the economic development of our state, but that our banking industry today was structurally hobbled by our current restrictive state laws.

His conclusion was true then, and it is even more true today.

Since his initial endorsement, the agricultural economy of this state and of the mid-western United States has continued to lag behind the rest of the national economy in its recovery. Its impact on farmers and agricultural bankers, in particular, has become critical. While most of the solution will have to come from the Congress, this situation only underscores the need to remove the statutory shackles from our domestic banking industry.

Never has the argument been stronger that we need to give every Kansas bank a choice as to the structure it will need in order to allow it to grow, to compete, and even to survive.

Every other state in the country has taken steps to modernize its banking laws by giving its banking industry some structural choice. Only Kansas has yet to act in this regard. In fact, having resolved the intramural battle between its own banks, most other states have proceeded on to consider a variety of other banking issues to aid its banking industry in dealing with the dramatic changes of these times.

ATTACHMENT 6 3/19/85

In the last year, for example, seven Kansas banks failed out of seventy-nine bank failures in the United States. This trend is continuing into 1985. While multi-bank legislation would not be a total cure for the causes of bank failures, it certainly would provide a useful tool both for banks and bank regulators. Banks would be allowed to make their own choice as to whether they wish to buy, sell or merge; bank regulators would have available to them an immediate pool of potential buyers in the case of future bank failures. Today, under current Kansas law, neither of these remedies is available.

It was precisely for these reasons that the Kansas Bank Commissioner recently endorsed the contents of Senate Bill No. 102 and joins the Kansas Bankers Association and the Kansas Chamber of Commerce and Industry in urging its passage.

Based upon all of the best evidence available, Governor Carlin remains more convinced than ever that multi-bank holding company legislation is needed for the Kansas banking industry and will be beneficial to the State of Kansas.

Governor Carlin believes that the unit banking system has served this state well over the years, but that the very laws which once served the industry are now severely handicapping it. No one can deny the facts that we have had an unprecedented number of bank failures, that we have unprecedented numbers of Kansas banks having difficult times, and that we have an unprecedented number of Kansas residents, particularly farmers, suffering severe financial problems. To delay any legislative action for another year will certainly not help those problems. It will only exacerbate them.

There are a rapidly growing number of Kansas banks which support this legislation and see it as some help for them in dealing with these problems. Those banks who do not support the change would not be required to use the law and would, therefore, be totally unaffected by it. This Legislature should not deny the freedom of that choice for the remainder of our Kansas banks.

The risk is far greater for this Legislature to take no action again this year, than in finally facing up to this issue and beginning to modernize our banking laws.

In his capacity as Chairman of the National Governors' Association, Governor Carlin has continued to monitor the actions taken by other states, particularly the mid-western sites, in trying to cope with this situation.

Kansas is not an island, unique in its problems or their solutions. Governor Carlin wrote Governor Kerry of Nebraska and inquired about Nebraska's experiences under similar legislation. Governor Kerry's response was very positive, and a copy of a letter from him to Governor Carlin is attached for your review.

Mr. Roger Beverage, the Director of Banking and Finance for the State of Nebraska, is in attendance here today and will testify and answer questions about the impact of multi-bank holding company authority in the State of Nebraska.

Governor Carlin urges you to join the Senate in supporting Senate Bill No. 102.

STATE OF NEBRASKA

ROBERT KERREY • GOVERNOR

cc: Governor

HAND DELIVER

February 11, 1985

The Honorable John Carlin
Governor of the State of Kansa
State Capitol
Topeka, Kansas 66612-1590

Dear John:

I have your letter of January 30 regarding your state's attempt to secure passage of multi-bank holding company authorization. The newspaper articles which you included were most interesting, particularly the parts which imply that I have somehow changed my position on the issue, and that multi-bank holding companies are harmful to agricultural finance.

Let me say at the outset that (1) I have not changed my position on multi-bank holding company authorization since it was enacted in Nebraska in 1983; (2) passage of L.B. 58 (authorizing multi-bank holding companies) has not had a detrimental effect on agriculture generally, or on agricultural financing in particular; and (3) the arguments being advanced by opponents as evidenced in the articles you sent to me are, in large measure, utter nonsense.

As you know, we have closed six commercial banks in Nebraska since Labor Day. In each instance the FDIC was appointed receiver for the bank after it was closed, and in five of the closings the liabilities were assumed, some of the assets purchased, and a new institution was opened in the community. In one instance, no bids were received on the closed bank and the FDIC is in the process of liquidating its assets.

Importantly, none of the five banks which we closed were purchased or acquired by, or incorporated into, a multi-bank holding company.

Before Labor Day, we were successful in averting outright failure of two commercial banks by arranging for a transfer of assets and assumption of liabilities by the Omaha National Bank, Nebraska's largest commercial bank. Omaha National is one of two banks owned by First Tier, a multi-bank holding company. The banks acquired, however, were acquired as branches of Omaha National. They were not established as free standing banks owned by the holding company.

