Approved March 20, 1990
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Elizabeth Baker at
Chairperson

3:40 xxxm./p.m. on Thursday, March 15, 1990 in room 423-S of the Capitol.

All members were present except: Representatives Goossen, Heinemann and Foster. Excused.

Committee staff present:
Jim Wilson, Revisor
Lynne Holt, Research
Elaine Johnson, Secretary

Conferees appearing before the committee:
Senator Frank Gaines
Pete McGill, Pete McGill and Associates
Bob Morgan, Director of Marketing, The Farmers State Bank, Circleville, Kansas
Clark P. Young, Executive Vice President, Citizens State Bank, Hugoton, Kansas
Howard Tice, Executive Director, Kansas Association of Wheat Growers
Ivan W. Wyatt, President, Kansas Farmers Union

The meeting was called to order at 3:40 p.m. by Chairperson Baker.

Representative Baker opened the hearing of SB 532 and recognized Senator Frank Gaines.

Senator Gaines testified in opposition to SB 532. He stated that bankers who favor this bill are primarily interested in creating a bigger market for selling their own financial institutions. Senator Gaines said the only constituent who asked him to support interstate banking was a man who owned stock in Fourth Financial Corporation of Wichita and stood to make a big profit if Fourth Financial, parent of about a dozen Bank IV banks in Kansas, was purchased by a large out-of-state bank.

Senator Gaines responded to questions from the committee.

The next conferee was Pete McGill of Pete McGill and Associates who testified in opposition to the bill on behalf of the Kansas Independent Bankers Association. Mr. McGill stated that one of their main objections to this bill, was that the legislature seems to believe it an obligation to create a better market for the sale of banks for a small minority as opposed to what is in the public interest. Mr. McGill said that once you approve Interstate Banking, you can't get rid of it and many states would like to do just that, but the damage is already done. In concluding his remarks he asked that the commitee consider the fact that their 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. Attachment 1. Mr. McGill also provided the committee with a copy of "15 Years After The Enactment Of Interstate Banking." Attachment 2.

Mr. Bob Morgan, Director of Marketing for The Farmers State Bank in Circleville, Kansas (population 175) was the next conferee. Mr. Morgan opposes the bill. First as a consumer, and second as a banker, he said he has both seen and felt the jagged edge of that swift sword called Interstate Banking. He has seen and/or read about the negative effect on families and communities in local papers and from those directly affected. Mr. Morgan's experience with Interstate Banking comes from the time he lived in the state of Washington. He said that what Interstate Banking brought to Washington, for those gullible enough to fall for it, is a new toaster or an airplane ticket (to somewhere nobody goes) for opening an account where the money will go to help another state's economy. Mr. Morgan stated that he does not have a dollar amount of the total losses Washington State has suffered, but he can measure the loss of a job and the feelings people get when they come to work in the morning eager to work and find out that the eagerness they brought to work was no longer needed. He believes the economy of the state of Washington could better withstand the loss of jobs and could more easily replace the revenue than could the rural economies of the state of Kansas (even the large metropolitan areas can little afford those kinds of losses). Attachment 3.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 423-S, Statehouse, at 3:40 ~~a.m.~~/p.m. on Thursday, March 15, 1990

The next conferee was Clark P. Young, an attorney and the Executive Vice President of the Citizens State Bank of Hugoton. Mr. Clark stated that SB 532 lies. 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? He feels this bill is about control of Kansas bank deposits and who should have that control. 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. Attachment 4.

Howard Tice, Executive Director of the Kansas Association of Wheat Growers also testified in opposition to SB 532. He stated that the members of the Kansas Association of Wheat Growers opposed multibank holding companies and unlimited branch banking because of the negative effect they tend to have on agricultural credit. They also oppose interstate ownership of Kansas banks for the same reason. 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. We are talking about control of money which belongs to local depositors, not the bank. Attachment 5.

The final conferee was Ivan W. Wyatt, President of the Kansas Farmers Union. Mr. Wyatt stated that Kansas law protected its citizens from the banking fiascos 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. Attachment 6.

The committee had no questions for the conferees.

Representative Baker closed the hearing on SB 532.

The meeting adjourned at 4:52 p.m.

Elizabeth Baker

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HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
David Feldhaus	Intern - Sen. Lee	Lawrence, KS
Sue Anderson	Ks. Indep. Bankers Assn	Carbondale, KS
Mary Jane Stattelman	KIBA	Topeka
Robert A. Morgan	The Farmers State Bank	Circleville, KS.
Bill Dean	J. Petermeyer Assoc.	O. P. Ks.
Pete McGill	Topeka	KIBA
Clark P. Young	Citizens State Bank	Hugoton, Ks.
MIKE TAHRBACH	KIBA	HAVEN ST. BANK HAVEN, KS.
ALAN Steppat	KIBA	Topeka
Scott Hessell	Kansas Inc.	Topeka
Mike Shields	Harris News	"
Ivan Wyatt	Ks Farmers Union	McPherson
Ken Bahr	4th Financial Corp.	Topeka
[illegible]	KBA	"
Fred Diggs	Rep. [illegible]	"
Brad Smoot	Fourth Financial	"
Linda McGill	KIBA	"
Frank Harris	State Senator	

te: 3/15/90 GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Jeff Sonnich	KNLSI	Topeka
Howard W. Tice	KAWG	Hutchinson
Barbara Joseph	AP	Topeka
Charles Warren	Kansas Inc	Topeka
[illegible]	BKTV Topeka KS	
[illegible]	Gov Jones	Top
G. Cooper	KU	

TESTIMONY

BEFORE THE

HOUSE COMMITTEE

ON

ECONOMIC DEVELOPMENT

BY

PETE MCGILL

OF PETE MCGILL & ASSOCIATES

ON

MARCH 15, 1990

House Eco. Devo Committee
Attachment 1 3/15/90

Madam Chairperson 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.

As you were told yesterday, only 54% of those banks that voted were in favor of Interstate Banking. As you also know, one chain could vote 13 or 14 times, one for each of their banks. Two or three others could vote similar numbers.

If each of them were confined to the "one owner, one vote" concept, I expect their survey would have shown most of their own membership was opposed to interstate banking.

But that is also one of our main objections to this bill,--we seem to be addressing it as though the legislature has an obligation to create a better market for the sale of banks for a small minority as opposed to what is in the public interest. What is best for the people of Kansas, the customers of those banks, the people that have deposited their money in those institutions, the people that are looking to those banks to provide the resources to keep investing in those communities.

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 collegues 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.

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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.

In fact, Kansas, Inc's own statistics show there is more capital available for loans to qualified borrowers than at any time in Kansas history.

Capital availability has always been one of the cornerstones of Mr. Warren's arguments on this issue, but yesterday, in response to a direct question, Mr. Warren had to acknowledge there is no shortage of capital in Kansas.

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."*

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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 silicone 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. can not 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 432 will increase capital availability.

In fact, quite the reverse is true. If enacted, as you have heard from others, it would be like a giant vacuum sweeper descending upon Kansas and sucking out all available capital to be used in other states that have Interstate Banking where there is a capital shortage.

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.

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. "Good morning, Ms. Machine, I'd like to deposit $2,000 in my savings account." 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 was absolutely amazed yesterday to hear Mr. Warren, President of Kansas, Inc., the organization created for the purpose of promoting, developing and expanding Kansas industries among other activities, state:

"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, Madam Chairperson 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.

One final comment, Madam Chairperson, each of you should have received in the mail a letter from Sam Forrer. Mr. Forrer could not be here today, but he did enclose to you a copy of the testimony he gave in the Senate. Mr. Forrer is one of the most knowledgeable people I know on this issue and his statement is well worth reading.

Thank you Madam Chairperson

Maine Sunday Telegram
March 4, 1990

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Interstate banking squeezes Maine

Tight money blamed on big owners out-of-state

By Jeff Sickel
Staff Writer

Most of the banks clustered in downtown Portland have out-of-state owners.

Staff photo by John Patriquin

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 companies that have depended on big regional banks to finance their growth increasingly are complaining that their credit is being cut off or squeezed, even though their businesses remain fundamentally sound.

The disgruntled borrowers say they are being punished for heavy loan losses incurred by the big banks because of loose lending practices during the go-go years of the '80s.

"I'm hearing this throughout the state," says Auburn businessman and local chamber of commerce chairman John C. Turner, who has helped arrange financing packages for firms.

"I supported interstate banking because I thought it would generate more capital, which it did.... (But) I'm concerned this is going to start to impact jobs and our ability to diversify our tax base."

