Approved February 4, 1987
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

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

9:00 a.m./~~p.m.~~ on February 3, 1987 in room 529-S of the Capitol.

All members were present except:

Sen. Warren - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bill Edds, Revisor of Statutes

Conferees appearing before the committee:

Harold Stones, Kansas Bankers Association
Richard D. Nichols, Kansas Bankers Association
Jim Maag, Kansas Bankers Association
Murray D. Lull, Smith Center, Kansas

The minutes of January 29 were approved.

The hearing began on SB 72 concerning branch banking with the chairman calling on Harold Stones, Kansas Bankers Association, who informed the committee that there would be three pieces of testimony to be presented by Richard Nichols and Jim Maag of the Kansas Bankers Association and by Murray Lull, a banker from Smith Center, Kansas, to be followed by any questions the committee may have. He also introduced the Board of Directors of the Kansas Bankers Association. Testimony followed as announced. (See Attachments I through III.)

The chairman asked Mr. Stones if there was a possibility that the branching capacity would be used on solventbanks and neglected for troubled banks. Mr. Stones said this was possible but not probable, noting that in Nebraska few large city banks have been grabbing smaller banks as an option. He contemplates that this is the way it will be in Kansas. The chairman asked further if the branching would be localized rather than statewide and also if it would be used for negotiated sales. Mr. Stones said it is anticipated that it would be relatively regional and that it would be used on negotiated sales.

Sen. Karr questioned Mr. Nichols in regard to his testimony dealing with interstate banking. Mr. Nichols said it shows that the winds of change are coming and that now bankers can see this as a possibility. Mr. Stones added that Kansas will be dealing with interstate branching for savings and loans.

Sen. Strick asked if there is a limitation on how many banks can be acquired by negotiated sale. Mr. Stones said there is no limitation but that the multibank holding company bill did have a limitation but only on depository constraints.

The chairman asked Mr. Stones if this bill permits charter banks in multibank holding companies to be converted to branches. Mr. Stones said it does. Sen. Werts clarified by explaining that it permits a branch of one of the banks in the holding company but not of the holding company.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2-3-87	John Tincher	Lyndon	KIBA
"	Joel Wright	Topeka	KCUL
"	Larry Magill	Topeka	IIAK
"	Bernie Koch	Wichita	KAKE-TV
"	Linda McGill	Topeka	KIBA
"	Pete McGill	Topeka	KIBA
"	Jim Maag	"	KBA
"	[illegible]	"	KBA
	Bill Fuller	Manhattan	Kansas Farm Bureau
2-3-87	Deanne Vieux	Topeka	Ks. Dept. of Commerce
"	Sue Anderson	Carbondale	KIBA
"	Mary Parks	Carbondale	KIBA
"	Anita D'Agostini	Topeka	Banking Department
"	Sue Armstrong	Topeka	Banking Department
"	Laurie Hartman	Topeka	KBA
"	Mark Bohrster	Emporia	Sen. Burke
"	Murray Lull	Smith Center	KBA
"	John D. Houlihan	Roeland Park, Ks.	KBA
"	Dean W. Daniel	Coffeyville KS	KBA
"	Susan L. Abel	Burr Oak Ks.	KBA
"	Dorothy A. Rooney	Lawrence, Kansas	KBA
"	Larry K. Williams	Halstead Ks	KBA
	Leo P. Mitsch	Hiawatha Ks.	KBA
"	James L. Daniel	Chapman Ks	KBA

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2/3/87	LYNN ANDERSON	LAWRENCE KS	KBA
2/3/87	Becky Tongish	Topeka, KS	KBA
2-3-87	Lynn Van Aalst	Topeka	KCSI

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 3, 1987

TO: Senate Committee on Financial Institution and Insurance

FROM: Richard D. Nichols, President
Kansas Bankers Association

RE: SB 72 - State-wide branching by acquisition

Mr. Chairman and Members of the Committee:

As President of the Kansas Bankers Association, I want to thank you for granting the Association an opportunity to appear before the Committee on this matter of vital importance to the banking industry and the future of Kansas. The KBA is celebrating this year its 100th year of service to our industry and we are already planning how we can best serve Kansas banking in the next 100 years.

Planning for the future in our industry is no easy task and that is one of the reasons we are appearing before you today on SB 72. Everyone is aware of the difficulties faced by the agricultural, energy and aviation sectors of the Kansas economy and that, in turn, has heavily impacted our industry. Added to those difficulties is a tremendous increase in the number of competitors offering banking services and the expanded activities of our traditional competitors. Statistics provided to the Committee in this testimony booklet show how Kansas had the 3rd highest bank failure rate in the United States over the past three years and how the profitability of banks in certain size groups has deteriorated during this decade. Already many Kansans and some entire communities have been left without banking services due to bank failures and a continuation of these problems for some period of time is an unfortunate reality.

In September of 1986 the State Affairs Committee of the KBA addressed the issue of how a change in the bank structure laws could assist in the survival of banking services for many Kansas communities. There was discussion about possible expansion of the failed bank act passed last year, branch banking from county-wide to state-wide, and even some discussion about interstate banking. The committee decided to ask me to appoint a special subcommittee to meet with representatives of the Kansas Independent Bankers Association to see if there was any "common ground" or consensus on possible changes in the bank structure laws. A meeting of the two groups was held in Newton in mid-October and while there was a full afternoon of frank discussions about bank structure the two groups did not reach an agreement on any potential legislation.

The State Affairs Committee once again addressed the issue at its meeting on November 5, 1986, and the decision was made to take a survey of all of the owners (or the largest stockholder if no majority owner existed) of Kansas banks

Office of Executive Vice President • 707 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444

on four key structure issues. The committee debated at some length the question on who should receive the survey and it was decided that the owners or largest stockholders should receive it since it was their capital at risk and thus their attitude about the future of banking might well be different from that of a CEO or president who did not have a signficant ownership stake. In addition, the committee designed the survey so that respondents who did not want change could simply vote "no".

A copy of the survey and its results are included in the testimony booklet. 72% of the banks responded to the survey which we believe is a very significant percentage for a mail survey and shows the high degree of interest in structure change. Contrast that with a similar survey on bank structure conducted by an interim legislative committee in 1983 which resulted in only a 54% response by banks. It was apparent to the State Affairs Committee that the survey results showed a solid majority of bankers wanted change in the structure laws and the committee decided at a special meeting on November 24, 1986, to recommend to the KBA Board of Directors and the Governing Council that the KBA seek legislation in the 1987 session which would allow state-wide branching by acquisition. In subsequent actions, both the Board and the Governing Council endorsed this recommendation overwhelmingly. Included in your booklet is a sheet listing the motions and votes on the proposal by the committee, the board and the council.

As you can see, the decision to seek this legislation was arrived at in a thorough and democratic manner. A majority of the members of our two major policy making bodies---the Board and Council---are nominated by petition and elected by secret ballot as are the officers of the Association. Our Association by-laws require truly democratic rule and we seek imput from Kansas banks and do significant research before making major recommendations to the Legislature. KBA members who are also members of the KIBA serve on the various KBA policy-making bodies including the State Affairs Committee, the Board and the Council. I know of no trade association in this state that is more open and democratic in its operation than the KBA.

Mr. Chairman and members of the Committee, we in the banking industry have been criticized in the past by legislators for bringing structure issues before you when there was no clear consensus among bankers on those issues. I stand here as President of the KBA today to tell you that we have conducted an open, fair and objective survey of Kansas bankers and have found a solid majority in favor of state-wide branching by acquisition. Even more important than this consensus, however, is the fact that this legislation may well spell the difference between the survival or loss of banking services to thousands of Kansans in communities throughout this state in the coming years.

On behalf of the Kansas Bankers Association, I respectfully request that the committee give favorable consideration to SB 72.

Richard D. Nichols
Kansas Bankers Association

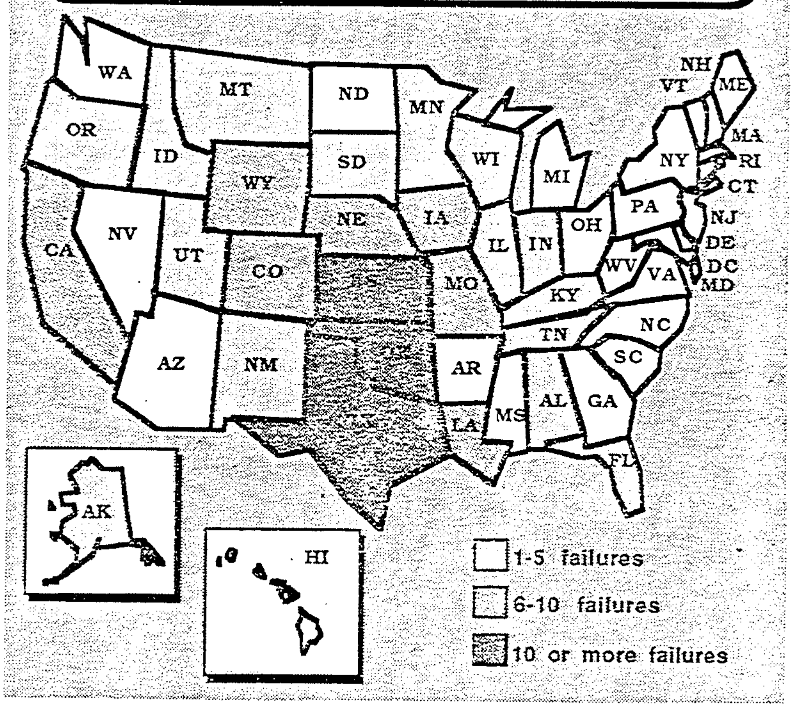
Attachment I
Senate F I & I - Feb. 3, 1987

Attachment I
Senate F I & I - Feb. 3, 1987

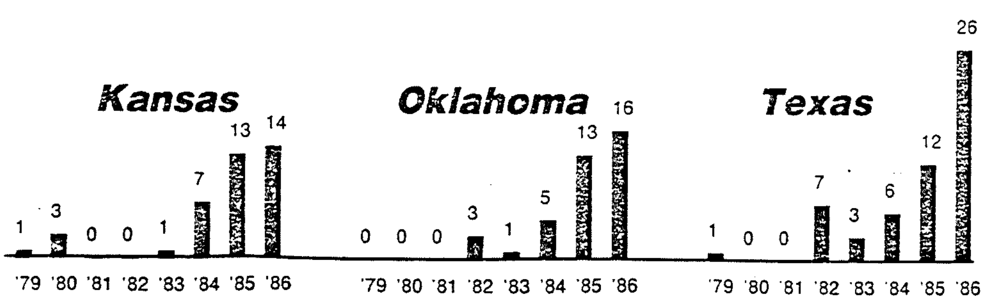
	A	B	C	D	E
1	INSOLVENT BANKS IN KANSAS				
2	DATE	BANK	DEPOSITS	ASSUMED BY	MISCELLANEOUS
3	1982	None in Kansas (42 in U.S.)			
4	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
5	1983	INSOLVENCIES--48 BANKS FAILED IN US			
6	9/6/83	Douglass State, Kansas City	31,156	Will Taliaferro, K. C.	
7	1				
8	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
9	1984	INSOLVENCIES--79 Banks Failed in US			
10	1/27/84	Indian Springs St,KC	34,125	No one	
11	8/22/84	Thayer State	1 12,325	Virgil Lair, Erie	
12	10/10/84	Rexford State	2 4,052	Tim Sungren, Grinell	
13	10/25/84	First National, Gaylord	3 6,753	John Peters, Osborne	
14	11/29/84	Strong City State	4 5,107	Ed Costello, Tampa	
15	12/11/84	University St., Wichita	5 4,299	4th Ntl., Wichita	
16	12/20/84	Farmers St., Selden	6 12,470	Bob Gaskill, Wionona	
17	7	TOTAL DEPOSITS	79,131		
18	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
19	1985	INSOLVENCIES 120 Banks failed in US			
20	5/2/85	Bank of Commerce, Chanute	69,299	Virgil Lair	
21	6/13/85	First State Bank, Edna	7 9,873	Bill Schmoll	
22	6/20/85	Farmers State Bank, Dexter	8 5,046	No One	
23	7/2/85	The Madison Bank	9 7,734	First Ntl, Madison	
24	7/18/85	Eskridge State Bank	10 8,550	Mack Colt	
25	7/23/85	The First National Bank, Onaga	11 20,401	Bachman, Saylor	
26	7/25/85	Kans. American, Overland Park	12 24,770	John Sullivan	
27	7/25/85	Citizens St. Eldorado	31,577	First Ntl, Wichita	
28	8/14/85	State Bank of Herndon	13 5,368	No one	
29	8/23/85	Bank of Bronson	14 9,890	No one	
30	9/25/85	Sedan State Bank	27,372	No one	
31	11/21/85	Farm & Merch. of Rush Co.	28,900	No one	
32	11/21/85	Decatur Co. National	15 12,900	Bob Gaskill, Winona	
33	13	TOTAL DEPOSITS	261,680		
34	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
35	1986	INSOLVENCIES			
36	1/9/86	First Ntl., White City	16 9,100	Ken Haddock, Herington	1st in US
37	3/28/86	First St Bank, White Cloud	17 5,100	BRANCH of Silver Lake St.	$15,000 for deposits
38	5/1/86	Bank of Nortonville	18 6,400	BRANCH of Valley Falls	38th in US--$216,100 for deposits
39	5/15/86	Citizens St., St. Francis	19 22,000	Dale Goodwin, Goodland	
40	6/5/86	Citizens St., McCracken	20 10,552	No one	
41	6/19/86	First Ntl., Chanute	44,900	No one	59th in US
42	7/17/86	Bank of Kiowa	21 10,900	No one	
43	7/24/86	McCune St., McCune	22 7,800	BRANCH of City Ntl, Pittsbrg	77th in US--$116,000 for deposits
44	8/7/86	Easton St., Easton	23 15,900	Exchange Bancshares, Atchsn	Fort Ntl. Bank--$401,000 prm. -84th in US,40th Ag
45	8/14/86	St. Exchange Bank, Yates Center	24 24,800	BRANCH of Girard Ntl.	$353,000 premium
46	8/21/86	United Bank of Minneapolis	25 21,600	BRANCH of Benngtn St.	376,000 premium/FDIC kept $6.4mm assets
47	9/25/86	Home State Bank, Lacrosse	26 12,400	BRANCH of Farmers, Albert	103 in US/312,000 premium/FDIC kept 7.8mm asset
48	11/13/86	Hoxie State Bank, Hoxie	32,100	Tim Sungren, Grinell	123 in US/51k premium/
49		13	223,552		
50					
51	1986 ASSISTANCE PRIOR TO INSOLVENCY				
52	4/16/86	Talmage St. Bank	9,960	FDIC loan of 1.7mm	
53	8/15/86	State Bank of Westphalia	4,100	mrgd-BRANCH of Ks St Garnett	FDIC loan guarantee of $277,000
54					
55	4 YR TOTALS	34	595,519		

