

Approved March 23, 1988  
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:00 a.m./~~p.m.~~ on March 22, 1988 in room 529-S of the Capitol.

All members were present except:

Committee staff present:

Bill Wolff, Legislative Research  
Bill Edds, Revisor of Statutes

Conferees appearing before the committee:

Ron Todd, Kansas Insurance Department  
Jim Maag, Kansas Bankers Association  
Ben Craig, Kansas Bankers Association  
Harold Stones, Kansas Bankers Association  
Steve Prickett, Kansas Independent Bankers Association  
L. M. Cornish, Kansas Association of Life Insurance Companies  
Jim Hall, Security Benefit Life  
Dan Molden, Kansas Life Underwriters  
Douglas Mays, Securities Commissioner  
John Tincher, Kansas Independent Bankers Association

The meeting began with the hearing on HB 2722 which would permit the Insurance Commissioner to require an annual audit by a certified public accountant. Ron Todd, Kansas Insurance Department, testified in support of the bill. (See Attachment I.) He said the new language begins on line 38 of the bill.

The minutes of March 21 were approved.

On a call for a vote on HB 2722, Sen. Strick made a motion to report it favorably, Sen. Karr seconded, and the motion carried.

The hearing began on HB 2738 concerning the holding of real estate by banks. Jim Maag, Kansas Bankers Association, testified in support of the bill. (See Attachment II.) Mr. Maag explained to Sen. Strick that the investment procedure before this amendment was in the bank building itself. Sen. Karr asked how much flexibility the two words added in the amendment add. Mr. Maag said it depends on the bank. The impact of the bill would be that it expands the base from which they can figure one half of their capital.

Ben Craig, Kansas Bankers Association, followed with further testimony in support of HB 2738. (Also Attachment II.)

Harold Stones, Kansas Bankers Association, testified in support of the bill from the standpoint of the separation of commerce and banking. (See Attachment III.)

Steve Prickett, Kansas Independent Bankers Association, testified in support of the bill with an amendment he had to offer. (See Attachment IV.)

L. M. Cornish, Kansas Association of Life Insurance Companies, testified not in opposition to the bill but to recommend an amendment to it to clarify a problem with present wordage, "and other securities", which he feels is troublesome because it goes further than he feels the banking industry wants to go. He passed out copies of a suggested amendment to address this problem and a copy of a letter explaining the rationale and need for the amendment. (See Attachment V.) He reiterated that the purpose of the amendment is to clarify only and not to oppose it. He does not want the bill to be something

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,  
room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on March 22, 1988.

that opens the door for banks to deal with life insurance products.

Jim Hall, Security Benefit Life, testified that he echoes Mr. Cornish's testimony and supports the amendment which clears up ambiguities of present law.

Dan Molden, Kansas Life Underwriters, also testified in support of Mr. Cornish's amendment.

Doug Mays, Securities Commissioner, testified that he has no opposition to the bill. It opens a new vista of opportunity for security dealers in Kansas. He feels it is important that everyone play by the same rules, and with this bill everyone would be regulated by his office.

Final testimony was given by John Tincher, Kansas Independent Bankers. He wanted to clarify a statement made in earlier testimony made about the Independent Bankers. Both his organization and the national association support the bill with the amendment offered by Mr. Prickett, but without it, they do not support the bill.

Mr. Stone stood to make clear to the committee that the KBA does not support Mr. Cornish's amendment.

Sen. Reilly asked Mr. Mays if his office could handle this without an addition to staff. Mr. Mays said he does not anticipate a need for more personnel.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS  
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
03/22/88	Don Madden	Topeka	Ks Life Underwriters
"	L M CORNISH	"	Ks Life Ins Co Assoc
"	John Trichler	Lynndon	KI BA
"	Pete McGill	Topeka	KI BA
"	Steven K Prickett	Geneseo	KI BA
"	Sue Anderson	Carbondale	Ks. Indep. Bankers Assn.
"	William K. Mitchell	Hutchinson	Alliance Ins Co's
"	James Hall	TOPEKA	SECURITY BENEFIT
"	Lee WRIGHT	Overland Park	Farmers Ins. Group
"	Ben Craig	Overland Park	KBA
"	Jim Mas	Topeka	"
"	Darrell Foster	Topeka	"
"	Robert Elias	Topeka	"
"	Jim Olimia	"	Prof Ins Agts
"	Chuck Stones	"	Ks Bankers Assn
"	Karen L. McCLEN	"	Ks. Assn. of REALTORS
"	Terrel Wright	Topeka	Ks Credit Union League
"	Laurie Hartmann	Topeka	KBA
"	Douglas Mays	"	Ks Securities Commissioner

Explanatory Memorandum For  
Legislative Proposal No. 5

*HB 2722*

Legislative Proposal No. 5 would permit the Commissioner of Insurance to require insurance companies and other insurance mechanisms doing business in Kansas to be audited annually by an independent certified public accountant. Despite the existence of insurance guaranty funds, the insolvency of an insurer places policyholders, claimants, agents, other insurers and others in a difficult and costly position. In addition, some insurance mechanisms such as HMO's and prepaid service plans are not subject to guaranty fund laws and the problems caused by insolvency are therefore even more acute.

Legislative Proposal No. 5 will not prevent insolvencies. It will, however, produce another review of an insurer's financial condition and serve as a valuable complement to the "early warning" system administered by the National Association of Insurance Commissioners and the financial condition examinations and internal auditing activities conducted by insurance departments.

*Attachment I*



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

March 22, 1988

TO: Senate Committee on Financial Institutions and Insurance  
FROM: James S. Maag, Director of Research  
Kansas Bankers Association  
RE: HB 2738 - Providing Competitive Powers for State-Chartered Banks

Mr. Chairman and Members of the Committee:

Thank you for allowing us to appear before the committee today in support of HB 2738. This bill represents a very important issue for our Association and we are requesting your favorable consideration of this measure. I would like to discuss with the committee two aspects of the bill: (1) How this legislation originated, and (2) the amendment contained in Section 2 of the bill relating to the real estate investment authority for state-chartered banks. The President of our Association, Ben Craig, will discuss the amendments in Section 1 relating to additional securities powers.

The decision by the KBA to request introduction of this measure was not arrived at hurriedly. During the 1987 session we asked for the introduction of HB 2142 which would have allowed for a broad range of new powers and services for state-chartered banks. Since no hearings were held on the measure last session we spent considerable time during the interim discussing the issue with Kansas bankers. Extensive surveys were done at our KBA Fall Conferences and discussions were held in KBA committees, boards, and councils where there was unanimous support to pursue a bill providing for new products and services. Following discussions with the House leadership, a decision was made to narrow the legislation to the new securities and real estate powers contained in the original version of HB 2738. Following hearings in the House Commercial and Financial Institutions Committee, the Committee amended the bill by removing the expanded real estate authority and the bill ultimately passed the House in that amended form by a vote of 102-19. Therefore, the bill

which you are considering today contains only the expanded securities authority and a new definition of what constitutes "capital" for real estate investment purposes.

*page 6-8*  
*lines 232-53*  
I would now like to discuss briefly the amendment contained in Section 2 of the bill. The current provisions of K.S.A. 9-1102 allow state-chartered banks to "own, purchase, lease, hold, encumber or convey" real property and certain personal property as long as such investments or ownership do not exceed one-half of the bank's capital stock, surplus, and capital notes and debentures. The amendment to this statute contained in Section 2 of HB 2738 simply adds "undivided profits" to this definition of what constitutes capital for investment purposes. Due to regulatory restrictions on how "surplus" can be used, many banks today choose to retain their earnings in "undivided profits" to allow for greater flexibility. However, by doing so it keeps the bank from being able to include that amount when calculating how much the bank can invest in a new building or other real estate improvements. Including "undivided profits" in the capital definition does not give the bank any new real estate investment authority, but only allows the bank a larger capital base from which to calculate their existing investment authority.

I would simply add in closing that by removing the expanded real estate authority from the bill, the House action had the effect of continuing the illogical disparity between the real estate investment authority of banks and those of their main competitors. As President Craig will discuss in his remarks, these ongoing inequities are having a serious impact on the banking industry's ability to compete in today's economic environment.

Thank you for this opportunity to present our viewpoint on this important legislation and the KBA respectfully requests your support of HB 2738.



The KANSAS BANKERS ASSOCIATION  
A Full Service Banking Association

March 22, 1988

TO: Senate Committee on Financial Institutions & Insurance  
FROM: Ben Craig, President  
Kansas Bankers Association  
RE: HB 2738 - Competitive Powers for State-Chartered Banks

Mr. Chairman and Members of the Committee:

I appreciate very much this opportunity to appear before the committee today in support of HB 2738. The bill would allow state-chartered banks to engage in a variety of securities services through a bank subsidiary. The membership of the Kansas Bankers Association believes this bill can be an important step in giving banks greater ability to compete with other financial and non-financial institutions in today's market.

Banks today face ever-increasing competition from all directions. In addition to the traditional competition from S&Ls and credit unions, banks now see agents and brokers representing many non-financial institutions offering services which just a few short years ago were considered to be banking functions. Bank customers are being attracted to these other institutions because of the broad range of products and services they can provide, yet banks are powerless to compete because they are still restrained by laws created more than a half-century ago!

As examples of how the lines of authority between banking and non-banking entities have become blurred in recent years, attached to this testimony is a sheet showing the affiliation between securities firms and FDIC-insured institutions and a chart showing comparisons of the products and services offered by banks vs. other institutions such as Sears, Merrill Lynch, American Express and the Ford Motor Company. Also attached are two recent newspaper articles concerning the largest S&L in Kansas - Franklin Savings - and the extent of their non-banking activities. The chairman of Franklin, Ernest Fleischer, stated in a business journal recently that "We think of the business we're in as the financial service

business." [emphasis added] It is also very important to understand that banks' traditional competitors - the S&Ls - have had these broad powers for several years.

Yet legislative and regulatory attempts by the banking industry to gain authority to offer new services have met with strident resistance. As a result of this expanded competition and the inability to gain new powers, banks have seen their share of the market shrink throughout the 1980's - as the attached chart shows. This, in turn, will become an increasingly larger factor in the ability of banks to attract new capital.

The securities powers being requested in this bill are certainly not unique to Kansas. As the attached chart reveals, fourteen states currently allow either securities underwriting or full service brokerage powers. Banking associations at the state and national level are working hard to educate legislatures and the Congress to the strong need for these additional products and services. As the Independent Bankers Association of America (IBAA) stated recently, "Community banks should be able to offer their customers the financial products and services they need . . . ." (see attachment) Bank regulators, including the Conference of State Bank Supervisors (CSBS), the FDIC and the Comptroller of the Currency, have also endorsed the need for legislation to give banks a broader range of products and services.