Bradley McCurtain, president of Maine Securities Corp., which tracks the large banks, said he doesn't believe the problems at Boston-based banks necessarily will pull Maine into a regional recession, but "I think they certainly are having a negative effect."

Senior bank executives dispute claims they are denying credit to worthy customers, adding that tighter lending practices are inevitable in a slowing economy.

"We're in the business to manage risk and make a profit," said Denison Gallaudet, president of Casco Northern, which was bought by Bank of Boston in 1984. Casco Northern posted record profits of $17.9 million in 1989. "I believe we're following as prudent a course as a bank can take" to protect depositors' money and shareholders' interests.

State Banking Superintendent H. Donald DeMatteis blamed the credit squeeze primarily on the soft economy and indicated it is likely to get worse before it improves.

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:

- Loan growth has slowed dramatically in Maine. Gallaudet acknowledged that Casco Northern, for example, decided not to renew at least $50 million worth of credit lines, but he noted that number is a small percentage of the bank's $900 million commercial loan portfolio.
- Borrowers with longtime relationships with certain banks are being forced to seek financing elsewhere.
- 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.
- Most of the Maine banks that have reported losses are out-of-state owned, and the most troubled in-state-owned bank — The One Bancorp — is hurting partly because it tried too aggressively to become a regional player.
- Independent banks, many of

See BANKING
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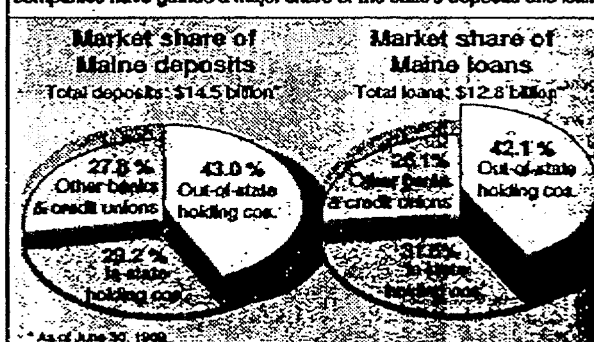
Maine's banking market

Since Maine law began allowing interstate bank mergers, out-of-state companies have gained a major share of the state's deposits and loans.



Source: Maine Bureau of Banking

Telegram/ Tom P

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Interstate bank ownership

Interstate bank ownership was introduced in Maine with the acquisition of Northeast Bankshare Association of Portland by Norstar Bancorp Inc. of Albany, N.Y., in 1983. Norstar injected $2.5 million in capital. In 1987, Norstar agreed to merge with Fleet Financial Group. Below is a list of other interstate acquisitions of Maine banks.

Maine financial institution or holding company	Acquirer	Capital injected	1989 results: Parent company	1989 results: Maine banks
Depositors Corp., Augusta	KeyCorp, Albany, N.Y. Acquired: Feb. 1984	$5 million	Earned $137 million, up 14.2%	Earned $19.7 million
Casco Northern Corp., Portland	Bank of Boston Corp., Boston, Mass. Acquired: March 1984	$5.5 million	$1.7 billion in bad loans	Earned $17.9 million
Citibank Maine, South Portland	New bank formed by Citicorp, N.Y. Formed: Oct. 1984	$12.7 million	Earned $498 million	Earned $1.8 million
Sun Savings and Loan, Portland	Home Owners Federal Savings and Loan, Burlington, Mass. Acquired: Oct. 1985	$29.4 million[1]	Lost $127 million in year ending Sept. 30, 1989	No separate results
Maine National Corp., Portland	Bank of New England Corp., Boston Acquired: Jan. 1985	$2 million	Lost $1.1billion	Lost $8.2 million
Merrill Bankshares Co., Bangor	Fleet Financial Group Providence, R.I. Acquired: March 1986	$2.2 million	Earned $371.3 million	Earned $20.3 million
Coastal Bancorp, Portland	Suffield Financial Corp., Suffield, Conn. Acquired: April 1987	$1 million	Lost $19.5 million	Lost $1.4 million
First NH Bank of Maine, Portland[2]	New bank formed by First NH Banks Inc., Manchester, N.H. Formed: May 1987	$7 million	Results not available	Lost $403,000

[1] Represents cash injected by the acquirer and federal insuring agency.

[2] First NH is owned by Bank of Ireland. The local bank is changing its name to First Maine Bank on April 1.

Source: Maine Bureau of Banking

Telegram/ Tom Peyton

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Banking

Continued from first page this section

which realsted merger offers from out-of-state banks, on average are more profitable and better capitalized than interstate banks.

Until 1975, Maine banking, like banking nationwide, was regulated by laws limiting the over-concentration of capital.

But in recent years, American banks have argued that they need to grow to compete globally with huge European and Asian banks.

Maine was the first state to allow interstate banking, enacting a limited form in 1975 as part of sweeping changes in the state's banking laws. The act allowed out-of-state banks to take over Maine banks, if Maine banks were allowed to do the same in their states.

In 1982, Maine amended its interstate banking law, allowing unrestricted mergers. The act also added provisions assuring that out-of-state banks wouldn't take money out of Maine. The state Bureau of Banking was given broad enforcement powers.

Still, opponents warned that during a money crunch, interstate banks likely would turn away from Maine's smaller businesses and the state would be helpless to stop them.

During the boom years that followed, interstate banks, with their deeper pockets, helped propel capital-poor Maine.

"It made a lot of capital available that probably otherwise wouldn't have been available," said economist Stephen Adams of the State Planning Office.

Until recently, loan-to-deposit ratios, a key indicator of the amount of money re-invested in the community, ran at a staggering 85 percent and more at most Maine banks. The figure was well above historical averages of 60 to 70 percent.

It is clear that aggressive lending, particularly in real estate, has come back to haunt many of the big regional banks with Maine ties.

Among the big commercial lenders in the state, Bank of New England and Bank of Boston both recently reported either huge losses or large provisions for possible loan losses. KeyCorp of Albany, N.Y., and Fleet Financial Group of Providence, R.I., so far appear strong, although Fleet is being examined by federal regulators.

Bankers and analysts say regulators, concerned that New England's banking industry could suffer a collapse of the sort that struck the Texas savings and loan industry, are contributing to, if not creating, the regional credit squeeze.

The squeeze "is not the result of interstate banking so much, but regulatory officials beating up on banks," said William C. Bullock, former chairman of Merrill/Norstar, which since has been merged into Fleet.

Said former Casco Northern Chairman John M. "Jack" Daigle, "I think everyone is running just a little bit scared at this point."

Feeling the problems

Local bank executives maintain that Maine subsidiaries of the big regional banks are in relatively good financial shape and are run independently from their parent companies.

"We're as much in the marketplace as we can be, to the extent there are lending opportunities out there," said Robert A. Harmon, senior vice president of commercial lending for Maine National Bank, which is owned by Bank of New England. "We aren't pulling out of the market."

But analysts say Maine subsidiaries can't help but feel the problems of their parents.

"Bank of New England for example is under strict orders to reduce the size of the bank," said banking analyst Gerard S. Cassidy of the stock brokerage firm Tucker Anthony Inc. in Portland.

"So Maine National can't go out and aggressively look for new loan prospects. It's unfortunate right now, but definitely there's some directives given from Boston to Maine to do things differently."

Many borrowers share similar sentiments, saying banks such as Maine National have made it clear credit isn't as readily available.

William R. McDonald, a Windham biotechnology product broker, said he recently was asked to put up more collateral for his business line of credit. He decided to sever his eight-year relationship with Maine National instead, and go to a bank that didn't require the additional collateral.

Consultant Turner said he started to realize there was a change in lending practices in

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the spring of 1989, when he received an unusual number of inquiries from companies with credit lines being threatened.

He acknowledges that some of the companies had a history of problems, but "it was obvious that they were all improving, otherwise they wouldn't have gotten financing elsewhere."

Turner, who estimates he has helped various clients get about $25 million of financing from Casco Northern in the past six years, said he believes the orders to curtail lending came from Bank of Boston.

Some Casco Northern customers agree.

"Every part of our business is prospering in terms of orders, but we have difficulty turning it into shipments and sales because of lack of credit support," says Paul Wescott, president of Howell Laboratories in Bridgton, a microwave and broadcast antenna maker that has doubled its sales to $15 million a year since 1987. The firm is one of the biggest defense contractors in the state.

"My view in trying to arrange a banking relationship for the growth of the company is that it's difficult to deal with banks whose decisions are made more or less anonymously in Boston or Providence. . . . It's anonymous. It's robotic," Wescott says.