Attachment I
Senate F I & I - Feb. 3, 1

Closings Cluster in Nation's Heartland



Failures Mount for Three Hard-Hit States

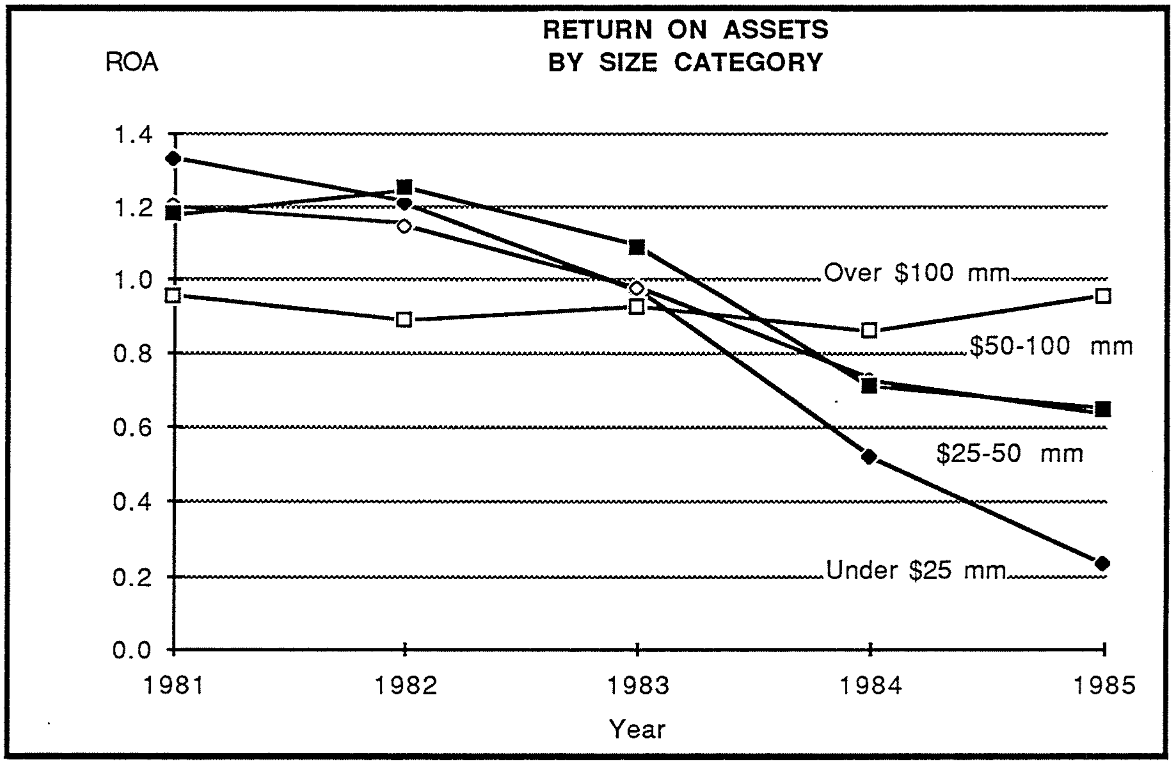


Closed Banks (By State)

	'86	'85	'84	'83	'82
Alabama	1	2	1	1	1
Alaska	1	...	...	...	...
Arizona	...	...	...	...	...
Arkansas	...	1	2	1	3
California	8	7	6	5	2
Colorado	7	6	2	1	...
Connecticut	...	...	...	...	...
Delaware	...	...	...	...	...
Dist. of Columbia	...	...	...	...	...
Florida	3	2	2	...	1
Georgia	...	...	...	...	...
Hawaii	...	...	...	...	...
Idaho	1	...	...	...	...
Illinois	1	2	5	6	5
Indiana	1	1	2	...	...
Iowa	10	11	3	...	2
Kansas	14	13	7	1	...
Kentucky	2	...	1	1	...
Louisiana	8	...	1	...	...
Maine	...	...	...	...	...
Maryland	...	...	...	...	...
Massachusetts	...	...	...	...	1
Michigan	...	...	1	...	1
Minnesota	5	6	4	1	1
Mississippi	...	...		...	...
Missouri	9	9	2	1	2
Montana	1	...	...	1	...
Nebraska	6	13	5	1	...
Nevada	...	...	...	1	...
New Hampshire	...	...	...	...	...
New Jersey	...	...	1	1	1
New Mexico	2	3	...	...	...
New York	...	4	...	2	4
North Carolina	...	...	...	...	...
North Dakota	...	...	...	...	...
Ohio	...	...	...	...	...
Oklahoma	16	13	5	1	3
Oregon	1	3	5	5	...
Pennsylvania	...	...	...	...	1
Puerto Rico	1	...	1	1	1
Rhode Island	...	...	...	...	...
South Carolina	...	...	...	...	...
South Dakota	1	...	1	1	...
Tennessee	2	5	11	12	3
Texas	26	12	6	3	7
Utah	3	1	1	...	...
Vermont	...	...	...	...	...
Virginia	...	...	...	...	1
Washington	...	...	...	...	1
West Virginia	...	...	...	...	1
Wisconsin	1	1	...	...	...
Wyoming	7	5	2	1	...
Total	**138**	**120**	**79**	**48**	**42**

The total of failures for 1986 does not include seven assistance transactions. There were two in Kansas and one each in Louisiana, Missouri, Oklahoma, Tennessee, Washington.

Attachment I
Senate F I & I - Feb. 3, 1987



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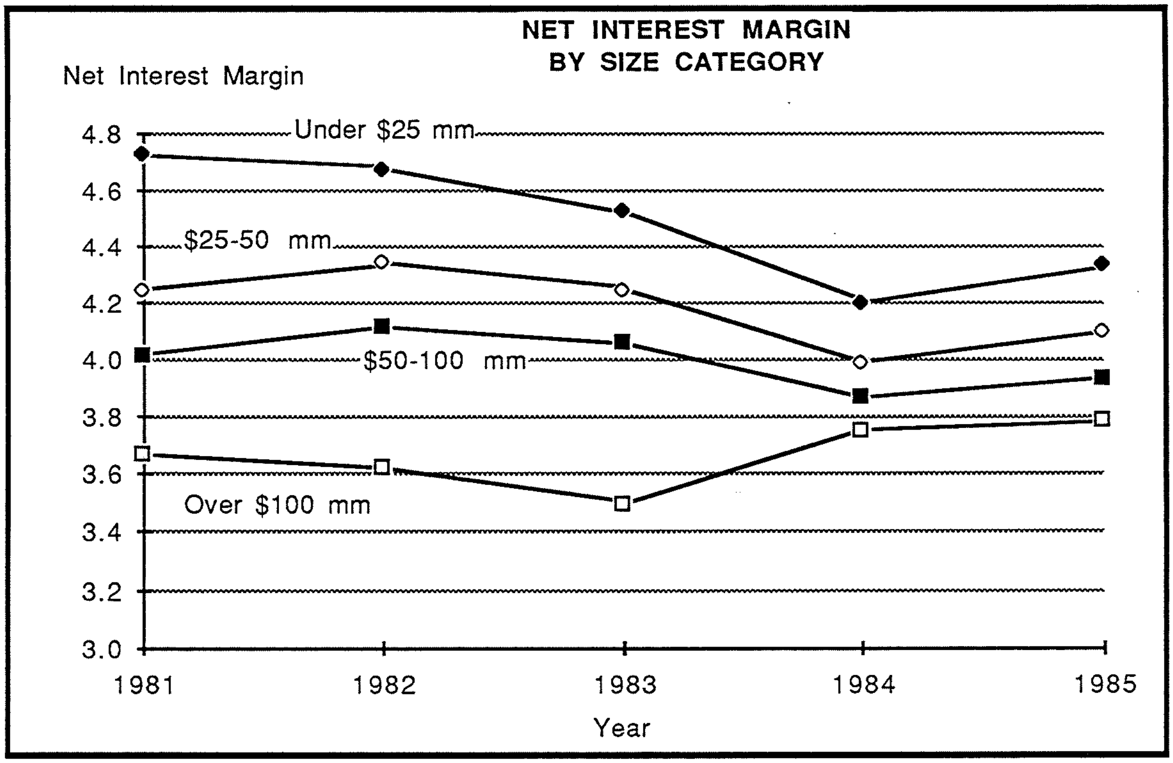

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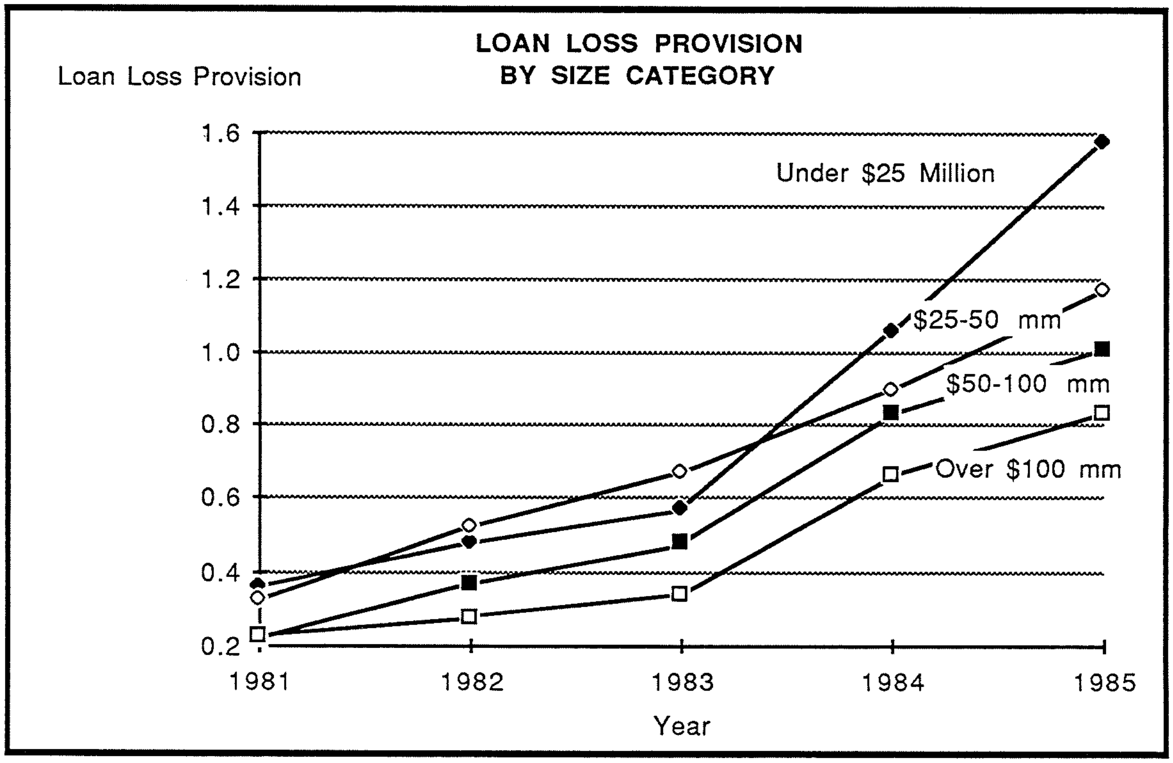

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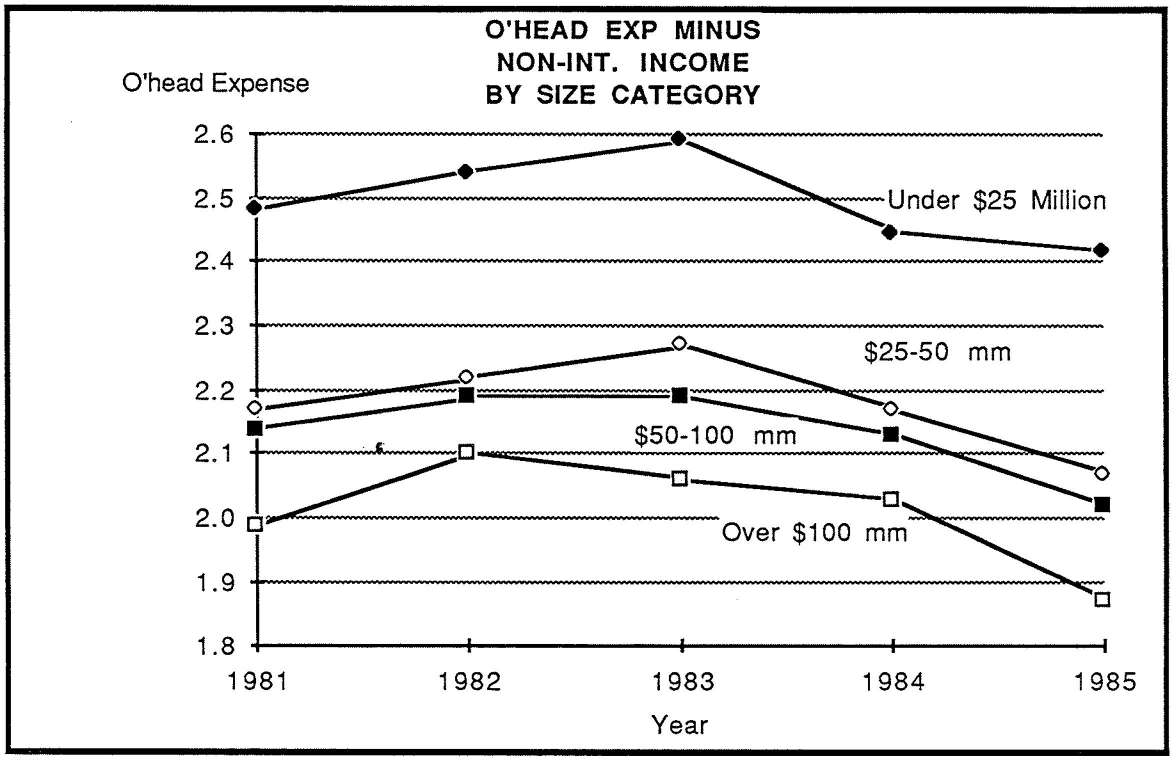

O'HEAD EXP MINUS
NON-INT. INCOME
BY SIZE CATEGORY
O'head Expense
2.6
2.5
2.4
2.3
2.2
2.1
2.0
1.9
1.8
Under $25 Million
$25-50 mm
$50-100 mm
Over $100 mm
1981
1982
1983
1984
1985
Year

KANSAS BANKERS ASSN.
707 MERCHANTS NTL. BLDG.
913/232-3444 TOPEKA, KS 66612

November 10, 1986

TO: ALL KANSAS BANK OWNERS

Enclosed with this letter is a **statewide survey on banking structure.** Please respond to it by Wednesday, Nov. 19. Your response will be kept confidential by the KBA.

