Approved 2/27/89
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by SENATOR RICHARD L. BOND at
Chairperson

9:00 a.m./~~p.m.~~ on February 22, 1989 in room 123-S of the Capitol.

All members were present except: Senators Bond, Salisbury, Anderson, Karr, Kerr, McClure, Moran, Reilly, Strick and Yost.

Committee staff present:
Bill Wolff, Research Department
Bill Edds, Revisors Office
Myrta Anderson, Research Department
Louise Bobo, Committee Secretary

Conferees appearing before the committee:
Eric Jager, Co-Chairman, Kansas Inc.
Charles Warren, President, Kansas Inc.
Mark Russell, Treasurer, La Siesta Foods
Dick Rucker, President, Home Bank and Trust Company, Eureka
Russ Meyer, President and CEO, Cessna
Lanny Kimbrough, President, Highland Park Bank and Trust Company
Donald See, Overland Park State Bank
John Peterson, Fourth Financial Corporation

Chairman Bond called the meeting to order at 9:08 a.m.

SB 249 - Eric Jager, Co-Chairman, Kansas Inc., was the first to appear before the committee in support of SB 249. Mr. Jager reported that his organization felt interstate banking was only one of several measures needed to increase the strength and capabilities of Kansas banks. He feels that Kansas needs a banking industry which can provide the necessary capital and expertise if it wants to enhance its economy in all sectors. (attachment 1)

Charles R. Warren, President, Kansas Inc., supports this measure because he feels that larger banks are more efficient and better able to maintain a strong source of financial and lending expertise. He also feels that the agricultural sector, as well as business, will need the services of more stable, more diversified, and larger banks to meet its financial needs of the future. (attachment 2)

Mark Russell, La Siesta Foods, spoke in behalf of SB 249. He stated that his company had grown from 14 employees in 1978 to 200 employees and that the increased growth of the company was making it more difficult to do business with Kansas banks. He told the committee he would like to continue to do business with local banks; therefore, would like to see his bank be able to expand along with his company.

Next to appear in favor of this proposal, SB 249, was Dick Rucker, President, Home Bank and Trust Company, Eureka. Mr. Rucker informed the committee that, in the last several years, there has been a need for his bank to become more aggressive in lending and he would like to see the banking industry progress and be able to help the community and state in economic development. (attachment 3)

Russell Meyer, Chairman and CEO of Cessna Aircraft, spoke in support of this bill. Mr. Meyer informed the committee that, for the last 15 years, Cessna Finance Corporation had to go outside the state of Kansas for financing because the lending limits by local banks were not adequate. He continued that his company would much prefer to do business in Kansas; however, Cessna has a strong commitment to maintain their world leadership and, if necessary, will continue to go outside of the state for their major financing. (attachment 4)

Lanny Kimbrough, President, Highland Park Bank and Trust Company, appeared in support of interstate banking. He reminded the committee of the reluctance of some to permit multi-banking and limited branch banking and, yet, none of the "horrors" expected from those changes has developed. On the other hand, many opponents of those changes in the banking structure have reorganized their own banking operations to include multi bank holding companies and branching. (attachment 5)

Donald See, Overland Park State Bank, appeared in support of this proposed legislation. Mr. See observed that most of the opposition to this bill comes from banks unable or unwilling to compete in the open market. He reminded the committee that Kansas was the 50th state to permit multi-bank holding companies and among the last to allow branch banking. He stated that, because of these recent banking changes, none of the six Kansas banks declared insolvent last year were forced to close but five merged with existing banks and one was able to retain its charter. (attachment 6)

The last proponent to appear was John Peterson, Fourth Financial Corporation. Mr. Peterson's testimony stated that the four states bordering Kansas all permit interstate banking. He also suggested to the committee that, in economic development, image is vital, and Kansans have worked hard in recent years "to create an image of a state that is progressive and eager to enhance business opportunities." According to Mr. Peterson, interstate banking will not only enhance Kansas' image but will provide a fair, competitive environment for banking and an opportunity for economic benefits. (attachment 7)

Chairman Bond inquired if there were others in the audience wishing to testify in support of SB 249. There being none, he declared the hearing for proponents closed.

The meeting adjourned at 10:00 a.m.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

Wed. Feb 22, 89

DATE	NAME	ADDRESS	REPRESENTING
2-22-89	Russell W. Meyer Jr	600 Tara Ct Wichita, KS 67206	Cessna Aircraft Co.
2/22/89	DONALD C. SEIZ	7410 W 101 TERR O.P., KS	OVERLAND PARK BK
2/22/89	Richard Smith	Wichita	WIBA
2/22/89	[illegible]	Eureka	Home Bank & Trust Co.
2/22/89	[illegible]	Mission Hills	Kansas Inc
2/22/89	Charles Warren	Topeka	Kansas Inc.
2/22/89	TOM Clevenger	Wichita	Fourth Financial Corp
2/22/89	Ken Buchele	Emporia	Bank IV Emporia
2/22/89	BOB ASMANN	WICHITA	FOURTH FINANCIAL
	John Peterson	Topeka	Fourth Financial Corp
	Brad Smoot	Topeka	"
2/22/89	Roy Mele	Tulsa	QuikTrip
	Ron Bohn	Topeka	Fourth Financial Corp.
2/22/89	Rudy Wenick	Topeka	Fourth Financial Corp
2/22/89	Randall Scott	Topeka	Bank IV - Topeka
2-22-89	Jim Leiker	Topeka	BANK IV - Topeka
2/22	Ken Alexander	"	BANK IV - Topeka.
2/22/89	Larry [illegible]	"	HIGHLAND PARK BANK
2/22/89	Mark Parrish	Topeka	La Siesta Foods, Inc.
2-22-89	Ivan Wyatt	McPherson	Ks Farmers Union
"	Alan Steppat	Topeka	Pete McGill & Associates
"	BUD GRANT	"	KCCI
"	SCOTT HESSELL	TOPEKA	KANSAS, INC.

