Approved [signature]
Date 3-27-90

MINUTES OF THE HOUSE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS.

The meeting was called to order by Representative Clyde D. Graeber at
Chairperson

3:30 a.m./p.m. on March 21, 1990 in room 313-S of the Capitol.

All members were present except:

Committee staff present: Bill Wolff, Research Department
Bruce Kinzie, Revisor of Statutes
June Evans, Secretary

Conferees appearing before the committee: Linda McGill for H. Samuel Forrer, President, Grant County State Bank, Ulysses.
Michael D.Fahrbach, President, KBI
Pete McGill, Kansas Independent Bankers
Ivan W. Wyatt, President, Kansas Farmers Union
Howard Tice, Executive Director, Kansas Assn. of Wheat Growers

The Chairman called th meeting to order and opened the hearing on Senate Bill 532.

Linda McGill representing H. Samuel Forrer, was the first conferee, stating SB 532 is not in the best interest of Kansas and therefore opposes interstate banking. Interstate banking as an activity has existed in every Kansas community and has been available to every Kansas citizen for decades. This bill primarily promotes one thing -- the ownership of banks by out-of-state banking corporations. (See Attachment #1).

The next conferee was Michael D. Fahrbach, President, Kansas Independent Bankers Association stating that Maine has had interstate banking since 1975 and now feels that the mergers of Maine banks with out-of-state holding companies helped fuel the state's economy during the boom of the mid-1980s, but there is growing fear that those interstate connections could now damage Maine as the northeast's economy falters. Maine's banking system, whose total assets are $17 billion, has lost the autonomy it enjoyed in the past. Out-of-state banks control 43% of Maine deposits and 42% of total loans. More than 80% of the traditional commercial market is controlled by interstate banks. (See Attachment #2).

Pete McGill, of Pete McGill and Associates, representing the Kansas Independent Bankers Association was the next conferee in opposition of Senate Bill 532. KIBA is composed of a large group of community bankers all across Kansas, who share a common concern for the people of Kansas, the future of the State as well as the future and well-being of their respective communities. Most are members of Kansas Bankers Association, but more of our members disagree with KBA on this bank structure issue. An extremely high percentage of banks all across the state disagree with KBA on the interstate banking issue, because, as you already know, when KBA surveyed all the banks in Kansas, only a bare majority indicate they favored interstate banking. (See Attachment #3).

Ivan W. Wyatt, President, Kansas Farmers Union, was the next conferee opposing SB 532, stating that Kansas had gone through some severe financial difficulties during the 80's. Many banks, businesses and 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, California Texas or Tennessee where they have such banking structures. (See Attachment #4).

Howard Tice, Executive Director, Kansas Association of Wheat Growers, was the next conferee opposing Senate Bill 532. The members of the Kansas Association of Wheat Growers oppose multi-bank holding companies and unlimited branch banking because of the negative effect they tend to have on agricultural credit. It is felt control over local loan decisions should remain with people who know the local economy, who are familiar with the needs of the local community, who have an emotional as well as a financial commitment to the local community and who know the local people as well. (See Attachment #5).

Clark P. Young, Director and Treasurer of the Steven County Economic Development Board and Executive Vice President of the Citizens State Bank of Hugoton sent testimony opposing interstate banking stating that Kansas banks can freely solicit loans and deposits out-of-state and out-of-state banks can freely solicit loans and deposits in Kansas. It is happening right now -- this bill is about control of Kansas bank deposits and who should have control. (See Attachment #6).

Walter D. Young, Chairman and CEO, Citizens State Bank, Hugoton, sent testimony opposing Interstate banking, stating the sole purpose of interstate banking is to grow in size and sell out to a large bank in Chicago or elsewhere. There will be an outflow of capital from the state, if not immediate, then at a later time. There is no substitute for local credit decisions, local management and local community investment. (See Attachment #7).

The Chairman asked if any others were present wanting to testify.

The Chairman closed the hearing on SB 532.

The meeting adjourned at 4:45 P.M.

Date: March 21, 1990

GUEST REGISTER

COMMERCIAL AND FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
Linda McGill	KIBA	Topeka
Mary Jane Stattelman	KIBA	Topeka
Sue Anderson	KIBA	Topeka
Tom Holman	State Bank of Leon KIBA	Leon, Ks
David Fowler	1st State Bank Burlingame - KIBA	Burlingame
Max Fuller	KIBA Stockgrowers State	Maple Hill
Chuck Stones	KBA	Topeka
Kathy Taylor	KBA	Topeka
[illegible]	"	"
Harry Shener	Fourth Financial Corp.	Wichita
[illegible]	Fourth Financial Corp	Topeka
Stan Trembley	Citizens Bank Arlington	Arlington
Jeff Sonnich	KNLSI	Topeka

TESTIMONY

BEFORE THE

HOUSE BANKING COMMITTEE

ON

SB 532 -- INTERSTATE BANK HOLDING ACT

BY

SAM FORRER

ON

MARCH 21, 1990

Linda McGill
Atch #1

Chairperson Graeber and members of the Committee, I am here to express my opposition to SB 532. My name is Sam Forrer. I live in Ulysses, Kansas. My occupation is banking. The bank for which I work is a member of the Kansas Bankers Association and the Kansas Independent Bankers Association. However, I appear today as an individual, expressing only my own thoughts. I believe my thoughts are held by most Kansans, most of whom know little about this Bill and the adverse impact it holds for them. My only reason for presenting this testimony is to attempt to alert you, and the people of Kansas, of what is being thrust upon you. This bill is not in the best interests of Kansans or Kansas banks, as its main tenet is to increase the power base of a few.

There is only one issue involved in SB 532, <u>and it has nothing to do with interstate banking</u>. Interstate banking as an activity has existed in every Kansas community and has been available to every Kansas citizen for decades. This Bill primarily promotes one thing--the ownership of banks by out-of-state banking corporations. How many of your constituents, who have no connection to banking except as customers, have asked you to legalize that type of ownership? I suspect very few. Yet, it is they who would lose because the real issue is control and where it will reside. This Bill, if passed, will diminish the ability of every bank customer to have an impact on how his/her money is used by the banker; i.e. the consumer control would diminish.

The term "leveraged-buyout" is well-known, but is not usually associated with bank ownership. However, this Bill raises leveraged buyouts (or sellouts) to a new level. It constitutes the virtual sell-out of a whole state. That's the reason bank structure laws exist -- to retain some degree of control in the hands of the depositors. That is important because over 90% of the size of any bank belongs to the depositor, not the bank owner. Being human, bankers managing huge sums often become driven to achieve size itself. And if the bank structure law doesn't have adequate checks and balances, achieving size becomes the consuming issue and accountability to the depositor is sacrificed in the process. This Bill would dilute those checks and balances. It is the child of those who have huge appetites for size and the power that goes with it.

Business owners make the decisions for their business -- always have and always will. With this legislation, depositors would have little, if any, access to the real decision-makers as to how their community's assets, over 90% of the assets of a bank, are used. The owners would not only be out-of-town, but eventually would be out-of-state. This is not just a banking phenomenon, it's just the way things work when ownership is exported. Many Coleman Company employees now understand their vulnerability about their retirement funds after the New York owners decided to seize the "over-funding" in their pension plan. Maybe our Congressional delegation has been able to save them from a real debacle, but can one reasonably expect our Senators and Representatives to save us and our future from unresponsive business owners? Of course not!

Why are a few bankers pushing so hard for out-of-state ownership?

Are they hurting for profits? Apparently not -- the January 20th Wichita Eagle read, "Fourth Financial Booming". An adjacent article with a Boston dateline read, "Bank Predicts $1.5 Billion Loss", referring to The Bank of New England Corp., New England's second-largest bank holding company. It, like many of the nation's largest banking organizations, is severely undercapitalized and struggling to stay afloat. One of its subsidiary banks, Connecticut Bank and Trust, is merely a pawn as Bank of New England weighs whether to sell that out-of-state subsidiary to another outfit...and that pawn is over six times larger than Bank IV! Size imposes the mistakes of a few on many.