Finally, I would direct the committee's attention to the recent Report of the Commission on the Future of Kansas Agriculture. That report notes the need to strengthen the financial institutions which serve agriculture and goes on to recommend that agricultural banks be allowed "to offer a full range of financial products and services including . . . securities transactions . . . ." [emphasis added]

Kansas banks are not asking that our competitors be restricted in their activities. What we are requesting is the opportunity for "a fair fight" by allowing banks at least these additional securities powers. Most importantly, we believe it will provide bank customers throughout the state with convenient, well-protected, and well-managed investment services.

Your favorable consideration of HB 2738 will be greatly appreciated.



## EXHIBIT 3

AFFILIATIONS BETWEEN SECURITIES FIRMS AND FEDERALLY-INSURED  
DEPOSITORY INSTITUTIONS IN THE UNITED STATES

<u>Securities firm</u>	<u>Insured Depository Institution*</u>
American Express Company IDS Securities Corp. The Robinson-Humphrey Co., Inc. Shearson Lehman Brothers, Inc.	Advisory Bank & Trust Co. American Express Centurion Bank Boston Safe Deposit & Trust Co. Savings Bank Trust Co., NW
Bear, Stearns & Co. Inc.	Custodial Trust Company
Dean Witter Reynolds Inc.	Greenwood Trust Company Hurley State Bank
Drexel Burnham Lambert Incorp.	Commercial Trust Co. Harbor Trust Company
Dreyfus Corp.	Dreyfus Consumer Bank
Eaton Vance Distributors, Inc.	Investors Bank & Trust Co.
Federated Securities Corp.	Liberty Bank and Trust, NJ
The First Boston Corporation	Universal Trust Co.
First Investors Securities Corp.	First Financial Federal Savings and Loan Association
Franklin Distributors Inc.	Pacific Union Bank and Trust Co
Goldman, Sachs & Co.	Broad Street Bank and Trust Co.
E. F. Hutton & Company Inc.	E. F. Hutton Bank
The Illinois Co., Inc.	Land of Lincoln Savings & Loan
John Hancock Subsidiaries, Inc. Sutro & Co. Incorporated Tucker, Anthony & R.L. Day, Inc.	First Signature Bank & Trust Co
Kidder, Peabody & Co. Incorp.	Monogram Bank
Merrill Lynch & Co., Inc.	Merrill Lynch Bank & Trust Co.
Prudential-Bache Securities Inc.	Prudential Bank and Trust Co.
The Travelers Corporation Dillon, Read & Co. Inc. Securities Settlement Corporation	Massachusetts Co., Inc.

\* Deposits insured by the FDIC except First Financial Federal Savings & Loan Ass  
and Land of Lincoln Savings & Loan, whose deposits are insured by the FSLIC.

COMPARISON OF PRODUCTS AND ACTIVITIES OF  
FINANCIAL AND NON-FINANCIAL INSTITUTIONS

American Bankers Association  
Office of the General Counsel  
November, 1987

Products/ Powers	Nat. Bank	Bank Holding Company	Federal Savings Bank or Savings & Loan	Unitary Thrift Holding Company <sup>19</sup>	Multiple Thrift Holding Company	Fed. Credit Union	American Express	Bene- ficial Corp.	Dreyfus	Ford Motor Company	General Electric	Gulf & Western Company	Household Inter- national	ITT	Merrill Lynch	tial Bache	Sears
Demand Deposit	Y	N <sup>6</sup>	Y <sup>13</sup>	N <sup>6</sup>	N <sup>6</sup>	N	N <sup>33</sup>	Y <sup>38</sup>	Y <sup>40, 41</sup>	Y <sup>45</sup>	N	Y <sup>47</sup>	Y <sup>48</sup>	Y <sup>49</sup>	N <sup>50</sup>	N	Y <sup>55</sup>
Savings Deposit	Y	N <sup>6</sup>	Y	N <sup>6</sup>	N <sup>6</sup>	Y	N <sup>33</sup>	Y <sup>38</sup>	Y <sup>42</sup>	Y <sup>45</sup>	N	Y <sup>47</sup>	Y <sup>48</sup>	Y <sup>49</sup>	Y <sup>50</sup>	Y <sup>53</sup>	Y <sup>55</sup>
Certif- icate of Deposit	Y	N <sup>6</sup>	Y	N <sup>6</sup>	N <sup>6</sup>	Y	Y	Y <sup>38</sup>	Y <sup>42</sup>	Y <sup>45</sup>	N	Y <sup>47</sup>	Y <sup>48</sup>	Y <sup>49</sup>	Y <sup>51</sup>	Y	Y <sup>55, 56</sup>
Transaction Account (NOW/ATS etc.)	Y	N <sup>6</sup>	Y	N <sup>6</sup>	N <sup>6</sup>	Y <sup>29</sup>	Y <sup>34</sup>	Y <sup>38</sup>	Y <sup>40, 41</sup>	Y <sup>45</sup>	N	Y <sup>47</sup>	Y <sup>48</sup>	Y <sup>49</sup>	Y <sup>52</sup>	Y <sup>53</sup>	Y <sup>55</sup>
Federal Insurance	Y	N <sup>6, 7</sup>	Y	N <sup>6, 7</sup>	N <sup>6, 7</sup>	Y	N <sup>35</sup>	Y <sup>38</sup>	Y <sup>43</sup>	Y <sup>45</sup>	N	Y <sup>47</sup>	Y <sup>48</sup>	Y <sup>49</sup>	Y <sup>43</sup>	Y <sup>43</sup>	Y <sup>43</sup>
Commercial Loans	Y	Y	Y <sup>14</sup>	Y	Y	N <sup>30</sup>	Y	Y <sup>39</sup>	N	Y	Y	Y	Y	Y	Y	Y	Y
Consumer Loans	Y	Y	Y <sup>15</sup>	Y	Y	Y <sup>31</sup>	N	Y	Y <sup>42</sup>	Y	Y	Y	Y	Y	N <sup>50</sup>	N <sup>54</sup>	Y
Residential Mortgages	Y	Y	Y	Y	Y	Y <sup>31</sup>	Y	Y	Y <sup>42</sup>	Y	Y	Y	Y	Y	Y	N <sup>54</sup>	Y
Commercial Mortgages	Y	Y	Y <sup>16</sup>	Y	Y	N <sup>30</sup>	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Products/ Powers	Nat. Bank	Bank Holding Company	Federal Savings Bank or Savings & Loan	Unitary Thrift Holding Company	Multiple Thrift Holding Company	Fed. Credit Union	American Express	Bene- ficial Corp.	Dreyfus	Ford Motor Company	General Electric	Gulf & Western Company	Household Inter- national	ITT	Merrill Lynch	Pruden- tial Bache	Sears
Margin Loan	Y	Y	N <sup>17</sup>	Y	N <sup>23</sup>	Y <sup>31</sup>	Y	N	Y	N	Y	N	Y	N	Y	N <sup>54</sup>	Y
Credit Cards	Y	Y	Y	Y	Y	Y <sup>31</sup>	Y	Y	Y	Y	N	Y	Y	Y	N <sup>50</sup>	Y	Y
Credit Related Insurance Agent	Y	Y	Y <sup>18</sup>	Y	Y	Y	Y	Y	N <sup>44</sup>	Y	Y	Y	Y	Y	Y	Y	Y
General Insurance Agent	N <sup>1</sup>	N <sup>8</sup>	Y <sup>18</sup>	Y	Y	Y <sup>32</sup>	Y	Y	N <sup>44</sup>	Y	Y	Y	Y	Y	Y	Y	Y
Insurance Under- writer	N	N <sup>8</sup>	N	Y	N <sup>24</sup>	N	Y	Y	N <sup>44</sup>	Y	Y	Y	Y	Y	Y	Y	Y
Stock Brokerage	Y <sup>2</sup>	Y <sup>2</sup>	Y <sup>18</sup>	Y	Y <sup>25</sup>	N	Y	N	N	N	Y <sup>46</sup>	N	N	N	Y	Y	Y
Discount Stock Broker	Y	Y	Y <sup>18</sup>	Y	Y	Y	N	N	N	N	N	N	N	N	N	Y	N
Investment Advisor	Y	Y	Y <sup>18</sup>	Y	Y	N	Y	N	Y	N	Y	N	N	N	Y	Y	Y
Investment in Corporate Securities	N	Y <sup>9</sup>	Y <sup>19</sup>	Y	Y <sup>26</sup>	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Products/ Powers	Nat. Bank	Bank Holding Company	Federal Savings Bank or Savings & Loan	Unitary Thrift Holding Company	Multiple Thrift Holding Company	Fed. Credit Union	American Express	Bene- ficial Corp.	Dreyfus	Ford Motor Company	General Electric	Gulf & Western Company	Household Inter- national	ITT	Merrill Lynch	Pruden- tial Bache	Sears
Organ./Oper. of a Mutual Fund	N	y10	N	Y	N27	N	Y	N	Y	N	Y	N	N	N	Y	Y	Y
Real Estate Broker	N3	N11	N20	Y	N27	N	Y36	N	N	N	Y	N	N	N	Y	N	Y
Real Estate Development	N	N	Y18	Y	Y	N	Y	N	N	N	N	N	N	N	Y	Y	Y
Real Estate Appraisal For Others	N	Y	Y	Y	N27	N	N	N	N	N	N	N	N	N	Y	N	Y
Data Processing Service For Others	Y4	Y12	Y21	Y	Y28	Y32	N	N	N	N	Y	N	Y	N	N	N	Y
Travel Agency	N	N	N	Y	N27	N	Y	N	N	N	N	N	N	N	N	N	N
Leasing Personal Property	Y5	Y	Y	Y	Y	Y32	Y37	Y	N	Y	Y	Y	Y	Y	Y	N	N
Retail Sales	N	N	N	Y	N	N	Y	Y	N	Y	Y	Y	Y	Y	N	N	Y
Manu- facturing	N	N	N	Y	N	N	N	N	N	Y	Y	Y	Y	Y	N	N	N

## Sources

House Committee on Banking, Finance and Urban Affairs, 98th Cong., 2d Sess., (Comm. Print 98-13 April, 1984.)

Moody's Banking and Finance Manual (1987)

Moody's Industrial Manual (1987)

E. Compton, The New World of Commercial Banking (1987)

C. Pavel and H. Rosenblum, Financial Darwinism: Nonbanks and Banks - Are Surviving (Federal Reserve Bank of Chicago, 1985)

## Notes

Y represents activities generally permitted with respect to financial institutions and presently being engaged in with respect to non-financial institutions. N represents activities generally prohibited with respect to financial institutions and not presently being engaged in with respect to non-financial institutions.

1. National banks located in cities of 5,000 or less population may act as an agent for fire, life or other insurance.

2. Decisions by the Comptroller of the Currency and the Board of Governors of the Federal Reserve System permit national banks and bank holding companies, respectively, to provide both discount brokerage services and investment advisory services, thus approaching full service stock brokerage. See, Decision of the Comptroller of the Currency concerning the Application of American National Bank of Austin, Texas to Establish an Operating Subsidiary to Provide Investment Advice, [1983-84 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶99,732 (Sept. 2, 1983). An action challenging this decision is currently pending. Securities Industry Association v. Comptroller of the Currency, No. 83-3581 (D.D.C. filed Dec. 1, 1983); Securities Industry Association v. Board of Governors of the Federal Reserve System, 821 F.2d 810 (D.C. Cir.) (Natwest), petition for cert. filed, (U.S. Oct. 5, 1987) (No. 87-562).