SENATE COMMITT

ON

FINANCIAL INSTITUTIONS AND INSURANCE

Wed. Feb. 22
Page 2

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
	Pete McGill	Topeka	KIBA
	LINDA McGILL	TOPEKA	KIBA
	Tim Sipes	TOPEKA	BANK IV TOPEKA
	Mary Parks	Carbondale	KIBA
	Sue Anderson	"	"
	Harold Stones	Topeka	KBA
	Kathy Taylor	"	"
	John Ferrell	Lyndon	KIBA
	Howard W. Tice	HUTCHINSON	Ks. Ass'n of Wheat Growers
	Jewel Wright	Topeka	KCUL
	Jim Maag	"	KBA
	W. Newton Male	"	KANSAS BANKING DEPT

KANSAS inc.

Governor Mike Hayden, Co-Chairman
Eric Thor Jager, Co-Chairman

Charles R. Warren, President

CAPITOL TOWER, SUITE 113 • 400 S.W. 8TH • TOPEKA, KANSAS 66603-3957 • TELEPHONE (913) 296-1460

TESTIMONY

of

Eric Thor Jager
Co-Chairman, Kansas Inc.

On
Senate Bill No. 249
Authorizing Interstate Banking

Senate Committee on Financial Institutions and Insurance

February 22, 1989

Attachment 1
Sen. F. I + I
2/22/89

Mr. Chairman, members of the Committee, I am Eric Jager, Co-Chairman of the Board of Directors of Kansas Inc. I am a resident of Johnson County, Kansas, and an investment manager in my capacity as President of Windcrest Investments Management, the investment arm of Bartlett and Company, a major agribusiness firm operating throughout Kansas.

I am here today to testify on behalf of Kansas Inc. and its Board of Directors in support of Senate Bill 249 which would authorize interstate banking for the State of Kansas.

Kansas Inc., the State's strategic planning and policy body for economic development, considers the issue of capital availability and business financing for job creation and retention to be among the highest priorities in the State's strategy for state economic growth. During the past year, the Board has approved a number of research projects and taken policy positions that address the topic of business financing. Our research and deliberations include steps that can be taken by both state government and private financial institutions to meet the goal of increasing the availability of capital investment and financing for economic growth.

Kansas Inc. has undertaken a comprehensive series of initiatives to meet the financing needs of businesses:

o Oversight of Kansas Venture Capital, Inc.

o Support of the Ad Astra Seed Capital Fund established by Kansas Technology Enterprise Corporation.

o Recommendation that the tax credits available for venture capital companies be increased.

o Endorsement of House Bill 2020 to establish a small business revolving loan program under the Kansas Development Finance Development Authority.

o Endorsement of Senate Bill 21 creating an Export Finance program to provide working capital to Kansas exporters, and,

o Evaluation of Certified Development Companies - the financial middle-men between small Kansas firms and lending institutions.

The success of these initiatives depends on an effective partnership between state government and Kansas banks.

Our attention to this topic is guided by the philosophy that state programs should only be proposed when private sector capital markets may be unable to meet the financing needs of Kansas businesses. We initiated a study of commercial banking to determine how well the private sector was performing its role. The Kansas Inc. Banking Study provides timely data and analysis that addresses this question.

At its Board meeting last month, the Board of Directors of Kansas Inc. adopted a policy position encouraging the Kansas Legislature to "begin the process of instituting interstate banking in the State." The Board is pleased that a Bill has been introduced in the Kansas Senate to establish interstate banking. We feel that it is extremely important that the Legislature give serious consideration to this issue. We hope that in these hearings the Committee will pay particular attention to the potential benefits for economic development in the State.

Our recommendation supporting interstate banking is only one of several measures we feel are necessary to increase the strength and capabilities of Kansas banks. The Board's other recommendations include:

o encouraging smaller, independent banks to extend their participation in the Kansas Bankers Bank authorized by the 1988 Legislature.

o recommending that banks make greater use of the multi-banking holding company device through mergers and affiliations to establish stronger and more diversified institutions.

o recommending the removal of all geographic restrictions on branch banking to allow banks the same competitive freedoms now granted to Kansas savings and loan institutions.

Today only five states -- Hawaii, Iowa, North Dakota, Montana and Kansas -- do not allow interstate banking. It is the Board's conclusion that interstate banking is inevitable. The question is whether Kansas will be the 46th, 47th, 48th, 49th or 50th state to adopt it. To quote from the Board's policy statement: "Interstate banking should increase the size of banks servicing the state and bring greater lending expertise, increased diversity in financial mechanisms, and additional capital for commerical lending purposes."

Kansas Inc.'s just completed study of "Capital Availability and the Kansas Banking Industry," demonstrates the need to strengthen the financial institutions of Kansas and to increase the commerical lending and financial expertise of Kansas Banking institutions.

Our study of commercial banking in Kansas indicates that:

1) Kansas requires a banking system with a more diversified loan portfolio, larger in terms of the average size of assets and deposits, and more sophisticated in terms of lending expertise and their capacity to deal with national and international financial institutions.

2) Kansas requires a system of banks and savings and loans that are financially sound and capable of surviving economic downturns and the vagaries of performance in a single industry or economic sector.

3) Banking consumers throughout the State need the services of strong and aggressive financial institutions.

