Approved as circulated
Date

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS.

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

3:30 ~~a.m.~~/p.m. on March 25, 1986 in room 527-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee: Jim Maag, Kansas Bankers Association
Paul Fleener, Kansas Farm Bureau
Mike Beam, Kansas Livestock Association

Chairman Dyck opened the meeting by calling on Jim Maag, proponent for SB555, which deals with the state-chartered banks having the authority to amortize their loan losses over a five-year period rather than immediately as present law and regulations require. Mr. Maag pointed out that the federal officials are considering taking action which would address this issue and if they do then SB555 would not be necessary. (See Attachment I)

Second conferee Paul Fleener with the Kansas Farm Bureau also spoke in favor of SB555 and urged the committee to consider favorably this bill. (See Attachment II)

Mike Beam of the Kansas Livestock Association was the third and last conferee to testify for SB555. He also urged the committee to consider favorably this bill. (See Attachment III) (Mr Beam testified for Rich McKee.)

Written testimonies supporting SB555 were received by the committee from the Banking Department (Attachment IV), the Kansas Legislative Policy Group (Attachment V), and the Kansas Independent Bankers Association. (Attachment VI)

Chairman Dyck then directed the committee's attention to SB453 on which a hearing had been held on March 20.

Rep. Nichols moved to recommend SB453 favorably for passage. Rep. Wilbert seconded. Motion passed.

Regarding SB555, Rep. Ott moved that SB555 be amended by deleting the word "register" on line 0098 and inserting the words "statute book". Rep. Louis seconded the motion. Motion carried.

Rep. Miller moved to recommend SB555 as amended favorably for passage. Rep. Louis seconded. Motion carried.

Rep. Louis moved that the minutes of March 20 be approved. Rep. Nichols seconded. Motion carried.

Chairman Dyck announced that this would be the last meeting of this committee during this session. He expressed his appreciation to the committee members for their cooperation and good work.

Meeting adjourned at 4:35 p.m.

DATE 3-25-86

GUEST REGISTER

HOUSE

COMMERCIAL & FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
John Hanna	Associated Press	Topeka
PAUL E. FLEENER	Kansas Farm Bureau	Manhattan
MIKE BEAM	Ks LVSTK ASSN	TOPEKA
LINDA McGILL	KIBA	"
Chip Wheelen	KLPG	"
DAN McGEE	CENTEL/WESTERN POWER	GREAT BEND

Attachment I

PUBLIC TESTIMONY
ON
SB 555

TO THE
HOUSE COMMITTEE ON
COMMERCIAL AND FINANCIAL
INSTITUTIONS

BY
KANSAS BANKERS ASSOCIATION

MARCH 25, 1986

Attachment I
March 25, 1986
C&FI Committee-- House

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 25, 1986

TO: House Committee on Commercial and Financial Institutions

FROM: James S. Maag, Kansas Bankers Association

RE: Senate Bill No. 555

Thank you, Mr. Chairman, and members of the Committee for this opportunity to appear as a **PROPONENT** for SB 555. I would like to outline the following important issues:

I. In the agricultural midwest, we must accept as fact that there is too much debt for the agricultural economy to repay. This large debt, a good share of which most certainly will not be paid, must be allowed to be assimilated over a period of time, or results will be most negative to rural banks and their communities.

II. For at least 18 months, the KBA has been actively pursuing dialog with our colleagues in other states, our national trade associations, with federal and state regulators, and with federal and state legislators regarding the need for some type of **CAPITAL MAINTAINENCE ASSISTANCE**, for ag banks and their customers.

A. When a loan becomes "classified" by regulators, either due to an inability of the customer to cash flow and keep payments current, or due to a decline in the value of the collateral asset compared to the amount of the loan, that bank must deduct an amount equal to the loss it has experienced from its loan loss reserves. These reserves are created from either bank income or bank capital. When the amount of loss exceeds the amount of reserves, and when there is not sufficient income to add to that reserve, then the bank's capital is vulnerable to go below regulatory minimums, and the bank is subject to enforcement actions which may lead to closure. These losses, even though some are not yet actually realized, must now be written down all at once. There is no current ability to amortize them over a time period.

B. When an agricultural or small business customer has a debt loan that is too large to be serviced, which is not unusual today, the best thing to happen, if the customer is at all savageable, is for the banker and the customer to renegotiate that debt. In many cases, the banker will write down the debt to a more manageable level, sometimes in return for additional collateral or other items of collateral strength. But the bank must now absorb those write-downs immediately from reserves, income or capital. When the capital falls below regulatory minimums, the bank is told to replenish it within a certain time period, and if this is impossible, the bank is subject to enforcement action which may lead to closure. It is easy to see the pitfall to many ag bankers which renegotiation can present in today's regulatory environment.