3. National banks located in cities of 5,000 or less population may act as an agent or broker in procuring loans on real estate.

4. The extent to which national banks may provide data processing services to others is not clear. Compare: National Retailers Corp. v. Valley National Bank, 604 F.2d 32 (9th Cir. 1979) and 12 C.F.R. §7.3500.

5. National banks may lease personal property when the lease is equivalent to a secured lending arrangement. The 1987 Competitive Equality Banking Act (CEBA), P.L.100-86, also grants national banks additional authority to engage in operating leases (Title I, §108).

6. These services may, of course, be offered by a depository subsidiary of the holding company.

7. State institutions may apply for federal insurance coverage.

8. Insurance activities of bank holding companies under federal law are set forth in 12 C.F.R. §225.25(b)(8). Revised provisions were adopted on October 31, 1986 to reflect amendments to the Bank Holding Company Act made by the Garn-St. Germain Depository Institutions Act of 1982. Bank holding companies are generally permitted to sell credit-related life, accident and health insurance, and involuntary unemployment insurance; to sell property insurance on collateral securing loans for \$10,000 or less (\$25,000 for manufactured homes) through finance company subsidiaries; to act as general insurance agents in towns under 5,000 population or where the bank holding company has less than \$50 million in assets; and to continue to sell (and to expand in certain instances) insurance agency activities authorized on or before May 1, 1982. These revisions are currently being challenged in Independent Insurance Agents of America Inc. v. Board of Governors of the Federal Reserve System, Nos. 86-1572, 86-1573 and 86-1576 (D.C. Cir. filed, Oct. 27, 1987).

9. A bank holding company may invest in less than 5% of the voting shares of any corporation without prior regulatory approval, and may invest without limit in other corporations engaged in activities closely related to banking.

10. A bank holding company may sponsor, organize and manage a closed-end investment company.

11. A bank holding company may act as the intermediary for the financing of commercial property by arranging for the transfer of title, control, and risk of the real estate project to one or more investors.

12. Data processing services provided to others is limited to processing banking, financial and economic data.

13. Only when offered to customers with whom a business or commercial loan relationship exists or for collecting customer bill payments.

14. Commercial loans are limited to 10% of assets.

15. Consumer loans are limited to 30% of assets.

16. Loans on nonresidential real estate cannot exceed 40% of assets.

17. Loans may be secured by government backed securities.

18. These services may be performed through a service corporation. See, 12 C.F.R. §545.74(c) (1987).

19. A federal association may invest in highly rated commercial paper and other corporate debt securities, including convertible bonds. They may also invest in shares of open-end mutual funds which are restricted in their investments to those permitted a federal association directly. See, 12 C.F.R. §§545.75 and 545.76 (1987).

20. A service corporation may provide brokerage services with respect to property owned by a parent federal association. See, 12 C.F.R. §545.74(c)(3) (1987).

21. A federal association may offer data processing services with respect to financial or economic data, or information related to the thrift industry. Customers must be other depository institutions (including the parent or subsidiary of either) or established customers of the federal association. See, 12 C.F.R. §545.138 (1987).

22. Under the provisions contained in Title I §104 of CEBA, exemption from the nonbanking restrictions of the Savings and Loan Holding Company Act will only remain available if the subsidiary thrift meets the qualified thrift lender test (i.e., the thrift must devote at least 60% of its assets to housing and related activities). A unitary S&L holding company formed before March 5, 1987 may retain its thrift, even if that thrift does not meet the test, subject to certain restrictions. (Among other things the restrictions prohibit the acquisition of additional banks or thrifts and state that the subsidiary may not engage in nonbanking activities which it did not engage in on the grandfather date.)
23. Not permitted, unless authorized by state law for a state chartered thrift subsidiary.
24. Multiple holding companies may underwrite credit related insurance written in connection with an extension of credit made by an insured institution.
25. Section 106 of CEBA places a moratorium on further affiliations of insured thrift institutions with organizations principally engaged in certain securities activities (i.e. applies sections 20 and 32 of the Banking Act of 1933 to insured thrift institutions). This moratorium is not applicable to relationships established before March 5, 1987 and is set to expire March 1, 1988.
26. To the extent permitted by federal or state law to insured thrift subsidiaries.
27. Unless permitted by state law for an insured thrift subsidiary.
28. Data processing services may be provided to other financial institutions.
29. Share draft accounts.
30. Commercial loans may be made to businesses which are members of the credit union, but only for amounts up to the amount of shares held. Federal credit unions may make loans to other credit unions or join in participation loans.
31. Loans are restricted to members of the credit union.
32. Through a service corporation.
33. American Express engages in international banking operations, but does not domestically accept demand deposits or savings deposits.
34. American Express, through Shearson, offers an "FMA" account which is similar to Merrill Lynch's "OMA Account." See note 49.
35. American Express, through Shearson, brokers customers' funds into insured certificates of deposits. The FDIC and FHLBB's regulations attempting to restrict this practice of brokering deposits were struck down in FAIC Securities, Inc. v. United States, 768 F.2d 352 (D.C. Cir. 1985)
36. Commercial customers only.
37. Through its subsidiary Shearson.
38. Through Beneficial National Bank (USA) a nonbank bank located in Delaware. The bank does not make commercial loans.

39. Beneficial National Bank based in Wilmington, Delaware, "conducts a full service commercial banking operation, with emphasis on commercial lending in its local and regional market."

40. Dreyfus owns the Dreyfus Consumer Bank of East Orange, New Jersey. This bank is federally insured and offers demand and savings deposits. It does not make commercial loans.

41. Dreyfus offers a "High Yield Checking Service" which permits automatic transfers between money market mutual funds and investors checking accounts at banks.

42. Through Dreyfus Consumer Bank.

43. To the extent that the bank or thrift subsidiary is federally insured and to the extent that brokered funds are placed in certificates sold by federally insured institutions.

44. Dreyfus insurance subsidiary is presently dormant.

45. Ford owns First Nationwide Financial Corporation which is a holding company for First Nationwide Bank, a federally chartered stock savings bank. First Nationwide has branches in New York, California, Florida and Hawaii.

46. General Electric owns 80% of the investment banking firm of Kidder-Peabody.

47. Gulf & Western owns Associates National Bank and Heritage Federal Savings and Loan, both of which are located in California.

48. Available through either Valley National Bank or Household Federal Savings and Loan Association in California.

49. Available through its subsidiary Newport Balboa Savings and Loan Association located in California.

50. Through a cooperative agreement with Banc One of Ohio, Merrill Lynch customers may access the value of assets in margin accounts and the redemption value of certain shares either by check or credit card. Merrill Lynch has also established a state chartered FDIC insured bank in New Jersey.

51. Merrill Lynch acts as a broker by placing customers' funds in large certificates of deposit offered by insured banks and thrifts. As to the validity of the FDIC and FSLIC regulations attempting to limit this practice see note 32.

52. Merrill Lynch offers a "Cash Management Account (CMA)" in which funds are automatically transferred from a free credit balance to a money market mutual fund, and are accessible by check or credit card through an arrangement with Banc One.

53. Through Prudential Bank and Trust, Prudential's nonbank bank.

54. Under consideration.

55. Through Allstate Savings and Loan subsidiary.

56. Brokered certificates of deposit offered through Dean Witter Reynolds.



# Franklin creates market for rarely traded stock

By LOLA BUTCHER

In an unusual transaction for a private company, Franklin Savings Association has made its stock available to the public. The company's goal is to create a market for Franklin stock so that employees who own the stock can easily sell it if they wish.

Based in Ottawa, Kan., Franklin is considered one of the largest — and one of the fastest-growing — savings and loan associations in the nation. As of March 31, the thrift boasted \$9.1 billion in assets, up from just \$214 million in 1981.

The company is private, with 95 percent of the company's stock owned by Franklin Savings Corp., a holding company of which Ernest and Barbara Fleischer are majority shareholders.

Earlier this year, however, Franklin executives issued a nine-for-one stock split to create more shares of the stock and thereby increase its liquidity. Since that time, about 3.5 percent — or about 2.1 million shares — of Franklin stock has been available for public trading. Although the company has about 550 shareholders, at least half of those are employees of either Franklin Savings or one of its subsidiaries.

Previously, the stock changed hands only when a seller happened to find a buyer in a private transaction.

The purpose of all this, said executive vice president Jerry Mayne, is to create a market for the stock so that Franklin employees who own the stock could sell it if they want to. Before the split, the only shares being traded were fetching more than \$100; after the split, shares began trading in the \$9.50 to \$10.50 range.

"We're interested in there being a market for the stock for our employees who own it," Mayne said.

The only market-maker for the stock is Stern Brothers & Co., a Kansas City brokerage firm that Franklin Savings purchased last year. Mayne said he would like to have other market-makers. However, with such a small float of the stock, that might be unlikely.

Market makers maintain an inventory of a stock, must be prepared to buy or sell 100 shares at any time, and must announce bid and ask prices.

Stern Brothers is one of 12 subsidiaries that have been purchased or formed by Franklin Savings in the last few years. Others include a consulting entity, a real estate entity and three insurance subsidiaries. Additionally, Franklin is negotiating to purchase a major investment

banking operation in Houston, a small bank in Pleasanton, Kan., and a savings and loan association in Coffeyville, Kan.

In an exhaustive research report, Stern Brothers' analysts Scott Stephenson and John Korschot point out a much-publicized basic about Franklin Savings: "First, and most importantly, Franklin is not the 'plain vanilla' type of savings and loan."

Rather, its growth has been propelled almost entirely by the purchase of mortgage-backed government securities such as

*Earlier this year, Franklin executives issued a nine-for-one stock split to create more shares of the stock and thereby increase its liquidity.*

those issued by Ginnie Mae and Freddie Mac. Those securities make up about 86 percent of Franklin's loan portfolio.

The company's strategy is to acquire assets with low credit risk — the Freddie Macs and Ginnie Maes, for example — and hedge its interest rate risk through matching the duration of assets to liabilities. The biggest risk associated with this operating strategy, the analysts say, is that homeowners may want to refinance their mortgages during periods when interest rates are falling — which can upset the duration matching of Franklin's assets to liabilities.

Franklin executives, working with advisers at Smith Breeden Associates and using prepayment estimates of the government agencies that issue the certificates, predict what they think the prepayment rates will be. Earlier this year, Franklin said in a lawsuit that a faster-than-expected prepayment rate in early 1986 had cost it money, although it declined to reveal the extent of the cost. The suit against Federal Mortgage Acceptance Corp. seeks to have a federal judge order the agency to reveal how it makes its prepayment estimates.