Independent banks have little to fear from interstate banking. Other states, like Indiana, have enacted interstate banking laws that served to protect and enhance community banking and that prevent acquisition of banks that want to maintain their independence. States like Florida have witnessed a resurgence in independent banking after interstate authorization when new opportunities to provide more personalized, community based services emerged. In state-after-state, bank stockholders have profited from the increased value of their shares as a result of the market created.

Interstate banking, along with unrestricted branch banking and greater use of multi-bank holding companies, needs to be pursued to strengthen our banking industry and to bring more sophisticated financial expertise to Kansas companies. Given the trauma and difficulties facing the financial industry today, steps must be taken that will help create stronger institutions capable of surviving economic downturns and able to achieve the economies of scale and expertise that size produces.

Interstate banking is a good idea. Forty five states now profit from its advantages. If Kansas wants to enhance its economy in all sectors, it will need a banking industry that can provide the capital and expertise needed to compete with other states and nations.

I would now like to introduce Charles Warren, President of Kansas Inc., to provide you additional details from our banking study and other important facts relevant to the issue of interstate banking.

KANSAS inc.

Governor Mike Hayden, Co-Chairman
Eric Thor Jager, Co-Chairman

Charles R. Warren, President

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TESTIMONY

of

Charles R. Warren
President, Kansas Inc.

On
Senate Bill 249
Authorizing Interstate Banking

Senate Committee on Financial Institutions and Insurance

February 22, 1989

Attachment 2
Sen. F.I.&I.
2/22/89

At year's end 1987, Kansas had 598 banks with average total deposits of $36 million. The national average is $170 million. One might mistake this large number of small banks in the State as an indication of a competitive banking environment but, of the 413 communities in Kansas that have commercial banking services, 306 (or 74%) are served by only one bank! Bank customers should benefit from the increased competition that would result from interstate banking.

Interstate banking, along with other changes, would result in larger banks and increase the operating efficiences of the industry. To quote from the Kansas Inc. study:

> Kansas banks with assets greater than $100 million have performed significantly better than the 10th district banks and the State's smaller banks. The better than average performance by larger banks in Kansas is attributable to a more diversified lending base and operating efficiencies.

Table 1 illustrates the operating efficiencies of larger Kansas banks.

Table 1
Operating Costs of Kansas Banks

Asset Size	% of total assets
Over $100 Million:	1.74 %
Between $25 and $50 Million:	2.17 %
Under $25 million:	2.53 %

Source: Kansas Inc., Capital Availability and the Kansas Banking Industry, (Topeka, Ks.: February 1988).

Larger banks are not only more efficient, but are also better able to maintain a strong source of financial and lending expertise essential to today's sophisticated and international financial markets.

The Kansas economic development strategy is oriented toward diversifying our economic base of agriculture and energy by moving into value-added agriculture, export oriented firms, and advanced technology businesses in both the manufacturing and service sectors. Among the state's highest priorities, therefore, is to increase the lending expertise in Kansas banks in order to stimulate job creation and business expansion.

In order to handle international transactions, Kansas exporters have testified that they must deal with Missouri and other out-of-state banks. When the State Senate Economic Development Committee sought an expert on international financing, it had to call upon a Kansas City, Missouri banker.

Kansas firms and consumers seeking loans would be better served by banks with greater lending ability. The national loan-to-deposit ratio is 79 percent. In Kansas, it is 20 points below at 59 percent. If Kansas banks had loaned at just 68 percent, an additional $2.4 billion in loans would have been made available. The low lending by Kansas banks partly lies in our relatively flat economy, but the small size of our banks, their risk-averse behavior, and their dependence on agricultural lending are significant contributors.

The commercial loan-to-deposit ratio in Kansas is only 17.4 percent compared to a national average of 25.7 percent. Almost 70 percent of commericial loans are made by only 139 banks. Larger banks make more commercial loans. Kansas banks with assets under $25 million have commercial loan-to-deposit ratios of 10.4 percent, while Kansas banks over $100 million in assets have ratios of 22.7% percent; more than double that of the smallest banks and almost near the national average.

Agricultural lenders should benefit from the authorization of interstate banking. A June 1988 study of farm lending in the Tenth Federal Reserve District by the Federal Reserve Bank of Kansas City made these important conclusions:

1) "Banks' share of the farm lending market is shifting from specialized agricultural banks--banks with more than an average proportion of loans to farmers--to nonagricultural banks. Bank held farm debt is becoming concentrated more in the hands of larger banks with diversified loan portfolios."

2) Analysis of agricultural lending trends "suggest that a stronger farm economy would not be likely to reverse the decline in market share at small agricultural banks."

3) "A more stable record of solid earnings throughout the financially turbulent 1980's suggests that these larger, more resilient banks will be an increasing force in the farm lending market."[1]

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[1] Alan Barkema, Mark Drabenstott, and Landell Froerer, "A New Era in Farm Lending: Who Will Prosper?" Economic Review, Federal Reserve Bank of Kansas City, June 1988, pp. 22-38.

The agricultural sector, like its business counterpart, is going to need the services of more stable, more diversified, and larger banks to meet its financial needs in the years ahead.

For the Committee's information, I have attached to my testimony a research report from Salomon Brothers dated February 9, 1989 that provides a state-by-state summary of interstate banking laws.

Stock Research
Commercial Banks

Salomon Brothers

February 9, 1989

Thomas H. Hanley
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The Final Phase of Interstate Banking — The Industry Clock Is Ticking

The Countdown: Only Five States Left

To keep investors informed about changes occurring in interstate banking laws, we are updating our reference guide, *The Final Phase of Interstate Banking*. Since our last report in March 1988, five states have enacted some type of provision permitting cross-border banking affiliations, bringing the total number of states to 45, plus the District of Columbia. With the possible exception of Hawaii, there is limited investor interest because of the size of the banking institutions or the financial markets in the five states that remain. In Hawaii, where the market for banking services is both large and expanding, the legislature failed to ratify one of the three bills proposed during the last session and currently has no new bills under consideration.

