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 THURSDAY, FEBRUARY 23, 1989 in room 123-S of the Capitol.

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

Committee staff present:
Bill Wolff, Legislative Research
Bill Edds, Revisor's Office
Louise Bobo, Committee Secretary

Conferees appearing before the committee:
Ivan Wyatt, President, Kansas Farmers Union
Howard Tice, Kansas Association of Wheat Growers
Sam Forrer, President, Grant County State Bank
Ed Chapman, Leavenworth National Bank
George Schlichau, Schlichau Hereford Ranch
Roland Smith, Wichita Independent Business Associates
Cy Moyer, First National Bank, Phillipsburg
J. B. Warren, Farmers State Bank, Galva
Tom Tolman, State Bank of Leon, Kansas

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

SB 249 - Hearings continued on the interstate banking proposal with opponents appearing before the committee.

Ivan Wyatt, President, Kansas Farmers Union, stated his opposition to SB249 by pointing out to the committee that, though Kansas financial institutions had been through some difficult times during the '80's, Kansas did not suffer the wrenching experience of a mega (interstate) bank failure as occurred in states such as Illinois, Oklahoma or California.(attachment 1)

Howard Tice, Executive Director, Kansas Association of Wheat Growers, appeared in opposition to the bill. According to Mr. Tice's testimony, "one of the great strengths of local control is the local loan officer's ability to make sound decisions based on knowledge of the borrower's integrity and ability to repay." He further stated that local loan officers are more aware of economic conditions in their own particular area.(attachment 2)

Sam Forrer, President, Grant County State Bank, expressed his opposition to interstate banking by stating that this bill "deals with only one thing--whether or not outof-state financial corporations will be allowed to own Kansas banking corporations and thereby gain control of Kansas resources--Kansas' deposits." Mr. Forrer informed the committee that no credit worthy business has left Kansas because they could not get a loan. (attachment 3)

Next to appear in opposition to SB 249 was Ed Chapman, Chairman of the Board, Leavenworth National Bank, made the point before the committee that, if this bill passed, few Kansas banks would be in a position to compete and acquire banks in the surrounding states but, as a general proposition, Kansas banks would be acquired by banking institutions from other states. (attachment 4)

George Schlichau, Schlichau Hereford Ranch, declared before the committee that local banks understand local conditions better and that local banks work favorably ably with farmers and stockmen in the area. Mr. Schlichau concluded his testimony by stating that the "present structure is best for the interest of agriculture.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 123-S, Statehouse, at 9:00 a.m./~~p.m.~~ on THURSDAY, FEBRUARY 23, 1989.

Roland Smith, Executive Director, Wichita Independent Business Associates, stressed his opposition to the bill by telling the committee that 76.9% of all Kansas businesses have 9 or less employees and 88.7% have less than 20 employees. He further stated that, since assuming his current position 8 years ago, he had seen a deterioration on the part of large banks to meet the needs of real small businesses. Mr. Smith opined that, if this bill is passed, the many small independent banks would be gobbled up by the large banks or driven out of business. (attachment 5)

The next opponent was Cy Moyer, First National Bank, Phillipsburg, who told the committee that banks were chartered to provide service to local patrons and that "by and large, banks were expected to serve the communities in which they were founded." He stated that rural banks make loans with the interest of the community in mind. (attachment 6)

J. B. Warren, Farmers State Bank, Galva, Kansas, appeared before the committee and stated that, in his opinion, Kansas needed more banks, not less, and that wellmanaged successful banks were not worried about competition.

The last opponent to appear before the committee was Tom Holman, State Bank of Leon, Kansas, who reminded the committee that there was no public clamor for interstate banking in the state and no support whatsoever from the only two banking associations in the state, Kansas Independent Bankers or Kansas Bankers Association. Mr. Holman refuted the claim of the proponents of the bill who say that interstate banking would increase competition. Mr. Holman told the committee that "all it would do would be to lead to a decrease in bank competition by the concentration of banking entities into the hands of a few large corporations." He further urge the committee to continue to maintain the current legislative restraints on interstate banking in Kansas. (attachment 7)

Chairman Bond inquired if there were others wishing to testify in opposition to the bill. None appearing, he announced that the hearings were closed.

The meeting adjourned at 10:00 a.m.

STATEMENT

OF

IVAN W. WYATT, PRESIDENT, KANSAS FARMERS UNION

BEFORE

THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

ON

SENATE BILL NO. 249

(INTERSTATE BANKING)

FEBRUARY 23, 1989

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM IVAN WYATT, PRESIDENT OF THE KANSAS FARMERS UNION, AN ISSUES ORIENTED FARM ORGANIZATION. FARMERS UNION IS A VOLUNTARY DUES PAYING ORGANIZATION THAT IS GROWING DESPITE CONTINUING FINANCIAL DIFFICULTIES IN THE RURAL COMMUNITY.

KANSAS HAS GONE THROUGH SOME SEVERE FINANCIAL DIFFICULTIES DURING THE 80'S. HOWEVER, THEY COULD HAVE BEEN WORSE. MANY BANKS FAILED. MANY BUSINESSES FAILED. MANY FARMERS FAILED. BUT KANSAS DID NOT SUFFER THE WRENCHING EXPERIENCE OF A MEGA (INTERSTATE) BANK FAILURE, AS WE WITNESSED IN STATES SUCH AS ILLINOIS, OKLAHOMA OR CALIFORNIA.