In the fiscal year that ended June 30, 1986, Franklin tallied net income of \$112.3 million, up from \$37.4 million a year earlier. For the six months that ended Dec. 31, 1986, the company reported net income of \$9.5 million, down from \$16.5 million for the same period a year ago.

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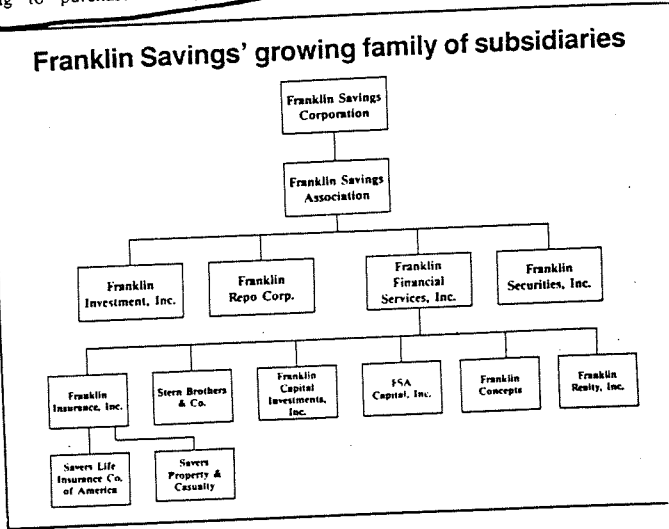
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**I WAS INTO THE STONES BACK WHEN THE BEATLES STILL HAD CREWCUTS.**

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New York, and Tokyo, he said, are emerging as a single round-the-clock global market, with the same major banks and securities firms competing alongside each other in all three centers.

"The rapid acceleration of this development — and the changes taking place in the institutional structure of each of these centers — makes it essential that we achieve a meaningful degree of convergence in key aspects of financial, regulatory, and supervisory policies applicable to these markets," Mr. Corrigan stated. The approvals, he said, reflected Fed expectations that naming Japanese-owned firms as primary dealers should encourage greater access of U.S. financial institutions in the Japanese market.

While the Fed declines to disclose which firms have applied for primary dealer status, it is known that the Nikko Securities Company International Inc. and Yamaichi International (America) Inc. also have applied. But in his letter, Mr. Corrigan stated that there are "no other firms which meet all of our criteria as new primary dealers at this time."

The New York Fed said it planned no further additions to the dealer list for six months. This is to permit an "orderly adjustment to this significant expansion and change" in the ranks of primary dealers. The agency also unveiled plans to establish an informal "international capital markets advisory committee" composed of U.S. and foreign banks and securities firms to consult with the New York Fed on international capital market matters. ■

## Kansas Thrift Buys Securities Firm

By ANDREA BENNETT  
 Midwest Bureau

CHICAGO — In an unusual transaction, a large savings and loan in Kansas has purchased an investment banking firm there.

Franklin Savings Association, Ottawa, Kan., completed the acquisition of Stern Brothers & Co., a privately held Kansas City, Mo., firm specializing in municipal finance, said Clay Coburn, executive vice president of Stern Brothers. The purchase price was not made public.

Stern Brothers, which was founded in 1917, is a full-service investment banking firm whose primary business is municipal bonds. According to Mr. Coburn, the firm is primarily controlled by two members of the Stern family, who wanted to liquidate it for tax purposes.

As part of the liquidation plan, the investment banking function of Stern was sold to Franklin Savings. The acquisition primarily involved the employees, furniture, and offices of the existing firm.

The firm also had "substantial assets not used in the securities business" that were not bought by the thrift, Mr. Coburn said.

Stern Brothers, which will operate as a subsidiary of Franklin, is expected to offer an expanded range of products in the future, including collateralized mortgage obligations. Franklin Savings has been active in the mortgage-backed securities market.

"All of the products we've been involved with in the past will continue," Mr. Coburn said. "Through Franklin, we will get more involved in mortgage-backed securities."

Mr. Coburn said that there is "a lot of synergism" between the two firms and that there should also be some synergism between Franklin's insurance and real estate subsidiaries and Stern Brothers. ←

Franklin Savings had assets of \$3.2 billion at the end of 1985. ■

## Citibank . . .

➔ Continued from Page 2

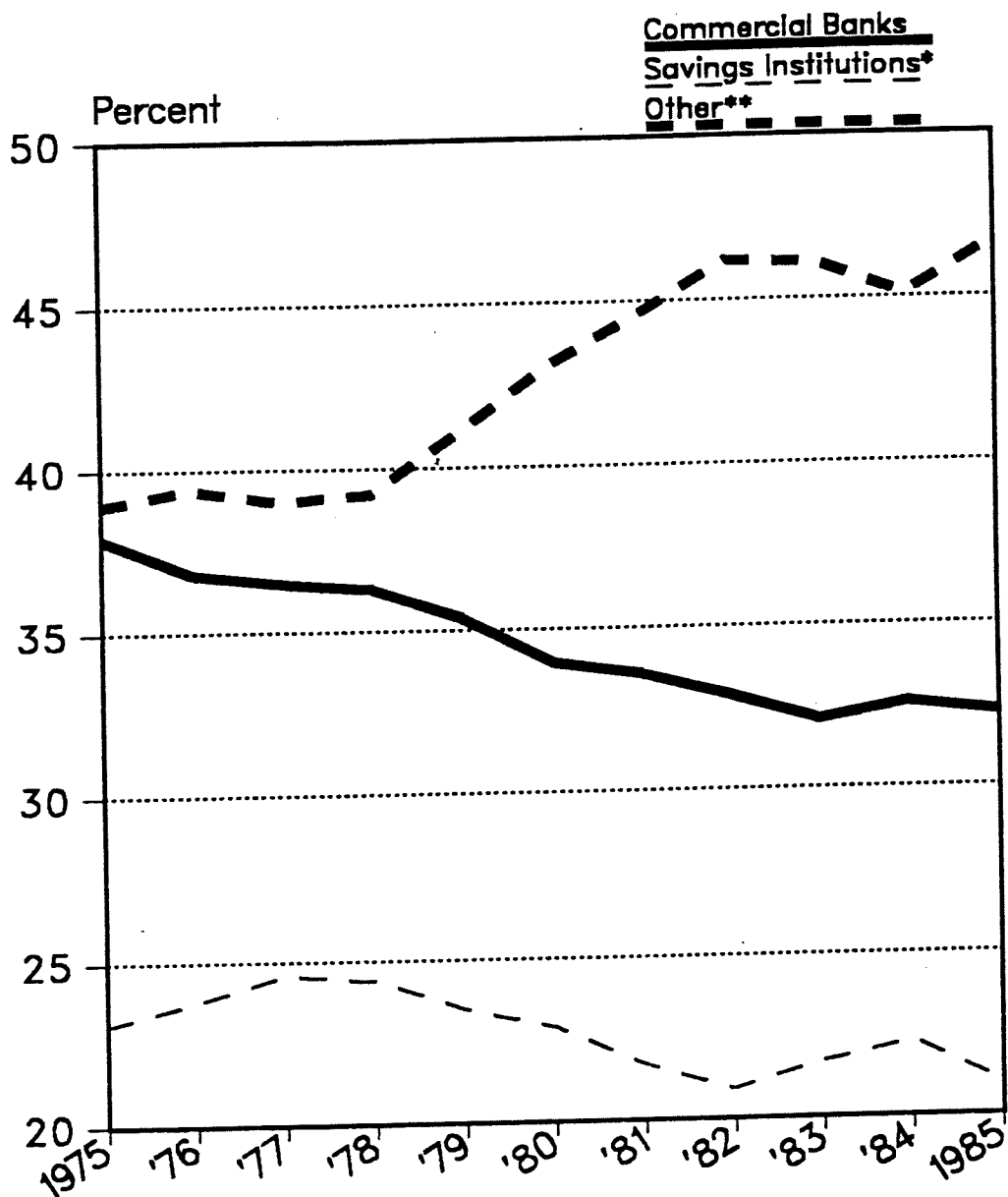
cialists mingled in their lobby to watch as a group of eight protesters locked arms and stood in front of the bank's revolving-door entrance. Effectively, the move did nothing to disrupt business; the "blockade" took place after the branch office had closed for the day, while messengers and employees shuttled in and out of the building through the bank's after-hours doors on 53d Street.

William Wipfler, human rights director for the National Council of Churches, said his participation in the symbolic gesture represented a message that "Citicorp can't carry on its business as usual." He added that the group hoped to organize a series of blockades and rallies against the bank.

"We believe everybody has a right to demonstrate, but they're on the wrong side of the street," Mr. Koplewitz said. "We share the concerns of the demonstrators, we share the concerns of those who disagree with our strategy, and we listen to their criticism. But we don't believe these..."

CHART 3

## Market Shares of Financial Assets Held by Financial Institutions 1975 - 1985



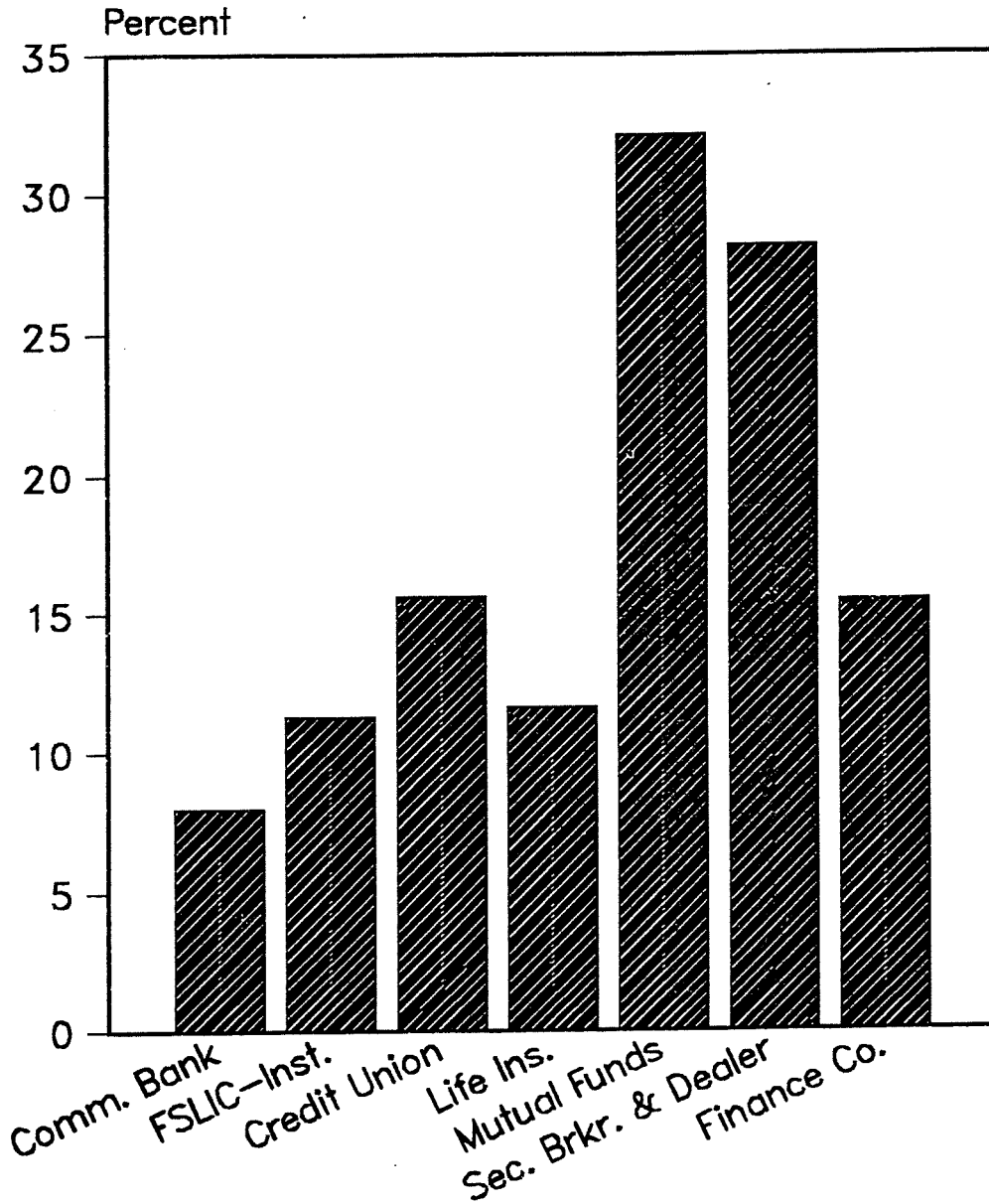
\* Savings and loan associations, savings banks, and credit unions.