Borrowers sue

One joke traveling in New England banking circles is that the only loans being made today are "no-brainers," loans so heavily collateralized as to virtually eliminate all risk.

At least two disgruntled borrowers already have filed major lawsuits against Casco Northern: Bethel Inn and Diversified Foods Inc., a Portland food and consumer products distributor.

But Gallandet of Casco Northern said changes in lending practices have "nothing to do" with interstate banking, adding there are no orders from Boston to reduce loans.

Instead, he said, Casco Northern recognized in the summer of 1988 that it needed to reduce its "substandard credits," which had doubled from normal levels.

A substandard credit typically is a loan that is being repaid on time, but the borrower's business has been losing money for at least a year, with few signs of improvement.

Other bank senior executives tend to agree, but not everyone sympathizes with Casco Northern's tough policies.

"If we did something like that it would be political suicide for us, we just couldn't survive," said Keith Patten, president of Camden National Bank, the state's largest independent bank. If customers are having a tough time, "we might look harder at new advances and expansion, but we certainly aren't going to go out and call loans."

Patten, a longtime opponent of interstate banking, concedes that independent banks also have tightened lending practices. But he says they have not been as harsh as the out-of-state owned banks. He says interstate banking is proving to be "disastrous" for the state.

Deputy Banking Superintendent Donald Groves acknowledged that an increasing number of borrowers are complaining that the treatment they are receiving from interstate banks isn't justified "given the condition of their businesses."

While he has talked to the borrowers, Groves hasn't reached any firm conclusions.

"Frankly, when the economy goes south, we get these type of complaints," he said. And "if there is a problem developing, it's probably premature to get at the numbers and show it."

Experts differ over the impact this could have on the ability for worthy Maine businesses to get credit.

Cassidy of Tucker Anthony said worthy borrowers should still be able to find financing from other, healthier banks such as Key and Fleet.

But Richard D. Rasor, who owns the Bethel Inn, notes that getting financing elsewhere is difficult because new lenders always wonder what the old one knows. Rasor eventually found financing from Boston-based Shawmut Bank.

Capital is one of the most important ingredients to being able to expand and "if that's not available it's like being in the middle of the desert without being able to get a drink of water," said Turner.

"I think the state is going to have to step in and discuss the whole capital formation issue shortly. Otherwise, they're going to see problems experienced in the last six months compounded."

At the least, Maine's banking system may be at a crossroads.

Bullock is concerned that Maine's banking system could follow the paper industry, where purse strings are pulled from the outside.

Daigle shares a similar concern, but adds that "I don't think banks can be insensitive to the community and succeed."

He said he believes the big banks up to this point have been reponsive to community needs.

But he acknowledges: "I think the jury is out on the banking industry right now."

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Small bank takes a stand against out-of-state owners

Six years ago, directors of little Ocean National Bank in Kennebunk chose an unusual way to express their desire to remain independent: They ousted their president.

It seems bank directors were plenty pleased with the bank's bottom line, but they wanted a business that would exude more warmth and friendliness. And they weren't happy that bank President Willard T. Ware seemed willing to consider mergers.

"There were issues on which this small community bank has tried to operate like a big Boston bank," bank director and local osteopath Dr. William Bergen said at the time in explaining why he led efforts to oust Ware.

Today, Ocean National Bank directors are glad their bank is independent, particularly in light of the problems at some of the big Boston-based banks.

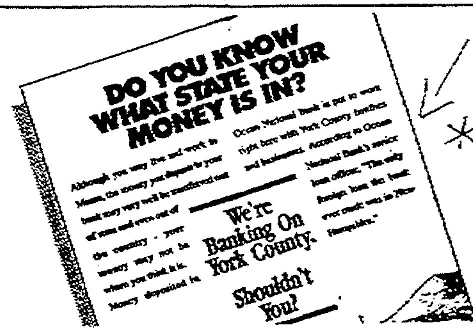
"We think it was exactly the right decision to make," says Bergen, chairman of the bank's board of directors.

Bank deposits and assets have doubled since 1984, and Ocean National's market share has increased from 15.6 percent to almost 17 percent.

Bergen notes that Ocean National recently was selected by the Maine Turnpike Authority to run two automated money machines at the Kennebunk exit.

'There were issues on which this small community bank has tried to operate like a big Boston bank.'

— William Bergen, Ocean National Bank chairman



Ocean National Bank in York County attacks out-of-state ownership in this ad.

The $111 million-asset bank's return on average assets of 1.06 percent in 1989 was slightly below the 1.3 percent return in 1984, but still above the 1 percent level considered the mark of a well run bank. Like other banks, Ocean National has seen some increases in loan delinquencies because of the soft real estate market.

Ocean National, which has six branch offices in York County in addition to its Kennebunk main office, isn't bashful about advertising the fact that it is an independent bank.

Headlines from recent ads include: "Do you know what state your money is in?" and "It's hard to keep an eye on your money when it's out-of-town."

"People want to deal with a local Maine bank," says bank President David A. Page. "We can give people better service, a quicker turnaround on loans and we call our own shots even in the branches."

Ocean National isn't the only independent game in town. So is Kennebunk Savings Bank, which Ocean National considers its toughest competitor.

Statewide, independent banks have sprouted in recent years to fill voids left by bigger banks. In 1989 alone, Cushnoc Bank and Trust Co. was organized in Augusta and the state Bureau of Banking approved a plan to establish First Citizens Bank in Presque Isle.

Have larger banks made any serious overtures to buy Ocean National?

No, says Page. "I think larger banks seem to understand we wanted to remain independent and have respected that."

Ousting your president tends to get that message across.

Staff photo by John Patriquin

William Bergen, chairman of Ocean National Bank in Kennebunk, is glad his bank is independent.

a-1-17
3/15/90

WHO'S NEWS

Bank of Montreal's New Head Sees Opportunity for Growth in the U.S.

By G. PIERRE GOAD
Staff Reporter of THE WALL STREET JOURNAL

MONTREAL – Bank of Montreal is coming off a decade of management shake-ups and struggles with problem loans in the Canadian oil industry and Latin America, but its new chairman is upbeat.

Matthew W. Barrett, who was named to the post this month, hopes to improve the bank's performance by beefing up customer service and boosting business in the U.S., where operations already account for 25% of Bank of Montreal's income. Mr. Barrett wants to see that figure increase to 50% in the next five to 10 years through acquisitions and internal growth.

Matthew W. Barrett

The U.S.'s gradual move to interstate banking presents an opportunity for Bank of Montreal, Mr. Barrett says. "We have 172 years of experience in running nationwide branch networks," he says. "I think we can bring that [experience] to a marketplace that is moving into more broadly distributed branch banking from unit banking."

But the bank, Canada's fourth-largest, has a "long-term record of underperformance," says Roy Palmer, an analyst with Bunting Warburg Inc. With assets of 78.9 billion Canadian dollars ($66.5 billion), Bank of Montreal ranks about 10th in North America. Mr. Barrett and President F.A. "Tony" Comper "have what it takes" to turn the bank around, Mr. Palmer says, but it will be a long slow process.

Bank of Montreal has been hurt by Latin American loans, with the largest exposure of any Canadian bank in Brazil and Mexico. But the major problem cited by many analysts is the bank's falling market share. Over the past 20 years, Bank of Montreal's share of the Canadian loans and mortgages market has declined to 14.2% from over 21%, Mr. Palmer says.

"Our performance hasn't been spectacular, there's no ducking that," says Mr. Barrett.

The 45-year-old chairman, who is retaining his post as chief executive officer, is tackling the challenge with a team of young executives. Mr. Comper, president and chief operating officer, is 44. He joined the bank in 1967. Alan G. McNally, also 44, is vice chairman, personal and commercial financial services. Jeffrey S. Chisholm, 40, is vice chairman, corporate and institutional financial services. He is the newest member of the team, having joined the bank in 1984.

Mr. Palmer says the "new team enjoys great respect within the organization."

Donna Toth, an analyst at Levesque Beaubien Geoffrion Inc., agrees. Bank employees "can already sense the change," she says.

Mr. Barrett has spent his entire adult life at the Bank of Montreal. Born in Ireland, he joined the bank in London just after his 18th birthday.

"I was a very arrogant young kid and thought I was going to be a Pulitzer Prize-winning writer. So I joined the bank to pay the rent and went to journalism night school in London. I discovered after six months that I had zero talent in writing but had a black belt in balancing checkbooks."