Multi-bank holding company authorization is a highly emotional issue, as I'm sure you have already discovered. For the most part, the rhetoric which you will hear in opposition has very little empirical evidence to support it, and has not proven to be true in Nebraska.

Opponents tend to prey on the fear of having "large", "powerful" (and usually evil) banks from the "city" taking deposits from the "country". The result, it is alleged, is harm to agriculture and ruination of life as it has existed in Kansas since statehood.

In fact, there is no evidence in any state I have been able to find, particularly in Nebraska, which supports such an argument. You will, nonetheless, hear it repeated over and over as established fact.

On the other hand, multi-bank holding company authorization is not a panacea for banking problems or for agricultural problems, and will not instantly provide a cure for the problems being faced by agricultural lenders. As I indicated above, multi-bank holding company authorization has not yet played any significant role, either pro or con, in our attempts to deal with troubled financial institutions.

Multi-bank holding company authorization is an important option for bankers and their customers in these troubled times. We are finding fewer and fewer bidders for banks when they fail, and the same is true for banks whose owners simply want to get out of the business. A multi-bank holding company option can provide more buyers, stronger banks, and additional capital that may otherwise not be provided.

We have seen no undue concentration yet in Nebraska as a result of passage of our multi-bank holding company act. It will permit some growth in the future for banks large and small, and will certainly provide some efficiencies of scale which are not possible under a unit banking system. In fact, it is quite easy to demonstrate that a larger operation can strengthen a community's ability to service agriculture. There is simply no evidence that funds will not be available simply because a bank is owned by a multi-bank holding company.

I hope this rather detailed explanation has been helpful to you. I have asked our Director of Banking and Finance to be available for the purpose of testifying about Nebraska's experience with multi-bank holding companies if you so desire.

Sincerely,

Bob Kerrey

ROBERT KERREY
Governor

0400A

VII

March 19, 1985

TO: House Committee on Commercial & Financial Institutions

RE: SB 102

Mr. Chairman and members of the committee:

My name is Roger Beverage, and I'm the Director of the Department of Banking and Finance for the State of Nebraska. I appreciate the opportunity to appear before you this morning and to share with you some of our experiences in Nebraska with multi-bank holding company authorization.

By way of background, you should know that I was the Executive Vice President of the Nebraska Bankers Association from 1979 to 1982. During that period of time our Association was opposed to passage of multi-bank holding company or branching authorization in any form, and I spent a considerable amount of time appearing before our Nebraska Unicameral arguing that its advent in our state would be the ruination of small banks of agricultural lending, and, indeed, the state as a whole.

In 1983, our Legislature passed multi-bank holding company authorization, with limitations similar to the ones which are contained in SB 102. Since January 1984, I have been the Director of Banking, and no longer have any vested or other interest in the subject, other than how it has affected our State's banking community and and economy.

Let me first dispell some myths which normally surround the issue of multi-bank holding company authorization, based on my research and my experience as a lawyer and as Director of the Department. Let me also point out that Governor Kerrey, who supported passage of multi-bank holding company authorization in 1983, has not changed his position on the issue, contrary to some of the news accounts I have read in your Kansas newspapers.

Since Labor Day, 1984, we have closed six commercial banks in our state. In each instance the Federal Deposit Insurance Corporation was appointed receiver for the bank after it was closed, and in five of the closings the liabilities were assumed, some of the assets were purchased, and a new institution was opened in the community. In one instance, no bids were received on the closed bank, and the FDIC paid off the deposit liabilities to the insured limit of $100,000 and is currently in the process of liquidating the assets of the former bank.

There has been a great deal of misinformation, and I want to stress that none of the five banks which have been purchased following closing were acquired by, or incorporated into, a multi-bank holding company.

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Before Labor Day, we were successful in averting the outright failure of two commercial banks by arranging for a transfer of assets and assumption of liabilities by the Omaha National Bank, Nebraska's largest commercial bank. Omaha National is one of two banks owned by FirstTier, a multi-bank holding which was established in early 1984 and which owns First National Bank and Trust Company of Lincoln, the state's second-largest bank.

The two banks acquired by Omaha National, however, were acquired as branches of Omaha National, and were not established as free-standing banks owned by the holding company.

The issue of multi-bank holding company authorization, as well as branch banking, is a highly emotional issue. It usually stirs and preys upon fears of the unknown, and fears of "giant" banks sweeping through the state like a rogue elephant taking over every bank in its path and leaving in its wake a trail of destruction and economic calamity. Such rhetoric, which if you haven't yet heard you will, has no empirical evidence to support it that I have been able to find. More importantly, it has certainly not been the case in Nebraska.

