

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:00 a.m./p.m. on February 12, 1985 in room 529-S of the Capitol.

All members were present except:

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Anderson Chandler, Kansas Bankers Association Governing Council
Don Steffes, President, Kansas Bankers Association
Dean Haddock, Kansas Association for Economic Growth
Paul DeBauge, Kansas Chamber of Commerce and Industry
John Myers, Office of the Governor
Roger Beverage, Department of Banking and Finance, State of Nebraska

The minutes of January 31 were approved.

The chairman announced that the hearing would begin on SB 102 dealing with multi-bank holding companies with the testimony of proponents.

First to appear was Anderson Chandler of the Kansas Bankers Association Governing Council. (See Attachment I.)

Don Steffes, President, Kansas Bankers Association, followed with his testimony in support of SB 102. (See Attachment II.) He added to his written testimony that he had just returned from a banking leadership convention in Washington where four hundred bankers had made the landmark decision to support interstate banking. Mr. Steffes said he feels that Kansas needs to position itself for this reality. He distributed copies of charts and opinions from the convention. (See Attachment III.)

The hearing continued with the testimony of Dean Haddock, Kansas Association for Economic Growth, (See Attachment IV.)

Paul DeBauge, Kansas Chamber of Commerce and Industry, followed with his testimony in support of the bill. (See Attachment V.)

Further testimony in support of SB 102 was given by John Myers, Office of the Governor. (See Attachment VI.) Mr. Myers distributed copies of a letter from Robert Kerry, Governor of Nebraska, to Governor Carlin regarding multi-bank holding companies. (See Attachment VII.)

Mr. Myers introduced Roger Beverage, Nebraska Department of Banking and Finance, to give testimony as to his favorable experience in Nebraska with multi-bank holding company authorization. (See Attachment VIII.)

Upon completion of Mr. Beverage's testimony, the hearing for proponents of SB 102 was concluded.

Sen. Karr questioned Mr. Beverage as to the effective date of multi-bank authorization in Nebraska and as to the impact of the transition in Nebraska. Mr. Beverage answered that it was effective as of August 13, 1983, and that the impact has been slow with twelve or less banks moving to consolidation. Sen. Karr inquired further if Mr. Beverage thought that this pattern would continue. Mr. Beverage said that he did not expect any rush towards multi-banking.

In regard to the bank failures mentioned by Mr. Beverage in his testimony, Sen. Karr asked if the banks were continuing to serve the agriculture community after having been sold by the FDIC. Mr. Beverage replied that they are trying to serve agriculture generally but that problems are occurring because of the FDIC liquidation process in

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m. ~~xxx~~ on February 12, 1985.

which they are interested in the preservation of the funds only and not the interests of the farmers and ranchers.

Sen. Reilly asked if SB 102 is patterned somewhat after the Nebraska bill. Mr. Beverage said that the percentage of deposits is the same, but Nebraska has a nine bank limit; and there is a bill to be presented to raise the limit to eleven. Sen. Reilly asked if the farm organizations supported the original Nebraska bill in 1983, and Mr. Beverage answered that he did not have a clear recollection of this. He added that when he was with the Nebraska Bankers Association, these organizations were not too organized and that it had been a battle mostly between bankers.

The chairman questioned Mr. Steffes as to his testimony concerning interstate banking where he stated that decisions would not be made in Kansas. The chairman asked if this would not also be true of banks from one city to another in Kansas where one city makes the decisions for banks owned in other towns. Mr. Steffes agreed but noted that his point was that it would be better to have an outsider from another Kansas town making the decisions than a banker from out of state.

The chairman asked for an explanation as to Mr. Steffes statement that multi-banking would make more capital available. Mr. Steffes clarified the statement by answering that the movement of money would be easier and more rational although it still would not be the perfect solution.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2-12	JOHN C. BOTTENBERG	TOPEKA	Ks Ind Bank Assn
	M. Hauer	"	C. 90-Journal
	Jeremy Linscheid	"	
	BEN NEILL	"	KIBA
	Sandra McGill	"	"
	Peter McGill	"	"
	Markus Banker	"	Kansas Bankers Assn
	Harold Stoner	"	KBA
	Don Steffen		KBSA
	Roger Bennett	Juniper, KS	NE Dept / Banking
	Paul & Jo Bangs	Emporia	KCCI
	John Peter	Topeka	KAFU
	Jacques Dakes	Yates Center	Banking
	Ivan W. Wyatt	M. Pherson	Ks Farmers Union
	J. Sue Anderson	Carbondale	Ks. Indep. BnKrs Assn
	Marvin C. Umholtz	Topeka	KCUK
	John Spurgeon	Lawrence	Budget
	Jim Oliver	Topeka	PIA of Ks
	Jim Murphy	Topeka	Governor's Office
	BRAD HEARS	Topeka	Governor's Office
	Don Raine	Maple Hill	Visitor
	Betty P. Raine	Maple Hill	Visitor
	John Fincher	Lynndon	KIB
	Clayton Barker	Meriden	

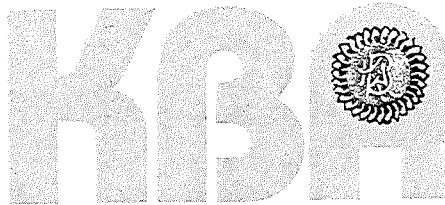
SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
	Nancy Haddock	Beloit	Guaranty State Bank
	Dean Haddock	Beloit	" " "
	Patrick J. Hurley	Topeka	KAEG
	Larry Shener	Wichita	Faust Funeral Coy.
	John Myers	Topeka	Governor's Office
	DENNIS DEHN	"	SEN. WERTS' INTERN
	Mary Rice	"	Intern - A.G.'s office
	Doug Brehm	"	" "
	Allan Galt	Lawrence	Intern - Sen. Kerr
	HOWARD W. TICE	HUTCINSON	Ks. Ass's of WHEAT GROWERS



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 12, 1985

TO: Senate Committee on Financial Institutions and Insurance

RE: Testimony on SB 102

Mr. Chairman and members of the committee:

My name is Anderson Chandler, and I am here as chairman of the Governing Council of the Kansas Bankers Association to give testimony in favor of Senate Bill 102, commonly known as the multi-bank holding company bill. I am also chairman and president of Fidelity State Bank and Trust Company, Topeka, Kansas and have been active in Kansas banking since 1948.

You may have heard conflicting stories of how the Kansas Bankers Association changed their policy on multi-bank holding companies from neutrality to support, and I would like to review this. The Kansas Bankers Association has been a trade association in Kansas since 1887. My father, C. Q. Chandler, was president in 1900, my brother Bill Chandler was president in 1952, and I was president in 1984, and am chairman of the Governing Council in 1985. A few years ago KBA changed its structure to a corporation, and I served as one of the incorporators. The Governing Council is the policy-making body of the corporation, as specified in the bylaws. It consists of 32 voting members, of which 25 or 78% are elected by secret ballot of the membership with each member bank having one vote. There are 18 regional representatives elected from six geographic districts in the state with one from each district being elected yearly for a 3-year term. They are nominated by letter and elected by secret ballot of the member banks. In addition to these 18, the four officers (chairman, president, president-elect, and treasurer) are elected by secret ballot. The three immediate past presidents who were also elected by secret ballot also serve, making a total of 25 out of 32. The other seven members of the Governing Council include the chairperson of the trust division who is elected by their convention, and six bankers (one from each geographic district) who are appointed by the president. You can see that it is a democratic grass roots election process that selects over 3/4 of the Governing Council.