Mr. Barrett transferred to Canada in 1967 and began his climb to chairman. He hasn't forgotten his early experience, though. As a teller, he says, he made a point of knowing the names of his customers. He is looking to bring some of that personal service back. "The personal contact in the old days was better," he says.

Service, he says, will be an important ingredient in Bank of Montreal's improvement. "Our focus will be on doing the millions of mundane things we do with customers every day just a little better every time," he says.

In boosting its U.S. operations, Mr. Barrett says, Bank of Montreal will start looking for new acquisitions in the Midwest, close to the Chicago base of the company's Harris Bankcorp subsidiary. Harris, a bank holding company with assets of US$12.3 billion, was acquired in 1984 for $553 million.

Bank of Montreal also considers Harris an important plus in the corporate and institutional markets, adding to the bank's ability to service clients on both sides of the border. About half of Bank of Montreal's profits in the corporate and institutional market come from the U.S.

In Canada, Bank of Montreal is counting on help from Harris if the Canadian government, as expected, allows banks to enter the trust business. Harris's trust operation has $16.5 billion under active management and $61.3 billion under administrative management.

For the year ended Oct. 31, 1989, Bank of Montreal earned C$646 million before additions to reserves against losses from loans to less developed countries. Net income was C$51 million, or four Canadian cents a share. Return on average assets, a key measure of bank performance, was 0.82 before additions to LDC loan-loss reserves, 0.06 after.

Mr. Barrett succeeds William D. Mulholland, 63, who retired as chairman last week. He remains on the board.

As might be expected from a man who joined Bank of Montreal fresh out of high school and is still there 27 years later, Mr. Barrett is devoted to the institution. "My friends are all Bank of Montreal people," he says. "I met my wife in the Bank of Montreal. The Bank of Montreal is my life and a very important part of my family's life. It's been my life since I was 18. And I don't make any apologies for it."

Wall Street Journal Jan. 29, 1990

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People

New Maine Bank's Leader Will Emphasize Ties to Community

By JEANNE DUGAN COOPER

DAVID I. Dorsey has a proposition for the farmers and lumbermen of northern Maine who are putting their money in the hands of institutions with headquarters hundreds of miles away: Bank with me instead.

"I'm going to start a bank where people can walk in for a loan and walk out with a check," said Mr. Dorsey, who has had his fill of working for an organization outside his home state of Maine. He recently resigned a vice chairmanship at Key Bank of Maine, a subsidiary of Albany, N.Y.-based KeyCorp, to return to the "community banking" values that he believes are a casualty of the interstate banking era.

"The big banks here process loans at central locations where they have to print up the checks and send them out. People shouldn't have to wait two days to get money," he says, not even in sparsely populated Aroostook County, where 95,000 people live in an area the size of Connecticut and Rhode Island combined.

Mr. Dorsey was born in that northern Maine county 47 years ago, became head of his hometown bank at the age of 26, met his wife, and raised his four children. So, after the bank he led got caught up in the interstate banking shuffle that stripped the county of its community banks and him of his power, Mr. Dorsey decided it was time to start a bank of his own.

"Community banking is deteriorating. There is not one locally owned commercial bank left in Aroostook County," said Mr. Dorsey, who worked for Key Bank and its predecessors for 20 years until he resigned on Aug. 11. "These big banks have really lost their commitment to servicing the area. They don't understand the Maine people and the Maine marketplace."

If all goes as planned, Mr. Dorsey will "give the people of Aroostook County a community bank" as early as February.

Already, 35 investors have committed to about $3 million in stock and Mr. Dorsey expects to raise another $1 million in capital within six months. The most recent bank to open in Maine, Cushnoc Bank in Augusta, got off the ground last year with $2.25 million, according to state banking figures.

Mr. Dorsey is preparing to apply to the State Department of Banking and the Federal Deposit Insurance Corp. to charter a bank with branches in Caribou and in Presque Isle, where he was based with Key Bank's northern Maine division.

One advisory board member from the Key Bank unit, Lawrence Abyood, is joining Mr. Dorsey's bank as a director. Four other Key Bank board members, known in the industry as locally oriented and influential, are expected to follow suit.

Mr. Dorsey expects the bank's community orientation to attract customers away from competitors, including several out-of-state bank holding companies and a few based in other Maine counties.

Big banks have really lost their commitment to servicing his area in northern Maine, says David I. Dorsey.

"I don't see any reason why I can't get 15% of the market there," he said, referring to a $700 million to $800 million pie.

"I've been in the banking business for 23 years. I know the business and I have a tremendous following of customers and investors," he said. "I have people who didn't want to do business with me before and they hear I'm opening a county bank and they want to do business now."

Mr. Dorsey's plan may be the start of a trend in Maine, particularly in more rural regions like Aroostook County. About half of Maine's $13 billion in deposits has landed in out-of-state hands since its pioneering interstate banking law took effect in 1982. But now, community banking is making a comeback.

"The pendulum is swinging back these days," said Donald DeMatteis, the state superintendent of banks. "The banks here are starting to realize that they can't be all things to all people. Interstate banking has really taken off during the last five years, but community banking is going to be the focus for the next few years."

Big banks, he said, are simply realizing that they have strayed too far from home and cannot compete as effectively in remote areas like Aroostook.

"A lot of big banks have been walking away from Aroostook because it has unique characteristics from the rest of the state," said Mr. DeMatteis. "It is hard to service those people when you use a real structured system that doesn't allow flexibility."

"Banks are quietly exiting this area," said Mr. Dorsey. "They won't admit it, but they are."

Mr. Dorsey's proposal is only one of three in Maine, indicating that small entities are starting to emerge. The other two banks are planned for central and southern Maine. And several other factors show that some big banks are retreating from Maine's rural regions.

In November, KeyCorp combined its four Maine subsidiaries into one. Although the bank will not confirm it, sources say the Albany holding company plans to cut staff and close branches.

Fleet/Norstar Financial Group of Providence, R.I., recently ran a legal notice in a Maine newspaper announcing its intention to close three branches, two of them in Aroostook. Fleet's move comes shortly after Casco Northern Bank, a unit of Bank of Boston Corp., sold seven Aroostook branches to People's Heritage Bank of Maine.

Although no other closings have been filed recently, bankers say they have heard that other major holding companies plan to cut back branches and staff in Aroostook and other areas of Maine.

Executives of the major holding companies are quick to point out that interstate banking has been good to Maine, pouring in $100 million in capital, stimulating competition, and bringing expertise that some local banks did not have. But, in the view of critics, the stimulus has also been dangerous: Maine units of out-of-state banks have been deprived the flexibility to adjust to the unique demographics of their regions.

"There is a sentiment that because of their interstate affiliation, the banks have become more structured in the way they operate with less personal service and less flexibility particularly at the local level," said Mr. DeMatteis.

"Customers and bankers used to know each other," said Mr. Dorsey. "There used to be the teller who worked at the bank 50 years and knew all the customers by name. That is what I want to bring back to Aroostook County. That will be the thread that weaves the successful net."

In Aroostook County, where "local banks have been merged out of existence," Mr. DeMatteis said that he believes a bank like Mr. Dorsey's will succeed. Mr. Dorsey's goal of getting 15% of the market is possible, the regulator said, but it may take a number of years to achieve.

"He's creating a local bank option," Mr. DeMatteis said. "He is certainly going to offer a more local view of the marketplace. Dave is a local boy and he's really sensitive to how people do business in that area. He is well known and well liked."

But some executives from the holding companies in Maine say that they are not moving out and that they are just as local as the guy next door.

"One of the deep philosophies of our bank is the commitment to communities," said James D. Mullen, president of Key Bank of Maine, based in Augusta. "Our employees at all levels are deeply involved in the communities where we have branches. We live and work here too."

Mr. Mullen said the bank was prepared to compete with the bank planned by its former employee but did not doubt Mr. Dorsey's ability to start a successful bank.

"David led this bank successfully for 20 years," he said. "He has a lot of experience and expertise in the market."

Mr. Dorsey said he was contemplating starting a bank for a long time, but Key Bank's decision to consolidate its Maine operations sparked him to move ahead with his plan.

"I have values in places higher than monetary," he said. "I left a very cushy job and took a substantial pay cut. But if you see loss of ability to respond to the market because of corporate uniformity nationwide, it's time to go. It's like the man in the grocery who is up against a big chain of supermarkets; we are losing touch." ∎

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3/15/90

15 YEARS AFTER
THE ENACTMENT OF INTERSTATE BANKING

Maine was the first state to allow interstate banking, enacting a reciprocal form in 1975 as part of sweeping changes in the state's banking laws. After 15 years, its true effects are just now surfacing.