SEVERAL KANSAS BANKS FAILED BECAUSE THEY WERE WORKING WITH AND TRYING TO HELP THAT FARMER, THAT RANCHER, THAT BUSINESSMAN SAVE HIS BUSINESS. HOWEVER, BECAUSE OF KANSAS BANKING LAWS, KANSANS DIDN'T HAVE TO PAY THE COST OF HIGH FLYING GO-GO BANKING PRACTICES THAT RAN RAMPANT THROUGH MANY OF THE MEGA BANKS OF THE LESS REGULATED STATES DURING THE 80'S. WE ARE NOW WITNESSING THE RESULTS OF SIMILAR PRACTICES IN THE SAVINGS AND LOAN INDUSTRY.

THIS WAS THE RESULT, IN A MEASURABLE PART, TO DE-REGULATION OF BANKS THROUGHOUT THE 80'S, SO THEY COULD OPERATE MORE LIKE THE SAVINGS & LOANS ASSOCIATIONS.

Attachment 1
Sen. F.I & I
2/23/89

IN THE PAST, WHEN THE KANSAS LEGISLATURE CONSIDERED DE-REGULATION OF THE BANKING INDUSTRY, WE WERE LED TO BELIEVE IT WAS NOT AN ISSUE THAT PEOPLE SHOULD BE CONCERNED ABOUT....IT IS NOW!

KANSAS LAW PROTECTED MOST OF ITS CITIZENS FROM THE BANKING FIASCO OF THE PAST. BUT NOW, THIS ISSUE EFFECTS EVERY TAXPAYER BECAUSE OF THE NEED FOR TAXPAYER DOLLARS TO BAIL OUT MANY OF THESE MEGA-BANKING AND FINANCIAL INSTITUTIONS.

IT IS HARD FOR ME TO UNDERSTAND THAT THERE ARE STILL SOME INSTITUTIONS SUPPORTING LEGISLATION THAT WOULD ALLOW BANKS IN KANSAS, AND OUT OF STATE BANKS TO ACT LIKE SAVINGS AND LOANS??

I FIND IT EVEN MORE DIFFICULT TO UNDERSTAND THAT AN ORGANIZATION, FUNDED IN A MAJOR PART BY KANSAS TAXPAYERS' DOLLARS, ADVOCATES MOVING TOWARDS A BANKING SYSTEM, THAT ALLOWS CORRUPTIBLE OR NEAR CORRUPTIBLE PRACTICES TO BE CARRIED OUT IN OTHER STATES, TO PRACTICE IN KANSAS. THAT WOULD ALLOW KANSAS BANKING SERVICES TO BE CONTROLLED BY OUT-OF-STATE CORPORATIONS. HOWEVER, IT DOESN'T STOP THERE. CALIFORNIA, ONE OF THE EARLY STATES TO MOVE TOWARDS A MEGA-BANKING SYSTEM, NOW FINDS OVER 25% OF ITS FINANCIAL INSTITUTIONS OWNED BY THE JAPANESE OR OTHER FOREIGN INVESTORS

I FIND IT VERY DIFFICULT TO RATIONALIZE HOW THE KANSAS INC., THAT RECEIVES MAJOR FUNDING FROM THE KANSAS TAXPAYER, CAN SUPPORT AND LOBBY FOR DENOUNCEMENT OF THE PRESENT KANSAS BANKING SYSTEM AND SUPPORT A DE-REGULATION THAT SETS THE FOUNDATION FOR OUTSIDE OWNERSHIP, OUTSIDE CONTROL OF OUR BANKING SERVICES TO KANSANS. THEY WOULD SUPPORT CONTROL BY CORPORATIONS AND OWNERS WHO HAVE BOASTED THAT THEY WILL SOON BE IN A POSITION TO NOT ONLY CONTROL INTEREST RATES IN THIS STATE AND NATION, BUT ALSO TO EFFECT THE VALUE OF THE DOLLAR, EMPLOYEES WAGES AND EVEN THEIR EMPLOYMENT OPPORTUNITIES.

MEMBERS OF THIS COMMITTEE, THERE ARE THOSE WHO WILL TELL YOU

;AS BANKING LAWS ARE OUT-DATED, OUT-MODED, EVEN OLD FASHION. BUT THOSE REGULATIONS HAVE PROTECTED KANSANS FROM THE EFFECT OF THE FIRE STORMS OF FINANCIAL HIGH-ROLLER MIS-MANAGEMENT THAT RAVAGED TOO MANY OF THIS NATION'S SO-CALLED MEGA OR SUPER BANKS AND FINANCIAL INSTITUTIONS.

THANKS - BUT NO THANKS! KANSAS DOESN'T NEED THIS SORT OF EXPOSURE THAT SOME WOULD CALL OPPORTUNITIES.

SB249.DOC

Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY - SB 249

Senate Committee on Financial Institutions & Insurance
Chairman: Senator Richard L. Bond

Mr. Chairman and members of the committee, I am Howard W. Tice, Executive Director of the Kansas Association of Wheat Growers. I appreciate this opportunity to appear today, on behalf of Kansas wheat producers, in strong opposition to SB 249.

Our organization, has a proud history of supporting truly progressive initiatives. One of our first priorities as a new organization, over 40 years ago, when most farmers were interested only in increasing yields, was the establishment of the Kansas Wheat Commission. KWC funded research has resulted in stronger, higher yielding and higher quality wheat varieties. Commission effort has also increased consumer awareness of wheat products, and increased domestic sales. Work with foreign trade teams has helped increase and retain export markets.