Any position of KBA involving banking structure must be decided by the Governing Council, and this decision to support multi-bank legislation was made November 28, 1984 by a vote of 18-14. Before it was considered, a 30-day notice was given by mail to every Kansas bank that the issue would be voted on. The request to KBA Governing Council to support multi-bank holding company legislation came from Eugene Hegarty, Kansas State Bank Commissioner at the time and president of Farmers & Merchants State Bank of

2/12/85
Attachment I

Effingham, Kansas. The present State Bank Commissioner, Eugene Barrett, has written a letter to the KBA Governing Council supporting multi-bank holding company legislation, and I am leaving a copy of his letter dated January 8, 1985 with copies of my testimony. The Federal Deposit Insurance Corporation and Federal Reserve Bank of Kansas City, Missouri and Regional Comptroller of the Currency have written letters stating they have no position on multi-bank holding companies, but support the portions of the bill that allow a failed bank to be acquired by a multi-bank holding company. Copies of those letters are also included in my testimony.

I believe that Kansas will be better served if the option of multi-bank holding companies is available. No bank will have to sell out unless they want to. There is no right of eminent domain or power to force a bank to sell. Concern has been expressed that multi-bank legislation in Kansas will result in many of the smaller banks in the state being "swallowed up" by the larger urban banks. The history of multi-bank legislation in other states would not indicate that this concern is well-founded. I would call the committee's attention to the attached information relating to multi-bank holding company activity in Oklahoma since their law went into effect in June of 1983. It reveals some interesting trends such as:

- (1) There have been relatively few acquisitions by holding companies when you consider the fact that Oklahoma has well over 500 banks;
- (2) There have been very few acquisitions of small-town banks by the urban area (Tulsa and Oklahoma City) banks;
- (3) A number of the holding company acquisitions have been between urban-area banks; and
- (4) Interestingly, there has been a significant number of acquisitions of urban-area banks by holding companies in smaller communities -- the exact opposite of the concerns expressed.

In 1984 there were 7 Kansas banks that failed. Fortunately, in each case the FDIC was able to find an acceptable buyer for the assets, but the FDIC has indicated that in some cases there was only one buyer, and they are afraid that in the near future there may be a bank in Kansas with no buyer. The multi-bank holding company bill would provide an additional safety net by placing nearly 400 additional purchases, i.e., the present one-bank holding companies doing business in Kansas, on the potential buyer list. This bill will not allow an out-of-state holding company to buy a Kansas bank, and I strongly approve that section.

The provisions of Senate Bill 102 were carefully drawn based upon recommendations of a 9-person task force appointed by Kansas Bankers Association and Kansas Association for Economic Growth. It consisted of the following persons:

- (1) J. Rex Duwe, Chairman of the Board, Farmers 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 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 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 multi-bank legislation could allow too much concentration of resources. I agree it is a good bill, and I urge you to support the bill.

Anderson W. Chandler, Chairman
Kansas Bankers Association

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)

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 reoper a failed bank.

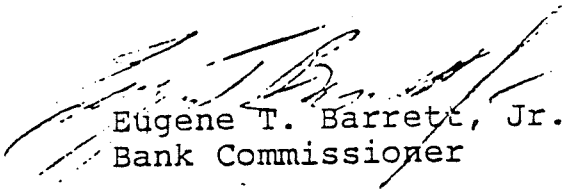
However, I would urge that you include in your bill emergency acquisition provisions similar to those in the multi-bank laws in Arkansas, Kentucky, Nebraska, Oklahoma and Missouri.

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 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



Comptroller of the Currency
Administrator of National Banks

Midwestern District
911 Main Street, Suite 2616
Kansas City, Missouri 64105

January 25, 1985

Mr. Anderson Chandler
Chairman, Governing Council
Kansas Bankers Association
707 Merchants National Bank Building
Topeka, Kansas 66612

Dear Mr. Chandler:

This is in response to your letter of January 14, 1985, requesting that the Office of the Comptroller of the Currency (OCC) join with the Governing Council of the Kansas Bankers Association and officially support passage of a multibank holding company law for the State of Kansas in 1985. We appreciate the opportunity to respond to your request and share your concern over the potential for situations where there would be no acceptable bidder for the purposes of reopening a failed bank due to existing Kansas state law. However, based on internal operating policy, the OCC does not feel that it is appropriate to officially state our position on this or any proposed state legislation.

At the Federal level, however, we have consistently and continuously supported geographic flexibility for banks and bank holding companies. This is particularly significant for those agriculturally oriented banks that are unable to diversify their lending portfolios and revenue streams because of restrictive and prohibitive geographic banking laws. We feel this inability leads to concentrations, higher level lending risks and is a major cause of bank failures.

Again, we appreciate this opportunity to respond and hope you understand our position. Please feel free to contact me if ever I or my staff can be of assistance.

Very truly yours,

Dean S. Marriott
Deputy Comptroller
Midwestern District

DSM:ss



Federal Reserve Bank of Kansas City

925 Grand Avenue
Kansas City, Missouri 64198
(816) 881-2000

January 23, 1985

Mr. Anderson Chandler
Chairman, Governing Council
The Kansas Bankers Association
c/o Fidelity State Bank
P. O. Box 1737
Topeka, Kansas 66601

Dear Mr. Chandler:

This is in response to your letter of January 14, 1985, concerning proposed legislation which would allow multi bank holding companies in Kansas.

We do not feel it appropriate for the Federal Reserve to take a position on state legislation dealing with banking structure. However, we note that the proposed multi bank holding company law contains provisions (section 2(b) and section 2(c)) which exempt from the limitations of the law any bank acquisition by a bank holding company if it is determined that an emergency exists and that the acquisition is appropriate in order to protect the public interest against the failure or possible failure of a bank. We strongly favor such a provision, which coupled with the ability of bank holding companies to own more than one bank, provide bank supervisory agencies with flexibility in dealing with failing banks. Such flexibility is of great assistance in maintaining public confidence in the banking system.

Sincerely,

John E. Yorke
Vice President

*copy steph
skinner
A*



January 18, 1985

Mr. Anderson Chandler
Chairman, Governing Council
The Kansas Bankers Association
c/o Fidelity State Bank and
Trust Company
Post Office Box 1737
Topeka, Kansas 66603

Dear Mr. Chandler:

Your January 14, 1985, letter addressed to the local representatives of the three Federal Banking Regulators, including Regional Director Prohaska of my staff, seeking support of proposed multi-bank holding company legislation, has been forwarded for my consideration.

As I understand your request, you are seeking the Corporation's endorsement of the "Emergency Provision" of the proposal, which provides for exceptions to the nine percent of deposits and five-year operating tenure limitations of the legislation. The FDIC favors any efforts that would facilitate its arrangement for a purchase and assumption transaction in a closed bank, and, preferably, the resolution of a distressed bank's problems in a manner that would preclude its failure.

Sincerely,

A handwritten signature in cursive script, reading 'Charles E. Thacker'.