\*\* Insurance companies, pension funds, finance companies, real estate investment trusts, money market funds, mutual funds, and security brokers and dealers.

Source: Federal Reserve Board Flow of Funds Accounts.

CHART 5

### Annual Growth Rates of Financial Institutions 1980 - 1986



Source: Federal Reserve Bulletin, New York Stock Exchange Fact Book.

STATE AUTHORIZATION OF SELECTED POWERS FOR STATE-CHARTERED BANKS\*  
(September 1987)

Insurance[1] Underwriting	Participation	Real Estate Equity Development	Real Estate Brokerage	Securities Underwriting[1]	Management Consulting	Travel Agencies
Delaware[2] North Carolina South Carolina → South Dakota Utah[2]	Arizona → Arkansas California → Colorado Connecticut Florida Kentucky Maine Massachusetts → Missouri Nevada New Hampshire New Jersey New York North Carolina Ohio Rhode Island → South Dakota Tennessee[5] Utah Washington Wisconsin[6]	Arizona Arkansas California → Colorado Connecticut Florida Kentucky Maine Massachusetts Michigan → Missouri Nevada New Hampshire New Jersey New York North Carolina Ohio Rhode Island → South Dakota Utah Washington Wisconsin[6]	Florida → Iowa Massachusetts North Carolina Oregon	Arizona California → Iowa Maine Maryland Massachusetts[4] Minnesota[7] New Jersey North Carolina Ohio  Full Service Brokerage/ No underwriting[1]  Arizona California Delaware Florida Georgia → Iowa Maine Michigan Minnesota New York North Carolina	California → Iowa Maine Maryland → Nebraska New Jersey North Carolina Ohio Rhode Island Virginia	Alabama California Connecticut[3] Indiana → Iowa Kentucky → Nebraska New Jersey New York North Carolina Ohio Oregon Pennsylvania South Carolina → South Dakota

\*Accuracy and completeness of data not determined; extent practiced also unknown

- 1 In addition to credit-related insurance activities and other exemptions permitted under the Bank Holding Company Act.
- 2 Grandfathered institutions.
- 3 One commercial bank has a travel agency, dating back to 1913. Permitted by tradition.
- 4 May underwrite mortgage backed securities.
- 5 Banks not allowed to be active partners in real estate development.
- 6 Wisconsin - Enacted expanded powers legislation 5/86. New legislation authorizes the Commissioner of Banking to promulgate rules under which state banks may engage in activities that are authorized for other financial institutions doing business in the state.
- 7 Underwrite mutual funds and may underwrite securities to extent of the state legal loan limit.

\*\*Source: Supervisory Procedures Committee of the Conference of State Bank Supervisors

## SPECIAL SUPPLEMENT

The following news release on new bank products and services has been sent to many small- and medium-sized newspapers around the country. Please encourage your local newspapers to print the release by delivering it to them personally.

### FOR IMMEDIATE RELEASE

WASHINGTON, D.C. -- What if you went to a hardware store, but could only purchase 10-penny nails?

Or what if you walked into a shoe store, but could only select size 13 shoes?

Your choices would be limited.

But we know that situations like those just don't happen in the real world. Or do they?

In the banking industry, truth can be stranger than fiction.

America's community banks, locally owned, locally managed institutions, are experiencing increasing demand in the marketplace to provide their customers with a full-range of financial products and services. But they can't. It's the law.

Deregulation of the banking industry has created a highly competitive environment. Industry deregulation, however, has not been equitable. While large nationwide financial services firms have run roughshod over America's economic landscape pushing new products and services, commercial banks, and community banks in particular, have not had equal access to the financial products and services which they need to compete in today's market.

## New Bank Products and Services...2

In many communities consumers are bearing the burden of this inequity.

Banks cannot give consumers advice on purchasing stocks. They also cannot offer mutual funds that invest in stocks, and products that are critical to consumers' future financial plans, such as life insurance.

✓ Recognizing this environment, the Independent Bankers Association of America, the national trade association that exclusively represents the interests of the nation's community banks, strongly supports new products and services for community banks.

Community banks should be able to offer their customers the financial products and services they need, such as help with selling a home, purchasing mutual funds or advice on investing for retirement. These retail services are closely related to banking, pose no significant risks to the financial system and complement the traditional services banks provide. They would allow community banks to better serve their customers' financial needs and compete with nationwide financial firms.

Consumers would benefit from banks offering these additional products and services. Increased competition would bring improved service and pricing, and who can better serve its customers than a local community bank?

# # # #

# press release

For further information contact: **Released On Receipt**  
JOSEPH E. JONES, Vice President/Director of Public Affairs  
Tuesday, January 12, 1988

## CSBS Supports State Authorized Products And Services; Pledges Continuing Safety And Soundness Vigilance

Washington, D.C., Tuesday, January 12--The Board of Directors of the Conference of State Bank Supervisors (CSBS) has adopted a resolution on the need for states to authorize bank products and services of benefit to consumers. The Board resolved that CSBS "...vigorously supports the authority of states to empower and regulate the activities of state-chartered banks, including the offering of securities, insurance and real estate products and services as determined by the states to serve best the interests of their citizens." The Board further resolved to oppose efforts by Congress or the federal bank regulatory agencies to weaken or preempt state authority. The Board also emphasized CSBS's commitment "...to continue to cooperate and work in close concert with the Federal Deposit Insurance Corporation to ensure that the exercise of ...state authority will not in the future, as it does not today, present an inordinate risk to the banking system as a whole or to the FDIC fund."

The Board noted the historical Congressional support for each state to authorize diverse products and services best suited to its needs and emphasized the good records to date of institutions offering the services and of the state banking departments regulating and supervising them. Special emphasis was placed on the fact that the Office of the Comptroller of the Currency and state banking departments constitute the first and most constructive element in the banking system safety net.

The Board also enumerated the following public interest benefits from state authorizations of bank products and services: (1) Increased cost competition of benefit to consumers; (2) improved local services tailored to local needs and convenience; (3) expertise

(OVER)

Conference of State Bank Supervisors 1015 18th Street, N.W. Washington, D.C. 20036 (202) 296-2840

of the primary regulators in balancing service, profit and risk considerations in evaluating a particular activity; (4) flexibility to provide different services in different markets, including the ability to explore alternative solutions in a responsible manner in areas of the country that are experiencing economic difficulties; and (5) maintenance of the states' potential as the primary vehicle for innovation in the banking system.

# # # # #



GIVE US THE TOOLS, BANKS THE POWERS, REGULATORS AGREE

Banking regulators last week might have provided a glimpse into the strategy they will adopt at this juncture to convince Congress to allow banks a broader array of powers: give the agencies sufficient enforcement authority to insure safety and soundness, and the diversity permitted. ~~banks won't matter.~~

Indeed, regulators are in general agreement that banks and bank holding companies can conduct securities and other non-banking activities safely through subsidiaries or affiliates, despite the concern of the General Accounting Office and others that no current banking industry structure can completely isolate deposits from the dangers of such activities as operating a discount brokerage or securities underwriting.

"Professional regulators are in agreement that with proper statutory support, we can allow banks to compete through subsidiaries and affiliates with proper safety and soundness," L. William Seidman, chairman of the Federal Deposit Insurance Corporation, told Congress last week.

The FDIC believes that if the banking system is to remain "adequately profitable," it must be allowed to pursue profit opportunities "throughout the financial services industry," he explains.

Q → "We believe these opportunities can be pursued in a manner that is consistent with safety and soundness considerations if appropriate safety surveillance is provided by regulators," Seidman says.

→ Long-range banking industry restructuring is overdue, he adds, "and should be undertaken to improve competitiveness, reduce regulatory costs and provide increased safety and soundness for the financial system."

And, adds Robert L. Clarke, Comptroller of the Currency, "If we buy the argument that bank deposits and the bank can be protected through adequate safeguards, it doesn't make a whole lot of difference how broad the activities banks are allowed to participate in."

The regulators believe the industry is doing what it should to improve its capital position, and a major detriment to the safety and soundness of the industry are banking laws designed 50 years ago.

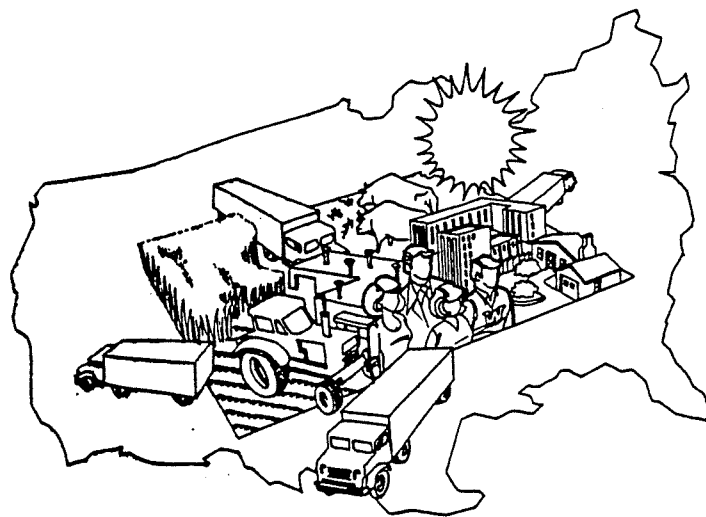
Q → "Banking laws are going to have to be modernized and banks are going to have to be allowed to compete," Clarke says.