The four remaining states can be characterized by their small and healthy commercial banking institutions, which have strong protectionist banking lobbies in their respective state capitals. North Dakota and Iowa are the only two that will be considering interstate banking bills in their upcoming legislative sessions. In Kansas, a review committee recommended to the state legislature that interstate banking should **not** be considered at this time. Finally, in Montana, no interstate banking legislation will be considered during the next legislative session.

The current trend in interstate banking is toward national, reciprocal triggers, the logical progressive step from regional affiliations. These affiliations were formed to fortify the strategic positioning of the resident bank holding companies and were intended to serve as a precursor for national interstate banking. Several key states have abandoned their regional affiliations and have adopted national triggers scheduled to go into effect over the next three years.

A number of interstate banking bills were passed during the 1986-88 legislative sessions that have a two- to three-year phase-in period of regional interstate banking followed by a second round of national triggers in 1990-91. **Merger activity on a national reciprocal basis could prove intense in Louisiana, Nevada and Oregon, where national triggers go into effect this year. In 1990, several other states with large and growing financial services markets will have national triggers becoming effective, which may cause merger and acquisition activity to reach a frenzy in California, Colorado, Delaware, Illinois, Indiana, New Mexico, Pennsylvania, and Vermont.**

Alabama

Since July 1987, Alabama has permitted regional, reciprocal banking with Arkansas, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

Alaska

Alaska has enacted legislation permitting unrestricted, national interstate banking.

Arizona

Arizona has enacted legislation permitting unrestricted, national interstate acquisitions. Banks applying for a charter after May 1, 1984, may not be acquired by an out-of-state bank until five years after the application date or 1992, whichever is earlier.

Arkansas

Regional reciprocal banking is allowed with Alabama, Florida, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia, and the District of Columbia. Any Arkansas banking institution being acquired must have been in existence for at least ten years.

California

California has passed legislation that permits regional banking on a reciprocal basis with Alaska, Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. **Nationwide banking on a reciprocal basis begins January 1, 1991.**

Colorado

Regional reciprocal banking is permitted with Arizona, Nebraska, New Mexico, Oklahoma, Utah, and Washington. **National banking on a reciprocal basis begins January 1, 1991.**

Connecticut

Regional, reciprocal banking is permitted with Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

Delaware

Regional reciprocal banking is permitted with District of Columbia, Maryland, New Jersey, Ohio, Pennsylvania, and Virginia. The Delaware bank subject to acquisition must have been in existence for at least five years. **National banking on a reciprocal basis begins July 1, 1990.**

District of Columbia

Although unrestricted, national interstate banking is permitted, but companies that seek to acquire banks here must agree to substantial investments in the city.

Florida

Interstate banking on a regional, reciprocal basis is approved with Alabama, Arkansas, the District of Columbia, Georgia, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. The Florida bank subject to acquisition must have been in existence for at least two years.

Georgia

Georgia authorizes regional, reciprocal banking with Alabama, the District of Columbia, Florida, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia. The Georgia bank subject to acquisition must have been in existence for at least five years.

Hawaii

There is no interstate banking legislation currently under consideration.

Idaho

National, unrestricted banking became effective January 1, 1988.

Illinois

Illinois allows cross-border banking with Indiana, Kentucky, Michigan, Missouri, and Wisconsin. Acquiring institutions must have a capital-to-assets ratio of at least 7%. Illinois banks chartered after July 1, 1982, that are the target of an acquisition must have been in existence for at least ten years. **National, reciprocal interstate banking is permitted effective December 1, 1990.**

Indiana	Regional, reciprocal banking is authori... with Illinois, Kentucky, Michigan, Missouri, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and Wisconsin. Acquisitions are prohibited if the acquiring bank holding company holds more than 12% of total bank deposits in the state. **National reciprocity begins July 1, 1992.**
Iowa	A regional, reciprocal interstate banking bill will be considered in the forthcoming legislative session, scheduled for 9 Jan-28 Apr.
Kansas	The legislature asked a study committee to review the possible effects of interstate banking in the Kansas banking market. This committee recommended that interstate banking should not be authorized at this time.
Kentucky	Kentucky's legislation allows for national, reciprocal interstate banking. Acquisitions are prohibited if the acquiring bank holds more than 15% of total bank deposits in the state.
Louisiana	Banks based in Alabama, Arkansas, the District of Columbia, Florida, Georgia, Kentucky, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia have been able to acquire Louisiana banks since July 1, 1987. The Louisiana bank subject to the acquisition must have been in existence for at least five years. **National reciprocity begins July 1, 1989.**
Maine	Maine allows unrestricted, national interstate banking.
Maryland	Regional, reciprocal banking exists with Alabama, Arkansas, Delaware, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, and West Virginia. In addition, any out-of-state bank holding company may establish a single-office, limited-purpose bank, which, after June 30, 1988, can be converted into a full-service bank with limited branching privileges.
Massachusetts	Currently, Massachusetts authorizes regional, reciprocal banking with Connecticut, Maine, New Hampshire, Rhode Island, and Vermont. A bill that establishes national, reciprocal banking effective July 1, 1990, is being considered by the Senate Banking Committee. A bill is also expected in the House, requiring all acquiring institutions to maintain a 7.5% capital-to-assets ratio.
Michigan	National, reciprocal banking became effective on October 10, 1988.
Minnesota	Legislation has been enacted in Minnesota that permits regional, reciprocal banking with Idaho, Nebraska, South Dakota, Washington, Wisconsin, and Wyoming, plus Colorado, Illinois, Iowa, Kansas, Missouri, Montana, and North Dakota as and when their laws permit reciprocity.
Mississippi	Mississippi has passed legislation authorizing regional, reciprocal banking with Alabama, Arkansas, Louisiana, and Tennessee after July 1, 1988. Florida, Georgia, Kentucky, Missouri, North Carolina, South Carolina, Texas, Virginia, and West Virginia will be included in the region, effective July 1, 1990.
Missouri	Cross-border banking is authorized with states contiguous to Missouri. The region includes Illinois, Kentucky, Nebraska, Oklahoma, and Tennessee.
Montana	There is no legislative session scheduled for 1989.
Nebraska	Legislation was passed authorizing regional, reciprocal interstate banking with the north-central states of Colorado, Minnesota, Missouri, South Dakota, Wisconsin, and Wyoming. Under the terms of this bill, an out-of-state holding company may not control more than 11% of total state deposits or control more than nine banks in Nebraska.