Charles E. Thacker
Associate Director

cc: Mr. Eugene T. Barrett, Jr.
Bank Commissioner
State of Kansas

OKLAHOMA BANKERS ASSOCIATION
MULTIBANK HOLDING COMPANY ACTIVITY REPORT
FROM JUNE 20, 1983 TO JANUARY 7, 1985

TOTAL NUMBER OF MULTIBANK HOLDING COMPANIES	25
TOTAL NUMBER OF SUBSIDIARY BANKS	58

* Comment Period Ending

<u>MULTIBANK HOLDING COMPANY CITY</u>	<u>SUBSIDIARY BANKS</u>	<u>NOTICE PUBLISHED</u>	<u>APPLICATION ACCEPTED</u>	<u>APPROVED</u>
First Bancshares, Inc., Bartlesville	First National Bank in Bartlesville Exchange National Bank, Tulsa	10-31-83	11-4-83	12-17-83
Sooner Southwest Bancshares, Inc. Bristow	80.86% of Anadarko Bancshares, Inc. 91.68% of Community Bancorp, Inc.	12-21-84		
Lowry Facilities, Inc. Clinton	1% of Oklahoma Bancorporation, Inc. Oklahoma Bank & Trust Co.	1-3-85		
Security Corporation Duncan	Security National Bank & Trust, Duncan Cache Road National Bank, Lawton 13% of Charter National Bank, OKC 16.97% of Chickasha Bank & Trust	WITHDREW WITHDREW	2-10-84 4-28-84 4-28-84	3-1-84
Interstate Financial Corp., Edmond	First Oklahoma Bank & Trust Co., Edmond Union National Bank, Tulsa	5-18-84	6-2-84	6-22-84*
Central Service Corp., Enid	Central National Bank & Trust Co., Enid Nichols Hills Bank, Oklahoma City	11-10-83	11-14-83	2-7-84
First Enid, Inc., Enid	First National Bank & Trust Co., Enid Fairview State Bank, Fairview		10-13-83	10-24-83
First Frederick Corp. Frederick	First National Bank & Trust Co., Frederick First National Bank in Hobart, Hobart	11-14-83	12-2-83	1-21-84
First Guthrie Bancshares, Inc. Guthrie	First National Bank, Guthrie Liberty State Bank, Tahlequah First National Bank & Trust Co., Stillwater		8-3-83 6-23-84	8-6-84*
Home State Bancorp, Inc. Hobart	80% of shares of Security Bank Home State Bank	11-23-84		

MULTIBANK HOLDING COMPANY
CITY

SUBSIDIARY BANKS

NOTICE
PUBLISHED

APPLICATION
ACCEPTED

APPROVED

J. R. Montgomery Bancorp., Lawton	City National Bank & Trust, Lawton Fort Sill National Bank, Ft. Sill	10-6-83	10-11-83 12-9-83	1-26-84
Locust Grove Bancshares, Inc. Locust Grove	Bank of Locust Grove Bank of Commerce, Chouteau	10-17-83	11-1-83	2-2-84
ABC Bancshares, Inc., McAlester	American Bank of Commerce, McAlester Wilburton State Bank, Wilburton	8-24-83 8-24-83	9-6-83	
Citizens Dimension Bancorp., Muskogee	Citizens Nat'l Bk, Muskogee Charter National Bank, Oklahoma City		2-14-84	3-13-84
Commercial Landmark Corp., Muskogee	Commercial Nat'l Bank, Tulsa First National Bank, Tahlequah Commercial Bk & Trust, Muskogee Town & Country Bank, Bixby	11-16-84	2-14-84 5-5-84	4-6-84
Citizens Bancshares, Inc., Okemah	Citizens State Bank, Okemah Affiliated Bank of Sapulpa, N.A.	5-13-84	6-2-84	
Okemah Banks of Mid-America, Inc. Oklahoma City	Liberty National Bank & Trust, OKC First National Bank & Trust, Tulsa		11-9-83	4-26-84
First Oklahoma Bancorporation Oklahoma City	Oklahoma National Bank First National Bank & Trust Co.			
Founders Bancorporation, Inc., Oklahoma City	100% of Commerce Bancshares, Inc., Village Commerce Bank, The Village	1-4-85		
Midland Capital Co., Oklahoma City	Northwest Bank, OKC Oklahoma National Bank, Chickasha		5-11-83	8-20-84*
National Bancshares, Inc., Oklahoma City	American National Bank, Midwest City	10-21-83	10-25-83	12-12-83
United Oklahoma Bancshares, Inc., Oklahoma City	United Del City Bank (de novo Section 3(a)(3))			5-11-84
American Bancorp., Sapulpa	American National Bank, Sapulpa Mannford State Bank, Mannford	10-21-83	10-25-83	12-12-83

MULTIBANK HOLDING COMPANY
CITY

SUBSIDIARY BANKS

NOTICE
PUBLISHED

APPLICATION
ACCEPTED

APPROVE

BancOklahoma Corp.,
Tulsa

Bank of Oklahoma, Boulder Park, Tulsa
Mercantile Bank, Tulsa
BOK, City Plaza, Tulsa
Bank of Oklahoma, Sand Springs
BOK, Pryor
BOK, Southwest
BOK, Claremore
Affiliated Bank of Sapulpa
BOK, Broken Arrow
BOK, OKC
Bank of Oklahoma, Grove

8-22-83

8-26-83

6-20-84

6-30-84

5-16-84

6-9-84

6-12-84*

RETURNED

6-30-84

Fourth National Corporation,
Tulsa

Fourth National Bank, Tulsa
United Bank, Tulsa

5-24-84

6-9-84

8-29-84

6-15-84*

Sheridan Bancshares, Inc.
Tulsa

Sunbelt Bank & Trust

11-1-84



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 12, 1985

TO: Senate Committee on Financial Institutions and Insurance
RE: Testimony on SB 102

Mr. Chairman and members of the committee:

I'm Don Steffes, president of the Kansas Bankers Association. I wish to talk to you today, however, as both the president of the Kansas Bankers Association and president of McPherson Bank and Trust Co., where I have served for approximately 15 years as president and chief executive officer.

I consider myself a professional bank manager and am a relatively minor stockholder in our 110 million dollar locally owned, widely held bank in a county seat town and agricultural community. Our bank is among the top 10% of ag lending banks in Kansas. We have trust assets of over 60 million dollars and our farm department manages over 30,000 acres of land. The management of this bank has been very active in industrial development and we think we have played a significant role in creating a very strong industrial economy in McPherson.

I think it is also significant that I speak as a native Kansan, having been born and raised in Olpe in southern Lyon County in a farming and small business family. The early part of my career was spent with several chambers of commerce in Kansas, specializing in industrial development. I was employed as the first manager of the Kansas Development Credit Corporation. This organization was formed by Kansas banks and I took great pride in assisting many manufacturers primarily in smaller Kansas communities working with hometown Kansas banks.

I am very honored to be a part of this important discussion in regard to the economic future of Kansas. It is my personal opinion that the matter you are considering today is one of the most important issues concerning industrial development since the authorization of the Industrial Revenue Bond law in Kansas approximately 20 years ago. Kansas took a leadership position at that time and I can assure you that Industrial Revenue Bonds have been exceedingly important to McPherson and the entire state.