Through U.S. Wheat Associates, Kansas producers reach into 105 countries with direct market promotion efforts. U.S. Wheat, incidentally, has never lost a sale where there has been one on one contact with a potential foreign buyer. While this organization reaches into nearly every corner of the world, the control rests with representatives of member states. In the same manner, the Kansas Wheat Commission is directed by commissioners representing local districts. In short, we have built a program where local citizens have worked together to develop the systems and expertise to reach out to the world to market our production. I would certainly call that effective and efficient economic development.

More recently, we have invested much of our effort into increasing the quality of our Kansas grown wheat. Despite considerable pressure from multinational grain companies, and even some government agencies, we have fought for, and won tighter grain standards. We have worked in our own back yard to improve the baking quality of our wheat by promoting increased protein, and increased planting of varieties that perform better for end users.

The Kansas Association of Wheat Growers is actively involved in economic development for our industry, and for Kansas. We are fully aware of the need for a strong economy, and for our own industry to be a major part of that economic growth. In a state like Kansas, agriculture is our greatest strength. With the potential for crop and livestock production, and the additional potential for value-added products, agriculture will probably continue to be the cornerstone of the Kansas economy. That's why we strongly oppose attempts to transfer control of our state's capital resources away from the people who truly know the people who need to make use of those dollars.

One of the great strengths of local control is the local loan officer's ability to make sound decisions based on knowledge of the borrower's integrity and ability to repay. Local loan officers are also more aware of economic conditions in their own particular area, and can work with the borrower and suggest adjustments which will keep the borrower's cash flow working.

Attachment 2
Sen. FI + I
2/22/89

A current example of the value of local control of credit decisions, involves **Kyle Railway, Inc.** Due to unique circumstances found in **Kansas,** cash inflow requirements were so large that they could not obtain credit from large banks. However, local banks recognized the value to the area, of restoring rail service to move grain, and made the necessary loans. As a result, abandoned rail lines are back in use and grain transportation costs have been reduced by 23 cents per bushel.

Proponents of interstate banking, and unlimited branch banking keep making the argument that "*bigger is better.*" They continually state that larger banks are more efficient, and can offer more service, at less cost, to local depositors and businesses, and even farmers, than the smaller banks. If that is true, why have the costs of banking services continued to rise, as these banks grow?

Many farmers have found that bigger is not always better in farming, because of the increased responsibilities and the need for better bookkeeping. We are told that bigger banks offer more efficiency. Let me relate a few examples that clearly dispute that theory. At one time, I had an account with the largest bank in the state. One month, after being with **Bank IV** (*4th National at that time*) for over a year, with deposits as regular as clockwork, and no overdrafts, I was hit with **$96.00** in charges and eight checks were returned because they processed those checks before recording my regular deposit, because it was made at a branch location. When it was called to their attention that my money was on deposit when they returned the checks, they refused to refund the charges. This type of error might occur in a small bank, but refusal to rectify it would not, because smaller banks, of necessity, value individual customers more than larger ones.

More recently, I took out a parent loan to help my son at college. That loan was sold to **Bank IV.** When a second parent loan became necessary, it too was sold to **Bank IV.** Both loans are being handled by student loan processing centers in Utah. I was informed over a year ago, by the processing centers, that **Bank IV** had sold the loans. The same notification from **Bank IV,** reached me just a month ago.

Another incident, with the same bank, involves a **Salina** businessman who had enjoyed an excellent relationship with **Planter's Bank** before it was acquired by **Bank IV.** He told me at one time that he was surprised that my checking account charges had drastically increased, because his had not, due to the large amounts of money in his various accounts. For many years, he had arranged business loans over the phone. After **Bank IV** acquired his bank, he had to drive to **Wichita** to obtain loan approval. At the same time, at a smaller **Salina** bank, I was able to arrange a **$1,200** short term signature loan by phone, from my office in **Hutchinson,** just three months after transferring my account to that bank.

Conversations I have had with people all over the state, indicate that the experiences I have just related are commonplace when a bank grows so large that their only interest is in getting even larger, and acquiring more financial power.

At least one proponent testified that agriculture would actually see more money available from interstate banking. It was also said that opponents' fears that local farm credit sources would be diminished, were unfounded. However, the agriculture operating loans at **Bank IV,** the biggest bank in a state where farming is the number one industry, account for only 3.8% of the loan portfolio.

Kansas, Inc. spoke of the need for increased commercial lending strength. They even spoke of international lines of credit. Increased emphasis on large scale commercial credit historically means decreased farmer lending. International lines of credit brings up the spectre of **Latin American Debt.** Huge money center banks created a monster by making ill advised loans to countries that are unable to repay them. If those sophisticated, experienced international lenders made such poor loan decisions, what guarantee do we have that **Kansas City, St. Louis, Omaha, Denver,** or **Oklahoma City** banks won't make similar mistakes, with **Kansas** deposits.

Finally, I would like to address the two most common arguments that proponents of interstate banking, and unlimited branch banking always make:

(1) Everybody else is doing it. - I used to try that argument with my parents, and my kids have tried it with me. Many parents have answered that comment with the question, *"If everybody else jumped off a cliff, should you?"* I don't feel that **Kansas** citizens should be classed with lemmings.

(2) It's inevitable, so why resist? - First of all, I don't agree that it's inevitable. There's no doubt that the big banks can buy a lot of influence, and those who feel they will gain more power, or set themselves up for a lucrative sell out will use as much clout, and do as much arm twisting as they can to accomplish their ends. However, there are those of us that don't want to see control over **Kansas** money sold to other states, and we will continue to resist.

To paraphrase some poor advice, some might say, *"If rape is inevitable, just relax and get it over with."* I would never give that advice to my wife or daughters, because I believe there's always hope that something will happen to prevent the consummation of the crime. I believe that the analogy is appropriate to this bill.