Is the present structure costing our state business? Not according to "Kansas Economy '89" of 2-26-89 or "KSU DIRECTions" of 8-89. Not once is finance, banking, or bank services mentioned as a consideration for retaining or attracting business.

Are Kansas banking corporations unable to buy banks in other states? No. They can do it right now in eleven other states. One must then wonder about the urgency of this legislation unless some want to sell out.

Are Kansas bank owners able to sell out to out-of-state owners now? No. Maybe that is the motivation. The Kansas City and St. Louis banking organizations could be likely buyers of a string of banks controlled by one outfit willing to sell. It makes one wonder.

The leading proponent, at a meeting of Kansas bankers, said from the podium that "smallness is weakness". I believe he means it and therein lies the problem. He not only is mistaken, but the misguided objective is apparently to become big. There's nothing wrong with bigness if an operation earns it, but the proponents want you to do it for them without having to earn it. If you do, you will have taken control from the depositors and handed it to the bankers, never again to be regained.

The minds of empire-builders are a bit different from those of most other people. That was amply demonstrated by the actions of the Kansas Bankers Association Governing Council. Last year when Kansas bank owners opposed this type of Bill by a small margin, the stance of that Association was one of neutrality. But when by about the same small margin the owners changed to favoring this, then it became " a strong mandate", not for neutrality, but for advocacy. And remember, only two of six KBA regions had a majority of the bank owners in favor of this type legislation. To punctuate that thinking, one of the KBA letters to its members pointed out, as if attempting to justify the obvious flip-flop in reasoning, that the owners favoring interstate banking represent banks with a far greater percentage of assets than the number of banks opposing it. That kind of comment is getting dangerously close to questioning the concept of one-person-one-vote. Does this not give you an idea of how the proponents use power to change their colors to further their own ends and ignore the rest? Do you really want them to have more power? Are the people saying bankers need more power?

Here's another reason to oppose this Bill -- it is, at best, misleading. Do you really believe it would limit the ownership of Kansas banks to corporations located in the six states named? I don't. And if you do, you will be greatly disappointed. Once sold to corporate out-of-state owners, our laws would have no more jurisdiction. Leap-frogging puts Kansas' little banks, <u>and there's not one big bank in Kansas</u>, at the mercy of the megabanks, which are looking for capital, Kansas capital, to prop up their weakly-capitalized outfits.

You have never gotten the full story, and you are not getting it now. Remember just 3-4 years ago when these same proponents said a 9% control level of Kansas' deposits was enough for one banking organization? Now, as predicted, it is not enough! The proponents' appetite for size is insatiable...so now they want a modest <u>33% increase</u> to 12%. And that won't be enough! It also validates our contention -- that they do not expect the smaller banks to survive. What the proponents want is size -- it's an ego thing. And they believe they can get this much now. But make no mistake about it! They'll be back until there are no limitations on who and how much any organization can control, in-state or out-of-state. And most of those banker-advocates visualizes himself as the head of that large financial organization! That's the driving force behind this whole madness.

It is ironic that in spite of the collapse of the savings and loan industry, which was characterized by a few powerful centralized executives, a few bankers are asking you to perpetrate a similar structural arrangement on the people, only this time it would be the banking industry.

It is also ironic that at the very time many European countries are dismantling political and economic structures that have concentrated economic power among a few, you are being asked to embrace a structure that moves toward that which those citizens are rejecting.

If you must pass a Bill, then strip it of its hypocracy! Eliminate those so-called protections which aren't protections but only temporary appeasements! Throw open the doors to all comers who want to control Kansas bank assets! Let them control them all! But at least tell the Kansas public what you're doing, because that's where this Bill eventually leads and we all know it! This Bill is just another incremental piece of their drive for monopolistic dominance that the proponents hope the public won't notice.

This issue is very simple. A few bankers want the power that the people still have. It's a leveraged sell-out of the greatest kind -- one which guarantees that the majority of our deposits will eventually be controlled by out-of-staters.

I am convinced the proponents know this and it's a part of their ultimate goal. But they need you to give it to them.

Saying that, I implore you to oppose this Bill on behalf of Kansas. Bankers don't need more power...we've got plenty... and Kansas doesn't need out-of-state corporate executives to be calling the shots for our State.

Thank you for your attention. I will be happy to respond to questions and challenge

GRANT COUNTY STATE BANK
Your Financial Resource

March 21, 1990

FAX TRANSMITTAL MEMO
NUMBER OF PAGES 1
TO: Rep. Clyde Graeber
FAX# 913-296-1153
DEPT.
NOTE: Re: SB532
FROM: Sam Forrer
3-21-90 Testimony
PHONE # 316-356-4142
FAX #: 316-356-3249

The Honorable Clyde Graeber, Chairman
House Banking Committee
Kansas House of Representatives
Capitol Building #175-W
Topeka, KS 66612

Re: SB532

Dear Mr. Graeber:

I had expected to give testimony in opposition to the above Bill on March 21. However, my bank is undergoing an examination by the FDIC and loan reviews are scheduled for that day. I feel compelled to be present for those reviews and therefore I will be unable to offer my testimony in person.

I have asked that my testimony be given by Linda McGill. I have informed your secretary of this desire and she has agreed to that arrangement. If you have any questions of me or if there is any clarification I can offer, I will be happy to do so at your convenience.

This letter is being sent by facsimile copy to be followed by first-class mail.

Thank you for your courtesy and your consideration.

Very truly yours,

H. Samuel Forrer
President

HSF/lb

TESTIMONY

BEFORE THE

HOUSE COMMITTEE

ON

COMMERCIAL AND FINANCIAL

INSTITUTIONS

BY

MICHAEL D. FAHRBACH

PRESIDENT

KANSAS INDEPENDENT BANKERS

ASSOCIATION

ON

MARCH 21, 1990

RE: SB 532

Atch #2

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you in opposition of SB 532.

As late as last Monday, I heard for the first time the following quip:

Question: What would happen if Puerto Rico became the 51st state in the union?

Answer: Kansas would probably become the 51st state to pass interstate banking law.

My frustration with this quip is that its author would have you believe we, as Kansans, need to be embarrassed.

I am a lifetime resident of this state. My family has been in Kansas banking since the 1930's. There is nothing about this state, or the Kansas banking industry, that I am the least bit embarrassed about.

The author of that joke would have you believe Kansas is backward and out of step. The truth is that Kansas banking is strong, healthy, safe, and the envy of many.

Finally, the author of that joke would have you believe this state is in dire need of capitalization from outside our borders. The truth is we have the capital they want to control.

Let's examine the reverse angle of this joke. If Kansans are to be embarrassed about holding strong to our position, shouldn't the state that was first to pass interstate banking law be proud of their decision? That state was Maine, interstate banking law passed there in 1975.

Here are some quotes taken from the Main Sunday Telegram of March 4th, 1990. The article is entitled "INTERSTATE BANKING SQUEEZES MAINE":

> "The mergers of Maine banks with out-of-state holding companies helped fuel the state's economy during the boom of the mid-1980's, but there is growing fear that those interstate connections could now damage Maine as the northeast's economy falters.
>
> While there is no clear evidence of an out-flow of capital from Maine, reports and interviews with regulators, bank executives, borrowers, analysts and other experts show the following:
>
>> Maine's banking system, whose total assets are $17 billion, has lost the autonomy it enjoyed in the past. Out-of-state banks control 43 percent of Maine deposits and 42 percent of total loans. More than 80 percent of the traditional commercial banking market is controlled by interstate banks."

KIBA has received direct correspondence from Mr. John C. Turner, President of Development Concepts, Inc., a firm organized to arrange financial packages for firms in Auburn, Maine. He is also the local Chamber of Commerce Chairman. In his correspondence, Mr. Turner states:

> "I was an original supporter of interstate banking legislation here in Maine. At that time it was my belief interstate banking would accomplish three things. First, the proposal would generate more capital for the expanding Maine economy. Secondly, I believed the law would result in new and better services for Maine industry such as asset based lending. And thirdly, I was under the impression that the big out-of-state bankers would bring a new level of sophistication to the banking business here in Maine.
>
> For a few years the above became reality, however, not to the level I had originally hoped for. More recently, especially over the past eighteen months, the impact on Maine has been severe and the future is not going to be a happy story."