C. This is why the KBA has been working to try to organize a multi-state effort to attempt to get regulators and/or legislators to agree to some kind of capital maintaintence assistance--- **and a solution is very close at hand. THERE IS NOW VIRTUAL UNIVERSAL AGREEMENT AMONG REGULATORS THAT SOMETHING MUST BE DONE. THIS HAS BEEN THE CASE FOR LESS THAN SIX MONTHS, BUT, FORTUNATELY, IT IS NOW THE CASE.**

III. On Thursday and Friday, February 13 and 14, a Joint Amercian Bankers Association/Independent Bankers Association of America Task Force, of which Harold Stones, Executive Vice President of Kansas Bankers Association is a member, met in Washington. The Task Force spent hours and days meeting with bankers all over the midwest and with other officials in study and deliberation. Final recommendations of this Task Force are attached at the end of this testimony book, and have been approved by the highest governing bodies of both organizations. The highest priority recommendation of this unprecedented joint Task Force **is to enable prudently managed banks to amortize their loan losses over a multi-year period** as SB 555 authorizes for State regulators.

Visits were held at length with key officials of the FDIC, the Comptroller of the Currency, the Federal Reserve, and the Department of the Treasury. Also held were in-depth discussions with key staffers of the House and Senate Committees on Agriculture and Banking.

A. There appears to be total agreement that some form of capital assistance will be forthcoming, but, except for FDIC officials, there was some resistance to the amortization concept as compared, for example, to simply lowering capital requirements in certain cases. We pointed out, however, **that amortization has advantages which no other solution has, which will accrue to the benefit of the ag bank and the borrower**---- These advantages are:

1. Amortization of losses over time is the ONLY solution which will allow a bank to continue servicing the credit needs of its community while undergoing this agricultural reorganization we are now experiencing. These loans may be badly needed for earnings to the bank, and the credit badly needed to keep rural communities alive. If the solution is to simply allow a lower capital requirement, many of these

loans would be beyond the bank's limit, thus compounding the problems for both the bank and the bank's community.

2. Amortization is the overwhelming choice of community and rural banks all over the midwest, and, after explanation, is the overwhelming choice of their customers. This specific solution would be greeted with tremendously positive enthusiasm, and these attitudes are scarce today in many parts of rural Kansas. Just the positive overtones that Topeka and Washington understand their difficulties and are doing this important act to be of assistance would have a positive result that is difficult to measure.

3. It is possible to carefully regulate and monitor. It may require more examiners to do so, but please remember that these funds are paid directly in fees by the banking industry. Amortization is, as we see it, a solution that is possible to "save the saveable" and is totally "self-help", in that it is funded by the industry.

B. The regulators are now re-thinking their possible solutions in the light of the issues originated by this Joint Task Force, and we will have a good idea of their final proposals when each testifies to the Senate Banking Committee early in March.

IV. Since the solution must be a coordinated effort, and all federal regulators are conferring to reach a "universal" solution, and since we also expect federal bill to be introduced by the Senate Majority Leader on this subject, we like the "generic" language found in SB 555. It does not deal with the specifics of how long such period might be employed, and gives fairly unilateral powers to the Commissioner. This should allow for an accommodation so all regulatory bodies can achieve consistency for banks, and so that national banks and state banks can be treated equally.

The Kansas Bankers Association commends the Committee for showing leadership on this issue and respectfully asks for swift action through the legislative process, in order to communicate the desires of the Legislature to federal authorities. At the very end, it would probably be well to hold the bill in Conference so that more time could be allowed to insure Kansas law is "compatible" with the national solution. But we compliment the Kansas Legislature and urge your forceful action in order to encourage and guide the national solution. It is this kind of leadership which is most needed during these times.

RECOMMENDATIONS OF THE ABA-IBAA TASK FORCE ON AGRICULTURAL CREDIT

February 4, 1986

The banking industry considers it essential that steps be taken early in 1986 to assist commercial banks and their agricultural borrowers in coping with the accumulation of problem farm debt. The IBAA and ABA met jointly in Dallas, Texas, on January 15-16 and, based on that meeting, will seek measures that can help to stabilize the capital structure of agricultural banks and to assist individual agricultural borrowers in managing their debt during this critical period. Recognizing that agricultural banking can return to profitability only when the agricultural economy is again profitable, the fundamental premise of these proposed measures is that agriculture is experiencing massive change and bankers and their agricultural borrowers need a reasonable period of time to adapt.

We will seek to implement such measures through regulatory action to the extent that they can be carried out under existing law, and we will seek legislation where existing law is inadequate. Our Associations will pursue a plan of action involving three main elements: (1) stabilization of bank capital; (2) stabilization of agricultural borrowers; and (3) stabilization of farm real estate values.