→ The competition, Clarke says, retailers, brokerages, insurers and mutual funds, "are becoming ingenious in offering services which compete with banks," and Congress must respond by providing a "structural system that allows banks to compete in virtually every area."

Indeed, Manuel H. Johnson, vice chairman of the Board of Governors of the Federal Reserve Board, the most conservative banking industry regulator, also agrees. "Expanded powers are definitely needed for bank holding companies," Johnson says, "although the Federal Reserve Board does have problems with allowing banks themselves to have these powers."

Johnson explains that the Fed "is hesitant to let banks in particular use their capital to engage in riskier activities. A far safer approach is to allow banks to use subsidiaries or affiliates to engage in these activities."

# Report of the Commission on the Future of Kansas Agriculture



## **Kansas Agriculture and Rural Communities: Changing and Adapting To Survive**

**October 1987**

## KANSAS AGRICULTURE AND RURAL COMMUNITIES: CHANGING AND ADAPTING TO SURVIVE

This report of the Commission on the Future of Kansas Agriculture is respectfully submitted to the Governor, the Kansas Legislature, and the rural and urban residents of this state. In the following pages, the Commission identifies the 10 key issues facing the state's agriculture and submits ways and means for addressing those issues. Submitted on behalf of the Kansas State Board of Agriculture and the Commission on the Future of Kansas Agriculture.

Sam Brownback, Chairman  
Kansas Secretary of Agriculture

Senator Gerald L. Karr  
Farmer/Stockman  
Emporia, Kansas

Senator Don Montgomery  
Farmer/Stockman  
Sabetha, Kansas

Representative William M. Bryant  
Farmer/Veterinarian  
Washington, Kansas

Representative Lee Hamm  
Farmer/Dairyman  
Pratt, Kansas

Ernie Mosher  
League of Kansas Municipalities  
Topeka, Kansas

Tom Kruse  
Farm Credit Services  
Wichita, Kansas

Dwayne Jones  
Kansas Bankers Association  
Oberlin, Kansas

Edie Dahlsten  
Farmer/Stockman  
Lindsborg, Kansas

Robert Paris  
Farmer/Stockman  
Dighton, Kansas

Dean Walter R. Woods  
Kansas State University  
Manhattan, Kansas

Wilbur Leonard, Legislative Agent  
Committee of Kansas Farm Organizations  
Topeka, Kansas

Ed Bruske  
Kansas Chamber of Commerce & Industry  
Topeka, Kansas

For more information contact:

Kansas State Board of Agriculture  
109 SW 9th Street  
Topeka, Kansas 66612-1280  
(913) 296-3558

2. Improve business management.

A. Farmers must understand their own business operations and manage them appropriately to ensure the greatest net profit. Business management in agriculture can be improved by:

1. Supporting and expanding the Kansas Farm Management Association programs offered through Kansas State University to assist farmers in further developing their financial information systems and management skills. Kansas bankers and the Farm Credit System can assist by strongly urging their borrowers to become involved in the Farm Management Association.
2. Fostering financial and business management counseling programs to make management self-improvement opportunities available to farmers, ranchers and rural business owners.
3. Supporting the wise use of credit and better understanding of the problems associated with credit.

(B) Help strengthen the financial institutions which serve agriculture.

1. Agriculture must have credit and use it wisely to survive. Many of the basic financial institutions providing credit to agriculture have suffered during the recent agricultural downturn. Use of agricultural credit can be improved by:

- a. Creating a secondary loan market for agricultural loans. The Commission supports the creation of an "Aggie Mae" federal program as a secondary market for agricultural loans.
- b. Providing early assistance to the Farm Credit System. The Commission supports assistance to keep the system viable and keep its stock from being impaired.

(C) Allowing agricultural banks to offer a full range of financial products and services including insurance, security transactions and others. Not only would this cause the price of those products to decline to consumers through increased competition, but it would also allow loan losses to be repaid from sources other than interest rates on loans.

- d. Allowing loan losses at agricultural banks to be amortized over a ten-year-period.
- e. Continuing all possible efforts to find and implement ways to lower interest rates paid by farmers.

3. Cooperate with the Legislature to examine the role of corporations in farming and food production, in particular the issue of corporate hog production in Kansas. All the facts of whether this would be good or bad for the state should be examined.

4. Facilitate the development of a Blueprint Study for Kansas Agriculture emphasizing areas of greatest opportunity for value-added agricultural enterprises and diversifying Kansas agriculture.

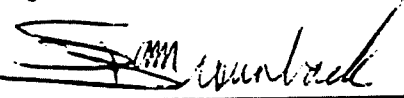
5. Work with existing agribusinesses to improve their operating environments.

6. Promote the sale of American produced agricultural products through the use of labeling.

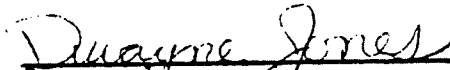
CONCLUSION

Kansas agriculture and rural communities are in a period of transition. They are changing and adapting to survive. As a rural state with an agricultural base it is imperative that Kansas marshal all of its resources to assist these transitioning entities. All of us as Kansans have a stake in assuring that our rural economy makes the transition in a healthy form. The Commission hopes that this report will help to focus the efforts of all Kansans in assisting agriculture and rural communities to a more prosperous future.


Respectfully Submitted by the Commission on the Future of Kansas Agriculture



Sam Brownback, Chairman  
Kansas Secretary of Agriculture



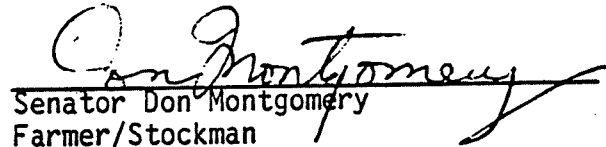
Dwayne Jones  
Kansas Bankers Association



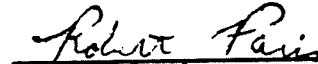
Senator Gerald Karr  
Farmer/Stockman



Edie Dahlsten  
Farmer/Stockman



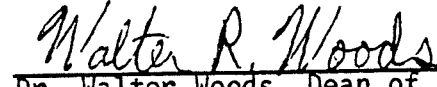
Senator Don Montgomery  
Farmer/Stockman



Robert Paris  
Farmer/Stockman



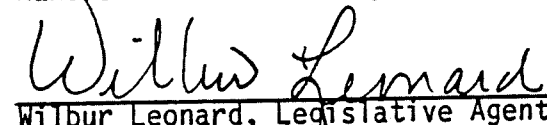
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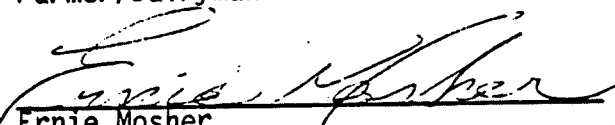
Dr. Walter Woods, Dean of Agriculture  
Kansas State University



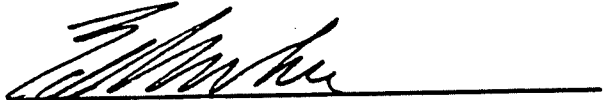
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Committee of Kansas Farm Organizations



Ernie Mosher  
League of Kansas Municipalities



Ed Bruske  
Kansas Chamber of Commerce and Industry



Tom Kruse  
Farm Credit Services



LEGISLATIVE

AND RESEARCH

BULLETIN

LEGISLATIVE BULLETIN 11-81

March 26, 1981

LEGISLATIVE HIGHLIGHTS

Wichita Eagle Beacon

# House Clips Mutual Funds

March 26, 1981

S.B. 131-----

Required money market funds offered by brokerage houses and insurance companies

WHICH WERE ACCESSED BY CHECK

to be subject to the same rules and regulations as bank checking accounts were!

Leading proponent was KBA. Leading opponents were Security Benefit Life Ins. Co., Merrill Lynch and the Securities Industry Association.

The Kansas Legislature killed the provision-----thus, **ROUND 1 TO KEEP BANKING AND COMMERCE SEPARATE WAS LOST----AND IT HAS BEEN STEADILY LOSING EVER SINCE!**

The Kansas City Times

Thursday, March 26, 1981

## Kansas House stuns mutual fund firms with restrictive bill

By Stephen C. Fehr  
Kansas Correspondent

**TOPEKA** — The future of money-market mutual fund investments of more than 50,000 Kansans was thrown into doubt Wednesday when the House tentatively approved a measure to restrict the popular, high-yield funds.

If the legislation survives a final vote today and is approved by the Senate and the governor, Kansas could become the first state to curb the rise of the funds, which reached the \$100 billion mark nationally early this month.

The 77-36 vote sent shock waves through the money-market industry in New York and Washington.

So far, similar attempts to restrict the funds have failed in at least six state legislatures. At the federal level, hearings open today before a House committee studying the explosive growth of the funds.

Money-market officials, kept in the dark by Kansas banking lobbyists, who successfully sought the legislation without committee hearings, began an intense telephone lobbying campaign late Wednesday and planned to arrive in Kansas today to fight the bill.

S.B. 131 - MONEY MARKET MUTUAL FUNDS

During debate on S.B. 131 in the Committee of the Whole on Wednesday, March 25, the Kansas House adopted an amendment offered by Rep. Jerry Andre (R-Merriam). The amendment would require that all corporations and associations other than

Office of Executive Vice President 707 Merchants National Building  
Eighth and Jackson • Topeka, Kansas 66612 • (913) 232-8

(OVER, PLEASE)

Attachment III

# KANSAS BANKERS ASSOCIATION

March 22, 1988

TO: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

FROM: Harold A. Stones, Executive Vice President

RE: H. B. 2738

Thank you, Mr. Chairman and Members of the Committee for this opportunity to present testimony on behalf of HB 2738.