Mr. Turner goes on to state,

> "What I misjudged was the impact the economic conditions of Massachusetts would have on Maine business. I was naive about the possible ramifications of bad decisions being made in corporate boardrooms in Boston, Providence and Albany. Worst of all, I had no idea how little impact Maine would have on those decision makers. We are small time and so are the banks purchased here in Maine by out-of-state institutions. In fact we, in Maine, are caught in the squeeze despite a robust economy over the past five years."

I feel certain Mr. Turner would rather, at this point, see Maine tagged with the brunt of the joke on being the 51st state. In his letter to us, he states, "our law has been tagged with the 'shame on Maine' tag."

Yes, I believe many similar misconceptions about the promises of interstate banking are being presented by the few who want it. I really have no complaint about banks in Johnson County wanting to change the rules of competition, nor do I have any qualms about large banking organizations in Kansas wanting to continue growth in out-of-state markets. The problem is that these abilities, using an interstate banking law, come at a price much too great to ask of the rest of Kansas.

I am not here out of fear that our little rural bank will be gobbled up by those who have no concern for my town in the first place. My enemy is a disease called regionalization, a development which, under the disguise of "operating efficiencies", sucks the life out of the small town communities that harbor a way of life that Kansans, including myself, choose. Interstate banking is a key element in the spreading of this disease.

Other misconceptions about interstate banking exist. One is that we should think of a bank as a franchise, and allow it to play by the same boundless interstate rules as McDonalds or Wal-Mart.

When a fast food chain grows to national prominence with outlets in every state in the nation, we call that the American success story. When the same growth occurs in the financial industry, we call it concentration of power. It is to be feared -- it invites abuses like those we have seen in the savings and loan industry who have played without rules in interstate and limitless branching games, and it creates nightmares for the limited resources of the Federal Deposit Insurance Corporation. I plea that we never lose sight of the reasons why banks must retain certain important legislative restraints.

Another misconception is that banks should be allowed interstate banking powers since these powers are already enjoyed by Sears, Merril Lynch and such others.

The recurring element that we must not lose sight of is the commodity that the banks, and only the banks, are entrusted with. That commodity is customer deposits insured by the Federal Deposit Insurance Corporation. You won't find them in Sears or any other non-bank offering only bank-like services. As long as this difference exists, restraints must be in place to prevent concentrations, abuse and unfair detriment to any economic segment..

We have heard that changing Kansas bank structure to accommodate interstate banking will be the final change needed to bring Kansas into the 21st century. We have also heard the recent changes, multi-bank ownership and branch banking, are non-events.

I do not believe that branching will be a non-event. I think it is the most dangerous change we have made, and combining it with interstate banking is gas on the fire. Once an out-of-state bank obtains ownership inside our state, there is no preventing it from spreading, without the need for additional capital, to many communities via the additions of branches. I do not envy the job before the State Banking Commission to determine where the line for safety and soundness will be drawn, especially in light of the apparent ease by which a bank with a national charter will be granted branches. This endangers the survival of the community banks as we know them, and the dual banking system that has to this date remained in healthy balance.

We would also argue the contention that multi-banking was a non-event. This type of bank ownership is alive and growing at predicted paces.

Before the bank structure law was passed permitting multi-bank holding companies, the ten largest holding companies in Kansas controlled 17% of the total deposits of Kansas banks. In the short time that has passed, this control has increased to over 30%, and is well on its way to the 65 to 70% level projected, which is the same level now experienced in Colorado and Missouri.

We have also heard that the 18 month trigger date is plenty of time to prepare for the new interstate banking structure.

Again, let's look at the experience of another state. The October 29th, 1989 Chicago Tribune states, "Illinois Legislators say that by allowing regional acquisitions in 1986 and setting the trigger date for nationwide reciprocal banking four years in advance, they thought Illinois banks had plenty of time to strengthen themselves for the expected onslaught. So far it hasn't happened. (Remember, this is three years later.) The result: Illinois banks acquired only two small, out-of-state banks in the regional arena, while more than 6 percent of Illinois banking assets have been acquired by out-of-state institutions." We're talking about the big banks in Chicago, Ladies and Gentlemen, saying they aren't positioned yet.

Can Kansas be ready in two years, ten years, or whatever to withstand being purchased by outside banks with outside interests?

I feel the most appropriate overview of the misconceptions I have tried to present is that we see Senate Bill 532 as legislation leaving many questions unanswered, questions that must be dealt with in detail before doors are opened that cannot be shut forever. I would appreciate your opposition to the interstate banking bill.

TESTIMONY

BEFORE THE

HOUSE COMMITTEE

ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

BY

PETE MCGILL

OF PETE MCGILL & ASSOCIATES

ON

MARCH 21, 1990

Atch #3

Mr. Chairman and Members of the Committee:

My name is Pete McGill of Pete McGill and Associates and we have had the privilege of representing the Kansas Independent Bankers Association for the past eleven years. I appear here today on behalf of KIBA in opposition to Senate Bill 532.

The KIBA is composed of a large group of community bankers all across Kansas, who share a common concern for the people of Kansas, the future of the State of Kansas, as well as the future and well-being of their respective communities. Most of our members are also members of the Kansas Bankers Association, but most of our members disagree with KBA on this bank structure issue. In fact, an extremely high percentage of banks all across the State disagree with KBA on the interstate banking issue, because, as you already know, when KBA surveyed all the banks in Kansas, only a bare majority indicated they favored interstate banking.

The first banking statutes were enacted in Kansas in 1930's. Extreme caution and care was exercised in making absolutely certain that banking institutions were there to provide the maximum service to the people of Kansas and fully protect their resources that were placed in the care and custody of those institutions.

For more than four decades, changes in those statutes were very rare and only came about when the bank commission and the legislature determined any statutory changes were in the public interest, not the bankers.

I think it is probably safe to say very few of you, if any, have heard from one of your constituents outside of those involved with the banking community asking you to support SB 532.

In fact, some of our members participated in a test program to see how their customers would react if they became aware of the fact a bill was being considered in the Kansas legislature that would authorize interstate banking in Kansas.

Several of these bankers chose to put information in the bank statements to their customers to advise them of the existence of such a bill, and to suggest, if they were opposed, to contact their legislator.

I have no idea how many banks chose to do this because it obviously takes time and effort and increases the cost of mailing, but I do know one of your colleagues in the Senate, had received between four and five hundred pieces of correspondence in opposition to interstate banking.

I respectfully suggest that reactions would probably be the same in every House district, whether it was in a metropolitan area or rural district, if the people were made aware of the existence of this issue.

Yesterday, most of the testimony you heard consistently referred to what they thought was best for the banking industry -- or more precisely stated -- what is best for a handful of Kansas' largest banks. You haven't heard much concern about good public policy or what is best for the consumer, the people of Kansas.

Yesterday, you heard the proponents of interstate banking extol the virtues of the enactment of such legislation, about moving Kansas banking into the 21st century, about the number of states that already have such legislation, about increasing capital availability and a number of other, what we believe to be, rather fragile arguments.

Yesterday, you heard the argument that interstate banking would increase capital availability. Each of you know I am not a banker and I do not pretend to stand before you and tell you I know all there is to know about the banking industry. But I do respectfully suggest to you that simple logic and sound reasoning would tell me that if all the banks in Kansas have large sums of money not being loaned out, there is sufficient capital in Kansas already available to qualified borrowers.

No banker in Kansas is going to turn down a legitimate loan from a qualified borrower because that is the primary source of income for banks.

Kansas, Inc. testified before the Economic Development Committee in favor of this bill, but they readily admitted their own study and statistics show there is more capital available for loans to qualified borrowers than at any time in Kansas' history.