Stabilization of Bank Capital

The most immediate problem confronting agricultural banks is the impact on bank capital of sudden and massive agricultural loan losses. In 1984, agricultural production loan losses charged off by commercial banks totalled \$900 million--an increase from \$436 million in 1983. Such charge-offs for the first two quarters of 1985 were \$520 million, almost double the \$280 million charged off in the first two quarters of 1984.

These extraordinary charge-offs are eroding the capital structure of many agricultural banks as the loan losses are deducted from the banks' available capital. As a bank's capital is reduced, both the total capacity of the bank to extend credit and the size of individual loans that the bank can make are correspondingly reduced. If a bank's capital falls below the minimum required by the regulatory agencies, the bank is subject to enforcement actions which may lead to closure.

"The Farm Credit Act Amendments of 1985" (PL 99-205), signed by the President on December 23, 1985, was Congress' response to a similar problem in the Farm Credit System. Faced with mounting agricultural loan losses, the Farm Credit System requested Federal backing to guarantee its continued access to capital in the credit market. Congress and the Administration responded to the Farm Credit System's request for assistance with PL 99-205.

To keep agricultural banks open and to maintain their capacity to extend credit to borrowers, we recommend that special measures be implemented to preserve the capital structure of agricultural banks. Agricultural banks traditionally have been well capitalized, but the persistent downturn in the farm economy since 1981 is severely pressuring the capital structure of hundreds of agricultural banks. The farm economy will recover in time, providing a basis for greater earnings and replenishment of the capital structure of agricultural banks. In the meantime, we need special measures to prevent banks' capital from being precipitously eroded by requirements that banks offset problem farm loan assets whose market value has been reduced.

Our first priority as a means of preserving banks' capital is to change regulatory accounting procedures and enable prudently managed banks to amortize their loan losses over a multi-year period. Such a procedure is relatively simple to administer, would assist a broad segment of banks and their borrowers, and would entail no direct government cost.

Two other options that warrant consideration as ways to assist banks in maintaining adequate capital during this stressed period in agriculture are:

- regulator-assisted injections of capital into certain troubled banks. (For example, a qualifying agricultural bank might acquire additional capital from the Federal Deposit Insurance Corporation in the form of debt or equity.);

- unfunded capital certificates similar to net worth or income capital certificates currently used for certain thrift institutions.

Because of the potential direct impact on bank's capital, we shall also focus careful attention on proposed changes to the Internal Revenue Code. For example, banks can currently carry net operating losses back ten years and obtain refunds for taxes paid in those years, thereby increasing capital. Proposed tax reform legislation would change the carryback period to three years and any excess losses would be carried forward. If this change were to become law, agricultural banks now incurring net operating losses would lose some of their ability to maintain an adequate level of capital.

We will work with the Administration, the bank regulatory agencies, and the Congress to obtain action early this year to relieve pressure on agricultural banks' capital structure.

Stabilization of Agricultural Borrowers

While we need action early this year to stem the erosion of agricultural banks' capital accounts, we also need stabilization of agricultural borrowers' debt situations and ability to cash flow their debt. For that purpose, we recommend further expansion of the Farmers Home Administration (FmHA) agricultural loan guarantee programs and authority. In the current budgetary situation, the FmHA loan guarantee program is the least costly means of stabilizing and extending agricultural debt. In addition, expansion of the $490 million interest rate buy-down program included in the 1985 Farm Bill would provide major cash flow assistance to agricultural borrowers at minimal direct cost. We also need clarification this year of the FmHA's preparedness to provide direct loans to qualifying farmers who cannot be financed in full by commercial lenders.

Stabilization of Farm Real Estate Values

We seek the development of an institutional secondary market for longer term real estate loans originated by commercial banks. A secondary market would provide access to additional funds and diversify the risks and returns from farm lending. One option is to pool FmHA-guaranteed loans for resale as mortgage-backed securities to investors.

Proposals for warehousing of problem agricultural loans and/or acquired assets also merit continued examination. Permitting banks to hold real estate assets for a longer period of time also merits consideration. Stabilizing land values is necessary to restoring health to the agricultural economy.

ABA-IBAA TASK FORCE
ON
AGRICULTURAL CREDIT

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The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

January 28, 1986

The Hon. Bob Dole
United States Senator
SH-141 Hart Senate Office Bldg.
Washington, DC 20510

Dear Senator Bob:

This letter will follow up oral communications I have had with Mike Pettit and John Petersen concerning areas of legislation which we believe agricultural banks badly need. This letter contains a communication written at the request of FDIC Chairman Seidman during his December 20 visit to Kansas. This was a very positive meeting, and we thank you for arranging it.