(3)

PRESENTATION BEFORE THE

COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

BY: H. SAMUEL FORRER

FEBRUARY 23, 1989

Mr. Chairman and members of the Committee. My name is Sam Forrer. I am President of The Grant County State Bank of Ulysses, Kansas. I appreciate your allowing me a few moments to tell you my views, on behalf of the Kansas Independent Bankers Association, why we believe Senate Bill #249 should not be passed.

This bill has become known as the Interstate Banking Bill. That is a misnomer. It implies that Kansas banks cannot do business out-of-state while banks in other states which have adopted similar bills can. That assumption is absolutely incorrect. Every Kansas bank and their customers can, today, at this very moment, do business just like any other bank, even on an international scale, as many do with some regularity.

This Bill does not deal with the kind of banking activities nor the services a bank may offer, either in-state or out-of-state. It deals with <u>only one thing</u>--whether or not out-of-state financial corporations will be allowed to own Kansas banking corporations and thereby gain control of Kansas resources--Kansans' deposits. So I'd like to briefly discuss bank resources.

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

We bankers sometimes boast about how big "our" bank or multi-bank holding company is....how many millions or billions of dollars "we" are. The fact is, banks, like S&L's, Credit Unions and insurance companies deal mostly in other peoples money, your money...not our money or our bank's money or our holding company's money. The only money we can claim as ours is the stockholders' capital, of which banks have much more than savings and loans, and of which credit unions have virtually none. Having said that, bankers usually have less than 10% of their own money included when they speak of the size of their organization. That's a powerful arrangement! Can you think of any other business where 90% of the product belongs to someone other than the owner? Hardware stores? Grocery stores? Car dealerships? There are virtually none.

That's why banks are heavily regulated and legislated. History shows and business dictates that resources flow to the most profitable use available to management. That is basic in business and no assurances to the contrary prevail very long. Legislators are responsible for representing the depositors' interests ahead of those of a few bankers. That's why ownership restrictions have historically been required -- to keep bankers most accountable to depositors -- because of banks legislated authority to control the financial resources of so many people. And that is the thrust of the only issue of this bill -- will out-of-state financial corporations now be free take control of Kansas bank resources?

If the Legislature should pass this Bill, it is saying out-of-state bankers know better than Kansans how our resources should be utilized for the benefit of Kansas. Citizens in states which have adopted similar ownership authority have not found that to be true. It is in those states, not in Kansas, where the citizens' discontent with the banks' ignoring their needs, compelled Congress to pass the Community Reinvestment Act. The mega-banks unconsionable withholding availability of depositors' funds resulted in Regulation CC. Those weren't Kansas banks doing that. Those laws and regulations are attempts to make banks accountable to their local community. But, Kansans have not had to rely upon those types laws and regulations. Kansas banks have been responsive to their communities, <u>because of the type of ownership structure</u> which has historically been required. But, Senate Bill #249 would change that. It would greatly diminish bankers' accountability to their depositors and small business. And, that would be too bad. It doesn't have to be.

A lot of "to do" was made by this Bill's proponent in September before the Special Committee on Commercial and Financial Institutions when it spoke of out-of-state insurance companies selling IRA's to Kansans. It lamented that GMAC and Household Finance are financing cars for Kansans. Ladies and gentlemen, that's just good old American competition. And, those comments were just "smoke" and rhetoric designed to confuse the simple issue at hand. This Bill won't eliminate non-bank competitors. It won't make Kansas banks more competitive with other organizations, no matter who owns them. It won't give Kansas banks more powers. What this

Bill would do though, is pave the way to eliminate many bank competitors, most likely in the urban area. Whether it is credit cards, stock brokerage, money transfers, international loans, or financing out-of-state, all Kansas banks have the capacity to deal in those interstate activities right now. But discussions about those matters have nothing to do with the thrust of this bill.

And then there is the study commissioned by Kansas, inc. conducted by Scott Gard Associates. Kansas, inc. support of SB #249 rests upon this study and its conclusions. It is the result of a request to study interstate banking from the then-president of Bank IV Wichita, who at that time was a member of the Kansas, inc. Board of Directors. If one is seeking objective and pertinent information relative to this Bill, it won't be found in this study. The study provides no sound basis for the recommendations adopted by Kansas, inc. It and the recommendation appears to be a thin attempt to justify a preconceived conclusion, with abundant and voluminous, but impertinent information and statistics.

In restrospect, the selection of Scott Gard Associates to do this study is not surprising. In March of 1987, it released to the press the conclusions of an apparently unsolicited study. It concluded that up to 70 Kansas banks could face failure within 2 years unless the Kansas' branching laws were changed. The conventional wisdom at the time was that the study ~~have~~ had no use and was rather sophomoric in its approach. The law was changed, but Gard's predictions about impending failures and the usage of the law to save banks proved to be off by about 500%. But, SGA's bias toward exporting ownership was known. Thus it was inevitable that its study for Kansas, Inc. could only be biased to its predisposed position.

The present study's primary finding seems to be that Kansas banks have a lower loan-to-deposit ratio than the national average. It concludes that at least one-half of the amount by which Kansas bank loans to deposits ratio is below the national average should be in commercial/industrial loans. However, the study does verify, as bankers have long known, that there is capital available in Kansas banks to make commercial and industrial loans.

But for the study to make the jump from the loan-to-deposit ratio statistic to the conclusion that allowing out-of-state ownership of Kansas banks will suddenly result in loans to Kansas business is folly. The assumption seems to be that Kansas banks, because of size or otherwise, either won't or don't know how to loan to commercial/industrial ventures. <u>That just is not true</u>!