The point I have made is worth repeating. There is no empirical evidence which has come to my attention, or which I have been able to find in any state that multi-bank holding company authorization serves to destroy small banks or a state's economy. Importantly, there is no evidence in any state, and particularly in Nebraska, that multi-bank holding company authorization will harm agriculture in any way.

Kansas, like Nebraska, is dependent in large measure on the success of agriculture. While it is true that agriculture is in the midst of a depression in our state, the issue of multi-bank holding company authorization has not in any way caused or contributed to our current situation.

One of the arguments you will hear in opposition to multi-bank holding companies is that they siphon funds from rural communities and take them to the cities, thus leaving a shortage of viable lenders to support your state's food producers. Again, there is no evidence which supports this allegation, and it has not been our experience in Nebraska.

Perhaps the best example of what multi-bank holding companies can do for a state is our experience with Norwest. Norwest is a multi-bank holding company with its principal office in Minneapolis, and operations in Montana, Iowa, North and South Dakota and Nebraska. Norwest owns six commercial banks in Nebraska, and owned five under a grandfather provision before our 1983 law was passed.

In each of the communities in which Norwest operates (Omaha, Lincoln, Grand Island, Hastings and Norfolk) it has been and continues to be an excellent corporate citizen. Its officers and directors are active in the communities the banks serve, and the banks serve those communities just as any other full-service commercial bank would do.

Perhaps more significantly, Norwest is a net capital importer to Nebraska, to the tune of some $500 million per year. In a state such as ours where capital is needed, Norwest has been a most welcome addition to our banking community, and to our state.

Multi-bank holding company authorization is not a panacea for agriculture either, and you should clearly understand that its adoption will not automatically eliminate the problems we are facing. It does provide an opportunity for permissive, controlled growth in the banking community and generally improves the quality and quantity of services available in a unit banking state.

This proposed legislation is, in my judgment, an important option for banks and for bank customers in these troubled times. We are finding fewer and fewer bidders for troubled financial institutions, both before and after they fail in our state and this option is one that will give your state one more tool with which to attempt to deal with those institutions.

Significantly, multi-bank holding company authorization will provide an option for banks and bankers who choose to sell their banks, and will help maintain a market for some of those institutions. The price sellers and shareholders can get for their banks depends to a great extent on the existence of available buyers for the institution. Multi-bank holding companies provide that additional alternative which may be needed.

One of the arguments you may hear is that MBHC will lead to an undue concentration of economic power. That has not happened in Nebraska, and with the limits you have in the proposal before the committee, it should not happen in Kansas. MBHC authorization will provide some efficiencies of scale which are not possible under a unit banking system, and can clearly strengthen the ability of a commercial bank to serve agriculture and the other businesses and customers in the local community.

There are constraints on expansion which are inherent in any MBHC or branching proposal. It is generally true that the larger banks are unlikely to enter into smaller areas. Most of these banks are interested in the high growth markets, and in Kansas, as in Nebraska, the choices are limited. They have problems too, and their ability to tap capital markets will have a substantial impact on their ability to grow. Third, both regulatory and legal constraints exist which will limit the ability of banking organizations to grow. Management talent is hard to come by in these difficult times, and the capital requirements are always a very real consideration for any bank with plans to expand or grow.

Our experience in Nebraska has shown that many of the objections to MBHC authorization have been much ado about nothing. It is not the evil that it is painted to be, and does not harm agriculture or the ability of the banking system to service it. Neither is it <u>the</u> solution for our current economic difficulties.

It is, rather, a significant and important option for banks and their customers which can be utilized to improve the ability of the system to deliver its services. No one is required to sell their bank under this proposal. It will allow consenting adults and regulators an option wich they do not now have, and which, at least in my judgment, is important to the stability of the system.

I will be pleased to attempt to answer any questions you may have.

Roger Beverage, Director
Department of Banking and Finance
State of Nebraska

V-I

Support legislation allowing multi-bank holding companies.

OVERVIEW:

This would enhance competition in the financial services industry and would permit better service in meeting the banking needs of Kansas consumers, businesses and governments.

Forty-seven states now allow multi-bank holding companies; forty-one states now allow some form of branch banking; forty-nine states allow one or the other or both; only Kansas prohibits both.

Multi-banking should result in providing new services for consumers, additional capital for loans, an increase in the size of individual loans and additional economic development activity due to easier capital formation.

The Kansas Chamber of Commerce and Industry (KCCI) has endorsed the concept as has the Kansas Bankers Association. It is a change that is long overdue.

COMMENTS:

A bill will be introduced; we should urge the Legislature to pass it.

DENNIS M. SHOCKLEY
Federal and State Affairs

CITY OF KANSAS CITY, KANSAS
City Hall-One Civic Plaza
Kansas City, Kansas 66101

Phone (913)573-5017

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