You will note that our highest priority is for some kind of "Capital Maintenance Assistance" which we would like to see in the form of a five-year minimum amortization of loan losses over time. We believe this could save responsible, well-managed banks from their temporary economic problems, and (as we have outlined in the Seidman letter) a plan could be submitted so that banks do not simply dig deeper problems for themselves as has occurred in certain segments of the thrift industry.

We also outlined a need for legislation to correct adverse tax consequences to the borrower when voluntary loan workouts are in the process. Under Section II of the Seidman paper, we attempt to outline this problem in detail.

Sen. Bob, we very much appreciate your time and effort in our behalf, and stand ready to work to assist this legislative project in every way possible. If there are specific research efforts which need to be undertaken, testimony to be presented, or meetings to be held, the KBA will enthusiastically follow any of your suggestions.

We thank you very much for your interest and your assistance.

Cordially,

Harold

Harold A. Stones
Executive Vice President

HAS/mjw

cc: KBA Governing Council
KBA Federal Affairs Committee
KBA Task Force on Agricultural Opportunities

March 12, 1986

American Banker

Officials Indicate They Will Provide Relief for Energy and Farm Lenders

By JAY ROSENSTEIN

WASHINGTON — Federal banking regulators indicated Tuesday that they will provide relief, including a possible easing of capital requirements, for troubled energy lenders as well as farm lenders.

Officials from the Federal Deposit Insurance Corp., the Federal Reserve Board, and the Comptroller of the Currency announced to the Senate Banking Committee that they will be providing relief to farm banks through capital standards and accounting methods. In response to questions from the committee, they said similar assistance could also be extended to banks facing problems with energy loans, real estate loans, and other trouble spots.

FDIC Chairman L. William Seidman said preliminary results from an interagency study of the recent oil price decline showed that the energy industry is "in trouble and in need of help in the same way as agriculture."

The indication that help is on the way for banks with energy-loan troubles is particulary noteworthy because, to date, most of the focus has been on farm banks. Also, many of the banks involved in energy lending are large and could pose greater risks to the FDIC than smaller farm banks do.

According to a joint statement issued by the three regulators, their assistance package for farm banks includes:

- Allowing banks to operate below the minimum capital requirement, provided the institution has the capacity to restore capital within five years.
- Reaffirmation of their policies to allow banks to forbear on farm loans through appropriate debt restructurings, with the understanding that there is a reasonable prospect the borrower eventually will be able to repay the loan.

Consistent with this view, the FDIC has joined the other banking agencies in authorizing banks to follow Finan-

→ Regulators: Page 31

(over, please)

Regulators . . .

Continued from Page 1

cial Accounting Standards Board Rule No. 15, a generally accepted accounting principle that does not necessarily require the automatic chargeoff of loans that have been restructured. This is considered permissible when the total of anticipated future cash receipts under the new modified terms of the loan at least equal the principal value of the loan.

- Modifying regulatory reporting and disclosure requirements for restructured debt so that it would escape being reported as nonperforming if it performs in accordance with the new terms.

The use of FASB 15 is effective immediately and can be used by bankers regardless of the nature of the loan problems, the regulators said Tuesday.

Capital forbearance — and fast implementation of that policy — is of great interest to the industry. However, it is unclear how fast it can be implemented and how it might apply to energy-related loans and other loans.

Although the regulators indicated their willingness to apply a capital forbearance plan to energy lenders and to other well-managed banks facing problems, they stopped short of formally endorsing that on Tuesday.

Mr. Seidman said regulators hope to complete the joint study of the oil-price decline within the next few weeks. At that time, he said, the regulators could determine whether capital forbearance should be extended.

It could also be a few weeks before final rules are announced regarding capital forbearance. There is a question as to how to structure the change so that individual bank loan limits, which are tied to capital levels, are not brought down so low that many banks are incapable of servicing their customers. However, Comptroller of the Currency Robert L. Clarke said the process of putting the change in place should send signals to the industry that they can make loan arrangements.

William Taylor, director of the Federal Reserve Board's division of bank supervision, said that even without a formal change in his agency's guidelines, if a bank wanted to decrease its capital level below regularly accepted minimums in order to restructure a loan with a reasonable workout plan, "we would buy that this afternoon."

According to an approach suggested by Mr. Clarke, banks could be permitted to place a portion of their farm loan chargeoffs into a segregated account not to exceed some percentage of the bank's primary capital. This segregated account could exist for a maximum of seven years — with additions to it being made in the first two years after implementation of the policy, and then amortization for another five years in equal increments. Furthermore, according to Mr. Clarke's suggestion, this segregated account could continue being counted toward capital for lending-limit purposes.