This survey is being sent to you at the direction of the Kansas Bankers Association's State Affairs Committee. The committee directed that the survey form be sent to the **owner of the largest number of shares of stock** in every bank in Kansas. If you own more than one bank, you will find a survey form for each one. In those cases, please identify each bank separately by asset size, as requested on the form, and return a separate form for each bank you own.

The State Affairs Committee is sincerely trying to identify the wishes and desires of the owners of Kansas banks as to structure issues. There are some bankers in Kansas who see that many banks are having difficulties today, and are watching their equity value erode and shrink. Where is a market for the sale of these banks, and the recovery of equity? They believe that as many options as possible should be given to those banks, so those who wish, might join together as a single charter with branches, to cut costs; or some might sell to another bank before insolvency, and remain as a service to their local community as a branch. They believe such options should be available to any Kansas banker who wants them. A county-wide or state-wide branching law through acquisition would create these options.

There are bankers who believe that the future economic well-being of Kansas depends on our joining in a regional compact which would allow banks to cross state lines through acquisition. A recent article in a financial publication indicated Kansas is one of 13 states representing less than 4% of the bank assets of our nation, which has not already adopted such legislation.

Attachment I
Senate F I & I - Feb. 3, 1987

[over, please]

On the other hand, there are other bankers who believe that any of these structure changes, whether branching county-wide or state-wide or interstate through acquisition, create more problems than they solve. They cite concentration and possible abuse of financial power; the loss of local ownership and control which could have less concern for the economy of each individual community; and the danger of funds outflowing from local communities to money centers as their major reasons for opposing such bank structure changes. These bankers also cite the possible dangers of increased competition through future liberalization of any law which might be passed.

There is yet another group of bankers who would desire some structure option not found on this survey----so we ask you to assume that <u>each question might be posed to you individually, and to answer each as though it is the only alternative available. In other words, if each option should happen to be the only one available, would you support it or oppose it?</u>

In conclusion, in some banks, the majority owner of a bank is hard to identify. If you received this letter and some other person is the majority owner, would you please pass this letter on to him or her? Or there may be a few banks with equal majority ownership. In those instances, we hope you will confer together and reach a joint decision as to your opinion. Also, in those banks where the majority owner is a person other than the Chief Executive Officer of the bank, that owner may wish to consult with the CEO.

Thank you for taking the time for this valuable help.

Sincerely,

Harold Stones

Harold Stones, EVP

Attachment I
Senate F I & I - Feb. 3, 1987

KANSAS BANKERS ASSN.
707 MERCHANTS NTL. BLDG.
913/232-3444 TOPEKA, KS 66612

Please return to the KBA office at the address listed above by Nov. 19

Please check your response for each question. Answer each question as though it is the ONLY alternative available. Measure each of the four options against the present law.

1. Do you favor or oppose county-wide branching with no limitation as to size or number?

___________Favor ___________Oppose

2. Do you favor or oppose county-wide branching through acquisition with no newly-chartered branches authorized?

___________Favor ___________Oppose

3. Do you favor or oppose state-wide branching through acquisition with no newly-chartered branches authorized?

___________Favor ___________Oppose

4. Do you favor or oppose regional reciprocal interstate banking by acquisition?

___________Favor ___________Oppose

Bank size in assets as of 6/30/86 is $___________ million.
(please round off to nearest million)

Please return to the KBA office at the address listed above by Nov. 19

Attachment I
Senate F I & I - Feb. 3, 1987

	A	B	C	D	E	F	G	H
1	BANK OWNERS SURVEY ON STRUCTURE AS OF NOVEMBER 24, 1986							
2								
3	1. Do you favor or oppose county-wide branching with no limitation							
4	as to size or number?							
5								
6	SIZE GROUPS		TOTAL	FAVOR	%	OPPOSE	%	NO REPLY
7	Below $10 million		104	37	36%	67	64%	
8	$11 thru $25 million		143	54	38%	89	62%	
9	$26 thru $50 million		107	41	38%	64	60%	1
10	$51 thru $100 million		54	33	61%	22	41%	
11	Over $100 million		32	25	78%	7	22%	
12	TOTAL RESPONSE		440	190	43%	249	57%	1
13								
14								
15	2. Do you favor or oppose county-wide branching through acquisition							
16	with no newly-chartered branches authorized?							
17								
18	SIZE GROUPS		TOTAL	FAVOR	%	OPPOSE	%	NO REPLY
19	Below $10 million		104	62	60%	41	39%	1
20	$11 thru $25 million		143	94	66%	47	33%	2
21	$26 thru $50 million		107	74	69%	30	28%	3
22	$51 thru $100 million		54	37	69%	16	30%	1
23	Over $100 million		32	27	84%	4	13%	1
24	TOTAL RESPONSE		440	294	67%	138	31%	8
25								
26								
27	3. Do you favor or oppose state-wide branching through acquisition							
28	with no newly-chartered branches authorized?							
29								
30	SIZE GROUPS		TOTAL	FAVOR	%	OPPOSE	%	NO REPLY
31	Below $10 million		104	45	43%	59	57%	
32	$11 thru $25 million		143	80	56%	62	43%	1
33	$26 thru $50 million		107	65	61%	41	38%	1
34	$51 thru $100 million		54	36	67%	16	30%	2
35	Over $100 million		32	26	81%	5	16%	1
36	TOTAL RESPONSE		440	252	57%	183	42%	5
37								
38								
39	4. Do you favor or oppose regional reciprocal interstate banking							
40	by acquisition?							
41	SIZE GROUPS		TOTAL	FAVOR	%	OPPOSE	%	NO REPLY
42	Below $10 million		104	33	32%	70	67%	1
43	$11 thru $25 million		143	52	36%	91	64%	
44	$26 thru $50 million		107	47	44%	60	56%	
45	$51 thru $100 million		54	30	56%	24	44%	
46	Over $100 million		32	24	75%	8	25%	
47	TOTAL RESPONSE		440	186	42%	253	58%	

Attachment I
Senate F I & I - Feb. 3, 1987

1983 SURVEY BY C&FI COMMITTEE

Survey

Early in its study, the Committee developed and circulated among the 619 Kansas banks a survey seeking the opinion of bankers and bank owners on the following propositions:

I. Banking structure in Kansas should be changed by the Legislature to allow for the creation and operation of multi-bank holding companies.

II. Banking structure in Kansas should be changed by the Legislature to allow for statewide branch banking.

III. Banking structure in Kansas should be changed by the Legislature to allow full banking services to be provided in detached auxiliary banking facilities.

Responses to Each Proposition Summarized Under the Headings Agree (A), Disagree (D) and No Opinion (NO)

Proposition I (Multi-Bank Holding Companies)

Agree	Disagree	No Opinion
132 (39.3)%	197 (58.6)%	7 (2.1)%

Proposition II (Branch Banking)

Agree	Disagree	No Opinion
43 (12.8)%	283 (84.2)%	10 (2.9)%

Proposition III (Detached Facilities)

Agree	Disagree	No Opinion
165 (49.1)%	143 (42.6)%	28 (8.3)%

ACTIONS TAKEN BY KBA ON BRANCHING PROPOSAL

KBA STATE AFFAIRS COMMITTEE

The State Affairs Committee, at their November 5 meeting, voted to send a survey on county-wide branching, state-wide branching, and interstate banking to all Kansas bank owners. The survey was sent on November 10. 440 replies were received by November 24 for a 72% response.

The State Affairs Committee met again on November 24 to consider the results of this survey and the following action was taken by that committee.

> **"IT WAS MOVED BY BECKER, SECONDED BY ASMANN, TO RECOMMEND TO THE GOVERNING COUNCIL TO CONSIDER STATE-WIDE BRANCHING BY ACQUISITION ONLY WITH NO CHANGE IN EXISTING LAW RELATING TO INTRA-CITY BRANCHING.**
>
> **MOTION CARRIED WITH 1 VOTE IN OPPOSITION AND 1 VOTE IN ABSTENTION."**

KBA BOARD OF DIRECTORS

The KBA Board of Directors, meeting on November 24, reviewed the survey results, considered the State Affairs Committee recommendations, and voted unanimously to endorse it to the Governing Council.

KBA GOVERNING COUNCIL

At the meeting of the Governing Council on November 25 the recommendations of the State Affairs Committee and the Board of Directors were reviewed. Article V, Section 4 of the KBA Bylaws stipulates that such motion or resolution for Governing Council action shall be received by the EVP sixty (60) days prior to the meeting, and a copy sent to all banks thirty (30) days prior to the meeting. The Bylaws continue, however, that: "The Council, by a vote of two-thirds of the members present at any meeting, may suspend the requirements of this section and consider and act upon any resolution proposed for consideration at any meeting." After detailed explanation of the Bylaws requirements by Chairman Schuster, it was

> **MOVED BY NICHOLS, SECONDED BY CHANDLER, FOR THE COUNCIL TO SUSPEND THE ADVANCE NOTICE REQUIREMENTS OF THE BYLAWS IN ORDER TO CONSIDER THE RECOMMENDATIONS OF TE STATE AFFAIRS COMMITTEE AND THE BOARD OF DIRECTORS, BASED UPON THE BANK OWNERS SURVEY.**
>
> **MOTION CARRIED — 24 yes, 3 no, 2 abstentions.**

The vote was in excess of two thirds majority; therefore, the State Affairs Committee and Board of Directors recommendations were placed on the agenda for consideration.

MOVED BY CARSON, SECONDED BY CHANDLER, THE GOVERNING COUNCIL APPROVE THE RECOMMENDATIONS OF THE STATE AFFAIRS COMMITTEE AND THE BOARD OF DIRECTORS THAT THE KANSAS BANKERS ASSOCIATION OFFICIAL POSITION BE IN FAVOR OF STATEWIDE BRANCHING BY ACQUISITION ONLY WITH NO CHANGE IN EXISTING STATE LAW RELATING TO INTRA-CITY BRANCHING.

MOTION CARRIED - 26 yes, 3 no.

MOVED BY NORRIS, SECONDED BY SHEIK, THE GOVERNING COUNCIL MEET AGAIN TO CONSIDER AND APPROVE THE FINAL DRAFT OF THE BILL TO SEEK THIS CHANGE IN BANKING STRUCTURE.

MOTION CARRIED.

At the December 23rd meeting, the Governing Council considered the bill draft for "Statewide Branching through Acquisition".

Harold Stones updated the Governing Council on the drafting of the proposed legislation and the communications to all Kansas banks regarding the draft. Several technical points in the bill were questioned and considered. Considerable discussion on details of the bill draft ensued.

MOVED BY STEFFES, SECONDED BY DARRAH, THE GOVERNING COUNCIL APPROVE THE BILL DRAFT AS PRESENTED.

MOTION CARRIED. 18 yes and 2 no.

Attachment I
Senate F I & I - Feb. 3, 1987

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 3, 1987

TO: Senate Committee on Financial Institution and Insurance

FROM: James S. Maag, Director of Research
Kansas Bankers Association

RE: SB 72 - State-wide branching by acquisition

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before the Committee on SB 72. You have already heard a presentation by KBA President, Dick Nichols, as to how the KBA decided to request this legislation and I would like to expand on some of his comments as to why we believe SB 72 is important to the future of banking in Kansas.

At a recent seminar at Kansas State University on the foreign debt crisis, Dr. Sarkis Khoury, a recognized expert on international finance made the following comment: "There is no such thing as domestic [United States] banking anymore. Anybody who thinks there is has something wrong with his facts." What Dr. Khoury was trying to emphasize was how the banking industry is now global in nature and any attempts to solve banking problems on a national scale alone ignore the reality of the marketplace. The same thing could obviously be said about attempts to solve banking issues at the state level while ignoring what is occurring at the national and international level.

The very fabric of the banking industry in Kansas is being stretched to its limits by economic events which are international in nature and over which no one in Kansas has any control. Decisions made at the national level have given our competitors more and more authority to become involved in banking. 37 states, including our neighboring states of Missouri and Oklahoma have enacted interstate banking laws. The ability for you as legislators to control such events beyond the borders of Kansas is obviously limited. However, you do have the authority to remove restrictions which are hampering our banks' competitiveness.

A majority of Kansas bankers now believes the time has come to remove one of those restrictions through the passage of SB 72. The authority for Kansas banks to participate in branch banking by acquisition would give banks an additional option which would allow them to survive in an increasingly competitive environment which includes S&Ls, credit unions, insurance companies, American Express, Sears, and the major auto companies - to name only a few.

Attachment II
Senate F I & I - Feb. 3, 1987

Office of Executive Vice President • 707 Merchants National Building
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-3444

To demonstrate how "unlevel" the "playing field" of structure has become for Kansas banks, we have enclosed in the testimony booklet a chart showing the top ten financial institutions in Kansas in 1981 and the top ten such institutions at the end of 1985. As you can see, there has been a dramatic shift. Four of the top five institutions---and seven of the top ten---are now S&Ls. Is the fact that S&Ls in Kansas have the authority to establish an unlimited number of branches in any community in the state and the fact that Kansas S&Ls can merge on a state-wide basis without restriction merely coincidental to this shift? We think not.

Also enclosed are copies of several newspaper articles relating to the competitive advantages which S&Ls presently enjoy over banks. The first involves the decision of the First National Bank of Manhattan to dissolve its bank charter and become a savings bank. The bank president states in the story that the main reason for the switch was to acquire the ability to branch. The second article outlines how Franklin Savings of Ottawa plans to purchase the First State Bank of Pleasanton and convert it to a branch of the S&L. The third article relates how Kansas and out-of-state S&Ls have been moving into the highly lucrative markets in Johnson County. The fourth article shows how First Nationwide Bank---a subsidiary of the Ford Motor Company---plans to establish "convenience branches" in K-Mart stores throughout the country and, in fact, have already done so in Kansas through a franchise arrangement with Franklin Savings.