DEPUTY BANKING SUPERINTENDENT DONALD GROVES acknowledges that an increasing number of borrowers are complaining that the treatment they are receiving from interstate banks are justified "given the condition of their businesses."

REPORTS AND INTERVIEWS WITH REGULATORS, bank executives, borrowers, analysts and other experts show the following:

- o Loan growth has slowed dramatically in Maine.
- o Borrowers with longtime relationships with certain banks are being forced to seek financing elsewhere.
- o Out-of-State banks control 43 percent of Maine deposits and 42 percent of total loans.
- o More than 80 percent of the traditional commercial banking market is controlled by out-of-state ownership.
- o Most of the Maine banks that have reported losses are out-of-state owned.
- o Independent banks which resisted merger offers from out-of-state banks, on average are more profitable and better capitalized than interstate banks.
- o Analysts say Maine banks owned by out-of-state parent companies can't help but feel the problems of their parents.

DAVID DORSEY A VICE CHAIRMAN AT KEY BANK OF MAINE, (a subsidiary of Key Corp based in Albany, N.Y.) resigned to return to the "community banking" values that he believes are a casualty of the interstate banking era.

"THESE BIG BANKS HAVE REALLY LOST THEIR COMMITMENT TO SERVICING THE AREA," said Dorsey. "They don't understand the Maine people and the Maine marketplace. Big Banks, are simply realizing that they have strayed too far from home and cannot compete as effectively..."

SEVERAL OTHER FACTORS SHOW THAT SOME BIG BANKS ARE RETREATING FROM MAINE'S RURAL REGIONS according to reports. Cutting staff and closing branches are incidents that are occurring nationwide as well as in Maine in states where interstate banking has taken hold.

*Based on information from the Maine Sunday Telegram article "Interstate banking squeezes Maine," March 4, 1990 and <u>Banking Week</u>, August 28, 1989.

House Eco. Devo. Committee
Attachment 2 3/15/90

Bob Morgan
Farmers State Bank
Circleville, KS.

TO: HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

RE: SB 532, INTERSTATE BANKING

POSITION: OPPOSED

Madam Chairperson and Members of the Committee:

Please allow my testimony to begin with some of my background and qualifications. I was born and raised in Tacoma, Washington. I went through high school and attended Tacoma Community College, taking courses in real estate, business and law. I sold real estate in Tacoma, Washington from June, 1976, to February, 1985. At that time I began my career in Mortgage Banking. I am currently the Director of Marketing for The Farmers State Bank in Circleville, Kansas. I moved to and became a resident of Kansas in July, 1989, and was shocked and concerned to find out soon thereafter that Kansas was being lulled into considering an Interstate Banking law, much as the state of Washington was years ago.

First as a consumer, and second as a banker, I have both seen and felt the jagged edge of that swift sword called Interstate Banking. I have seen and/or read about the negative effect on families and communities in local papers and from those directly affected.

House Eco. Devo. Committee
Attachment 3
3/15/90

To be honest with you, I did not know (or care) what Interstate Banking was until 1981 when two of the largest banks in the state of Washington, Pacific Bank and Fidelity Bank, were purchased and all of a sudden the signs began to change to First Interstate Bank. I did not bank with them, but I did have friends that began complaining that their Visa and MasterCard charge payments were getting lost or were credited days and weeks later than they were sent in because they were being re-routed to California.

In fact, one of the first things that First Interstate Bank did after promising new jobs, new loan programs, better services, etc., was to move the credit card service branch and the real estate loan servicing to El Segundo, California. First Interstate was not alone in their highly publicized lobbying efforts <u>to help bring new jobs, to bring in millions of dollars of new investment capital, and to bolster local economies;</u> when in fact, the true purpose was to move highly profitable services, such as real estate loan servicing and credit card servicing, <u>out</u> of the state of Washington. Some branches "consolidated", which means <u>closed</u> if you worked there.

Between late 1987 and late 1988, Rainier Bank was sold. Rainier Gold Dome bought United Bank and was purchased by Security Pacific Bank. Other than the name changes, and changes in where customers had to send their payments, I am

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not sure how those sales affected their customers between Rainier and United Bank, but some of my friends lost their jobs or were transferred (demoted), including loss of seniority and some benefits. However, I do know that when Security Pacific bought the Rainier United Bank group, they told their employees not to worry, there would not be any job changes and they were going to be offering some exciting new loan programs; when in fact, approximately 75 days later they closed 4 branches within a 40-mile radius and laid off approximately 90% of those employees without any notice. The remaining 10% were left to clean up the remaining loans. The real estate loan servicing was moved to California and I had over 20 professional friends that were called into a meeting at 8:30 a.m., handed their last check, told to ignore the phone, clean out their desks and be out of there no later than 11:00 a.m. The phones were diverted to another office by 9:00 a.m. and that was it.

One of those friends had worked for United Bank for 11 years and was a Branch Manager. Another friend had worked there for 8 years and was their head loan underwriter and also a Branch Manager. She had just closed a home loan on her own home one week earlier for which the servicing was moved to California. The total loss of jobs in those 4 branch closures was approximately 100 people. Enclosed in this testimony is a paragraph printed in The Seattle Times newspaper in August, 1988, that reflects higher numbers laid off by this company.

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In 1988, U.S. Bank bought Peoples Banks and Old National Banks. They moved their real estate loan servicing, credit card services, and their personnel to Portland, Oregon. I know -- I worked for U.S. Bank and my second paycheck, which was short approximately $600, had to be sent back to Portland, Oregon to have a new corrected check issued, and it took 3-1/2 weeks to get the replacement. I could have walked there and got it faster.

In 1989, Western Community Bank was sold to Key Bank. Loan servicing was moved to California. In 1989, American Savings was sold to SeaFirst Bank. These bank sales are only the ones that I know any of the information about services moving out of state -- I'm sure there were more. I am also mostly noting real estate loan servicing transfer because I was close to this information. It was hard for Washington real estate communities, mortgage brokers, bankers and other professional people to understand why banks and bank-owned mortgage companies were closing on a weekly basis when the real estate economy and new sales were one of the highest in the country. Literally hundreds of people have become unemployed and millions of Washington State dollars have been taken to fuel other states' economies due to the Interstate Banking in Washington State.

What Interstate Banking has brought to Washington, for those gullible enough to fall for it, is a new toaster or an airplane ticket (to somewhere nobody

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goes) for opening an account where the money will go to help another state's economy.

To put into perspective the effects of Interstate Banking on Seattle, Washington and the surrounding areas, there are approximately 1.4 million people in those areas. You say, "a bank on every corner, who cares if they close one?". I agree, but if you live in an outlying area of Seattle (and they do have them there) like Woodinville, if they close your bank there, you may have to drive to Seattle to do your banking business which may take you three hours in rush hour.

As a loan officer trying to help people get home loans, I have had to deal with out-of-state banks to try to clear credit reports for people that have always made their loan and credit card payments at least one week in advance of the due date. When we received their credit reports, the banks that reported to the credit reporting agency (the head office or the out-of-state office of the local branch where they made their payments), I have seen 36 months of delinquent payments show up. If we were lucky, we were able to clear up the discrepancies with 36 months of cancelled checks. Once we receive these checks from the borrower, we have to copy them and mail or FAX them to the out-of-state bank and wait for the out-of-state bank to call or mail a written response to the credit reporting agency.

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As you can imagine, this process takes a long time and frustrates both the people trying to get a home loan, and having to clear their already good credit, and the lender and reporting agency that have to do additional paperwork to clear these people's credit. If the banks did not have their records held in another state and make a credit reporting mistake, the cancelled checks could be hand-delivered and the problem resolved that day, plus we would be working with a person that would have to talk with you face-to-face and couldn't just hang up on you.

There are very often adverse effects on the borrower's loans such as an increase in interest rates or an expired purchase agreement. While this frustrating process of clearing the credit report is taking place, and in the cases where the borrower does not keep the cancelled checks long enough (or at all), they just get turned down for their new loan and lose their home altogether by no fault of their own.

In Circleville, Kansas where I work (population 175), if the bank closes there so would the post office, store, Cafe, hardware store, and the heating and air conditioning company, and that is all there is to close business-wise in Circleville. I have to ask "would that be good for Kansas?" "Would that be good for Circleville, Kansas?"