I am appearing before you today as an outspoken advocate for a change in Kansas banking laws. I assure you that I have come to this position through my own past experiences and thought processes and not because of any request by any bank or any group. I am speaking only as an ardent, life-long Kansan dedicated to the state and its people. In fact, it is very possible that a change in Kansas banking laws could be personally detrimental, since I am serving as a manager of our bank and have no contract either with this bank or any other bank in regard to my future.

2/12/85
Attachment II

I would like to review for a few moments several thoughts I have on those areas where I have spent my working lifetime, industrial and economic development and also the Kansas agricultural economy.

Kansas remains unique. It represents approximately 1% of the United States population, but almost 5% of all commercial banks are located here. However, we have only approximately 1% of total U.S. banking deposits. It is an economic law that control of financial assets affects the outcome of many events. Certainly the local banks are important to the city of McPherson and the same thing can be said about the major banks in regard to the Kansas economy. Whether we like it or not, a certain concentration of assets is essential for economic growth.

I know many people are of the opinion that "small is beautiful," but in economics it just doesn't work that way. An employee at a manufacturing plant with a good job and a good employer is not particularly concerned about the ownership of the bank which made his firm possible. He is far more concerned about the stability of his job, the quality of his working conditions, and his job security than whether the bank is a hometown bank or one located in New York City.

It is my opinion that Kansas has not done well in regard to economic development over the last several years. In fact, we are almost in the position of a lesser developed country in that we are not in control of our economic destiny. Those plants we do attract are primarily branch plants with management decisions being made in other sections of the country. The state's economy will continue to deteriorate as long as we do not control our own future.

We have tried to overcome these obstacles using various "crutches." We have used the correspondent banking system, the Small Business Administration, and organizations such as the Kansas Development Credit Corporation. These tools are very effective in good times under ideal situations. But under adverse circumstances, they are not nearly as effective as local people making local decisions about their local economy. I consider Kansas to be our local economy.

I think several brief comments about McPherson might be significant. We believe we have done quite well in McPherson in regard to industrial growth and job expansion. We think our bank is large enough to provide some marginal loans to assist manufacturing companies in their start-up phase. We can assure you that the risks taken by our bank would not have been shared even by a bank in Wichita, Topeka, or Kansas City. I certainly do not blame those banks for not taking these risks, because the risk was too great for the potential return. However, had they been an owner of our bank in some manner, their position and decision would have been made on a far different basis than simply as a participant in a marginal loan. Only because our bank has lending limits which are quite large in regard to our economy have we been able to provide this service.

Even when we make risk loans and start up manufacturing companies, we are finding that as these companies grow and their markets may become world-wide, it is possible for them to grow much more rapidly than us. On several occasions we found that companies we helped start must seek financing from outside McPherson. They simply needed more funds and more expertise than we were able to provide and, again, the correspondent system does not always work. The plant then ceases to be a locally owned manufacturing company or service industry and becomes a part of a major corporation. We still keep the jobs in the community, which is very valuable, but the decisions on the growth of the plant are made in another location and Kansas loses control.

Another area where we are at a disadvantage is in the field of international trade. We have approximately 15 companies in McPherson actively involved in either import or export business. We need assistance in this area and do not believe we should have to go out of the state to get it. We think that exports are one of the real growth areas for the future and we are attempting to provide additional assistance to our customers. Up until last year no Kansas bank had an International Department. Kansas banks were too small to provide this very specialized knowledge. Fourth National Bank in Wichita is now providing this expertise, but even a bank of their size must find it very difficult to justify the type of skills and financial commitment that is necessary to help Kansas.

Kansas is unique in another way in that I believe we are the only state where a savings and loan is the largest financial institution. The most recent list I have seen shows 6 of the top 10 financial institutions in terms of deposits were S&Ls. I am not saying this is bad, but only remind you that the S&L industry is concentrating their assets much more rapidly than banks. That may be very good for the housing industry, but the S&L industry has not been a leader in providing corporate finance and creating the jobs that demand a need for housing. It is my opinion that Kansas suffers because of its efforts to maintain smallness in the commercial banking industry.

I would like to also offer a few thoughts on agriculture. Certainly in my lifetime we have all watched the concentration of agriculture in degrees which are almost unbelievable. I remember watching farmhands shock and thrash wheat with a stationary thrashing machine. I can even remember the 160-acre farm supporting a family with 8, 10, or 12 kids. Everyone encouraged the concentration of agriculture - even while we were all attempting to protect the "family farm." Certainly the Federal government did it with their many programs; land grant colleges did it with their wonderful research; machinery manufacturers did it with their huge combines and tractors; seed and chemical companies did it with their increased productivity; and the Farm Credit System did it, encouraging the buying of enormous blocks of land with leverage. In fact, all the inputs of any consequence encouraged the increase of the size of the farm unit, except one of the most critical - the source of local credit, the hometown community bank.

This unit was not changed. This reality was met in the same way we have tried to overcome the roadblocks in the financing of manufacturing firms. We used the correspondent banking system, the farm machinery leasing operations, Production Credit Association, Farmers Home Administration, Federal Land Bank, life insurance companies, and many other sources of credit. All of this worked well as long as we had inflation and government regulation in farming through the many different government farm programs.

All of a sudden, the rules have changed. We are now on a course of deregulation which has brought a situation which many of us have never seen and that is deflation. We have seen deregulation first in transportation, then in communication, then in finance, and now we are seeing deregulation in agriculture. So our banking system, which has served us so many years, is now in turmoil. Banks, which were virtually risk free and highly leveraged, are now finding the friends they had in good times have left them. Farm borrowers now find that the hometown bank is the lender of last resort. Every day we are reading about some new farm crisis meeting or a story in the paper about what can be done to help agriculture and the banks. This situation has certainly caught the attention of Mid-America and also many in Congress.

I believe it is essential that Kansas banking be allowed to find a more efficient method to move funds from one community to another. I certainly am not of the opinion that a change in the law will mean funds will move from small communities to larger communities. Anyone who believes that is not familiar with the law of economics. Money is an exceedingly impersonal commodity and will flow to where it can be used in the most efficient manner. The argument that a multi-bank holding company environment will restrict the availability of farm credit is simply not borne out by the facts. As the attached charts show, banks in other midwestern states which have a multi-bank structure in place are serving ag credit needs as well or better than our unit banking system. But not changing the law will only make our present problems worse. I am sure others will tell you that already over 30% of Kansas banks have some kind of common ownership. This trend of concentration will continue. I am advocating that the leaders of Kansas recognize the trends and make our system more rational and make it easier to meet our many problems.

We must recognize that competition and the rapidity of change is a tide which can't be stopped. We are asking that you allow those banks which wish to change and adapt the opportunity to do so. And those banks which don't wish to change have no pressure to do so. As Lincoln said, "You can't help the weak by penalizing the strong." Just as the family farm has changed to where it is almost unrecognizable in the last 20 to 30 years, we must allow Kansas banking to change to serve the present time.

It is my further opinion that one of the best ways we can help the agricultural communities of Kansas is to encourage the development of additional jobs. We feel very fortunate in central Kansas that there are a number of manufacturing firms which offer opportunities for displaced farmers. And many of our marginal farmers are able to work in these part-time jobs. I have been hearing in different ag meetings throughout the country that the smaller farm units are still doing quite well, because those farmers with part-time jobs in town are farming relatively small acreages. I realize that not every small town can be a location for a manufacturing plant, but I can assure you that people do travel considerable distances for manufacturing jobs. Those county seat communities and trade centers should be given every opportunity to compete in these very tough times for economical and industrial growth.