In addition, the Kansas League of Savings Institutions is asking you to pass legislation this session which would allow reciprocal interstate branching for state-chartered S&Ls. A spokesman for the industry indicated that failure to pass such legislation would simply drive the state-chartered institutions to convert to federal charters which would allow them to branch on an interstate basis.

The encactment of federal and state laws over the past several years have, for all practical purposes, eliminated the distinctions between banks and S&Ls---except in the area of structure. A strong majority of Kansas bankers is now asking---as a simple matter of competitive fairness---that some of the current restrictions on branching by banks be removed.

A Kansas banker from Smith County, Murray Lull, who is active in our industry at both the state and national level, will present to you shortly a very complete analysis of why the provisions of SB 72 are so important to the future of the rural communities of Kansas so I will not dwell on that extremely important need for this legislation. However, I do want to call the Committee's attention to three additional articles which we have enclosed. The first two articles show the contrast which occurs when a small Kansas town is able to maintain its banking services and when one cannot. The impact on the towns of Dexter and Herndon has been dramatic and lasting. We truly believe the ability of banks to merge before they reach the point of insolvency or near-insolvency is extremely important for the survival of our smaller communities. Not only would it maintain economic viability for the community, but it would also give the senior citizens of the community---a majority of the residents in many cases---some reasonable assurance that banking services will be maintained.

Attachment II
Senate F I & I - Feb. 3, 1987

The third article is an excerpt from an interview with the President of the Nebraska Bankers Association as to what he sees the future to be for rural banking in our neighboring state. Nebraska has had state-wide branching by acquisition since the beginning of 1985 and to date just over 20 mergers have occurred as a result of that legislation. The obvious point is that it has not lead to "monopoly banking" or "unduly concentrated both economic and political power into the control of a few financial institutions". What it has done is give some institutions---who chose to voluntarily use it---the ability to compete more effectively in a difficult economic environment. The presence of this law may well have been part of the reason why Nebraska had only six bank failures in 1986 compared to 14 for Kansas.

In closing, I would like to cite two comments on the advantages of branch banking for rural community banks. The first comments are taken from a letter sent to KBA Executive Vice-President, Harold Stones, this past summer. For obvious reasons, the specific names of the banks involved have been deleted. This banker wrote:

> "An aura of hopelessness pervades this farm country like an enshrouding fog that refuses to dissipate; thus the problems persist and are very real and the frustration has turned many away from improved expectations....The restrictive banking laws in Kansas have been and still are a disaster in their effect on many workable solutions such as branching....If we could branch our commonly owned one bank holding company....we would be able to strengthen both banks. We would do this by consolidation of capital and reduction of cost of operation....We are stalemated; on the one hand we are told to raise new capital because of severe ag loan charge-offs; but we cannot raise new capital unless we can show investors the potential for a dividend within a reasonable time. The only viable means we have is to earn our way back and be merely branching [the smaller bank] we can pinpoint a $50,000 per year in increased net earnings; so we have a dire need to make it a branch."

The final comments are taken from an article in the January, 1987, issue of the Independent Banker magazine. The article is entitled "A Bright Future for Community Banks - If Bank Performance is Tied to Strategic Responses" and was written by two professors of finance at Texas A&M. In the closing section of the article in which they are outlining "strategic responses" for community banks they make the following observation: "Finally, for many smaller institutions, the current geographic expansion movement will mean multi-office banking in one form or another. In some cases, the branch bank strategy will be the most effective way to maintain turf and pursue new market opportunities." [Emphasis added.] Perhaps the most important phrase there is, "In some instances," because that is all that is being asked for in SB 72---the option to become involved in branching if it will help to maintain bank profitability and services. No Kansas bank is forced by the provisions of the bill to sell to another bank for branching purposes and the Nebraska experience has shown that it will most likely to be used on a selective basis.

We appreciate the Committee's attention to this matter of vital importance to Kansas banking and we urge your support for SB 72.

STATEWIDE BRANCHING BY ACQUISITION

QUESTION AND ANSWER SHEET

Kansas Bankers Association--1987 Legislative Session

QUESTION 1. Does the bill authorize any bank to establish any *de novo* branches outside its home city?

ANSWER: No, *de novo* branches are restricted to a bank's home city or township (if main office is not located in a city), as present law now requires.

QUESTION 2. If Bank A acquires Bank B in another city, they merge, and Bank B has two existing branches, does the bill authorize Bank A to continue to operate those existing branches?

ANSWER: Yes.

QUESTION 3. If Bank A buys Bank B, both are in the same city, and both A and B have established the maximum number of branches within that city, does the bill authorize Bank A to continue to operate all of the branches of Bank B as well as convert the main office of Bank B to a branch?

ANSWER: Yes.

QUESTION 4. If Bank A acquires Bank B in another city, they merge, and Bank B has only built one branch, can Bank A establish the two more "unused" branches in Bank B's city?

ANSWER No, *de novo* branches are subject to current law.

QUESTION 5. Does the bill allow for a new bank to be chartered and then acquired as a branch?

ANSWER: No, any bank acquired and operated as a branch must be at least 5 years old, if chartered after January 1, 1987.

QUESTION 6. How does this bill treat failed or failing banks?

ANSWER: This bill draft supersedes the language of Senate Bill 432 relating to eligibility to operate a branch, based on ownership and location.

QUESTION 7. Is there a deposit limit for any bank using the branching provisions of this bill?

ANSWER: If the acquiring bank is owned by a bank holding company, then any such holding company is now limited to 9% of the state's combined bank and s&l deposits. If the acquiring bank is not owned by a holding company, then there is no deposit limit.

QUESTION 8. Does the acquisition of a bank by purchase and merger and operation as a branch at the site of the acquired bank require supervisory approval?

ANSWER: Yes, approval is required by the State Banking Board; however, the Board may set the terms of a potential emergency, and delegate its powers to the State Bank Commissioner in the event of such emergency.

QUESTION 9. May an acquiring bank operate a branch only at the site or sites of the acquired bank?

ANSWER: Yes.

QUESTION 10. Does the bill permit a branch to be established and then moved to another city, or to another location within the same city?

ANSWER: No, a branch may be established only at the site or sites of the acquired bank.

QUESTION 11. Does this bill draft permit the acquisition of a bank, transfer of assets and liabilities to the acquiring bank, and closure of the offices of the acquired bank?

ANSWER: Current law now allows this, and the bill does not prohibit it.

QUESTION 12. Does the bill authorize any interstate purchase, acquisition or interstate branching activity?

ANSWER: No.

QUESTION 13. Will branching by national banks be bound by the same terms and conditions placed on state banks?

ANSWER: Yes, this draft could not change any provisions of the federal McFadden Act, which makes such requirements.

1981 LIST OF LARGEST TEN FINANCIAL INSTITUTIONS IN KANSAS				
INSTITUTION	ASSETS IN $000	TYPE		
Topeka, Capitol Federal	1,428,538	S&L		
WICHITA, FOURTH NTL	861,143	BANK		
WICHITA, FIRST NTL	467,636	BANK		
Kansas City, Anchor	420,667	S&L		
Wichita, Mid Kansas	353,235	S&L		
Wichita, American Savings	332,964	S&L		
TOPEKA, FIRST NTL	325,280	BANK		
KANSAS CITY, COMMERCIAL NT	285,638	BANK		
Newton, Railroad	268,369	S&L		
TOPEKA, MERCHANTS NTL	248,287	BANK		
5 of top ten are Banks, 5 are S & L's				
1986 LIST OF LARGEST TEN FINANCIAL INSTITUTIONS IN KANSAS				
INSTITUTION	ASSETS IN $000	TYPE	% 5-YEAR GROWTH	OUT-OF-CITY BRANCHES
Ottawa, Franklin Savings	3,481,398	S&L	1744%	8
Topeka, Capitol Federal Savings	2,483,192	S&L	74%	15
Salina, Peoples Heritage	1,489,966	S&L	1173%	17
WICHITA, BANK IV	1,424,108	BANK	65%	0
Wichita, Mid Kansas	870,464	S&L	146%	8
Kansas City, Anchor	838,228	S&L	99%	17
Wichita, American	734,647	S&L	121%	18
WICHITA, FIRST NTL	704,035	BANK	51%	0
Emporia, Columbia	474,230	S&L	420%	11
KANSAS CITY, SECURITY BANK	469,277	BANK	101%	0
3 of top 10 are Banks; 7 are S & L's				

Attachment II
Senate F I & I - Feb. 3, 1987

WEEK OF DECEMBER 15, 1986 WICHITA BUSINESS JOURNAL

To: Gov Council/Staff

Manhattan bank converts to become S&L

By JON BARNES

Customers may not notice the change, but the conversion of First National Bank of Manhattan to First Savings Bank on Oct. 1 means a lot to bank president Phil Brokenicky.

Brokenicky said customers would see little change in operations and services, except their deposits are now insured by the Federal Savings and Loan Insurance Corp. instead of the Federal Deposit Insurance Corp. The institution will still use its "First Bank" logo adopted before it began the process of converting its charter two years ago.

The primary reason for the conversion was that First Savings will now be able to open branches in other cities, Brokenicky said. Banks in Kansas are limited to four branches, all within the same city, but savings institutions are allowed to branch statewide.

First Savings Bank plans to open a Junction City branch in January and intends to open more branches in central Kansas within 100 miles of Manhattan, he said.

Other advantages of the new charter include a rise in the loan limit for any single customer — from $1.25 million for banks to $8.5 million for thrifts — and the ability to borrow short-term and long-term from the Federal Home Loan Bank.

Banks have few sources available for long-term borrowing, Brokenicky said. First National had found it difficult to offer long-term, fixed-rate commercial loans and match it with a long-term, fixed liability. It can now do that by borrowing from the home loan bank.

Although savings institutions are required to keep a net worth of 3 percent, compared with the 6-percent level required of banks, First Savings has agreed to maintain at least 6-percent net worth, Brokenicky said. Its net worth now stands at 7.7 percent, he said.

First National reported earnings of $1.1 million on $121 million in assets for the first six months of this year. Its financial stability could have been a factor in the lengthy process of getting the new charter, which had to be approved by the home loan bank board and the FSLIC — regulators of the thrift industry — and the FDIC and U.S. Comptroller of the Currency, which regulate federally chartered banks.

"Frankly, the FDIC, I'm sure, didn't want to see us leave because we've been a highly profitable institution and we've been paying them a high premium," Brokenicky said.

Attachment II
Senate F I & I - Feb. 3, 1987

Franklin wants bank as thrift branch

By JON BARNES

Franklin Savings Association is negotiating to take over The First State Bank of Pleasanton and convert it into a branch of the thrift, in a complicated and rare procedure.

Ottawa, Kan.-based Franklin's move to acquire the bank in Pleasanton, one of two banks in the small eastern Kansas town about 70 miles southwest of Kansas City, would have to be approved by several regulatory agencies in the banking and thrift industries.

Martha Gravlee, a spokesman for the Federal Home Loan Bank Board in Washington, D.C., which regulates the savings and loan industry, could recall only three similar cases nationwide — twice in Florida and once in Kentucky — in which a bank had converted into a branch of a thrift.

Negotiators will choose from two alternatives to accomplish the conversion, said Ernie Fleischer, the major stockholder of Franklin Financial Inc., Franklin's holding company. The bank could either convert its charter to a savings association and then merge into Franklin, or it could sell its assets to Franklin in exchange for stock in Franklin's holding company.

Richard Nixon, of the Kansas City law firm Stinson, Mag & Fizzell, who is representing Franklin in the negotiations, said the latter alternative would be simpler and most likely to occur.

Either way, the plan would be subject to approval by the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corp., the Federal Deposit Insurance Corp. and State Banking Commissioner Eugene Barrett.

First State Bank formerly was owned by Wayne Angell, now a member of the Federal Reserve System Board of Governors and a former consultant for Franklin Savings. Angell had to sell his interests in First State and Hume Bank in Hume, Mo., when he joined the Federal Reserve Board in February.

The Pleasanton bank is now owned by Angell's children and his brother, Charlie, a Colorado Springs, Colo., financial consultant. The bank lost $100,000 on $16.1 million in assets during the first half of the year because of increased loan losses, Charlie Angell said. Its capital-asset ratio, an indicator of the financial net worth of an institution, fell from 9.12 percent in March to 7.76 percent at the end of June because the bank had to increase its loan-loss reserve, he said.

However, Angell said, the bank was not for sale because of financial difficulties.

"The bank's in good shape," he said.

Prior to this year, the bank had not been hit hard by loan losses and had not carried a large loan-loss reserve, Angell said. Most of the bad loans were connected to agriculture and agriculture-related business.

In 1985, the bank earned $121,000, and showed positive earnings for each of the previous four years, peaking at $211,000 in 1983. Angell said he expects a return to profitability next year.

Duane Hall, Franklin's president, said acquisition of the Pleasanton bank would provide Franklin with an entry into the consumer-lending field. The thrift, which has grown in size from $270 million in assets at the end of 1981 to $3.48 billion the first half of this year, has become an industry leader with its strategy of controlling interest-rate risk by investing heavily in mortgage-backed securities, known as Fannie Maes, Ginnie Maes and Freddie Macs. About 82 percent of Franklin's assets are mortgage-backed securities.

The strategy has paid off with rapid growth vaulting Franklin into the lead among Kansas thrifts in asset size. Its first-half net income this year was $103 million, fourth in the nation.

Franklin plans to increase its involvement in consumer and commercial loans and in originating local mortgage loans.

"You're going to be able to attract and keep customers only if you're able to offer them a complete range of financial services," Hall said.

"If we could find and acquire a mortgage banking firm, we'd like very much to do that," in addition to searching for other Kansas banks and thrifts to acquire, Fleischer said.

But offering a wider range of services does not mean the thrift will reduce its investment in mortgage-backed securities. "I would not expect the making of personal loans to contribute a substantial amount to Franklin's profitability," Fleischer said.

Fleischer, 53, is a former partner of Stinson, Mag & Fizzell. He resigned in May 1985 to devote more time to his activities in the savings and loan industry.