I have enclosed some reduced printed articles on proposed congressional changes that are a direct result of Interstate Banking -- the tremendous problems (and frauds) caused by the sale of real estate loans from state to state, lender to lender. I have also included a picture originally printed in the Topeka Capital-Journal and used in an informational publication as an opponent of Interstate Banking, and I couldn't have done better myself to illustrate my views on what Interstate Banking looks like through my eyes.

In closing, I do not have a dollar amount of the total losses Washington State has suffered, but I can measure the loss of a job and the feelings people get when they come to work in the morning eager to work and find out that the eagerness they brought to work was no longer needed. I've seen the tragedy of idle buildings where there used to be employment. I understand the frustration of trying to deal with someone in another state who doesn't even know where Tacoma, Washington is (a city of 375,000).

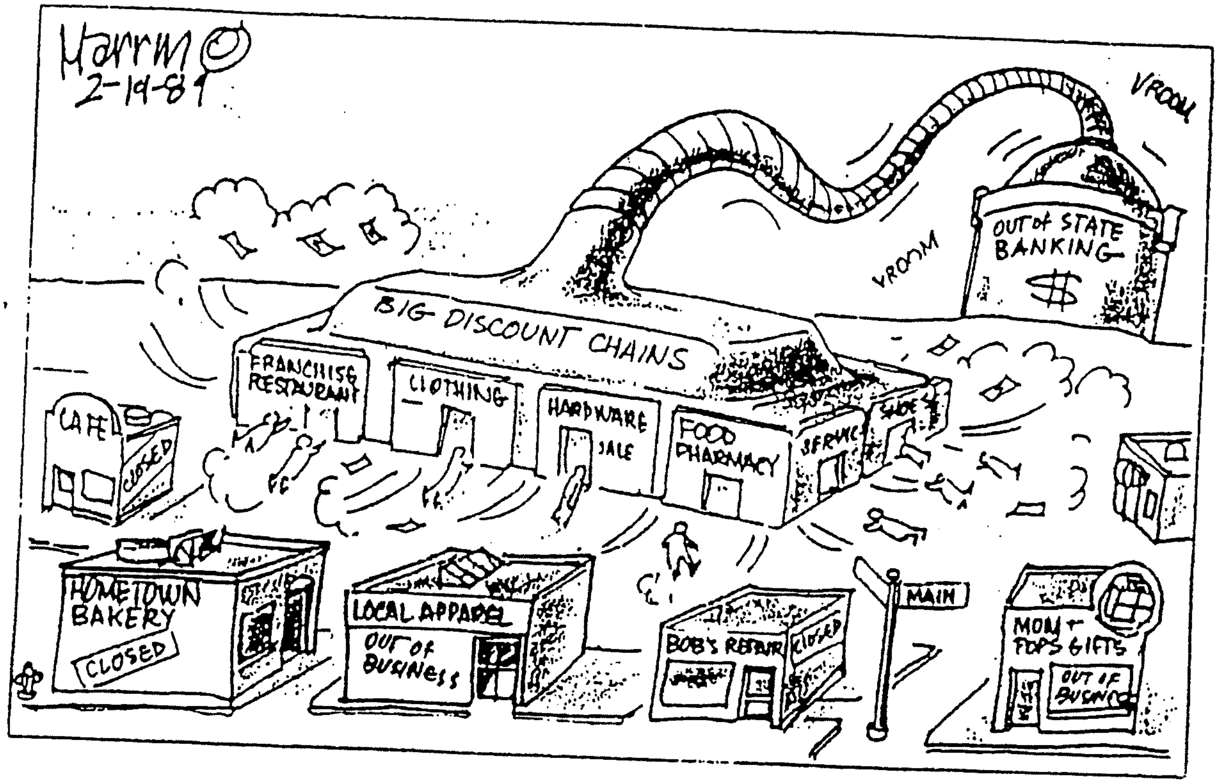
I also believe that the economy of the state of Washington could better withstand the loss of those jobs and could more easily replace the revenue than could the rural economies of the state of Kansas (even the large metropolitan areas can little afford those kinds of losses). After hearing the proponents of SB 532 talk, I am having a flashback of the nightmare that started for me back in

Washington State in 1981. Please don't let yourself or your constituents pay to fuel California's economy . . . they don't need it as much as Kansas does.

Thank you.

Robert A. Morgan
Director of Marketing
The Farmers State Bank

Enclosures



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WASHINGTON

"... the commercial banks have generated the biggest numbers -- Rainier laying off 175 people over the next 45 days and Seafirst accepting "early retirements" early this year of nearly 400 people ...." --The Seattle Times, August 1, 1988.

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3/15/90

The Topeka Capital-Journal

Congressman plans reform in home-mortgage servicing

WASHINGTON — In the wake of a federal probe documenting widespread consumer problems in home-mortgage servicing, a key congressional banking lawmaker is about to propose reforms that would affect millions of new loans each year.

Kenneth Harney

The nation's housing

Legislation drafted by Rep. John J. LaFalce, D-N.Y., would seek to correct each of the major home-mortgage borrower abuses identified by the General Accounting Office in its study released last November. The GAO study focused on 1,705 complaints filed by nearly 600 consumers whose mortgage servicing had been sold or transferred from one lender to another. (Servicing of a mortgage means handling the loan payment collections and record-keeping.)

The GAO study, the first of its kind by a federal agency, noted that mortgage servicing is a highly profitable but little-regulated segment of the nation's lending industry. Transfers of servicing rights nearly doubled between 1985 and 1988, according to the GAO, up from $80 billion to $150 billion.

Often the transfers involve abrupt, long-distance switches. Borrowers receive a letter telling them to stop sending their monthly checks to the local lender who first provided them their mortgage and to send them instead to another firm, hundreds or thousands of miles away.

The problems documented by the GAO ranged from escrow account rip-offs — where the new servicer demands higher payments per month to fill alleged escrow account deficits — to bizarre record-keeping snafus. Many borrowers complained that because of the servicing transfers, their local property taxes and hazard insurance payments weren't made, exposing them to foreclosure or risk of huge uninsured losses. Others described repeated late-payment penalties when their servicing was switched from one lender to another without their prior knowledge.

LaFalce's reform package is designed to piggyback onto banking committee legislation moving to the House floor this session.

At loan application, the bill would require your lender to disclose whether servicing rights on the loan "may" be sold or transferred, any "present intent" to do so, and the percentage of loans originated by the lender during the past three years in which servicing rights were in fact sold or transferred.

The bill also would require timely advance notice of servicing switches by lenders. No less than 15 days in advance of a transfer, the original lender would have to write you and provide the effective date of the change, plus the name, address, toll-free telephone number and appropriate contact people at the office of the new servicer.

The lender also would have to:

- Clearly state the date on which your present servicer will cease taking your payments.
- Detail any impacts the servicing switch could have on the continuation of your mortgage-life or disability insurance payments tied to your loan.
- Explain that despite the change in servicing, the terms and conditions of your original loan will not be altered in any way.

The bill also would eliminate one of the biggest bones of contention over servicing: imposition of late-fees in the early months following a transfer. During a 60-day period beginning on the day of the transfer of the loan servicing, LaFalce's legislation would prohibit late-fees when a payment was made by a homeowner on time, but sent to the old lender.

Other key reforms in the bill:

- A new federal requirement that lenders and servicers respond promptly to consumer inquiries or complaints on servicing problems.
- New federal rules governing home-mortgage escrow accounts. Every lender would be required under the legislation to provide borrowers clear, annual statements detailing all inflows and outflows from the escrow. There could be no charge for preparation of the escrow statements.
- Penalties for consumer abuses. Lenders in violation of the law would be required to pay all damages suffered by borrowers caused by each violation. They would also be vulnerable to costly class action suits. And they would liable for lawyers' fees and other costs.

The GAO study based much of its analysis of mortgage servicing problems on case histories sent in by readers of this column in the spring of 1989. Other readers with complaints may write to Rep. LaFalce at 2367 Rayburn House Office Bldg., Washington D.C. 20515.

Washington Post Writers Group

a-3-10
3/15/90

FNMA May Extend Servicing Transfer Approval Time

BY JANET REILLEY HEWITT
REFT EDITOR IN CHIEF

ORLANDO—Fannie Mae is considering a new policy on servicing transfers that would require seller/servicers to ask for transfer approval 45 days prior to the intended sale instead of the current 30 days.

Robert Englestadt, senior vice president of credit policy, said at the recent National Mortgage Servicing Conference in Orlando that Fannie Mae has been asked by the Mortgage Bankers Association of America to reconsider the proposed new time frame for approving servicing transfers. He conceded the move toward adopting a longer lead time for requests for transfer approval is controversial.