Mr. Clarke said that a rulemaking, which includes publishing proposed changes in the *Federal Register* and a public comment period, could take [illegible]0 to 45 days. Also, he said he preferred to issue one set of regulations for capital forbearance in general, rather than one for farm problems and then another for other loan problems.

As for changes in reporting and disclosure requirements, representatives of the banking agencies on Friday have a regularly scheduled meeting of the interagency Federal Financial Institutions Examination Council. Mr. Clarke indicated that he expected the change in bank reporting requirements to be approved at that meeting. Once approved there, it also must be cleared by the White House's Office of Management and Budget, according to Mr. Seidman.

(BELOW IS THE COPY OF A TELEX RECEIVED FROM ABA CONCERNING THE REGULATORS' STATEMENT OF MARCH 11 BEFORE THE SENATE COMMITTEE ON BANKING REGARDING THEIR PLANS TO HELP TROUBLED BANKS.)

MARCH 11, 1986

RE: JOINT STATEMENT OF THE FED, FDIC, AND COMPTROLLER
REGULATORY POLICIES TOWARD AGRICULTURAL LENDERS

PRESTON MARTIN, VICE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, ROBERT L. CLARKE, COMPTROLLER OF THE CURRENCY, AND L. WILLIAM SEIDMAN, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION ISSUED A JOINT STATEMENT BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS. THE TEXT OF THE JOINT STATEMENT FOLLOWS:

THE FEDERAL BANK REGULATORY AGENCIES ARE FULLY AWARE OF THE PROBLEMS IN THE AGRICULTURAL SECTOR OF OUR ECONOMY AND THE FINANCIAL STRAINS THESE PROBLEMS HAVE CREATED FOR BORROWERS AND LENDERS. IN LIGHT OF THESE CONDITIONS, THE BANKING AGENCIES BELIEVE IT APPROPRIATE TO EMPLOY SUPERVISORY POLICIES THAT WILL ASSIST BASICALLY SOUND, WELL-MANAGED BANKS TO WEATHER THIS TRANSITIONAL PERIOD, CONSISTENT WITH THE NEED TO MAINTAIN AN ADEQUATE SUPERVISORY FRAMEWORK AND THE CREDIBILITY OF REGULATORY AND PUBLIC FINANCIAL STATEMENTS. SUPERVISORY AND REGULATORY POLICIES TO HELP ACHIEVE THESE OBJECTIVES ARE OUTLINED BELOW.

IN ADDITION TO THE REGULATORY POLICIES CONTAINED IN THIS STATEMENT, THE BANKING AGENCIES CONTINUE TO URGE THE CONGRESS AND STATE LEGISLATURES TO TAKE STEPS TO HELP MAINTAIN THE PROVISION OF BANKING SERVICES IN SMALL COMMUNITIES. THE GARN-ST. GERMAIN ACT OF 1982 PROHIBITS ACQUISITIONS ACROSS STATE LINES OF TROUBLED BANKS BEFORE THEY HAVE FAILED AND OF FAILED BANKS WITH ASSETS UNDER $500 MILLION. THE BANKING AGENCIES BELIEVE THAT THESE TWO CONSTRAINTS SHOULD BE EASED BY ALLOWING FAILING BANK ACQUISITIONS ACROSS STATE LINES AND BY REDUCING THE SIZE CRITERIA SO AS TO MAINTAIN THE BANKING SERVICES IN FARM COMMUNITIES. AN EASING OF STATE RESTRICTIONS ON BRANCHING COULD ALSO HELP MAINTAIN BANKING SERVICES IN SMALL TOWNS IN CASES WHEN A SEPARATELY ORGANIZED AND CAPITALIZED BANK MIGHT NOT BE VIABLE.

IN ORDER TO HELP ALLEVIATE STRAINS ON FARM LENDERS AND PROVIDE ADDITIONAL TIME TO RESOLVE PROBLEMS IN THE AGRICULTURAL SECTOR, THE BANKING AGENCIES EXPRESS THEIR SUPPORT FOR AND COMMITMENT TO THE FOLLOWING SUPERVISORY POLICIES AND PRINCIPLES:

- A MAJOR FUNCTION OF CAPITAL IS TO ABSORB UNANTICIPATED LOSSES AND HELP AN ORGANIZATION WEATHER A PERIOD OF ADVERSITY. HEAVY LOSSES MAY REDUCE A BANK'S CAPITAL BELOW NORMAL LEVELS OR BELOW MINIMUM REGULATORY GUIDELINES. THE BANKING AGENCIES WILL ALLOW A BANK EXPERIENCING DIFFICULTIES TO OPERATE BELOW THE MINIMUM CAPITAL REQUIREMENT PROVIDED THE BANK HAS THE CAPACITY TO RESTORE CAPITAL WITHIN FIVE YEARS.