There seems to be no questions that there are going to be fewer farmers and we must again gear up and make every effort to find jobs for those who are in this transition process. A change in the Kansas banking structure law is not the total answer, but it can be a real help and it can send a message to everyone concerning efforts which are being made in Kansas to meet this competition.

In closing, there are many people much more knowledgeable than me concerning this bank structure debate. I certainly haven't had the time to spend in researching all the statistics and arguments. All I can tell you are my experiences and feelings as a dedicated Kansan. I do feel that your decision on this matter is exceedingly important and should not be based only on money and banking. It really should be about your vision of the future of Kansas.

In reviewing these matters and on many decisions of great importance, I think we all have mixed emotions. I think we all have a somewhat basic desire and yearning for simpler times. None of us really likes change because it is traumatic, unpleasant, and sometimes painful. I believe we all sometimes think that "the times that were are better than times that are," and we often sympathize with the show "Stop the World, I Want to Get Off."

But we can't stop the technological advances that are taking place. We can't destroy the computer chips that are changing our lives. We can't eliminate the space satellites that are making us as close to New York as to Wichita. And we can't forget about the jetliners which are really making us a part of "Space Ship Earth." I really don't want to change my life expectancy back to an average of 50 years. I don't want to work the 12 or 15 hours of back-breaking labor in the hay fields in eastern Kansas. And I am sure that many of you and our farmers do not want to leave their airconditioned tractor and combine cabs for a team of horses and a very low standard of living.

Senate Committee on Financial Institutions and Insurance
February 12, 1985
Page Six

And so, we must recognize that change is inevitable and the decision you make in regard to the financial industry of Kansas is of critical importance to the future. If we really accept that change is happening, we can all be a part in moving Kansas ahead for this last portion of the twentieth century. So in these changing and challenging times I urge you to help all the people of Kansas, the young and the old, from East and West, from towns and cities, both farmers and laborers, by voting for the changes in the banking structure laws of Kansas as set forth in SB 102.

Don C. Steffes, President
Kansas Bankers Association

There were 16 states with over \$1 billion in bank farm loans as of 1/1/84 (California, Iowa, Texas, Nebraska, Illinois, Minnesota, Kansas, Missouri, Wisconsin, Oklahoma, Indiana, South Dakota, New York, Kentucky, North Dakota, Ohio). All are multi-bank holding company (mbhc) states except Kansas and Indiana.

Kansas ranks 7th behind California, Iowa, Texas, Nebraska, Illinois and Minnesota (all mbhc states) with \$2,653,500,000 in total farm loans.

Kansas ranks 6th behind California, Iowa, Nebraska, Texas and Illinois (all mbhc states) with \$2,407,500,000 in non-real estate farm loans.

Kansas ranks 12th behind Texas, California, Missouri, Illinois, Indiana, Wisconsin, Ohio, Kentucky, Iowa, Minnesota and Oklahoma (all mbhc states except Indiana) with \$246,000,000 in real estate farm loans.

From 1/1/79 to 1/1/84 there has been a 33.77% increase in the volume of non-real estate farm loans in Kansas banks. That places Kansas 10th in % increase among the 16 states listed above. Other states with a higher % increase than Kansas were: New York, California, Wisconsin, Nebraska, South Dakota, Kentucky, North Dakota, Minnesota and Missouri (all mbhc states).

From 1/1/83 to 1/1/84 there has been an 8.27% increase in the volume of non-real estate farm loans in Kansas banks. That places Kansas 10th in % increase among the 16 states listed above. Other states with a higher % increase than Kansas were: New York, Texas, California, Wisconsin, Indiana, Oklahoma, Ohio, Illinois and Missouri (all mbhc states except Indiana).

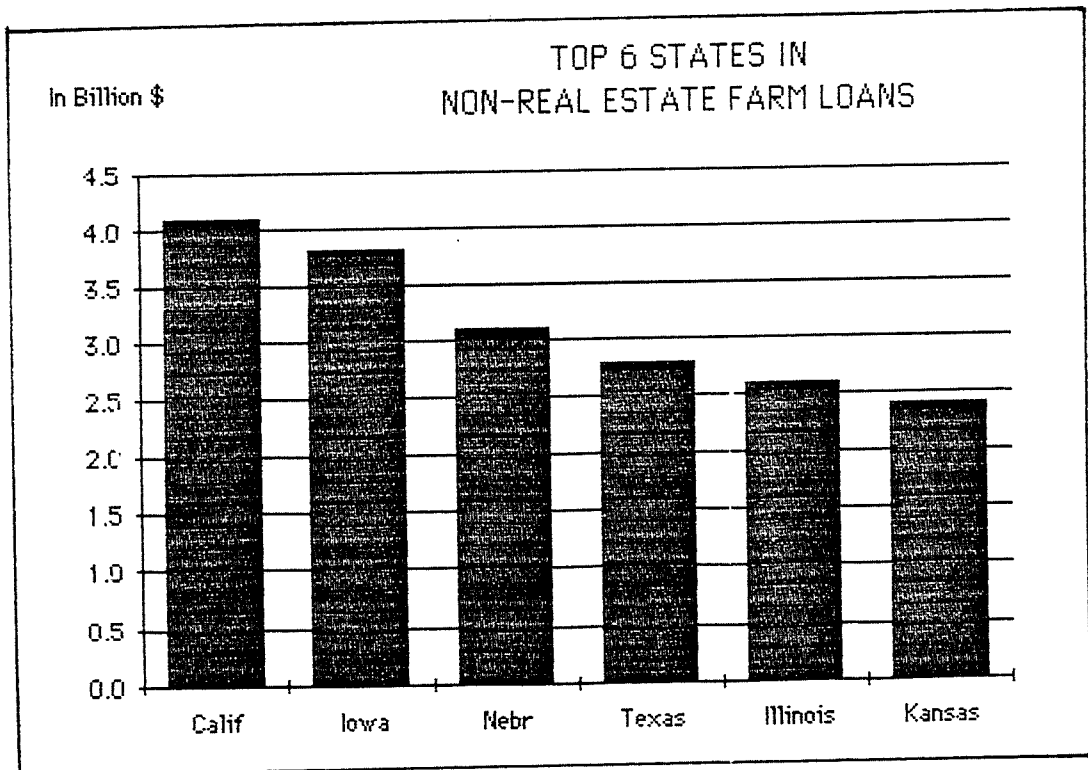
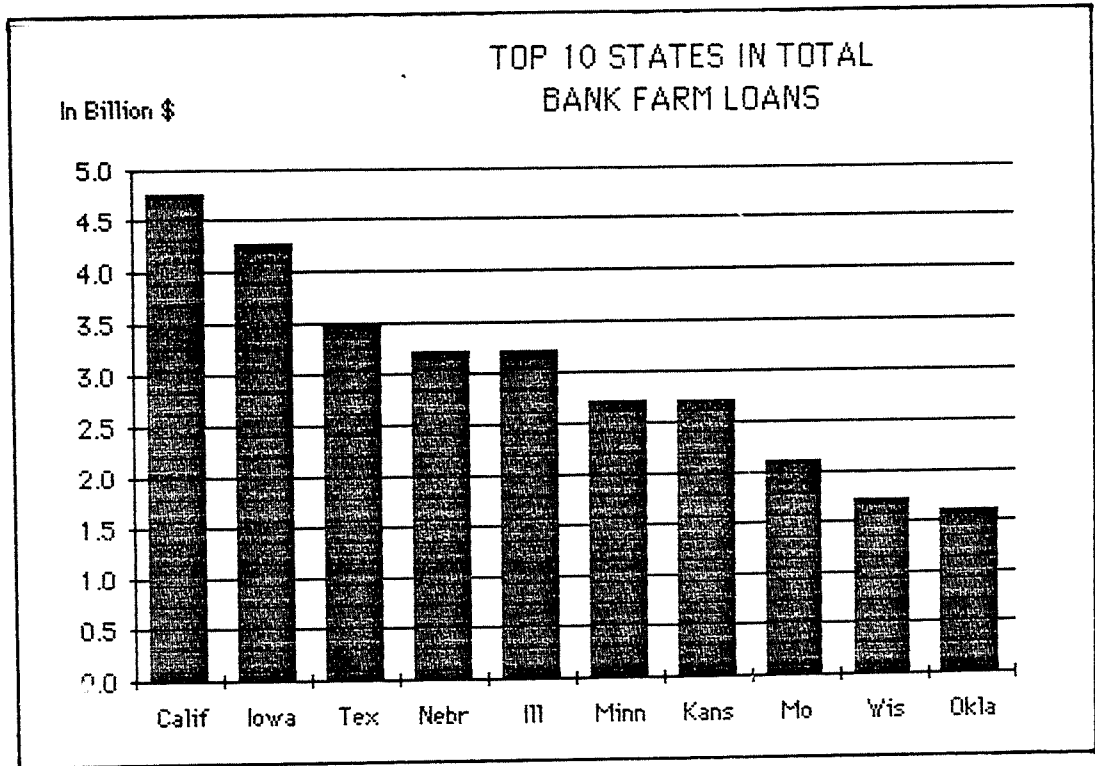
From 1/1/79 to 1/1/84 there has been a 13.17% increase in the volume of real estate farm loans in Kansas banks. That places Kansas 9th in % increase among the 16 ag states. Other states with a higher % increase than Kansas were: California, Nebraska, Texas, South Dakota, Oklahoma, Missouri, Minnesota and Iowa (all mbhc states).