In response to another question yesterday, you heard Harold Stone's comment how great Interstate Banking was for the State of Indiana. Let me cite a quote for you from the Department of Financial Institutions of the State of Indiana, 1989:

> *"The State of Indiana passed interstate banking on January 1, 1986. Fourteen out-of-state corporations purchased in excess of $9.8 billion dollars of Indiana deposits as of June 16, 1989 and removed control of these resources from Indiana."*
>
> *"There have been very few acquisitions made by Indiana Bank Holding Companies. The few acquisitions that have been made have involved*

Indiana Bank Holding Companies located near state lines, acquiring banks in the near proximity of their Indiana offices."

To quote from the Arizona State Banking Department, as of 1989, four banks control 89% of the state's banking business. Three of the four are owned and controlled by out-of-state organizations.

Arnold Heggestad, Professor of Finance and Banking at the University of Florida, says:

> *"We have lost control of our banking industry."*

The Chicago Tribune stated on November 6th, last year, just four months ago and I quote:

> *"It's true that the outside ownership of any more of Chicago's major banks would be a blow to the city and its status in financial circles. Some three of Chicago's top five banks will have foreign ownership."*

In Maine, the out-of-state banks that have entered the state own its five largest commercial banking organizations and control 83% of its commercial banking assets according to the Federal Reserve Bulletin.

The Wall Street Journal stated and I quote:

"In Texas, deposits generated in such places as Lufkin are being used to refinance shaky real estate and energy loans in Dallas and Houston. And with the little banks left with little money to lend, local businesses are being squeezed -- some right out of business. The big banks are choking the entire state."

The purpose of mentioning all of this is **once you approve Interstate Banking, you can't get rid of it,** and as you can see, many states would like to do just that, but the damage is already done.

Kansas is not the silicon valley of the Midwest and never will be. Kansas is not a large industrialized state and never will be. Do any of you on the committee really think interstate banking would do anything for Kansas agriculture -- which is our #1 industry.

We don't permit corporate farming and you can be assured the giants of banking are not interested in the small loans to individual Kansas farmers. How could you explain to that Japanese loan officer that "I need to borrow a little money until I get my wheat crop in this fall"?

Kansas, Inc. cannot provide you the name of one industry that wanted to come to Kansas that didn't come to Kansas because they couldn't get adequate financing.

Kansas, Inc. cannot provide you the name of a single Kansas business or bank customer that was a legitimate qualified borrower that couldn't get adequate financing for whatever reason by doing business with existing financial institutions. It's a myth, a farce, and in my judgement, a real deception to suggest SB 532 will increase capital availability.

The community banker is willing to take the extra time and make a special effort with customers to assist them in their businesses. Will a banker from New York or California be so concerned with the welfare of a small business or a farmer in Kansas? Most likely not, and this has been the experience in other states, the large bank will rely on a number game to see if the loan should be made, not whether the customer has a good credit rating, is able to repay the loan, or if they have banked there for more than 30 years.

By asking for interstate banking, the proponents are doing nothing more than courting out-of-state organizations to take control of Kansas deposits. Why would we want someone from New York, Illinois, or perhaps Japan making decisions about a community they know little about. Yes, the Japanese already have an office in St. Louis, Missouri.

Yes, I have made references to New York, California and banks from distances removed from Kansas borders when the bill before you allegedly only pertains to regional interstate banking. Next year or the year after it would be interstate banking from coast to coast. One of the proponents in the Eco-Devo Committee testified that was their game plan -- regional now and then expand.

You heard the argument yesterday that interstate banking would increase competition thereby assuring more and better services to all bank customers. Some of you will recall the sad plight of Citicorp a few years ago when they instituted a new policy for their smaller customers. Citicorp said you had to have $5000 on deposit, I believe that figure is correct, before you could even see a bank teller, and you had to have a certain card and proper identification even to do that. The smaller customer, those of more modest means, had to use an electronic device to do their banking. Of course a large majority of their customers rebelled and they were forced to abandon that idea really quickly. Make no mistake about it, the larger the banking institutions, the less the personalized service. Since over 95% of Kansas' business is considered small, where would this type of banking philosophy leave those small businesses?

Where would it leave agriculture, our largest business?

We know you have heard the proponents say Kansas is not progressive and we need to charge into the 21st century. That argument is a little stale when Kansas ranks 9th in the nation in the rate of unemployment, 9th in the nation as far as literacy is concerned and above average in per capita income (above most of our surrounding states), and Kansas has a standard of living that is the envy of most other states. Yet the proponents of interstate banking contend they have a solution to make it even better.

We are the greatest enthusiasts for progress as long as it is for the right reasons and produces the right results for the people of Kansas.

I want to share with you a comment made by Mr. Warren before the Eco-Devo Committee which may best express the attitude of most of the proponents in trying to belittle the opponents of interstate banking. Mr. Warren stated, to my astonishment and amazement:

"Their arguments on interstate banking rest on emotional, outdated notions of Kansas for Kansans".

That is almost unbelievable. What is emotional and outdated about being a Kansan for Kansas? That was my philosophy when I was in the Legislature and continues to be my philosophy today. I prefer to believe it is one shared by most members of the Kansas Legislature.

Why do we think Kansas will be different than other states who have suffered at the hands of interstate banking? Texas deposits were used to pay off corporate debts. Florida watched 12 of its 15 largest banks sell to out of state buyers. Indiana watched more than $9.8 billion dollars locate elsewhere. Do we really think this wouldn't happen in Kansas.

In conclusion, Mr. Chairman and members of the committee, I ask that you please consider the fact that your constituents and the average banker are not asking for this legislation. The argument that interstate banking is inevitable is only true if you as legislators approve it.

Keep in mind one very important factor, if you approve interstate banking in Kansas, you can never get rid of it.

I think perhaps many of you would agree, the testimony of the proponents yesterday created many unanswered questions about the need for this legislation.

We respectfully suggest this bill is not in the public interest, it does not increase capital availability and would in fact result in a net exodus of Kansas deposits and would ask that you report SB 532 adversely.

Thank you Mr. Chairman.

STATEMENT

OF

IVAN W. WYATT, PRESIDENT, KANSAS FARMERS UNION

BEFORE

THE HOUSE COMMITTEE ON COMMERICAL AND FINANCIAL INSTITUTIONS

ON

SENATE BILL NO. 532

(INTERSTATE BANKING)

MARCH 21, 1990

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM IVAN WYATT, PRESIDENT OF THE KANSAS FARMERS UNION, AN ISSUES ORIENTED FARM ORGANIZATION.

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, CALIFORNIA, TEXAS OR TENNESSEE WHERE THEY HAVE SUCH BANKING STRUCTURES.

SOME KANSAS BANKS FAILED BECAUSE THEY WERE WORKING WITH AND TRYING TO HELP THAT FARMER, THAT RANCHER, THAT BUSINESSMAN SAVE THEIR BUSINESS.

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!

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

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. IF SB-532 BECOMES LAW, HOW SOON CAN WE EXPECT JAPANESE OWNED BANKS, OPERATING IN KANSAS, CARRYING THE PROFITS OUT OF THE STATE AND THIS NATION.

I FIND IT VERY DIFFICULT TO RATIONALIZE HOW KANSAS INC., WHICH RECEIVES FUNDING FROM THE KANSAS TAXPAYER, CAN SUPPORT AND LOBBY FOR THE DENOUNCEMENT OF THE PRESENT KANSAS BANKING SYSTEM, AND SUPPORT DE-REGULATION THAT SETS THE FOUNDATION FOR OUTSIDE OWNERSHIP AND CONTROL OF OUR BANKING SERVICES TO KANSANS, AND 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 WOULD ALSO EFFECT THE VALUE OF THE DOLLAR, EMPLOYEES WAGES AND THEIR EMPLOYMENT OPPORTUNITIES.

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

I AM AMAZED TO HEAR KANSAS BANKERS CRITICIZED FOR MAKING CAREFUL LOANS BY THOSE WHO CLAIM BIGGER BANKS CAN MAKE LESS CAREFUL LOANS.