(OVER, PLEASE)

- THE BANKING AGENCIES REAFFIRM THEIR POLICIES NOT TO DISCOURAGE BANKS FROM FORBEARING ON FARM L THROUGH APPROPRIATE DEBT RESTRUCTURING, RECOGNIZING THAT SUCH RESTRUCTURINGS MAY BE IN THE INTERESTS OF BOTH THE BANK AND THE BORROWER WHEN THERE IS A REASONABLE PROSPECT THAT THE BORROWER WILL EVENTUALLY BE ABLE TO REPAY THE LOAN.

- CONSISTENT WITH THEIR GENERAL VIEW TOWARD FORBEARANCE, THE BANKING AGENCIES WILL CONTINUE NOT TO REQUIRE AN AUTOMATIC CHARGE-OFF OF LOANS THAT HAVE BEEN RESTRUCTURED. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, AS SET FORTH IN FINANCIAL ACCOUNTING STANDARD NO. 15 (ACCOUNTING BY DEBTORS AND CREDITORS FOR TROUBLED DEBT RESTRUCTURINGS), ALLOW FINANCIAL INSTITUTIONS TO MAINTAIN THE VALUE OF A RESTRUCTURED CREDIT PROVIDED THAT THE TOTAL OF ANTICIPATED FUTURE CASH RECEIPTS UNDER THE NEW MODIFIED TERMS WHICH ARE BOTH PROBABLE AND CAN BE REASONABLY ESTIMATED AT LEAST EQUALS THE PRINCIPAL VALUE OF THE LOAN. THUS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DO NOT NECESSARILY REQUIRE THE IMMEDIATE CHARGE-OFF OF LOANS OR PORTIONS OF LOANS THAT HAVE BEEN RESTRUCTURED IN ACCORDANCE WITH THAT RULE.

- THE BANKING AGENCIES SEE NO COMPELLING REASON FOR INTERPRETING OR REPORTING RENEGOTIATED DEBT WITH NONPERFORMING LOANS. IN LINE WITH THIS VIEW, THE AGENCIES PROPOSE TO MODIFY REGULATORY REPORTING AND DISCLOSURE REQUIREMENTS FOR RESTRUCTURED DEBT SO THAT SUCH DEBT, IF IT IS PERFORMING IN ACCORDANCE WITH THE NEW TERMS, WOULD BE DESIGNATED AS LOANS "RES TURED AND IN COMPLIANCE WITH MODIFIED TERMS."

ABA PRESIDENT, DON SENTERFITT ISSUED THE FOLLOWING STATEMENT:

"WE ARE ENCOURAGED BY THE ACTIONS OF THE BANKING REGULATORS.

"PROMPT REGULATORY ACTION COULD GIVE AGRICULTURAL BANKS THE OPPORTUNITY TO KEEP THEIR DOORS OPEN TO FARMERS WHO MUST HAVE FINANCIAL RESOURCES FOR THE NEW CROP SEASON. IT SHOWS THAT THE UNIFIED VOICE OF BANKING IS BEING HEARD.

"BY PROVIDING BREATHING ROOM, BANKERS WILL BE ABLE TO HELP THEIR FARM CUSTOMERS STAY IN BUSINESS AND WORK TOWARD STABILIZATION OF THE TOTAL FARM ECONOMY. THIS IS A FIRST STEP. THE ABA LOOKS FORWARD TO WORKING WITH REGULATORS AND CONGRESS TO DEVELOP COMPREHENSIVE SOLUTIONS TO THE FARM CRISIS."

FOR FURTHER INFORMATION, CONTACT FLOYD STONER (202-467-4253) OR RUSTY JESSER (202-467-4250) AT THE ABA. WE WILL CARRY FURTHER SPECIFIC INFORMATION AS IT BECOMES AVAILABLE ON ABA'S WASHINGTON WIRE AND THE NEXT ISSUE OF "BANKERS NEWS WEEKLY".

END OF MESSAGE

Attachment II

PUBLIC POLICY STATEMENT

HOUSE COMMERCIAL AND FINANCIAL INSTITUTIONS COMMITTEE

RE: S.B. 555 - Amortization of Loan Losses Over a Period of Time
March 20, 1986

Presented by:
Paul E. Fleener, Director
Public Affairs Division
KANSAS FARM BUREAU

Mr. Chairman and Members of the Committee:

My name is Paul E. Fleener. I am the Director of Public Affairs for Kansas Farm Bureau. We are here today on behalf of the farmers and ranchers in Kansas who are members of Farm Bureau. We are PROPONENTS of S.B. 555 ... a bill allowing banks to amortize loan losses over a period of time.