Franklin operates offices in 11 Kansas cities, including four mini-facilities in Wichita K-Mart stores, and has an agreement to merge with First Federal Savings and Loan Association, Coffeyville. Franklin Financial also recently acquired Stern Brothers & Co., an investment firm based in Kansas City.

Jon Barnes is a reporter for the Wichita Business Journal.

Attachment II
Senate F I & I - Feb. 3, 1987

Week of April 14, 1986 KANSAS CITY BUSINESS JOURNAL

Ralph Lewis is new president of Pioneer Savings & Loan Association

Andy Cline photo

To: Senate Com on FI&I; House Com on CI&FI; KBA Board of Directors

Outstate thrifts drawn to Johnson County sites

From: HAS

By LOLA BUTCHER

Johnson County, land of expensive homes and an apparently endless construction boom, is becoming a statewide mecca for savings and loan associations.

From Salina and McPherson, Emporia and Eureka, they come, seeking a piece of Johnson County's ever-increasing financial pie. And, as the outstate S&Ls open offices and buy advertising, they realize the recipe for success in Johnson County is not the same one used in small towns across Kansas.

"We've found it (the Kansas City area marketplace) to be very aggressive and competitive," Richard Ross, senior vice president of Peoples Heritage Federal Savings and Loan Association, which has its home offices in Salina. "The market is much more rate-sensitive. Customers are less concerned with service and more concerned with rates."

Last July, Peoples Heritage entered the Johnson County market by acquiring a Shawnee Federal Savings branch operation at 7800 College Blvd.

Ross, the Overland Park branch manager as well as Peoples' eastern division manager, said that despite the high degree of competition, Johnson County likely will see more outstate institutions seeking to enter the market.

That's because the boomtown business level affords several opportunities to S&Ls that the stagnant economy of rural and small-town Kansas does not.

For example, Eureka Federal Savings & Loan Association is looking for loan volume.

"What would attract Eureka is residential construction activity and permanent residential financing in a growing, stabilized market," said Lynn McCarthy, president of J.C. Nichols Co. and a member of the group seeking to buy the Eureka-based S&L.

Eureka, whose six branches and home office currently have total assets of about $133 million, will open a Johnson County branch if the Nichols group receives approval to purchase the S&L, McCarthy said.

Peoples, on the other hand, came to the metropolitan area looking for deposits.

"We're not necessarily here for the lending" opportunities, said Ross, pointing out that Peoples has 19 other branches from which to originate loans. "We have not even started mortgage lending, though we hope to before too long."

Peoples tallied total deposits of some $435 million before the addition of the former Shawnee Federal branch, which reported 1985 deposit levels of $1.8 million.

Meanwhile, Pioneer Savings & Loan Association opened its Overland Park office this month to expand its heretofore one-office operation.

Peoples Heritage Federal Savings and Loan Association came to the metropolitan area looking for deposits.

McPherson-based Pioneer was purchased recently by Kansas City area banker Lee Greif, who saw Johnson County as the best place to grow, said Ralph Lewis, the S&L's new president.

"The deposit base is greater here; the residential business is strong," said Lewis, who believes the S&L market in Johnson County, while competitive, has room for new players.

Located at the intersection of 95th Street and Nall Avenue, Pioneer's new branch will be Lewis' base of operation although the home office will remain in McPherson. That office reported total deposits of $46 million last year.

Still other outstate S&Ls are moving into Johnson County with loan origination offices only.

Emporia-based Columbia Savings Association opened such an office in Overland Park Nov. 1.

"We have been very well received in the market," said vice president Dick East. "We have been very pleased."

Loan origination offices do not require approval of state or federal S&L regulators as they are technically affiliated with service corporations, or subsidiaries, of the S&Ls.

East said his office devotes its attention to residential lending, but it refers commercial loan business to a Santa Ana, Calif.-based affiliate, Cambridge Capital.

Also opening a loan origination office in Johnson County last year was First Mortgage Service Corp., a subsidiary of Pittsburg-based First Federal Savings and Loan Association.

Scott Berghaus, the company's vice president in charge of the College Boulevard operations, said the office opened last July to generate both residential and commercial loans.

It is astounding that such a "double standard" is allowed to continue!!! UNBELIEVABLE!!!

All this goes on & banks can't even add a 4th facility within its own city!!!

Attachment II
Senate F I & I - Feb. 3, 1987

-d's First Nationwide ɪo Expand Link to K mart

By a WALL STREET JOURNAL Staff Reporter

SAN FRANCISCO—First Nationwide Bank will significantly expand its branch network in K mart Corp. stores this year, according to Anthony M. Frank, chairman of the thrift.

First Nationwide, a Ford Motor Co. unit, first started placing branches in the discount stores in 1984. The S&L and its affiliates currently have offices in 53 K marts in California, Kansas and Michigan.

Mr. Frank declined to give further details about the expansion until a news conference scheduled for Monday. But he did say the relationship so far "has worked out for both of us. Since 52% of all Americans go into K marts once a month, it's a pretty good start on being a national consumer bank."

K mart is a Troy, Mich.-based discount retailer.

First Nationwide currently has offices in eight states, and it has federal permission to enter six others. While the thrift made several acquisitions in 1986, Mr. Frank said its top priority this year would be expanding in those 14 states. Branching through K marts would be part of that strategy, he added.

Ford's First Nationwide to Quadruple Its Branches in K mart Stores This Year

By JACOB M. SCHLESINGER
Staff Reporter of THE WALL STREET JOURNAL

DEARBORN, Mich.—First Nationwide Bank, unveiling a new strategy to expand its national presence quickly, said it will set up at least 150 new branches in K mart Corp. stores around the country this year.

The Ford Motor Co. unit, which previously said it planned to increase the number of its branches, said it hopes to continue expanding in the nation's second-largest retailer at that pace over the next several years.

While bank deregulation has caused many major banks to abandon serving lower and middle income groups, First Nationwide's chairman, Anthony M. Frank, said at a news conference here that the expansion in retail stores "might be the way you solve the problem of serving just plain folks."

Network Would Grow 50%

The move would also significantly strengthen the presence of Ford, which bought First Nationwide just over a year ago, in the financial services market. The San Francisco-based thrift is currently the seventh-largest savings institution in the country, but the K mart plan would quadruple the number of its branches in the discount stores and increase its total branch network nearly 50% in one year.

The plan "marks a significant step in Ford's plan for First Nationwide to expand into a national consumer financing institution," said James W. Ford, chairman of Ford Motor Credit Co., which oversees First Nationwide. "Financial services is one of the target areas for developing sources of earnings to complement Ford's automotive earnings," Mr. Ford added. "It's a major part of Ford's diversification."

step in the right direction for Sears, some

Many retail chains—including Sears, Roebuck & Co., J.C. Penney Co. and Kroger Co.—have in recent years begun offering various financial services to their customers, ranging from bank branches to insurance to stocks and bonds. Those programs have had mixed success, and K mart itself had troubles with an insurance subsidiary. But K mart's chairman and chief executive officer, Bernard M. Fauber, said that the First Nationwide experiment has been a success and that he hopes to place "at least 1,000" branches in the Troy, Mich.-based company's roughly 2,200 K mart stores "over the next five years."

The S&L first experimented with branches in K mart stores in 1984, and together with affiliates currently has 53 such branches.

By locating in K marts, First Nationwide saves substantial costs normally associated with setting up a free-standing branch, part of which it then uses to offer higher interest rates on certificates of deposits, Mr. Frank said. He added that existing branches in K marts offer CD rates an average of 0.3% to 0.4% above the market.

Average Account of $17,000

Those branches can also draw more K mart shoppers as customers, Mr. Frank said. The average K mart branch will attract $5 million to $6 million a year in deposits, he said, adding that the average account in existing branches is about $17,000.

K mart gets rent for the space, and a fee based on the size of First Nationwide's business. Mr. Fauber declined to provide specific numbers, but said he didn't expect a significant addition to the company's earnings from the expansion.

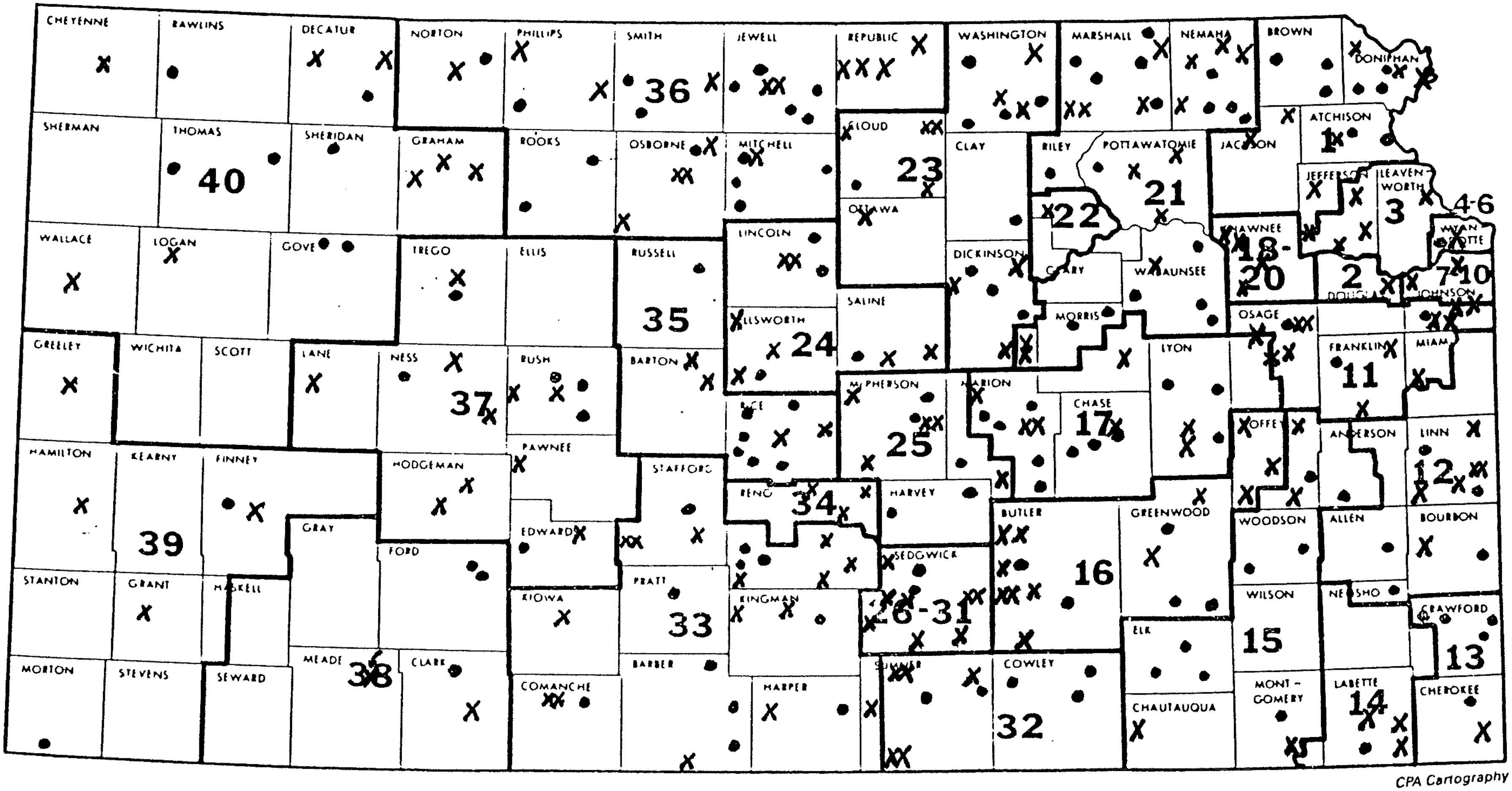
This year, First Nationwide will place new branches in California, Florida, Missouri, New York, Ohio and Pennsylvania, though more states may be added, the companies said.

First Nationwide will set up about 100 branches by itself. The other 50 will be opened by members of the First Nationwide Network, a group of independent, locally managed financial institutions that pay First Nationwide a fee in exchange for a variety of services.

In December, the thrift bought two ailing S&Ls in order to get regulatory permission to expand in several new states. Currently, First Nationwide has offices in eight states with permission to enter six others.