Kansas bankers have always loaned to commerce and industry and have worked hard to encourage it in Kansas. But before one can loan money, there must first be a credit-worthy borrower; and just allowing out-of-state ownership of Kansas banks will not create additional credit-worthy borrowers in Kansas. The recommendation of Kansas, Inc. and this study seems to be based upon the mistaken premise that economic development, and/or whether business moves into or out of a state, depends upon the ability or inability to obtain a bank loan. Not one time in the years I have been dealing in this subject, has anyone ever supplied a single example of a credit-worthy business either leaving Kansas or not coming to Kansas becuase it could not get a bank loan. The premise implying that is not true. So, studies aside, let's get down to the nuts and bolts of the matter.

The biggest profits in banking are in making big loans (that's one of those economies of scale we hear so much about). There is a lot more profit in one $5,000,000 loan than in 500 loans of $10,000. And an organization which controls a pool of several banks has a mighty attractive package to sell to the big banking organizations which specialize in making those big loans.

This Bill does nothing more than court out-of-state organizations to take control of Kansas deposits. But in order to get that control, those out-of-state organizations need two things: a pooler (an in-state banking organization to get control of a pool of banks), and this legislation. Their first hurdle has been cleared. A pool of banks already corralled are identified by the big red Roman Numeral "IV". There is one in Topeka just waiting for the next owner's logo. That change of ownership, with the passage of this bill, will not need your approval. The eventual owner could be anything from a First Republic Bank-type organization, which I'll talk about later, Citicorp, or any number of Japanese groups.

The proponents are asking you to clear the last hurdle for them. They will take whatever you give them. If you don't provide a full plate this time, you will not have heard the last of it. Their tactics have been and will continue to be to keep coming back to you for whatever they can get until the whole package has been achieved, a little at a time. The best way to avoid giving away the whole store is to refrain from giving any of it away.

Fourth Financial Corporation, proponent told the Special Committee that its pool of banks is small potatoes and that's true. But those small potatoes are big potatoes to Kansans and Kansas banks. We need them...our State needs them... to remain accountable to Kansans. This bill would eliminate that.

So ~~that~~ what could happen if corporate out-of-state bank ownership came to Kansas? The big-bank philosophy would eventually prevail...that tilt toward serving primarily the bigger customer. One of our Bank's Vice Presidents used to work for one of the then-largest banks in Oklahoma. That bank's philosophy was to consider no loan application of less than $250,000. That type of thinking leads banks into such things as participating in large loans to Real Est ate Investment Trusts and risky lending to foreign countries. Both have been big-bank debacles, the latter of which is now threatening the very survival of some of our Country's largest banks.

The latest big-lending strategy is to finance LBO's, leveraged buy-outs, an area for which regulators are now sounding some alarms. Does this sound like Kansas business? As you know, over 95% of Kansas' business is considered to be small. Where would that type of lending approach leave those businesses? Agriculture is Kansas' largest industry. Most of it is considered small business. Where would that kind of approach leave our largest industry? It would leave Kansas business out! This bill is not good for Kansas! It particulary serves the corporate aims and personal desires of one proponent.

What are the thoughts and experiences of others? Here are a few:

In an article in the Kansas City Times on 12-8-88, Charles R. Crumpley reports "...interstate banking could erode Kansas City's leadership base. Big civic-minded bankers such as United Missouri's R. Crosby Kemper... could become a memory of the 20th Century. 'The real battle of interstate banking is to be a headquarters city' says David Kemper, president of Commerce Bancshares, Inc...It is impossible to predict what banking will look like in Kansas City in 20 years. But', David Kemper says, full-blown interstate banking is 'probably not good for Kansas City'".

Two articles in The Wall Street Journal by Leonard M. Apcar and Buck Brown cite the difficulties of Lufkin, Texas, residents after the big Dallas and Houston banks moved into their town in the 1970's. "...the 'new age' promised by the arrival in Lufkin of Dallas-based RepublicBank Corp. and Houston-based First City Bancorp of Texas has sunk into a dark age...As loan losses at money center banks in Dallas and Houston mount, banks across the state are under strict orders to shovel hard-earned dollars to their sickly, cash-starved holding companies. The up-shot: Deposits generated in places such as Lufkin are being used to refinance shaky real-estate and energy loans in Dallas and Houston." Quoting Gerald R. Williams, a former executive vice president of First City who negotiated many of its take-overs, he said `Although it was implied that we'd take a hands-off approach, that really wasn't the case.'"

And then there's the case of First RepublicBank Corp. of Dallas, the organization that was born from the April, 1987, merger of RepublicBank Corp. and InterFirst Corp. two giant Dallas-based multi-bank holding companies. Within a year of the merger, it became apparent this organization was broke and going to fail. The only way to save the new organization was to find a corporation big enough to swallow it. However, it wasn't to be found among Texas American Bancshares of Fort Worth, National Bancshares Corporation of Texas of San Antonio, or Dallas-based MCorp., three of the largest multi-bank holding companies in the state. They were too busy seeking Federal assistance for their own survival. But, they did find a buyer! So now Texans can proudly look to their bank building on the Dallas skyline and read the name of its new owners---NCNB. That's the outfi~~y~~t that owns their bank and running their show now---North Carolina National Bank.