Whether farm operators will have **a chance to restructure debt** in the NEAR FUTURE will be determined largely by the flexibility that financial institutions have in dealing with the debt problems of individual farmers. Policy adopted by the farmers who were voting delegates representing 105 County Farm Bureaus at the Nov. 24-26, 1985 Annual Meeting of Kansas Farm Bureau stated:

AGRICULTURAL CREDIT

"... In these difficult times neither farmers nor lenders will succeed by themselves if the other fails.

...

Commercial banks face difficulties in continuing to work with many agricultural borrowers. We support

Attachment II
March 25, 1986
C&FI Committee--House

programs which will assist banks in providing service to rural communities in Kansas. We believe commercial banking institutions should have a longer time to write off agricultural loan losses. ..."

For the last five years agricultural finance policy has been driven by the "one more year" syndrome. The goal has been to keep borrowers and lenders solvent for one more year in the hope that the debt/income situation would correct itself. Agriculture has run out of time. We don't have "one more year."

Farm operators and lenders have become partners. One will not survive long in Kansas without the other. Action must be taken to help both.

How banks must classify loans, and how long they have to write off loan losses will determine how much debt restructuring they can provide farm operators.

We feel so strongly about the bank regulatory issue addressed in S.B. 555, we are working with the American Farm Bureau Federation to address the problem in the Congress. The 1986 policies adopted by voting delegates at the American Farm Bureau Federation Annual Meeting on January 16, 1986 included the following **new policy** concerning commercial banks:

AGRICULTURAL FINANCE

"... recommend that commercial banking institutions be given increased authority to extend the period of time for writing off agricultural loan losses. ..."

In closing, we believe it is essential banking regulations be eased so that banks will have an opportunity to work with farm borrowers, yet not jeopardize the bank's future. We urge the passage of S.B. 555.

Thank you for the opportunity to make a brief statement in support of S.B. 555. I would be pleased to respond to questions.

Attachment III

Kansas Livestock Association

2044 Fillmore • Topeka, Kansas 66604 • Telephone: 913/232-9358

Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

Statement

of the

Kansas Livestock Association

to the

House Committee on Commercial & Financial Institutions

Rep. Harold Dyck, Chairman

with respect to

SB 555

presented by

Rich McKee
Executive Secretary, Feedlot Division

March 25, 1986

Mr. Chairman, members of the committee, my name is Rich McKee. I am here representing the members of the Kansas Livestock Association. KLA is a statewide, voluntary association of livestock producers. Our association represents cattle, swine and sheep producers. For many years our association has actively participated in the legislative process to represent the best interest of Kansas agriculture in general, and the livestock producing segment specifically. We appreciate the chance to appear before your committee to share with you some of our views and opinions.

The Kansas Livestock Association supports SB 555. In reviewing this bill our membership feels that the proposed changes would allow banks a greater opportunity to help its struggling customers and, of course, the financial institution itself.

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C&FI Committee--House

Mr. Chairman, the Kansas Livestock Association realizes that the state legislative body cannot greatly change the economic pressures that are weighing heavily on the shoulders of the agriculture community. However, KLA does feel that allowing the amortization of loan losses is a step in the right direction.

Also, we understand federal legislation addressing this same issue is currently being considered.

The Kansas Livestock Association hopes you will consider favorable passage of SB 555 for full House consideration.

The Kansas Livestock Association appreciates the opportunity to present its position before your committee. If there are any questions, I would gladly attempt to provide an answer. Thank you.

Rummel

Attachment IV

STATE OF KANSAS

Eugene T. Barrett, Jr.
Bank Commissioner

Michael D. Heitman
Deputy Commissioner

OFFICE OF

BANKING DEPARTMENT

TOPEKA

March 25, 1986

Chairman Harold Dyck
Kansas House of Representatives
State Capitol Building
Topeka, Kansas

Re: <u>Senate Bill No. 555</u>

Dear Chairman Dyck:

At the time the referenced bill was considered by the Senate Committee on Financial Institutions and Insurance, this office raised two issues: fiscal impact and the lack of guidelines governing the implementation of the amortization process.

Regarding fiscal impact, fiscal considerations indicate the administrative cost for FY 1987 will approximate $166,000. The basis for this conclusion is embodied within the fiscal notice accompanying this bill.

Even with adequate financial support, qualified personnel may not be available to adequately assess the anticipated number of applications. It will not be feasible to utilize examination personnel without incurring an unacceptable decline in the number of field examinations. Field staff capacity is already heavily burdened.