Attachment II
Senate F I & I - Feb. 3, 1987

KANSAS SENATE DISTRICT MAP



• Banks with $10 million or less in assets

x Banks with $10-25 million in assets

Attachment II
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	A	B	C	D	E
1	INSOLVENT BANKS IN KANSAS				
2	DATE	BANK	DEPOSITS	ASSUMED BY	MISCELLANEOUS
3	1982	None in Kansas (42 in U.S.)			
4	----------	----------	----------	----------	----------
5	1983 INSOLVENCIES--48 BANKS FAILED IN US				
6	9/6/83	Douglass State, Kansas City	31,156	Will Taliaferro, K. C.	
7	1				
8	----------	----------	----------	----------	----------
9	1984 INSOLVENCIES--79 Banks Failed in US				
10	1/27/84	Indian Springs St,KC	34,125	No one	
11	8/22/84	Thayer State	12,325	Virgil Lair, Erie	
12	10/10/84	Rexford State	4,052	Tim Sungren, Grinell	
13	10/25/84	First National, Gaylord	6,753	John Peters, Osborne	
14	11/29/84	Strong City State	5,107	Ed Costello, Tampa	
15	12/11/84	University St., Wichita	4,299	4th Ntl., Wichita	
16	12/20/84	Farmers St., Selden	12,470	Bob Gaskill, Wionona	
17	7	TOTAL DEPOSITS	79,131		
18	----------	----------	----------	----------	----------
19	1985 INSOLVENCIES 120 Banks failed in US				
20	5/2/85	Bank of Commerce, Chanute	69,299	Virgil Lair	
21	6/13/85	First State Bank, Edna	9,873	Bill Schmoll	
22	6/20/85	Farmers State Bank, Dexter	5,046	No One	
23	7/2/85	The Madison Bank	7,734	First Ntl, Madison	
24	7/18/85	Eskridge State Bank	8,550	Mack Colt	
25	7/23/85	The First National Bank, Onaga	20,401	Bachman, Saylor	
26	7/25/85	Kans. American, Overland Park	24,770	John Sullivan	
27	7/25/85	Citizens St. Eldorado	31,577	First Ntl, Wichita	
28	8/14/85	State Bank of Herndon	5,368	No one	
29	8/23/85	Bank of Bronson	9,890	No one	
30	9/25/85	Sedan State Bank	27,372	No one	
31	11/21/85	Farm & Merch. of Rush Co.	28,900	No one	
32	11/21/85	Decatur Co. National	12,900	Bob Gaskill, Winona	
33	13	TOTAL DEPOSITS	261,680		
34	----------	----------	----------	----------	----------
35	1986 INSOLVENCIES				
36	1/9/86	First Ntl., White City	9,100	Ken Haddock, Herington	1st in US
37	3/28/86	First St Bank, White Cloud	5,100	BRANCH of Silver Lake St.	$15,000 for deposits
38	5/1/86	Bank of Nortonville	6,400	BRANCH of Valley Falls	38th in US--$216,100 for deposits
39	5/15/86	Citizens St., St. Francis	22,000	Dale Goodwin, Goodland	
40	6/5/86	Citizens St., McCracken	10,552	No one	
41	6/19/86	First Ntl., Chanute	44,900	No one	59th in US
42	7/17/86	Bank of Kiowa	10,900	No one	
43	7/24/86	McCune St., McCune	7,800	BRANCH of City Ntl, Pittsbrg	77th in US--$116,000 for deposits
44	8/7/86	Easton St., Easton	15,900	Exchange Bancshares, Atchsn	Fort Ntl. Bank--$401,000 prm. -84th in US,40th Ag
45	8/14/86	St. Exchange Bank, Yates Center	24,800	BRANCH of Girard Ntl.	$353,000 premium
46	8/21/86	United Bank of Minneapolis	21,600	BRANCH of Benngtn St.	376,000 premium/FDIC kept $6.4mm assets
47	9/25/86	Home State Bank, Lacrosse	12,400	BRANCH of Farmers, Albert	103 in US/312,000 premium/FDIC kept 7.8mm asset
48	11/13/86	Hoxie State Bank, Hoxie	32,100	Tim Sungren, Grinell	123 in US/51k premium/
49	+	Hays 13 14	223,552		
50					
51	1986 ASSISTANCE PRIOR TO INSOLVENCY				
52	4/16/86	Talmage St. Bank	9,960	FDIC loan of 1.7mm	
53	8/15/86	State Bank of Westphalia	4,100	mrgd BRANCH of Ks St Garnett	FDIC loan guarantee of $277,000
54					
55	4 YR TOTALS	34	595,519		

Attachment II
Senate F I & I -- Feb. 3, 1987

Bank Closure Worries Town

Residents Fear Knell Has Sounded for Herndon

By Stan Finger
Of Our Western Kansas Bureau

HERNDON — On a dreary gray summer day, grim residents of Herndon on Thursday began paying last respects to their tiny town.

Federal and state officials locked the doors of the State Bank of Herndon — the ninth Kansas bank to close this year — at noon Wednesday. Residents fear that the closing has sounded the death knell for this northwest Kansas community of 200 about 40 miles northeast of Colby.

"It's very crushing," said Joann Malone as she looked out the window of her grocery store, a few doors down from the bank. "To me, we've lost our town. I think the bank is the backbone of a community. If you don't have a bank, it's hard to keep going."

CHARTERED IN 1901, the bank was the oldest business on a scanty main street whose brick buildings maintain much the same look they had when they were built during the Depression.

"That bank was the heart of the town," said Herndon postmaster Francis Escher. "It was known that the bank was in trouble, but there wasn't anybody who thought it would close."

Officials would not discuss details of the bank's demise. But Diane Dierks, who is overseeing the liquidation of the bank for the Federal Deposit Insurance Corporation, said the bank had been in serious trouble for several months because of a combination of what she called "lax lending policies" and a sagging farm economy.

"DO YOU realize you can take two bushels of wheat down to the barber shop when you want to get a haircut and still owe 6 cents?" asked retired farmer Fritz Nemeth as he cradled a cup of coffee at Pooch's Pizza, Herndon's chief hangout. "That's why the bank closed."

More than 40 FDIC agents descended on the Rawlins County town Wednesday to begin shutting the bank, and the agents spent Thursday shuttling back and forth between the bank and a closed cafe across the street that is being used as office space to audit bank records.

"I haven't seen this many coats and ties and attache cases in the four years I've been here," joked Julie Delaney Solko, a teacher at Atwood who lives in Herndon.

WHILE THE scores of agents' cars parked up and down the street gave downtown Herndon a busy look, there was little movement except for an occasional stroller studying the closing order

● BANK, 4B, Col. 1

Residents of Herndon Fear Closing's Effects

● BANK, From 1B

on the bank's front door and curious farmers crawling by in their pickups.

Most residents found themselves able to do little more than wait for Saturday, when officials will begin distributing the bank's $5.5 million in assets to its 1,200 customers. The FDIC insures all deposits up to $100,000, and Dierks said all depositors would be covered.

Nevertheless, residents say, knowledge that the bank's doors are shut for good has stunned the town.

"PEOPLE DIDN'T realize that closing the bank was that serious," Malone said as she stood next to a hand-written notice informing customers that checks drawn on State Bank of Herndon accounts no longer would be honored.

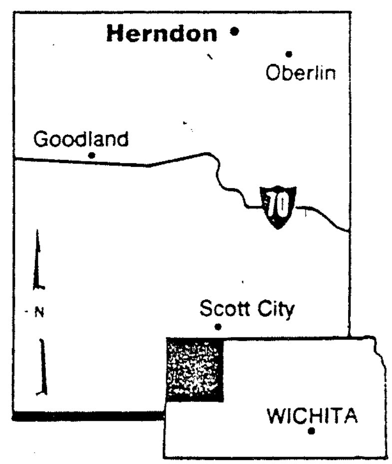
"You can't pay your bills. You'd better have cash if you want to buy something. You just can't buy something like you used to."

Solko said the townspeople are facing up to some sobering questions.

"Yesterday, when the bank closed, it was kind of a shock," she said. "Today, I think reality is sinking in. People are asking, 'Why did this happen to us?' and there's the impending fear of 'What do we do now?' You play it all in your mind and ask all the questions. Where do you go?"

THE NEAREST bank is the Farmer's State Bank in Ludell, 10 miles away, and residents also have talked about taking their money to Atwood, Oberlin, Colby or McCook, Neb. But the Herndon bank's failure has planted seeds of doubt in some residents' minds and spawned gallows humor.

"I got a check from a renter, but I've got no place to put it," L.E. Chambers said as he went



through his mail at the Herndon post office.

The bank's collapse also has residents worried about the future of other foundations of a small town: the school and churches. According to Kansas State High School Activities Association records, Herndon High School's 1984-85 enrollment of 21 students is the second-lowest in the state.

"This place is going to be a ghost town," said gas station manager Elery Aumiller. "Our school's going to be closed in a couple of years. How long can it keep going?"

Dexter Sure New Bank Saved Town

By R. Robin McDonald
Staff Writer

DEXTER — It was the tallest building on Main Street, which ends in rolling pastureland a few short blocks away. Except for the school down the road, it was the largest building, and the only one with a hitching post — an indication of its historic importance to Dexter's 300 residents. It also was the only bank in town.

So when Farmers and Merchants Bank of Dexter failed last year, some townspeople, many of them retired ranchers and farmers, feared the loss might also be the death knell of this tiny southeast Kansas town.

ON SATURDAY, almost a year later, Union State Bank of Arkansas City opened a Dexter branch — a move that many residents said they hoped would ensure Dexter's survival.

"I don't think that without it we had any sort of hope," said Dexter resident Floyd Reeves. "With it, you can look down the road hoping things might happen."

The Farmers and Merchants Bank in Dexter was the first of three Kansas banks to fail last year that were not bought by larger banks and subsequently reopened. Its collapse forced Dexter residents either to bank by mail or to commute more than 15 miles to Arkansas City, Winfield, Cedar Vale or Burden whenever they needed to cash a check.

But a new state banking law, which the Kansas Legislature passed this year, eased restrictions that had forbidden branch banking and allowed the Arkansas City bank to open a branch in Dexter in the Farmers and Merchants bank building on Main Street.

"I think it's a historic day in Kansas banking," said Jim Maag, director of research with the Kansas Banking Association, who was in Dexter on Saturday for the opening. "... I think it keeps the community alive. The two worst things that can happen to a community are to lose its bank and to lose its school. State history shows that a community dissolves when it loses its bank and loses its school."

● BANK, 9A, Col. 1

THE WICHITA EAGLE-BEACON Sunday, June 1, 1986 9A

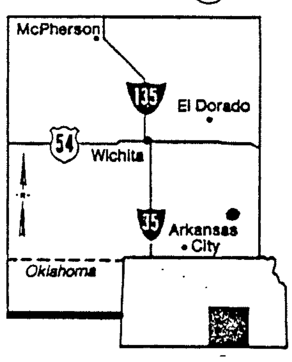
Dexter Gives Sigh of Relief for Bank

● BANK, From 1A

ACCORDING TO bank president Bill Docking, Union State Bank is "the first to bring back banking to a town that's lost a bank.... We thought about it long and hard. I didn't think the area was large enough to support a fully capitalized bank. But I believe it is (big enough) to support a branch."

Docking was joined by his brother, Lt. Gov. Tom Docking, and his mother, Meredith Docking, at a bank-sponsored hot dog roast at the Dexter branch on Saturday. The lieutenant governor, the Democratic candidate for governor, and his mother are Union State Bank officers. But although several of his Wichita campaign workers were at the weinie roast sporting "Docking for Governor" T-shirts, the lieutenant governor insisted that he was in Dexter "as a family member and an officer of the bank. It's not a political deal at all."

"Our family, through the Union State Bank in Arkansas City, has been able to use new legislation to come into this town and reopen a failed bank so people in Dexter have services," Docking said firmly. "Banking is a vital service in this town, and many towns can't survive without these banks. ...



From every perspective it makes good sense — from the bank's perspective, from the town's perspective...I don't see it as political."

But Floyd Reeves noted, "I don't think it will hurt him any. He should carry Dexter, shouldn't he?" And 85-year-old Dexter resident Fairest Hacker, who banked with Farmers and Merchants for 70 years before it failed, insisted on introducing Docking to people entering the bank as "our next governor."

Mayor Margaret Lister became the first customer, making arrangements Saturday to deposit the town's funds at the Dexter branch. "Most people are opening accounts again," she said. "It means we can do business in town instead of leaving town.... I think the people of Dexter are survivors, and we appreciate having a business here and will patronize it. ... I believe the people of Dexter never gave up hope."

Rep. Jack Shriver, D-Arkansas City, said the branch bank in Dexter "pumps life back in the community, it certainly does." And Dexter residents, he continued, "think this is going to be the salvation of the community. It makes them feel like they're not standing here by themselves, that people really care about Dexter."

THOSE WHO gathered outside the bank on Main Street, eating grilled hotdogs smothered with homemade chili and cheese, agreed. "I'm happy, happy, happy. We love it," said Catherine Reeves. "It saves a lot of traveling. We're glad to have it back here."

Said Dexter resident LaVon Howard: "Banks are the heart of your town. Your community is almost built around banks and schools. With both of them, it's complete."

Leon Faber enjoys his ice cream bar at the cookout.

Attachment II
Senate F I & I - Feb. 3, 1987

FirsTier℠ Perspectives

Volume 1, Number 3 Published by FirsTier Management Consultants Winter 1987

Industry Perspective

An Interview with NBA President C. G. "Kelly" Holthus

EDITOR'S NOTE: FirsTier *Perspectives* is pleased to present this interview with C. G. "Kelly" Holthus, president of the Nebraska Bankers Association.

***PERSPECTIVES:* What is your outlook for community banks in Nebraska?**

HOLTHUS: I think the community banks have a very positive future, and that may be contrary to a lot of things that you read and hear. I know the statistics show how our return on assets continues to drop each year. A lot of this, of course, is because of loan charge-offs. I think there's a very real need for community banks. But in order for us to compete, we are going to have to do a better job. I think we are going to have to know how to plan, to budget, to train our people, to market our product, to come up with new ideas and new products, and be very positive in our approach. I think we can compete if we take the right steps.

***P:* Do you see a community bank becoming more important as a regional hub kind of institution?**

Not allowed in Kansas!

H: Yes, I do think that you are going to see community banks become regional hubs. I'm not saying there isn't a place for the $5 million, locally-owned bank in a small community. I think that they will survive in a lot of cases. But in other cases, the people in those banks do not want to operate in what they see as the future environment. So banks will join together in a hub concept, where you are going to see more banks in Nebraska with $100 to $200 million in assets, and they're going to have offices in the other, smaller communities. We'll see more of this rather than the stand-alone banks in those communities, because there are so many technical things that we need to work on together.

***P:* Do you see ag banks as being different in various respects from other banks that we might call community banks?**

H: I see a change that the ag banks are going to have to go through. We are going to have to look for other types of loans, and other types of business. You may call this an opportunity because we may get into something that will work even better for us than what we have been doing in the past. However, it's going to require retraining our people and changing our own thoughts on how to manage those ag banks. I think the opportunity is still there and the future is still good for them. They have to adjust to the times.

***P:* Then that would extend to the outlook for the ag producer and the ag businessman himself, the farmer. Are there opportunities that we should be pursuing a little harder as far as diversifying?**

H: I think that for our farm economy to really prosper, we need to be diversified. I sat in on a meeting in Ames, Iowa, a year ago and heard a banker from Michigan say they did not have a problem in Michigan because they raised 200 kinds of crops. Well, considering our climate, why aren't we raising a variety of crops in Nebraska? There is opportunity to diversify in Nebraska because we have the soil, we have the water, and there are other crops that grow well in our climate. As we change our attitude on these things, I think we will find opportunities which will not only help our farmers but also our bankers.

"... I think we will find opportunities which will not only help our farmers, but also our bankers."

We are still going to be big in the production of corn and wheat and milo and beans, but we can have other crops to add to our total production.

The other thing that I see is industrial development. We can promote industrial development in this state, and we can have people farming and working at a job. I had a banker in a small bank close to a metropolitan area tell me that

C. G. "Kelly" Holthus

70 percent of his farm customers had an off-farm job. I think that is very important for the survival of our agriculture community and for the survival of our community banks. I personally do not feel that any of this is bad, it's just an adjustment period we are going through.