Almost everyone is acutely aware of the crisis facing the Savings and Loan industry. The crisis was born primarily out of the industry's ability to convince Congress to loosen the reins in order to "let them compete" and "let them serve their customers" and "be a positive force in the economic development of our Country." While most of the large bankers, even in Kansas, were clamoring for the same things accorded the S&L's in the name of a "level playing field," the independent bankers were asking the legislators to do the same thing we are asking you to do now...don't concentrate the control of deposits into the hands of fewer organizations...keep the banker accountable to the depositor...refuse to export ownership of the banks that control our deposits. The S&L crisis is a real-life example of what happens when too few have virtually no accountability to depositors or regulators---and we're all going to pay a heavy price for their mistakes--think of the potential economic development that bail-out is going to cost us!

In the face of that, Fourth Financial Corporation testified before the Special Committee on Commercial & Financial Institutions on 9-15-88, citing examples of competitors it apparently wishes to emulate, including the Farm Credit System. You will recall that system required a direct bail-out by the taxpayer. The proponent further testified, "The issue of fairness is justification alone for a change in current laws...CapFed can go buy something in Tulsa. Someone in Amarillo can buy CapFed." The rationale is that if a Savings and Loan Corp. in Amarillo can buy Kansas' largest S&L, then why shouldn't a banking organization in Amarillo, or Dallas, or Houston, be able to buy Kansas' largest banking organization? One only needs to look at the S&L situation, the Farm Credit System bail-out, or the First Republic Bank Corp.result to answer that question. The logic of citing failed systems to justify adopting their structure escapes me.

If this proponent is truly serious about obtaining the powers of S&L's and their ability to be owned by out-of-state corporations, then there is a solution at hand...one that a Manhattan, Kansas, bank chose a few years ago. It converted to a Savings and Loan Association.

I close by quoting Wiliam H. Bernau, Iowa Superintendent of Banking. He said, "Proponents argue that Iowa should pass interstate banking or the opportunity will pass us by. What opportunity? What big banks do you want to own Iowa banks? Continental, which failed because of energy lending? Citicorp with its delinquent foreign loans? BankAmerica, which is reeling with losses?...Name one worthy of owning Iowa Banks."

Ladies ~~Laides~~ and Gentlemen, there is no public out-cry for SB "249. No substantive information has been presented to even suggest there is a need for the provisions of this Bill. The Special Committee on Commericial and Financial Institutions made no recommendation for this type of legislation. The examples cited demonstrate this Bill could serve to disrupt our banking institutions and undermine Kansas' economic development. I respectfully urge you to keep Kansas banks strong and accountable to the people from whom they get their deposits by voting "no" on SB #249.

Thank you!

Chapman: Ch. of Board - Leavenworth Nat'l Bank

Proposed legislation allowing regional interstate banking, reciprocal or otherwise, would be a major mistake for the State of Kansas. This proposal is contrary to the interests of three important segments of the economic life of Kansas:

a. The borrowing public, both individual citizens and businesses;

b. Capital growth within the state;

c. Banks and other lending institutions.

To this point in the discussion over the years, proponents of interstate banking for Kansas have relied on the propaganda technique called the "Band Wagon Approach". This approach is void of analysis, obscures specifics and avoids a study of the consequences. Those who propose such legislation should be required to demonstrate, first, that there is a defined need for such legislation. Then the proposal should be examined to determine whether the proposed legislation would satisfy the need so defined. Following this, a thorough study should be conducted to determine the consequences of the proposed legislation on all three of these segments of the economic life of Kansas: the borrowing public, the flow of capital and credit in the State of Kansas and the states in the defined region and the banks and the lending institutions. In short, a thorough analysis of the proposal and its financial, economic and structual effects should be conducted. It is not enough to say that others do it or to imply some inevitability to the process. Lemmings make that mistake.

Attachment 4
Sen. F.I & I
2/22/89

A study of the banking structure and the credit and capital comparisons of Kansas and all the states surrounding it makes it abundantly clear that as a general proposition Kansas banks would be acquired by banking institutions from other states. Few Kansas banks would be in a position to compete and acquire banks in the surrounding states. This is particularly true with reference to the State of Missouri. Kansas borrowers, individuals and businesses, would suffer from the resulting out of state ownership of Kansas banks. Loans would flow to the more attractive applicants in the region at the expense of farmers and small business organizations in Kansas. Kansas borrowers would find a much more difficult time in obtaining credit, and many of them are having enough problems in this regard even now. I am familiar with the rationale that larger banks could offer larger loans. This is a non-issue in Kansas as a realistic proposition. The needs of small and medium size borrowers should remain the paramount concern. Many lending sources are already available to the larger borrowers in Kansas.

Kansas banks are not in a position to compete equally in the acquisition aspect of interstate banking and would be at a distinct disadvantage in the flow of credit and accumulation of capital, based on relative strength at this time. The net capital accumulation now building and remaining in Kansas under the present structure would, if the proposed legislation is adopted, flow to the home state of the banking or holding company structure of the acquiring bank or holding company. This means that net capital accumulation would be siphoned from Kansas into Missouri, for example. Reduction in net capital in financial institutions has been a severe problem in Kansas and elsewhere. This legislation would worsen the problem. Simply put, regional interstate banking will result in the financial colonization of Kansas to the advantage of capital sources in other states in the region.

It is easy to understand that certain Kansas banks with strong ownership connections into Missouri, for example, would find it in their own interests to propose, endorse or support interstate banking legislation, reciprocal or otherwise. It is also easy to understand that certain weaker banking institutions in Kansas may support such a proposal, because they may well be inclined to be sellers of banks. However, the more stable banks in Kansas and those truly seeking the best interests of their communities will oppose such legislation.

February 23, 1989.

Edward J. Chapman, Jr.