Nevada National reciprocal interstate banking became law on January 1, 1989. The establishment of *de novo* offices by out-of-state institutions will be permitted after July 1, 1990.

New Hampshire As of September 1, 1987, regional, reciprocal banking became effective with Connecticut, Massachusetts, Maine, Rhode Island, and Vermont.

New Jersey National, reciprocal banking became effective on January 1, 1988.

New Mexico **National, unrestricted interstate banking will be authorized on January 1, 1990.** The New Mexico bank being acquired must have been in existence for at least five years. The aggregate sum of all deposits of the acquiring company and its subsidiaries may not exceed 40% of the total deposits in all financial institutions in New Mexico.

New York National, reciprocal interstate banking legislation allows out-of-state bank holding companies to acquire commercial banks and state-chartered savings banks.

North Carolina North Carolina allows regional, reciprocal banking with Alabama, Arkansas, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The North Carolina bank subject to an acquisition must have been in existence for at least five years.

North Dakota An interstate banking bill will likely be submitted for consideration during the 1989 session.

Ohio National reciprocity became effective on October 16, 1988. An acquiring out-of-state banking institution cannot control more than 20% of the aggregate deposits held by all the other financial institutions in Ohio.

Oklahoma Effective July 1, 1987, Oklahoma permitted national, reciprocal interstate banking. Any Oklahoma banking institution subject to acquisition must have been in existence for at least five years. Further acquisitions are barred for four years after the initial acquisition. Finally, no multibank bank holding company may control more than 11% of aggregate deposits held in all Oklahoma financial institutions.

Oregon Oregon permits interstate banking with states in the twelfth Federal Reserve District: Alaska, Arizona, California, Hawaii, Idaho, Nevada, Utah, and Washington. No reciprocity requirement exists. **On July 1, 1989, national, unrestricted banking goes into effect.**

Pennsylvania Cross-border banking is authorized with Delaware, the District of Columbia, Indiana, Kentucky, Maryland, New Jersey, Ohio, Virginia, and West Virginia. **Nationwide, reciprocal banking begins March 4, 1990.**

Rhode Island Legislation allows national, reciprocal banking as of January 1, 1988.

South Carolina South Carolina permits interstate banking with Alabama, Arkansas, the District of Columbia, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Tennessee, Virginia, and West Virginia. The South Carolina institution subject to an acquisition must have been in existence for at least five years.

South Dakota An act that authorizes national, reciprocal interstate acquisitions of South Dakota banks was signed on February 17, 1988.

Tennessee Tennessee's regional banking legislation operates on a reciprocal basis with Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Virginia, and West Virginia. The Tennessee banking institution subject to an acquisition must have been in existence for at least five years.

exas	Texas permits nationwide, interstate acquis...ons with no reciprocity requirement.
Utah	Nationwide, unrestricted banking became effective on January 1, 1988. Currently, out-of-state bank holding companies are authorized to purchase industrial loan companies and convert them into commercial banks.
Vermont	Regional, reciprocal banking is authorized with Connecticut, Maine, Massachusetts, New Hampshire, and Rhode Island effective December 31, 1987. **National reciprocity will become effective on February 1, 1990.**
Virginia	On a reciprocal basis, Virginia authorizes interstate banking with Alabama, Arkansas, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, and West Virginia. The Virginia banking institution subject to an acquisition must have been in existence for at least two years.
Washington	National, reciprocal interstate banking went into effect July 1, 1987.
West Virginia	As of December 31, 1987, national, reciprocal interstate banking was permitted in West Virginia. Acquisitions will be prohibited if the combined institutions would hold more than 20% of the state's deposits.
Wisconsin	Legislation has been enacted that allows regional, reciprocal banking with Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, and Ohio. The Wisconsin institution subject to an acquisition must have been in existence for at least five years.
Wyoming	During 1987, Wyoming passed legislation permitting unrestricted, national interstate banking.

* * * * *

Mr. Chairman and members of the committee, I appreciate the opportunity this morning to express my views on Interstate Banking. My name is Dick Rucker, I'm Chairman, President and CEO of Home Bank and Trust Co. of Eureka, KS. Our Bank is owned by a One Bank Holding Co., which is controlled by 5 local residents, which I'm one of. Our Bank was incorporated in 1904 and is approximatley $31,000,000 in Assets. Our loan to deposit ratio is 67%. Its located 60 miles east of Wichita in the Flinthills. Our traditional market has been approximately a 30 mile radius surrounding Eureka, but the last several years that has been changing due to a need to become more aggressive in loan acquisitions. Our present lending limits are $378M and $630M depending on the type of loan and banking regulations. We are the largest bank in the County. Our main industry is cattle, oil and Horse Racing at Eureka Downs. I'm very concerned not only about our local economy, but our State as a whole. I presently serve as a Director of The Kansas Bankers Asso-ation as well as serve as a member of the District Loan Committee for SKCEDD, a non profit corporation, created to work with local development groups to alleviate problems and develop opportunities for economic development for areas involving thirteen southcentral counties. I'm also a past officer and Director of the Greenwood County Fair Asso-ciation, who just completed spending two years in searching for and putting together a financial program, which enabled our community to build Eureka Downs, a Pari-mutual horse racing facility, which will open April 1, for its first full season.