***P:* How is the NBA involved in industrial development?**

H: The Nebraska Bankers Association has a newly-formed Task Force on Industrial Development. Governor Kerrey met with us to try to give us the direction we need to get this committee going. In most towns and communities, the bankers are leaders in this area. So we are bringing those leaders together to form a pool of knowledge and, hopefully, in some way, help Nebraska. If one town in an area gets a new industry, it helps everyone in that area. We all need to work for the good of Nebraska. That is what we try to do through the Nebraska Bankers Association. As of yet, we haven't focused on the specific area in which we are going to work, but it is the first time that we have been involved in this type of activity.

(Continued on page 4)

Attachment II
Senate F I & I - Feb. 3, 1987

BANKING'S PRESENCE IN RURAL KANSAS COMMUNITIES
AND THE NEED FOR BRANCHING BY ACQUISITION

Murray D. Lull
Smith Center, Kansas

Attachment III
Senate F I & I - Feb. 3, 1987

Rural banking in Kansas may be at the most important juncture in our time relative to the banking presence in small communities.

As of year-end 1985, there were just over 600 banks in Kansas:

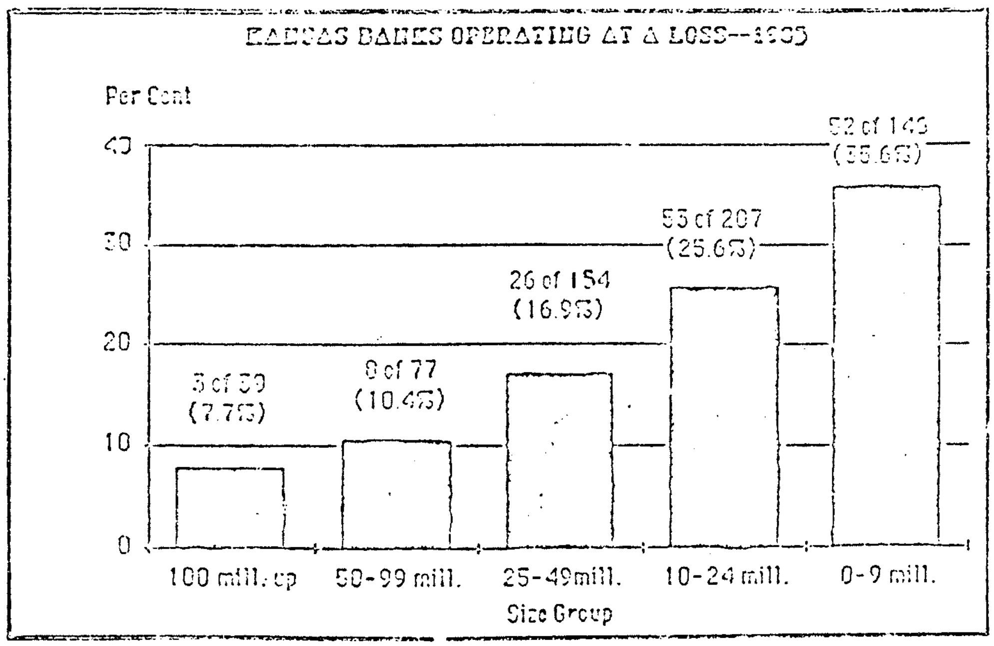
- of these, 248 (40%) are in communities of 1,000 people or less;
  - of these, 147 (23.7%) are in communities of 500 or less;
    - of these, 70 (11.3%) are in towns of 250 or less (Freeport, with a population of 12, is the smallest community with a bank).

The size of a community is no indication, necessarily, of the size of the bank, nor of the skills of the managers. Some very fine banks, and some exceptional bankers are in small communities. The services that small-town banks deliver are essentially the same services that our big-city banking friends deliver.

A problem that is developing, however, is one of evolution involving the makeup of small towns, their continuing losses of population, their residents' rising median age, transportation problems, and the shrinking number of mainstreet businesses.

Add to this shrinking rural scene a heavy pressure, at this time, on these small-towns' banks, because they serve, for the most part, agriculture. The losses that some rural banks are taking on their loans to farmers are eroding the capital of these banks, and eating away the satisfaction of the small-town bankers in serving their communities.

The chart below is indicative of the earnings pressures that some banks are experiencing. 142 Kansas banks lost money in 1985, representing 22.8% of our State's 623 banks. Of much more concern, however, is the concentration of those banks losing money in the range of smaller banks. 35% of the banks under $10 million in assets lost money in 1985, and 25% of the banks in the $10 to $25 million range found themselves in the loss category as well. Most of these smaller banks are located in smaller Kansas communities, and those that have negative earnings find that the future is troublesome, indeed.



There are a number of things to keep in mind about small-bank ownership in Kansas:

1) Generally, the owner is also the manager of the bank, living in that community.
2) Each bank requires its own separate capital base, and that capital sets limits on lending and other services, such as trust.
3) Each bank has its own distinct board of directors, and they are increasingly difficult to recruit because of potential liability exposures.
4) Each bank requires its own staffing from top to bottom, and its own accounting system, allowing little chance for improving efficiencies in delivering services to a limited customer base.
5) The investment in a small bank is sizeable when compared to the customer base, earnings, potential, and risks that come with banking.
6) If a bank sells, the new owner must be qualified both managerially and financially, more so in the last several years.

7) No prospective bank owner can buy a bank unless the present owner wants to sell. There is no such thing as a hostile takeover in small-town banking.
8) Eventually, for reasons of owner/manager retirements and others, banks in our smaller communities will need to be sold.

The question then becomes "who will be the prospective buyer of the bank when time for sale comes, and will he be the same type of owner as the seller, willing to live in a small town, and be able to make a living, and at the same time, service the probably sizeable acquisition debt on a relatively small earnings base?"

Evidence seems clear at this point that there is practically no interest on the part of the major multi-bank organizations to invest in banks in low population areas, where, as pointed out above, a lot of Kansas banks are located.

For the very reasons that small town populations are dwindling, fewer individual prospects for buying these banks exist. Finding those that would be satisfied with small-town life, and at the same time have the financial resources suitable to bank ownership requirements, is going to be increasingly difficult.

There may be a time fast approaching when we will see smaller banks desiring to form alliances through merger/branching arrangements to keep banking services in these small communities.

If retaining banking services in these small towns now served by Kansas banks is desirable, and surely in the short-term it is, new avenues must be developed to allow opportunities to enhance efficiencies in delivering banking services and to encourage small bank alliances.

It would seem that the State of Kansas and Kansans would be well served by legislation that would not only allow, but encourage, the formation of alliances through branching by acquisition, so that banking services can remain as an in-town convenience for many of our small communities. Without such legislation, it seems inevitable that banking service will not be able to be sustained on a unit bank basis in some places.

For example, the First National Bank of Lebanon, Kansas, is small bank in a town of 400 people. In 1985, the owners had an investment of about $1.2 million in the bank's capital, and this investment constituted a satisfactory and necessary capital base relative to the asset size of the bank ($12 million). The owners desired to sell the bank to allow their retirements from an active banking capacity. To buy this bank, the prospective owner needed to come to this town of

400 people with an equity (non-debt) of at least $300,000 to invest as his "downpayment", and then needed to borrow and service a debt of $900,000 that would complete the purchase amount. The bank's historical earning ability did not necessarily indicate that it would be capable of retiring this amount of debt in a time span that would meet the requirements of the Federal Reserve Board and a potential correspondent bank lender, and at the same time allow the new investor a reasonable return consistent with the amount of his required equity investment.

Three possibilities were available in 1985 to the owners of the Lebanon bank: a) a sale of the bank to a purchaser, if one that would be qualified could be found; b) voluntarily close the very healthy bank to allow them to regain their investment, leaving the community without a banking facility; or c) through an alliance arrangement, sell to a neighboring group of bankers that would be willing to buy the bank in the hope that, while it would return them little on their equity investment, it might afford an opportunity for the community to enjoy a banking facility, and an opportunity for the potential buyers to create efficiencies through the establishment of a branch facility in Lebanon that would allow and assure the availability of banking service in that community for a number of years down the road.

The potential new owners could buy the Lebanon bank, and then merge it into their neighboring bank, but instead of closing the Lebanon bank, as they would be required to do because of present banking laws in Kansas, they could leave the banking facilities in Lebanon as a branch offering all the banking service that Lebanon had enjoyed in the past, plus new services that the bank had been too small to offer previously.

The synergy in the transaction would bring greater lending benefits to the Lebanon community, access to additional services to the Lebanon customers, the assurance to the community that financial services would not be curtailed, and to the investors in the bank-turned-branch a chance to maximize efficiencies of accounting, investing, lending, and staffing. Such efficiencies would add to the assurance that, financially, the investors could afford to continue providing banking service to the Lebanon community.

Would there be any disadvantages to the Lebanon community if branching by acquisition were allowed by Kansas law?

Hopefully not. The owners of the bank still would have had the opportunity to sell the bank in the most favorable way they could, to whomever they chose, but the ability of banks to branch by acquisition would allow a greater number of interested buyers to compete for the acquisition, hence the present owners of the Lebanon bank would enjoy a better chance to realize an optimum sale, if they otherwise could have sold the bank at all. The community would still be assured that a banking facility would remain, because, remember, the Lebanon bank would have to be purchased, at a significant price to the buyers, before any of the elements of branching by acquisition could be applied, and the purchasers would not be about to offer the community anything less than the maximum services possible to protect and pay for their investment in the Lebanon facility.

It seemed clear that the Lebanon community would be the big winner because of the assured continuity of banking service.

And like Lebanon, Kansas, population 400, the more than 200 other small towns that are presently served by banks in their communities may well need the legislation allowing branching by acquisition more than any other parties in question. Will there be branch banking by acquisition abilities in Kansas to give these small-town banks and their communities hope, or in its void, should these communities be dreading the day when they will be without still another business on their mainstreets --- their bank?

With an increasing number of branch banks in Kansas being created out of failed or failing bank situations, it is ironic that those troubled banks create expansion opportunities through branching that are denied to those well-run and capable banks that would like to form alliances through mergers and branching that would keep already healthy banking service alive and well in many of our small communities.

The benefits offered in the ability to branch by acquisition, on a healthy-bank basis, deserve prompt and serious study, and a timely legislative allowance.

Attachments: Appendix A; B; and C

6

REFLECTIONS ON THE STUDY IN APPENDICES A, B, AND C

The pages that follow contain data that was developed for the purpose of looking at four northcentral Kansas counties (Smith, Phillips, Jewell, and Osborne), considering the towns, banks, and population, in the context that if any of the twenty-three banks in the four counties were for sale, what would the financials and feasibilities look like for a successful unit-bank purchase. There is no reason to believe that any of the banks listed are presently for sale. The data is developed from financial reports of the banks for 1984 and 1985. The critical issues appear to be numerous and include: a) inefficient per capita investment in capital in the banks; b) markets with low population bases; c) insufficient bank earnings, in most cases, to support being purchased; and d) a relatively large number of banks for a relatively lowly-populated area.

In the "what if" looks at these twenty-three banks, it was assumed that they would be purchased, with debt serving as 75% of the purchase price, and with two looks at dividends used to service that debt --- a dividend policy that pays out 50% of net earnings of the purchased bank, and a policy that pays out a relatively high 75% of net earnings. It was assumed that the earnings reported currently for each of the banks would be available each year for debt service. In those cases where reported income was low, or negative, in a number of banks, repayment ability, or the lack of it, may be underestimated. However, given the disturbing trend of low bank earnings, and losses in many cases, the issue of sustaining bank ownership over the foreseeable future is of concern.

Given that the Appendix A data for both 1984 and 1985-based studies indicates that only one of the twenty-three banks studied utilizing a 50% dividend policy can provide sufficient cash flow to service the acquisition debt, if it were purchased, lends strong argument that there are other benefits to branching by acquisition.

Utilization of a consolidated cash flow from the acquired and absorbed bank with that of the acquiring/absorbing bank seems necessary to adequately service the acquisition debt of the acquired bank. Assuming that the financial condition of the acquiring bank is satisfactory, and that it might have relatively little, if any, debt prior to the acquisition and absorption of the second bank, the combination of banks could more safely repay the acquisition debt compared to a unit-bank purchase situation with no absorption by another.

Attachment III
Senate F I & I - Feb. 3, 1987

It appears some correspondent banks that have, in the past, provided financing for bank purchases have now tightened credit available to purchasers somewhat, through stronger financial and demographic requirements, and it is probable that obtaining as much as 75% acquisition financing right be difficult in some instances. The strengthened cash flow, and additional collateral available, that would come from a purchase and absorption situation should make financing a much more attractive and feasible proposition.

APPENDIX A

To lend support to the appropriateness of branching by acquisition, and its potentials for aid to small communities, attached are tables describing the banking situations in Smith County, and the counties contiguous to it: Jewell, Osborne, and Phillips.

Understanding that purchase preferences, financing requirements, equity needed, and other terms will vary with each bank and its potential for sale, or for purchase and/or merger with a resulting branch, the tables following utilize the assumption that the bank, for financing purposes, will be sold/purchased for book value, and that each such transactions will involve equity provided by the purchaser of 25% of the amount of sale, with the remaining balance (75%) financed.

Please review the pages that follow and address the question, "Will there be any buyers of some of these banks, as the times come for them to sell, without the option of branching by acquisition as an alternative?"

APPENDIX A

TABLE 1

BANKING IN SMITH, JEWELL, PHILLIPS, AND OSBORNE COUNTIES

COUNTY	COUNTY POPULATION	NUMBER OF BANKS	PEOPLE PER BANK	1985 YEAR-END DEPOSITS	1985 YEAR-END CAPITAL	CAPITAL INVESTMENT PER CAPITA
JEWELL	5,241	7	749	58,711,000	5,811,000	1,109
PHILLIPS	7,406	5	1,481	113,366,000	12,586,000	1,699
OSBORNE	5,959	6	993	90,625,000	10,111,000	1,697
SMITH	5,947	5	1,189	103,625,000	10,345,000	1,740
TOTAL	24,553	23	1,068	366,327,000	38,853,000	1,582

AS A COMPARISON . . .

SALINE	48,905	7	6,986	367,947,000	28,742,000	588
SHAWNEE	154,916	16	9,682	1,036,769,000	94,169,000	608

Population data is 1980 Census. The 1986 population in the four-county area is undoubtedly less.