February 23, 1989

STATEMENT TO: THE SENATE COMMITTEE ON
FINANCIAL INSTITUTIONS AND INSURANCE

FROM: ROLAND SMITH, EXECUTIVE DIRECTOR OF THE
WICHITA INDEPENDENT BUSINESS ASSOCIATION

SUBJECT: SB-249

Mr. Chairman, Members of the Committee, I am Roland Smith, Executive Director of the Wichita Independent Business Association. I am appearing today in opposition to SB-249.

The Wichita Independent Business Association is an Association of over 1400 locally-owned businesses in the Wichita trade area. Over 1200 of our members are businesses of five or less employees. Another 150 have less than 20 employees. There are 396 types of businesses in W.I.B.A. The Secretary of Commerce, in a report last month before the Senate and House Economic Development Committees, stated 76.9% of all Kansas businesses have 9 or less employees. Most of these businesses are owned by Kansans. Kansas Independent Banks are an important ingredient to the success of locally owned businesses. Having come from a small business background into this position 8 years ago, I have seen a deterioration on the part of large banks meeting the needs of real small businesses. Out-of-state ownership of banks would be a repeat of what we are seeing in the retail business areas. The independent grocer is almost extinct from the competition of the out-of-state owned grocery chains. The mass merchandiser with out-of-state ownership is forcing more independent retailers out of business with all the money except for wages and taxes going out of state over nite. There seems to be a great concern for the survival of the family farm and very little

Attachment 5
Sen. F. I & I
2/22/89

concern for the family business. Locally owned banks understand local needs and to approve interstate banks would invite, in our opinion, the gobbling up of many small independent banks or driving many out of business.

It is definitely true interstate banking will help the large manufacturer and those in interstate and international markets which is important to our overall economy; however, it will be a trade off and at the expense of many locally owned small independent banks. It has been our experience with the recent changes in Kansas banking laws that the small businesses I represent have less access to capital than before and the State programs for economic development still fail to meet the needs of the small businesses of 20 or less employees unless they are in one of the so called "basic industries".

It is not our intent to impede progress, but I wanted to call your attention that increased capital availability is needed, but interstate banking is not the answer for most of my members.

Thank you and I'll be glad to answer any questions.

CHAIRMAN -- SENATOR BOND AND COMMITTEE

I AM CY MOYER OF THE FIRST NATIONAL BANK OF PHILLIPSBURG, KANSAS, AND CHAIRMAN OF THE BOARD OF KANSAS INDEPENDENT BANKERS ASSOCIATION, SPEAKING AS AN OPPONENT TO THE REGIONAL INTERSTATE BANKING SENATE BILL 249. THE STATE OF KANSAS AND YOU AS SENATORS HAVE PUT INTO ACTION, LAWS, PRACTICES AND INCENTIVES TO ENHANCE THE BUSINESS COMMUNITIES IN ALL SECTORS OF OUR STATE. I APPLAUD YOU FOR THIS. YOU HAVE THE BEST INTEREST OF THE PEOPLE OF KANSAS AT HEART OR YOU WOULDN'T BE HERE TODAY. NO ONE HAS EVER BEEN ABLE TO PROVE TO ME THAT REGIONAL INTERSTATE BANKING OR ANY FORM OF INTERSTATE BANKING HAS ANYTHING TO OFFER MY BANK CUSTOMERS, THE VITALITY OF OUR RURAL ECONOMY, (WHICH IS ALL OF KANSAS) OR EVEN THE BANKING INDUSTRY IN KANSAS. IT BOILS DOWN TO BENEFITING A FEW AT THE EXPENSE OF MANY.

RURAL BANKS THAT I AM FAMILIAR WITH HAVE MADE LOANS WITH THE INTEREST OF THE COMMUNITY IN MIND. WE EXPECT TO GET OUR MONEY BACK, WITH INTEREST, BUT THE BOTTOM LINE IS NOT THE ONLY CONSIDERATION. BANKS WERE CHARTERED TO PROVIDE SERVICE TO LOCAL PATRONS. DECISIONS WERE MADE LOCALLY BY LOCAL PEOPLE. CONTROL OF MONEY WAS TO BE KEPT AT HOME. BY AND LARGE, BANKS WERE EXPECTED TO SERVE THE COMMUNITIES IN WHICH THEY WERE FOUNDED.

I DON'T THINK I AM TELLING YOU ANYTHING YOU DON'T ALREADY KNOW. TODAY, THE VERY BASIC ELEMENTS OF OUR BANKING SYSTEM ARE THREATENED. ALL ACROSS OUR GREAT COUNTRY, MULTI-BANKING, REGIONAL INTERSTATE BANKING, INTERSTATE BANKING HAS BEEN AUTHORIZED.

Attachment 6
Sen. F I + I
2/22/89

MASSIVE CONCENTRATION OF MEGABUCKS HAVE BEEN ACCUMULATED, SOME BANKS HAVE GROWN SO BIG THAT THEY "CANNOT BE ALLOWED TO FAIL." INTERNATIONAL BANKS, WITH SMALLER DEPOSITS, AND MANY OF THESE DEPOSITS COMING FROM RURAL AMERICA, HAVE MADE BAD LOANS TO EMERGING NATIONS OVER THE WORLD, IMPELLED BY THE OPPORTUNITY OF LARGE FEES AND SWOLLEN INTEREST RATES. BIG BANK MANAGEMENT TOOK THE RISK, BUT I ASK, SHOULD THE REST OF US, EITHER THROUGH TAXES OR AS CUSTOMERS WHO ULTIMATELY PAY FDIC/FSLIC INSURANCE BE FORCED TO PICK UP THE TAB. WE ARE GOING TO, WHETHER WE LIKE IT OR NOT. IT WILL COST US MORE AS TAX PAYERS IN THE FUTURE IF WE ALLOW REGIONAL GIANTS TO CONTINUE THEIR GROWTH IN CONTROLLING THE FINANCES IN OUR COMMUNITIES. WHERE CONTROL IS VESTED IN ABSENTEE OWNERSHIP, DECISIONS ARE MADE IN BOARD ROOMS FAR FROM THE SCENE AND THE PROFIT LINE TAKES EXTREME PRECEDENCE OVER CUSTOMER SERVICE.