Our group acquired Home Bank two years ago although I've been at the Bank 19 years. It's very important we are progressive in helping our Community and State in economic development so we continue to have the opportunity to grow and realize a continued profit picture, which enables us to fulfill our committment to our community, employees and stockholders. The views I express on Interstate Banking represents my own, not necessarily any organization I belong to.

I'm in favor of Interstate Banking. I feel we have to look at the Big Picture and what's good for Kansas, which Interstate Banking will be good for Kansas. Kansas' economy is constrained by artificial geographic boundaries and yet when we look around our State, Interstate Banking is occurring in such businesses as broker houses, finance companies, savings and loans, Sears and many others. It seems we've approached Interstate Banking somewhat like the Liquor Issue, which developed such a negative issue for our state when looked at by other States. Its my understanding you've been asked to consider recommending a Regional Interstate Environment. I urge you to do so.

During my years with the Bank, I've seen the battle lines drawn on several banking issues.

1st Our industry decided on Branches 1/2 mile from the main bank.

2nd Then they let those branches make loans.

3rd We then looked at the issue of letting banks acquire failed banks.

4th Then the issue of Holding Co. Acquisitions.

Attachment 3
Sen. F I & I
2/22/89

5th Next was letting a bank put a branch in a town that didn't have a bank.

6th Then Statewide Branching by Acquisition.

When contemplating back on the above issues, a certain segment of banks said if passed it would be dooms day for the small community bank. Well, Home Bank is still going strong and still growing and serving its community as are many others. And by the way, all the above have passed. Your smaller community banks have to run a tighter ship than some of our larger counterparts and thus there's probably times we won't assume the risk they will, but they have the Capital to do so and that's alright. Maybe through their success we'll help each other but just seeing the multiplier theory occur in Kansas economy, thru jobs and industry increasing surely some of that will provide opportunities for rural communities.

I guess fear of the unknown just makes people over re-act and many times not approach problems as they do in many other areas they have to make decisions involving major economic issues. I would imagine if someone took the objections to these six banking issues mentioned above, and whittled them down to the basics, facts wouldn't bear them out and they probably would all relate to fear of the unknown more than anything.

Home Bank has several competitors in Eureka. A Federal Land Bank, a Savings and Loan and a Bank which is controlled by outside ownership, that same ownership owning two other small rural community banks within our markets. There are occasions whereby we need assistance in loan participations due to the size of the loan and in most cases we ask a Correspondent Bank to assist or another rural bank to help us. We also are very aggressive in becoming aware of other types of capital which will take care of our customers even if the are not the traditional ones. I'm discussing this area, because I don't remember a time when Home Bank lost a customer to Bank IV, Commercial National of Kansas City, Commerce or Boatman's, but I do remember losing deposits and loans to Investment Banking firms unregulated Mutual Funds, Credit Unions and S & L's. I believe there's only four States that don't have Interstate Banking and all of our Bordering States have some reciprocal Interstate set up. I would recommend you consider moving Kansas forward with an Interstate Banking environment. If properly drawn and competitively regulated, we all can prosper.

TESTIMONY OF
Russell W. Meyer, Jr.
February 22, 1989

My name is Russell Meyer and I have been Chairman and Chief Executive Officer of Cessna Aircraft Company since 1975.

Cessna has been the world's leader in general aviation for many years. Having produced more than 177,000 aircraft, it would be accurate to say that there is a Cessna in operation in practically every country in the world.

You might wonder why an aircraft manufacturer would be interested in testifying in favor of legislation to liberalize the Kansas regulatory structure with respect to interstate banking. Frankly, It's an easy question to answer.

Financing of all kinds has played an important role in Cessna's growth over the years. While financing services have been important in the past, they will be absolutely essential to our ability to compete in an increasingly competitive worldwide market in the future.

I can assure you that Cessna will find a way to be competitive and to maintain our worldwide leadership. I hope you agree, however, that it would be unfortunate to have to rely on banking and financing sources outside the state to meet those requirements.

Let me give you just a few examples. During the past 15 years, we have financed several billion dollars in aircraft sales through Cessna Finance Corporation. Almost all of the sources for credit lines to meet CFC's requirements were established outside the state of Kansas because the lending limits by local banks were not adequate. I hasten to emphasize that we would much prefer to do all the banking we can right here in Kansas.

During this same time frame, we had substantial lines of credit from major banks around the country to meet our normal operating requirements. Again, a very small percentage is represented by Kansas lines because of insufficient lending limits.

The issue is much deeper than credit lines. Service is an increasingly essential ingredient. "Service" in so many

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industries these days requires a truly national -- and preferably international -- capability. That is certainly true in terms of financial services.

Very few significant transactions are strictly intrastate; almost all involve relations of some kind with one or more states. Obviously, the bank that can best provide a full range of services is the bank that will be selected for the majority of transactions.

Much as we would like to utilize the capability of banking institutions in Kansas, we find that they are handicapped to an increasing degree by an antiquated structure which severely limits their effectiveness.

As a result, it should be imminently clear that a bank in Kansas which is not capable of providing a full range of services is not going to grow in relation to other industries in the state. In fact, if the current structure remains unchanged, there is no question that Kansas banks will steadily lose a major share of potential business to banks in other areas.