LESS-CAREFUL, BIG LOANS CAN BE VERY DANGEROUS. JUST LOOK AT SOME OF THOSE BANKS IN ILLINOIS, OKLAHOMA, TEXAS, CALIFORNIA THAT

WERE CONSIDERED BIG AND EFFICIENT. TWO YEARS AGO, WE WERE SEEING, ON THE MORNING NEWS, TEXAN'S SUFFERING ANOTHER ROUND OF MAJOR BANK FAILURES.

NOW, WE ARE HEARING HOW ONE OF THE LARGE SO-CALLED EFFICIENT BANKS IN NEW ENGLAND IS ON THE VERGE OF COLLAPSE BECAUSE IT MADE A LARGE AMOUNT OF "LESS CAREFUL" LOANS IN THE 80'S.

NOW THIS MAY APPEAR TO BE A LITTLE OFF THE ISSUE OF BANKING BUT I THINK NOT. I READ WHERE ONE PROPONENTS OF THIS BILL SAID THIS IS "INTERSTATE COMPETITION," NOTING THAT AGRICULTURE, AS IT BECOMES MORE INTERNATIONALIZED, WILL NEED BANKS WITH MORE FINANCIAL MUSCLE IN KANSAS.

RECENT FIGURES FROM THE USDA (STAFF REPORT NO AGES 89-363 AUG '89) INDICATE IF WE ACHIEVE THIS "INTERNATIONALIZED AGRICULTURE" AS PROPOSED BY THE UNITED STATES TO THE GATT NEGOTIATORS, PRODUCERS WITH NET INCOMES OF $40,000 TO $99,000 WOULD EXPERIENCE A 103 PERCENT LOSS OF NET FARM INCOME BASED ON THEIR 1986 NET FARM INCOME. FARMERS WITH NET INCOMES OF $20,000 TO $40,000 IN 1986 WOULD SUFFER A 163 PERCENT LOSS OF NET INCOME, WHILE SO-CALLED DEVELOPING NATIONS LIKE BRAZIL AND ARGENTINA WOULD BE WINNERS IN THIS NEW INTERNATIONALIZED AGRICULTURE. THE USDA REPORT PROJECTS A 44 PERCENT DECLINE FOR WHEAT PRODUCERS FROM THE 1986 PRICES. INCIDENTLY, WHEAT ON OCTOBER 21, 1986 AT MARION COUNTY ELEVATORS WAS $2.16 A BUSHEL.

MY QUESTION TO YOU IS: WHERE DO YOU THINK THESE SUPER INTERSTATE BANKS WILL PUT THEIR MONEY?

IT APPEARS WE HAVE A QUESTION OF BUSINESS ETHICS WITH SB-532. JUST A COUPLE OF YEARS AGO, THIS LEGISLATURE PASSED LEGISLATION SETTING A 9 PERCENT CONTROL LIMIT LEVEL ON KANSAS DEPOSITS TO PROTECT THE CONSUMER, AND THE CITIZENS OF THE STATE OF KANSAS FROM THE DOMINATION OF THE STATES BANKING INDUSTRY BY A LESS THAN HANDFUL OF MEGA BANKS TO ASSURE THE STATES BANK CUSTOMERS FAIR AND ADEQUATE BANKING SERVICES FOR THEIR NEEDS, AND THOSE OF THE COMMUNITY.

I ASK YOU, WHY NOW ARE WE CONSIDERING RAISING THAT LIMIT TO 12 PERCENT? IS THERE LESS THREAT TO THE BANKING CITIZENS OF THE STATE NOW THAN THERE WAS A COUPLE OF YEARS AGO?

THERE IS EVERY APPEARANCE THE MAJOR PROPONENTS OF SB-532 HAVE CHOSEN TO SHOW THE PEOPLE OF KANSAS THEY ARE BIGGER THAN THEIR GOVERNMENT OR THEIR LAWS. WHEN THE PEOPLES LAWS BECOME RESTRICTIVE, THEY EXPECT THE PEOPLES GOVERNMENT TO BEND TO THEIR DESIGNS OF APPARENT OVER EXPANSION AND CONTROL.

TO ME THAT SHOWS A LACK OF ETHICS, OR GROSS ARROGANCE.

THE OTHER FINAL QUESTION OF ETHICS, AS IT RELATES TO THIS BILL, IS THE ISSUE OF TAXPAYER FUNDS BEING FUNNELED INTO A DISTINCT ORGANIZATION LOBBYING FOR LEGISLATION OF A SPECIAL INTEREST OF A CERTAIN SEGMENT OF AN INDUSTRY AND FOR CERTAIN PEOPLE'S ADVANTAGE.

RECALL A FEW YEARS AGO THE HUE AND CRY THAT WENT UP WHEN A SMALL AMOUNT OF TAXPAYER FUNDS WERE USED TO TRANSPORT A FEW LOW INCOME,

POOR PEOPLE, TO WASHINGTON D.C. SO THEY COULD TELL MEMBERS OF CONGRESS OF THEIR PLIGHT. HOW MUCH DIFFERENT WAS THAT, THAN WHAT WE HAVE HERE?

I ASK YOU; HOW DO YOU MEASURE ETHICS?

WHAT IS ETHICAL, AND WHAT IS NOT?

I URGE THIS COMMITTEE TO VOTE AGAINST SB-532.

THANK YOU

Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

HOUSE COMMITTEE ON COMMERCIAL & FINANCIAL INSTITUTIONS
Representative Clyde Graeber, Chairman

SB-532

Mr. Chairman and members of the committee, my name is **Howard Tice,** and I am **Executive Director** of the **Kansas Association of Wheat Growers.** On behalf of the members of our association, I appreciate the opportunity to appear today in opposition to **Senate Bill 532.**

The members of the **Kansas Association of Wheat Growers** opposed multi-bank holding companies and unlimited branch banking because of the negative effect they tend to have on agricultural credit. Our members oppose interstate ownership of **Kansas** banks for the same reason. We feel control over local loan decisions should remain with people who know the local economy, who are familiar with the needs of the local community, who have an emotional as well as a financial commitment to the local community, and who know the local people as well. It should also be noted that we're talking about control of money which belongs to local depositors, not the bank.

While most of our members would prefer not to depend so heavily on borrowed money, the cost of land, equipment and other production inputs makes the use of credit a necessity. Once the debt is incurred, it becomes an even more viscious circle since the cost of servicing that debt simply adds to the problem. However, since the loans are necessary for most farmers, keeping local options open is extremely important.

Proponents of this bill have stated that agricultural credit availability will not suffer from interstate bank ownership. It was said that if the need is there, **Kansas** banks will service that need. Following a similar statement before the **Senate Committee on Financial Institutions and Insurance,** I made two phone calls. I called two banks that were acquired under the state's multi-bank holding company laws. At one of those banks, in a community which is heavily dependent on agriculture, farm loans have been greatly scaled back from the **70's** and early **80's.** The other bank had no farm loan officer, and participates in farm loans only through correspondent banks.

This committee was told that opponents' fears on related issues have not come to pass. We have been told that we need not fear the loss of local loan control. We have been told that local facilities will still have loan officers to make decisions on local requests. However, when those loan officers are imported into an area, with no knowledge of the local people or their needs, they obviously must look to the home office before making decisions. I am aware of one case, in **Salina,** where a very successful local businessman with an excellent credit history, had to drive to **Wichita** for loan approval after his bank became a link in the state's largest banking chain. Under interstate bank ownership, will our farmers and main street businessmen have to fly to **Chicago** or **New York** to negotiate their loans?

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We're told that banks must grow bigger and bigger in order to provide needed services. We've been asked to believe that this will result in more efficient handling of bank services. Economy of scale usually lowers the the cost of providing services. However, in my experience, the cost to depositors went up.

When the bank I just mentioned was acquired, and control of banking services was shifted to **Wichita,** costs to bank customers increased dramatically. Even though I was not using that bank, when their costs went up, my bank followed suit. My checking account charges jumped over **200%.** Usually we are told that competition tends to lower prices, as businesses seek to attract new customers. With big banks; however, in my experience, the reverse has been true.