This department, due to the probable lack of qualified personnel, will most likely have to accept the information supplied by the applicant bank without further investigation. Qualifications will then be assessed at a subsequent regular examination.

-more-

Attachment IV
March 25, 1986
C&FI Committee--House

700 JACKSON, SUITE 300, TOPEKA, KANSAS 66603 (913) 296-2266

STATE OF KANSAS

Eugene T. Barrett, Jr.
Bank Commissioner

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Deputy Commissioner

OFFICE OF

BANKING DEPARTMENT
TOPEKA

The concern regarding administrative guidelines was satisfactorily addressed in the Senate by amending the bill to include specific authority for the Commissioner to promulgate specific rules and regulations.

If you or your committee desire additional information, we will gladly respond to your request.

Sincerely,

Eugene T. Barrett, Jr.
State Bank Commissioner

ETBjr:mdh:js

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700 JACKSON, SUITE 300, TOPEKA, KANSAS 66603 (913) 296-2266

Attachment V

KLPG

Kansas Legislative Policy Group
301 Capitol Tower, 400 West Eighth, Topeka, Kansas 66603, 913-233-2227
TIMOTHY N. HAGEMANN, Executive Director

March 25, 1986

The Honorable Harold Dyck
Chairman, House Committee on
Commercial and Financial Institutions
Statehouse
Topeka, Kansas

Dear Representative Dyck:

The Kansas Legislative Policy Group wishes to express its support for the provisions of Senate Bill 555.

The KLPG is an association of County Commissioners from primarily rural areas of the State. Our assessed valuations are primarily attributable to two types of property; agricultural real estate and minerals.

You are probably well aware of the unfavorable conditions affecting both the agricultural sector and the minerals industry. These taxpayers depend to a great extent upon our local banks for the credit necessary to finance their farming and business operations.

We believe that enactment of SB 555 would assist toward allowing banks to continue making loans to the people and businesses whose property comprises our tax base. To county officials, it could mean the difference between collecting tax revenues and issuing delinquency notices. For this reason, we respectfully urge you to recommend passage of SB 555.

Respectfully yours,

Chip Wheelen for
Tim Hagemann
Executive Director

Attachment V
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C&FI Committee--House

Attachment VI

Kansas Independent Bankers Association Inc.
P.O. Box 389 • Carbondale, Kansas 66414 • 913/564-9287

Date: March 26, 1986

To: Chairman and Members of the House Commercial and Financial Institutions Committee

Re: Support of Senate Bill 555.

Amortized farm loan loss as proposed in Senate Bill 555 can help agricultural banks remain competitive suppliers of credit to farmers and rural businessmen. The legislation permits banks to absorb a portion of farm lending losses over a period of time. This measure can help farmers with farm debt survive until the agricultural economy begins a recovery while helping agricultural banks reduce deterioration of their capital and earnings.

In the past, agricultural legislation has attempted to solve the farmer's problems by increasing the level of income for the farmer such as the PIK program in 1983. Now the federal administration and Congress have moved towards a market-oriented approach to the problems facing agriculture. Using current market conditions, farm operations must begin to show a positive cash flow.

To adjust to this concept, the farmer that has debt, must eliminate or greatly reduce it now if he is going to survive. But time is needed for bankers, farmers, and

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rural businessmen to adjust from the previous farm programs to the market-oriented farm concept.

Senate Bill 555 is a step in the right direction for such adjustment. This bill permits banks and their rural customers to work through the critical times so that both the lender and the customer have the opportunity to continue in business. It enables banks to use responsible reamortization of, not only losses but also possible write-downs. Loans can be renegotiated with farmers and rural businessmen.

Amortization by way of SB 555 permits farmers or rural businessmen to operate under present farm prices while bringing about a positive cash flow instead of liquidating or cutting their operations to where it is no longer feasible or viable. It allows the farmer to reduce his debt so that his current income would support the repayment of it on a stronger basis.

Current law forces banks to write-off any losses in a loan portfolio against bank capital at the time these losses are recognized. In normal business conditions this is a sound practice, but in the current critical situation in our agricultural economy, the pressure on smaller rural banks' capital is so great it actually adds to the problem facing both farmers and banks.

Losses on agricultural loans which may result in reductions of bank capital can force a bank to call in more loans. This action tends to generate still more losses and force still further reduction in bank capital, and so on, into a destructive cycle. At the very least, banks may no longer be able to serve as strong ag lenders to their communities, thus compounding the problems caused by the loss of a major source of credit.

Your support of SB 555 will open options to agricultural banks in Kansas experiencing agricultural loan losses without impairment of bank capital level requirements. This legislation can work to provide needed assistance for Kansas farmers, rural businessmen and bank agricultural lenders, thus helping all to survive.

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