We have the rather unique opportunity at Cessna to have some type of business relationship with most of the major banking institutions in this country. As a result of these contacts, I have been especially impressed by the growth of both the financial institutions and economies in areas where interstate banking is not only allowed, but has flourished.

Banks such as NCNB, for example, have provided a much more positive economic impact to their local communities as a result of interstate expansion. The citizens of North Carolina are therefore the beneficiaries of a modern banking system, not the victims, and the same situation is true in the vast majority of states in this country with a similar banking structure.

We are very fortunate in Kansas to have a number of industries that have developed over the years into worldwide leaders. Continued growth of these industries will require a full range of services by financial institutions.

It is long overdue for the Kansas legislature to recognize that it is time to make the Kansas banking structure <u>more</u> competitive -- not less competitive -- and to take advantage of a substantial number of opportunities which will be beneficial to all citizens of the state.

TESTIMONY BEFORE THE STATE SENATE ON FINANCIAL INSTITUTIONS & INSURANCE

February 22, 1989

BY: LANNY KIMBROUGH, PRESIDENT
HIGHLAND PARK BANK AND TRUST
TOPEKA, KANSAS

Mr. Chairman and Members of the Committee, it is a pleasure to be able to present a few personal observations and comments regarding S.B. 249, which would allow reciprocal interstate banking with states contiguous to Kansas.

My bank, Highland Park Bank & Trust, is a $100 Million bank located in the southeast corner of Topeka. The bank is owned by Highland Bancshares, Inc., which is a holding company with majority ownership held by our Chairman, Alan Rolley, myself and a limited number of other shareholders. In addition to this bank, Alan Rolley and I own the majority of Financial Bancshares, Inc., a holding company that owns the First Bank of Wetmore and the Kansas State Bank of Holton. Wetmore is a bank of about $6.5 Million in footings and Holton is approximately $39 Million in total footings. With these statistics, it is easy to tell that I represent small banking interests in this state.

I have long been active working with the legislature promoting modernization of our Kansas banking laws. I was involved with the multi-bank holding company legislation as well as the subsequent legislation allowing limited branching in the state. I, therefore, am somewhat familiar with the process we have been going through for the past several years.

If you will recall, numerous allegations have been made by various groups interested in keeping Kansas banking laws the same. These allegations

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included horror stories of what would happen should changes in banking structure occur. There were comments that local control of banks would be lost and that decisions would be made from another city by someone not concerned about what happens to the local community. To the best of my knowledge, these horror stores never materialized in either the multi bank or the branching situations. As a matter of fact, many opponents of banking structure change have reorganized their own banking operations to include multi bank holding companies and branching.

On the other hand, the banking proponents for change indicated that their customers across the state should <u>benefit</u> from a structure change. It is my contention that they have.

Let me cite one small personal example concerning our ability to better serve our customers. Sometime after multi bank holding companies were allowed in Kansas, Alan Rolley and I decided it would be best to place both the Holton and Wetmore banks under the same company. We did this for obvious economies, no longer having to deal with two separate holding companies that own two separate banks. This worked fine up to a point. Before long, it became evident to us that maintaining a small bank like the First Bank of Wetmore in a community of 375 people would require more than the holding company would allow us to do. Subsequently, we applied for and have just received permission from the F.D.I.C. and the State Banking Commissioner allowing us to merge the Holton and Wetmore banks. This brings the strength and expertise of a bank substantially larger than the Wetmore Bank directly into operation at Wetmore. The merger will allow us to run the Wetmore Bank as a branch of the Kansas State Bank of Holton, and we will be able to continue to serve the people in our trade area with the same high quality service they had been receiving. It is unlikely that a small bank such as Wetmore could continue long as a free standing unit. Wetmore could have eventually lost its bank. Thanks to previous structure changes, this story has a happy ending.

It is my firm belief that the results of any banking law change permitting interstate banking would be positive. There can be many other happy endings. Our customers will continue to be served well by the proposed structure change.

This story is one small example, but I believe the principles apply to the interstate question, as well. In 1989, we find Kansas in the same situation cited in earlier testimony concerning structure change. During the hearings on multi-banking and later on branching, we heard references that Kansas was one of the last states to enact modern banking legislation. Well, here we are again. I know 46 or so states may be wrong and Kansas may be right - but isn't this highly unlikely. Again, Kansas appears to be out of sync with the nation.

You, as members of this committee, have the power to put Kansas on track - to favorably recommend S.B. 249 out of committee. I strongly urge that you do so.

Thank you for allowing me this time.

Donald See - O.P. State Bank

Interstate Banking is inevitable - only Kansas, Alaska, Iowa and Montana still prohibit interstate banking. To ban interstate banking from Kansas constitutes a kind of economic Berlin wall around the State, preventing Kansas banks from opening branches in adjacent states, and keeps non-Kansas banks from opening branches here.

Most of the opposition comes from banks that are unable or unwilling to compete in an open market, in an effort to protect their markets from outside competition. Applying this same standard to the retail industry, would you prohibit Sears Roebuck, J. C. Penney, K-Mart or Wall Mart from competing with Kansas retailers - or Beech, Boeing, Cessna and Coleman from selling their goods outside the state. When you make these comparisons, the logic is somewhat ridiculous, isn't it? - kind of archaic and unprogressive thinking.

I think a very interesting trip back through recent banking history is appropriate. Kansas was the 50th state to permit multi-bank holding companies. We were among the last to allow branch banking - why are we always running in last place?

The opposition is beating the same tired drums - deposits will all be transferred to large cities, all the banks will be swallowed up by large banks, concentration of capital - none of these things have happened - in fact, those that spoke out against multi-bank holding companies, against branch banking, were the first to use the law, and the ones that have used it most often. The list of mergers, acquisitions and branches in the past three years will bear this out.