An increase in size doesn't necessarily mean more efficiency. When my son entered college, I needed a parent loan. We were directed to **Planter's Bank,** as the only bank in **Salina** involved in the government program. After a few months, that loan was transferred to a national processing center, and I was immediately notified by both the bank and the center. The next year, I took out a second parent loan. By that time, **Planter's** had been acquired by **Fourth Financial.** This loan was also sold to a national processing center. The center advised me promptly, and there was no gap in payments. I finally received official notification from the bank headquarters in **Wichita,** approximately a year later.

We have been told that bankers want a *"level playing field"* with others in the financial arena. They especially point out that **Savings & Loan** institutions are free to buy facilities across state lines, and increase the pool of deposits with which they can work. It is our understanding that the federal government is involved in *"bailing out"* a number of **Savings & Loan** institutions because they used those larger asset bases to make some extremely poor loans. Proponent commentary not withstanding, many people feel that if they had stayed closer to home, and invested in areas where they had good knowledge of economic conditions, they wouldn't have made those mistakes. Do we now want the banks to make the same mistakes?

We've also been told that interstate banking is good for economic development in our state. However, when I asked a banker in **Great Bend** why he favored interstate banking, he told me it was because he wanted to make constructions loans in **Chicago** and **Philadelphia.** I have been given to understand that he can do that under existing law. Either way, his desire to make construction loans in other states is not economic development for **Kansas.**

A representative of the **Kyle Railroad** testified last year, that when they came into the state to take over some abandoned rail lines and continue service to northwest **Kansas,** they were unable to obtain financing from out of state banks. They worked with **Kansas** banks in five communities and arranged needed funding. Providing transportation for grain and other products is certainly economic development. The current banking structure provided funding where out of state sources refused.

When we speak of economic development, it is important to note that successful programs are built on an area's strengths. In **Kansas,** our number one industry is agriculture. There are more jobs and economic benefits created by agriculture than any other enterprise. In addition to the raising of food and fibre, this includes production and sales of machinery, seeds, chemicals and fertilizer as well as processing, transportation and sales of finished products....not to mention advertising, packaging and other marketing and value-added operations. If our state is going to pursue other areas of economic development, that is commendable, but not if it is at the expense of our greatest strength.

Yesterday, we heard **Kansas** banking laws compared to the **Berlin Wall.** While relating to current events is commendable strategy, the analogy is inaccurate. The **Berlin Wall** was erected to imprison an oppressed people. It would be much more accurate to compare **Kansas** banking laws, which were enacted to protect **Kansas** depositors, (*not to restrict free trade*) to the **Great Wall of China,** which was built to protect that country against invasion. The **Great Wall of China** still stands, and is considered one of the wonders of the modern world. No one with any credibility would advocate its destruction.

We all have a right to our opinions, but even college professor's opinions can be wrong. As another example, I cannot agree that the issue of multi-bank holding companies is a non-event. It is our best indicator of what will happen to agriculture when the control over loan decisions is removed still further from the local community.

In conclusion, you've heard proponents argue that interstate ownership of **Kansas** banks is needed, and should be allowed. Basically, they represent big banks and non-agriculture business interests. You've also heard the concerns expressed by those of us who see this issue as dangerous to our state. Speaking for my organization, we represent depositors and loan customers.

We don't need to change the law to allow interstate banking. Out of state banks can loan money in **Kansas,** and **Kansas** banks can loan money in other states. Deposits can also cross state lines. You have to decide if interstate <u>ownership</u> of **Kansas** banks is good for **Kansas,** or just another way for big banks to become even bigger and more powerful, and for **Kansas** deposits to be controlled by bankers from other states.

When the multi-bank holding company law was passed, several knowledgeable people around the statehouse echoed the old analogy, *"Once the camel gets its nose under the tent, it usually doesn't take long before the whole animal is inside."* That may be historically true, but farmers have enough experience with livestock to know they don't belong in the house....or the tent.

On behalf of those members of the state's number one industry, who produce the state's number one crop, I urge you to defeat **SB 532.**

TESTIMONY BEFORE THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

SB532; INTERSTATE BANKING

BY: CLARK P. YOUNG

MARCH 15, 1990

Chairperson Baker, members of the Committee, it is an honor to appear before you and express my opposition to the "interstate banking" bill. My name is Clark P. Young. I am a director and the treasurer of the Stevens County Economic Development Board, a licensed attorney in the state of Kansas, and the Executive Vice President of the Citizens State Bank of Hugoton, a sixty-million dollar bank located in southwest Kansas. But don't let our size impress you. Only about five million dollars is actually the bank's capital. The other fifty-five million dollars primarily is deposits we receive from the Hugoton area. It's the community's money and it should be used primarily for the benefit of the local economy.

Fortunately for our county, we have created an economic development board to promote economic growth and job diversification. It is because people care and are willing to freely give of their time and talents that we are able to make positive changes in our community and strengthen our economic base. But changes do not take place without local concern and interest, available funds, plenty of education and local control of our future.

It becomes more and more apparent each day that our world is getting smaller and smaller. Our Kansas communities need to adjust to the reality that our focus needs to be on a broader level. If Kansas is going to compete, <u>every</u>

Atch #6

county and community must work on economic development. Every Kansas county should have an economic development board and every Kansas citizen should be familiar with "ECO DEVO".

Before this committee lies SB532 and, yes, it does lie. It calls itself an interstate banking bill as if banks now are not able to take deposits or make loans in other states. Nothing could be further from the truth. Kansas banks can freely solicit loans and deposits out-of-state and out-of-state banks can freely solicit loans and deposits in Kansas. It is happening right now. So what is this bill about? Ladies and gentlemen, this bill is about control of Kansas bank deposits and who should have that control.

Why should a committee on economic development be concerned about that control? Simple. Because we know that adequate and available funds are necessary in order to facilitate economic development in all Kansas communities.

It comes as no surprise that a recent survey concerning Kansas concluded that nobody is more interested in the future and economic development of Kansas as Kansans. Whether the community is small or large, only those people who live there have the vested interest in what happens to that community. This is one reason why I favor local control and ownership of Kansas banks. Nobody, especially someone living out-of-state is as concerned as someone who lives there. That concern turns into action that helps the community grow and prosper. It also gives the community direct access to an individual or group of individuals who are responsible for the decisions of the bank.

In Sunday's March eleventh's issue of the Wichita Eagle, there is an article concerning the Kansas economy. (I am supplying a copy of this article in its entirety.) Under the graph where the rural Kansas economy is compared to the other 49 states, one of our strengths that is cited is our strong ranking in bank deposits. Kansas ranks fifth in the nation in bank deposits (per capita). Would out-of-state banks be interested in this large deposit base? Absolutely. Would they use this deposit base to improve the economic development of the community from where it came? Not necessarily. Would an out-of-state bank use the deposit base to fund businesses located out-of-state? Absolutely.

Last week, on March 6, 1990, I attended the spring legislative conference in Topeka sponsored by the Kansas Industrial Development Association. I was particularly interested in hearing a speaker from the Fourth Financial Corporation who was going to talk about this bill and interstate banking.

When I questioned him about multi-bank holding companies, he admitted to all of us that Fourth Financial intentionally withdraws funds from the Bank IV Coffeyville (he actually said Bank IV Independence..there's no such bank) and uses those funds in Bank IV Lenexa because there is a stronger loan demand in Lenexa and the Coffeyville economy isn't doing as well. His justification for doing this was that it was better to invest the Coffeyville funds in Lenexa than purchase a security in the state of Maryland. Given those choices, I would agree, but those are not the only choices. If the Coffeyville economy needs improvement, the last thing it needs is for the bank to pull funds from its deposit base. I ask you: Is this good for economic development in Coffeyville? The strong grow stronger and the weak grow weaker.

Likewise, if an out-of-state bank controls part of the deposit base in Kansas, what will keep it from pulling funds in Kansas to support a "hot spot" of strong loan demand in another state? Nothing.

Our Kansas economy needs some work, but selling our control of our banks and their deposits to out-of-state banks is not the answer.

Our goal for economic development in Kansas should be a statewide goal that promotes growth in every Kansas county and every Kansas community. Every county should be developing an economic development board and working on an economic development plan. Allow the local citizens, farmers and businessmen who are the owners and stockholders of the local bank to play an integral part of the redevelopment of our economy. Nobody else will care as much or work as hard.