From 1/1/83 to 1/1/84 there has been a 16.6% increase in the volume of real-estate farm loans in Kansas banks. That places Kansas 7th in % increase among the 16 ag states. Other states with a higher % increase than Kansas were: Nebraska, Texas, Oklahoma, Iowa, South Dakota, and California (all mbhc states).

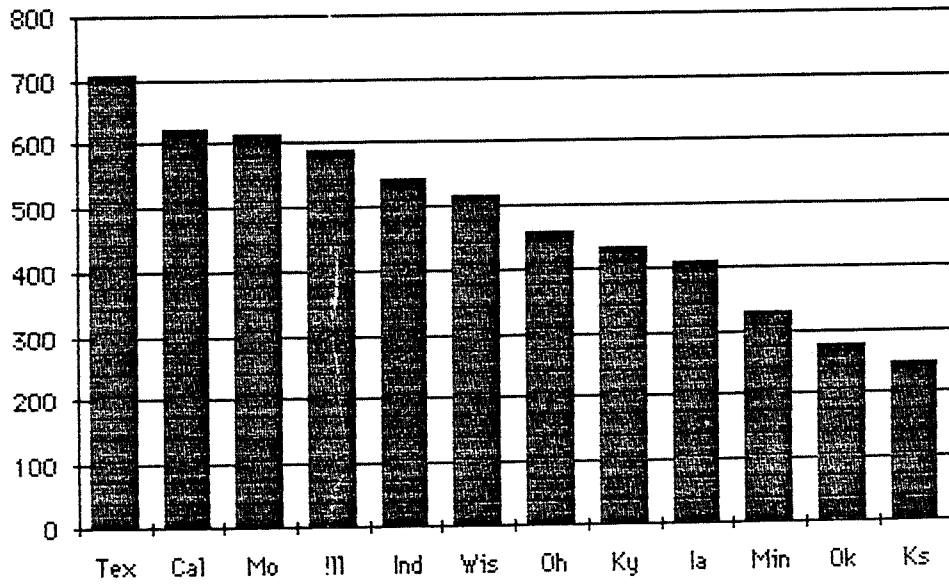
Kansas banks rank 4th among the ag states behind Illinois, California, and South Dakota (all mbhc states) in % of non-real estate farm loans held by banks.

Kansas banks rank 11th among the ag states behind Kentucky, Missouri, Ohio, Wisconsin, Indiana, Texas, Oklahoma, Illinois, New York and California (all mbhc but Indiana) in % of real estate farm loans held by banks.

	BANK NON-REAL ESTATE FARM LOANS (1/1/84)	BANK REAL ESTATE FARM LOANS (1/1/84)	TOTAL BANK FARM LOANS (1/1/84)
KANSAS	\$2,407,500,000	\$246,000,000	\$2,653,500,000
MISSOURI	1,501,400,000	616,100,000	2,177,500,000
NEBRASKA	3,064,700,000	177,500,000	3,242,200,000
OKLAHOMA	1,368,300,000	276,700,000	1,645,000,000
IOWA	3,841,600,000	410,300,000	4,251,900,000
ILLINOIS	2,585,600,000	588,200,000	3,173,800,000

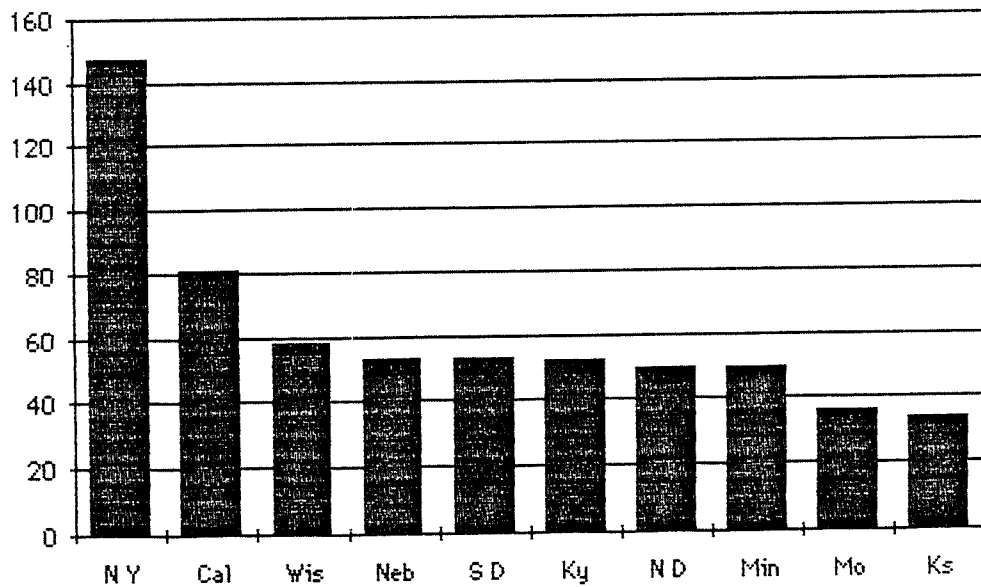


TOP 12 STATES IN REAL ESTATE FARM LOANS



Per Cent from
1979 - 1984

TOP 10 STATES IN 5-YR PRODUCTION LOAN INCREASE



STATEMENT ON /

FARM CREDIT PROBLEMS
AND THEIR IMPACT ON AGRICULTURAL BANKS

PRESENTED TO

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON FAMILY FARM
UNITED STATES SENATE

BY

CHARLES E. THACKER
ASSOCIATE DIRECTOR, DIVISION OF BANK SUPERVISION
FEDERAL DEPOSIT INSURANCE CORPORATION

2:00 p.m.