THE PROPONENTS HAVE SO ELOQUENTLY PROCLAIMED THAT KANSAS BANKERS NEED BIGGER CONCENTRATION OF CAPITAL TO FUEL ECONOMIC PROGRESS. YET, I RECENTLY READ THAT KANSAS ALREADY OUT RANKS ALL BUT FIVE OTHER STATES IN PROVIDING AN ECONOMIC CLIMATE CONDUCIVE TO GROWTH.

IF THE RECORD IN OTHER STATES IS DUPLICATED IN KANSAS, REGIONAL-INTERSTATE BANKING WOULD RESULT IN A MAJOR SHIFT IN OWNERSHIP. THE OUTCOME WOULD BE THE LOSS OF CONSIDERATION FOR COMMUNITY NEEDS, THE LOSS OF CONTROL OVER BANKING DECISIONS AT THE LOCAL LEVEL, FURTHER CONCENTRATION OF CAPITAL, AND THE POTENTIAL LOSS OF DEPOSITS IN THE COMMUNITIES WHERE GENERATED. YET, IT WILL PROMOTE LARGE PROFITS FOR A SELECT FEW AND THE USE OF TAX DOLLARS BY CORPORATE POWER BROKERS TO SEIZE CONTROL OF ENORMOUS FINANCIAL RESOURCES IN KANSAS. I CHALLENGE ANYONE TO PROVE OTHERWISE.

Tom Holman

(7)

Senator Bond, Senator Salisbury, members of the committee.

In the short time remaining, I would like to comment on what we as bankers, through KIBA have attempted to contribute to this issue of interstate banking before you today.

I believe your committee acting as a part of the total legislative body can be likened to our American court system. The most important aspect of the comparison being that both systems go through an indepth process of fact finding in their decision making on an issue.

We as opponents of interstate banking have attempted to put the facts before you and the people of this state; thereby making a positive contributions to the determination of this issue.

When the issue of interstate banking was being disguised and clouded by the proponents as interstate commerce of finance, we specifically defined the two issues. From to the testimony given yesterday, there are still some who don't understand the difference and this difference is extremely critical.

When the proponents sad old excuse of inevitability was put forth, we challenged them with the facts. We refuted their claim that interstate banking would increase competition by pointing out that all it would do would be to lead to a decrease in bank competition by the concentration of banking entities into the hands of a few large corporations.

Attachment 7
Sen. F.I & I
2/22/89

Interstate banking is not inevitable because it requires affirmative action on the part of the legislative bodies to authorize it. As long as these bodies act from facts rather than slogans the existing system will remain intact and the needs of all the people of Kansas continue to be served. If anything is inevitable, it is that some banking interests will use every device imaginable to gain market control.

The very reason the proponents are vigorously attacking the current legislative restraints on interstate banking in Kansas is because these current legislative restraints are effectively preventing the market control they so eagerly seek. This concentration of control over our Kansas deposits would hand to them the control they want at the expense of the people of the state of Kansas.

This is not just a bill affecting banks and bankers, far more so, will it affect all the people of the state of Kansas, and affect them negatively. There is no public clamor for interstate banking. No support whatsoever from the only two banking associations in the state, Kansas Independent Bankers Association or the Kansas Bankers Association.

In Mr. Warren's testimony on behalf of Kansas inc., he seemed to suggest that adoption of interstate banking will lead to loan diversification, stronger banks, greater loan-to-deposit ratios and more capital for development.

It is easy to suggest that all a bank needs to do for protection against losses is to "diversify" its loan portfolio.

The facts show that this conclusion is wrong. In the mid-eighties one of the nations largest 25 banks, First Bank System of Minneapolis bailed out of agriculture when the agricultural industry took a beating. It sold off 28 banks, all located in rural communities.

Mr. Warren's observation that larger banks tend to have greater loan-to-deposit ratios is not particularly relevant. The critical question is not how much is loaned, but to whom. The diversification that permits the maintenance of higher ratios also results in less local lending. A 1985 New England Economic Review study shows that large money center banks invest only about 29% of their assets locally, and that the remainder are used elsewhere. On the other hand, nearly all community bank loans are for local activities. Loan-to-deposit ratios are not dependent on larger banks but rather loan demand. Each state is different. For states with similar economies, our bank ratios are similar. Certainly no basis to allow or not allow interstate banking in Kansas.

The proponents have not put forth one logical piece of evidence to support any of their claims. Our motives as opponents of this bill are to preserve the legislative restraints put in place and supported by former legislators to safeguard our Kansas deposit resources. They sought to guarantee that the control of this capital remain in the state of Kansas for the use of Kansas individuals and businesses operating and contributing to the economy of our state. I ask you to continue this Pro-Kansas tradition by voting NO on Senate Bill 249.

Thank you Ladies and Gentlemen for your attention.

Thomas V. Holman, President

State Bank of Leon

Chairman, State Legislative Committee

Kansas Independent Bankers Association