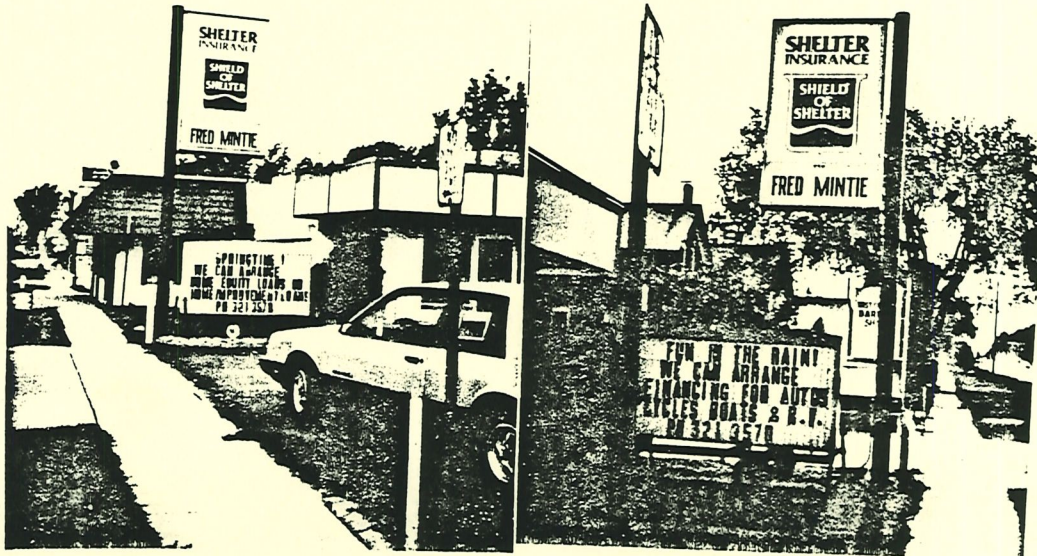
Please allow me to address an issue, which has been prominent in the consideration of H.B. 2738, which is the separation of commerce and banking. Should banks be allowed to compete in certain areas of other financial services, such as securities, as is contained in HB 2738?

Banks should stick to banking-----is the statement we often heard. And, we suppose, it is only simple logic that , brokers should stick to stock sales----realtors should stick to selling real estate-----insurance companies and their agents should stick to insurance policies. Let me assure you *if you had to power to legislate these concepts into reality, we would support your efforts 100%!*

Unfortunately, it is too late. Stock brokers are selling traditional banking services-----insurance companies are offering and their agents are selling banking services-----today banks are the only places where *banking and commerce are separate*

But isn't it ironic that ONLY when banking strives to achieve equality, do these same groups shout loudly-----LET'S SEPARATE BANKING AND COMMERCE! We respond, "We tried to, but insurance and brokerage companies won that fight. Where were you when it all started?"

For example, look at the following photographs, and see if you believe insurance and banking are already being "mixed together" in El Dorado, Kansas by this particular insurance agent? And now this same group loudly proclaim, "Keep banking and commerce separate!" The words sound rather hollow to us!



"Springtime! We can arrange home equity loans or home improvement loans."

"Fun in the Rain! We can arrange financing for autos, cycles, boats & RV."

Also, take a look at the notice sent out by a stock broker to potential customers in north-central Kansas. We strongly believe a clear case can be made that allowing banks to offer securities powers is nothing more than a restoration of "equality"! ! ! *Stock brokers have been offering bank products for some time!* Please consider the following:

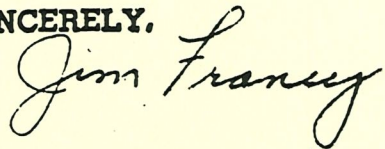
**ATTENTION  
CERTIFICATE OF DEPOSIT HOLDERS**

**IF YOU HAVE A CERTIFICATE OF DEPOSIT MATURING WITHIN THE NEXT 90 DAYS. GIVE ME A CALL. I BELIEVE I MAY BE ABLE TO OFFER YOU A HIGHER YIELD:**

**BANK-ISSUED CERTIFICATES OF DEPOSITS OFFERED THROUGH EDWARD D. JONES & CO. ARE INSURED UP TO \$100,000 BY THE F.D.I.C. MINIMUM DEPOSIT.**

**PHONE 913-243-1544**

**SINCERELY,**



Anyone who has been in a large Sears store in an urban area knows full well, that Sears has the absolute authority, under one roof, to offer to sell your house or help you find one through Coldwell Banker realty, and offer to sell you stocks, bonds, CD's and loans through their Dean Witter subsidiary and their Greenwood Trust Company affiliates. What does it mean, that we should separate banking and commerce? How is it possible? They have been joined for some time!



Just examine a list of those securities and insurance firms who have purchased or otherwise formed affiliations with non-banks subsidiaries so they can offer a full line of financial services, including banking services.

*Would they agree to separate banking and commerce?*

AFFILIATIONS BETWEEN SECURITIES FIRMS AND FEDERALLY INSURED  
DEPOSITORY INSTITUTIONS IN THE UNITED STATES

<u>Securities firm</u>	<u>Insured Depository Institution*</u>
American Express Company	Advisory Bank & Trust Co.
IDS Securities Corp.	American Express Centurion Bank
The Robinson-Humphrey Co., Inc.	Boston Safe Deposit & Trust Co.
Shearson Lehman Brothers, Inc.	Savings Bank Trust Co., NW
Bear, Stearns & Co. Inc.	Custodial Trust Company
Dean Witter Reynolds Inc.	Greenwood Trust Company
	Hurley State Bank
Drexel Burnham Lambert Incorp.	Commercial Trust Co.
	Harbor Trust Company
Dreyfus Corp.	Dreyfus Consumer Bank
Eaton Vance Distributors, Inc.	Investors Bank & Trust Co.
Federated Securities Corp.	Liberty Bank and Trust, NJ
The First Boston Corporation	Universal Trust Co.
First Investors Securities Corp.	First Financial Federal Savings and Loan Association
Franklin Distributors Inc.	Pacific Union Bank and Trust Co
Goldman, Sachs & Co.	Broad Street Bank and Trust Co.
E. F. Hutton & Company Inc.	E. F. Hutton Bank
The Illinois Co., Inc.	Land of Lincoln Savings & Loan
John Hancock Subsidiaries, Inc.	First Signature Bank & Trust Co
Sutro & Co. Incorporated	
Tucker, Anthony & R.L. Day, Inc.	
Kidder, Peabody & Co. Incorp.	Monogram Bank
Merrill Lynch & Co., Inc.	Merrill Lynch Bank & Trust Co.
Prudential-Bache Securities Inc.	Prudential Bank and Trust Co.
The Travelers Corporation	Massachusetts Co., Inc.
Dillon, Read & Co. Inc.	
Securities Settlement Corporation	

\* Deposits insured by the FDIC except First Financial Federal Savings & Loan Ass and Land of Lincoln Savings & Loan, whose deposits are insured by the FSLIC.

When these same commercial groups, who already possess banking powers, talk about separation of banking and commerce, they must mean only for banks. It seems perfectly OK for others to offer banking and commercial products, but it is not OK for banks to do so?

Moreover, not only do many other types of commercial businesses now have banking powers, but other financial institutions have various securities, and insurance powers. The two largest financial institutions in this state are Franklin Savings Association and Capitol Federal Savings. Franklin has purchased a securities subsidiary, and Capitol Federal aggressively markets insurance products.

The question is, "What harm has been done by these two well-managed institutions?" If the danger is great for banks to mix banking and commerce, then where is the great damage that has resulted in insurance companies and stockbrokerages doing it for years, and for savings and loan associations engaging in it? We challenge opponents to H.B. 2738 to demonstrate who has been harmed by these activities which have been going on for some time.



Personal Insurance Services

95th & Nall, P.O. Box 678, Shawnee Mission, KS 66201 Phone (913) 381-5400  
24 HOUR CLAIMS ANSWERING SERVICE (913) 381-8167

Lee Hays  
Agency Manager

March 11, 1988

Dear

If you would like to provide a tax shelter for more of your earnings, without worrying about the safety of your investment or the consequences of tax reform, Capitol Agency has the answer! Our new Tax-Deferred Annuity from Minnesota Mutual Life allows you to defer income tax on your earnings on any investment amount of \$2,000 or more...the perfect supplement to your retirement plans.

Your money accumulates quickly with the current tax-deferred interest rate of 7.75% with a bonus rate of 8.00% on the balance over \$20,000. The interest rate is guaranteed for the first two years, regardless of changes to the market rate. After two years, you will continue to receive highly competitive interest rates. Most importantly, you will earn tax-deferred interest, providing maximum growth of your investment.

Capitol Agency is concerned for the safety of your investments. That's why we were careful to choose an annuity from Minnesota Mutual Life. Although the annuity is not insured by the FSLIC, every cent you contribute is backed by over \$3 billion in assets and the very stringent legal reserves required of insurance companies. With over 100 years of investment experience, Minnesota Mutual Life has earned the A+ (superior) rating... the highest in the industry... from A. M. Best Company, an independent firm which evaluates the financial condition of all insurance companies.

Why not reduce your current income taxes and build for a secure income later in life? Call me today at (913) 235-1341, Ext. 276, or stop in at my office at 1201 Topeka Boulevard in Topeka and ask for your free brochure on Minnesota Mutual's Tax-Deferred Annuity. There is no obligation, just a great opportunity to save on your next tax bill.

Sincerely,

Sandi Reesor,  
Agent

TO: KBI Gov. Council

# Long, arduous route led Fleischer to Rothschild buy <sup>5</sup>

BY DAN MARGOLIES

Ernest Fleischer was in New York for his monthly meeting with Franklin Savings Association's investment bankers when he first heard that L.F. Rothschild Holdings Inc., the beleaguered Wall Street investment house, might be for sale.

The chairman of Franklin was in the midst of a monthlong swing around the country that began a couple of weeks earlier in Fort Lauderdale, Fla., where he gave a speech on one of his favorite topics, mortgage-backed securities, the financial backbone of Franklin's meteoric growth over the last six years.

From Ft. Lauderdale, Fleischer had traveled to Houston to attend a board meeting of Underwood, Neuhaus & Co.,

an investment banking firm Franklin bought last year shortly after acquiring the Kansas City-based investment firm of Stern Brothers & Co.

Now he was on Wall Street, meeting with executives of Salomon Brothers, the investment bankers who have underwritten many of Franklin's bond issues over the last five years. Salomon also was working with Rothschild, which had been decimated in the October stock market crash and was looking to restructure its operations.

"I got a call from Jon Barry, our investment banker at Salomon, to tell us that Salomon had been retained by Rothschild to assist in the restructuring," Fleischer recalled in an interview last week.

"Jon was familiar with Stern and Underwood and the manner in which those transactions had been structured. He thought it might be possible to conclude a similar transaction for an affiliation between Franklin and Rothschild. At that time, we told him we would be interested."

So began a series of meetings culminating in a marathon weekend session in New York that led the parent company of Ottawa, Kan.-based Franklin, a once-obscure thrift institution that now boasts \$9 billion in assets, to agree last week to buy Rothschild, an 89-year-old investment house that once ranked among the elite of Wall Street.

The agreement is the latest in a series of

Please turn to page 21

## Rothschild deal the finish line of a negotiations

Continued from page 1

moves that has catapulted Franklin — and Fleischer, its chairman and majority owner — to national prominence, and made it the largest thrift in Kansas and one of the top 40 in the United States.

"It's consistent with everything Mr. Fleischer has attempted to do," said Michael Zuk, a banking analyst with George K. Baum & Co. "He tries to buy assets in the marketplace that the market, for whatever reason, has probably somewhat undervalued.

"This would add a significant component to Franklin's financial service network . . . It's another step in what appears to be a methodical, well-thought-out plan to build up that segment of the business."