Through educating our people, including our bankers, we will be better able to meet the needs of the future. If international finance is necessary for Kansans to compete in this world, then we accept the challenge.

The best thing we can do to improve our Kansas economy is become better educated and work on the problems ourselves. Kansans are the people that have the most to lose if the economy does not keep improving.

The worst thing we could do is sell part of our deposit base to a mega-bank in hopes they will be interested in improving the quality of our economy. They have their own economies to support.

I respectfully urge you to keep Kansas banks strong, to hold them accountable to the people whom they receive their deposits and to promote economic growth by keeping control of the funds among those who work the hardest for Kansas - a Kansan.

Thank you.

How Kansas rates

There's good news, but not much of it as state gets poor marks for economy

By Steve Painter
The Wichita Eagle

It's no secret that rural Kansas has lagged well behind the state's urban centers in the past decade in nearly every measure of economic vitality.

Now comes a report that is not likely to ease the concerns of small-town residents: Rural Kansas is also lagging behind most other rural areas across the country.

Rural Kansas ranks near the bottom in employment growth and employment diversity, and is losing population faster than most other rural areas, according to a study by the Corporation for Enterprise Development, a non-profit economic development consulting and research firm in Washington, D.C.

The economic gap between urban and rural areas also is growing faster in Kansas than in most other states, the report shows.

But the news is not all doom and gloom. Rural Kansas ranks near the top in a handful of areas: Housing is affordable, residents are comparatively well-educated and workers well-paid, and community needs such as wastewater treatment are largely met.

And, like other rural areas across the country, the entrepreneurial spirit thrives. Rural areas of Kansas outperformed urban areas in job growth from new businesses.

"I do think that rural Kansas has a lot of strengths that we tend to take for granted," said Ron Wilson, director of the Huck Boyd Institute for Rural Development, a joint venture funded with federal, state and private monies.

"There's no doubt about it, there's a great deal of entrepreneurial spirit in the rural areas."

See **KANSAS,** *Page* **8A**

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KANSAS

Urban/rural gap in poverty rate on the increase

From Page 1A

Researchers reviewed a variety of economic data from 1980 through the latter part of the decade, a period that coincided with a broad decline in agriculture and oil, the two biggest industries in rural Kansas. The farm economy stabilized in the last couple of years, but there are no signs it has been strong enough to spur a rural revitalization that would invalidate the study's findings.

The rural areas in three of Kansas' neighbors — Colorado, Nebraska and Iowa — ranked poorly in some of the same sectors, while rural Missouri and Oklahoma performed better.

Researchers used the U.S. Department of Agriculture's definition of non-metropolitan communities, and also excluded counties within the zone of influence of metropolitan areas. That process eliminated only eight of Kansas' 105 counties — Butler, Douglas, Johnson, Leavenworth, Miami, Sedgwick, Shawnee and Wyandotte. The rest are considered rural.

Among the findings of the study, which ranked rural areas of all 50 states based on a number of economic criteria:

- Kansas' lowest ranking, 45th, came in employment diversity. A region was considered diversified if no more than 10 percent of the jobs in a particular labor market area fell into any one industry classification as counted by the federal government.

Most Kansas counties in the western half of the state, and across much of north-central and northeast Kansas, are heavily dependent on agriculture or agriculture-related industries such as meatpacking, said David Darling, community development specialist with Kansas State University. That gives the state a low ranking in job diversity.

- The state was 44th in rural employment growth, with minus 3.3 percent from 1979 through 1987. Nebraska, Colorado and Iowa also were in the bottom 10.

Darling said recent figures give some indication that the rural lag in employment growth in the 1980s is ending.

- Only nine states had greater population loss from rural areas than Kansas, with a 3.6 percent decline from 1980 to 1986. Rural Iowa led the exodus at 6.1 percent, followed by Nebraska at 4.9 percent.
- Rural Kansas ranked in the bottom 10 in three measures of rural/urban disparity, an indication that the gap between rural and urban prosperity is growing. Researchers compared economic activity in each state's rural areas with its urban areas, and found that rural Kansas ranked 42nd in employment growth, 41st in poverty rate and 40th in earnings growth.

Partially offsetting that growing disparity was the fact that rural Kansans were well-paid when compared with many other states. Researchers found rural Kansans earned 79 percent of their urban counterparts, which ranked the state 17th.

The combination of rural Kansas' high migration rate, low unemployment rate and comparatively high earnings are consistent with the state's historic identity, Darling said. People came to the state seeking opportunity, and they're leaving for the same reason now, he said.

"When people stay in rural Kansas, they stay because they have a good job," he said. "The strength of attachment to communities that are rural and have small job opportunities is not very great."

Among the bright spots for rural Kansas was housing affordability. The authors of the study found that the median value of homes was just over twice the median income, ranking the state third in that category.

Also in the rural infrastructure and amenities group, the researchers estimated that the backlog of unmet wastewater treatment needs in rural Kansas communities amounted to roughly $145 per person — ranking the state fifth. Nebraska had the top spot at just over $58 per person.

In a measure of entrepreneurship, the authors found that job growth as a result of new business enterprises was 3.6 percent higher in rural Kansas than it was in urban Kansas, ranking the state seventh in that category.

Darling said that figure, however, has a down side. Much of the entrepreneurial activity in rural areas is spurred by people looking for ways to relieve the financial stress of farming operations, he said.

> **"The strength of attachment to communities that are rural and have small job opportunities is not very great."**
>
> *David Darling*

THE RURAL KANSAS ECONOMY

How Kansas rural area economy compares with other states

Strengths

Category	Rank
Housing cost	3
Bank deposits	5
Wastewater treatment capacity	5

Weaknesses

Category	Rank
Employment diversity	45
Employment growth	44
Population loss	41

Definitions

Housing cost: Ratio of median value of housing to median income.

Bank deposits: Dollars per capita.

Wastewater treatment: Estimated backlog of unmet needs, in dollars per capita.

Employment diversity: Based on the Standard Industrial Classification categories used by the government to collect job data. An area is considered diversified if no more than 10 percent of total jobs fall in any one category.

Employment growth: Growth of jobs, 1979-1987.

Population loss: Net change in population, 1980-1986.

Source: The Corporation for Enterprise Development

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The Washington Authority on Banking and Finance

Washington, March 9, 1990

ROUTE TO:

Dear Reader:

BANK PERFORMANCE

The FDIC's Quarterly Banking Profile was released this week. It shows 1989 was a year of more ups and downs than banks have experienced in the past--or would want to experience in the future.

The year began with record first-quarter earnings of $7.3 billion, followed by an equally robust $7.0 billion in the second quarter. Then industry earnings smashed back to earth with a $740 million loss in the third quarter and what the FDIC calls "disappointing" fourth-quarter earnings of $2.7 billion.

1989's third-quarter loss was directly attributable to the $7.6 billion banks set aside in foreign loss provisions. But the fourth-quarter results hit closer to home, as the industry set aside $8.4 billion in domestic provisions--the highest quarterly domestic provision ever.

Both the quarterly and full-year net charge-off rates were the highest since banks began reporting the data in 1949. All told, banks set aside $30.3 billion in provisions for loan losses in 1989, $20.3 billion of which was for domestic losses.

LARGE BANKS/ SMALL BANKS

The year was particularly tough on large banks in the Northeast. Five of the ten largest banks reported full-year losses and one-quarter of all U.S. banks with assets over $10 billion suffered a similar fate.

Net income of banks with assets greater than $10 billion declined by 88 percent for the year, while the earnings of banks with under $1 billion in assets increased by almost 18 percent.

ARE THESE THE BANKS WE WANT IN KANSAS?

The upshot: Industry profitability, as measured by return on assets, fell to 0.52 percent--the second lowest level in the eighties, ahead of only 1987's dismal 0.12 percent.

REAL ESTATE LOANS

Real estate loans continue to be an area of concern. Noncurrent real estate loans were up sharply in 1989, and more than doubled at banks in the Northeast.