The earlier notification requirement is part of a larger package of policy changes on transfers of Fannie Mae servicing, according to Englestadt. He predicted that lenders would probably see the final version of the new policy in place "on or around March 31." The other components of the servicing transfer policy changes will provide more information to seller/servicers about what Fannie Mae has to know before it can approve a transfer of servicing. Fannie Mae will also be releasing a standardized consent agreement for approving servicing transfers, Englestadt said.

The Fannie Mae executive warned that the industry still has more work to do in cleaning up the problems borrowers are experiencing when servicing is transferred. He noted that Representative John J. LaFalce (D-NY) has indicated his intent to reintroduce legislation to regulate servicing transfers although it will be less onerous than earlier versions of his legislation. Engelstadt noted that the revised legislation's emphasis on disclosure requirement, rather than more direct restrictions on the transferability of servicing envisioned in earlier drafts of the LaFalce bill, constitute a break for the industry. He said, "I think we're getting off pretty easy because, as an industry, we must do a better job at solving [the servicing transfer problem.]"

Englestadt said that action by the industry to clean up the problems on its own is "important," because the nature of the problems created by servicing transfers do not lend themselves easily to fixes created by national legislation.. However, he underscored that "the servicing transfer process is still not what it needs to be." Unfortu-

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FNMA

Continued from page 9

nately, Engelstadt knows this firsthand, as he indicated.

Engelstadt said he called the new servicer to try to fix the problem. He added, "For me it was relatively easy. I didn't identify who I was, but she recognized my name from all the [Fannie Mae] program announcements." His problem was cleared up very quickly, he told the conference. He added, "I only hope others get treated as well." Englestadt said his view of how serious a problem servicing transfers can be changed once he found himself in the middle of such a situation. "It does make a difference when it happens to you."

Engelstadt told the servicing conference that delinquency management and loss mitigation techniques that Fannie Mae is pressing lenders to follow are "important now and will be more important in 1990 and 1991." Two positive trends in Fannie Mae's favor that management would like to continue to foster by controlling delinquencies are the current high caliber of loans coming in and REO losses that are trending "sharply downward," according to Englestadt.

But the Fannie Mae senior vice president noted that working against those positive developments is the fact that appreciation is tapering off in most markets, and the huge volume of loans that Fannie Mae purchased in 1986 and 1987 is now entering the peak risk period for defaults.

Fannie Mae is currently putting more emphasis on the use of preforeclosure sales than loan modifications to head off foreclosure losses, Englestadt said. His view is that Fannie Mae servicers should be able to avert foreclosure through a preforeclosure sale in four out of every 10 potential REO situations. He advised lenders to start working on a preforeclosure sale at the 90-day delinquent point and hopefully get the property sold in three to four months. He said that can save up to 10 months time in the lengthy full-foreclosure process. Engelstadt said that Fannie Mae will "pay you a $500 processing fee, and you may well pick up a new loan in the process."

Fannie Mae is working toward using its LASER loan-level reporting system to monitor how individual lenders compare to other Fannie Mae lenders in terms of foreclosure processing time. Fannie Mae can currently determine how long it takes to process foreclosures in individual states and how long it takes all servicers in all states. He said the average time all servicers take to refer a case to foreclosure, from the last paid installment, is eight months. Engelstadt said that is longer than it should be. He added that the time frame is averaging six months from the point of referral for foreclosure to the completion of that process.

Englestadt said Fannie Mae is "especially interested in applying these mitigation efforts to any of those loans [that were formerly TMIC-insured and now insured by the Policyholders Benefit Corporation] that might be seriously delinquent." PBC loans are insured only to the extent that the renewal premiums exceed claims.

Fannie Mae will likely issue a program announcement in about four to six weeks covering what servicers need to do in the event a property is the focus of a drug-related asset seizure, according to Engelstadt. Fannie Mae has been working with the asset forfeiture unit at the Department of Justice for several months now to develop standards for servicers to follow to show that the lender did what was needed to protect Fannie Mae's liens in a drug seizure case. Englestadt noted that the upcoming guidelines will be "relatively easy to follow" compared with what had been on the drawing board at an earlier phase in the discussions.

GNMA

Elton Peller, GNMA's corporate secretary, told the servicing conference he had good news and bad news. He offered the good news first, announcing that HUD Secretary Jack Kemp had announced that the maximum VA loan amounts for GNMA pools had finally been raised to match the higher loan limits Congress had approved months earlier. He added that the bad news is the HUD Reform Act. He predicted it "will become known as the Lawyers and Accountants Welfare Act."

Two provisions of the new act, Peller noted, directly apply to GNMA pools. The act institutes fines for the first time in the history of the GNMA program, and the law specifies the amount of the fines that apply, which Peller noted "are steep." There are 11 violations cited in the law for which issuers can be fined including failure to make payments to investors on a timely basis and submitting false certifications.

Peller added that there is an administrative law appeals process for contesting fines but, either way, it will cost lenders money to either pay the fines or hire lawyers to appeal.

The act also requires GNMA to notify HUD about any issuer who has been sanctioned, which would include any issuer who receives a 30-day notice of default and those who failed to comply with GNMA eligibility requirements.

Peller said to retain issuer eligibility status, GNMA issuers must purchase at least one commitment each year. He added that if GNMA cannot reach an issuer by writing them and getting a response, then they will be terminated from the program.

In terms of the Coopers and Lybrand issuer audits, Peller said they will begin in April and will be repeated, on average, every 18 months.

The GNMA official said that "last year was a building year" for Coopers and Lybrand, since it was the first year that the accounting firm took over the issuer audits that had been performed on a contract basis by a team from Fannie Mae. Peller commented, "We think last year you got off too easy. We want to hear a few ouches this year." He added that the test of records will be more substantive this year, and the audit teams will be asking for more documentation of follow-up activity.

Peller said that there will be fewer custodian reviews done this year, but there will be more frequent reviews done of issuers where GNMA suspects there is a problem.

On the final certification of pools, Peller said that issuers with uncertified pool levels that exceed GNMA's limits are required to post letters of credit that are refunded when uncertified pools are remedied. Peller noted that problems with the recertification of transferred GNMA pools are now "about as bad as the final certification situation was when we began our initiative [to correct that problem.]" Peller said that the first step in addressing this problem will be to send issuers a delinquency report on transferred pools that they will probably receive in early March. He added that a preliminary review of the situation shows "significant delinquencies." If it does not improve, GNMA will require the posting of letters of credit, he said.

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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, every

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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 <u>is</u> 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 <u>nobody</u> 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 <u>Wichita Eagle</u>, 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.

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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."

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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

3/15/90

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Pratt's Letter

The Washington Authority on Banking and Finance

1117 NORTH 19TH STREET
POST OFFICE BOX 9655
ARLINGTON, VA 22209-0655
PHONE (703) 528-0145

Washington, March 9, 1990

Dear Reader:

ROUTE TO:

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.

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.

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1990
March (?)

AMERICAN BANKER
CONSUMER NEWS

SMALL BUSINESS

Small Banks Find an Edge With Lesser Entrepreneurs

By LAURYN FRANZONI
Special to the American Banker

The hundreds of thousands of small businesses that make up a sizable part of the U.S. economy are demanding banking service reminiscent of the early 1900s.

To meet those demands, smaller may be better.

In study after study, small-business owners say they want their bankers to know them and their businesses. They also want banks to be reliable sources of credit, to give ready access to a loan officer, and to assign one person to handle their credit needs. Small-business owners consistently rate these four attributes as more important than cheap money or extensive product lines. And it would appear that small institutions are more attuned to nurturing these relationships than some of their larger competitors.

At American National Bank, Parma, Ohio, executives plan to boost the asset base from $26 million to $100 million in the next four years without adding a lot of fancy products or branches to their four-office network. The bank's target is the Cleveland area's small-business market.

"The business owner's problems begin when the large bank fails to provide the right kind of service," said Richard E. Wise, American National president and chief executive officer. He is one of a growing number of bank presidents who believe the key to profit in the small-business market is successfully managing customer relationships, not product design.

> **'All of our business comes from referrals.'**
>
> Dell Duncan
> *Commerce Exchange Bank*

"The small-business owner needs to understand that you are a team player — along with a good CPA and a good lawyer," said Mr. Wise. Not surprisingly, American National looks to accounting firms as its top source of customer referrals. Along with such referrals, Mr. Wise courts small-business people with annual dinners and educational seminars rather than media advertising.