Fleischer, a diminutive man whose modesty belies what some call one of the most penetrating financial minds anywhere in the country, nearly gave up on the deal. Rothschild, reluctant to give up its independence, initially was looking not for a buyer, but for an investor who could provide it with some much-needed capital.

But as the magnitude of its losses became clear — the company last week reported a fourth-quarter loss of \$128.8 million on revenues of \$32.5 million, much of it attributable to arbitrage and over-the-counter trading activities during the market collapse — Franklin's offer began to look increasingly attractive.

The offer, as outlined in the parties' letter of intent, calls for shareholders of publicly-held Rothschild to get cash and preferred stock based on the company's March 31 adjusted book value. Franklin now estimates that payment to be \$1.35 a share in cash and \$3.05, or a total of about \$66.5 million for Rothschild's 15.1 million common shares.

At the same time, Franklin subsidiary Franklin Financial Services, which owns Stern Brothers, the company with which Rothschild will merge, has agreed to provide a 2½-year, \$30 million loan to Rothschild. The loan, which qualifies as regulatory capital, will boost Rothschild's net capital to \$207 million.

Rothschild balked at Franklin's original offer, Fleischer said, because Franklin was unwilling to pay Rothschild's shareholders a substantial premium up front.

"Our view is that a very important source of value is the human capital inherent in a company, and we don't believe there is any way to buy that from the shareholders," Fleischer said.

So what he offered instead was a deal similar to the one Franklin offered to Underwood's shareholders: Rothschild's shareholders would receive 20 percent of Rothschild's net income over a five-year period, Rothschild employees would receive 40 percent and Franklin Financial would receive the remaining 40 percent. After the five-year period, profits would be split 50-50 between the employees and Franklin Financial.

The arduous negotiations, at which Rothschild was represented by two investment banking firms, Salomon Brothers and Lazard Freres, and Franklin was represented by Merrill Lynch, began in earnest on Friday, Feb. 12. Fleischer, convinced that a deal was in the offing, summoned lawyers from Franklin's law firm, Stinson Mag & Fizzell in Kansas City. (Fleischer, himself a lawyer with Stinson Mag for more than 25 years, left the firm in 1985 to devote his energies full-time to Franklin.)

If a definitive agreement is ultimately reached — and there are many details that remain unresolved — the Rothschild purchase will represent yet one more step in Franklin's march toward becoming a full-service financial firm. Besides its investment banking subsidiaries, the thrift owns companies involved in the sale, lease and management of real estate; underwriting life and property and casualty insurance; issuing collateralized mortgage obligations; and marketing Franklin Savings' risk-arbitrage program — the hedging strategy by which the thrift locks in profits, whether interest rates rise or fall — to other savings and loans.

"We think of the business we're in as the financial services business," Fleischer said. "And, on a risk-adjusted basis, if we can operate the financial service business in a prudent and consistent manner, that's our sole measure of success."

To make sure that Rothschild operates in a prudent and consistent manner, *But banks are prohibited by state & federal law!*

The concept of offering a full line of financial services is not new. In fact, it clearly appears that banks are about the only ones without the powers to do so!

Mr. Chairman, Members of the Committee, thank you for your time and consideration. We respectfully ask for your support of H.B. 2738, to consider granting banks a small portion of the powers held by their competitors, as a matter of competitive equity.

Bankers throughout Kansas strongly believe in the fairness of the slogan,

*"Let us in, or get them out!"*

A handwritten signature in cursive script, reading "Harold D. Stover". The signature is written in dark ink and is positioned to the right of the main text block.

TESTIMONY  
before the  
SENATE COMMITTEE  
on  
FINANCIAL INSTITUTIONS & INSURANCE  
RE: HB 2738

by  
STEVEN K. PRICKETT  
KANSAS INDEPENDENT BANKERS ASSN.

MARCH 22, 1988

*Attachment IV*

TESTIMONY HB 2738

before the

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

Steven K. Prickett  
on behalf of  
The Kansas Independent Bankers Association

Mr. Chairman and members of the committee:

I am Steve Prickett, chairman of the Citizens State Bank in Geneseo, Kansas and chairman of the State Legislative Committee for the Kansas Independent Bankers Association. I am here before you today to discuss the ramifications of HB 2738 in the form it now appears.

The bill itself has undergone some substantial changes since its origin in the House. And as we have stated before, we have no across the board opposition to additional powers and services for the banking industry. While we recognize the need for changes, we also recognize that maintaining public confidence in the safety and soundness of our financial system is of paramount importance.

As you know, HB 2738 deals with enabling banks to become involved in securities without any limitations, wherein if passed in its present form, state chartered banks which are not subsidiaries of bank holding companies could become equity investors or underwriters of corporate securities.

Present federal law (the Glass-Steagall Act) for bank holding companies, national banks and member banks of the Federal Reserve dictates that banks by and large cannot be equity investors or underwriters of securities. This separation of commerce from banking, and commercial banking from investment banking, has existed in the United States for many years.

The chief rationale for this long standing policy has been to prevent conflicts of interest which could, if allowed, undermine the integrity, safety and efficiency of our nation's financial system. The Kansas Independent Bankers Association believes these federal laws are prudent and that HB 2738 should be amended to reflect exclusion of equity investing and corporate underwriting.

Further support for our argument comes from Alan Greenspan, Federal Reserve Chairman, in his testimony given before the United States House of Representatives on November 18, 1987.<sup>1</sup> Mr. Greenspan testified that federal banking laws including the Glass-Steagall Act, need revision. However, fundamental to his recommendations is the safe and sound operation of banks. This requires that securities activities involving significant risks be conducted behind walls designed to separate, insofar as possible, the bank from the risks associated with the securities activities.

<sup>1</sup>Testimony by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System before the Subcommittee on Financial Institutions Supervision, Regulations and Insurance, the Committee on Banking, Finance and Urban Affairs and the United States House of Representatives on November 18, 1987.

Some have argued that insulating walls cannot completely protect a bank from the risks of its affiliates. Management has a natural incentive in periods of stress to assist endangered components of what it sees as one entity, and depositors are free to withdraw their funds from the bank if they perceive -- correctly or incorrectly -- a threat to the bank's safety from losses at affiliates.

Therefore, the task is to reduce the risk, taking into account public benefits relative to the risk, to acceptable levels. This type of effort requires clear rules and a firm expression of public policy. Corporate conduct which passes on the risks of securities activities to insured depository institutions is unacceptable.

Mr. Greenspan's approach to a practical solution is to use the holding company structure to institutionalize separation between a bank and a securities affiliate, thereby taking maximum advantage of the legal doctrine of corporate separateness. Under that rule, a separately incorporated company normally is not held liable for actions of other companies even if they are commonly owned or there is a parent-subsidary relationship.



This goal of corporate separateness can be most effectively achieved if securities activities took place in a direct subsidiary of a holding company rather than a bank or a subsidiary of a bank. With this thought in mind the Kansas Independent Bankers Association recommends that if some banks want to assume the risk of equity investing and underwriting corporate securities, they should not be granted these specific powers through their own subsidiary which would be allowed under the current wording of HB 2738.

It is difficult, if not possible from a practical standpoint, for a bank to avoid assuming responsibility and liability for the obligations of its direct subsidiaries. Experience has shown that the direct ownership link between a bank and its subsidiaries creates a powerful public perception that the condition of the bank is tied to the condition and financial success of its subsidiaries. If you are contemplating passing HB 2738, then there are certain boundaries which would be prudent to include. Our recommendations to the committee is that the bill permit banks to establish a securities subsidiary for retail securities activities closely related to banking, but in a more prudent environment.

In keeping with this thought, an amendment specifying the parameters of what a bank subsidiary could offer by way of securities powers would be desirable. A copy of the proposed amendment is on the green sheet attached with your KIBA handout material.

The amendment enumerates specific activities which are closely related to banking and will provide new services for our customers. Those powers are --

1. Selling or distributing stocks, bonds, debentures, notes, and other securities.
2. Issuing and underwriting municipal bonds.
3. Dealing in, selling, and distributing as principal or agent, securities issued by any investment company (mutual funds).
4. Acting as a securities broker-dealer.

Gentlemen, thank you for your attention. If this amendment is incorporated into HB 2738, the bill will have the support of the Kansas Independent Bankers Association.



**American Council of Life Insurance**

Gary E. Hughes  
Chief Counsel, Securities

March 17, 1988

L.M. Cornish, Esq.  
Glenn, Cornish, Hanson & Karns  
900 Merchants National Tower  
P.O. Box 1280  
Topeka, KS 66601

RE: H. 2738

Dear Bud:

Julie Speizio asked that I write you and explain in somewhat greater detail why we are concerned with the bank securities authorization in Section (22) of H. 2738 and its application to variable insurance products.

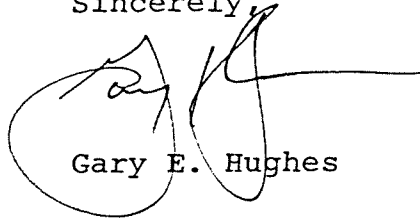
Section (22) of H. 2738 empowers state banks, with appropriate regulatory approval and supervision, to establish or acquire a securities subsidiary and through that subsidiary engage in "any aspect of the securities business." In this context, the question arises whether variable annuities, variable life insurance and other insurance products that are treated as securities under the federal securities laws can be sold and underwritten by a securities subsidiary of a Kansas bank.

Reading Section (22) in conjunction with the definition of "security" set forth in K.S.A. 17-1252(j) does not resolve this ambiguity. K.S.A. 17-1252(j) provides that the term "security" does not include "... any insurance or endowment policy or annuity contract under which an insurance company promises to pay money either in a lump sum or periodically for life or some other specified period." Thus, it is clear that under Kansas law variable annuities, variable life insurance and other insurance/securities products are not securities. The securities authorization contained in Section (22) of H. 2738 makes no reference, however, to the Kansas definition of "security." Consequently one must question the scope of bank securities activities authorized by Section (22). Can a bank securities subsidiary engage only in those activities that are consistent with the Kansas definition of "security"? Or can that subsidiary also engage in activities involving products or financial instruments that are "securities" under a federal definition?

Unless this uncertainty is addressed, the authority of Kansas banks to engage in variable annuity and variable life insurance activities will likely be the subject of litigation. This potentiality can be avoided if Section (22) is clarified in one of two ways. First, the bank securities authorization in that section can be limited to activities consistent with the Kansas definition of "security", presumably by a cross-reference to K.S.A. 17-1252(j). Second, Section (22) can be amended as we suggested previously to make clear that it shall not be construed to permit a bank to issue, underwrite or sell any product of insurance which is registered as a security under the Securities Act of 1933 or exempt under that Act.

I hope this explains the concern we have with the proposed legislation and why we believe some additional clarification is necessary. If you have any further questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary E. Hughes", with a large, sweeping flourish extending to the right.

Gary E. Hughes

GEH:sh

cc: Julie A. Spiezio  
James D. Hall