Thursday, February 7, 1985
Room 428A, Russell Senate Office Building

attempt to handle the failure in the quickest and least disruptive manner possible. Agricultural bank failures have primarily been handled through purchase and assumptions transactions. This technique is one where an existing strong bank acquires the sound assets and the deposits of a failed bank, with the FDIC providing cash to make up the difference between asset values and liabilities. P & A transactions, as they are called, preserve bank services in communities and minimize the economic disruption caused by bank failures.

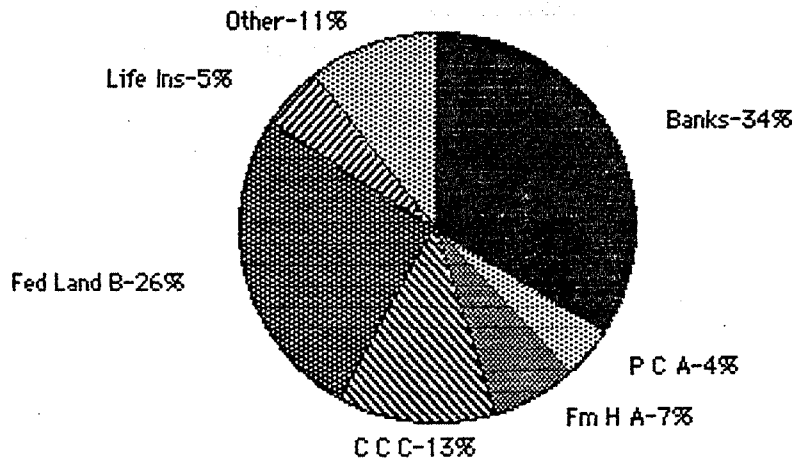
In the longer term, there is little that the FDIC can, by itself, do to alleviate the agricultural credit problem. We will continue our policy of realistic and fair evaluations of farm credits and assist in any way allowed by our statutory limitations to produce a recovery in the farm sector.

While the FDIC is limited in its powers and policies in how it may assist the farmers and problem or failed banks in this country, the states do have avenues open for assistance. Many state laws restrict the opening and

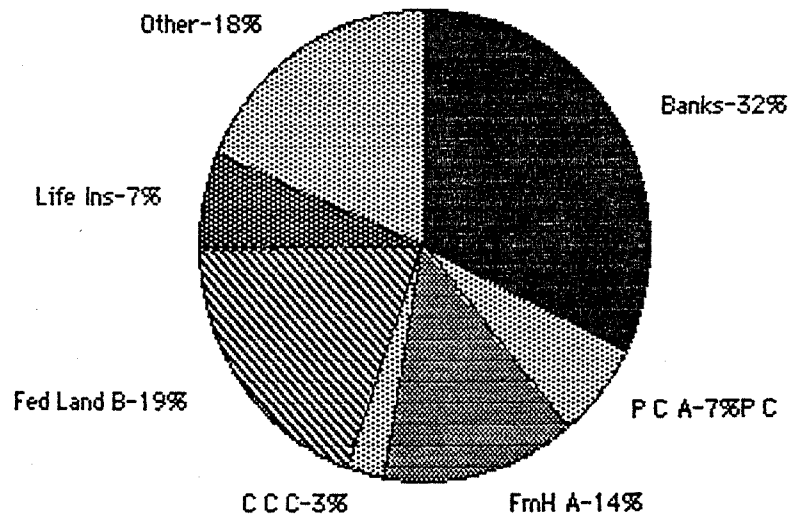
expansion of banks in their states. Changes in the branching laws and holding company laws could ease the pressure on banks. Several regions of the country are experimenting with regional interstate banking compacts. While the process of getting various state legislatures to pass comparable interstate banking laws is cumbersome, the benefits of diversifying funding and lending opportunities may make this effort worthwhile. Other state laws which prohibit ownership of land by corporations, for example, or which exact a punitive tax penalty on the conversion of agricultural land to nonagricultural purposes, restrict the entering and exiting of persons from the agricultural industry. States should attempt to assure that the benefits of these laws truly exist and that the costs of such restrictions do not exceed such benefits.

A recent proposal from a Midwestern Congressman presents another alternative for dealing with loans that are taken over by the FDIC in a failing bank situation. Under this scenario, certain loans that are not assumed by the surviving institution could be purchased by an agency and therefore prevent "borderline" agricultural loans from undergoing probable liquidation. Funding

**KANSAS--SHARE OF TOTAL FARM LOANS
(\$7.8 billion)**



**MISSOURI--SHARE OF TOTAL FARM LOANS
(\$6.5 billion)**



2/12/85
Attachment III

The more than 400 members of ABA's Banking Leadership Conference concluded that the challenge of closing the non-bank bank loophole and the question of geographic expansion are linked inextricably by change that continues to take place in the marketplace. Examples of such change include existing and emerging regional banking pacts and the proliferation of applications for non-bank bank charters by bank holding companies and other organizations.

Additionally, the bankers believe that what is needed to preserve banking's ability to serve the needs of its customers and its viability as a competitor is expansion of the list of permissible activities for bankers.

Of the three matters -- closing the loophole, expanding bank holding company activities and geographic expansion -- action on the non-bank bank loophole is the engine that can pull legislation through the process to enactment.

Thus the bankers faced two questions: how to attach needed legislative provisions expanding bank holding company activities to that legislative train; and how to prevent concerns associated with geographic expansion from derailing the train.

The Leadership Conference therefore voted overwhelmingly to recommend the following statement to the ABA Board of Directors as a three-part legislative approach for the 99th Congress:

"The non-bank bank loophole should be closed as of a specified grandfather date, but not later than July 1, 1983. Any legislation to close the loophole must be accompanied by provisions that both:

"• Expand the permissible activities of bank holding companies to include the underwriting of municipal revenue bonds, mortgage-backed securities and commercial paper; the sponsorship and sale of mutual funds; real estate development, investment and brokerage; and insurance underwriting and brokerage.

"• And address the question of geographic expansion within the spirit of states' rights. The consensus is that ABA will support legislation which would legitimize regional banking pacts with a trigger which would permit full interstate banking five years after enactment, but only for those states enacting regional/interstate legislation."

#

Testimony - Proposed Senate Bill on Multi-Bank Holding Company
Tuesday, February 12, 1985 at 9:00 a.m.

We thank the Senate Committee for this opportunity to appear in behalf of the KBA sponsored Senate bill 102, and we strongly urge your approval.

This is the third consecutive year it has been my privilege to speak to this question, before at least some of the same members of this committee.

I can assure you that our thinking has not changed and has in fact, become more firmly entrenched in our minds that this is the right way to proceed.