And he said he will walk away from a loan if the business owner won't give his primary deposit relationship to American National.

Relationships Impose a Heavy Workload on Bankers

When a bank makes the strategic decision to be driven by relationship management rather than product development, its bankers can end up supporting a hefty workload. An American National officer may be responsible for all the needs of as many as 150 customers.

The workload is just one of several problems the banker faces in building solid small-business relationships, according to Jeffrey

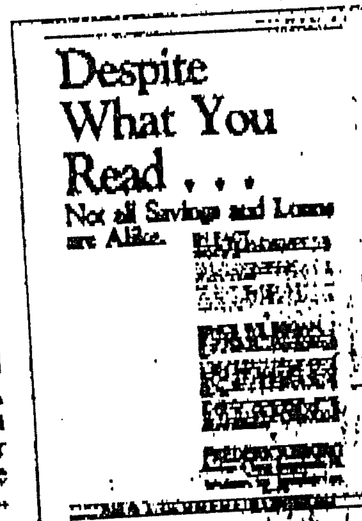
Less Is More in Marketing

Winning Ad Is Simple Statement of a T

By ELLEN MEMMELAAR

NEW YORK — In a year when even the soundest thrift institutions had to face the negative publicity associated with an industry bailout, a simple newspaper ad addressing the crisis won the most coveted prize in the 23d annual marketing competition of the Financial Institutions Marketing Association.

Fredericksburg Savings and Loan Association, a healthy, $400 million-asset institution in Virginia, won a medal of honor for 1989 advertising from the Chicago-based thrift trade association. Its winning advertisement was developed in-house, not by an outside agency, and used words with no illustrations to explain why "all savings and loans are not alike."



SIGN OF TIMES: Award-winning ad from a Virginia thrift had no bells or whistles.

Banana Boat Hook

A second medal of honor went to a radio spot promoting a same-day mortgage-approval service of Benjamin Franklin Federal Savings and Loan Association, Portland, Ore. The commercial borrowed humorously from the familiar tune "The Banana Boat Song." (See excerpt below.)

Ironically, the $5 billion-asset Benjamin Franklin was seized last month by thrift regulators and placed in federal conservatorship.

The Fredricksburg Savings ad was clearly a product of the recent hard times for the industry, and it struck a chord with the thrift marketing officials who served as judges.

"The fact that the judges picked a straightfoward, simple ad said more about their views than the entries," said Ronald Polaniecki, director of publica-

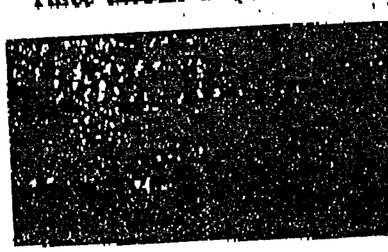
thing that made a strong statement about who we are and how strong we are."

Fredericksburg Savings placed almost two dozen ads in various area publications throughout the year.

The Benjamin Franklin spot was more along the lines of previous winners of the FIMA contest, with its obvious display of creativity. The ad was developed by Marx/Knoll, Denight & Dodge, an advertising agency also based in Portland.

"The ad is very nontraditional for a financial institution," said Mr. Polaniecki. "It's very attention-getting."

Three medals of honor were



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Executive Report
Volume I

Kansas Economic Development Study: Findings, Strategy, and Recommendations

prepared by the
Institute for Public Policy and Business Research
The University of Kansas

Study Director: Dr. Anthony Redwood
Study Coordinator: Dr. Charles Krider

June 1986

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A necessary starting point for a state strategy is a research program to identify why people travel to Kansas and how such travel can be increased. For example, Kansas historical sites and recreation areas may be a basis for an enhanced state effort to encourage travel and tourism. Particular attention should be devoted to identifying how the state recreation areas can be enhanced and to discover which major attractions should be promoted. A larger marketing effort would be an important part of the travel and tourism strategy.

*33. <u>Upgrade the Kansas Department of Economic Development data and information systems necessary for economic development.</u>

KDED requires an enhanced computer capacity to handle the information and data bases necessary to carry out its responsibilities. Access to larger data bases are necessary for

(1) community profiles,
(2) site profiles,
(3) directories of Kansas manufacturers and products,
(4) business services, and
(5) technology information.

The community profiles would include information about available land sites, wages, taxes, population, labor force, and existing industries.

One option is for KDED to develop a personal computer network system with terminals available for appropriate staff. Currently only one personal computer is available to KDED for purposes other than word processing. This is devoted to the Kansas Directory of Manufacturers.. Other programs such as targeted marketing efforts, international marketing, existing industry programs, and travel and tourism would benefit from improved computer resources.

Community Development and Small Business

Firms choose to locate or expand in Kansas based not only on attributes of the state but also on the attractiveness of a specific community. If Kansas is viewed positively as a state, but local communities are not competitive with those in other states, then economic development will lag. A major part of the state's economic development effort, therefore, should be directed toward helping communities to improve their own economic development programs. Several Kansas communities already have well-developed programs that are competitive regionally and nationally. But other communities are just beginning their economic development programs, and they require assistance. We recognize that the state's role is limited, and we propose that

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Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
Representative Elizabeth Baker, Chairperson

SB-532

Madam 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 banking. It was said that if the need is there, **Kansas** banks will service that need. Perhaps that is true in some communities, such as **Garden City,** where the feedlots and meat packing industry are thriving. However, that is not the case in other areas. 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.

We have also been told in the past, 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 banking, will our farmers and main street businessmen have to fly to **Chicago** or **New York** to negotiate their loans?

House Eco Devo. Committee
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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 field. 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. 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.

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.

Banking laws are enacted to protect depositors, not to restrict trade. That is a form of protectionism we feel is positive.

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 ownership 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**.

a-5-3
3/15/90

STATEMENT

OF

IVAN W. WYATT, PRESIDENT, KANSAS FARMERS UNION

BEFORE

THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

ON

SENATE BILL NO. 532

(INTERSTATE BANKING)

MARCH 14, 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 LIKE 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. 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. THIS WAS THE RESULT, IN A MEASURABLE PART, OF DE-REGULATION OF BANKS THROUGHOUT THE 80'S, SO THEY COULD OPERATE MORE LIKE THE SAVINGS & LOANS ASSOCIATIONS. WE ARE NOW WITNESSING THE

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RESULTS OF THOSE PRACTICES IN THE SAVINGS AND LOAN INDUSTRY.

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 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, TO CARRY THE PROFITS OUT OF THE STATE AND THIS NATION.

I FIND IT VERY DIFFICULT TO RATIONALIZE HOW KANSAS INC., THAT RECEIVES FUNDING FROM THE KANSAS TAXPAYER, CAN SUPPORT AND LOBBY FOR THE DENOUNCEMENT OF THE PRESENT KANSAS BANKING SYSTEM SUPPORT A 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.

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

KANSAS BANKING LAWS ARE OUT-DATED, OUT-MODED, EVEN OLD FASHION AND NEED TO BE LIBERALIZED. BUT THOSE REGULATIONS HAVE PROTECTED KANSANS FROM THE EFFECT OF THE FIRE STORMS OF FINANCIAL HIGH-ROLLER MIS-MANAGEMENT THAT RAVAGED 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.

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 ARE 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.

THIS MAY APPEAR TO BE A LITTLE OFF THE ISSUE OF BANKING BUT I THINK NOT. I READ WHERE ONE PROPONENT OF THIS BILL SAID THIS IS "INTERSTATE COMPETITION," NOTING THAT AGRICULTURE, AS AGRICULTURE 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. INCIDENTLY, WHEAT ON OCTOBER 21, 1986 AT MARION COUNTY ELEVATORS WAS $2.16 A BUSHEL. THE REPORT PROJECTS A 44 PERCENT DECLINE FOR WHEAT PRODUCERS.

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

WE OFTEN HEAR MUCH ABOUT ETHICS THESE DAYS. IF THE FOCUS OF ETHICS WAS ON BIG BUSINESS, THE ETHICS OF ELECTED OFFICIALS WOULD APPEAR MINUTE.

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, 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 THAT 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.

I 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. TO TELL MEMBERS OF CONGRESS OF THEIR PLIGHT.

I ASK YOU; HOW DO YOU MEASURE ETHICS?

WHAT IS ETHICAL, AND WHAT IS NOT?

I URGE THIS COMMITTEE TO DO WHAT I BELIEVE MOST PEOPLE WOULD BELIEVE TO BE THE ETHICAL THING TO DO AND VOTE AGAINST SB-532.

THANK YOU

a-6-3
3/15/90