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APPENDIX A

TABLE 2

BANKING IN SMITH COUNTY

TOWN		BANK	1985 YEAR-END DEPOSITS	1985 YEAR-END CAPITAL	IF SOLD . . . * 25% EQUITY REQUIRED	BALANCE TO BE FINANCED
SMITH CENTER Population:	2,240	The Smith County State Bank and Trust Company	41,709,000	3,827,000	957,000	2,870,000
		First National Bank	35,148,000	3,684,000	921,000	2,763,000
KENSINGTON Population:	681	First National Bank	7,997,000	1,066,000	266,000	800,000
LEBANON Population:	440	First National Bank	12,412,000	1,206,000	301,000	905,000
GAYLORD Population:	203	Farmers National Bank	6,359,000	562,000	140,000	422,000
			103,625,000	10,345,000		

(*) Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14-year period. See Appendix B and C for purchase and repayment data.

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APPENDIX A

TABLE 3

BANKING IN JEWELL COUNTY

TOWN		BANK	1985 YEAR-END DEPOSITS	1985 YEAR-END CAPITAL	IF SOLD . . . * 25% EQUITY REQUIRED	IF SOLD . . . * BALANCE TO BE FINANCED
MANKATO Population:	1,205	First National Bank	13,341,000	959,000	240,000	719,000
		State Exchange Bank	12,223,000	1,416,000	354,000	1,062,000
ESBON Population:	234	State Bank of Esbon	7,587,000	800,000	200,000	600,000
BURR OAK Population:	366	Burr Oak State Bank	4,816,000	686,000	172,000	514,000
FORMOSO Population:	166	The Formoso Bank	5,833,000	439,000	110,000	329,000
JEWELL Population:	589	Citizens State Bank	9,194,000	890,000	222,000	668,000
RANDALL Population:	154	The Randall Bank	5,717,000	621,000	155,000	466,000
			58,711,000	5,811,000		

(*) Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14-year period. See Appendix B and C for purchase and repayment data.

APPENDIX A

TABLE 4

BANKING IN PHILLIPS COUNTY

TOWN	BANK	1985 YEAR-END DEPOSITS	1985 YEAR-END CAPITAL	IF SOLD . . . * 25% EQUITY REQUIRED	BALANCE TO BE FINANCED
PHILLIPSBURG Population: 3,574	First National Bank	69,275,000	6,998,000	1,749,000	5,249,000
AGRA Population: 321	Farmers National Bank	18,062,000	1,619,000	405,000	1,214,000
LOGAN Population: 720	First National Bank	4,256,000	1,474,000	368,000	1,106,000
LONG ISLAND Population: 187	Commercial State Bank	10,007,000	1,038,000	259,000	779,000
STUTTGART Population: 100	Farmers State Bank	11,766,000	1,457,000	364,000	1,093,000
		113,366,000	12,586,000		

(*) Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14-year period. See Appendix B and C for purchase and repayment data.

APPENDIX A

TABLE 5

BANKING IN OSBORNE COUNTY

TOWN	BANK	1985 YEAR-END DEPOSITS	1985 YEAR-END CAPITAL	IF SOLD . . . * 25% EQUITY REQUIRED	BALANCE TO BE FINANCED
OSBORNE Population: 2,120	Farmers National Bank	17,284,000	1,859,000	465,000	1,394,000
	First State Bank	12,759,000	1,045,000	261,000	784,000
PORTIS Population: 172	First State Bank	1,857,000	252,000	63,000	189,000
DOWNS Population: 1,324	Downs National Bank	14,910,000	1,213,000	303,000	910,000
	State Bank of Downs	23,464,000	3,396,000	849,000	2,547,000
NATOMA Population: 515	First National Bank	20,351,000	2,346,000	586,000	1,760,000
		90,625,000	10,111,000		

(*) Assuming that the capital of each bank is at a normal operating level, and if that bank sold, the acquiring party would be required to furnish equity in the purchase roughly equal to 25% of the purchase price, and could then finance the balance of the purchase. This also assumes that the bank is bought with no premium over book value attached. Repayment requirements of the Federal Reserve Board limit the practical term of financing to a 12 to 14-year period. See Appendix B and C for purchase and repayment data.

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APPENDIX B

Purchase and repayment studies follow in this appendix for the twenty-three banks listed in Appendix A. Both 1984 and 1985 data is used, relating, for each year, capital, total assets, and earnings, and the potential abilities for repayment of acquisition debt on a unit-bank basis. Other assumptions embedded in the study are that the bank does not grow appreciably during the period of repayment of the acquisition debt, that the financing interest rate is 9.50% in 1984-based data, and 8.00% in 1985, that the financing is over a 12-year period, and that dividends of net after-tax earnings of the bank are paid to a holding company owning 100% of the stock of the bank, thereby utilizing a consolidated income tax return and tax benefits from the subsidiary bank for cash flow on the repayment of debt. Assumed income tax rate of 36% for 1984-based data, and 39% for 1985, has been used. Earnings of the bank reflect 1984 and 1985 earnings reported, respectively.

The banks in the four-county area have been numbered 1 through 23, in no particular order and are otherwise not identifiable except by comparison of data with Appendix A. Financial data used is publicly available.

For 1984 data projections, five of the twenty-three banks in the study had negative earnings, and thus had no repayment ability based on that year's earnings. Similarly, five banks reported negative earnings in 1985.

For both 1984 and 1985-based projections, only one bank of the twenty-three could repay the 75% acquisition debt over the twelve-year period on a 50% dividend policy.

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1984-BASED ACQUISITION DATA

50% DIVIDEND POLICY

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ENDIX B

1984-BASED ACQUISITION DATA --- 50% DIVIDEND POLICY
(Amounts expressed in thousands)

BANK NO.	1984 YE CAPITAL	1984 YE TOT ASSETS	CAPITAL TO TOT ASSETS	25% REQ EQUITY	BAL TO BE FINANCED	1984 EARNINGS	50% DIVIDEND	ANNUAL DEBT SERVICE	CAN DEBT BE SERVICED?
1	873	12,350	7.07%	218	655	115	58	94	NO
2	1,293	13,910	9.30%	323	970	160	80	139	NO
3	701	8,517	8.23%	175	526	79	40	75	NO
4	687	6,061	11.33%	172	515	81	41	74	NO
5	460	5,680	8.10%	115	345	128	64	49	YES
6	(BANK HAD NEGATIVE EARNINGS)								
7	(BANK HAD NEGATIVE EARNINGS)								
8	(BANK HAD NEGATIVE EARNINGS)								
9	(BANK HAD NEGATIVE EARNINGS)								
10	1,470	5,648	26.03%	368	1,103	72	36	158	NO
11	1,279	10,909	11.72%	320	959	75	38	137	NO
12	1,342	11,360	11.81%	336	1,007	145	73	144	NO
13	1,626	19,585	8.30%	407	1,220	190	95	175	NO
14	1,194	15,715	7.60%	299	896	146	73	128	NO
15	252	2,055	12.26%	63	189	35	18	27	NO
16	1,135	15,406	7.37%	284	851	51	26	122	NO
17	3,113	26,886	11.58%	778	2,335	313	157	334	NO
18	2,103	22,749	9.24%	526	1,577	271	136	226	NO
19	3,586	45,880	7.82%	897	2,690	403	202	385	NO
20	3,066	37,992	8.07%	767	2,300	475	238	329	NO
21	1,016	8,531	11.91%	254	762	71	36	109	NO
22	1,057	14,050	7.52%	264	793	110	55	114	NO
23	(BANK HAD NEGATIVE EARNINGS)								

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1985-BASED ACQUISITION DATA

50% DIVIDEND POLICY

1985-BASED ACQUISITION DATA --- 50% DIVIDEND POLICY
(Amounts expressed in thousands)

BANK NO.	1985 YE CAPITAL	1985 YE TOT ASSETS	CAPITAL TO TOT ASSETS	25% REQ EQUITY	BAL TO BE FINANCED	1985 EARNINGS	50% DIVIDEND	ANNUAL DEBT SERVICE	CAN DEBT BE SERVICED?
1	959	14,528	6.60%	240	719	131	66	95	NO
2	1,416	13,777	10.28%	354	1,062	89	45	141	NO
3	800	8,539	9.37%	200	600	74	37	80	NO
4	686	5,546	12.37%	172	515	27	14	68	NO
5	439	6,369	6.89%	110	329	4	2	44	NO
6	(BANK HAD NEGATIVE EARNINGS)								
7	(BANK HAD NEGATIVE EARNINGS)								
8	6,998	76,963	9.09%	1,750	5,249	463	232	696	NO
9	1,619	20,338	7.96%	405	1,214	157	79	161	NO
10	1,474	5,767	25.56%	369	1,106	49	25	147	NO
11	(BANK HAD NEGATIVE EARNINGS)								
12	1,457	13,454	10.83%	364	1,093	89	45	145	NO
13	1,859	19,793	9.39%	465	1,394	262	131	185	NO
14	(BANK HAD NEGATIVE EARNINGS)								
15	(BANK HAD NEGATIVE EARNINGS)								
16	1,213	16,518	7.34%	303	910	139	69	121	NO
17	3,396	27,315	12.43%	849	2,547	259	130	338	NO
18	2,346	23,174	10.12%	587	1,760	263	132	233	NO
19	3,827	46,249	8.27%	957	2,870	209	105	381	NO
20	3,684	39,641	9.29%	921	2,763	740	370	367	YES
21	1,066	9,194	11.59%	267	800	68	34	106	NO
22	1,206	13,935	8.65%	302	905	152	76	120	NO
23	562	7,021	8.00%	141	422	8	4	56	NO

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APPENDIX C

This section reflects similar data to that in Appendix B, except that a 75% dividend is utilized. A payout of this relatively high level over the twelve-year period would prohibit much, if any, growth of the bank, nor would it allow for much coverage of capital should significant loan losses be incurred by the bank.

As stated in Appendix A, for both 1984 and 1985-based data, five of the banks in the group of twenty-three had negative earnings. In several instances where a bank is indicated to be able to service its debt, but that the dividend shown does not equal or exceed the required debt service amount, tax benefits cash flows to the holding company fund the shortfall of the dividend to the required debt service.

This appendix reflects that using 1985 data, only six out of the twenty-three banks could repay a 75% acquisition debt over the twelve-year period on a relatively high 75% dividend policy. This reflects a deterioration in abilities to finance successfully from the 1984 data which indicated that eleven out of the twenty-three could have successfully retired the acquisition debt. Poorer earnings for 1985 obviously were the cause in the decrease in debt service abilities.

1984-BASED ACQUISITION DATA

75% DIVIDEND POLICY

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1984-BASED ACQUISITION DATA --- 75% DIVIDEND POLICY
(Amounts expressed in thousands)

BANK NO.	1984 YE CAPITAL	1984 YE TOT ASSETS	CAPITAL TO TOT ASSETS	25% REQ EQUITY	BAL TO BE FINANCED	1984 EARNINGS	75% DIVIDEND	ANNUAL DEBT SERVICE	CAN DEBT BE SERVICED?
1	873	12,350	7.07%	218	655	115	86	94	YES
2	1,293	13,910	9.30%	323	970	160	120	139	YES
3	701	8,517	8.23%	175	526	79	59	75	YES
4	687	6,061	11.33%	172	515	81	61	74	YES
5	460	5,680	8.10%	115	345	128	96	49	YES
6	(BANK HAD NEGATIVE EARNINGS)								
7	(BANK HAD NEGATIVE EARNINGS)								
8	(BANK HAD NEGATIVE EARNINGS)								
9	(BANK HAD NEGATIVE EARNINGS)								
10	1,470	5,648	26.03%	368	1,103	72	54	158	NO
11	1,279	10,909	11.72%	320	959	75	56	137	NO
12	1,342	11,360	11.81%	336	1,007	145	109	144	NO
13	1,626	19,585	8.30%	407	1,220	190	143	175	YES
14	1,194	15,715	7.60%	299	896	146	110	128	YES
15	252	2,055	12.26%	63	189	35	26	27	YES
16	1,135	15,406	7.37%	284	851	51	38	122	NO
17	3,113	26,886	11.58%	778	2,335	313	235	334	NO
18	2,103	22,749	9.24%	526	1,577	271	203	226	YES
19	3,586	45,880	7.82%	897	2,690	403	302	385	YES
20	3,066	37,992	8.07%	767	2,300	475	356	329	YES
21	1,016	8,531	11.91%	254	762	71	53	109	NO
22	1,057	14,050	7.52%	264	793	110	83	114	NO
23	(BANK HAD NEGATIVE EARNINGS)								

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1985-BASED ACQUISITION DATA

75% DIVIDEND POLICY

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ENDIX C

1985-BASED ACQUISITION DATA --- 75% DIVIDEND POLICY
(Amounts expressed in thousands)

BANK NO.	1985 YE CAPITAL	1985 YE TOT ASSETS	CAPITAL TO TOT ASSETS	25% REQ EQUITY	BAL TO BE FINANCED	1985 EARNINGS	75% DIVIDEND	ANNUAL DEBT SERVICE	CAN DEBT BE SERVICED?
1	959	14,528	6.60%	240	719	131	98	95	YES
2	1,416	13,777	10.28%	354	1,062	89	67	141	NO
3	800	8,539	9.37%	200	600	74	56	80	NO
4	686	5,546	12.37%	172	515	27	20	68	NO
5	439	6,369	6.89%	110	329	4	3	44	NO
6	(BANK HAD NEGATIVE EARNINGS)								
7	(BANK HAD NEGATIVE EARNINGS)								
8	6,998	76,963	9.09%	1,750	5,249	463	347	696	NO
9	1,619	20,338	7.96%	405	1,214	157	118	161	NO
10	1,474	5,767	25.56%	369	1,106	49	37	147	NO
11	(BANK HAD NEGATIVE EARNINGS)								
12	1,457	13,454	10.83%	364	1,093	89	67	145	NO
13	1,859	19,793	9.39%	465	1,394	262	197	185	YES
14	(BANK HAD NEGATIVE EARNINGS)								
15	(BANK HAD NEGATIVE EARNINGS)								
16	1,213	16,518	7.34%	303	910	139	104	121	YES
17	3,396	27,315	12.43%	849	2,547	259	194	338	NO
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19	3,827	46,249	8.27%	957	2,870	209	157	381	NO
20	3,684	39,641	9.29%	921	2,763	740	555	367	YES
21	1,066	9,194	11.59%	267	800	68	51	106	NO
22	1,206	13,935	8.65%	302	905	152	114	120	YES
23	562	7,021	8.00%	141	422	8	6	56	NO

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