As a matter of personal credential, today I represent the Kansas Association for Economic Growth; but, more significantly, I represent the stockholder ownership and directorate of our two one-bank holding companies located at Beloit and at Delphos.

We are absolutely convinced that this is the best answer for the agricultural area of Kansas that we serve. Our customer base is located in seven counties, Mitchell, Jewell, Ottawa, Cloud, Smith, Osborne, and Lincoln counties.

Believe me, we are well aware of the severity of the economic problems associated with today's agriculture since it directly makes up 75 to 80% of our business and perhaps indirectly, the balance of our business.

I am sure that either the State Banking Department or the FDIC could confirm to you that our Beloit bank has long been considered one of the most agriculturally oriented banks in Kansas. In fact, we helped pioneer the idea of an agriculturally trained man in banks, called a farm representative, back in 1952. A point of interest is that our first experience with farm cash flow financing was in 1954, when it was relatively unknown. We had to invent our own.

We have a deep concern for what may be happening to the agricultural areas of this state and particularly for our own area. We have been able to use our relationship of owning 24.9% of the SBOD one-bank holding company to the advantage of both the Delphos bank and the Guaranty State Bank of Beloit, even though it

2/12/85
Attachment IV

is a cumbersome process. We use on-line bookkeeping thru a common computer, plus are able to share in loans and investments thru participations to the benefit of both.

As the law presently stands, we would probably not try to buy another bank in our area. If the Multi-bank holding company law is passed, we would hope to be back in the market, in our area, as soon as agriculture begins to show some promise again. It has never been, nor do we contemplate that it will be, a situation where we are positioning ourself to sell out to a so-called big city bank. We submit that we feel like we would be pretty stupid, if we did not keep that avenue open as it could very well make our bank holding company worth more.

What really matters, as to our ultimate success, is how well positioned we are to serve our agricultural area of north central Kansas. We perceive that our responsibility as a country bank, is to take the pooled or collective funds of our local depositors and lend it back within the geographic confines of our area, to worthy loan customers who are able to pay interest and return the principal, to the ultimate benefit of all concerned.

We do not want to burden you with statistics; but a brief look at studies made recently by the Kansas Bankers Association and the Kansas Association for Economic Growth, show that out of the 250 banks that publicly support multi-bank holding companies, 1/4 of them^{are} in towns of less than 1,000 population. Further, 40% of our support is from banks in communities of less than 2,500 population. You can find our supporting banks in every Senatorial district and 3/4 of the counties of Kansas. It is a factual statement to say that much of the basic agricultural funding in Kansas, is coming from the 250, plus, commercial banks that support this potential banking law change.

Therefore, members of your Senate Committee, we emphasize most pointedly, that agriculture is better served by passage of the KBA sponsored multi-bank holding company bill that you have under consideration here. There are those

who would like to believe that any small country bank, like us, who supports this legislation must be somehow beholden to big city banks. This is a bad rap and simply is not true. We have decided our position based on the merit of what is best for us. We are confident that this will also be proven to benefit all the banking industry in Kansas; but more importantly the people of Kansas will be the real beneficiaries. Again we urge your favorable support of this bill.

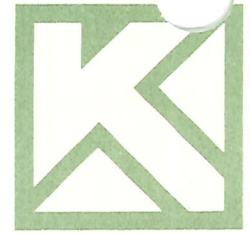
Thank you for this opportunity to appear.

Dean D. Haddock

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

February 12, 1985

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Mr. Chairman and Members of the Committee:

My name is Paul DeBauge and I am 1985 Chairman of the Kansas Chamber of Commerce and Industry. I am very pleased to be here this morning to present testimony 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 of 1984, a number of our banking industry members requested that 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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Attachment IV

recommendation back to the Board at the earliest possible date. It was my pleasure to chair this committee as it made its study of the issue over the next several months.

The committee held several meetings and 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 were professional bankers, and together 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 I think can best be broken into three concepts:

1. Free enterprise considerations
2. Kansas economic development considerations
3. The effects of deregulation on the Kansas banking industry.

Looking briefly at each of these areas:

1. Dealing with free enterprises the committee felt that:

- 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. As to promoting economic development in Kansas, the committee found that:
- a. the governor's task force on high tech in September of 1983 recommended approval of 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 are often presently put 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 feels that Kansas laws restricting the structure of Kansas banking are outdated and obsolete and that these laws put our local Kansas banks on an unequal playing field in a very competitive industry.
- b. The committee found that 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 would result in a wide range of new services available through 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

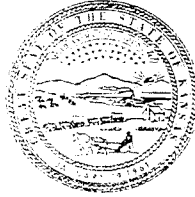
In conclusion, the committee found that many of the protections and restrictions on the Kansas banking industry have been made obsolete by the marketplace, and that regional and national financial firms are finding that our domestic banking community is structurally hobbled in a new financial environment. Certainly the fact that Kansas has had more bank failures than any other state in the union must indicate 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 felt that it would be appropriate to take a stand on an issue that so material effects all Kansas business.

At a meeting held September 13, 1984 in Overland Park, Kansas 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 statute to allow multi-bank holding companies and establish the positive banking atmosphere needed to effectively compete and survive in the ever revolving banking environment."

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

STATE OF KANSAS



OFFICE OF THE GOVERNOR
State Capitol
Topeka 66612-1590

John Carlin Governor

Testimony to
Senate Financial Institutions and Insurance
on Senate Bill No. 102
by John Myers
on February 12, 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.

2/12/85
Attachment VI

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 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, but 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 has written Governor Kerry of Nebraska and inquired about Nebraska's experiences under similar legislation. Because of Governor Kerry's positive responses, Governor Carlin requested that a representative of that state appear here today to discuss his experiences in our neighboring state.

Mr. Roger Beverage, the Commissioner of Banking 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 your approval of Senate Bill No. 102.



STATE OF NEBRASKA

ROBERT KERREY • GOVERNOR

HAND DELIVER

February 11, 1985

The Honorable John Carlin
Governor of the State of Kansas
State Capitol
Topeka, Kansas 66612-1500

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.

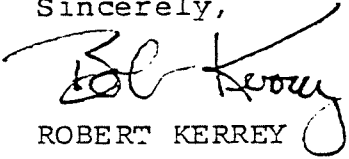
Multi-bank holding company authorization is an important option for bankers and their customers in these troubled times. We are finding fewer and fewer bidders for banks when they fail, and the same is true for banks whose owners simply want to get out of the business. A multi-bank holding company option 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,

A handwritten signature in cursive script, appearing to read "Bob Kerrey". The signature is written in black ink and is positioned above the printed name.

ROBERT KERREY
Governor

0400A

FEBRUARY 12, 1985

TO: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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.

2/12/85
Attachment VIII

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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 NEWS-PAPERS.

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.

BEFORE LABOR DAY, WE WERE SUCCESSFUL IN AVERTING THE OUTRIGHT FAILURE OF TWO COMMERCIAL BANKS BY ARRANGING FOR A TRANSFER OF ASSETS AND ASSUPTION OF LIABILITIES BY THE OMAHA NATIONAL BANK, NEBRASKA'S LARGEST COMMERCIAL BANK. OMAHA NATIONAL IS

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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-

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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.

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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

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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 THE SOLUTION FOR OUR CURRENT ECONOMIC DIFFICULTIES.

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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 WHICH 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