Even so, real estate loans remained "the main engine of commercial bank asset growth," as the FDIC put it, providing more than half of the $168 billion net increase in assets in 1989.

Despite the much ballyhooed problems in the Northeast, the Southwest continues to labor under the heaviest burden of real estate troubles, with a net charge-off rate on real estate loans nearly four times the national average. Of the 206 banks that failed or received assistance in 1989, 167 hailed from the Southwest.

Chairman Seidman emphasized this week that the real estate area is not necessarily bad. But, because it is becoming a greater part of bank portfolios, there is a need to pay more attention to it.

CSB

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March 15, 1990

Honorable Representative Clyde Graeber
State Capitol Building, 175-W
Topeka, KS 66612

RE: Interstate banking

Dear Representative Graeber:

Let's go back to the multi-bank holding company legislation..the proponents stated that this was all they wanted. However, we all knew at that time they would be back. They are not only asking for interstate banking but to increase the total deposits of the state that can be held by one institution plus including all deposits of the savings and loans in Kansas. This would affect only one bank in the state of Kansas.

My first experience in banking was Bank of America and Security First National Bank in Los Angeles. I see no major problem with very large banks branching in large populace areas such as Los Angeles. I feel certain no one in our bank knew or were acquainted with five percent of our customers. However the Midwest is an entirely different situation made up of small to medium size communities with quite diverse economies and needs.

The sole purpose of interstate banking is to grow in size and sell out to a large bank in Chicago or elsewhere. There has already been speculation in this respect in the newspapers to this effect with Bank IV in Wichita. Regardless of what the proponents claim, there will be an outflow of capital from the state, if not immediate, then at a later time. (It is my understanding this very serious matter has happened in the state of Maine.) Agricultural and other Kansas industries will suffer as a result. I refer to a letter written to Bob Dole and Nancy Kassebaum from Harold Stones of Kansas Bankers Association, paragraph 4. I recall an article in the Wichita Eagle at the time a few banks were being closed in Kansas attributed to agricultural loans that an officer of Bank IV stated they had no agricultural loans - the largest industry in our state.

Currently, Kansas banks can purchase banks in Oklahoma, Colorado, Texas, Arizona, New Mexico, Wyoming, Nevada, Oregon, Idaho and Utah and this has been done to some extent.

There is no substitute for local credit decisions, local management and local community investment - there is no shortage of available capital to bring large or small industries to the state of Kansas. I know of no bank at the present time that is not looking for good loans.

Atch #7

I know you are aware that the most important issue facing our communities at the present time is relief from the effects of classification and reappraisal. If you people can address this situation this session, it will be the greatest accomplishment of this session of the legislature.

I appreciate you passing the bank branching legislation for state banks to compete with national banks. This is another example of federal entities riding rough-shod over state laws.

Sincerely yours,

Walter D. Young

Walter D. Young
Chairman & CEO

WDY:ajg

To: All KS Banks
From: HAS -
For your info!

The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

January 15, 1990

TO: **The Hon. Bob Dole, United States Senator**
The Hon. Nancy Kassebaum, United States Senator

FROM: Harold Stones

Dear Senators Bob and Nancy,

The attached contains information regarding the sale of Peoples Heritage Savings Association, which was announced last Friday, January 12. It is a great tribute to your early alert action and to your effectiveness. Last September you called on the RTC to consider the additional option of selling savings and loans by the branch, rather than only by the whole unit. As a result of your efforts, Peoples Heritage was just sold by the branch. The high bidders were 13 Kansas banks and 2 Kansas thrifts. The following advantages are readily apparent.

1. All branches were sold. Not one was required to be liquidated, depositors paid off, and offices closed.

2. The vast majority of previously existing Peoples Heritage branches will remain as offices of the new purchasing institutions. Large numbers of jobs will be preserved, which would have been lost, if no sale by branch would have occured, and the insitution liquidated.

3. Much higher premiums were paid, because bidding by branches obviously allows for greater numbers of eligible bidders. The taxpayers were well served by the $6,276,539 paid by successful banks and savings and loan associations.

4. The Kansas economy will avoid a potential massive "outflow" of funds. The $681.28 million in Peoples Heritage deposits were all purchased by Kansas banks and thrift institutions.

In summary, because of your early action, there are "no minuses, and lots of pluses" for Kansas. We also want to commend the superb efforts of Kansas City RTC Regional Director, Mike Martinelli, and his excellent staff. Their organization and execution of this massive project appears to be without blemish. Their availability and credibility are very high, and they did an excellent job with the Peoples Heritage sale. We anticipate and hope that the "sale by the branch" option was so successful, that it will be utilized by all regional RTC offices all over the United States.

Senators, it has been said that "Success has many parents; while Failure is a lonely orphan." We now will hear from many people wishing to step forward and claim parentage for this accomplishment. But we know, when you two were working so hard on this issue early last September, the field was not crowded! But I'm sure you join me in thanking those groups who did come into the battle later, and who did help very much.

Once again, you have served Kansas and the nation so very well. Our sincere thanks to you.

Harold

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Acquisition would boost Fourth Financial stock

This is a weekly column relating what stock research firms are telling their customers about companies listed in the Kansas 100 and on the nation's stock exchanges. Stock firms provide the reports to clients on an informational basis, with a disclaimer that the information is not used to sell stocks or other securities.

Fourth Financial Corp. (FRTH — OTC): Sizing up Fourth Financial Corp. as a likely acquisition candidate, Prescott Ball & Turben is recommending investors hold on to their stock in hopes of selling it at a premium.

In an unsigned report, the securities firm said Fourth's dominant market share in Kansas, combined with its size, make it a likely acquisition candidate. Kansas now does not allow interstate banking, making an acquisition of Fourth Financial unlikely, but the state Legislature is expected to consider an interstate banking bill in coming sessions.

THE BROKER'S SCENE

Fourth Financial continues its growth pattern by acquiring smaller Kansas banks at low prices, PBT said.

"The company earns a superior return on assets while being very well capitalized, with a high-quality loan portfolio," the PBT report said. "Despite its obvious high quality, we do not believe the stock should trade much higher than its current PE unless it is acquired."

Fourth Financial, the largest bank in Kansas with $2.9 billion in assets, recently was trading at $28.25 a share.

Occidental Petroleum Corp. (OXY — NYSE): Based on a weakness in chemical earnings, Rauscher Pierce Refsnes is downgrading its rating on Occidental Petroleum from buy to neutral.

Occidental Petroleum was expected to enjoy peak earning power on its chemical products for another year, but third-quarter results and trends so far in the fourth quarter suggest a much weaker profitability than expected, said Thomas Escott, financial analyst for RPR.

Chemicals had contributed 14 percent of Occidental Petroleum's operating earnings as recently as 1986, but that percentage has grown to 77 percent in the first nine months of 1989.

"Therefore, fluctuations in chemical profits have a disproportionate effect on the reported (earnings) total," Escott said. "We now view the stock as a neutral, until earnings momentum can be re-established."

Anheuser-Busch Cos. (BUD — NYSE): A.G. Edwards & Son is giving Anheuser-Busch a buy recommendation for conservative portfolios based on short-term market consternation that presents an unusually attractive buying opportunity.

One source of the consternation is Anheuser's Oct. 25 announcement that it would reduce prices, said financial analyst John Bierbusse.

"We interpret Anheuser's move as one designed to keep the brewing industry separate from the soft drink industry's dilemma, in which successful grocery store distribution is based solely on pricing deals, which therefore erode expensively crafted brand-name imagery," Bierbusse said.

Other sources of short-term skittishness in the market are Anheuser's $1.1 billion acquisition of Sea World, which should not change the brewery's earnings mix, and the warning labeling of beer, Bierbusse said.

Philip Morris (MO — NYSE): Philip Morris remains on Dean Witter's recommended list for growth-oriented portfolios, based on extraordinarily strong earnings and dividend growth.

The consumer-products company has stock appreciation potential of $55 per share, compared to a recent price per share of $42, said analyst Lawrence Adelman.

— **Lori Linenberger**

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