The First State Bank of Salina merged with Assaria State Bank

Turon State Bank merged with Silvia State Bank

Farmers State of Galva merged with Falun State Bank

Labette County Bank established a branch in Bartlett

State Bank of Attwood established a branch in Herndon

Bennington State Bank established a branch in Minneapolis

The numbers go on and on - some 20 to 30 such mergers & branches.

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The value of the recent banking law change was realized just last year. Six banks in our state were declared insolvent - and none of the six insolvent banks were closed - five merged with existing banks under the holding company law - one was able to retain its charter.

The concentration of capital is not in itself bad. You have better protection during bad economic times. We certainly expreienced this in 1986 and 1987. Kansas was in a race with Texas, Oklahoma and Iowa for the honor of leading the nation in bank insolvencies - we had 11 one year - 13 the next.

Interstate banking will bring to Kansas a larger lending base which will allow us to service companies that are here, and not have to see them leave the state to satisfy their borrowing needs - and - as in the Economic Development plan for Kansas - enable our state to attack companies that might look elsewhere due to the inability to find loan funds of the amount needed in Kansas.

We will see additional financial services that will enhance our financial industry to service the business community of our state. We will see more diverse and knowledgeable banks to provide these financial services to present and future business within our state.

The fear that small business will go begging for banking services, in my opinion, is an exaggeration. Small business has been and always will be the backbone of the U. S. Economy. Small business is the backbone of Kansas Economy, which is one of the most attractive markets of our state. More dollars - more services - will be available to Small Business as well as agriculture.

I want to point out in closing that 47 other states with interstate banking laws - many of those states have had interstate banking for many years. To date, there has been no economic collapse in any of these states, as a result of interstate banking. This certainly makes a valid question of why are these states so wrong in their judgment to permit interstate banking, and Kansas so right in prohibiting interstate banking.

I urge you to put the emotional feelings aside - let logic - reason - common sense - coupled with all the positive facts - prevail.

Presented to the Senate Banking Committee - February 22, 1989

TESTIMONY OF JOHN PETERSON
FOURTH FINANCIAL CORPORATION

Senate Committee on
Financial Institutions and Insurance

1989 Senate Bill 249
February 22, 1989

Mr. Chairman; members of the Committee. My name is John Peterson and I am pleased today to appear on behalf of Fourth Financial Corporation. Fourth Financial Corporation consists of 10 banks located in counties with over one million in population. They have an excess of 1,750 employees with an annual payroll in excess of $40 million. Fourth Financial Corporation has assets in excess of $2.7 billion and equity of $235 million.

I appear today in support of Senate Bill 249. To date, 46 states have debated and resolved this issue by passing legislation allowing interstate banking. Our four border states, Nebraska, Missouri, Oklahoma, and Colorado all permit interstate banking.

What is asked for in Senate Bill 249 is not unique nor is it untried. It is a system in place throughout this nation. Not one state has found it unworkable or detrimental. The state of Arkansas found it important enough to address and pass during a recent special legislative session.

Passage of Senate Bill 249 is important first to our

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national image. In economic development, image is vital. All of you are acutely aware of all of the work being done in Kansas, much of which you made possible with passage of important economic development legislation, to create an image of a state that is progressive and eager to enhance business opportunities. As we sell our state to potential new industries, how do we explain that we may likely by 1990 be the only state in the Union that prohibits interstate banking. We were the 49th state to adopt multibank holding company legislation. We were one of the last to develop the branch banking system. Must we be the last on interstate banking?

Second, Senate Bill 249 should be passed in the fundamental spirit of fairness. Kansas banks are in intense competition with large insurance companies, brokerage houses, finance companies, savings & loans, and the non-bank bankers such as Sears and American Express. Which of these do we prohibit from being involved in interstate activities? From which of these do we preclude the management option of growth through acquisition. The answer is none. Today we are not debating interstate banking in Kansas. We already have it. The members of this Committee participate in interstate banking when they use any of the credit cards in their billfolds. Your constituents use it when they finance their car through GMAC or use Household

Finance for a consumer loan. Kansans throughout this state use it when their insurance company sells them IRAs, annuity plans or makes a loan on their farmland. If the Farm Credit Banks aren't interstate banking, what is? Those who use brokerage houses to invest, not only in stocks but in money market accounts, are participating in interstate banking. This legislature two years ago gave the right to state chartered savings & loans to cross state lines. Even the State of Kansas uses interstate banking to finance its business when it turns to banks such as it has with Citicorp for financing.

No, we are not debating interstate banking--we are asking for the right of Kansas banks to participate in the interstate banking that is the fact of financial life in Kansas.

Only those in banking are subject to restrictions on doing business beyond our geographic borders. What can possibly be the rational for this double standard. The issue of fairness is justification alone for change in our current laws.

Failure to act will mean more than a negative image and continuation of an inequitable policy. It can have detrimental economic impacts as well. There are obvious benefits that can be obtained as a result of interstate banking. The 1984 analysis by the Federal Reserve Bank of Atlanta found a variety of consumer benefits from interstate banking. It isn't a panacea, but it is well documented that it can provide capital, stability, and services beyond the level existing without its enactment. In summary, interstate banking will:

1. enhance our state's image;
2. provide a fair, competitive environment for banking;
3. provide an opportunity for economic benefits.

Look back at the changes in bank structure in the past three decades. Have they not benefited our state? It is now time for another change. Kansas was not founded by those who resisted change. To the contrary, they were people who saw a changing frontier as an opportunity. I earnestly hope that you, our state leaders, won't retreat from or resist, but will instead help our state prepare for the future by supporting interstate banking today.

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